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

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED

DECEMBER 31, 2020 AND 2019

Independent auditor's report

To the Shareholders of Spartan Delta Corp.

Our opinion

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

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

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

Basis for opinion

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

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

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

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Comparative information

The financial statements of the Company for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on April 6, 2020.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 11, 2021

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CA$ thousands)	[Notes]	**December 31, 2020**	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**2,686**	24,653
Accounts receivable	[4]	**20,475**	229
Prepaid expenses and deposits		**1,529**	48
Total current assets		**24,690**	24,930
Exploration and evaluation assets	[6]	**2,538**	349
Property, plant and equipment	[7]	**256,939**	8,966
Right-of-use assets	[8]	**47,263**	-
Total assets		**331,430**	34,245
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[4]	**34,149**	940
Derivative financial instruments	[4]	**2,063**	-
Lease liabilities	[8]	**6,853**	-
Decommissioning obligations	[9]	**2,833**	452
Total current liabilities		**45,898**	1,392
Bank debt	[10]	**-**	-
Derivative financial instruments	[4]	**1,074**	-
Lease liabilities	[8]	**42,913**	-
Decommissioning obligations	[9]	**95,254**	7,213
Deferred income tax liability	[12]	**8,751**	-
Total liabilities		**193,890**	8,605
SHAREHOLDERS' EQUITY			
Share capital	[11]	**108,481**	45,748
Warrants	[11]	**9,891**	9,965
Contributed surplus		**9,996**	8,418
Retained earnings (deficit)		**9,172**	(38,491)
Total shareholders' equity		**137,540**	25,640
Total liabilities and shareholders' equity		**331,430**	34,245
Commitments and contingencies	[17]		
Subsequent events	[19]		

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

Approved on behalf of the Board of Directors:

[signed] "Richard McHardy"
Richard McHardy, Director

[signed] "Donald Archibald"
Donald Archibald, Director

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

(CA$ thousands, except per share amounts)	[Note]	Year ended December 31 **2020**	2019
Revenue			
Oil and gas sales	[13]	**96,324**	1,491
Royalties		**(8,874)**	22
Oil and gas sales, net of royalties		**87,450**	1,513
Processing and other		**3,389**	136
		90,839	1,649
Loss on derivative financial instruments	[4]	**(4,095)**	-
Expenses			
Operating		**34,476**	2,016
Transportation		**7,665**	-
General and administrative		**9,235**	1,405
Share based compensation	[11]	**1,578**	(151)
Financing	[14]	**3,624**	113
Depletion, depreciation and impairment	[7,8]	**27,136**	2,292
		83,714	5,675
Other income (expenses)			
Gain on sale of assets	[7]	**244**	28
Gain on acquisition	[5]	**52,952**	-
Discount rate adjustment on decommissioning obligations acquired	[9]	**(13,106)**	-
Transaction costs	[5]	**(2,285)**	-
Other income	[9]	**203**	
Gain on extinguishment of preferred shares	[11]	**-**	2,000
Net income (loss) before income taxes		**41,038**	(1,998)
Income tax recovery	[12]	**(6,625)**	-
Net income (loss) and comprehensive income (loss)		**47,663**	(1,998)
Net income (loss) per share			
Basic	[11]	**1.06**	(1.00)
Diluted	[11]	**0.86**	(1.00)

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

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

(CA$ thousands)	[Note]	Share capital	Warrants	Contributed surplus	Retained earnings (deficit)	Total
Balance at December 31, 2019		45,748	9,965	8,418	(38,491)	25,640
Net income and comprehensive income		-	-	-	47,663	47,663
Common shares issued, net of costs:						
Private placements	[11]	64,000	-	-	-	64,000
Issue costs, net of deferred tax	[11]	(1,461)	-	-	-	(1,461)
Warrants exercised	[11]	194	(74)	-	-	120
Share based compensation expense		-	-	1,578	-	1,578
Balance at December 31, 2020		**108,481**	**9,891**	**9,996**	**9,172**	**137,540**
Balance at December 31, 2018		30,968	2,200	6,369	(36,493)	3,044
Net loss and comprehensive loss		-	-	-	(1,998)	(1,998)
Common shares issued, net of costs:						
Recapitalization Transaction	[11]	25,000	-	-	-	25,000
Allocation to warrants	[11]	(9,965)	9,965	-	-	-
Issue costs	[11]	(255)	-	-	-	(255)
Warrants surrendered and cancelled	[11]	-	(2,200)	2,200	-	-
Share based compensation recovery		-	-	(151)	-	(151)
Balance at December 31, 2019		45,748	9,965	8,418	(38,491)	25,640

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

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW

(CA$ thousands)	[Note]	Year ended December 31 **2020**	 2019
Operating activities			
Net income (loss)		**47,663**	(1,998)
Items not affecting cash:			
Unrealized loss on derivative financial instruments	[4]	**3,137**	-
Share based compensation		**1,578**	(151)
Financing	[14]	**2,427**	113
Depletion, depreciation and impairment		**27,136**	2,292
Gain on acquisition		**(52,952)**	-
Gain on sale of assets		**(244)**	(28)
Other income		**(203)**	-
Gain on extinguishment of preferred shares		**-**	(2,000)
Discount rate adjustment on decommissioning obligations acquired		**13,106**	-
Deferred income tax recovery	[12]	**(6,625)**	-
Settlement of decommissioning obligations	[9]	**(1,429)**	(129)
Change in non-cash working capital	[15]	**(1,385)**	603
Cash provided by (used in) operating activities		**32,209**	(1,298)
Financing activities			
Advances of bank debt	[10]	**20,000**	-
Repayments of bank debt	[10]	**(20,000)**	-
Issue of common shares, net of costs	[11]	**62,098**	24,745
Proceeds on exercise of warrants	[11]	**120**	-
Lease payments	[8]	**(3,392)**	-
Change in non-cash working capital	[15]	**98**	-
Cash provided by financing activities		**58,924**	24,745
Investing activities			
Exploration and evaluation assets	[6]	**(1,302)**	-
Property, plant and equipment	[7]	**(15,518)**	(34)
Property acquisitions	[5]	**(109,213)**	-
Property dispositions	[7]	**164**	265
Change in non-cash working capital	[15]	**12,769**	-
Cash (used in) provided by investing activities		**(113,100)**	231
Net change in cash and cash equivalents		**(21,967)**	23,678
Cash and cash equivalents, beginning of year		**24,653**	975
Cash and cash equivalents, end of year		**2,686**	24,653

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

1. GENERAL INFORMATION

Spartan Delta Corp. (formerly Return Energy Inc., “Spartan” or the “Company”) was incorporated under the *Business Corporations Act* (Alberta) on March 20, 2006. The Company was recapitalized on December 19, 2019 upon completion of a non-brokered private placement for gross proceeds of $25.0 million and the appointment of a new management team and new board of directors (the “Recapitalization Transaction”) (note 11). The Company’s shareholders approved the name change from “Return Energy Inc.” to "Spartan Delta Corp." which was completed on June 1, 2020.

The Company is engaged in exploration, development and production of petroleum and natural gas properties in western Canada. During the year ended December 31, 2020, Spartan’s oil and gas operations were conducted through its wholly owned subsidiary Winslow Resources Inc. (“Winslow”). Effective January 1, 2021, Spartan and Winslow were amalgamated to form a single corporate entity under the name of Spartan Delta Corp. As of the date hereof, the Company does not have any subsidiaries.

On June 1, 2020, Spartan closed a transformational transaction whereby the Company acquired substantially all of the assets of Bellatrix Exploration Ltd. for total consideration of $108.8 million (the “BXE Asset Acquisition”) (note 5). In connection with the BXE Asset Acquisition, the Company raised gross proceeds of $64.0 million through non-brokered equity private placements (note 11) and established a $100.0 million revolving credit facility with a syndicate of financial institutions (note 10). As at December 31, 2020, the Company’s core land holdings are concentrated in the Deep Basin of west central Alberta, principally focused on development of liquids-rich natural gas and light oil prospects in the Spirit River and Cardium formations. The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the year ended December 31, 2020 includes the results of operations related to the acquired assets for the 214 day period from closing the acquisition on June 1, 2020.

Subsequent to December 31, 2020, Spartan has announced a series of strategic acquisitions which are expected to further transform the Company in 2021. The acquisitions will add a new Montney oil focused core area in northwest Alberta and compliment the Company’s existing core land holdings in west central Alberta. Concurrent with the acquisitions, Spartan will also complete equity financings for aggregate gross proceeds of $124.0 million, comprised of $79.0 million of non-brokered private placements and a $45.0 million bought deal prospectus offering. Refer to note 19 “Subsequent Events” for additional information.

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

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated annual financial statements (the “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Company’s Board of Directors approved these Financial Statements on March 11, 2021.

b) Basis of measurement

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

The Financial Statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value as detailed in the accounting policies disclosed in note 3 “Significant Accounting Policies”.

c) Significant estimates and judgements

The timely preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgements, estimates and assumptions made by management in these Financial Statements are discussed below.

i. Impact of COVID-19

The outbreak of the novel coronavirus ("COVID-19") was declared a pandemic by the World Health Organization on March 11, 2020. Global financial markets experienced significant volatility and weakness as a consequence of the pandemic and governments worldwide enacted emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, temporary business closures, self-imposed quarantine periods, social distancing and restrictions on public gatherings, have caused material disruption to businesses globally resulting in an economic slowdown. Crude oil prices declined dramatically in 2020 due to the actual and anticipated impacts of COVID-19 on global commerce and energy demand, as well as disagreements between major oil producing nations of Saudi Arabia and Russia with respect to production quotas. Second and third waves of the outbreak are underway in several countries including Canada and new restrictions are being imposed as COVID-19 case counts rise. The duration and full extent of the impact of COVID-19 is uncertain as information surrounding the pandemic continues to evolve. New variants of the virus have emerged overseas and recently into Canada adding to this uncertainty.

The decrease in oil prices adversely affected the Company's realized selling prices for crude oil and natural gas liquids. The impact on revenue and cash flow was most pervasive in the months of March, April and May 2020. In addition, the decrease in forecast commodity prices resulted in an impairment loss of $3.0 million on PP&E as at March 31, 2020 (note 7). COVID-19 has also indirectly impacted the risk-free rate used to determine the present value of decommissioning obligations (note 9) and the Company's provision of expected credit losses (note 4).

The challenging business environment presented by COVID-19 and the rapid decline of global oil prices has also created certain opportunities for well capitalized companies, such as Spartan, to acquire assets at historically low valuations. This opportunity is highlighted by the BXE Asset Acquisition completed by Spartan on June 1, 2020, which resulted in a gain on acquisition of $53.0 million based on the difference between the total consideration of $108.8 million compared to the estimated fair value of the net assets acquired (note 5).

The Canadian federal and provincial governments have implemented various measures to assist individuals and businesses through the COVID-19 pandemic. During 2020, Spartan received government assistance under the Canada Emergency Wage Subsidy ("CEWS") program and under the Alberta Site Rehabilitation Program ("SRP").

- The Company collected a subsidy of approximately $1.0 million under the CEWS, of which, $0.7 million related to head office employees is presented as a recovery of general and administrative expenses and $0.3 million related to field employees is presented as a recovery of operating expenses.
- Spartan earned $0.2 million of SRP funding during 2020 and has received approval for an additional $0.6 million of funding for projects abandonment and reclamation projects budgeted to be completed in 2021. Recoveries under the SRP are recognized in the financial statements as "other income" in the period work is completed (note 9).

ii. Business Combinations

The assumptions used by management to estimate the fair value of the assets acquired and liabilities assumed pursuant to the BXE Asset Acquisition had a material impact on the resulting gain recognized on the acquisition. Details regarding the specific judgements and estimates applied for the BXE Asset Acquisition are provided in note 5 of these Financial Statements and are described more generally below.

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

iii. Petroleum and natural gas reserves

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

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

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

Spartan’s reserves have been evaluated by independent qualified reserves evaluators.as at December 31, 2020 and December 31, 2019 in accordance with the Canadian Oil and Gas Evaluation Handbook (“COGEH”).

iv. Depletion of petroleum and natural gas assets

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

v. Exploration and evaluation assets (“E&E”)

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

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

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

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

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

Following the BXE Asset Acquisition, the Company reviewed and realigned its CGUs taking into consideration the factors outlined above. As at December 31, 2020, Spartan has two core CGUs, namely: "Central Alberta" and "Peace River Arch" (formerly "Rycroft-Valhalla"), which represent approximately 97% and 2% of the carrying value of PP&E, respectively. The Central Alberta CGU includes Spartan's core properties which are comprised primarily of liquids-rich natural gas assets, located in a geographically concentrated area with shared infrastructure. In addition, the Company has two non-core CGUs, namely: "North Minors" and "South Minors" which primarily include interests in inactive properties and collectively represent less than 1% of the carrying value of PP&E.

vii. Recoverability of asset carrying values

Management applies judgement in assessing indicators of impairment and reversal of impairment based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as its fair value less costs of disposal. The key estimates in management's determination of recoverable amounts includes future commodity prices, expected production volumes, quantity of reserves and resources, future development and operating costs, discount rates, and income taxes. As at March 31, 2020, the Company recognized a $3.0 million impairment of PP&E due to a material decrease in forecast commodity prices and the COVID-19 pandemic. Details of the specific estimates and assumptions applied in the impairment analysis are provided in note 7.

viii. Decommissioning obligations

Spartan estimates abandonment and reclamation costs based on a combination of publicly available industry information and internal site-specific information. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, market conditions, discovery and analysis of site conditions and emergence of new restoration techniques. The expected timing of abandonment and reclamation is also subject to change and the impacts inflated future cost estimates and the estimated carrying amount (present value) of decommissioning obligations. Spartan completed a fulsome review of its decommissioning cost estimates by area and the estimated period over which decommissioning is expected to be completed. Based on this review, the carrying amount of decommissioning obligations decreased as at December 31, 2020, primarily as a result of inflating cost estimates over a shorter period as the average restoration period decreased compared to previous estimates. Details of the foregoing and a discussion of other key assumptions are provided in note 9.

ix. Fair value of financial instruments

The estimated fair value of derivative financial instruments is reliant upon several variables and may include forward curves for commodity prices, foreign exchange rates, or other variables depending on the nature of the underlying contract. A change in any one of these variables could materially impact the valuation of the instrument on the balance sheet date. Furthermore, as these instruments are "marked-to-market" at the end of each reporting period, unrealized gain or losses can result in volatility of net income or loss. A sensitivity of the potential change in fair value of Spartan's outstanding derivative financial instruments as at December 31, 2020 is provided in note 4.

x. Valuation of warrants

The fair value of warrants is estimated using the Black-Scholes option pricing model. The model requires that management make assumptions for the following: the expected life or period in which the warrants will be held prior to exercise; the anticipated volatility of the share price over the expected life; the risk-free interest rate for the life of the warrant; and the number of warrants that will ultimately vest. The fair value allocated to warrants is highly sensitive to these assumptions. Refer to note 11 for details of the specific assumptions applied during the year ended December 31, 2019 as well as a sensitivity on the output.

xi. *Leases*

Management applies judgement in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgement and estimation in various areas specific to the arrangement, including lease term and discount rate. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Where the rate implicit in a lease is not readily determinable, the discount rate of the lease obligations is estimated using a discount rate similar to Spartan's company-specific incremental borrowing rate. This rate represents the rate that Spartan would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment. Refer to note 8 for additional information.

xii. Deferred income taxes

Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. Consequently, deferred income taxes are subject to measurement uncertainty. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Deferred tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and deductible temporary differences can be utilized. At December 31, 2019, the Company had an unrecognized deferred tax asset of $4.2 million. Following completion of the BXE Asset Acquisition, the Company expects to have sufficient taxable profits in the future to utilize its non-capital losses. Recognition of the previously unrecognized deferred income tax asset resulted in an increase in the deferred income tax recovery of $4.2 million for the year ended December 31, 2020.

On June 28, 2019, the Alberta government enacted legislation which reduced the Alberta corporate income tax rate from 12%, incrementally down to 8% by January 1, 2022. Subsequently on October 20, 2020, legislation enacted under Alberta's Recovery Plan accelerated the reduction in the general corporate rate from 10% to 8% effective July 1, 2020. While assumptions regarding the expected amount and timing of when temporary differences will reverse impacts the measurement of deferred tax assets and liabilities, the decrease in provincial tax rate did not materially change the Company's deferred income tax liability during the current or prior year.

A detailed analysis of the provision for deferred income taxes in provided in note 12 of these Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

The consolidated financial statements include the accounts of Spartan and its subsidiaries, if any. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As at December 31, 2020, Spartan had one wholly-owned subsidiary, Winslow. The financial statements of subsidiaries are prepared for the same reporting period as Spartan, using uniform accounting policies. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances, revenues and expenses are eliminated on consolidation.

b) Cash and cash equivalents

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

c) Financial instruments

Classification and measurement of financial assets and financial liabilities

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

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

Amortized Cost

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

FVTPL

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

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

The fair value hierarchy has the following levels:

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

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

Impairment of financial assets

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

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

d) Exploration and Evaluation Assets ("E&E") and Property, Plant and Equipment ("PP&E")

Exploration and evaluation expenditures

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

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

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

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

Petroleum and Natural Gas ("PNG") Assets

All costs directly associated with the development of petroleum and natural gas reserves are capitalized on a CGU basis. Development costs include expenditures for CGUs where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of E&E assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as oil and natural gas interests only when they increase the future economic benefits of the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of net loss and comprehensive loss as incurred.

Gains and losses on disposal of an item of PP&E, including oil and natural gas assets, are determined by comparing the proceeds from disposal with the carrying amount of the PP&E and are recognized net within “other income (loss)” in the consolidated statement of net loss and comprehensive loss.

Depletion of PNG assets

PNG assets are depleted using a unit-of-production method based on:

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

PP&E other than PNG assets

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

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

Impairment

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

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

e) Joint operations

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

f) Leases

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

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

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

g) Decommissioning obligations

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

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

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

h) Revenue recognition

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

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

i) Transportation

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

j) Government grants

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

k) Business combinations

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

IFRS 3 has been amended to update the definition of a business. The narrow-scope amendments help entities determine whether an acquired set of activities and assets is a business or not. Entities are required to apply the amendments to business combinations for which the acquisition date is on or after January 1, 2020.

The amendments clarify the minimum requirements to be a business, narrow the definition of outputs, and remove the assessment of a market participant's ability to replace missing elements. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. To be a business without outputs, there will now need to be an organized workforce. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments also introduce an optional concentration test to permit a simplified assessment. An entity can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis.

The adoption of the amendments to IFRS 3 did not impact the Financial Statements, however the guidance is incorporated into the Company's assessment of business combinations that occur on or after January 1, 2020, including the BXE Asset Acquisition (note 5).

l) Taxation

Provision for (recovery of) income tax comprise current and deferred income taxes and is recognized in the statements of income, except to the extent that it relates to a business combination or items recognized in equity.

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

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

m) Share based compensation

The Company's share based compensation plan has previously allowed for the granting of equity-settled awards in connection with the Company's stock option plan. On August 19, 2020, the Board of Directors approved the implementation of a share award incentive plan, pursuant to which, the Company may grant restricted share awards ("RSA") and performance share awards ("PSA") to directors, officers, employees and consultants of the Company. Details regarding the plan are provided in note 11(e). The newly approved plan allows the holder of an RSA or PSA to receive a cash payment or its equivalent in fully-paid common shares, at the Company's discretion, equal to the fair market value of the Company's common shares calculated at the date of such payment. Spartan does not intend to make cash payments under the plan and, as such, the RSAs and PSAs will be accounted for within shareholders' equity as equity-settled awards.

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

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

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

n) Flow-through shares

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

o) Net income (loss) per share

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

p) Future Accounting Changes

The IASB has issued a number of new accounting standards, amendments to accounting standards, and interpretations that are effective for annual periods beginning on or after January 1, 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.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2020, financial instruments of the Company include cash and cash equivalents, accounts receivable, deposits, derivative financial instruments, accounts payable and accrued liabilities and bank debt. The fair values of these financial assets and liabilities approximate their carrying value due to the short term to maturity of those instruments. In addition, the fair value of bank debt approximates its carrying value given it bears a floating rate of interest. The methodology used to determine the fair value for the Company's derivative financial instruments is described further in this note.

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

Risk Management Overview

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

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

On the initial implementation the Company's Credit Facility (note 10) on June 1, 2020, Spartan was required to have commodity swap contracts in place for natural gas prices. Specifically, the Company was required to hedge a minimum of 60% of forecast natural gas production volumes for the period from June 1, 2020 to March 31, 2021, and a minimum of 40% of forecast natural gas production volumes for the period from April 1, 2021 to March 31, 2022. Spartan is in compliance with this requirement and a summary of the derivative financial contracts in place as of December 31, 2020 is provided under the heading "Commodity Price Risk" below. The minimum hedging requirements were a one-time obligation and Spartan is no longer required to hedge under the Credit Facility.

a) Market Risks

Further to the discussion in note 2, the COVID-19 pandemic has resulted in significant economic uncertainty. Global financial markets, and commodity prices in particular, have consequently experienced significant weakness and volatility. Notwithstanding current uncertainties, Spartan remains committed to responding to market fundamentals and is carefully monitoring emerging developments. The Company is well positioned to confront these challenges and to take advantage of the opportunities presented by the current business environment.

Commodity price risk

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

Spartan has natural gas price risk management contracts in place to protect cash flows and project economics. During 2020, more than two-thirds of the Company's production was natural gas. The following financial derivative contracts were outstanding as at December 31, 2020:

Contract Type	Remaining Term	Notional Volume (GJ/d)	Fixed Price (CA$/GJ)	Reference Price	Fair value Asset (Liability)
Natural gas fixed	Jan 1, 2021 to Mar 31, 2021	60,000	2.23	AECO 7A	(1,142)
Natural gas fixed	Apr 1, 2021 to Oct 31, 2021	10,000	2.14	AECO 7A	(240)
Natural gas fixed	Apr 1, 2021 to Mar 31, 2022	35,000	2.25	AECO 7A	(1,755)
Derivative instrument financial liability					**(3,137)**

The fair values of these contracts are highly sensitive to changes in the natural gas reference prices. Holding other assumptions constant, if the AECO 7A price increased (decreased) by $0.10 per gigajoule, the fair market value of the net derivative financial instrument liability would increase (decrease) by approximately $2.0 million.

In March 2020, the Company entered into a forward physical commodity sales contract to fix the price of 750 gigajoules per day of natural gas production at $1.54 per gigajoule from April 1 to October 31, 2020. Physical sales contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the consolidated statement of financial position. Settlements on this contract are recognized in oil and gas sales each month as incurred.

Foreign exchange risk

Spartan is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given the Company's realized pricing in Canadian dollars is directly influenced by U.S. dollar denominated benchmark pricing. As at December 31, 2020, there were no foreign exchange risk management contracts outstanding.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its Credit Facility which bears a floating rate of interest. Under the Credit Facility (note 10), interest rates fluctuate based on the Canadian prime rate plus an applicable margin. Based on average bank debt outstanding of $9.0 million during the year ended December 31, 2020, an increase (decrease) in the market rate of interest by 50 basis points would increase (decrease) interest expense by approximately $0.1 million. As at December 31, 2020, there are no interest rate risk management contracts outstanding.

b) Liquidity Risks

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they become due. The Company's financial liabilities as at December 31, 2020 include accounts payable, derivative financial instrument liabilities, and bank debt. In addition, the Company has financial commitments in respect of lease liabilities (note 8) and expects to settle certain decommissioning obligations within the next twelve months (note 9).

The following table outlines a contractual maturity analysis for the Company's financial liabilities and undiscounted lease liabilities as at December 31, 2020:

(CA$ thousands)	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	34,149	-	-	34,149
Derivative financial instrument liability	2,063	1,074	-	3,137
Standby fees on Credit Facility (1)	875	365	-	1,240
Undiscounted lease liabilities (note 8)	9,569	45,559	4,964	60,092
Total	46,656	46,998	4,964	98,618

(1) As at December 31, 2020, the Company has no bank debt outstanding on its Credit Facility with an authorized borrowing amount of $100.0 million. Standby fees were estimated at 0.875% of the undrawn borrowing base for the period from January 1, 2021 to the term maturity date of May 31, 2022.

The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, to the extent possible, that it will have sufficient liquidity to meet its obligations. During the fourth quarter of 2020, Spartan repaid outstanding bank borrowings in full and its $100.0 million Credit Facility is undrawn as at December 31, 2020 (note 10). The Company has sufficient liquidity to meet its financial obligations and to take advantage of future opportunities as they arise.

c) Credit Risk

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

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

(CA$ thousands)	**December 31, 2020**	December 31, 2019
Oil and gas marketers	**15,986**	133
Joint venture partners	**4,100**	86
GST input tax credits	**389**	10
Accounts receivable	**20,475**	229

During the year ended December 31, 2020, sales to three oil and gas marketers each individually represented more than 10% of revenue. Sales to these marketers account for approximately 43%, 32% and 22% of total oil and gas sales revenue (before royalties), respectively. Spartan's oil and gas marketers are large, credit-worthy institutions.

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

(CA$ thousands)	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at December 31, 2020	**17,345**	**1,299**	**1,216**	**615**	**20,475**
Balance at December 31, 2019	171	13	-	45	229

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas; this occurs on the 25th day following the month of sale. As a result, the Company's production revenues are current. All other accounts receivable are generally contractually due within 30 days, however the collection period is typically between 60 to 90 days. Amounts outstanding for more than 90 days are generally considered "past due" and relate primarily to receivables from the Company's joint venture partners. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. Due to the current business environment and low commodity prices, many oil and gas companies, including some of Spartan's partners, are facing significant financial challenges. Management has reviewed past due accounts receivable balances as at December 31, 2020 and expects the accounts to be collectible, except for approximately $0.2 million of accounts receivable which are provided for in the expected credit loss provision ($32 thousand at December 31, 2019).

Gains and losses on derivative financial instruments

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

	Year ended December 31	
(*CA$ thousands)*	**2020**	2019
Realized loss	**(958)**	-
Change in unrealized loss	**(3,137)**	-
Loss on derivative financial instruments	**(4,095)**	-

Fair value measurements

The table below summarizes fair value measurements for each hierarchy level as at December 31, 2020:

(CA$ thousands)	Level 1	Level 2	Level 3
Financial liabilities			
Derivative financial instruments	**-**	**3,137**	**-**

Offsetting of financial instruments

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

5. PROPERTY ACQUISITIONS

BXE Asset Acquisition

On April 22, 2020, the Company entered into an asset purchase agreement (the "APA") with Bellatrix Exploration Ltd. ("Bellatrix" or "BXE") to acquire substantially all of Bellatrix's assets (the "BXE Assets") for a purchase price of $87.4 million plus the assumption of certain liabilities (the "BXE Asset Acquisition"). The acquisition was completed on June 1, 2020 (the "Closing Date") for total consideration of $108.8 million, comprised of $87.5 million of cash and assumed liabilities estimated to be $21.3 million. Approximately $18.4 million of the liabilities were settled by payment to various third parties on and after the Closing Date. The remaining $2.9 million of accrued liabilities outstanding as of December 31, 2020 are expected to be settled over the next 12 months.

The BXE Assets, which are primarily located in the Deep Basin of west-central Alberta, are comprised of interests in producing petroleum and natural gas properties alongside an extensive land base, as well as working interest ownership in strategic infrastructure. The Company also assumed certain financial commitments from Bellatrix in respect of compression and facility leases (details of the foregoing are provided in note 8).

In connection with the BXE Asset Acquisition, the Company raised gross proceeds of $64.0 million pursuant to the Private Placements (hereinafter defined and further described in note 11). The remaining purchase price was funded by a combination of cash on hand and bank borrowings under Spartan's new Credit Facility. The Credit Facility, which has an authorized borrowing amount of up to $100.0 million, was established concurrently with closing of the BXE Asset Acquisition (additional information regarding the Credit Facility is provided in note 10).

Spartan assessed the property acquisition and determined it to constitute a business combination in accordance with IFRS 3. The table below summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed on the Closing Date, as well as the resulting gain on acquisition:

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

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

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

The fair value of PP&E acquired was estimated based on FVLCD methodology, calculated using the present value of the expected future cash flows discounted at 25% after-tax. The projected cash flows used in the FVLCD calculation were derived from a report on Bellatrix's oil and gas reserves which was prepared by an independent qualified reserve evaluator as of December 31, 2019. The cash flow estimates derived from the 2019 reserve report were internally updated by Spartan to reflect the following changes to key assumptions as of the June 1, 2020 Closing Date of the acquisition:

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

- the impact of changes in marketing and transportation contracts on realized pricing relative to benchmark prices, as well as the impact of disclaimed contracts on forecasted operating and transportation costs.

The fair value of PP&E, deferred income tax liability and resulting gain on acquisition are sensitive to the discount rate used in the FVLCD calculation. The discount rate used of 25% after-tax is significantly higher than rates typically used to determine the fair value of PP&E acquired in a business combination, however the Company believes the high discount rate is appropriate in this circumstance, given the material uncertainties facing the oil and gas industry and global markets at the time of the acquisition. The table below summarizes the fair value of PP&E calculated at various after-tax discount rates (holding all other assumptions constant), and the resulting impact on the deferred tax liability and gain on acquisition:

(CA$ millions)	**15%**	**20%**	**25%**	**30%**
Property, plant and equipment	307.0	245.4	**203.8**	174.1
Deferred income tax liability	39.5	25.4	**15.8**	9.0
Gain on acquisition	132.4	85.0	**53.0**	30.0

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the year ended December 31, 2020 includes the results of operations for the BXE Assets acquired starting from the Closing Date. Specifically, Spartan's net income for the year ended December 31, 2020, includes $89.3 million of revenue (after royalties) and $48.8 million of operating income generated from the BXE Assets for the 214 day period from June 1 to December 31, 2020. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2020, pro-forma revenue and operating income is estimated to be approximately $153.1 million and $83.7 million, respectively, for the year ended December 31, 2020. Given this estimate is based on an extrapolation of June to December results, this pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

Other property acquisitions

On December 1, 2020, Spartan closed an acquisition of producing assets located in its core area at Baptiste, Alberta, for cash consideration of $0.4 million after estimated closing adjustments. The table below summarizes the allocation of the purchase price to the fair value of the identifiable assets acquired and liabilities assumed:

(CA$ thousands)	
Cash consideration, after estimated closing adjustments	431
Fair value of net assets acquired:	
Property, plant and equipment	449
Decommissioning obligations	(18)
Fair value of net assets acquired	**431**

Refer to note 19 for details regarding acquisitions completed subsequent to December 31, 2020.

6. EXPLORATION AND EVALUATION ASSETS

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

(CA$ thousands)	**December 31, 2020**	December 31, 2019
Balance, beginning of year	**349**	353
Additions	**1,302**	-
Property acquisitions (note 5)	**895**	-
Transfers to property, plant and equipment	**-**	(4)
Expired mineral leases (1)	**(8)**	-
Balance, end of year	**2,538**	349

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

7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of development and production assets ("D&P") and corporate assets. D&P assets include the Company's interests in developed petroleum and natural gas properties, as well as interests in facilities and pipelines. The following tables reconcile the movements in the cost and accumulated depletion, depreciation and impairment ("DD&I") during the periods:

Property, plant and equipment, at cost	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2018	13,510	19	13,529
Additions	5	29	34
Dispositions	(524)	-	(524)
Transfers from E&E	4	-	4
Decommissioning costs	1,036	-	1,036
Balance at December 31, 2019	14,031	48	14,079
Additions	15,184	334	15,518
Property acquisitions (note 5)	204,119	175	204,294
Decommissioning discount rate adjustment (note 9)	57,303	-	57,303
Dispositions	-	(59)	(59)
Decommissioning costs	(6,130)	-	(6,130)
Balance at December 31, 2020	**284,507**	**498**	**285,005**

Accumulated DD&I	**D&P**	**Corporate**	**Total PP&E**
Balance at December 31, 2018	2,899	12	2,911
Depletion and depreciation	1,432	11	1,443
Dispositions	(90)	-	(90)
Impairment	849	-	849
Balance at December 31, 2019	5,090	23	5,113
Depletion and depreciation	19,876	79	19,955
Impairment	2,998	-	2,998
Balance at December 31, 2020	**27,964**	**102**	**28,066**

Net carrying value	**D&P**	**Corporate**	**Total PP&E**
Balance at December 31, 2019	8,941	25	8,966
Balance at December 31, 2020	**256,543**	**396**	**256,939**

FDC expenditures required to develop total proved plus probable reserves in the amount of $417.3 million are included in the depletion calculation for D&P assets for the year ended December 31, 2020 ($31.8 million at December 31, 2019). The increase in estimated FDC costs of $385.5 million reflects the BXE Asset Acquisition and the Company's reserves evaluation as at December 31, 2020.

Impairment of PP&E

The Company has assessed each of its CGUs for indicators of potential impairment as at December 31, 2020 and concluded there are no indicators of impairment (or reversals of previously recognized impairments). Approximately 98% of the total carrying value of PP&E as at December 31, 2020 was included in the BXE Asset Acquisition. The PP&E acquired was measured at fair value on the Closing Date and reflected the challenges of the current business environment and weak forecast commodity prices at the time of the acquisition.

The disclosure below outlines details of the estimates and assumptions applied in the impairment analysis completed as of March 31, 2020, which resulted in the recognition of an impairment loss of $3.0 million during the first quarter of 2020.

At March 31, 2020, an indication of potential impairment was identified as a result of the significant decrease in forecast commodity prices compared to forecast prices as at December 31, 2019. In particular, the price forecast for Canadian Light Sweet crude oil fell by 67% for the remainder of 2020, by 45% in 2021, and by 25% in years 2022 and thereafter. The AECO-C Spot natural gas price decreased by 30% for the remainder of 2020, by 10% in 2021, and by 16% in years 2022 and thereafter.

The recoverable amount of the Peace River Arch CGU was estimated as at March 31, 2020 based on FVLCD methodology, calculated using the present value of the CGUs' expected future cash flows discounted at 15% before-tax. The projected cash flows used in the FVLCD calculation were derived from a report on the Company's oil and gas reserves which was prepared by Sproule Associates Limited ("Sproule"), an independent qualified reserve evaluator, as of December 31, 2019 (the "2019 Sproule Report"). The projected cash flows derived from the 2019 Sproule Report have been updated internally by management to reflect the following changes to key assumptions as at March 31, 2020:

- The long-term forecast for commodity prices and foreign exchange rates was updated based on the escalated price forecast published by Sproule as at March 31, 2020 (refer to **Table 1** below).
- The reserves database was mechanically updated to a reference/discount date of April 1, 2020, such that forecast cash flows for 2020 are for the remaining nine-month period ending December 31, 2020.
- FDC expenditures of $21.8 million for the Peace River Arch CGU which were originally planned to be incurred in years 2020 and 2021 have been deferred by two years and are now expected to be incurred in years 2022 and 2023.

Based on the FVLCD calculation at March 31, 2020, the Company recorded an impairment of $3.0 million on the Peace River Arch CGU. The impairment represents the shortfall of the recoverable amount calculated based on the assumptions described above, relative to the carrying amount of the Peace River Arch CGU of $9.2 million before impairment. The recoverable amount estimated pursuant to the FVLCD calculation is sensitive to the discount rate and forecast commodity prices. Holding all other assumptions in the calculation constant:

- if the discount rate increased (decreased) by 1%, the impairment of the Peace River Arch CGU would increase (decrease) by approximately $0.3 million; and
- if the forecast combined average realized price decreased (increased) by 5%, the impairment of the Peace River Arch CGU would increase (decrease) by approximately $1.7 million.

The forecast future commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs) used in the impairment evaluations as at March 31, 2020, reflect the benchmark prices set-forth in **Table 1** below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

Table 1 – Selected Benchmark Price Forecasts

As at March 31, 2020	2020	2021	2022	2023	2024(1)
WTI Cushing Oklahoma (US$/bbl)	25.00	37.00	48.00	48.96	49.94
Canadian Light Sweet 40 API ($/bbl)	24.29	43.15	58.67	59.84	61.04
NYMEX Henry Hub (US$/MMBtu)	2.00	2.50	2.75	2.81	2.86
AECO-C Spot ($/MMBtu)	1.43	2.05	2.33	2.41	2.48
Exchange rate (CA$/US$)	1.4286	1.3699	1.3333	1.3333	1.3333

(1) Prices escalate at 2.0% thereafter

8. LEASES

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

Compressor Leases

In connection with the BXE Asset Acquisition, the Company assumed certain contracts for leased compression facilities (the "Compressor Leases"). The Compressor Leases acquired from Bellatrix were amended and restated by Spartan and the lessor effective June 1, 2020, providing for a significant reduction in lease payments over the remaining lease term ending March 31, 2027. The present value of the lease payments was determined based on an estimated incremental borrowing rate ("IBR") of 6.0%, which resulted in recognition of a lease liability and corresponding ROU asset of $43.4 million on June 1, 2020. The Compressor Leases each contain an option to purchase the facilities, which may be exercised by Spartan at any time during the lease term, upon 30 days notice. The purchase options have not been factored into the lease term or included in the present value of the lease payments on initial recognition as the Company is not reasonably certain that those rights will be exercised. These assumptions will be reassessed in future periods.

The value of the lease liability is sensitive to the IBR used in the calculation: a 100 basis point increase (decrease) in the estimated IBR would decrease (increase) the present value of the lease liability by approximately $1.4 million.

Facility Leases

The Company also assumed certain facility lease contracts (the "Facility Leases") in connection with the BXE Asset Acquisition. The Facility Leases have terms expiring between November 2030 and November 2032. The present value of the lease payments was determined based on an estimated IBR of 6.0%, which resulted in recognition of a lease liability and corresponding ROU asset of $7.3 million on June 1, 2020. A 100 basis point increase (decrease) in the estimated IBR would decrease (increase) the present value of the lease liability by approximately $0.3 million.

Office and vehicle leases

In June 2020, the Company entered into an agreement to lease its field office in Drayton Valley, Alberta, for a term of five years ending June 30, 2025. The Company also has a fleet of leased vehicles with terms of one to three years. The field office and vehicle leases, combined, resulted in the addition of a lease liability and ROU asset of $0.6 million.

In October 2020, the Company entered into a new lease for its head office in downtown Calgary, Alberta. The lease commences January 1, 2021 and has an initial term of two years, which may be extended for an additional two years thereafter. Upon initial recognition of the Head Office Lease, the present value of the lease liability is estimated to be approximately $0.2 million based on an IBR of 4%. The renewal option has not been factored into the lease term or included in the estimated present value of the lease payments on initial recognition as the Company is not reasonably certain that those rights will be exercised. These assumptions will be reassessed in future periods.

Short term leases

The Company has short term leases in place for its temporary head office and certain vehicle leases with a term less than twelve months. The total amount expensed in respect of short-term leases was less than $0.3 million during the year ended December 31, 2020.

RIGHT-OF-USE ASSETS

The following table reconciles the change in the Company's right-of-use ("ROU") assets for the period ended December 31, 2020. ROU assets are depreciated on a straight-line basis over the term of the lease.

(CA$ thousands)	**December 31, 2020**	December 31, 2019
Right-of-use asset, at cost		
Balance, beginning of year	**-**	-
Additions	**796**	-
Property acquisitions (note 5)	**50,642**	-
Balance, end of year	**51,438**	-
Accumulated depreciation		
Balance, beginning of year	**-**	-
Depreciation expense	**4,175**	-
Balance, end of year	**4,175**	**-**
Right-of-use asset, net carrying value	**47,263**	-

LEASE LIABILITIES

As at December 31, 2020, the present value of the Company's total lease liability is $49.8 million, of which approximately $6.9 million is expected to be settled in the next twelve months. A continuity of the lease obligation is provided below:

(CA$ thousands)	**December 31, 2020**	December 31, 2019
Balance, beginning of year	**-**	-
Additions	**796**	-
Property acquisitions (note 5)	**50,642**	-
Lease payments	**(3,392)**	-
Financing cost (note 14)	**1,720**	-
Balance, end of year	**49,766**	-
Expected to be settled within one year	**6,853**	-
Expected to be settled beyond one year	**42,913**	-

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

9. DECOMMISSIONING OBLIGATIONS

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

(CA$ thousands)	**December 31, 2020**	December 31, 2019
Balance, beginning of year	**7,665**	6,843
Obligations incurred	**591**	-
Obligations acquired (note 5)	**27,207**	-
Discount rate adjustment on obligations acquired	**70,409**	
Obligations disposed	**(139)**	(198)
Obligations settled	**(1,429)**	(129)
Government grant (1)	**(203)**	-
Changes in discount rate	**(2,174)**	-
Changes in estimates	**(4,547)**	1,036
Accretion (note 14)	**707**	113
Balance, end of year	**98,087**	7,665
Expected to be settled within one year	**2,833**	452
Expected to be settled beyond one year	**95,254**	7,213

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

The undiscounted amount of decommissioning obligations acquired pursuant to the BXE Asset Acquisition is estimated to be approximately $73.7 million ($143.6 million inflated at 2%). The fair value of decommissioning obligations acquired of $27.2 million was estimated by discounting the inflated cost estimates using a "credit-adjusted risk-free rate" of 6.8% on the Closing Date. The obligations acquired were immediately subsequently remeasured in accordance with the Company's accounting policy, whereby decommissioning obligations are discounted using a "risk-free rate". Remeasurement of the decommissioning obligations acquired at a risk-free rate of 1.1% on June 1, 2020, resulted in an increase in the present value of decommissioning obligations acquired by $70.3 million. Of this total, $57.2 million of decommissioning costs was added to the carrying amount of PP&E (note 7) and $13.1 million was expensed during the second quarter of 2020. The decommissioning costs expensed relate to inactive properties included in the non-core "North Minors" and "South Minors" CGUs which have no significant reserves assigned.

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2020, the total undiscounted amount of the estimated cash flows required to settle the obligation is $83.5 million ($7.4 million as of December 31, 2019), of which, Spartan expects to incur approximately $50 million over the next 20 years, $30 million in 30 to 50 years, and the residual thereafter. Based on an inflation rate of 2.0%, the estimated undiscounted future cash flows required to settle the obligation is $128.3 million at December 31, 2020 (December 31, 2019 – $9.8 million). Changes in estimates during 2020 resulted in a net decrease in the carrying amount of decommissioning obligations by $4.5 million. The decrease primarily relates to a decrease in average restoration period compared to previous estimates as a result of inflating cost estimates over a shorter period.

As at December 31, 2020, the carrying amount of the decommissioning obligations is based on a risk-free rate of 1.2% (1.8% at December 31, 2019). The decrease in risk-free interest rate compared to 2019 was driven by the Bank of Canada's response to the economic uncertainty created by the COVID-19 pandemic and weak commodity prices. The majority of the Company's decommissioning liabilities were initially recognized from the BXE Asset Acquisition in June 2020 and the subsequent increase in risk-free rate from 1.1% to 1.2% resulted in a decrease in the carrying amount of decommissioning obligations by approximately $2.2 million.

10. BANK DEBT

On June 1, 2020, the Company established a revolving committed term credit facility (the “Credit Facility”) with a syndicate of lenders comprised of National Bank of Canada, ATB Financial and Canadian Western Bank (together, the “Lenders”). The Credit Facility has an authorized borrowing amount of $100.0 million and is available for a revolving period of 364 days maturing on May 31, 2021 and may be extended annually at the Company’s option and subject to approval of the Lenders, with a 365 day term-out period if not renewed.

During the fourth quarter of 2020, Spartan fully repaid borrowings under the Credit Facility and had no bank debt outstanding at December 31, 2020. Spartan has issued $2.8 million of standby letters of credit which are undrawn.

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

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

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

There are no financial covenants under the Credit Facility and Spartan is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted dispositions (to a maximum in each calendar year which are in the aggregate not more than 5% of the borrowing base then in effect), permitted risk management activities (as more particularly described in note 4), permitted encumbrances and other standard business operating covenants. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $250.0 million and general assignment of book debts.

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

11. SHARE CAPITAL

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

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

a) Authorized

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

b) Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares or special shares outstanding as of December 31, 2020 (December 31, 2019 – nil).

	Number of common shares (000s)	Amount ($ thousands)
Balance at December 31, 2018	1,106	$ 30,968
Recap Private Placement:		
Common shares issued	25,000	25,000
Allocation to Recap Warrants	-	(9,965)
Issue costs	-	(255)
Balance at December 31, 2019	**26,106**	**$ 45,748**
Private Placements	**32,000**	**64,000**
Issue costs, net of deferred tax ($441)	**-**	**(1,461)**
Issued for cash on exercise of warrants	**120**	**120**
Transfer value attributed to warrants exercised	**-**	**74**
Balance at December 31, 2020	**58,226**	**$ 108,481**

Private Placements

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

Recapitalization Transaction

On December 19, 2019, the Company completed the Recapitalization Transaction pursuant to a definitive reorganization and investment agreement which provided for: (a) a non-brokered private placement for gross proceeds of $25.0 million (the "Recap Private Placement"); and (b) the appointment of a new management team (the "New Management Team") and new board of directors (the "New Board") of Spartan.

In respect of the Recap Private Placement, the Company issued a total of 8,796,500 common shares and 16,203,500 units (the "Recap Units") of the Company at a price of $1.00 per common share and Recap Unit, respectively, for aggregate gross proceeds of $25.0 million ($24.7 million after issue costs). The Recap Units issued under the Recap Private Placement were issued to the New Management Team, the New Board and certain additional subscribers. Each Recap Unit was comprised of one common share and one common share purchase warrant (each, a "Recap Warrant"). The terms of the Recap Warrants are further described in part c) of this note.

As part of the Recapitalization Transaction, an aggregate of: (i) 2,000,000 Preferred Shares, being all of the issued and outstanding Preferred Shares; (ii) 666,666 common share purchase warrants (the "Legacy Warrants"), being all of the issued and outstanding Legacy Warrants; and (iii) 69,250 stock options, being all of the granted and outstanding stock options, were cancelled for nominal consideration effective December 19, 2019.

c) Warrants

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

	Number of warrants (000s)	Amount ($ thousands)	Average exercise price
Balance at December 31, 2018	667	$ 2,200	$ 10.00
Recapitalization Transaction:			
Recap Warrants issued	16,204	9,965	1.00
Legacy Warrants surrendered and cancelled	(667)	(2,200)	(10.00)
Balance at December 31, 2019	**16,204**	**$ 9,965**	**$ 1.00**
Warrants exercised	**(120)**	**(74)**	**(1.00)**
Balance at December 31, 2020	**16,084**	**$ 9,891**	**$ 1.00**

The Recap Warrants issued in connection with the Recap Private Placement were allocated a value of $9,965,150 or approximately $0.61 per warrant. The fair value was estimated as of the date of issuance on December 19, 2019, using the Black-Scholes model with the following assumptions: expected life of five years; volatility of 75%; risk-free interest rate of 1.7%; a dividend yield of 0%; and a forfeiture rate of 0%.

Each Recap Warrant entitles the holder to purchase one common share at a price of $1.00 (the "Exercise Price") for a period of five years. The Recap Warrants vest and become exercisable as to one third upon the 10-day weighted average trading price of the common shares (the "Market Price") equaling or exceeding 100% of the Exercise Price, an additional one-third upon the Market Price equaling or exceeding 150% of the Exercise Price and a final one-third upon the Market Price equaling or exceeding 200% of the Exercise Price.

The Recap Warrants became fully vested in June 2020 and will provide aggregate cash proceeds of $16.2 million to the Company, if exercised by the holders. As of December 31, 2020, a total of 120,000 warrants had been exercised providing cash proceeds of $0.1 million.

d) Share based compensation

Stock Options

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

The following table summarizes the change in stock options outstanding:

	Number of options (000s)	Average exercise price
Balance at December 31, 2018	71	$ 16.00
Forfeited/cancelled (1)	(70)	(12.42)
Expired	(1)	(230.00)
Balance at December 31, 2019	-	-
Granted (2)	**3,495**	**3.00**
Forfeited	**(95)**	**(3.00)**
Balance at December 31, 2020	**3,400**	**$ 3.00**

(1) In connection with the Recapitalization Transaction, all outstanding stock options previously granted were surrendered and cancelled effective December 19, 2019.
(2) The options granted during 2020 vest 1/3 per year on the anniversary date of the grant.

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

	Year ended December 31	
	2020	2019
Risk free interest rate	**0.3%**	-
Expected life (years)	**3.5**	-
Expected volatility	**68.0%**	-
Expected dividend yield	**0.0%**	-
Expected forfeiture rate	**4.9%**	-
Average fair value of options granted during the period ($/share)	**$ 1.41**	-

(1) Spartan has estimated the expected volatility over the life of the option based on a peer group average for intermediate oil and gas companies. A peer group average was used because the Company's historical share price volatility is not expected to be representative of future volatility following completion of the BXE Asset Acquisition on June 1, 2020.

The following table summarizes information regarding stock options outstanding at December 31, 2020:

Exercise price ($/share)	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$2.92 to $3.20	**3,400**	**4.4**	**$ 3.00**	**-**	**-**

The volume weighted average trading price of the Company's common shares on the TSXV for the year ended December 31, 2020 was $2.91.

e) Share awards

On August 19, 2020, the Board of Directors approved the implementation of a share award incentive plan, pursuant to which the Company may grant restricted share awards ("RSA") and performance share awards ("PSA") to directors, officers, employees and consultants of the Company. The Share Awards, being RSAs or PSAs as applicable, granted under the share award incentive plan are intended to be settled through the issuance of common shares upon vesting.

The aggregate number of shares that may be issuable pursuant to the plan cannot exceed 2.9 million common shares. The Board shall not grant new Share Awards under the plan if the number of shares issuable pursuant to outstanding Share Awards, when combined with the number of shares issuable pursuant to outstanding stock options granted under the Company's stock option plan, would exceed 10% of the issued and outstanding common shares at the time of the grant.

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

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

As at December 31, 2020, and as of the date hereof, there are no Share Awards outstanding.

f) Per share amounts

The table below summarizes the weighted average ("WA") number of common shares outstanding (000's) used in the calculation of net income (loss) per share for the year ended December 31, 2020 and December 31, 2019:

	Year ended December 31	
(CA$ thousands, except per share amounts)	**2020**	2019
WA common shares outstanding, basic	**44,848**	1,996
Dilutive effect of stock options	**-**	-
Dilutive effect of warrants	**10,555**	-
WA common shares outstanding, diluted (1)(2)(3)	**55,403**	1,996
Net income (loss)	**47,663**	(1,998)
$ per common share, basic	**1.06**	(1.00)
$ per common share, diluted (1)(2)(3)	**0.86**	(1.00)

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

(2) In computing diluted net income per share for the year ended December 31, 2020, the effect of stock options was excluded as they were not in-the-money based on the volume weighted average trading price of the Company's common shares of $2.91 during the year. There were no stock options outstanding at December 31, 2019.

(3) During the previous year ended December 31, 2019, outstanding warrants were antidilutive to the net loss per share.

12. INCOME TAXES

As at December 31, 2020, total tax pools available to the Company are estimated to be approximately $117.5 million (December 31, 2019 – $19.9 million), of which $13.8 million are non-capital losses ("NCLs"). Subsequent to the reporting period, Spartan closed strategic acquisitions which materially increased the Company's tax pools (note 19).

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

(*CA$ thousands*)	Balance Dec 31, 2019	Recognized in net income	Recognized in balance sheet	**Balance Dec 31, 2020**
Derivative financial instruments	-	721	-	**721**
Accelerated tax basis depreciation	(1,164)	(12,989)	(22,070)	**(36,223)**
Decommissioning obligations	1,772	14,535	6,253	**22,560**
Leases	-	576	-	**576**
Share issue costs [(1)]	69	(115)	441	**395**
Non-capital losses and other	3,528	(308)	-	**3,220**
Unrecognized deferred tax asset	(4,205)	4,205	-	**-**
Deferred tax asset (liability)	-	6,625	(15,376)	**(8,751)**

(1) During the year ended December 31, 2020, approximately $0.4 million of deferred income taxes were charged directly to equity in respect of $1.9 million of share issue costs incurred.

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and deductible temporary differences can be utilized. At December 31, 2019, the Company had an unrecognized deferred tax asset of $4.2 million. Following completion of the BXE Asset Acquisition, the Company expects to have sufficient taxable profits in the future in order to utilize its NCLs which expire in years 2027 to 2040 and has recognized the deferred tax asset related to NCLs, net of its deferred tax liability.

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

	Year ended December 31	
(*CA$ thousands*)	**2020**	2019
Net income (loss) before income taxes	**41,038**	(1,998)
Canadian statutory tax rate	**24.0%**	26.5%
Expected income tax expense (recovery)	**9,849**	(529)
Increase (decrease) resulting from:		
Non-deductible expenses (recoveries) [(1)]	**386**	(39)
Gain on acquisition	**(12,708)**	-
Gain on extinguishment of preferred shares	**-**	(530)
Change in tax rates	**174**	752
True-up tax pools	**(121)**	349
Change in unrecognized deferred tax asset	**(4,205)**	(3)
Deferred income tax recovery	**(6,625)**	-
Current income tax	**-**	-
Income tax recovery	**(6,625)**	-

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

The Canadian statutory tax rate per the rate reconciliation above represents the average combined federal and provincial corporate tax rate. The federal corporate tax rate is unchanged at 15% throughout 2019 and 2020. On June 28, 2019, the Alberta government enacted legislation to reduce the provincial corporate income tax rate from 12% to: 11% effective July 1, 2019; 10% effective January 1, 2020; 9% effective January 1, 2021; and 8% effective January 1, 2022 and thereafter. Subsequently on October 20, 2020, new legislation enacted under Alberta's Recovery Plan accelerated the reduction in the general corporate rate from 10% to 8% effective July 1, 2020, resulting in an average tax rate of 24.0% for 2020.

13. OIL AND GAS SALES, NET OF ROYALTIES

	Year ended December 31	
(*CA$ thousands)*	**2020**	2019
Oil and gas sales		
Crude oil	**3,304**	581
Natural gas liquids	**36,625**	303
Natural gas	**56,395**	607
Oil and gas sales	**96,324**	1,491
Royalties	**(8,874)**	22
Oil and gas sales, net of royalties	**87,450**	1,513

14. FINANCING

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

	Year ended December 31	
(*CA$ thousands)*	**2020**	2019
Interest and fees on bank debt	**1,291**	-
Financing cost of lease liabilities	**1,720**	-
Accretion of decommissioning obligations	**707**	113
Financing expenses	**3,718**	113
Interest income	**(94)**	-
Financing	**3,624**	113

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
(*CA$ thousands)*	**2020**	2019
Accounts receivable	**(20,246)**	26
Prepaid expenses and deposits	**(1,481)**	25
Accounts payable and accrued liabilities	**33,209**	552
Change in non-cash working capital	**11,482**	603
Relating to:		
Operating activities	**(1,385)**	603
Financing activities	**98**	-
Investing activities	**12,769**	-
Change in non-cash working capital	**11,482**	603

(1) During 2020, Spartan made cash payments of approximately $0.9 million is respect of interest and standby fees on bank debt (2019 – nil). Cash payments in respect of income taxes were nil during the years ended December 31, 2020 and 2019.

16. CAPITAL MANAGEMENT

Spartan's capital management objectives are to maintain a flexible capital structure in order to meet its financial obligations, execute on strategic opportunities throughout the business cycle and respond to changes in economic conditions. As at December 31, 2020, the Company's capital structure is comprised of working capital, bank debt and shareholders' equity and its existing capital resources are sufficient to satisfy its financial obligations for the next twelve months. In order to maintain or adjust its capital structure in the future, the Company may issue new common shares or other equity securities, issue debt, adjust capital expenditures and acquire or dispose of assets.

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

(CA$ thousands)	**December 31, 2020**	December 31, 2019
Bank debt	**-**	-
Adjusted Working Capital deficit (surplus) (2)	**12,292**	(23,538)
Net Debt (Surplus) (1)	**12,292**	(23,538)
Total shareholders' equity	**137,540**	25,640

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

(2) "Adjusted Working Capital" is calculated as current assets less current liabilities, excluding derivative financial instrument assets and liabilities and lease liabilities. As at December 31, 2020 and 2019, Adjusted Working Capital includes cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and the current portion of decommissioning obligations.

The capital intensive nature of Spartan's operations may create a working capital deficiency during periods with high levels of capital investment. Spartan's working capital deficiency is higher December 31, 2020 compared to December 31, 2019, along with higher production and capital expenditures during the fourth quarter of 2020. The Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at December 31, 2020, the Company's Adjusted Working Capital deficit of $12.3 million, represented 12% of the authorized borrowing amount available under the Credit Facility of $100.0 million.

The Company's business plan is dynamic and evolving in response to the current business environment which continues to be volatile and uncertain. Despite the challenges facing the oil and gas industry, Spartan is well positioned to execute on its strategic growth plans. The BXE Asset Acquisition was completed on June 1, 2020 for total consideration of $108.8 million, comprised of $87.5 million of cash and $21.3 million of assumed liabilities. The purchase price was funded by a combination of cash on hand, $62.1 million of net proceeds from the Private Placements, supplemented by short-term borrowings under the Company's Credit Facility (details of the foregoing are provided in notes 5, 11 and 10, respectively). Spartan generated cash provided by operating activities of $32.2 million during 2020 which was used to fund net capital expenditures, excluding acquisitions of $16.7 million, lease payments of $3.4 million, and the residual to fully repay outstanding bank debt of $9.4 million during the fourth quarter. As at December 31, 2020, Spartan had $2.7 million of cash on hand and no bank debt outstanding.

Future exploration and development capital expenditures are expected to be funded primarily by cash provided by operating activities, supplemented by short-term borrowings under the Credit Facility depending on timing of cash flows. Future acquisitions, which are part of Spartan's growth strategy, are expected to be funded through a combination of cash provided by operating activities and bank debt, and may be supplemented by new equity or debt offerings. Refer to note 19 for details regarding new financing arrangements in respect of acquisitions announced subsequent to the reporting period.

As at December 31, 2020, the Company is not subject to any externally imposed capital requirements.

17. COMMITMENTS AND CONTINGENCIES

Spartan has firm transportation commitments on natural gas pipelines in Alberta until October 2026. The Company's transportation commitments as of December 31, 2020 are summarized in the table below:

(CA$ thousands)	Less than 1 year	1 to 5 years	More than 5 years	Total
Firm transportation	5,279	4,147	-	9,426

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

Litigation

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

18. RELATED PARTY DISCLOSURES

a) Inter-corporate relationships

As at and throughout the year ended December 31, 2020, Spartan had one wholly-owned subsidiary, Winslow Resources Inc. Balances and transactions between Spartan and Winslow have been eliminated on consolidation. Effective January 1, 2021, Spartan and Winslow were subsequently amalgamated to form a single corporate entity under the name of Spartan Delta Corp. The Company does not have any subsidiaries as of the date of these Financial Statements.

b) Related party transactions

During 2020, the Company incurred approximately $2.1 million of legal fees to a law firm where the corporate secretary of the Company is a partner (2019 – $0.2 million). The fees are primarily transaction costs related to the BXE Asset Acquisition and share issue costs incurred in respect of the Private Placements. Approximately $0.1 million are included in the balance of accounts payable and accrued liabilities as at December 31, 2020.

c) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of a company. The Company defines its key management personnel as its officers, board of directors and corporate secretary. The following table summarizes compensation paid or payable to key management personnel during the years ended December 31, 2020 and 2019.

	Year ended December 31	
(*CA$ thousands)*	**2020**	2019
Salaries and benefits	**3,081**	786
Directors fees	**75**	37
Share based compensation (1)(2)	**983**	(146)
Total key management compensation	**4,139**	677

(1) During the year ended December 31, 2020, key management personnel were granted 1,935,700 stock options with an exercise price of $3.00 per share.

(2) All stock options were forfeited on December 19, 2019 in connection with the Recapitalization Transaction. The recovery of $146,200 in 2019 relates to share based compensation expense previously recognized for stock options that were unvested.

All amounts reported in the table above for the year ended December 31, 2019, were paid to the former officers and directors of Return. The New Management Team and New Board appointed on December 19, 2019 upon closing of the Recapitalization Transaction did not receive remuneration in 2019.

19. SUBSEQUENT EVENTS

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"). Pursuant to the share purchase agreement dated January 5, 2021, the aggregate purchase price included $0.3 million of cash and the issuance of 2,002,585 Spartan common shares. The acquired entities were immediately amalgamated with the Company on the closing date under the name of Spartan Delta Corp. The acquired assets primarily include non-producing petroleum and natural gas properties in Spartan's new core development area in the Alberta Montney and tax pools.

Willesden Green Acquisition

On March 5, 2021, Spartan closed an acquisition producing petroleum and natural gas assets located at Willesden Green, Alberta, for cash consideration of approximately $5.4 million after estimated closing adjustments. The assets acquired are contiguous with Spartan's existing core operating assets in west-central Alberta.

Simonette Acquisition

On February 16, 2021, Spartan entered into an agreement with an arms-length vendor to purchase petroleum and natural gas properties located primarily in the Simonette area of Alberta for a gross purchase price of $22.9 million, comprised of the issuance of 1,493,180 common shares of Spartan and $17.2 million of cash, before closing adjustments (the "Simonette Acquisition"). The Simonette Acquisition has an effective date of January 1, 2021, and is expected to close on or about March 18, 2021, subject to customary closing conditions and regulatory approvals, including the approval of the TSXV and the Commissioner of Competition pursuant to the *Competition Act* (Canada). Closing adjustments to the cash portion of the purchase price are estimated to be approximately $4.2 million.

Inception Acquisition

On February 16, 2021, Spartan entered into a pre-acquisition agreement with Inception Exploration Ltd. ("Inception") pursuant to which the Company agreed to acquire all of the issued and outstanding common shares of Inception (the "Inception Shares") by way of an exempt take-over bid for aggregate share consideration of $91.0 million, plus the assumption by Spartan of net debt estimated to be $7.8 million (the "Inception Acquisition" or the "Inception Acquisition Agreement"). Inception is an oil-weighted Montney focused private company with operations primarily in the Gold Creek area of northwest Alberta, in the vicinity of the Company's lands acquired pursuant to the January 2021 Acquisition.

Holders of more than 90% of the issued and outstanding Inception Shares have executed irrevocable acceptances and have agreed to tender their Inception Shares. Assuming 100% of Inception Shares are tendered, the Company will issue 23,734,384 common shares of Spartan to the shareholders of Inception at a deemed issuance price of approximately $3.83 per common share, calculated using the volume weighted average trading price of Spartan's common shares for the 20 trading days immediately preceding February 16, 2021. In addition, Spartan will issue a $50.0 million unsecured non-interest bearing convertible promissory note (the "Convertible Note") to a major shareholder and debtholder of Inception (the "Inception Shareholder"). The Convertible Note will mature five years from the closing of the Inception Acquisition, and will be convertible in whole or in part beginning on the day that is two years following the closing of the Inception Acquisition, at the Company's election, for such number of common shares calculated based on the greater of: (i) the volume weighted average trading price of the common shares for the 10 trading days immediately preceding the delivery by the Company of a notice of conversion to the Inception Shareholder; and (ii) $7.67, being two times the deemed issuance price of the common shares under the Inception Acquisition. The maximum number of Spartan common shares issuable on conversion of the Convertible Note is 6,518,905 common shares, based on the principal amount of $50.0 million divided by the minimum conversion price of $7.67 per common share.

Closing of the Inception Acquisition is expected to occur on or about March 18, 2021, subject to customary closing conditions and regulatory approvals, including the approval of Spartan shareholders, TSXV and the Commissioner of Competition pursuant to the *Competition Act* (Canada).

In connection with the completion of the Inception Acquisition, the Company will enter into a nomination rights agreement providing the Inception Shareholder with the right to nominate one or two directors to Spartan's board of directors, subject to acquiring and maintaining certain minimum shareholding requirements. The Company expects Steve Lowden and Elliot S. Weissbluth, current directors of Inception, to be appointed to Spartan's board of directors concurrent with closing of the acquisition.

The Inception Acquisition and the Simonette Acquisition are not conditional upon the completion of one another and the closing of such transactions are not contingent upon a single common event. Completion of the Inception Acquisition is an escrow release condition of the Prospectus Offering and a condition of closing the Non-Brokered Offering. The Prospectus Offering and Non-Brokered Offering are hereinafter defined under the heading "The 2021 Financings".

The 2021 Financings

Prospectus Offering

On March 8, 2021, the Company completed a bought deal public offering for gross proceeds of $45.0 million. The offering was led by a syndicate of underwriters by way of a short-form prospectus, pursuant to which the Company issued 11,250,000 subscription receipts of Spartan at a price of $4.00 per subscription receipt (the "Prospectus Offering"). Net proceeds of the Prospectus Offering are estimated to be approximately $42.7 million after underwriting commissions and other expenses.

The gross proceeds of the Prospectus Offering will be held in escrow pending the completion of the Inception Acquisition and the Non-Brokered Offering (as defined below). If the Inception Acquisition and Non-Brokered Offering are completed on or before May 31, 2021, the net proceeds from the sale of the subscription receipts will be released from escrow to Spartan and each subscription receipt will automatically be exchanged for one common share for no additional consideration and without any action on the part of the holder. Otherwise, the purchase price for the subscription receipts will be returned pro rata to subscribers, together with a pro rata portion of interest earned on the escrowed funds.

Non-Brokered Offering

In addition to the Prospectus Offering, the Company has entered into subscription agreements with certain institutional investors to purchase, on a non-brokered private placement basis: (i) an aggregate of 6,250,000 common shares at a price of $4.00 per share for aggregate gross proceeds of $25.0 million (the "Common Share Non-Brokered Offering"); and (ii) an aggregate of 10,976,626 flow-through common shares at a price of $4.92 per flow-through common share for aggregate gross proceeds of approximately $54.0 million (the "Flow-Through Share Non-Brokered Offering" and, together with the Common Share Non-Brokered Offering, the "Non-Brokered Offering"). The proceeds of the Flow-Through Share Non-Brokered Offering will be used to incur and renounce Canadian development expenses pursuant to the *Income Tax Act* (Canada). Estimated finders fees and other expenses related to the Non-Brokered Offering are estimated to be approximately $2.3 million.

The Non-Brokered Offering is conditional upon the completion of the Inception Acquisition and other customary conditions, including the approval of the TSXV. Spartan expects to close the Non-Brokered Offering concurrently with the Inception Acquisition on or about March 18, 2021.