SPARTAN DELTA CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2021 AND 2020

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

(CA$ thousands)	[Note]	**September 30, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**7,673**	2,686
Accounts receivable	[4]	**82,370**	20,475
Prepaid expenses and deposits		**9,614**	1,529
Derivative financial instruments	[4]	**20,701**	-
Total current assets		**120,358**	24,690
Other non-current assets	[5]	**11,253**	-
Exploration and evaluation assets	[6]	**92,150**	2,538
Property, plant and equipment	[7]	**1,249,506**	256,939
Right-of-use assets	[8]	**46,809**	47,263
Deferred income tax asset	[13]	**164,225**	-
Total assets		**1,684,301**	331,430
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[4]	**135,801**	34,149
Derivative financial instruments	[4]	**121,457**	2,063
Deferred premium on flow-through shares	[12]	**3,070**	-
Lease liabilities	[8]	**9,275**	6,853
Decommissioning obligations	[9]	**3,350**	2,833
Total current liabilities		**272,953**	45,898
Derivative financial instruments	[4]	**23,646**	1,074
Long-term debt	[10]	**441,593**	-
Lease liabilities	[8]	**40,415**	42,913
Decommissioning obligations	[9]	**149,483**	95,254
Deferred income tax liability	[13]	**-**	8,751
Total liabilities		**928,090**	193,890
SHAREHOLDERS' EQUITY			
Share capital	[12]	**516,906**	108,481
Warrants	[12]	**9,799**	9,891
Contributed surplus		**14,569**	9,996
Retained earnings		**214,937**	9,172
Total shareholders' equity		**756,211**	137,540
Total liabilities and shareholders' equity		**1,684,301**	331,430
Commitments and contingencies	[19]		

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 September 30		Nine months ended September 30	
(CA$ thousands, except per share amounts)	[Note]	**2021**	2020	**2021**	2020
Revenue					
Oil and gas sales	[14]	**146,078**	39,149	**311,717**	51,118
Royalties		**(14,733)**	(3,311)	**(33,901)**	(4,065)
Oil and gas sales, net of royalties		**131,345**	35,838	**277,816**	47,053
Pipeline transportation	[15]	**467**	-	**467**	-
Processing and other		**2,244**	1,208	**6,912**	1,811
		134,056	37,046	**285,195**	48,864
Loss on derivative financial instruments	[4]	**(30,236)**	(14,059)	**(45,887)**	(11,757)
Expenses					
Operating		**30,277**	14,741	**64,886**	20,893
Transportation		**8,973**	3,256	**18,657**	4,377
Pipeline transportation	[15]	**865**	-	**865**	-
General and administrative		**5,626**	3,626	**13,919**	5,684
Share based compensation	[12]	**1,777**	679	**4,716**	901
Financing	[16]	**3,957**	1,650	**6,726**	2,153
Depletion, depreciation and impairment	[6,7,8]	**25,717**	9,101	**53,161**	16,269
		77,192	33,053	**162,930**	50,277
Other income (expenses)					
Gain on sale of assets		**315**	32	**468**	32
Gain on acquisition	[5]	**91,991**	-	**127,125**	52,952
Discount rate adjustment on decommissioning obligations acquired	[5]	**-**	-	**-**	(13,106)
Transaction costs	[5]	**(3,224)**	(34)	**(4,073)**	(2,278)
Other income		**458**	-	**1,985**	-
Premium on flow-through shares	[12]	**6,191**	-	**7,029**	-
Change in fair value of convertible note	[11]	**8,368**	-	**(5,648)**	-
Foreign exchange gain	[4]	**8**	-	**8**	-
		104,107	(2)	**126,894**	37,600
Net income (loss) before income taxes		**130,735**	(10,068)	**203,272**	24,430
Income tax expense (recovery)	[13]	**3,798**	(2,787)	**(2,493)**	(10,875)
Net income (loss) and comprehensive income (loss)		**126,937**	(7,281)	**205,765**	35,305
Net income (loss) per share					
Basic	[12]	**1.01**	(0.13)	**2.00**	0.87
Diluted	[12]	**0.87**	(0.13)	**1.70**	0.69

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		-	-	-	205,765	205,765
Common shares issued, net of costs:						
Equity offerings	[12]	274,005	-	-	-	274,005
Deferred premium on flow-through shares	[12]	(10,098)	-	-	-	(10,098)
Pursuant to acquisitions	[5]	120,494	-	-	-	120,494
Conversion of convertible note	[11]	30,941	-	-	-	30,941
Issue costs, net of deferred tax	[12]	(7,643)	-	-	-	(7,643)
Warrants exercised	[12]	242	(92)	-	-	150
Stock options exercised	[12]	484	-	(143)	-	341
Share based compensation expense		-	-	4,716	-	4,716
Balance at September 30, 2021		**516,906**	**9,799**	**14,569**	**214,937**	**756,211**
Balance at December 31, 2019		45,748	9,965	8,418	(38,491)	25,640
Net income and comprehensive income		-	-	-	35,305	35,305
Common shares issued, net of costs:						
Private placements		64,000	-	-	-	64,000
Issue costs, net of deferred tax		(1,453)	-	-	-	(1,453)
Warrants exercised		32	(12)	-	-	20
Share based compensation expense		-	-	901	-	901
Balance at September 30, 2020		108,327	9,953	9,319	(3,186)	124,413

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

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

		Three months ended September 30		Nine months ended September 30	
(CA$ thousands)	[Note]	**2021**	2020	**2021**	2020
Operating activities					
Net income (loss)		**126,937**	(7,281)	**205,765**	35,305
Items not affecting cash:					
Unrealized loss on derivatives	[4]	**24,577**	15,129	**35,318**	12,963
Unrealized foreign exchange loss		**30**	-	**30**	-
Share based compensation		**1,777**	679	**4,716**	901
Financing	[16]	**1,320**	1,011	**3,684**	1,406
Depletion, depreciation and impairment		**25,717**	9,101	**53,161**	16,269
Gain on acquisition		**(91,991)**	-	**(127,125)**	(52,952)
Discount rate adjustment on decommissioning obligations acquired		**-**	-	**-**	13,106
Gain on sale of assets		**(315)**	(32)	**(468)**	(32)
Other income	[9]	**(458)**	-	**(1,445)**	-
Premium on flow-through shares	[12]	**(6,191)**	-	**(7,029)**	-
Change in fair value of convertible note	[11]	**(8,368)**	-	**5,648**	-
Deferred income tax expense (recovery)	[13]	**3,798**	(2,787)	**(2,493)**	(10,875)
Settlement of acquired derivative liabilities	[4]	**(8,256)**	-	**(8,256)**	-
Settlement of decommissioning obligations	[9]	**236**	(46)	**(1,013)**	(736)
Change in non-cash working capital	[17]	**(15,042)**	6,950	**(26,587)**	790
Cash provided by operating activities		**53,771**	22,724	**133,906**	16,145
Financing activities					
Advances of long-term debt, net of costs	[10]	**471,593**	-	**486,593**	60,000
Repayments of long-term debt	[10]	**(30,000)**	(16,804)	**(45,000)**	(50,606)
Issue of common shares, net of costs	[12]	**144,268**	20	**264,570**	62,118
Lease payments	[8]	**(2,651)**	(1,457)	**(7,606)**	(1,942)
Change in non-cash working capital	[17]	**-**	-	**-**	104
Cash provided by (used in) financing activities		**583,210**	(18,241)	**698,557**	69,674
Investing activities					
Exploration and evaluation assets	[6]	**(6,318)**	(84)	**(7,706)**	(1,151)
Property, plant and equipment	[7]	**(38,291)**	(1,170)	**(65,587)**	(1,666)
Property acquisitions	[5]	**119**	-	**(30,040)**	(108,782)
Property dispositions	[7]	**304**	76	**453**	76
Corporate acquisitions	[5]	**(393,379)**	-	**(393,679)**	-
Corporate acquisitions, repayment of indebtedness	[5]	**(352,488)**	-	**(352,488)**	-
Corporate acquisitions, cash acquired	[5]	**23,064**	-	**23,064**	-
Change in non-cash working capital	[17]	**9,183**	(42)	**(1,505)**	4,644
Cash used in investing activities		**(757,806)**	(1,220)	**(827,488)**	(106,879)
Net change in cash and cash equivalents		**(120,825)**	3,263	**4,975**	(21,060)
Foreign exchange on cash and cash equivalents		**12**	-	**12**	-
Cash and cash equivalents, beginning of year		**128,486**	330	**2,686**	24,653
Cash and cash equivalents, end of period		**7,673**	3,593	**7,673**	3,593

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

1. GENERAL INFORMATION

Spartan Delta Corp. ("Spartan" or the "Company") was incorporated under the *Business Corporations Act* (Alberta) on March 20, 2006. The Company is engaged in exploration, development and production of petroleum and natural gas properties in western Canada. These financial statements include the consolidated balances of all subsidiaries (note 20), however the Company does not have any material subsidiaries as at September 30, 2021. Common shares of Spartan 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. The registered office is located at 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5.

The Company appointed a new management team and new board of directors as part of a recapitalization transaction on December 19, 2019. On June 1, 2020, Spartan closed its first transformational acquisition of assets for total consideration of $108.8 million (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 comparative three and nine month periods ended September 30, 2020 included the results of operations related to the acquired assets for the period from closing the acquisition on June 1, 2020.

Spartan continued to execute on its acquisitive growth strategy during 2021 and closed a series of corporate and property acquisitions which established a second core development area targeting the Montney in northwest Alberta, anchored by the acquisition of Inception Exploration Ltd. ("Inception") with core assets located at Gold Creek (the "Inception Acquisition") and the acquisition of assets located primarily in the Simonette area (the "Simonette Acquisition"), both of which closed on March 18, 2021. On August 31, 2021, Spartan closed the acquisition of Velvet Energy Ltd. ("Velvet"), a privately held light-oil Montney producer with operations primarily in the Gold Creek, Karr, and Pouce Coupe areas of northwest Alberta (the "Velvet Acquisition"). Spartan also completed several smaller tuck-in acquisitions to build upon the Company's core land holdings in the Deep Basin and Alberta Montney. Total consideration for the acquisitions completed during the first nine months was 2021 was $569.5 million. In addition, Spartan assumed an aggregate of $389.1 million of net debt in connection with corporate acquisitions. Additional information regarding the acquisitions is provided in note 5.

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 International Accounting Standard ("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 November 8, 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 subsidiaries.

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. In addition, the significant estimates and judgements applied in respect of business combinations completed during 2021 are disclosed in note 5.

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 that the January 2021 Acquisition (hereinafter defined and described in 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 addition to the recognized deferred tax asset of $8.5 million. 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 nine months ended September 30, 2021, Spartan recognized $28.9 million of the previously unrecognized deferred tax asset.

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. Spartan has two CGUs as at September 30, 2021, namely: (i) the Deep Basin CGU, comprised primarily of the Company's assets located in west central Alberta, and (ii) the Montney CGU, comprised primarily of the Company's assets located in northwest Alberta as well as minor properties located in northeastern British Columbia.

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 Financial Statements at September 30, 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 in proportion to the estimated amount of taxable income generated in each period of the fiscal year.

In May 2021, the IASB amended IAS 12 Income Taxes 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. Upon adoption, the amendment may have an impact on deferred taxes recognized under future acquisition transactions completed by the Company.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2021, financial instruments of the Company include cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, derivative financial instruments, and long-term debt. The fair values of these financial assets and liabilities, excluding long-term debt, approximate their carrying value due to the short term to maturity of those instruments. The fair value of long-term debt approximates its carrying value given it bears floating rates of interest (note 10). 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, 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.

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:

(CA$ thousands)	**September 30, 2021**	December 31, 2020
Oil and gas marketers	**73,971**	15,986
Joint venture partners	**8,399**	4,100
GST input tax credits	**-**	389
Accounts receivable	**82,370**	20,475

During the nine months ended September 30, 2021, sales to four oil and gas marketers each individually represented more than 10% of revenue. Sales to these marketers account for approximately 22%, 20%, 14% and 10% of total oil and gas sales revenue (before royalties), respectively. Spartan's oil and gas marketers are large, credit-worthy institutions. The Company has parental guarantees or letters of credit in place with certain key marketers covering approximately one-third of Spartan's credit exposure as at September 30, 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 September 30, 2021	**78,919**	**1,378**	**496**	**1,577**	**82,370**
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 September 30, 2021 and expects the accounts to be collectible, except for approximately $1.1 million of accounts receivable which are provided for in the expected credit loss provision ($0.2 million at December 31, 2020). Included in the expected credit loss provision as at September 30, 2021 are provisions applied to certain accounts receivable balances acquired through Inception and Velvet of $0.3 million and $0.4 million respectively (note 5).

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 September 30, 2021 include accounts payable, derivative financial instrument liabilities and long-term debt. In addition, the Company has financial commitments in respect of lease liabilities (note 8). Spartan also expects to settle approximately $3.4 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. As at September 30, 2021, Spartan had $150.0 million outstanding under its second lien term facility and $300.2 million of bank debt outstanding on its revolving credit facility with an authorized borrowing amount of $450.0 million (note 10). 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 September 30, 2021:

(CA$ thousands)	1 year	2 to 3 years	4 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	135,801	-	-	-	135,801
Derivative financial instrument liabilities	121,457	23,646	-	-	145,103
Bank debt (1)	14,860	310,093	-	-	324,953
Second lien term facility (2)	12,300	25,539	170,072	-	207,911
Undiscounted lease liabilities (3) (note 8)	10,954	31,302	13,667	2,406	58,329
Total	**295,372**	**390,580**	**183,739**	**2,406**	**872,097**

(1) Includes interest and standby fees at annual rates of 4.95% and 0.88%, respectively, being the applicable rates on the Credit Facility (defined in note 10) as at September 30, 2021. For purposes of the above table, principal repayment is assumed on the term maturity date of May 31, 2023, however the Company currently expects the credit facilities to be extended at the end of the current revolving period. There is no guarantee that the Credit Facility will be extended or renewed by the lenders with the same borrowing base.

(2) Includes interest and annual review fees at an annual rate of 8.2% being the combined average rate applicable to outstanding debt on the Term Facility (defined in note 10) as at September 30, 2021. Mandatory principal repayments of approximately $0.9 million per month commence on September 1, 2024 and the remaining balance of $127.5 million is repayable on the maturity date of August 31, 2026.

(3) As at September 30, 2021, the present value of the Company's total lease liability is $49.7 million, of which $9.3 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. Additionally, Spartan assumed certain pipeline transportation contracts in connection with the Velvet Acquisition which provide exposure to alternative markets and provide downside protection from widening Canadian oil price differentials (see note 15).

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 September 30, 2021, Spartan has commodity price risk management contracts in place to protect cash flows and project economics. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. As a result, all such financial commodity contracts are recorded on the Consolidated Statements of Financial Position at fair value, with changes in the fair value being recognized as an unrealized gain or loss through the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss).

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

Foreign exchange risk

Currency risk is the risk that future cash flows will change as a result of fluctuations of the Canadian to U.S. dollar exchange rate. Spartan is exposed to currency risk given the Company's realized pricing in Canadian dollars is directly influenced by U.S. dollar denominated benchmark pricing. The Company is also exposed to currency fluctuations through its U.S. dollar denominated derivatives, commodity sales, and pipeline revenues and expenses assumed through the Velvet Acquisition. In addition, Spartan is exposed to currency risk on U.S. cash, accounts receivable and accounts payable balances.

The table below summarizes the realized and unrealized component of the foreign exchange gain (loss) during the periods:

	Three months ended September 30		Nine months ended September 30	
(CA$ thousands)	**2021**	2020	**2021**	2020
Realized foreign exchange gain	**38**	-	**38**	-
Unrealized foreign exchange loss	**(30)**	-	**(30)**	-
Foreign exchange gain	**8**	-	**8**	-

As at September 30, 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 long-term debt which bears floating rates of interest. Under the Credit Facility (note 10), 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 10), 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 September 30, 2021, an increase (decrease) in the market rate of interest by 50 basis points would increase (decrease) annualized interest expense by approximately $2.3 million.

As at September 30, 2021, there are no interest rate risk management contracts outstanding.

d) Risk Management Contracts

The following tables summarize the Company's risk management contracts outstanding as at September 30, 2021:

	Oil and Condensates (1)					
	US$ WTI Swaps (2)(3)		US$ MSW – WTI Swaps (2)(3)(4)		US$ C5 - WTI Swaps (2)(3)(4)	
Period	Volume (Bbl/d)	(US$/bbl)	Volume (Bbl/d)	(US$/bbl)	Volume (Bbl/d)	(US$/bbl)
Q4 2021	5,250	$49.02	4,000	($4.71)	1,000	($2.26)
Q1 2022	4,750	$49.15	-	-	-	-
Q2 2022	4,000	$49.30	-	-	-	-

(1) The prices and volumes in this table represent averages for contracts represented in the respective periods.
(2) Represent short positions.
(3) WTI swaps are settled based on the WTI calendar month average.
(4) Mixed Sweet Blend ("MSW") and Condensate ("C5") swaps are settled based on the monthly index benchmark pricing of the settlement month.

	Natural Gas (1)					
	US$ NYMEX Henry Hub Swaps/ Collar (2)(3)(4)		US$ NYMEX – AECO 7A Basis Swaps – Short (3)		C$ AECO 7A Swaps - Short	
Period	Volume (MMbtu/d)	Floor – Ceiling (US$/MMbtu)	Volume (MMbtu/d)	(US$/MMbtu)	Volume (MMbtu/d)	(US$/MMbtu)
Q4 2021	68,315	$2.72 - $2.98	85,000	($1.22)	38,370	$2.24
Q1 2022	70,000	$2.74 - $3.08	85,000	($1.13)	35,000	$2.25
Q2 2022	55,000	$2.70 - $2.81	85,000	($1.13)	-	-
Q3 2022	55,000	$2.70 - $2.81	85,000	($1.13)	-	-
Q4 2022	35,109	$2.81 - $2.87	85,000	($1.15)	-	-
Q1 2023	26,389	$2.83 - $2.83	85,000	($1.13)	-	-
Q2 2023	10,000	$2.65 - $2.65	85,000	($1.09)	-	-
Q3 2023	10,000	$2.65 - $2.65	85,000	($1.08)	-	-
Q4 2023	10,000	$2.65 - $2.65	85,000	($1.08)	-	-

(1) The prices and volumes in this table represent averages for contracts represented in the respective periods.
(2) Represent short collar positions comprised of long puts and short calls.
(3) NYMEX swaps are settled based on the last day of settlement of monthly futures contracts.
(4) Floor and ceiling represent the average strike price of short collar positions.

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.

Summary of derivative financial instrument assets and liabilities

The fair value of the Company's outstanding risk management contracts resulted in a net derivative financial instrument liability of $124.4 million at September 30, 2021, compared to a liability of $3.1 million at December 31, 2020. The net increase in derivative financial instrument liabilities during the period primarily relates to the fair value of risk management contracts assumed in connection with the Velvet Acquisition of $94.2 million on August 31, 2021 (note 5), of which $8.3 million was subsequently settled during the period.

(CA$ thousands)	**Current**	**Long-term**	**Total**
Balances at September 30, 2021:			
Derivative financial instrument assets	20,701	-	20,701
Derivative financial instrument liabilities	(121,457)	(23,646)	(145,103)
Net asset (liability)	**(100,756)**	**(23,646)**	**(124,402)**
Balances at December 31, 2020:			
Derivative financial instrument assets	-	-	-
Derivative financial instrument liabilities	(2,063)	(1,074)	(3,137)
Net asset (liability)	**(2,063)**	**(1,074)**	**(3,137)**
Reconciliation of net change during the period:			
Unrealized loss recognized in net income			(35,318)
Derivative financial instruments acquired, net (note 5)			(94,203)
Settlement of acquired derivative liabilities			8,256
Total change in derivative financial instruments			**(121,265)**

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 September 30, 2021:

(CA$ thousands)		Change in price/ differential	Positive movement	Negative movement
US$ WTI	US$/bbl	+/- $ 5.00	(7,998)	7,998
US$ NYMEX HH	US$/mmbtu	+/- $ 0.25	(8,933)	8,905
NYMEX HH-AECO Basis(1)	US$/mmbtu	+/- $ 0.10	(8,390)	8,390
MSW differential(1)	C$/bbl	+/- $ 1.00	(462)	462
C5 differential (1)	C$/bbl	+/- $ 1.00	(115)	115
C$ AECO	C$/GJ	+/- $ 0.25	(1,645)	1,645

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

Gains and losses on derivative financial instruments

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

	Three months ended September 30		Nine months ended September 30	
(CA$ thousands)	**2021**	2020	**2021**	2020
Realized gain (loss)	**(5,659)**	1,070	**(10,569)**	1,206
Unrealized loss	**(24,577)**	(15,129)	**(35,318)**	(12,963)
Loss on derivative financial instruments	**(30,236)**	(14,059)	**(45,887)**	(11,757)

5. ACQUISITIONS

a) BXE Acquisition

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

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

Spartan recognized a gain on acquisition as the estimated fair value of the net assets acquired exceeded the consideration paid by $53.0 million. The COVID-19 pandemic and collapse of global crude oil prices in March and April 2020 exacerbated the financial challenges facing BXE, which had previously commenced restructuring proceedings under the *Companies’ Creditors Arrangement Act* (Canada) on October 2, 2019. The gain is attributed to the distressed nature of the transaction and Spartan’s ability to access capital in a challenging business environment, allowing the Company the opportunity to acquire assets at a historically low valuation. The Company incurred approximately $2.3 million of transaction costs related to the acquisition that are recognized as an expense during the nine months ended September 30, 2020.

The fair value of property, pant and equipment (“PP&E”) acquired was estimated based on fair value less costs of disposal (“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 BXE’s oil and gas reserves which was prepared by an independent qualified reserve evaluator as of December 31, 2019. The cash flow estimates derived from the 2019 reserve report were internally updated by Spartan to reflect the following changes to key assumptions as of the June 1, 2020 closing date of the acquisition:

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

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the period ended September 30, 2020 includes the results of operations for the BXE assets acquired starting from the closing date. Specifically, Spartan's net income for the three and nine months ended September 30, 2020, includes $49.0 million of revenue (after royalties) and $24.7 million of operating income generated from the BXE assets for the period from June 1 to September 30, 2020. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2020, pro-forma revenue and operating income is estimated to be approximately $110.2 million and $55.7 million, respectively, for the nine months ended September 30, 2020. Given this estimate is based on an extrapolation of June to September results, this pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

b) Corporate acquisition – the Inception Acquisition

On March 18, 2021, Spartan closed the acquisition of Inception by way of an exempt take-over bid for total consideration of $117.4 million. Inception was an oil-weighted Montney focused private company with operations primarily in the Gold Creek area of northwest Alberta. Spartan acquired all of the issued and outstanding common shares of Inception in exchange for an aggregate of 23,734,379 Spartan common shares, of which the majority of common shares were issued to a major shareholder and debtholder of Inception, ARETI Energy S.A. ("ARETI"). Upon closing of the Inception Acquisition, ARETI acquired ownership and control over 23,675,779 Spartan common shares representing approximately 20.8% of the total number of Spartan common shares issued and outstanding on a non-diluted basis (see note 20). 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 fair value of the Convertible Note was estimated to be approximately $25.3 million on the acquisition date. Additional information regarding the terms, valuation and subsequent conversion of the Convertible Note are provided in note 11.

Inception was vertically amalgamated with Spartan on the closing date. A wholly owned subsidiary of Inception was not amalgamated and continues to operate as a separate legal entity (see note 20).

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.

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 period ended September 30, 2021.

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the nine months ended September 30, 2021 includes the results of operations for the Inception Acquisition from the closing date until September 30, 2021. Specifically, Spartan's net income for the period ended September 30, 2021, includes $27.3 million of revenue (after royalties) and $20.8 million of operating income generated from the Inception Acquisition for the period from March 18 to September 30, 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 $38.1 million and $29.0 million, respectively, for the period ended September 30, 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 $20.5 million after closing adjustments. The gross purchase price was comprised of the issuance of 1,493,180 common shares and $17.2 million of cash, before closing adjustments. Adjustments to the cash purchase price were approximately $2.5 million between the effective date of January 1, 2021 and closing. The fair value of the common share consideration was $5.8 million based on Spartan's closing share price of $3.88 per common share on March 18, 2021.

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

(CA$ thousands)	**March 18, 2021**
Cash consideration, after closing adjustments	14,680
Common share consideration	5,794
Total consideration (1)	**20,474**
Exploration and evaluation assets	3,053
Property, plant and equipment	35,598
Decommissioning obligations	(18,177)
Fair value of net assets acquired (1)	**20,474**

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

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

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

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the nine months ended September 30, 2021 includes the results of operations for the Simonette Acquisition starting from the closing date. Specifically, Spartan's net income for the period ended September 30, 2021, includes $20.0 million of revenue (after royalties) and $11.9 million of operating income generated from the Simonette Acquisition for the period from March 18 to September 30, 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 $27.8 million and $16.6 million, respectively, for the period ended September 30, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

d) Velvet Acquisition

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

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

(CA$ thousands)	**August 31, 2021**
Cash consideration	355,879
Common share consideration	13,231
Total consideration	**369,110**
Net working capital deficit (1)	(34,297)
Indebtedness repaid on closing date	(352,488)
Derivative financial instrument liability, net	(94,203)
Exploration and evaluation assets	60,757
Property, plant and equipment	753,167
Right-of-use assets	4,364
Lease obligations	(4,435)
Decommissioning obligations	(9,694)
Deferred income tax asset	134,815
Fair value of net assets acquired (2)	**457,986**
Gain on acquisition (2)	**(88,876)**

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

Spartan recognized a gain on acquisition as the estimated fair value of the net assets acquired exceeded the consideration paid by $88.9 million. The gain is primarily attributed to significant tax pools by acquiring the corporate entity. Velvet's unused tax pools were estimated to be $1.3 billion on the acquisition date, of which approximately half are non-capital losses. The unused tax losses and deductible temporary differences resulted in a deferred income tax asset of $181.4 million, net of a deferred income tax liability on taxable temporary differences of $46.6 million. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Based on forecast cash flows in the Velvet reserves report, Spartan expects the properties to generate sufficient taxable income in the future to utilize the deductions from the resource pools which became successored upon the acquisition of control by Spartan. Spartan also expects to generate sufficient taxable income corporately to utilize the non-capital losses prior to expiry in years 2025 to 2040.

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

The undiscounted amount of decommissioning obligations acquired pursuant to the Velvet Acquisition is estimated to be approximately $18.2 million ($26.5 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 6.8% on the closing date. The obligations acquired were subsequently remeasured in accordance with the Company's accounting policy, whereby decommissioning obligations are discounted using a "risk-free rate". Remeasurement of the decommissioning obligations acquired at a risk-free rate of 1.8% on August 31, 2021, resulted in an increase in the present value of decommissioning obligations acquired by $9.4 million and a corresponding increase recorded directly to PP&E.

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

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

The Company incurred $2.8 million of transaction costs related to the Velvet Acquisition which were recognized as an expense during the period ended September 30, 2021.

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the nine months ended September 30, 2021 includes the results of operations for the Velvet Acquisition starting from the closing date. Specifically, Spartan's net income for the period ended September 30, 2021, includes $33.9 million of revenue (after royalties) and $22.6 million of operating income generated from the Velvet Acquisition for the period from August 31 to September 30, 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 $214.8 million and $131.9 million, respectively, for the period ended September 30, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

e) Ferrier Acquisition

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

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

(CA$ thousands)	**September 3, 2021**
Cash consideration	**37,500**
Net working capital surplus	1,659
Other non-current assets	3,753
Exploration and evaluation assets	460
Property, plant and equipment	43,973
Decommissioning obligations	(341)
Deferred income tax liability	(8,889)
Fair value of net assets acquired (1)	**40,615**
Gain on acquisition (1)	**(3,115)**

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

The net assets acquired were recorded at their estimated fair value on the acquisition date of $40.6 million, as outlined in the table above. The fair value of PP&E acquired was estimated based on FVLCD methodology (Level 3 fair value measurement), calculated using the present value of the expected future cash flows after-tax. The projected cash flows used in the FVLCD calculation were derived from a report on the acquired oil and gas reserves. A gain of $3.1 million was recognized as the total consideration was less than the estimated fair value of the net assets acquired. The gain is attributed to the distressed nature of the transaction which was completed through a court supervised restructuring process under the *Companies' Creditors Arrangement Act* (Canada). Subsequent to the end of the period, Spartan acquired an additional entity related to the Ferrier Acquisition that contained tax pools for the assets acquired. The entity was acquired for nominal consideration and the value of the tax pools acquired was incorporated in the other non-current assets above.

f) Other Acquisitions

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

- On January 14, 2021, the Company acquired all of the issued and outstanding shares of two private companies for total consideration of $8.2 million (the "January 2021 Acquisition"). The acquired assets primarily include non-producing 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. Spartan had an unrecognized deferred tax asset of $41.8 million on initial recognition of the January 2021 Acquisition in addition to the recognized deferred tax asset of $8.5 million.
- On March 5, 2021, Spartan closed an acquisition of producing 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").

- On May 21, 2021, the Company acquired all of the issued and outstanding shares of Canoe Point Energy Ltd. ("Canoe") for total consideration of $1.5 million (the "Canoe Acquisition"). Canoe held Montney acreage in Spartan's core area at Karr, Alberta. Certain officers and directors of Spartan were also shareholders of Canoe, with ownership and control over 48% of the Canoe Shares (note 20). The Canoe Acquisition constitutes a "related party transaction" and was recorded at the exchange amount on the closing date comprised of 306,271 common shares valued at $4.80 per common share, based on the closing price of Spartan's common shares on the TSXV on the closing date of the acquisition.
- On June 4, 2021, Spartan closed an acquisition of undeveloped acreage located in the Gold Creek area for cash consideration of $0.1 million (the "GC Land Acquisition").
- On June 17, 2021, Spartan closed an acquisition of Montney acreage as well as interests in production behind pipe located in the Gold Creek and Simonette areas of Alberta for cash consideration of $10.0 million after estimated closing adjustments (the "Gold Creek Acquisition").

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

(CA$ thousands)	**Total**
Cash consideration, after closing adjustments	15,660
Common share consideration	9,380
Total consideration	**25,040**
Net working capital	129
Exploration and evaluation assets	10,570
Property, plant and equipment	8,998
Decommissioning obligations	(3,104)
Deferred income tax asset	8,447
Fair value of net assets acquired	**25,040**

6. EXPLORATION AND EVALUATION ASSETS

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

(CA$ thousands)	**September 30, 2021**	December 31, 2020
Balance, beginning of year	**2,538**	349
Additions	**7,706**	1,302
Corporate acquisitions (note 5)	**69,970**	-
Property acquisitions (note 5)	**12,033**	895
Expired mineral leases (1)	**(97)**	(8)
Balance, end of period	**92,150**	2,538

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

Spartan assessed its E&E assets for indicators of potential impairment as at September 30, 2021 and concluded there are no indicators of impairment.

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
Dispositions	-	(59)	(59)
Decommissioning discount rate adjustment	57,303	-	57,303
Changes in decommissioning cost estimates (note 9)	(6,130)	-	(6,130)
Balance at December 31, 2020	**284,507**	**498**	**285,005**
Additions	65,156	431	65,587
Corporate acquisitions (note 5)	907,130	-	907,130
Property acquisitions (note 5)	44,582	-	44,582
Dispositions	(58)	(30)	(88)
Decommissioning discount rate adjustment (note 9)	35,027	-	35,027
Changes in decommissioning cost estimates (note 9)	(12,405)	-	(12,405)
Balance at September 30, 2021	**1,323,939**	**899**	**1,324,838**

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	47,085	181	47,266
Balance at September 30, 2021	**75,049**	**283**	**75,332**

Net carrying value	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2020	256,543	396	256,939
Balance at September 30, 2021	**1,248,890**	**616**	**1,249,506**

FDC expenditures required to develop total proved plus probable reserves in the amount of $2.4 billion are included in the depletion calculation for D&P assets for the three months ended September 30, 2021 ($417.3 million at December 31, 2020). The increase in estimated FDC costs of $2.0 billion reflects the acquisitions (note 5) partly offset by capital spending in the period.

Spartan assessed each of its CGUs for indicators of potential impairment as at September 30, 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 former 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 September 30, 2021. ROU assets are depreciated on a straight-line basis over the term of the lease.

(CA$ thousands)	**September 30, 2021**	December 31, 2020
Right-of-use asset, at cost		
Balance, beginning of year	**51,438**	-
Additions	**117**	796
Acquisitions (note 5)	**5,412**	50,642
Lease modification	**(185)**	-
Balance, end of period	**56,782**	51,438
Accumulated depreciation		
Balance, beginning of year	**4,175**	-
Depreciation expense	**5,798**	4,175
Balance, end of period	**9,973**	4,175
Right-of-use asset, net carrying value	**46,809**	47,263

LEASE LIABILITIES

As at September 30, 2021, the present value of the Company's total lease liability is $49.7 million, of which approximately $9.3 million is expected to be settled in the next twelve months. A continuity of the lease obligation is provided below:

(CA$ thousands)	**September 30, 2021**	December 31, 2020
Lease liabilities		
Balance, beginning of year	**49,766**	-
Additions	**117**	796
Acquisitions (note 5)	**5,483**	50,642
Lease payments	**(7,606)**	(3,392)
Financing cost (note 15)	**2,115**	1,720
Lease modification	**(185)**	-
Balance, end of period	**49,690**	49,766
Lease liabilities expected to be settled within one year	**9,275**	6,853
Lease liabilities expected to be settled beyond one year	**40,415**	42,913

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

Short term leases

The Company has short term leases in place for vehicles and equipment with lease terms less than twelve months. The total amount expensed in respect of short-term leases was approximately $0.7 million and $1.1 million during the three and nine months ended September 30, 2021, respectively.

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)	**September 30, 2021**	December 31, 2020
Balance, beginning of year	**98,087**	7,665
Obligations incurred	**1,144**	591
Obligations acquired (note 5)	**33,116**	27,207
Discount rate adjustment on obligations acquired (note 5)	**35,027**	70,409
Obligations disposed	**(103)**	(139)
Obligations settled	**(1,013)**	(1,429)
Obligations settled through government grant (1)	**(1,445)**	(203)
Changes in discount rate	**(14,091)**	(2,174)
Changes in estimates	**542**	(4,547)
Accretion (note 15)	**1,569**	707
Balance, end of period	**152,833**	98,087
Expected to be settled within one year	**3,350**	2,833
Expected to be settled beyond one year	**149,483**	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 nine months ended September 30, 2021.

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at September 30, 2021, the total undiscounted amount of the estimated cash flows required to settle the obligation is $148.0 million ($83.5 million as of December 31, 2020), of which, Spartan expects to incur approximately $67.0 million over the next 20 years, $80.7 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 $226.1 million at September 30, 2021 (December 31, 2020 – $128.3 million).

As at September 30, 2021, the carrying amount of the decommissioning obligations is based on a risk-free rate of 1.98% (1.21% at December 31, 2020). The increase in risk-free interest rate during the first nine months 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 $14.1 million as at September 30, 2021 compared to December 31, 2020.

10. LONG-TERM DEBT

(CA$ thousands)	**September 30, 2021**	December 31, 2020
Bank debt	**300,200**	-
Second lien term facility	**150,000**	-
Unamortized issue costs and prepaid interest	**(8,607)**	-
Long-term debt	**441,593**	**-**

a) Bank debt

The Company has a senior secured revolving credit facility with a syndicate of financial institutions, co-lead by National Bank of Canada ("NBC") and Canadian Imperial Bank of Commerce ("CIBC"), along with ATB Financial ("ATB"), The

Toronto-Dominion Bank ("TD"), Bank of Montreal ("BMO"), and Canadian Western Bank ("CWB") (collectively, the "Lenders"). CIBC, TD, and BMO joined the syndicate effective upon closing of the Velvet Acquisition on August 31, 2021, at which time the existing credit facility was amended and restated to, among other things, increase the aggregate commitment amount from $100.0 million to $450.0 million (the "Credit Facility"). The Credit Facility is comprised of extendible revolving credit facilities consisting of a $50.0 million operating facility and a $400.0 million syndicated facility.

As at September 30, 2021, Spartan had $300.2 million of bank debt outstanding under the Credit Facility. In addition, the Company has issued $28.0 million of undrawn standby letters of credit which reduce the remaining borrowing capacity available under the operating facility.

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

The Company is subject to certain financial covenants under the amended Credit Facility which include: (i) for the period commencing from August 31, 2021 and ending May 31, 2022, the Company's net debt to cash flow ratio (as defined in the credit agreement) shall not exceed 2.0 to 1.0; and (ii) for so long as the following covenants applies to the Term Facility (hereinafter defined): (A) the maximum funded debt to EBITDA (being earnings before interest, taxes, depreciation and amortization, as defined in the credit agreement), 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, 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 then strip commodity pricing, divided by the then outstanding funded debt balance of the Company. The Credit Facility also includes other standard business operating covenants, including but not limited to limitations on acquisitions and dispositions, distributions, dividends and hedging arrangements.

Covenant Description		**September 30, 2021**
Liability management rating (1)	minimum ratio 2.0 to 1.0	**8.5**
Net debt to cash flow (1)	maximum ratio 2.0 to 1.0	**1.38**
Funded debt to EBITDA (1)	maximum ratio 2.5 to 1.0	**1.17**
Asset coverage ratio (1)(2)	minimum ratio 1.5 to 1.0	**not applicable**

(1) The covenants do not have standardized meanings under IFRS and are calculated in accordance with the definitions in the credit agreement. The definitions of cash flow and EBITDA include, among other things, 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.

(2) The asset coverage ratio is an annual covenant.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime plus 1.75% up to bank prime plus 5.25%, depending upon the Company's then current net debt to cash flow ratio ranging from less than 0.5 times to greater than 4.5 times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available at the Canadian Dollar Offered Rate ("CDOR") plus bank stamping fees which fluctuate based on a pricing grid and range from 2.75% up to 6.25%, depending upon the Company's then current net debt to cash flow ratio ranging from less than 0.5 times to greater than 4.5 times. The Company incurs standby fees on the undrawn facility which also fluctuate based on the pricing grid and range from 0.68% up to 1.56%.

b) Second lien term facility

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

c) Movements in long-term debt

The following table reconciles movements in long-term debt during the periods:

(CA$ thousands)	**September 30, 2021**	December 31, 2020
Balance, beginning of year	**-**	-
Advances	**495,200**	20,000
Repayments	**(45,000)**	(20,000)
Issue costs incurred	**(6,772)**	(734)
Amortization of issue costs	**459**	224
Change in prepaid interest on bankers’ acceptances	**(1,784)**	-
Reclassification of unamortized issue costs (1)	**(510)**	510
Bank debt, end of period	**441,593**	-

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

11. CONVERTIBLE PROMISSORY NOTE

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

On September 29, 2021, the Convertible Note was converted into 5,882,353 common shares of Spartan pursuant to an amending agreement between Spartan and the noteholder, whereby the terms of the Convertible Note were amended allowing for early conversion at a conversion price of $8.50 per common share (see also, note 20). The Convertible Note was cancelled upon conversion.

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

The following table summarizes the change in the principal amount and carrying value of the Convertible Note during the 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	-	5,648
Conversion to common shares	(50,000)	(30,941)
Balance at September 30, 2021	**-**	**-**

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 are reflected on a post-consolidation basis for the comparative period. Effective September 1, 2021 Spartan graduated to the TSX and concurrently delisted its shares from the Toronto Stock Exchange Venture (“TSXV”).

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 September 30, 2021 (December 31, 2020 – 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	**10,976**	**54,005**
Deferred premium on flow-through shares	**-**	**(10,098)**
Issued pursuant to acquisitions (note 5)	**30,523**	**120,494**
Issued on conversion of convertible promissory note (note 11)	**5,882**	**30,941**
Issued for cash on exercise of warrants	**150**	**150**
Transfer value attributed to warrants exercised	**-**	**92**
Issued for cash on exercise of stock options	**114**	**341**
Transfer value attributed to stock options exercised	**-**	**143**
Issue costs, net of deferred tax ($2,283)	**-**	**(7,643)**
Balance at September 30, 2021	**153,074**	**$ 516,906**

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 5) 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 5). Each subscription receipt was exchanged for one common share for no additional consideration. Net proceeds were approximately $144.3 million after underwriting fees and other issue costs.

Non-Brokered Offering

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

The implied premium on the flow-through shares was determined to be $10.1 million or $0.92 per flow-through share, relative to the subscription price of $4.00 per share under the concurrent Non-Brokered Private Placement. Pursuant to the provisions of the *Income Tax Act* (Canada), the Company 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 September 30, 2021, the Company had incurred $37.6 million of Qualifying Expenditures, leaving $16.4 million of Qualifying Expenditures to be incurred in the balance of 2021 (as described further in note 19). The deferred premium on flow-through shares of $10.1 million on issuance was recognized initially as a liability on the Consolidated Statement of Financial Position and is drawn-down in proportion to the Qualifying Expenditures incurred, with $7.0 million recognized in net income. The remaining deferred premium is $3.1 million as at September 30, 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
Balance at December 31, 2019	16,204	$ 9,965	$ 1.00
Warrants exercised	(120)	(74)	(1.00)
Balance at December 31, 2020	**16,084**	**$ 9,891**	**$ 1.00**
Warrants exercised	(150)	(92)	(1.00)
Balance at September 30, 2021	**15,934**	**$ 9,799**	**$ 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)	**1,116**	**4.11**
Exercised	**(114)**	**3.00**
Forfeited	**(53)**	**3.00**
Balance at September 30, 2021	**4,349**	**$ 3.29**

(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:

	Nine months ended September 30	
	2021	2020
Risk free interest rate	**0.7%**	0.3%
Expected life (years)	**3.9**	3.5
Expected volatility (1)	**65.8%**	67.9%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**1.1%**	4.8%
Average fair value of options granted during the period ($/share)	**$ 1.99**	$ 1.41

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

The following table summarizes information regarding stock options outstanding at September 30, 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 $4.00	3,233	3.7	3.00	988	3.00
$4.01 to $5.00	1,102	4.4	4.09	-	-
$5.01 to $5.55	14	4.7	5.55	-	-
Total	**4,349**	**3.9**	**3.29**	**988**	**3.00**

The volume weighted average trading price of the Company's common shares on the TSX (TSXV prior to September 1, 2021) for the three and nine months ended September 30, 2021 was $4.78 and $4.53, respectively.

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	-	**1,805**
Forfeited	-	**(17)**
Balance at September 30, 2021	-	**1,788**

(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 and nine month periods ended September 30, 2021 and 2020:

	Three months ended September 30		Nine months ended September 30	
(000s)	**2021**	2020	**2021**	2020
WA common shares outstanding, basic	**125,626**	58,118	**102,892**	40,358
Dilutive effect of stock options	**911**	-	**782**	-
Dilutive effect of share awards	**795**	-	**740**	-
Dilutive effect of warrants	**12,600**	10,113	**12,417**	10,465
Dilutive effect of Convertible Note	**5,754**	-	**4,202**	-
WA common shares outstanding, diluted	**145,686**	68,231	**121,033**	50,823
Net income (loss)	**$ 126,937**	$ (7,281)	**$ 205,765**	$ 35,305
$ per common share, basic	**$ 1.01**	$ (0.13)	**$ 2.00**	$ 0.87
$ per common share, diluted	**$ 0.87**	$ (0.13)	**$ 1.70**	$ 0.69

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.

In the third quarter comparative, the warrants were in-the-money but excluded from the net loss per share calculation as they were antidilutive during the three months ended September 30, 2020.

13. INCOME TAXES

As at September 30, 2021, total tax pools available to the Company are estimated to be approximately $1.8 billion (December 31, 2020 – $117.5 million), of which approximately half are non-capital losses ("NCLs"). During the period ended September 30, 2021, Spartan closed acquisitions which materially increased the Company's tax pools (note 5).

The movement in deferred tax assets and liabilities are as follows:

(*CA$ thousands*)	Balance Dec 31, 2020	Recognized in net income	Recognized in balance sheet	**Balance Sept 30, 2021**
Derivative financial instruments	721	6,224	21,667	**28,612**
Accelerated tax basis depreciation	(36,223)	(13,518)	(54,571)	**(104,312)**
Decommissioning obligations	22,560	5,185	7,407	**35,152**
Leases	576	87	-	**663**
Convertible promissory note	-	5,683	(5,683)	**-**
Share issue costs (1)	395	(384)	2,417	**2,428**
Non-capital losses and other (2)	3,220	(29,666)	241,058	**214,612**
Unrecognized deferred tax asset	-	28,882	(41,812)	**(12,930)**
Deferred tax asset (liability)	(8,751)	2,493	170,483	**164,225**

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

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 $28.9 million during the nine months ended September 30, 2021. At September 30, 2021, the remaining unrecognized deferred tax asset was $12.9 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 September 30		Nine months ended September 30	
(*CA$ thousands*)	**2021**	2020	**2021**	2020
Net income (loss) before income taxes	**130,735**	(10,068)	**203,272**	24,430
Canadian statutory tax rate	**23.0%**	25.0%	**23.0%**	25.0%
Expected income tax expense (recovery)	**30,070**	(2,517)	**46,753**	6,108
Increase (decrease) resulting from:				
Non-deductible expenses (1)	**1,152**	(390)	**2,030**	227
Gain on acquisition	**(21,158)**	-	**(29,239)**	(13,238)
Qualifying expenditures incurred on flow-through shares	**7,618**	-	**8,644**	-
Premium on flow-through shares	**(1,424)**	-	**(1,617)**	-
Change in tax rates	**-**	120	**-**	360
True-up tax pools	**(2)**	-	**(182)**	(127)
Change in unrecognized deferred tax asset	**(12,458)**	-	**(28,882)**	(4,205)
Deferred income tax expense (recovery)	**3,798**	(2,787)	**(2,493)**	(10,875)
Current income tax	**-**	-	**-**	-
Income tax expense (recovery)	**3,798**	(2,787)	**(2,493)**	(10,875)

(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 three and nine months ended September 30, 2021, compared to 25.0% in the previous comparative periods ended September 30, 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, resulted 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 September 30		Nine months ended September 30	
(CA$ thousands)	**2021**	2020	**2021**	2020
Oil and gas sales				
Crude oil	**35,489**	1,302	**52,000**	1,839
Natural gas liquids	**44,689**	14,944	**106,794**	19,600
Natural gas	**65,900**	22,903	**152,923**	29,679
Oil and gas sales	**146,078**	39,149	**311,717**	51,118
Royalties	**(14,733)**	(3,311)	**(33,901)**	(4,065)
Oil and gas sales, net of royalties	**131,345**	35,838	**277,816**	47,053

15. PIPELINE TRANSPORTATION REVENUE AND EXPENSES

The pipeline transportation revenue and expense arrangements were assumed through the Velvet Acquisition (note 5). 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, subject to apportionment by the pipeline operator, on the Spearhead pipeline.

	Three months ended September 30		Nine months ended September 30	
(CA$ thousands)	**2021**	2020	**2021**	2020
Pipeline transportation revenue	**467**	-	**467**	-
Pipeline transportation expense	**(865)**	-	**(865)**	-
Net pipeline transportation margin	**(398)**	-	**(398)**	-

16. 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 September 30		Nine months ended September 30	
(CA$ thousands)	**2021**	2020	**2021**	2020
Interest and fees on long-term debt	**2,809**	639	**3,447**	841
Financing cost of lease liabilities	**692**	740	**2,115**	989
Accretion of decommissioning obligations	**628**	271	**1,569**	417
Financing expenses	**4,129**	1,650	**7,131**	2,247
Interest income	**(172)**	-	**(405)**	(94)
Financing	**3,957**	1,650	**6,726**	2,153

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
(CA$ thousands)	**2021**	2020	**2021**	2020
Accounts receivable	**(40,973)**	(3,048)	**(61,895)**	(15,125)
Prepaid expenses and deposits	**3,001**	(867)	**(8,085)**	(2,288)
Accounts payable and accrued liabilities	**87,856**	10,823	**101,652**	22,951
Non-cash working capital acquired (note 5)	**(55,702)**	-	**(59,723)**	-
Foreign exchange	**(41)**	-	**(41)**	-
Change in non-cash working capital	**(5,859)**	6,908	**(28,092)**	5,538
Relating to:				
Operating activities	**(15,042)**	6,950	**(26,587)**	790
Financing activities	**-**	-	**-**	104
Investing activities	**9,183**	(42)	**(1,505)**	4,644
Change in non-cash working capital	**(5,859)**	6,908	**(28,092)**	5,538
Cash payments in respect of:				
Interest and fees on long-term debt	**4,052**	535	**4,814**	535
Income taxes	**-**	-	**-**	-

18. 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 September 30, 2021, the Company's capital structure is comprised of working capital, long-term debt 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)	**September 30, 2021**	December 31, 2020
Long-term debt	**441,593**	-
Adjusted Working Capital deficit (2)	**39,494**	12,292
Net Debt (1)	**481,087**	12,292
Total shareholders' equity	**756,211**	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 September 30, 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.

During the first nine months of 2021, the Company's primary sources of funds were $133.9 million of cash provided by operating activities, $264.1 million of net proceeds from brokered and non-brokered equity financings (note 12), a new five-year $150.0 million Term Facility (note 10), supplemented by bank debt under the Credit Facility with an increased borrowing base of up to $450.0 million (note 10). In addition, Spartan received $0.5 million of cash proceeds on the exercise of stock options and warrants during the period (note 12).

Cash provided by operating activities of $133.9 million for the period September 30, 2021 was used to fund the Company's exploration and development capital expenditures of $73.3 million, lease payments of $7.6 million, and a portion of the cash component of the purchase price for the acquisitions. Total consideration for the acquisitions completed year-to-date is $569.5 million in aggregate, comprised of $423.7 million of cash, $120.5 million of common share consideration, and the issuance the Convertible Note with a fair value of $25.3 million on the acquisition date. In addition, Spartan assumed Net Debt of $389.1 million in connection with the corporate acquisitions of which $352.5 million was repaid on the closing date of the Velvet Acquisition. The balance of the purchase price for the acquisitions and Velvet's debt repayment was funded by equity proceeds and advances under the Term Facility and Credit Facility.

Spartan is well positioned to execute on its short and longer term growth strategy. The Company's exploration and development capital expenditure budget for the remainder of 2021 and 2022 will be funded primarily by cash provided by operating activities and may be supplemented by short term advances of bank debt during periods of high capital investment. Spartan plans to use surplus cash provided by operating activities primarily to repay bank debt in 2022.

As at September 30, 2021, the Company is not subject to any externally imposed capital requirements other than the financial covenants under the amended and restated Credit Facility and Term Facility, to which Spartan is in full compliance (note 10).

19. COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's contractual commitments as of September 30, 2021:

(CA$ thousands)	2021	2022	2023	2024	2025	Thereafter
Gas transportation (1)	4,857	15,814	15,498	15,016	14,874	26,434
Liquids transportation (2)	6,729	40,469	42,241	22,606	11,921	12,366
NGLs fractionation (3)	261	1,022	1,326	1,425	1,421	6,040
Processing fees (4)	2,806	10,769	5,302	146	81	-
Flow-through shares (5)	16,422	-	-	-	-	-
Total	31,075	68,074	64,367	39,193	28,297	44,840

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

(2) Liquids Transportation includes $46.3 million (US$36.3 million) related to the Spearhead pipeline commitment and $32.0 million (US$25.1 million) related to the Flanagan south pipeline. Also includes $58.0 million related to upstream oil and natural gas liquids ("NGLs") transportation contracts.

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

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

(5) 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 $37.6 million has been incurred as at September 30, 2021 and the remaining commitment of $16.4 million must be incurred prior to December 31, 2021. In accordance with the subscription agreements, Spartan will renounce Qualifying Expenditures to subscribers as follows: $6.5 million effective October 31, 2021; and $47.5 million effective December 31, 2021.

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

Litigation

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

20. RELATED PARTY DISCLOSURES

a) Inter-corporate relationships

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

With respect to corporate acquisitions (note 5) completed during the period ended September 30, 2021, the majority of the corporate entities acquired by Spartan were amalgamated during the period. As at September 30, 2021, Spartan has two wholly owned subsidiaries as well as a limited partnership investment. Balances and transactions between Spartan and these entities have been eliminated on consolidation.

b) Related party transactions

During the three and nine months ended September 30, 2021, the Company incurred $1.5 million and $2.7 million, respectively of legal fees to a law firm where the corporate secretary of the Company is a partner (2020 – $0.3 million and $1.6 million, respectively). 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 nine months of 2021. Approximately $1.4 million of legal fees are included in the balance of accounts payable and accrued liabilities as at September 30, 2021.

Acquisition of Canoe Point Energy Ltd.

On May 21, 2021, Spartan acquired all of the issued and outstanding shares of Canoe (the “Canoe Shares”). The total purchase price of $1.5 million was satisfied through the issuance of 306,271 common shares of Spartan and the assumption of net debt of $0.1 million (note 5).

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

c) Conversion of promissory note due to related party

The holder of the Convertible Note (note 11), ARETI Energy S.A., is a related party under IAS 24 Related Party Disclosures. ARETI became a related party upon closing of the Inception Acquisition (note 5), however Spartan and ARETI were arm’s length parties prior thereto.

On September 29, 2021, the Convertible Note with a principal amount of $50.0 million was converted into 5,882,353 common shares of Spartan pursuant to an amending agreement between Spartan and ARETI, whereby the terms of the Convertible Note were amended allowing for early conversion at a conversion price of $8.50 per common share. Prior to the amendment, the Convertible Note was convertible on or after March 18, 2023 and the minimum conversion price was $7.67 per common share, as more particularly described in note 11. The Convertible Note was cancelled upon conversion and had a carrying value of approximately $30.9 million immediately prior to conversion.

As at September 30, 2021, ARETI owns and controls (through direct ownership or its affiliates) approximately 19.9% of the Company’s total common shares outstanding. As part of the pre-acquisition agreement between Inception and Spartan, the Company entered into a nomination rights agreement providing ARETI with the right to nominate one or two directors to Spartan’s board of directors, subject to acquiring and maintaining certain minimum shareholding requirements. Steve Lowden and Elliot Weissbluth were appointed to Spartan’s board of directors concurrent with closing of the Inception Acquisition on March 18, 2021.