# SPARTAN DELTA CORP.

# MANAGEMENT'S DISCUSSION & ANALYSIS

# AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

## FINANCIAL AND OPERATING HIGHLIGHTS

| *(CA$ thousands, unless otherwise indicated)* | Three months ended September 30 **2021** | 2020 | % | Nine months ended September 30 **2021** | 2020 | % |
|---|---|---|---|---|---|---|
| **OPERATING** | | | | | | |
| Average daily production (BOE/d) | | | | | | |
| Crude oil (bbls/d) | **4,647** | 318 | 1,361 | **2,421** | 150 | 1,514 |
| Condensate (bbls/d) (1) | **1,982** | 1,113 | 78 | **1,772** | 496 | 257 |
| NGLs (bbls/d) (1) | **8,102** | 6,811 | 19 | **7,618** | 3,037 | 151 |
| Natural gas (mcf/d) | **189,306** | 108,237 | 75 | **165,115** | 49,091 | 236 |
| BOE/d | **46,282** | 26,282 | 76 | **39,330** | 11,865 | 231 |
| Average realized prices, before financial instruments | | | | | | |
| Crude oil ($/bbl) | **83.01** | 44.56 | 86 | **78.67** | 44.60 | 76 |
| Condensate ($/bbl) (1) | **86.20** | 50.13 | 72 | **79.97** | 49.04 | 63 |
| NGLs ($/bbl) (1) | **38.87** | 15.65 | 148 | **32.75** | 15.55 | 111 |
| Natural gas ($/mcf) | **3.78** | 2.30 | 64 | **3.39** | 2.21 | 53 |
| Combined average ($/BOE) | **34.31** | 16.19 | 112 | **29.03** | 15.72 | 85 |
| Operating Netbacks ($/BOE) (2) | | | | | | |
| Oil and gas sales | **34.31** | 16.19 | 112 | **29.03** | 15.72 | 85 |
| Processing and other revenue | **0.53** | 0.50 | 6 | **0.64** | 0.56 | 14 |
| Royalties | **(3.46)** | (1.37) | 153 | **(3.16)** | (1.25) | 153 |
| Operating expenses | **(7.11)** | (6.10) | 17 | **(6.03)** | (6.43) | (6) |
| Transportation expenses | **(2.11)** | (1.34) | 57 | **(1.74)** | (1.34) | 30 |
| Operating Netback, before hedging (2) | **22.16** | 7.88 | 181 | **18.74** | 7.26 | 158 |
| Operating Netback, after hedging (2) | **18.79** | 8.32 | 126 | **16.95** | 7.63 | 122 |
| **FINANCIAL** | | | | | | |
| Oil and gas sales | **146,078** | 39,149 | 273 | **311,717** | 51,118 | 510 |
| Cash provided by operating activities | **53,771** | 22,724 | 137 | **133,906** | 16,145 | 729 |
| Adjusted Funds from Operations (2) | **71,801** | 15,854 | 353 | **165,039** | 18,369 | 798 |
| $ per share, basic | **0.57** | 0.27 | 111 | **1.60** | 0.46 | 248 |
| $ per share, diluted | **0.49** | 0.23 | 113 | **1.35** | 0.36 | 275 |
| Net income (loss) and comprehensive income (loss) | **126,937** | (7,281) | nm | **205,765** | 35,305 | 483 |
| $ per share, basic | **1.01** | (0.13) | (877) | **2.00** | 0.87 | 130 |
| $ per share, diluted | **0.87** | (0.13) | (769) | **1.70** | 0.69 | 146 |
| Capital expenditures, before A&D (2) | **44,609** | 1,254 | 3,457 | **73,293** | 2,817 | 2,502 |
| Acquisitions, net of dispositions (3) | **392,956** | (76) | nm | **423,266** | 108,706 | 289 |
| Total assets | **1,684,301** | 331,730 | 408 | **1,684,301** | 331,730 | 408 |
| Net Debt (2) | **481,087** | 14,477 | 3,223 | **481,087** | 14,477 | 3,223 |
| Shareholders' equity | **756,211** | 124,413 | 508 | **756,211** | 124,413 | 508 |
| Common shares outstanding (000s) (4) | | | | | | |
| Weighted average, basic | **125,626** | 58,118 | 116 | **102,892** | 40,358 | 155 |
| Weighted average, diluted – for EPS | **145,686** | 68,231 | 114 | **121,033** | 50,823 | 138 |
| Weighted average, diluted – for AFFO (2)(4) | **147,129** | 68,231 | 116 | **122,496** | 50,823 | 141 |
| End of period | **153,074** | 58,126 | 163 | **153,074** | 58,126 | 163 |

(1) Condensate is a natural gas liquid as defined by NI 51-101. See “Other Measurements”.
(2) "Operating Netback", “Adjusted Funds from Operations”, “Adjusted Funds from Operations per share”, “Capital expenditures, before A&D” and "Net Debt (Surplus)" do not have standardized meanings under IFRS, refer to "Non-GAAP Measures" section of this MD&A.
(3) Excludes non-cash consideration for acquisitions. Refer to “Capital Expenditures” section of this MD&A for additional information.
(4) Refer to “Share Capital” section of this MD&A.

## INTRODUCTION

**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. 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.**

On December 19, 2019, the Company was recapitalized and appointed a new management team and new board of directors. Spartan closed its first transformational acquisition on June 1, 2020 for total consideration of $108.8 million (the "**BXE Asset Acquisition**") which repositioned the Company from a junior producer of approximately 250 BOE per day to an intermediate energy company with a growth strategy focused on the acquisition and sustainable development of underexploited and undercapitalized assets. Production from the acquired assets was approximately 25,000 BOE per day (70% natural gas) at the time of the acquisition and is concentrated in the Deep Basin of west central Alberta. In addition to working interest ownership in strategic infrastructure, the acquisition also included a large land base with an extensive inventory of drilling locations, targeting liquids-rich natural gas and light oil in the Spirit River and Cardium formations. For the comparative three and nine month periods ended September 30, 2020, Spartan's net income (loss) and cash flows only include results of operations related to the acquired assets for the period from closing the BXE Asset 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. On March 18, 2021, the Company acquired Inception Exploration Ltd. ("**Inception**") with core assets located at Gold Creek for total consideration of $121.5 million including net debt (the "**Inception Acquisition**") and acquired assets located primarily in the Simonette area for $20.5 million (the "**Simonette Acquisition**"). The Inception Acquisition and Simonette Acquisition together added approximately 8,125 BOE per day of production at the time of closing. Spartan also completed several smaller tuck-in acquisitions to build upon the Company's core land holdings in the Alberta Montney and Deep Basin, including an acquisition of producing assets at Ferrier, Alberta for $37.5 million which closed on September 3, 2021 (the "**Ferrier Acquisition**").

On August 31, 2021, Spartan closed the acquisition of Velvet Energy Ltd. ("**Velvet**"), a privately held light-oil Montney producer with operations primarily in the Gold Creek, Karr, and Pouce Coupe areas of northwest Alberta, for total consideration of approximately $755.9 million including estimated net debt (the "**Velvet Acquisition**"). The Velvet Acquisition, which added production of approximately 21,300 BOE per day (51% oil and NGLs) for the month of September, represents a major milestone in the Company's business strategy and positions Spartan as the largest producer and acreage holder in the oil window of Canada's Montney fairway. The acquisition of Velvet completes the strategic platform that Spartan had been building and marks the beginning of the next phase of the Company's development. While Spartan will continue to take advantage of select acquisition opportunities as they may arise, the near-term focus will continue to be integration of the acquisitions as well as the execution of the Company's organic drilling program.

The following Management's Discussion and Analysis ("**MD&A**") has been prepared by management as of November 8, 2021, in accordance with the requirements of National Instrument 51-102 – *Continuous Disclosure Requirements* ("**NI 51-102**"). This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three and nine months ended September 30, 2021 (the "**Interim Financial Statements**"), and its audited consolidated annual financial statements and MD&A for the year ended December 31, 2020 (the "**2020 Financial Statements**"). The information provided in this MD&A is not intended to be a comprehensive review of all matters and developments concerning the Company and is not a substitute for detailed investigation or analysis on any particular issue. Additional information relevant to the Company's activities, including Spartan's Annual Information Form for the year ended December 31, 2020 (the "**AIF**"), can be found on SEDAR at www.sedar.com and the Company's website at www.spartandeltacorp.com.

***Unless otherwise noted, the financial information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") also known as International Financial Reporting Standards ("IFRS"). This MD&A contains forward-looking statements, non-GAAP measures and other non-financial measures. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosures under the headings "Non-GAAP Measures", "Other Measurements", "Risk and Uncertainties" and "Forward-Looking Statements" included in this MD&A. All dollar amounts are quoted in thousands of Canadian dollars (CA$), the reporting and functional currency of the Company, unless otherwise indicated.***

## NON-GAAP MEASURES

This MD&A contains certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS or GAAP. As these non-GAAP financial measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used. The non-GAAP measures used in this MD&A, represented by the capitalized and defined terms outlined below, are used by Spartan as key measures of financial performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities, net income or other measures of financial performance calculated in accordance with IFRS.

### Funds from Operations and Adjusted Funds from Operations

"**Funds from Operations**" is calculated as cash provided by operating activities before changes in non-cash working capital. "**Adjusted Funds from Operations**" is calculated by deducting other income and adding back transaction costs on acquisitions and settlements of decommissioning obligations to Funds from Operations.

The following table reconciles cash provided by operating activities to Funds from Operations and Adjusted Funds from Operations:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, except share amounts)* | **2021** | 2020 | **2021** | 2020 |
| Cash provided by operating activities | **53,771** | 22,724 | **133,906** | 16,145 |
| Change in non-cash operating working capital | **15,042** | (6,950) | **26,587** | (790) |
| **Funds from Operations** | **68,813** | 15,774 | **160,493** | 15,355 |
| Settlement of decommissioning obligations | **(236)** | 46 | **1,013** | 736 |
| Other income | **-** | - | **(540)** | - |
| Transaction costs | **3,224** | 34 | **4,073** | 2,278 |
| **Adjusted Funds from Operations** | **71,801** | 15,854 | **165,039** | 18,369 |
| WA Shares outstanding (000s) – basic | **125,626** | 58,118 | **102,892** | 40,358 |
| WA Shares outstanding (000s) – diluted AFFO | **147,129** | 68,231 | **122,496** | 50,823 |
| **AFFO per share** | | | | |
| Basic ($ per common share) | **0.57** | 0.27 | **1.60** | 0.46 |
| Diluted ($ per common share) | **0.49** | 0.23 | **1.35** | 0.36 |

Adjusted Funds from Operations ("**AFFO**") per share is calculated using the same methodology as net income per share ("**EPS**"), however the diluted weighted average common shares ("**WA Shares**") outstanding for AFFO may differ from the diluted weighted average determined in accordance with IFRS for purposes of calculating EPS due to non-cash items that impact net income only. The dilutive impact of stock options and share awards is more dilutive to AFFO than EPS because the number of shares deemed to be repurchased under the treasury stock method is not adjusted for unrecognized share based compensation expense as it is non-cash. For periods in which the convertible promissory note was outstanding, it was always dilutive to AFFO per share but could be antidilutive to EPS because of the non-cash change in fair value recognized through net income (see also, "Share Capital").

### Operating Income and Operating Netback

"**Operating Income, before hedging**" is calculated as oil and gas sales, net of royalties, plus processing and other revenue, less operating and transportation expenses. "**Operating Income, after hedging**" is calculated by adjusting Operating Income for: (i) realized gains or losses on derivative financial instruments including settlements on acquired derivative financial instrument liabilities (together "**Settlements on Commodity Derivative Contracts**"), and (ii) pipeline transportation revenue, net of pipeline transportation expense (the "**Net Pipeline Transportation Margin**").

The Company refers to Operating Income expressed per unit of production as an "**Operating Netback**" and reports the Operating Netback before and after hedging.

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Oil and gas sales, net of royalties | **131,345** | 35,838 | **277,816** | 47,053 |
| Processing and other revenue | **2,244** | 1,208 | **6,912** | 1,811 |
| Operating expenses | **(30,277)** | (14,741) | **(64,886)** | (20,893) |
| Transportation expenses | **(8,973)** | (3,256) | **(18,657)** | (4,377) |
| **Operating Income, before hedging** | **94,339** | 19,049 | **201,185** | 23,594 |
| Settlements on Commodity Derivative Contracts | **(13,915)** | 1,070 | **(18,825)** | 1,206 |
| Net Pipeline Transportation Margin | **(398)** | - | **(398)** | - |
| **Operating Income, after hedging** | **80,026** | 20,119 | **181,962** | 24,800 |
| Production (BOE) | **4,257,897** | 2,417,904 | **10,737,278** | 3,251,128 |
| **Operating Netback, before hedging** ($/BOE) | **22.16** | 7.88 | **18.74** | 7.26 |
| **Operating Netback, after hedging** ($/BOE) | **18.79** | 8.32 | **16.95** | 7.63 |

### Net Debt (Surplus)

Throughout this MD&A, references to "**Net Debt (Surplus)**" includes long-term debt, net of Adjusted Working Capital. "**Adjusted Working Capital**" is calculated as current assets less current liabilities, excluding derivative financial instrument assets and liabilities, lease liabilities, and the deferred premium on flow through shares. As at September 30, 2021 and December 31, 2020, the Adjusted Working Capital deficit (surplus) includes cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and the current portion of decommissioning obligations (see also, "Capital Resources and Liquidity"). Spartan uses "Net Debt (Surplus)" as a measure of the Company's financial position and liquidity, however it is not intended to be viewed as an alternative to other measures calculated in accordance with IFRS.

| *(CA$ thousands)* | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Long-term debt | **441,593** | - |
| Adjusted Working Capital deficit | **39,494** | 12,292 |
| **Net Debt** | **481,087** | 12,292 |

### Net Debt to Trailing Adjusted Funds Flow

The Company monitors its capital structure and short-term financing requirements using a "**Net Debt to Trailing Adjusted Funds Flow**" ratio, which is a non-GAAP financial measure calculated as the ratio of the Company's Net Debt to its "Trailing Adjusted Funds Flow" (defined below). Management believes that this ratio provides investors with information to understand the Company's liquidity risk and its ability to repay Net Debt and fund future capital expenditures.

"**Adjusted Funds Flow**" is calculated by adding back transaction costs on acquisitions and by deducting lease payments from "Funds from Operations". Spartan does not include lease liabilities in its definition of Net Debt therefore the Company believes Adjusted Funds Flow is an appropriate metric to compare relative to Net Debt. Adjusted Funds Flow may also be calculated by adding back other income and deducting lease payments and settlements of decommissioning obligations from Adjusted Funds from Operations.

"**Trailing Adjusted Funds Flow**" is calculated by annualizing Adjusted Funds Flow for the most recently completed quarter. Spartan's Adjusted Funds Flow for the third quarter of 2021 only includes operating results for the assets acquired pursuant to the Velvet Acquisition and Ferrier Acquisition for approximately one-month following the respective closing dates. As a result, Spartan's Net Debt to Trailing Adjusted Funds Flow ratio of 1.73 times at September 30, 2021, is not representative of the Company's liquidity and financial position. Spartan is also subject to a net debt to cash flow covenant under its Credit Facility (defined herein), which is calculated using similar methodology to the Company's Net Debt to Trailing Adjusted Funds Flow ratio, however cash flow is adjusted to give effect to certain acquisitions or dispositions which exceed a threshold amount as if they occurred at the beginning of the period. For purposes of the Company's Credit Facility compliance, Spartan reported a net debt to cash flow ratio of 1.38 times as at September 30, 2021, which includes pro forma cash flows from the Velvet Acquisition and Ferrier Acquisition as if they had closed on July 1, 2021. The Company believes this pro forma ratio provides useful information to the reader, however it should not be relied upon as a substitute for financial information prepared in accordance with IFRS.

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2021** | 2020 | **2021** | 2020 |
| **Funds from Operations** | **68,813** | 15,774 | **160,493** | 15,355 |
| Transaction costs | **3,224** | 34 | **4,073** | 2,278 |
| Lease payments | **(2,651)** | (1,457) | **(7,606)** | (1,942) |
| **Adjusted Funds Flow** (1) | **69,386** | 14,351 | **156,960** | 15,691 |
| Trailing Adjusted Funds Flow | **277,544** | | | |
| Net Debt | **481,087** | | | |
| **Net Debt to Trailing Adjusted Funds Flow** | **1.73x** | | | |
| **Credit Facility net debt to cash flow ratio** (1) | **1.38x** | | | |

(1) Calculated in accordance with Spartan's Credit Facility agreement (note 10 of the Interim Financial Statements).

See also, "Capital Resources and Liquidity".

**Free Funds Flow**

"**Free Funds Flow**" is calculated as Adjusted Funds Flow less capital expenditures, before acquisitions and dispositions ("**A&D**"). Spartan believes Free Funds Flow provides an indication to investors and Spartan shareholders of the amount of funds the Company has available for future capital allocation decisions.

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2021** | 2020 | **2021** | 2020 |
| **Adjusted Funds Flow** | **69,386** | 14,351 | **156,960** | 15,691 |
| Capital expenditures, before A&D (1) | **(44,609)** | (1,254) | **(73,293)** | (2,817) |
| **Free Funds Flow** | **24,777** | 13,097 | **83,667** | 12,874 |

(1) Refer to reconciliation and additional information under the heading "Capital Expenditures" in this MD&A.

## OTHER MEASUREMENTS

All dollar amounts are referenced in Canadian dollars, except when noted otherwise. This MD&A contains various references to the abbreviation “**BOE**” which means barrels of oil equivalent. Where amounts are expressed on a BOE basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and is significantly different than the value ratio based on the current price of crude oil and natural gas. This conversion factor is an industry accepted norm and is not based on either energy content or current prices. Such abbreviation may be misleading, particularly if used in isolation.

Throughout this MD&A, “crude oil” or “oil” refers to light and medium crude oil product types as defined by National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"). Condensate is a natural gas liquid as defined by NI 51-101. References to “natural gas liquids” or “NGLs” throughout this MD&A comprise pentane, butane, propane, and ethane, being all NGLs as defined by NI 51-101 other than condensate, which is disclosed separately. References to “gas” relates to natural gas.

## RESULTS OF OPERATIONS

Spartan is pleased to report its financial and operating results for the third quarter of 2021. The Company achieved record quarterly average production of 46,282 BOE per day and generated Adjusted Funds from Operations of $71.8 million ($0.49 per share, diluted) during the three months ended September 30, 2021. Production volumes increased by 17% on average compared to the second quarter of 2021 and Adjusted Funds from Operations increased by 28% on an absolute basis or 20% per diluted common share. The increase in production and Adjusted Funds from Operations reflects one month of operations from the Velvet Acquisition following closing on August 31, 2021 as well as a tuck-in acquisition of assets in the Ferrier area on September 3, 2021. The Company also benefited from rising crude oil and natural gas prices which were more than 60% higher on average during the third quarter of 2021 compared to the same quarter of 2020. The Canadian dollar equivalent WTI crude oil price averaged $88.88 per barrel during the three months ended September 30, 2021, 10% higher than the average price of $81.04 per barrel in the previous quarter ended June 30, 2021. The AECO 5A natural gas price increased by 16% to average $3.41 per GJ in the third quarter compared to $2.93 per GJ in the second quarter of 2021.

### THIRD QUARTER 2021 FINANCIAL AND OPERATING HIGHLIGHTS:

- Production averaged 46,282 BOE per day during the third quarter of 2021, up 17% from average production of 39,638 BOE per day in the second quarter of 2021. The increase is driven primarily by production from the Velvet Acquisition and Ferrier Acquisition which together added approximately 23,000 BOE per day of production in the month of September, contributing approximately 7,500 BOE per day to average production for the third quarter.
- Oil and gas sales increased by 52% to $146.1 million for the three months ended September 30, 2021, up from $96.4 million in the previous quarter ended June 30, 2021. The Company’s combined average selling price of $34.31 per BOE ($31.04 per BOE after financial instruments) increased by 28% from $26.71 per BOE ($26.17 per BOE after financial instruments) in the previous quarter. The increase in Spartan’s average selling price highlights the significant increase in crude oil weighting of the Company’s production and revenue following the Velvet Acquisition which compounded the impact of higher benchmark oil and gas prices during the third quarter.
- Spartan’s royalty rate averaged 10.1% of oil and gas sales during the quarter ended September 30, 2021, down from 10.8% in the second quarter of 2021.
- Operating and transportation expenses averaged $7.11 per BOE and $2.11 per BOE, respectively, during the third quarter of 2021, up from $5.56 per BOE and $1.62 per BOE in the second quarter of 2021. The increase in per unit operating and transportation expenses reflects higher average costs on the acquired properties in the Montney which are more oil weighted relative to the Company’s liquids-rich natural gas assets in the Deep Basin.
- The Company generated an average Operating Netback of $22.16 per BOE before hedging ($18.79 per BOE after hedging) for the three months ended September 30, 2021, up 27% from $17.43 per BOE ($16.89 per BOE after hedging) in the previous quarter. Integration of the Velvet Acquisition drives stronger corporate average Operating

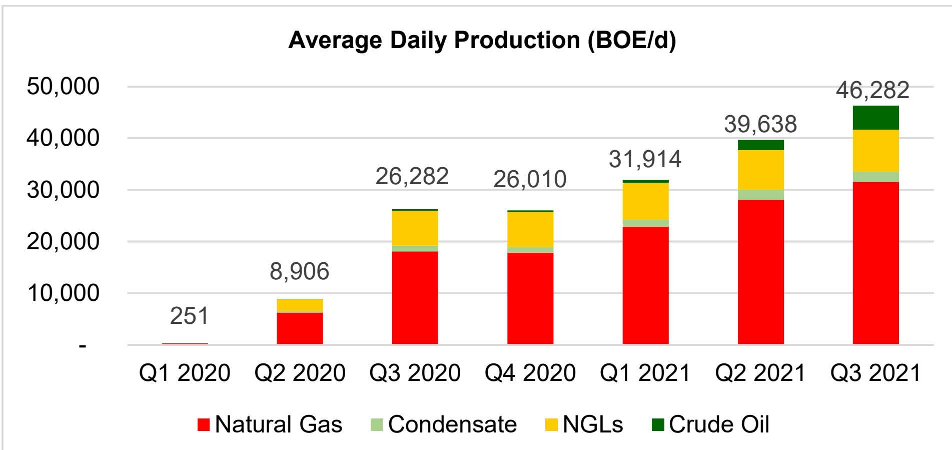
Netbacks for Spartan, as higher realized pricing on its sweet crude oil production, along with lower average royalties, more than offsets higher average operating and transportation expenses.

- G&A expenses averaged $1.32 per BOE during the three months ended September 30, 2021, in line with the previous quarter average of $1.33 per BOE. The Company's G&A expenses include incremental overhead and administrative costs related to integration of corporate acquisitions, as well as costs associated with Spartan's graduation to the TSX during the third quarter of 2021.
- Cash Financing Costs were $0.62 per BOE for the three months ended September 30, 2021, up from $0.01 per BOE in the previous quarter. The Company had a Net Surplus prior to completion of the Velvet Acquisition which was partially financed with long-term debt.
- Adjusted Funds from Operations of $71.8 million ($0.49 per share, diluted) increased by 28% on an absolute basis from $56.1 million ($0.41 per share, diluted) in the second quarter of 2021. On a diluted per share basis, Spartan's AFFO is up 20% quarter over quarter.
- Adjusted Funds Flow was $69.4 million after deducting decommissioning and lease payments from Adjusted Funds from Operations for the quarter ended September 30, 2021.
- Net income was $126.9 million ($0.87 per share, diluted) for the quarter ended September 30, 2021, compared to $19.7 million ($0.15 per share, diluted) in the second quarter ended June 30, 2021. Spartan generated a 55% increase in its income before derivatives, other items and taxes from $36.5 million in the second quarter to $56.9 million in the third quarter. Net income also includes a gain of $88.9 million on the Velvet Acquisition, partly offset by losses on derivative financial instruments and deferred income tax expense in the third quarter.
- The Velvet Acquisition materially improved Spartan's future tax horizon. The Company's total available tax pools are estimated to be $1.8 billion (~50% non-capital losses) and Spartan has recognized a deferred income tax asset of $164.2 million as at September 30, 2021, up from $40.8 million as of June 30, 2021.
- Changes in the fair value of financial instruments had a significant impact on net income during the period. Spartan assumed commodity price risk management contracts through the Velvet Acquisition which resulted in a derivative liability with a fair value of $94.2 million on the acquisition date of August 31, 2021. Due to continued strength of forecast commodity prices, Spartan's total net derivative liability increased to $124.4 million as at September 30, 2021. The loss on derivative financial instruments was $30.2 million during the third quarter of 2021 compared to a loss of $10.9 million during the second quarter of 2021.
- Capital expenditures before A&D were $44.6 million for the three months ended September 30, 2021, of which the Company spent $33.4 million on drilling operations, $3.8 million on facilities and equipment, $1.1 million on production optimization and $6.3 million on land and seismic. The Company's exploration and development capital expenditures were fully funded by cash provided by operating activities.
- Total cash consideration for the acquisitions completed during the third quarter of 2021 was $393.0 million, net of $0.3 million of disposition proceeds. In addition, Spartan repaid $352.5 million of Velvet's indebtedness at closing. The cash purchase price and debt repayment was funded by a combination of cash on hand, proceeds from a $150.0 million bought deal equity financing at a subscription price of $5.05 per common share, a new five-year $150.0 million second lien term facility (the "**Term Facility**"), and advances under Spartan's revolving credit facility with an increased borrowing base of $450.0 million (the "**Credit Facility**"). Additional information regarding the financings is provided under the heading "Capital Resources and Liquidity".
- As at September 30, 2021, Spartan had $300.2 million of bank debt outstanding under its Credit Facility with an authorized borrowing amount of up to $450.0 million. Spartan exited the third quarter with Net Debt of $481.1 million as at September 30, 2021, compared to a Net Surplus of $131.7 million at June 30, 2021. The Company's existing capital resources are sufficient to satisfy its financial obligations over the next twelve months and Spartan is well positioned to fund its capital expenditure program for the remainder of 2021 and 2022.

## PRODUCTION

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **Average daily production** | **2021** | 2020 | **2021** | 2020 |
| Crude oil (bbls/d) | **4,647** | 318 | **2,421** | 150 |
| Condensate (bbls/d) | **1,982** | 1,113 | **1,772** | 496 |
| NGLs (bbls/d) | **8,102** | 6,811 | **7,618** | 3,037 |
| Natural gas (mcf/d) | **189,306** | 108,237 | **165,115** | 49,091 |
| Combined average (BOE/d) | **46,282** | 26,282 | **39,330** | 11,865 |
| % Oil and NGLs | **32%** | 31% | **30%** | 31% |

Production averaged 46,282 BOE per day during the third quarter of 2021, up 17% from average production of 39,638 BOE per day in the second quarter of 2021. The increase is driven primarily by production from the Velvet Acquisition and Ferrier Acquisition which together added approximately 23,000 BOE per day of production in the month of September, contributing 7,500 BOE per day to average production for the third quarter. The Company's third quarter production reflects natural declines following spring break up in second quarter, partly offset by new production from Spartan's drilling program which recommenced in late June.




The Company did not have significant assets or operations prior to closing the BXE Asset Acquisition on June 1, 2020, which established Spartan's core operating area in the Alberta Deep Basin. The Company grew production on the acquired assets through production optimization during the third quarter 2020. The increase in production during the first quarter of 2021 was driven by Spartan's winter drilling program at Ferrier targeting liquids-rich natural gas. The Inception Acquisition and Simonette Acquisition closed on March 18, 2021, anchoring a second core development area in northwest Alberta targeting the Montney. Together, the Inception Acquisition and Simonette Acquisition added approximately 8,125 BOE per day of production at the time of closing contributing to the increase in average production for the second quarter of 2021. The Company's third quarter average production includes operations from the Velvet Acquisition following closing on August 31, 2021 as well as the tuck-in acquisition of assets in the Ferrier area on September 3, 2021. Spartan's production averaged 39,330 BOE per day for the nine months ended September 30, 2021, an increase of 231% from the same period of 2020.

The progressive increase in crude oil production highlights diversification of the Company's portfolio through the acquisition and development of its Montney oil assets which are concentrated in the Gold Creek and Karr areas of Alberta. Crude oil represented 10% of Spartan's total production on average during the third quarter of 2021, up from 5% in the second quarter of 2021 and 1% in the comparative period of 2020. The impact of the shift in product mix contributed to the significant increase in Spartan's sales revenue and average selling prices.

## OIL AND GAS SALES

| (CA$ thousands, unless otherwise indicated) | Three months ended September 30 2021 | 2020 | Nine months ended September 30 2021 | 2020 |
|---|---|---|---|---|
| Oil and gas sales, before royalties | | | | |
| Crude oil | **35,489** | 1,302 | **52,000** | 1,839 |
| Condensate | **15,718** | 5,135 | **38,691** | 6,662 |
| NGLs | **28,971** | 9,809 | **68,103** | 12,938 |
| Natural gas | **65,900** | 22,903 | **152,923** | 29,679 |
| Oil and gas sales, before royalties | **146,078** | 39,149 | **311,717** | 51,118 |
| Average realized prices, before financial instruments | | | | |
| Crude oil ($/bbl) | **83.01** | 44.56 | **78.67** | 44.60 |
| Condensate ($/bbl) | **86.20** | 50.13 | **79.97** | 49.04 |
| NGLs ($/bbl) | **38.87** | 15.65 | **32.75** | 15.55 |
| Natural gas ($/mcf) | **3.78** | 2.30 | **3.39** | 2.21 |
| Combined average ($/BOE) | **34.31** | 16.19 | **29.03** | 15.72 |
| Average realized prices, after financial instruments(1) | | | | |
| Crude oil ($/bbl) | **70.70** | 44.56 | **70.71** | 44.60 |
| Condensate ($/bbl) | **85.61** | 50.13 | **79.75** | 49.04 |
| NGLs ($/bbl) | **38.87** | 15.65 | **32.75** | 15.55 |
| Natural gas ($/mcf) | **3.29** | 2.41 | **3.09** | 2.30 |
| Combined average ($/BOE) | **31.04** | 16.63 | **27.28** | 16.09 |

(1) "Average realized prices, after financial instruments" are calculated as oil and gas sales after Settlements on Commodity Derivative Contracts, divided by total production by product type. Additional information is provided under the heading "Commodity Price Risk Management".

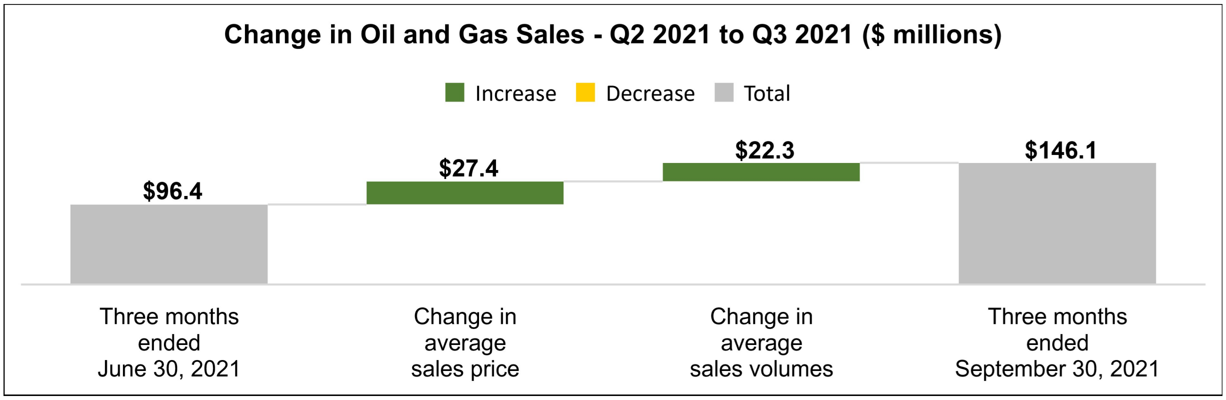
Oil and gas sales were $146.1 million for the three months ended September 30, 2021, a 273% increase from $39.1 million of oil and gas sales in the same quarter of the previous year. With a 76% increase in average production volumes over the corresponding period, the increase in sales revenue is driven by higher average selling prices. Spartan's combined average realized price of $34.31 per BOE ($31.04 per BOE after financial instruments) more than doubled compared to $16.19 per BOE ($16.63 per BOE after financial instruments) in the third quarter of 2020. The significant increase in crude oil production compounded the impact of higher benchmark oil and gas prices which have recovered dramatically compared to 2020.

Year-to-date in 2021, Spartan generated $311.7 million of oil and gas sales revenue. Oil and gas sales were $51.1 million in the same period of 2020 and only included operations for the Deep Basin assets for the period following the acquisition on June 1, 2020.

The table below outlines the change in benchmark average commodity prices and exchange rates during the periods:

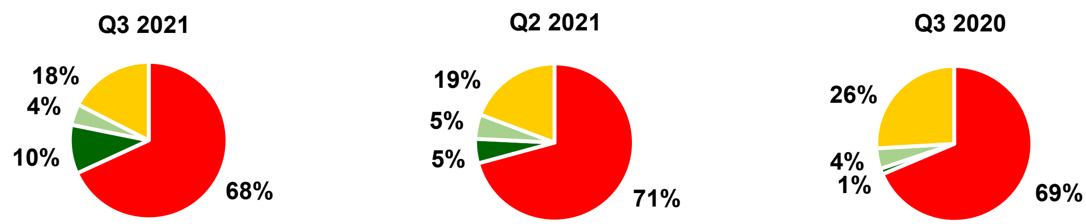
| **Benchmark commodity prices** | Three months ended September 30 2021 | 2020 | % | Nine months ended September 30 2021 | 2020 | % |
|---|---|---|---|---|---|---|
| WTI Cushing Oklahoma (US$/bbl) (1) | **70.56** | 40.93 | 72 | **64.81** | 38.31 | 69 |
| WTI Cushing Oklahoma (CA$/bbl) (2) | **88.88** | 54.50 | 63 | **80.99** | 51.51 | 57 |
| Canadian Light Sweet 40 API ($/bbl) (1) | **84.59** | 49.05 | 72 | **76.50** | 44.17 | 73 |
| NYMEX Henry Hub (US$/MMBtu) (1) | **4.32** | 2.13 | 103 | **3.34** | 1.92 | 74 |
| AECO 5A ($/GJ) (3) | **3.41** | 2.12 | 61 | **3.11** | 1.98 | 57 |
| AECO 7A ($/GJ) (4) | **3.36** | 2.04 | 65 | **2.94** | 1.96 | 50 |
| Exchange rate (CA$/US$) (1) | **1.26** | 1.33 | (5) | **1.25** | 1.35 | (7) |

(1) Source: Sproule Associates Limited
(2) Calculated based the US$ WTI price multiplied by the average US$/CA$ exchange rate for the month
(3) Source: Canadian Gas Price Reporter (NGX AB-NIT Same Day Index 5A)
(4) Source: Canadian Gas Price Reporter (NGX AB-NIT Month Ahead Index 7A)

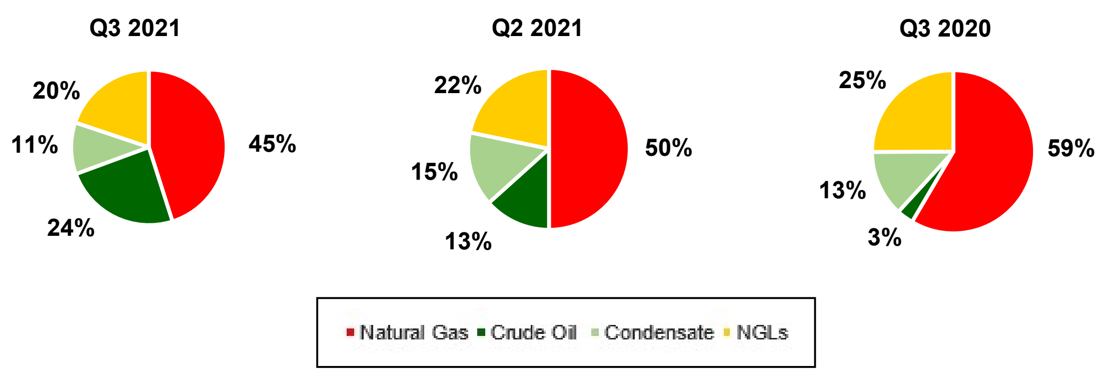



Spartan's oil and gas sales increased by 52% compared to previous quarter ended June 30, 2021, with the change driven by higher production and a 28% increase in the Company's combined average selling price. The charts below summarize the change in Spartan's production mix and the relative contribution to total oil and gas sales revenue in the third quarter of 2021, relative to the second quarter of 2021 and third quarter of 2020.

**Production Mix (BOE)**




**Oil and Gas Sales**




During the quarter ended September 30, 2021, natural gas represented 68% of Spartan's production volumes and accounted for 45% of total sales revenue. The Company's natural gas is delivered and sold under AECO based contracts, with approximately 75% priced at AECO 5A and 25% at AECO 7A. Spartan's realized gas price increased from $3.15 per MCF in the second quarter to $3.78 per MCF in the third quarter of 2021, reflecting the increase in

AECO 5A and AECO 7A reference price quarter over quarter. Spartan's Montney properties receive modestly higher gas prices due to the relative heat content resulting from a shallower liquids cut compared to the Deep Basin assets.

Spartan's crude oil production represented 10% of total volumes and 24% of total sales revenue during the third quarter of 2021, up from 5% of production and 13% of sales in the second quarter of 2021. The increase in crude oil volumes reflects one month of production from the Velvet Acquisition. The Montney assets acquired are significantly more oil weighted than the Company's Deep Basin assets. Spartan realized an average price for its oil sales of $83.01 per barrel for the three months ended September 30, 2021, up 15% from $71.98 per barrel in the previous quarter ended June 30, 2021. The improvement in Spartan's realized oil price outpaced the 10% increase in the Canadian dollar equivalent WTI price over the corresponding period due to the timing of the acquisition, which increased oil production later in the quarter when pricing was highest, in combination with premium pricing received on the sweet crude oil produced at Gold Creek**.**

NGLs (excluding condensate) represent 18% of Spartan's total production volumes and contributed proportionately to 20% of total sales revenue during the third quarter of 2021. The Company reported an average NGLs sales price of $38.87 per barrel during the three months ended September 30, 2021, up 29% from $30.21 per barrel in the second quarter of 2021. The increase in average NGLs prices reflects improvement in the underlying WTI crude oil reference price and improvement in the Conway propane prices which increased by 40% from the prior quarter.

Condensate represented 4% of production volumes and contributed to 11% of total sales revenue during the third quarter of 2021. Spartan realized an average price for its condensate sales of $86.20 per barrel for the three months ended September 30, 2021, up 9% from $79.00 per barrel in the previous quarter ended June 30, 2021. The improvement in Spartan's realized price for condensate mirrors the 10% increase in the Canadian dollar equivalent WTI price over the corresponding period. The condensate blended index price has trended with an average discount of US$0.26 per barrel relative to WTI during the first nine months of 2021.

## COMMODITY PRICE RISK MANAGEMENT AND HEDGING ACTIVITIES

The Company has various commodity price risk management contracts in place to reduce volatility of cash flows in order to fund capital expenditures and protect project economics. These financial instruments are not used for trading or speculative purposes. Spartan has not designated its financial derivative contracts as accounting hedges, even though the Company considers the commodity contracts to be 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 the commodity price risk management contracts in place as at September 30, 2021 is provided in note 4 of the Interim Financial Statements. 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 instruments during the period primarily relates to the fair value of risk management contracts assumed with the Velvet Acquisition of $94.2 million on August 31, 2021, of which $8.3 million was settled in September. The outlook for commodity prices continued to improve subsequent to closing the Velvet Acquisition resulting in a further increase in the derivative financial instrument liability as at September 30, 2021, compared to the fair value on the acquisition date. The fair value of the Company's risk management contracts is highly sensitive to forecast oil and gas prices, refer to sensitivities under the heading "Risks and Uncertainties – Commodity Price Risk".

Spartan reported a total loss on derivative financial instruments of $30.2 million during the third quarter and a loss of $45.9 million for the nine months ended September 30, 2021. In the comparative three and nine month periods of 2020, the losses were $14.1 million and $11.8 million, respectively. The realized and unrealized component of the gain or loss on derivative financial instruments is summarized in the following table:

| (CA$ thousands) | Three months ended September 30 2021 | 2020 | Nine months ended September 30 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) |

The realized loss on derivative financial instruments presented in accordance with IFRS for the three and nine month periods ended September 30, 2021, excludes settlements related to the acquisition date fair value of commodity derivative financial instruments acquired pursuant to the Velvet Acquisition. The following table summarizes the Company's cash Settlements on Commodity Derivative Contracts, which is a Non-GAAP financial measure, to the realized gain or loss reported:

| (CA$ thousands) | Three months ended September 30 2021 | 2020 | Nine months ended September 30 2021 | 2020 |
|---|---|---|---|---|
| Crude oil | **(5,261)** | - | **(5,261)** | - |
| Condensate | **(108)** | - | **(108)** | - |
| NGLs | **-** | - | **-** | - |
| Natural gas | **(8,546)** | 1,070 | **(13,456)** | 1,206 |
| Settlements on Commodity Derivative Contracts | **(13,915)** | 1,070 | **(18,825)** | 1,206 |
| Less: Settlements of acquired derivative liabilities | **(8,256)** | - | **(8,256)** | - |
| Realized gain (loss) | **(5,659)** | 1,070 | **(10,569)** | 1,206 |

"Average realized prices, after financial instruments" disclosed in this MD&A are reported net of Settlements on Commodity Derivative Contracts.

**Physical hedging**

Spartan assumed certain marketing and pipeline transportation contracts through the Velvet Acquisition (see also, "Commitments and Contingencies"). Pipeline transportation revenue represents the margin generated from a 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.

These physical contracts serve to provide downside protection from widening of Canadian crude oil price differentials by providing exposure to U.S. markets. During the period ended September 30, 2021, the margin realized under the buy/sell arrangement was less than the pipeline toll resulting in a loss of $0.4 million.

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

## ROYALTIES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Crude oil | **2,629** | 90 | **3,685** | 128 |
| Condensate, before GCA | **4,599** | 1,722 | **11,137** | 2,192 |
| NGLs, before GCA | **5,836** | 2,316 | **14,807** | 2,890 |
| Natural gas, before GCA | **6,921** | 2,590 | **16,440** | 3,312 |
| Gas cost allowance (“GCA”) | **(5,252)** | (3,407) | **(12,168)** | (4,457) |
| Total royalties | **14,733** | 3,311 | **33,901** | 4,065 |
| $ per BOE | **3.46** | 1.37 | **3.16** | 1.25 |
| Average royalty rate (% of sales) | **10.1%** | 8.5% | **10.9%** | 8.0% |

Total royalties of $33.9 million for the first nine months of 2021 increased from $4.1 million in the comparative period of 2020 in conjunction with the increase in oil and gas sales revenue. Royalties are reported net of gas cost allowance (“**GCA**”) credits which do not fluctuate with natural gas or NGLs prices. During 2021, the overall increase in Spartan’s average royalty rate to 10.9% from 8.0% in the comparative period was a result of GCA now representing a lower proportion of total royalties, with increases to average royalty rates associated with higher average pricing being offset by acquisitions which qualify for lower average royalty rates.

Spartan’s royalty rate averaged 10.1% of oil and gas sales during the third quarter of 2021, down from 10.8% in the second quarter of 2021 following integration of the properties acquired through the Velvet Acquisition which qualify for lower average royalties than the Company’s Deep Basin assets.

## PROCESSING AND OTHER REVENUE

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Processing and other | **2,244** | 1,208 | **6,912** | 1,811 |
| $ per BOE | **0.53** | 0.50 | **0.64** | 0.56 |

Processing and other revenue primarily relates to gas processing and other fees earned on third party volumes processed through the Company’s facilities.

## OPERATING EXPENSES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Operating expenses | **30,277** | 14,741 | **64,886** | 20,893 |
| $ per BOE | **7.11** | 6.10 | **6.03** | 6.43 |

The Company’s total operating expenses have increased in conjunction with significant production growth. Spartan’s average operating expenses decreased by 6% to $6.03 per BOE for the nine months ended September 30, 2021, down from the average of $6.43 per BOE in the same period of 2020. Over the past twelve months Spartan has materially reduced operating costs on its Deep Basin assets.

During 2021, the Company diversified its asset base through a series of acquisitions which added a second core development area in the Montney and significantly increased the oil weighting of Spartan’s production. The Company’s per unit operating expenses averaged $7.11 per BOE during the third quarter of 2021 and reflect integration of the oil-weighted Montney assets acquired through the Velvet Acquisition on August 31, 2021, which have higher average operating costs relative to the Company’s liquids-rich natural gas assets in the Deep Basin.

**TRANSPORTATION EXPENSES**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Transportation expenses | **8,973** | 3,256 | **18,657** | 4,377 |
| $ per BOE | **2.11** | 1.34 | **1.74** | 1.34 |

Transportation expenses were $9.0 million ($2.11 per BOE) for the three months ended September 30, 2021, and $18.7 million ($1.74 per BOE) year-to-date. Total transportation expenses have increased in conjunction with significant production growth. The increase in per unit transportation costs reflects the location differential of the northwest Alberta Montney assets relative to the Deep Basin as well as higher costs of transporting crude oil relative to natural gas. Spartan also assumed certain firm transportation commitments through the Velvet Acquisition which have excess capacity to support the Company's future growth and resulted in higher per unit costs during the third quarter of 2021.

In addition, the Company entered into new NGLs marketing contracts effective April 1, 2021, which resulted in $2.4 million of fractionation and processing charges being classified within transportation expenses that were previously presented as a deduction from NGLs revenue.

**GENERAL AND ADMINISTRATIVE EXPENSES**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Salaries and benefits | **4,160** | 2,749 | **10,549** | 4,401 |
| Other G&A expenses | **2,900** | 1,275 | **6,657** | 1,963 |
| Change in expected credit loss provision | **84** | 134 | **211** | 167 |
| G&A expenses, before recoveries ("Gross G&A") | **7,144** | 4,158 | **17,417** | 6,531 |
| Overhead recoveries | **(1,518)** | (508) | **(3,498)** | (564) |
| Canada Emergency Wage Subsidy | **-** | (24) | **-** | (283) |
| G&A expenses, net of recoveries ("Net G&A") | **5,626** | 3,626 | **13,919** | 5,684 |
| Gross G&A ($ per BOE) | **1.68** | 1.72 | **1.62** | 2.01 |
| Net G&A ($ per BOE) | **1.32** | 1.50 | **1.30** | 1.75 |

G&A expenses were $5.6 million and $13.9 million for the three and nine month periods ended September 30, 2021. In the corresponding periods of 2020, G&A expenses were $3.6 million and $5.7 million, respectively. The increase is primarily due to additional staff and office space, information technology and other costs related to integration of the acquisitions. Over the last twelve months Spartan has grown its total assets by over 400% from $331.7 million at September 30, 2020 to $1.7 billion at September 30, 2021.

G&A expenses averaged $1.32 per BOE for the third quarter of 2021 and include incremental overhead and administrative costs related to the Velvet Acquisition and Ferrier Acquisition, both of which were corporate transactions, as well as costs associated with Spartan's application and graduation from the venture exchange to the TSX on September 1, 2021.

G&A expenses are reported net of general capital and operating overhead recoveries, however Spartan does not currently capitalize any direct G&A expenses. Overhead recoveries increased to $1.5 million in the third quarter of 2021 in conjunction with higher capital expenditures.

## SHARE BASED COMPENSATION

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Stock options | **660** | 679 | **2,294** | 901 |
| Share awards | **1,117** | - | **2,422** | - |
| Share based compensation expense | **1,777** | 679 | **4,716** | 901 |
| $ per BOE | **0.42** | 0.28 | **0.44** | 0.28 |

As part of the Company's long-term incentive program, Spartan has a stock option plan and share award plan under which options and share awards may be granted to officers, directors, employees, and consultants. Spartan granted 1.8 million restricted share awards and 1.1 million stock options with an average exercise price of $4.11 per share during the first nine months of 2021. Share based compensation expense is recognized over the three-year vesting period using graded amortization. As at September 30, 2021, the aggregate of outstanding stock options and share awards represents 4.0% of Spartan's total common shares issued and outstanding.

Share based compensation expense was $1.8 million ($0.42 per BOE) for the third quarter and $4.7 million ($0.44 per BOE) for the nine months ended September 30, 2021. The increase relative to the comparative periods is primarily due to share awards granted as stock option expenses are substantially unchanged from the third quarter of 2020.

## FINANCING

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Interest and fees on long-term debt | **2,809** | 639 | **3,447** | 841 |
| Interest income | **(172)** | - | **(405)** | (94) |
| Interest expense, net of interest income (1) | **2,637** | 639 | **3,042** | 747 |
| Financing cost of lease liabilities | **692** | 740 | **2,115** | 989 |
| Accretion of decommissioning obligations | **628** | 271 | **1,569** | 417 |
| Financing | **3,957** | 1,650 | **6,726** | 2,153 |
| Average long-term debt outstanding in period | **152,065** | 20,825 | **51,802** | 9,299 |
| Interest expense, net of interest income ($/BOE) | **0.62** | 0.26 | **0.28** | 0.23 |
| Financing ($/BOE) | **0.93** | 0.68 | **0.63** | 0.66 |

(1) References to "**Cash Financing Costs**" throughout this MD&A refer to "interest expense, net of interest income".

The Company's Cash Financing Costs were $2.6 million ($0.62 per BOE) for the three months ended September 30, 2021 and $3.0 million ($0.28 per BOE) year-to-date. The increase during the current quarter reflects higher average debt levels following the Velvet Acquisition on August 31, 2021. Interest and fees on long-term debt includes interest on borrowings, standby fees on undrawn credit capacity and amortization of upfront fees, which together resulted in an annualized effective rate of 7.4% of average debt outstanding under the Credit Facility and Term Facility during the three months ended September 30, 2021. Additional information regarding the Credit Facility and Term Facility is provided under the heading "Capital Resources and Liquidity".

Spartan has various lease contracts in place for compression equipment, facilities, office buildings and vehicles. The Company's total lease liability of $49.7 million as at September 30, 2021 is substantially unchanged from the total lease liability of $49.8 million as at December 31, 2020, as lease payments more than offset new lease additions and acquisitions during the period. The associated financing costs have been relatively consistent at approximately $0.7 million per quarter since June 2020.

Financing expenses also include non-cash accretion of decommissioning obligations which has increased from the comparative periods due to the acquisitions as well as higher interest rates along the economic recovery. The total carrying amount of Spartan's decommissioning obligations is $152.8 million as at September 30, 2021 compared to $98.1 million as at December 31, 2020 (see also, "Decommissioning Obligations").

**DEPLETION, DEPRECIATION AND IMPAIRMENT ("DD&I")**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Depletion and depreciation of PP&E | **23,602** | 7,311 | **47,266** | 10,887 |
| Depreciation of ROU Assets | **2,038** | 1,782 | **5,798** | 2,376 |
| Depletion and depreciation | **25,640** | 9,093 | **53,064** | 13,263 |
| Expired mineral leases | **77** | 8 | **97** | 8 |
| Impairment of PP&E | **-** | - | **-** | 2,998 |
| Total DD&I expense | **25,717** | 9,101 | **53,161** | 16,269 |
| Depletion and depreciation ($ per BOE) | **6.02** | 3.76 | **4.94** | 4.08 |
| Total DD&I expense ($ per BOE) | **6.04** | 3.76 | **4.95** | 5.00 |

The Company reported depletion and depreciation ("**D&D**") expense of $25.6 million ($6.02 per BOE) and $53.1 million ($4.94 per BOE) for the three and nine month periods ended September 30, 2021. In the corresponding periods of 2020, D&D expenses were $9.1 million ($3.76 per BOE) and $13.3 million ($4.08 per BOE), respectively. The increase in total D&D expenses is primarily due to the material increase in the Company's property, plant and equipment ("**PP&E**") and production growth. On a per unit basis, the increase in D&D reflects the acquisition of proved plus probable reserves at a higher than historical average cost per barrel for the oil-weighted Montney assets relative to the Deep Basin assets acquired in June 2020 at a discounted valuation.

Following the acquisitions, the Company reviewed and realigned its cash generating units ("**CGUs**"). 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.

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 as a result of the significant decrease in forecast commodity prices compared to forecast prices as at December 31, 2019.

**OTHER INCOME (EXPENSES)**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2021** | 2020 | **2021** | 2020 |
| Gain on sale of assets | **315** | 32 | **468** | 32 |
| Gain on acquisition | **91,991** | - | **127,125** | 52,952 |
| Discount rate adjustment on decommissioning obligations acquired | **-** | - | **-** | (13,106) |
| Transaction costs | **(3,224)** | (34) | **(4,073)** | (2,278) |
| Other income | **458** | - | **1,985** | - |
| Premium on flow-through shares | **6,191** | - | **7,029** | - |
| Change in fair value of Convertible Note | **8,368** | - | **(5,648)** | - |
| Foreign exchange gain | **8** | - | **8** | - |
| Other income, net of other expenses | **104,107** | (2) | **126,894** | 37,600 |

Spartan recognized gains on certain acquisitions completed during 2021 as the fair value of consideration paid was less than the fair value of the net assets acquired. The total gain of $127.1 million for the nine months ended September 30, 2021 includes gains of $35.1 million on the Inception Acquisition, $88.9 million on the Velvet Acquisition and $3.1 million on the Ferrier Acquisition. The gains recognized on the acquisitions of Inception and Velvet are primarily attributed to significant tax pools assumed by acquiring the corporate entities and the resulting deferred income tax assets. The gain on the Ferrier Acquisition is attributed to the distressed nature of the transaction which was completed through a court supervised restructuring process.

In the comparative nine month period in 2020, the Company recognized a gain of $53.0 million on the BXE Asset Acquisition. The COVID-19 pandemic and collapse of global crude oil prices in March and April 2020 exacerbated the financial challenges of the vendor. The gain was 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 gain on the BXE Asset Acquisition is partly offset by $13.1 million of decommissioning costs that were expensed related to inactive properties acquired.

Spartan expensed transaction costs of $3.2 million during the third quarter and $4.1 million year to date in respect of business combinations completed during 2021 as compared to $nil million and $2.3 million, respectively in the corresponding periods of 2020. In addition, approximately $0.1 million of costs related to the issuance of share consideration for certain acquisitions was charged directly to equity, net of deferred tax. Approximately $0.1 million of transaction costs were capitalized in respect of the January 2021 Acquisition which was accounted for as an asset acquisition.

Other income of $2.0 million for the nine months ended September 30, 2021 includes $1.5 million of funding earned through the Alberta provincial government Site Rehabilitation Program ("**SRP**") (see "Decommissioning Obligations"), of which $0.5 million was recognized in the third quarter. In addition, Spartan sold emissions credits for cash proceeds of $0.5 million during the first quarter of 2021.

On March 18, 2021, Spartan completed a non-brokered private placement of flow-through shares for gross proceeds of $54.0 million at a subscription price of $4.92 per share (the "**Flow-Through Private Placement**"). 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 a concurrent non-brokered private placement of regular common shares. 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. The deferred premium was recognized initially as a liability on the Consolidated Statement of Financial Position and is subsequently drawn down in proportion to the Qualifying Expenditures incurred and recognized in net income. As of September 30, 2021, the Company had incurred $37.6 million of Qualifying Expenditures and recognized $7.0 million of the deferred premium as income during the period, of which $6.2 million was earned and recognized during the third quarter. The Company will satisfy the remaining commitment of $16.4 million of Qualifying Expenditures through its budgeted drilling and completion capital expenditures during the fourth quarter of 2021.

Spartan issued a convertible unsecured non-interest bearing promissory note with a principal amount $50.0 million (the "**Convertible Note**") in connection with the Inception Acquisition. The Convertible Note is measured at fair value through profit or loss ("**FVTPL**") and is revalued based on Spartan's closing share price at the end of each reporting period. The fair value of the Convertible Note increased from $25.3 million on the issue date of March 18, 2021 to $30.9 million on the conversion date of September 29, 2021, resulting in a loss of $5.6 million due to appreciation of the Company's share price from $3.88 to $5.26 on the respective dates of issuance and conversion (see also, "Capital Resources and Liquidity – Convertible Promissory Note"). The fair value of the Convertible Note decreased from $39.3 million at June 30, 2021, resulting in a gain of $8.4 million during the third quarter offsetting a portion of the unrealized loss recognized in the third quarter of 2021.

## INCOME TAXES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2021** | 2020 | **2021** | 2020 |
| Current income tax | **-** | - | **-** | - |
| Deferred income tax expense (recovery) | **3,798** | (2,787) | **(2,493)** | (10,875) |
| Income tax recovery | **3,798** | (2,787) | **(2,493)** | (10,875) |

Spartan recognized deferred tax expense of $3.8 million for the three months ended September 30, 2021, and a deferred tax recovery of $2.5 million year-to-date. In the corresponding periods of 2020, deferred income tax recoveries were $2.8 million and $10.9 million respectively. The increase in deferred tax expense (decrease in recovery) during 2021 is primarily due to the increase in net income before income taxes compared to the corresponding periods of 2020, combined with Qualifying Expenditures incurred in respect of the Company's flow-through share obligations, for which the associated tax pools will be renounced to the subscribers of the Flow-Through Private Placement. The majority of Qualifying Expenditures were incurred during the third quarter driving the increase in deferred tax expense for the three months ended September 30, 2021.

Spartan's combined federal and provincial statutory tax rate was 23.0% during the period ended September 30, 2021, compared to an average of 24.0% for the year ended December 31, 2020. A detailed reconciliation of the deferred income tax expense or recovery reported to the expected amount of tax expense or recovery based on the statutory rate is provided in note 13 of the Interim Financial Statements. The difference between the deferred tax recovery of $2.5 million for the period ended September 30, 2021 compared to the expected tax expense based on Spartan's income before tax at the statutory tax rate is primarily due to gains on acquisitions which are not taxable and due to an unrecognized deferred tax asset related to non-capital losses ("**NCLs**") acquired through the January 2021 Acquisition. Spartan's accounting policy is to recognize the previously unrecognized NCLs in proportion to the estimated amount of taxable income generated each period, resulting in estimated recoveries of $12.5 million and $28.9 million for the three and nine months ended September 30, 2021. Approximately $2.3 million of deferred income taxes were charged directly to equity in respect of share issue costs incurred during the first nine months of 2021 ($0.4 million for the comparative period of 2020).

Spartan was not required to pay income taxes in the current or prior quarter as the Company had sufficient income tax deductions available to shelter taxable income. The acquisitions completed during 2021 have materially enhanced Spartan's future tax horizon. As at September 30, 2021, total available tax pools are estimated to be approximately $1.8 billion, up from $117.5 million as of December 31, 2020. The composition of the Company's estimated available tax pools as at September 30, 2021 is summarized below:

| *(CA$ thousands, unless otherwise indicated)* | Deduction Rate (1) | **Amount** | % of Total |
|---|---|---|---|
| Canadian oil and gas property expenses (COGPE) | 10% | **159,192** | 9% |
| Canadian development expenses (CDE) | 30% | **365,838** | 20% |
| Canadian exploration expenses (CEE) | 100% | **164,999** | 9% |
| Undepreciated capital cost (UCC) (2) | 25% | **195,173** | 10% |
| Share issue costs (SIC) | 5 years | **10,557** | 1% |
| Non-capital losses (NCL) (3)(4) | 100% | **929,363** | 51% |
| Total available tax pools (estimate) (4)(5) | | **1,825,122** | 100% |

(1) The rates shown represent the maximum annual deduction permitted on a declining balance basis, except for share issue costs which are deductible on a straight-line basis over 5 years.

(2) The majority of the UCC balance relates to Class 41 assets which are deductible at 25% per year.

(3) NCLs expire in years 2032 to 2040.

(4) Includes $56.2 million of non-capital losses that are not recognized in Spartan's deferred income tax asset on the Consolidated Statement of Financial Position as at September 30, 2021.

(5) The estimate of "available" tax pools excludes certain successored resource deductions inherited through acquisitions which are not expected to be available for use by Spartan at this time.

## NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2021** | 2020 | **2021** | 2020 |
| Revenue | **134,056** | 37,046 | **285,195** | 48,864 |
| Expenses | **(77,192)** | (33,053) | **(162,930)** | (50,277) |
| **Income (loss) before derivatives, other items and taxes** | **56,864** | 3,993 | **122,265** | (1,413) |
| Loss on derivative financial instruments | **(30,236)** | (14,059) | **(45,887)** | (11,757) |
| Other income, net of other expenses | **104,107** | (2) | **126,894** | 37,600 |
| Income (loss) before income taxes | **130,735** | (10,068) | **203,272** | 24,430 |
| Income tax expense (recovery) | **3,798** | (2,787) | **(2,493)** | (10,875) |
| **Net income (loss) and comprehensive income (loss)** | **126,937** | (7,281) | **205,765** | 35,305 |
| WA Shares outstanding – basic (000s) | **125,626** | 58,118 | **102,892** | 40,358 |
| WA Shares outstanding – diluted (000s) (1) | **145,686** | 68,231 | **121,033** | 50,823 |
| Net income (loss) $ per share – basic | **1.01** | (0.13) | **2.00** | 0.87 |
| Net income (loss) $ per share – diluted | **0.87** | (0.13) | **1.70** | 0.69 |

(1) In computing the diluted net income (loss) per share for the comparative periods in 2020, the effect of stock options was excluded because the stock options were antidilutive to the loss in the third quarter of 2020 and were not in-the-money based on the average share price.

Spartan generated net income of $126.9 million ($0.87 per share, diluted) during the third quarter of 2021, up from a loss of $7.3 million ($0.13 per share, diluted) in the same quarter of 2020. The material increase in net income relative to the comparative quarter is driven by operating profit from the Company's core business operations which have grown exponentially through acquisitions over the past twelve months. The impact of higher production coupled with strong commodity prices is highlighted by Spartan's income before derivatives, other items and taxes which increased to $56.9 million for the three month period ended September 30, 2021, compared to $4.0 million in the same quarter of 2020. Losses on derivative financial instruments (realized and unrealized) partly offset and soften the impact of higher commodity prices.

The net income (loss) reported each period is impacted by other items in addition to the profit (loss) generated by the Company's routine development and production operations. These other items primarily relate to A&D activities and are described under the heading "Other Income (Expenses)" in this MD&A.

Spartan's net income was $205.8 million ($1.70 per share, diluted) for the nine months ended September 30, 2021, compared to $35.3 million ($0.69 per share, diluted) in the same period of 2020. The profit recognized in the comparative period was primarily due to $37.6 million of other income, net of other expenses, recognized in connection with the BXE Asset Acquisition. Prior to June 1, 2020, the Company did not have significant assets or operations.

The significant increase in net income during 2021 also reflects the positive impact of the acquisitions on the Company's future tax horizon. As at September 30, 2021, Spartan has recognized a deferred tax asset of $164.2 million compared to a deferred tax liability of $8.8 million at December 31, 2020. The Company also amortized a tax benefit related to the January 2021 Acquisition by $28.9 million during the first nine months of 2021 which more than offset deferred income tax expense for the period. As a result, Spartan reported a deferred income tax recovery of $2.5 million on $203.3 million of income before taxes during the nine months ended September 30, 2021.

## CASH PROVIDED BY OPERATING ACTIVITIES AND ANALYSIS OF OTHER NON-GAAP MEASURES

The tables in this section provide continuities of income and expenses included in the Company's calculation of Operating Income, Adjusted Funds from Operations, Funds from Operations and Adjusted Funds Flow generated during the three and nine month periods ended September 30, 2021 and 2020, respectively, as well as the average Netback ($ per BOE) for each component. Operating Income, Adjusted Funds from Operations, Funds from Operations, Adjusted Funds Flow and Netbacks are non-GAAP measures used by Spartan as key measures of performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities, income or other measures of financial performance calculated in accordance with IFRS. The Company refers to Operating Income expressed per unit of production as an "Operating Netback". Similarly, Spartan's "Corporate Netback" is equal to Adjusted Funds from Operations expressed per unit of production.

The following table summarizes the components of cash provided by operating activities for the third quarter of 2021 compared to the third quarter of 2020:

| **Three months ended September 30th** | **Amount** | | **$ per BOE** | | % change |
|---|---|---|---|---|---|
| *(CA$ thousands, except per BOE amounts)* | **2021** | 2020 | **2021** | 2020 | $/BOE |
| Oil and gas sales, net of royalties | **131,345** | 35,838 | **30.85** | 14.82 | 108 |
| Processing and other revenue | **2,244** | 1,208 | **0.53** | 0.50 | 6 |
| Operating expenses | **(30,277)** | (14,741) | **(7.11)** | (6.10) | 17 |
| Transportation expenses | **(8,973)** | (3,256) | **(2.11)** | (1.34) | 57 |
| **Operating Income / Netback, before hedging** (1) | **94,339** | 19,049 | **22.16** | 7.88 | 181 |
| Settlements on Commodity Derivative Contracts (1)(2) | **(13,915)** | 1,070 | **(3.27)** | 0.44 | (843) |
| Net Pipeline Transportation Margin (1)(3) | **(398)** | - | **(0.10)** | - | nm |
| **Operating Income / Netback, after hedging** (1) | **80,026** | 20,119 | **18.79** | 8.32 | 126 |
| G&A expenses | **(5,626)** | (3,626) | **(1.32)** | (1.50) | (12) |
| Financing expenses (4) | **(2,637)** | (639) | **(0.62)** | (0.26) | 138 |
| Realized foreign exchange gain | **38** | - | **0.01** | - | nm |
| **Adjusted Funds from Operations** (1) | **71,801** | 15,854 | **16.86** | 6.56 | 157 |
| Settlement of decommissioning obligations | **236** | (46) | **0.06** | (0.02) | (400) |
| Transaction costs | **(3,224)** | (34) | **(0.76)** | (0.01) | nm |
| **Funds from Operations** (1) | **68,813** | 15,774 | **16.16** | 6.53 | 147 |
| Change in non-cash working capital | **(15,042)** | 6,950 | **(3.53)** | 2.87 | (223) |
| **Cash provided by operating activities** | **53,771** | 22,724 | **12.63** | 9.40 | 34 |

(1) Refer to "Non-GAAP Measures" section of this MD&A.

(2) Includes the realized loss on derivative financial instruments for the three months ended September 30, 2021, plus settlement of $8.3 million of derivative instrument liabilities acquired in connection with the Velvet Acquisition.

(3) Pipeline transportation revenue, net of pipeline transportation expense.

(4) Cash financing expenses relate to interest and fees on long-term debt, net of interest income. Excludes non-cash financing expenses related to lease liabilities and accretion of decommissioning obligations.

Spartan generated Adjusted Funds from Operations of $71.8 million ($0.49 per share, diluted) for the three months ended September 30, 2021, compared to $15.9 million ($0.23 per share, diluted) in the same quarter of 2020. The increase in Adjusted Funds from Operations is driven by higher Operating Income, partly offset by hedging losses, incremental G&A and financing costs in conjunction with the acquisitions. The Company's average Operating Netback was $22.16 per BOE before hedging ($18.79 per BOE after hedging) for the third quarter of 2021, up 181% from $7.88 per BOE ($8.32 per BOE after hedging) reflecting the recovery of oil and gas prices compared to the third quarter of 2020. In addition, integration of the Velvet Acquisition drives stronger corporate average Operating Netbacks for Spartan, as higher realized pricing on its sweet crude oil production, along with lower average royalties, more than offsets higher average operating and transportation expenses compared to the Deep Basin assets. The 113% increase in diluted AFFO per share highlights the accretive impact of the acquisitions in a rising commodity price environment.

Funds from Operations was $68.8 million for the third quarter of 2021, after deducting $3.2 million of transaction costs and adding back $0.2 million of SRP recovery for previously spent decommissioning expenditures from Adjusted Funds from Operations.

Total cash provided by operating activities of $53.8 million for the three months ended September 30, 2021, is net of a $15.0 million change in non-cash working capital. The change in non-cash working capital can vary significantly each period based on seasonal changes in corporate activity levels, the impact of commodity prices on accrued revenue receivable, and timing of processing payments, among other factors. During the third quarter of 2021, the increase in accounts receivables significantly exceeded the change in accounts payable and accrued liabilities related to operating activities. As a result, Spartan's cash provided by operating activities is lower than its reported Funds from Operations.

The following table summarizes the components of cash provided by operating activities for the nine months ended September 30, 2021 and September 30, 2020:

| **Nine months ended September 30th** | **Amount** | | **$ per BOE** | | % change |
|---|---|---|---|---|---|
| *(CA$ thousands, except per BOE amounts)* | **2021** | 2020 | **2021** | 2020 | $/BOE |
| Oil and gas sales, net of royalties | **277,816** | 47,053 | **25.87** | 14.47 | 79 |
| Processing and other revenue | **6,912** | 1,811 | **0.64** | 0.56 | 14 |
| Operating expenses | **(64,886)** | (20,893) | **(6.03)** | (6.43) | (6) |
| Transportation expenses | **(18,657)** | (4,377) | **(1.74)** | (1.34) | 30 |
| **Operating Income / Netback, before hedging** (1) | **201,185** | 23,594 | **18.74** | 7.26 | 158 |
| Settlements on Commodity Derivative Contracts (1)(2) | **(18,825)** | 1,206 | **(1.75)** | 0.37 | (573) |
| Net Pipeline Transportation Margin (1)(3) | **(398)** | - | **(0.04)** | - | - |
| **Operating Income / Netback, after hedging** (1) | **181,962** | 24,800 | **16.95** | 7.63 | 122 |
| G&A expenses | **(13,919)** | (5,684) | **(1.30)** | (1.75) | (26) |
| Financing expenses (4) | **(3,042)** | (747) | **(0.28)** | (0.23) | 22 |
| Realized foreign exchange gain | **38** | - | **-** | - | - |
| **Adjusted Funds from Operations** (1) | **165,039** | 18,369 | **15.37** | 5.65 | 173 |
| Settlement of decommissioning obligations | **(1,013)** | (736) | **(0.09)** | (0.23) | (61) |
| Other income (5) | **540** | - | **0.05** | - | - |
| Transaction costs | **(4,073)** | (2,278) | **(0.38)** | (0.70) | (46) |
| **Funds from Operations** (1) | **160,493** | 15,355 | **14.95** | 4.72 | 217 |
| Change in non-cash working capital | **(26,587)** | 790 | **(2.48)** | 0.25 | nm |
| **Cash provided by operating activities** | **133,906** | 16,145 | **12.47** | 4.97 | 151 |

(1) Refer to "Non-GAAP Measures" section of this MD&A.

(2) Includes the realized loss on derivative financial instruments for the nine months ended September 30, 2021, plus settlement of $8.3 million of derivative liabilities acquired with the Velvet Acquisition.

(3) Pipeline transportation revenue, net of pipeline transportation expense.

(4) Cash Financing Costs relate to interest and fees on long-term debt, net of interest income. Excludes non-cash financing expenses related to lease liabilities and accretion of decommissioning obligations.

(5) Primarily includes $0.5 million of cash proceeds from the sale of emissions credits during the first quarter of 2021. Excludes non-cash other income earned through the Alberta SRP program.

Spartan's Adjusted Funds from Operations for the nine months ended September 30, 2021 is $165.0 million ($1.35 per share, diluted). Adjusted Funds from Operations was $18.4 million ($0.36 per share, diluted) in the same period of 2020, which only included four months of operations from BXE Asset Acquisition. The increase in Adjusted Funds from Operations is driven by the material increase in Operating Income, partly offset by hedging losses, incremental G&A and financing costs in conjunction with the acquisitions. Funds from Operations was $160.5 million after adding $0.5 million of other income and deducting $1.0 million of cash settlements of decommissioning obligations and $4.1 million of transaction costs on acquisitions. Spartan's cash provided by operating activities of $133.9 million is lower than its

Funds from Operations primarily because the increase in accrued revenue outpaced the increase in accounts payable and accrued liabilities.

## CAPITAL EXPENDITURES

Following the recapitalization of the Company in December 2019, Spartan has been focused on growing the Company through a targeted acquisition and consolidation strategy. The Company's first transformational transaction was completed in June 2020 for total consideration of $108.8 million and established Spartan's core operating area in the Alberta Deep Basin. Since then, Spartan has completed several acquisitions which added a second core development area in the northwest Alberta Montney and built on the Deep Basin assets through smaller tuck-in acquisitions. Simultaneously, Spartan continues to focus on expanding its internally generated prospects and optimization of its existing asset base. The following table summarizes Spartan's cash capital expenditures during the three and nine month periods ended September 30, 2021 and September 30, 2020:

| **CASH CAPITAL EXPENDITURES** | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2021** | 2020 | **2021** | 2020 |
| Lease acquisition and retention | **1,238** | 15 | **2,154** | 33 |
| Geological and geophysical | **5,080** | 69 | **5,552** | 1,118 |
| Drilling and completion | **33,405** | 318 | **55,592** | 318 |
| Facilities, pipeline and well equipment | **3,797** | 67 | **7,007** | 232 |
| Production optimization workovers | **1,062** | 738 | **2,557** | 921 |
| Corporate assets | **27** | 47 | **431** | 195 |
| **Capital expenditures, before A&D** | **44,609** | 1,254 | **73,293** | 2,817 |
| Acquisitions (1) | **393,260** | - | **423,719** | 108,782 |
| Dispositions | **(304)** | (76) | **(453)** | (76) |
| **Total cash capital expenditures (1)** | **437,565** | 1,178 | **496,559** | 111,523 |

(1) Excludes non-cash consideration for acquisitions, refer to additional information in the "2021 Acquisitions" table below.

Capital expenditures before A&D were $44.6 million for the three months ended September 30, 2021, of which the Company spent $33.4 million on drilling operations, $3.8 million on facilities and equipment, $1.1 million on production optimization and $6.3 million on land and seismic. Capital expenditures before A&D were $73.3 million for the nine months ended September 30, 2021. The Company's exploration and development capital expenditures were fully funded by cash provided by operating activities.

Spartan executed an eight well winter drilling program in its core area at Ferrier, Alberta, during the fourth quarter of 2020 and first quarter of 2021. The program included one Cardium well and seven Spirit River wells, two of which were completed and brought on production in December 2020 and the remaining six wells were brought on-stream throughout the first quarter of 2021. Spartan kicked off its drilling program for the second half of 2021 in late June. The Company drilled eight wells in the Deep Basin at Brazeau and Ferrier, of which six wells were completed and on production by the end of the third quarter. Spartan also drilled and completed a four-well pad at Gold Creek targeting Montney oil. The Company is encouraged by its drilling results to date and is preparing for an active winter drilling season in both of its core areas.

Total consideration for the acquisitions completed during the first nine months of 2021 was $569.5 million, comprised of: $423.7 million of cash consideration after closing adjustments; the issuance of 30.5 million common shares valued at $120.5 million; and the issuance of a convertible promissory note with an acquisition date fair value of $25.3 million. In addition, Spartan assumed Net Debt of $389.1 million in connection with the corporate acquisitions. Transaction costs estimated to be $4.1 million in aggregate were expensed during the period in respect of acquisitions accounted for as business combinations under IFRS 3.

The following table summarizes the consideration paid for acquisitions during the period ended September 30, 2021 and the estimated fair value of the net identifiable assets acquired on the respective acquisition dates:

| **2021 ACQUISITIONS** *(CA$ thousands)* | **Inception** | **Simonette** | **Velvet** | **Ferrier** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Cash consideration, after adjustments | - | 14,680 | 355,879 | 37,500 | 15,660 | 423,719 |
| Common share consideration | 92,089 | 5,794 | 13,231 | - | 9,380 | 120,494 |
| Convertible promissory note | 25,293 | - | - | - | - | 25,293 |
| **Total consideration** | **117,382** | **20,474** | **369,110** | **37,500** | **25,040** | **569,506** |
| Net working capital [3] | (4,150) | - | (34,297) | 1,659 | 129 | (36,659) |
| Indebtedness repaid at closing | - | - | (352,488) | - | - | (352,488) |
| **Net Debt assumed or repaid** [3] | **(4,150)** | **-** | **(386,785)** | **1,659** | **129** | **(389,147)** |
| Derivative financial instrument liability, net | - | - | (94,203) | - | | (94,203) |
| Other non-current assets | 7,500 | - | - | 3,753 | - | 11,253 |
| Exploration and evaluation assets | 7,163 | 3,053 | 60,757 | 460 | 10,570 | 82,003 |
| Property, plant and equipment | 109,976 | 35,598 | 753,167 | 43,973 | 8,998 | 951,712 |
| Right-of-use assets | 1,048 | - | 4,364 | - | - | 5,412 |
| Lease liabilities | (1,048) | - | (4,435) | - | - | (5,483) |
| Decommissioning obligations [2] | (1,800) | (18,177) | (9,694) | (341) | (3,104) | (33,116) |
| Deferred income tax asset | 33,827 | - | 134,815 | (8,889) | 8,447 | 168,200 |
| **Fair value of net assets acquired** [1] | **152,516** | **20,474** | **457,986** | **40,615** | **25,040** | **696,631** |
| **Gain on acquisition** [1] | **(35,134)** | **-** | **(88,876)** | **(3,115)** | **-** | **(127,125)** |
| **Acquisition closing date** | **March 18** | **March 18** | **August 31** | **September 3** | **Various** | |
| **Total consideration including Net Debt** | **121,532** | **20,474** | **755,895** | **35,841** | **24,911** | |
| Average production acquired (BOE/d) [4] | 3,700 | 4,425 | 21,300 | 1,850 | 500 | |
| % Oil & NGLs [4] | 54% | 18% | 51% | 30% | 45% | |

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

(2) The aggregate fair value of decommissioning obligations acquired of $33.1 million was estimated by discounting the inflated cost estimates using "credit-adjusted risk-free rates" ranging from 6.1% to 7.0% on the respective closing dates of the acquisitions. Subsequent remeasurement of the decommissioning obligations acquired at a risk-free rate under Spartan's accounting policy resulted in an increase in the present value of decommissioning obligations acquired by $35.0 million to $68.1 million in aggregate.

(3) For purposes of this table only, Net Debt (and the components thereof) are presented as negative numbers and the Net Surplus (and the components thereof) is presented as a positive number. This differs from the presentation of Net Debt (Surplus) throughout this MD&A.

(4) Based on average production volumes at the time of closing of the respective acquisitions. A breakdown of production acquired by product type is provided for significant acquisitions in the narrative below.

### 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, plus the assumption of Inception's estimated working capital deficit of $4.2 million. Inception was an oil-weighted Montney focused private company with operations primarily in the Gold Creek area of northwest Alberta. The Inception Acquisition anchors a second core development area for Spartan with over 30,000 net acres of delineated Montney acreage, production of approximately 3,700 BOE per day during March (45% crude oil, 9% NGLs, 46% natural gas), and 100% working interests in a 10 Mbbl/d operated central oil battery and a 40 MMcf/d operated natural gas processing facility in Gold Creek with excess capacity to support significant production growth.

The Company acquired all of the issued and outstanding common shares of Inception in exchange for 23,734,379 common shares of Spartan, the majority of which were issued to a major shareholder and debtholder of Inception, ARETI Energy S.A. (“**ARETI**”). Upon closing of the Inception Acquisition, ARETI assumed ownership and control over Spartan common shares representing approximately 20.8% of the total number of Spartan common shares issued and outstanding on a non-diluted basis (see also, “Related Party Disclosures”). The fair value of common share consideration was $92.1 million based on Spartan’s closing share price of $3.88 per common share on March 18, 2021. In addition, Spartan issued a $50.0 million Convertible Note to ARETI. The fair value of the Convertible Note was estimated to be approximately $25.3 million on the acquisition date (see also, “Capital Resources and Liquidity – Convertible Promissory Note”).

The net assets acquired were recorded at their estimated fair value on the acquisition date of $152.5 million, as outlined in the table above. A gain of $35.1 million was recognized as the total consideration was less than the estimated fair value of the net assets acquired. The gain is primarily attributed to significant tax pools acquired and the resulting deferred income tax asset of $33.8 million.

The fair value of PP&E was estimated based on fair value less cost to dispose (“**FVLCD**”) methodology, calculated using the present value of the expected future cash flows after-tax. 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).

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. The operations and balances of the subsidiary have been consolidated and are not material to Spartan.

**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 estimated 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 estimated to be 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.

Production from the acquired assets was approximately 4,425 BOE per day (5% crude oil, 13% NGLs, 82% natural gas) at the time of the acquisition. Spartan expects the mature production base to decline by less than 20% annually. The Simonette Acquisition also included over 54,000 net acres of Montney acreage and a significant infrastructure component, including a 50% working interest in a 120 MMcf/d natural gas processing facility at Simonette, water disposal facilities, and an extensive network of field gathering infrastructure and roads, which are expected to support current volumes, third party volumes and anticipated future growth. Spartan has identified opportunities for optimization of the underexploited resource base as minimal capital was deployed to the assets in recent years due to financial constraints of the previous operator.

**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, for a total transaction value of approximately $755.9 million inclusive of Velvet’s Net Debt estimated to be $386.8 million on the closing date. 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 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 further consolidates and adds material scale to the Company's Montney focused core development area in northwest Alberta, building on the position acquired during the first half of 2021. Production from the Velvet assets was estimated to be approximately 21,300 BOE per day for the month of September (crude oil 43%, NGLs 8 %, natural gas 49%). Significant growth opportunities have been identified across the 286,700 gross (281,700 net) acres of high working interest Montney Crown land, on which there is an extensive inventory of identified Montney drilling locations.

The core assets acquired at Gold Creek represent more than 80% of Velvet's current production and include approximately 138,800 net acres (217 net sections) of contiguous Montney rights directly offsetting Spartan’s Gold Creek acreage acquired pursuant to the Inception Acquisition. The majority of the Velvet Gold Creek lands have been approved under Alberta's Emerging Resource Program, under which certain wells qualify for an enhanced royalty benefit which extends the 5% Crown royalty until the benefits expire in 2029. Integrated water recycling infrastructure at Gold Creek includes approximately 20 kilometers of produced water pipelines, nine disposal wells and a 100,000 cubic meter water storage pond. This infrastructure will provide a solid foundation for long-term sustainable development by ensuring reliable access to water while minimizing freshwater usage in completion operations.

The Velvet assets at Karr are located between the Gold Creek and Simonette areas and add to Spartan's existing land position at Karr, which was recently acquired through the Canoe Acquisition (defined below). Karr will be a focus area for continued development and growth as the wells drilled to date are some of the most prolific Montney oil wells in the basin. In addition, the Velvet assets are expected to provide further organic growth opportunities through low-risk Montney oil development at Pouce Coupe as well as significant undeveloped upside potential at Flatrock, an emerging resource property located in northeastern British Columbia. The production profile characteristics of the Velvet assets compliments Spartan's current suite of assets, increasing oil-weighted production and drilling inventory while also providing further commodity diversification to the Company's portfolio.

Velvet’s tax pools are estimated to be approximately $1.3 billion (approximately 50% non-capital losses), which further extend the Company’s tax horizon as Velvet was vertically amalgamated with Spartan on the closing date.

The net assets acquired were recorded at their estimated fair value on the acquisition date of $458.0 million, as outlined in the table above. A gain of $88.9 million was recognized as the total consideration was less than the estimated fair value of the net assets acquired. The gain is primarily attributed to significant tax pools acquired and the resulting deferred income tax asset $134.8 million.

The fair value of PP&E was estimated based on FVLCD methodology, calculated using the present value of the expected future cash flows after-tax. 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).

**Ferrier Acquisition**

The Ferrier Acquisition was completed on September 3, 2021, pursuant to which Spartan acquired the issued and outstanding securities of two arms-length private entities for cash consideration of $37.5 million ($35.8 million net of positive working capital). The assets acquired are located in the Ferrier area of Alberta, adjacent to the Company's core properties in the Deep Basin and included average production of approximately 1,850 BOE per day (4% condensate, 26% NGLs and 70% natural gas) during September. The assets acquired include several top tier Spirit River drilling locations which have been layered into the Company's near-term development plan. Current and future volumes from the Ferrier Acquisition will be re-routed to flow through Spartan's infrastructure, benefiting from Spartan's low operating cost structure.

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 was estimated based on FVLCD methodology, calculated using the present value of the expected future cash flows after-tax. 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. Subsequent to the end of the period, Spartan acquired an additional entity related to the Ferrier Acquisition that contained tax pools associated with 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.

**Other Acquisitions**

*January 2021 Acquisition*

On January 14, 2021, the Company acquired of all of the issued and outstanding shares of two private companies (the "**January 2021 Acquisition**") for total consideration of $8.2 million ($8.0 million net of $0.2 million of positive working capital assumed). The aggregate purchase price included $0.3 million of cash and 2.0 million common shares valued at $3.95 per common share based on the closing price of Spartan's common shares on the acquisition date. The acquired entities were vertically amalgamated with Spartan on the closing date. The assets acquired primarily include land and 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 was accounted for as an asset acquisition because the transaction did not meet the definition of a business combination under IFRS 3. Accordingly, the net assets acquired were initially recognized on the balance sheet at their cost of $8.0 million (net of working capital), which was allocated to the individual identifiable assets and liabilities based on relative fair values. The purchase price allocation resulted in a deferred income tax asset of $8.5 million, decommissioning obligations of $0.5 million, and the proportionate value allocated to exploration and evaluation assets ("**E&E**") and PP&E was not significant. The accounting for the January 2021 Acquisition also resulted in an unrecognized deferred income tax asset of $41.8 million on the acquisition date, in addition to the recognized deferred tax asset of $8.5 million, which will be recognized in future earnings in proportion to NCLs used to offset the Company's taxable income. Spartan recognized $12.5 million and $28.9 million of the previously unrecognized deferred tax asset, respectively, for the three and nine months ended September 30, 2021 and $12.9 million remains unrecognized as at September 30, 2021.

*Willesden Green Acquisition*

On March 5, 2021, Spartan closed an acquisition of producing petroleum and natural gas assets located at Willesden Green, Alberta, for cash consideration of $5.2 million after estimated closing adjustments (the "**Willesden Green Acquisition**"). The assets acquired are contiguous with Spartan's existing core operating assets in west-central Alberta and include a combination of royalty and working interest production, as well as interests in associated infrastructure. Approximately 300 BOE per day of royalty interests acquired were previously royalty obligations of the Company. These royalty volumes are not included in Spartan's reported production or sales revenue, but rather they will improve cash flows by reducing overriding royalty expenses. Working interest production was approximately 200 BOE per day (95% gas) at the time of the acquisition. The purchase price for the Willesden Green Acquisition was allocated to the net assets acquired based on estimated fair values, including $6.7 million of PP&E, $0.2 million of E&E, and $1.7 million of decommissioning obligations.

*Canoe Acquisition*

On May 21, 2021, Spartan closed the acquisition of Canoe Point Energy Ltd. ("**Canoe**") pursuant to which the Company acquired all of the issued and outstanding shares of Canoe (the "**Canoe Shares**"). Canoe was a private company and is now a wholly owned subsidiary of Spartan, holding 15,360 net acres of undeveloped Montney land in the Karr area of northwest Alberta. The total purchase price of $1.5 million was satisfied through the issuance of 306,271 common shares of Spartan, including the assumption of less than $0.1 million of net debt (the "**Canoe Acquisition**"). Certain officers and directors of Spartan had ownership and control over 48% of the Canoe Shares. As a result, the Canoe Acquisition constituted a "related party transaction" and was recorded at the exchange amount (see also, "Related Party Disclosures").

*Gold Creek Property Acquisitions*

On June 17, 2021, Spartan closed an acquisition of 33,500 net acres of Montney lands and approximately 300 BOE per day production behind pipe for cash consideration of $10.0 million after estimated closing adjustments. The assets acquired are contiguous with Spartan's existing core operating assets in the Gold Creek and Simonette areas. The purchase price was allocated to the net assets acquired based on estimated fair values, including $2.3 million of PP&E, $8.6 million of E&E, and $0.9 million of decommissioning obligations.

Spartan acquired additional Gold Creek acreage for $0.1 million on June 4, 2021, to fill in a gap in the Company's contiguous land holdings.

**DECOMMISSIONING OBLIGATIONS**

As at September 30, 2021, the Company's total decommissioning obligations are estimated to be $152.8 million, of which $3.3 million are expected to be settled over the next twelve months. Spartan is committed to environmental stewardship and seeks to maintain an industry leading Liability Management Rating with a proactive program to address its decommissioning obligations. The Company spent $1.0 million on decommissioning during the first nine months of 2021 and settled an additional $1.5 million of liabilities through abandonment and reclamation projects funded through the Alberta Site Rehabilitation Program. Spartan has received allocations for an additional $0.4 million of funding for abandonment and reclamation projects budgeted to be completed in the remainder of 2021 and throughout 2022. Recoveries under the SRP are recognized in the financial statements in the period in which the work is completed.

The carrying amount of Spartan's decommissioning obligations increased by $54.7 million from $98.1 million at December 31, 2020, to $152.8 million at September 30, 2021. The majority of the change is attributed to obligations acquired of $68.1 million, offset by a $14.1 million decrease in the present value resulting from an increase in the risk-free discount rate from 1.2% at December 31, 2020 to 2.0% at September 30, 2021. The increase in the discount rate during 2021 reflects the improved economic outlook and recovery of long-term Canadian benchmark bond yields compared to 2020. The Company's annual inflation rate assumption is unchanged at 2.0%.

**CAPITAL RESOURCES AND LIQUIDITY**

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.

During the first nine months of 2021, the Company's primary sources of funds were $160.5 million of Funds from Operations, $264.1 million of net proceeds from brokered and non-brokered equity financings, a new $150.0 million Term Facility, supplemented by working capital and bank debt under the amended and restated Credit Facility with an increased borrowing base of up to $450.0 million. In addition, Spartan received $0.5 million of cash proceeds on the exercise of stock options and warrants during the period.

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 cash consideration for the acquisitions completed year-to-date is $423.7 million. Spartan also 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.

The Company monitors its capital structure and short-term financing requirements using a "Net Debt to Trailing Adjusted Funds Flow" ratio, which is a non-GAAP financial measure calculated as the ratio of the Company's "Net Debt" to "Trailing Adjusted Funds Flow" (definitions and details of the underlying calculation of the annualized Trailing Adjusted Funds Flow are provided under the heading "Non-GAAP Measures").

| *(CA$ thousands, except as noted)* | **September 30, 2021** | June 30, 2021 | December 31, 2020 |
|---|---|---|---|
| Cash | **(7,673)** | (128,486) | (2,686) |
| Accounts receivable | **(82,370)** | (41,397) | (20,475) |
| Prepaid expenses and deposits | **(9,614)** | (12,615) | (1,529) |
| Accounts payable and accrued liabilities | **135,801** | 47,945 | 34,149 |
| Current portion of decommissioning obligations | **3,350** | 2,857 | 2,833 |
| Adjusted Working Capital deficit (surplus) | **39,494** | (131,696) | 12,292 |
| Long-term debt | **441,593** | - | - |
| **Net Debt (Surplus)** | **481,087** | (131,696) | 12,292 |
| Trailing Adjusted Funds Flow | **277,544** | 211,828 | 67,184 |
| **Net Debt to Trailing Adjusted Funds Flow** | **1.73x** | nm | 0.2x |
| **Credit Facility net debt to cash flow ratio** | **1.38x** | Not applicable | Not applicable |

As at September 30, 2021, Spartan had Net Debt of $481.1 million, which is approximately 1.73 times the Company's Trailing Adjusted Funds Flow for third quarter of 2021. Spartan's Adjusted Funds Flow for the third quarter of 2021 only includes operating results for the assets acquired pursuant to the Velvet Acquisition and Ferrier Acquisition for approximately one-month following the respective closing dates. As a result, Spartan's Net Debt to Trailing Adjusted Funds Flow ratio of 1.73 times is not representative of the Company's liquidity and financial position. Spartan is also subject to a net debt to cash flow covenant under its Credit Facility which is calculated using similar methodology to the Company's Net Debt to Trailing Adjusted Funds Flow ratio, however cash flow is adjusted to give effect to certain acquisitions or dispositions which exceed a threshold amount as if they occurred at the beginning of the period. For purposes of the Company's Credit Facility compliance, Spartan reported a net debt to cash flow ratio of 1.38 times as at September 30, 2021, which includes pro forma cash flows from the Velvet Acquisition and Ferrier Acquisition as if they had closed on July 1, 2021. The Company believes this pro forma ratio provides useful information to the reader, however it should not be relied upon as a substitute for financial information prepared in accordance with IFRS.

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 direct its forecasted Free Funds Flow primarily to debt repayment in 2022 (see advisories regarding "Forward-Looking Statements").

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 |
| Credit Facility (1) | 14,860 | 310,093 | - | - | 324,953 |
| Term Facility (2) | 12,300 | 25,539 | 170,072 | - | 207,911 |
| Undiscounted lease liabilities (3) | 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 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.

(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 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.

## LONG-TERM DEBT

As at September 30, 2021, total long-term debt of $441.6 million is comprised of $300.2 million of bank debt drawn under the Credit Facility and $150.0 million advanced under the Term Facility. The balance of long-term debt is presented net of $8.6 million of unamortized issue costs and prepaid interest on bankers' acceptances.

### Credit Facility

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 amended 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 drawn $300.2 million on the Credit Facility and has issued approximately $28.0 million of standby letters of credit ("**LCs**") which are undrawn but reduce the remaining borrowing capacity available under the operating facility. The balance of bank debt drawn together with undrawn LCs represents 73% of the $450.0 million borrowing base leaving approximately $121.8 million of available borrowing capacity at the end of the period.

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 31$^{st}$ and by November 30$^{th}$ 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. There can be no assurance that the Credit Facility will be renewed at the current borrowing base. 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: (A) the maximum funded debt to EBITDA (Earnings Before Taxes, Interest, 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. As at September 30, 2021, Spartan is in compliance with all covenants (refer to note 10 of the Interim Financial Statements).

The Credit Facility provides for borrowings through direct advances, bankers' acceptances, and LCs. The applicable margin fluctuates based on a pricing grid dependent upon the Company's net debt to cash flow ratio ranging from less than 0.5 times to greater than 4.5 times, adjusted quarterly. Interest is payable monthly for borrowings through direct advances at the bank's prime rate plus the applicable margin. Borrowings through bankers' acceptances are typically advanced for maturity periods of one to three months and are funded net of interest at the Canadian Dollar Offered Rate ("**CDOR**") plus bank stamping fees at the applicable margin. The Company incurs standby fees on the undrawn facility which also fluctuate based on the applicable margin.

### Term Facility

On August 31, 2021, the Company established a $150.0 million non-revolving 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 $37^{th}$ 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, being three years after the issue date, the Company shall pay all interest and fees that would have otherwise been payable up to the $36^{th}$ 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, and Spartan is in compliance with all covenants as at September 30, 2021.

## 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. 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, "Related Party Disclosures"). The Convertible Note was cancelled upon conversion.

The Convertible Note was measured at FVTPL and was revalued based on Spartan's closing share price at the end of each reporting period (Level 2 fair value measurement). 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.

## SHARE CAPITAL

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. As at September 30, 2021 and as of the date hereof, there are 153.1 million common shares outstanding (58.2 million as at December 31, 2020). There are no preferred shares or special shares outstanding. During the first nine months of 2021, Spartan issued an aggregate of 58.2 million common shares pursuant to equity financings at an average subscription price of $4.71 per common share for gross proceeds of $274.0 million (details of the foregoing are provided in note 12 of the Interim Financial Statements). An aggregate of 30.5 million common shares were issued as consideration for certain acquisitions, in addition to 5.9 million common shares issued upon conversion of the Convertible Note used to partially finance the Inception Acquisition. In addition, 0.3 million common shares were issued on exercise of stock options and warrants providing $0.5 million of cash proceeds during the period.

Effective September 1, 2021, Spartan's common shares were listed on the TSX and delisted from the TSX Venture Exchange in connection with the graduation. The trading symbol for the common shares on the TSX remains unchanged as "SDE". The volume weighted average trading price of Spartan's shares was $4.78 and $4.53 per common share for the three and nine months ended September 30, 2021. Spartan's closing share price was $5.39 on September 30, 2021 compared to $2.98 on December 31, 2020.

The total number of outstanding securities of the Company is provided below:

| *Number of securities outstanding (000s)* | December 31, 2020 | **September 30, 2021** | **November 8, 2021** |
|---|---|---|---|
| Common shares (4) | 58,226 | **153,074** | **153,083** |
| Warrants (1) | 16,084 | **15,934** | **15,934** |
| Stock options (2) | 3,400 | **4,349** | **4,318** |
| Share awards | - | **1,788** | **1,775** |
| Total securities outstanding (3) | 77,710 | **175,145** | **175,110** |

(1) The common share purchase warrants have an exercise price of $1.00 per share and are fully vested. If the remaining warrants are exercised by the holders, the warrants will provide aggregate cash proceeds of $15.9 million to the Company.

(2) The outstanding stock options have an average exercise price of $3.29 per common share with an average remaining term of 3.9 years.

(3) The total number of securities outstanding is provided for information purposes only. This calculation does not factor in whether the securities are in-the-money or the number of shares deemed to be repurchased under the treasury stock method in accordance with IFRS. As such it should not be viewed as an alternative to the diluted weighted average number of common shares outstanding determined in accordance with IFRS for purposes of EPS, as presented in the table below.

(4) 3.0 million common shares issued in connection with the Velvet Acquisition on August 31, 2021 are subject to escrow, releasable in one-sixth increments beginning on September 30, 2021 (being one month following the closing date) and continuing every month thereafter.

The table below summarizes the weighted average number of common shares outstanding (000s) used in the calculation of diluted EPS and diluted AFFO per share:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(000s)* | **2021** | 2020 | **2021** | 2020 |
| WA Shares outstanding, basic | **125,626** | 58,118 | **102,892** | 40,358 |
| Dilutive effect of outstanding securities | **20,060** | 10,113 | **18,141** | 10,465 |
| **WA Shares, diluted – for EPS** | **145,686** | 68,231 | **121,033** | 50,823 |
| Incremental dilution for AFFO (1) | **1,443** | - | **1,463** | - |
| **WA Shares, diluted – for AFFO** (1) | **147,129** | 68,231 | **122,496** | 50,823 |

(1) AFFO per share does not have a standardized meaning under IFRS, refer to "Non-GAAP Measures".

## 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 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, 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.

*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 this MD&A, the Company has no material litigation or claims outstanding that have not already been reflected in the Interim Financial Statements as at September 30, 2021.

## OFF-BALANCE SHEET ARRANGEMENTS

Except for the commitments and contingencies disclosed herein, the Company does not believe it has any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future impact of the Company's financial condition, results of operations, liquidity or capital expenditures.

## RELATED PARTY DISCLOSURES

### a) Inter-corporate relationships

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

In addition, the following changes to intercorporate relationships occurred with respect to corporate acquisitions completed during the period ended September 30, 2021:

- On January 14, 2021, two acquired private entities were vertically amalgamated with Spartan concurrent with closing the January 2021 Acquisition.
- On March 18, 2021, Inception Exploration Ltd. was vertically amalgamated with Spartan concurrent with closing the Inception Acquisition. A wholly owned subsidiary of Inception was not amalgamated and continues to operate as a separate legal entity. The operations and balances of the subsidiary have been consolidated and are not material to Spartan.
- On May 21, 2021, Spartan completed the acquisition of Canoe Point Energy Ltd. Canoe was a wholly owned subsidiary from closing of the Canoe Acquisition until amalgamation with Spartan on August 31, 2021.
- On August 31, 2021, Velvet Energy Ltd. and Canoe Point Energy Ltd. were vertically amalgamated with Spartan concurrent with closing the Velvet Acquisition.
- On September 3, 2021, the Company completed the Ferrier Acquisition, whereby Spartan acquired 99.973% in a limited partnership and 100% of the general partner which holds a nominal interest. Subsequent to the period, Spartan acquired the remaining corporate entity for nominal consideration which indirectly increased Spartan's ownership of the assets to 100%.

As at September 30, 2021, Spartan has two wholly owned subsidiaries as well as its 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 (three and nine months ended September 30, 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.

*Canoe Acquisition*

On May 21, 2021, the Company acquired Canoe Point Energy Ltd., a private company holding undeveloped land in Spartan's Montney focus area of northwest Alberta (see "Capital Expenditures – Acquisitions"). Certain officers and directors of Spartan, including Richard McHardy (Executive Chairman), Donald Archibald (Director), Reginald Greenslade (Director), Fotis Kalantzis (President and CEO), Thanos Natras (Vice President, Exploration) and Brendan Paton (Vice President, Engineering) were shareholders of Canoe. The insiders of Spartan had ownership and control over 48% of the Canoe Shares and all other parties to the Canoe Acquisition are arm's length to the Company. The Canoe Acquisition constitutes a "related party transaction" and was recorded at the exchange amount.

Canoe was formed prior to the appointment of the new management team and new board of Spartan as part of the recapitalization transaction on December 19, 2019. As a result of Spartan's recent entry into the Montney, the decision was made to offer the Canoe assets to Spartan. The total purchase price of $1.5 million (inclusive of net debt) represents the cost of the investment in Canoe and the fair value is supported by an independent valuation of the Canoe lands. 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, 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, 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. 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.

## SUMMARY OF QUARTERLY INFORMATION

The table below summarizes selected financial and operational information over the past eight quarters. Refer to "Results of Operations" section of this MD&A and the Company's previously issued MD&A for detailed discussions of quarter-to-quarter variances in these key performance measures.

| *(CA$ thousands, except as noted)* | **Q3 2021** | Q2 2021 | Q1 2021 | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **134,056** | 88,783 | 62,356 | 41,975 | 37,046 | 11,401 | 417 | 470 |
| Net income (loss) and | | | | | | | | |
| comprehensive income (loss) | **126,937** | 19,664 | 59,164 | 12,358 | (7,281) | 47,406 | (4,820) | (60) |
| $ per share, basic | **1.01** | 0.17 | 0.87 | 0.21 | (0.13) | 1.29 | (0.18) | (0.01) |
| $ per share, diluted | **0.87** | 0.15 | 0.73 | 0.18 | (0.13) | 1.01 | (0.18) | (0.01) |
| Funds from Operations (1) | **68,813** | 55,351 | 36,329 | 18,239 | 15,774 | 1,088 | (1,507) | (790) |
| Total cash capital expenditures (2) | **437,565** | 19,708 | 39,286 | 14,346 | 1,178 | 109,969 | 376 | 29 |
| Total assets | **1,684,301** | 729,966 | 679,613 | 331,430 | 331,730 | 339,064 | 30,938 | 34,245 |
| Working capital deficit (surplus) | **152,595** | (101,100) | (75,846) | 21,208 | 19,577 | 2,170 | (21,719) | (23,538) |
| Long-term liabilities | **655,137** | 210,838 | 194,379 | 147,992 | 166,457 | 189,206 | 7,542 | 7,213 |
| Shareholders' equity | **756,211** | 437,730 | 414,230 | 137,540 | 124,413 | 130,995 | 20,818 | 25,640 |
| Average daily production (BOE/d) | **46,282** | 39,638 | 31,914 | 26,010 | 26,282 | 8,906 | 251 | 223 |
| % Oil and NGLs | **32%** | 29% | 28% | 31% | 31% | 30% | 17% | 20% |
| Average realized price ($ per BOE) | **34.31** | 26.71 | 24.12 | 18.89 | 16.19 | 14.31 | 16.34 | 21.33 |
| Operating Netbacks (1) | | | | | | | | |
| Before hedging ($ per BOE) (1) | **22.16** | 17.43 | 15.31 | 10.49 | 7.88 | 5.73 | (4.33) | (7.95) |
| After hedging ($ per BOE) (1) | **18.79** | 16.89 | 14.28 | 9.59 | 8.32 | 5.90 | (4.33) | (7.95) |

(1) "Funds from Operations" and "Operating Netback" do not have standardized meanings under IFRS, refer to "Non-GAAP Measures".
(2) Excludes non-cash consideration for acquisitions. Refer to "Capital Expenditures" section of this MD&A for additional information.

The Company appointed a new management team and new board of directors on December 19, 2019, as part of a recapitalization transaction which included a $25.0 million non-brokered private placement at a subscription price of $1.00 per share. In March 2020, COVID-19 was declared a pandemic and resulted in significant volatility and uncertainty of global financial markets. Global crude oil prices simultaneously dropped to a 20-year low.

In April 2020, the Company announced a $64.0 million private placement at a subscription price of $2.00 per share to fund the BXE Asset Acquisition in west central Alberta on June 1, 2020 for total consideration of $108.8 million. The Company recognized a $53.0 million gain on acquisition during the second quarter of 2020.

Commodity prices began to recover in the second half of 2020 from the historic lows observed in the first half of the year and subsequently exceeded pre-pandemic levels during the first nine months of 2021. The increase in Operating Netbacks reflects the stronger realized prices and higher production, partly offset by higher per unit operating and transportation expenses driven by the higher oil weighting of the Company's asset base.

In March 2021, Spartan raised $124.0 million of gross proceeds through a $79.0 million non-brokered offering and a $45.0 million prospectus offering at an average issue price of $4.35 per common share. In August 2021, the Company raised $150.0 million of gross proceeds through a prospectus offering at $5.05 per common share.

The acquisitions along with Spartan's organic drilling program significantly increased production in the Company's Deep Basin and northwest Alberta Montney core areas. The Company's net income includes a gain of $35.1 million on the Inception Acquisition in the first quarter of 2021 and a gain of $88.9 million on the Velvet Acquisition in the current quarter.

## SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the 2020 Financial Statements. Newly adopted accounting policies in the first nine months of 2021 have been described in note 3 of the Interim Financial Statements as at September 30, 2021.

The International Accounting Standards Board has issued a number of new accounting standards, amendments to accounting standards, and interpretations that are effective for 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.

In May 2021, the IASB amended IAS 12 Income Taxes ("**IAS 12**") to address the accounting for deferred taxes for certain types of transactions, such as those involving leases and decommissioning liabilities. The IASB made these changes through an IAS 12 amendment, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which is applicable to periods beginning on or after January 1, 2023. Upon adoption, the amendment may have an impact on deferred taxes recognized under future acquisition transactions completed by the Company.

## 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. 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 2020 Financial Statements. In addition, the significant estimates and judgements applied in respect of business combinations completed during 2021 are disclosed in note 5 of the Interim Financial Statements and under the heading "Capital Expenditures" of this MD&A.

*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, 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 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 three and nine months ended September 30, 2021, Spartan recognized $12.5 million and $28.9 million, respectively, of the previously unrecognized deferred tax asset.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Effective September 1, 2021 Spartan graduated to the TSX and concurrently delisted its shares from the TSX Venture. In accordance with section 5.3 of National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Company has filed an interim certificate in the Form 52-109F2 - IPO/RTO relating to its interim filings for the interim period ended September 30, 2021 as it is the first financial period ended after the Company became a reporting issuer.

In particular, the certifying officers filing the certificate in the Form 52-109F2 - IPO/RTO under NI 52-109 are not required to make representations in place at September 30, 2021 relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's IFRS.

Management will certify the design and effectiveness of the Company's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at December 31, 2021. The evaluation of ICFR will be based on the framework in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. It should be noted that a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

## RISKS AND UNCERTAINTIES

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. The following information is a summary of certain risk factors relating to the Company and should be read in conjunction with the Company's most recent AIF dated March 31, 2021, which can be found at www.sedar.com. Prospective investors should carefully consider the risk factors set out below and consider all other information contained in this MD&A and in the Company's other public filings before making an investment decision. The risks set out below are not an exhaustive list, nor should be taken as a complete summary or description of all the risks associated with the Company's business and the oil and natural gas business generally.

### Market Risks

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

Spartan's risk management objective is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. The Company uses derivative financial instruments to manage market risks. All such transactions are conducted in accordance with the Company's established risk management policies which are unchanged from December 31, 2020.

### 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 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, the Company has certain derivative financial contracts in place to manage commodity price risk. Details of the foregoing are provided in note 4 of the Interim Financial Statements.

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 instruments 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, of which $8.3 million was subsequently settled during the period.

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, holding all other variables constant, on net income before tax of commodity price 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.

**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 (refer to Long-Term Debt), 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 (refer to Long-Term Debt), 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.

**Currency Risk**

Currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Spartan is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given the Company's realized pricing in Canadian dollars is directly influenced by U.S. dollar denominated benchmark pricing. Additionally, 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. The CA$/US$ exchange rate closed at 1.275 on September 30, 2021 (December 31, 2020 – 1.273) and averaged 1.260 CA$/US$ during the third quarter of 2021 compared to an average 1.228 CA$/US$ during the second quarter of 2021. The Canadian dollar weakened relative to the U.S. dollar during the third quarter. All else being equal, a weakening of the U.S. dollar has a negative impact on Canadian dollar equivalent commodity prices resulting in lower realized pricing for the Company.

As at September 30, 2021, there were no foreign exchange risk management contracts outstanding.

**Liquidity Risk**

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 and expects to settle certain decommissioning obligations within the next twelve months.

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 $300.2 million of bank debt outstanding on its Credit Facility with an authorized borrowing amount of $450.0 million. In addition, the Company has $150.0 million outstanding on its Term Facility. 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.

The Company is early in its life cycle and its growth strategy is capital intensive. From time to time, Spartan's cash flow from operating activities may not be sufficient to fund its growth objectives. As such, Spartan will be dependent on obtaining regular financings in order to continue its exploration, development and acquisition plans. Although the Company has been successful in establishing its credit facilities and accessing capital markets to date, there is no guarantee of obtaining future financing.

**Credit Risk**

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial assets include cash and cash equivalents, accounts receivable, deposits, and derivative financial instruments. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners. The 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, in general, are contractually due within 30 days, however the collection period is generally between 60 to 90 days. Amounts outstanding for more than 90 days are typically 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 as at December 31, 2020). Included in the expected credit loss provision in the quarter ended 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.

## ABBREVIATIONS

| | |
|---|---|
| A&D | Acquisitions and Dispositions |
| AECO-C | Alberta Energy Company "C" Meter Station of the NOVA Pipeline System, the Canadian benchmark price for natural gas |
| API | American Petroleum Institute gravity |
| bbl | barrel |
| bbls/d | barrels per day |
| BOE | barrels of oil equivalent |
| BOE/d | barrels of oil equivalent per day |
| CEWS | Canada Emergency Wage Subsidy |
| COVID-19 | refers to the outbreak of the novel coronavirus, a public health crisis |
| DCET | Capital expenditure incurred to drill, complete, equip and tie-in a well |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization |
| G&A | general and administrative expenses |
| G&G | geological and geophysical expenses |
| GAAP | refers to Canadian Generally Accepted Accounting Principles, which incorporate International Financial Reporting Standards ("IFRS") for public companies |
| GJ | gigajoule |
| LMR | Liability Management Rating of the Alberta Energy Regulator |

| | |
|---|---|
| mbbls | one thousand barrels |
| mBOE | one thousand barrels of oil equivalent |
| mcf or MCF | one thousand cubic feet |
| mcf/d | one thousand cubic feet per day |
| MMBtu | one million British thermal units |
| mmcf | one million cubic feet |
| mmcf/d | one million cubic feet per day |
| nm | “not meaningful”, generally with reference to a percentage change |
| NCL | non-capital losses |
| NGLs | natural gas liquids |
| NYMEX | New York Mercantile Exchange |
| Q1 2021 | First quarter of 2021 |
| Q2 2021 | Second quarter of 2021 |
| Q3 2021 | Third quarter of 2021 |
| Q3 2020 | Third quarter of 2020 |
| SRP | Site Rehabilitation Program of the Alberta government |
| TSX | Toronto Stock Exchange |
| US$ | United States dollar |
| WTI | West Texas Intermediate, price paid in US$ at Cushing, Oklahoma, for crude oil of standard grade |

## FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "budget", "plan", "endeavour", "continue", "estimate", "evaluate", "expect", "forecast", "monitor", "may", "will", "can", "able", "potential", "target", "intend", "consider", "focus", "identify", "use", "utilize", "manage", "maintain", "remain", "result", "cultivate", "could", "should", "believe" and similar expressions. The Company believes that the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Without limitation, this MD&A contains forward-looking statements pertaining to:

- the intentions of management and the Company with respect to its growth strategy and business plan;
- Spartan's intention to maintain a flexible capital structure;
- Spartan's intentions to maintain a strong balance sheet to allow the Company to take advantage of opportunities;
- the estimated amount of net debt (surplus) assumed on the Inception Acquisition, the Velvet Acquisition, and the Ferrier Acquisition;
- the estimated fair value of the assets and liabilities acquired through the acquisitions, and the resulting gain on the acquisitions;
- anticipated benefits of the acquisitions, including but not limited to: estimates of current production and weighting of crude oil, NGLs and natural gas; future growth opportunities; the expectation that the acquisitions will provide multiple years of development drilling inventory; and estimated tax pools associated with the acquisitions;
- the anticipated benefits of the Velvet Acquisition, including the impact of the Velvet Acquisition on the Company's operations, financial condition, available tax pools, access to capital and overall strategy;
- expectations with respect to production, Operating Netbacks, Operating Income, Adjusted Funds Flow, Free Funds Flow, capital expenditures and Net Debt (Surplus) relating to Velvet and Spartan following the Velvet Acquisition, as well as Net Debt assumed by the Company on the Velvet closing date;
- development and drilling plans for the Velvet assets, including timing of results therefrom;
- projections of commodity prices and costs;
- Spartan’s objective to maintain an industry leading Liability Management Rating;
- estimated future development capital expenditures required to develop total proved plus probable reserves;

- capital resources and liquidity, including Spartan’s expectations regarding sources of funding for future development capital expenditures and acquisitions;
- estimates used to calculate the lease liabilities, decommissioning obligations, depletion and impairment of PP&E, and deferred income tax assets and liabilities;
- expectations of challenging long-term market conditions and Spartan's position to withstand future commodity price volatility;
- the estimated amount of decommissioning costs expected to be recovered through funding under the Alberta government’s Site Rehabilitation Program;
- commitments and contingencies; and
- expectations for forecast commodity prices in 2021 and beyond.

With respect to the forward-looking statements contained in this MD&A, Spartan has made assumptions regarding, among other things:

- future commodity prices, price differentials and the actual prices received for the Company's products;
- delays in the optimization of operations at the Company's properties;
- operating costs and expenditures;
- future production and recovery;
- anticipated fluctuations in foreign exchange rates;
- deterioration in general economic conditions, including from the actions of oil and gas producing countries and the continuing impact of COVID-19;
- expected net production transportation expenses and operating costs;
- estimated reserves of oil and natural gas;
- the ability to obtain equipment and services in the field in a timely and efficient manner;
- the ability to add production and reserves through acquisition and/or drilling at competitive prices;
- the ability to explore diversified gas markets;
- the timing of anticipated future production additions from the Company's properties and acquisitions;
- the continued availability of capital and skilled personnel;
- the ability to obtain financing on acceptable terms;
- the impact of increasing competition;
- the ability of the Company to secure adequate product transportation; and
- the continuation of the current tax, royalty and regulatory regime.

Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking statements due to a number of factors and risks. These include:

- failure to realize the anticipated benefits of the acquisitions completed during the first nine months of 2021;
- synergies of the acquisitions may be delayed or realized in a lesser amount than initially expected;
- unforeseen difficulties integrating the assets to be acquired pursuant to acquisitions into Spartan's operations;
- adverse effects on general economic conditions in Canada, the United States and globally, including due to the COVID-19 pandemic;
- the material uncertainties and risks described under the heading "Risks and Uncertainties" in this MD&A and in the Company’s most recent Annual Information Form dated March 31, 2021;
- the risks associated with the oil and gas industry in general, such as operational risks in development, exploration and production;
- delays or changes in plans with respect to exploration or development projects or capital expenditures;
- incorrect assessments of the value of benefits to be obtained from acquisitions and exploration and development programs
- volatility in market prices for oil and natural gas;
- uncertainties associated with estimating oil and natural gas reserves and the ability of the Company to realize value from its properties;
- geological, technical, drilling and processing problems;
- facility and pipeline capacity constraints and access to processing facilities and to markets for production;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- fluctuations in the costs of borrowing;

- marketing and transportation;
- prevailing weather and break-up conditions;
- environmental risks;
- adverse effects on general economic conditions in Canada, the United States and globally, including due to the COVID-19 pandemic and related variants;
- competition for, among other things, capital, acquisition of reserves, undeveloped lands and skilled personnel;
- net production and transportation costs and future development costs;
- the ability to access sufficient capital from internal and external sources;
- ability to obtain regulatory approvals;
- changes in tax, royalty and environmental legislation; and
- litigation or regulatory proceedings that may be brought against the Company.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, increased supply resulting from evolving exploitation methods, the attitude of lenders and investors towards corporations in the energy industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Also to be considered are increased levels of political uncertainty and possible changes to existing international trading agreements and relationships. Legal challenges to asset ownership, limitations to rights of access and adequacy of pipelines or alternative methods of getting production to market may also have a significant effect on the Company's business. Additional information on these and other factors that could affect the business, operations or financial results of Spartan are included in reports on file with applicable securities regulatory authorities, including (but not limited to) the AIF, which may be accessed on Spartan's SEDAR profile at www.sedar.com or on the Company's website at www.spartandeltacorp.com.

The forward-looking statements and FOFI contained in this MD&A are made as of the date hereof and Spartan undertakes no obligation to update publicly or revise any forward-looking statements, forward-looking information or FOFI whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements and FOFI contained herein are expressly qualified by this cautionary statement.