

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities to be offered hereunder have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws. Accordingly, these securities may not be offered, sold or delivered within the United States (as defined herein) except in accordance with the Underwriting Agreement (as defined herein) and pursuant to an exemption from the registration requirements of the 1933 Act and applicable state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of the Corporation at Suite 500, Penn West Plaza – East Tower, 207 – 9th Avenue S.W., Calgary, Alberta T2P 1K3 (telephone (403) 265-8011) and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

August 10, 2021



\$150,000,150
29,703,000 Subscription Receipts each
representing the right to receive one Common Share
\$5.05 per Subscription Receipt

This short form prospectus qualifies the distribution (the "**Offering**") of 29,703,000 subscription receipts (the "**Subscription Receipts**") of Spartan Delta Corp. ("**Spartan**" or the "**Corporation**") at a price of \$5.05 per Subscription Receipt (the "**Offering Price**"). Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration or any further action on the part of the holder thereof, one common share in the capital of the Corporation (a "**Common Share**") upon satisfaction of the Escrow Release Conditions and release of the Escrowed Funds in connection with the closing of the Velvet Acquisition (as such terms are defined herein).

The terms of the Offering, including the Offering Price, were determined by negotiation between the Corporation and National Bank Financial Inc. ("**NBF**") and CIBC World Markets Inc. (together with NBF, the "**Co-Lead Underwriters**"), on their own behalf and on behalf of ATB Capital Markets Inc., BMO Nesbitt Burns Inc., TD Securities Inc. and Eight Capital (collectively and together with the Co-Lead Underwriters, the "**Underwriters**"). See "**Plan of Distribution**".

The gross proceeds from the sale of the Subscription Receipts (the "**Escrowed Funds**") will be held by the Escrow Agent (as defined herein), and may be invested in short-term obligations of, or guaranteed by, the Government of Canada (or other approved investments determined in accordance with the terms of the Subscription Receipt Agreement (as defined herein)) pending satisfaction of the Escrow Release Conditions. Upon satisfaction of the Escrow Release Conditions on or before 5:00 p.m. (Calgary time) on November 15, 2021 (the "**Deadline**"), the Escrowed Funds and the interest earned thereon, if any (less the remaining portion of the Underwriting Fee (as defined herein), including the interest earned thereon, if any) will be released to the Corporation upon receipt of a notice by the Escrow Agent from the Corporation and acknowledged by the Co-Lead Underwriters that the Escrow Release Conditions have been satisfied, and each holder of Subscription

Receipts will receive one Common Share (an "**Underlying Common Share**") for each Subscription Receipt held, without payment of additional consideration or any further action on the part of such holder. See "*Details of the Offering*".

If: (i) the Escrow Release Conditions are not satisfied by the Deadline; (ii) the Velvet Acquisition Agreement (as such terms are defined herein) is terminated in accordance with its terms at any earlier time; or (iii) the Corporation has advised the Co-Lead Underwriters or announces to the public that it does not intend to proceed with the Velvet Acquisition (the earliest time of occurrence of any such event being the "**Termination Time**"), holders of Subscription Receipts shall receive an amount equal to the full subscription price attributable to the Subscription Receipts and their pro rata entitlement to interest or other income earned on such amount from the Closing Date (as defined herein) up to and including the Termination Time, if any. See "*Details of the Offering*".

The issued and outstanding Common Shares are listed and posted for trading on the TSX Venture Exchange (the "**TSXV**") under the symbol "SDE". On July 27, 2021 and August 9, 2021, the last trading days before the public announcement of the Offering and the date of this short form prospectus, respectively, the closing price of the Common Shares on the TSXV was \$5.20 and \$4.60, respectively. The TSXV has conditionally approved the listing of the Subscription Receipts issuable pursuant to the Offering and the Underlying Common Shares. Such listing is subject to the Corporation fulfilling all of the listing requirements of the TSXV no later than three business days preceding the Closing Date.

	Price to the Public	Underwriting Fee⁽¹⁾	Net Proceeds to the Corporation⁽¹⁾⁽²⁾
Per Subscription Receipt	\$5.05	\$0.202	\$4.848
Total	\$150,000,150	\$6,000,006	\$144,000,144

Notes:

1. The Corporation has agreed to pay the Underwriters a cash commission equal to 4.0% of the gross proceeds of the Offering (the "**Underwriting Fee**"), other than in respect of certain orders as agreed between the Corporation and the Underwriters. The Underwriting Fee is payable as to 50% upon the Closing Date from the Corporation's general funds and 50% along with any accrued interest earned thereon upon the release to the Corporation of the Escrowed Funds. If the Termination Time occurs, then the Underwriting Fee will be limited to the 50% paid upon Closing. Numbers may not add due to rounding. See "*Details of the Offering*" and "*Plan of Distribution*". For the purposes of this short form prospectus, the Underwriting Fee has been calculated on the basis of 4.0% for all sales, notwithstanding the fact that no commission is payable in respect of certain orders as agreed between the Corporation and the Underwriters.
2. Excluding interest accrued, if any, on the Escrowed Funds and before deducting expenses of the Offering estimated to be \$750,000 (exclusive of GST), which will be paid out of the Corporation's general funds.
3. The Corporation has also granted to the Underwriters an option (the "**Over-Allotment Option**"), exercisable from time to time, in whole or in part, at any time until 30 days following the Closing Date to purchase up to an additional 4,455,450 Subscription Receipts on the same terms and conditions as the Offering, to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total price to the public, Underwriting Fee and net proceeds to the Corporation (before deducting expenses of the Offering) will be \$172,500,173, \$6,900,007 and \$165,600,166, respectively. This short form prospectus also qualifies the distribution of the Subscription Receipts issuable pursuant to the exercise of the Over-Allotment Option. A purchaser who acquires Subscription Receipts forming part of the Underwriters' over-allocation position acquires those Subscription Receipts under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. Unless the context otherwise requires, references herein to the "Offering" and the "Subscription Receipts" include the Subscription Receipts issuable pursuant to the exercise of the Over-Allotment Option. See "*Plan of Distribution*".

Underwriters' Position	Maximum size or number of securities held	Exercise Period	Exercise Price
Over-Allotment Option	4,455,450 Subscription Receipts	At any time until 30 days following the Closing Date	\$5.05 per Subscription Receipt

The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters relating to the qualification for distribution of the Subscription Receipts on behalf of the Corporation by Stikeman Elliott LLP, and on behalf of the Underwriters by Burnet, Duckworth & Palmer LLP.

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this short form prospectus. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and availability of trading prices and the liquidity of the Subscription Receipts and the extent of issuer regulation. See "Risk Factors".

Subscriptions for the Subscription Receipts issuable hereunder will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Subscription Receipts (other than any Subscription Receipts issuable pursuant to the exercise of the Over-Allotment Option) shall be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for this short form prospectus. It is expected that Closing (as defined herein) will occur on or about August 18, 2021, or such other date as the Corporation and the Co-Lead Underwriters, on their own behalf and on behalf of the other Underwriters, may agree, but in any event no later than the date that is 42 days after the receipt for this short form prospectus.

Except in certain limited circumstances: (i) the Subscription Receipts will be registered and represented electronically through the non-certificated inventory system of CDS (as defined herein) in "book-based" form; (ii) no certificates evidencing the Subscription Receipts will be issued to purchasers of Subscription Receipts unless specifically requested; and (iii) purchasers of Subscription Receipts will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS depository participant ("**CDS Participant**") and from or through whom a beneficial interest in the Subscription Receipt is purchased. Notwithstanding the foregoing, the Subscription Receipts sold pursuant to an exemption from the registration requirements of the 1933 Act provided under Section 4(a)(2) thereof and Rule 506(b) thereunder, to subscribers who do not qualify as "qualified institutional buyers" within the meaning of Rule 144A will be represented by definitive physical certificates registered in the names of the subscribers thereof, which certificates will bear a legend with respect to certain matters under the 1933 Act. See "*Plan of Distribution*".

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market in accordance with applicable stabilization rules. Such transactions, if commenced, may be discontinued at any time. See "*Plan of Distribution*".

The Underwriters propose to offer the Subscription Receipts initially at the Offering Price. After a reasonable effort has been made to sell all of the Subscription Receipts at the Offering Price, the Underwriters may offer the Subscription Receipts at prices lower than the Offering Price. Notwithstanding any reduction by the Underwriters in the Offering Price, any such reduction will not affect the proceeds received by the Corporation. See "*Plan of Distribution*".

An investment in the Subscription Receipts is subject to certain risks inherent in the Corporation's involvement in the exploration for, and the acquisition, development and production of, crude oil and natural gas reserves. The risk factors identified under the headings "*Risk Factors*" and "*Special Note Regarding Forward-Looking Statements*" in this short form prospectus, under the heading "*Risk Factors*" in the AIF (as defined herein), and under the heading "*Risks and Uncertainties*" in the Interim MD&A (as defined herein) and the Annual MD&A (as defined herein), should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered hereunder.

NBF and National Bank Financial Markets, a lender to the Corporation and to which the Corporation is presently indebted, are both direct or indirect wholly-owned subsidiaries of National Bank of Canada. In addition, ATB Capital Markets Inc. is a wholly-owned subsidiary of ATB Financial. ATB Financial is a provincially regulated financial institution and is also a lender to the Corporation and to which the Corporation is presently indebted. Further, the Co-Lead Underwriters acted as financial advisors and Eight Capital acted as strategic advisor to the Corporation in connection with the Velvet Acquisition, and such Underwriters will receive a fee upon the closing of the Velvet Acquisition. CIBC World Markets Inc., TD Securities Inc. and BMO Nesbitt Burns Inc. are subsidiaries of Canadian chartered banks that will be New Lenders under the New Credit Facilities (as defined herein) to be created in connection with the Velvet Acquisition. Consequently, the Corporation may be considered a "connected issuer" of the Underwriters within the meaning of applicable Canadian securities legislation. See "*Recent Developments – New Credit Facilities*" and "*Relationship Between the Corporation and Certain Underwriters*".

The Corporation's head office is located at 500, Penn West Plaza – East Tower, 207 – 9th Avenue S.W., Calgary, Alberta, T2P 1K3, and the registered office is located at 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta, T2P 5C5.

TABLE OF CONTENTS

	Page
SELECTED DEFINITIONS	1
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	5
CONVENTIONS	7
NON-IFRS FINANCIAL MEASURES	8
CONVERSIONS	10
ABBREVIATIONS	10
BARREL OF OIL EQUIVALENCY	10
DRILLING LOCATIONS	11
DOCUMENTS INCORPORATED BY REFERENCE	11
MARKETING MATERIALS	12
THE CORPORATION	12
BUSINESS OF THE CORPORATION	13
RECENT DEVELOPMENTS	13
INFORMATION CONCERNING VELVET AND THE VELVET ASSETS	19
CONSOLIDATED CAPITALIZATION	24
PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES	26
PRIOR SALES	26
USE OF PROCEEDS	27
DETAILS OF THE OFFERING	29
PLAN OF DISTRIBUTION	31
RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN UNDERWRITERS	34
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS	35
ELIGIBILITY FOR INVESTMENT	39
RISK FACTORS	39
INTERESTS OF EXPERTS	43
ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS	44
STATUTORY AND CONTRACTUAL RIGHTS OF WITHDRAWAL AND RESCISSION	44
APPENDIX "A"	A-1
CERTIFICATE OF THE CORPORATION	C-1
CERTIFICATE OF THE UNDERWRITERS	C-2

SELECTED DEFINITIONS

In this short form prospectus, the following terms have the meanings set forth below.

"**1933 Act**" has the meaning ascribed thereto on the cover page of this short form prospectus.

"**ABCA**" means the *Business Corporations Act* (Alberta), including the regulations promulgated thereunder.

"**AIF**" means the annual information form of the Corporation dated March 31, 2021, for the year ended December 31, 2020.

"**Annual MD&A**" means the management's discussion and analysis of the financial condition and operating results of the Corporation for the years ended December 31, 2020 and 2019.

"**Board**" means the board of directors of the Corporation as it may be comprised from time to time.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**CDS Participant**" has the meaning ascribed thereto on the cover page of this short form prospectus.

"**Closing**" means the closing of the Offering.

"**Closing Date**" means the date of Closing which is expected to be on or about August 18, 2021, or such later date as the Corporation and the Co-Lead Underwriters, on their own behalf and on behalf of the other Underwriters, may agree upon in writing, acting reasonably, but, in any event, such date shall be no later than 42 days after the receipt is issued for this short form prospectus.

"**Co-Lead Underwriters**" has the meaning ascribed thereto on the cover page of this short form prospectus.

"**Common Shares**" has the meaning ascribed thereto on the cover page of this short form prospectus.

"**Consolidation**" means the consolidation of the Common Shares, completed on June 1, 2020, on the basis of one post-consolidation Common Share for every 100 pre-consolidation Common Shares.

"**Corporation**" or "**Spartan**" has the meaning ascribed thereto on the cover page of this short form prospectus.

"**Counsel**" has the meaning ascribed thereto under "*Canadian Federal Income Tax Considerations*".

"**CRA**" means the Canada Revenue Agency.

"**Credit Facilities**" has the meaning ascribed thereto under "*Consolidated Capitalization*".

"**Deadline**" has the meaning ascribed thereto on the cover page of this short form prospectus.

"**EBITDA**" will have the meaning ascribed thereto in the New Credit Agreement, but generally refers to the Corporation's consolidated net income (loss) before income tax expense or benefit, gains and losses attributable to disposal of certain assets, finance costs, depletion, depreciation and amortization expense, other non-cash charges, expenses or income, and one-off or non-recurring fees, expenses and charges.

"**Edson Assets**" has the meaning ascribed thereto under "*Information Concerning Velvet and the Velvet Assets – Summary of Reserves*".

"**Edson Disposition**" has the meaning ascribed thereto under "*Information Concerning Velvet and the Velvet Assets – Summary of Reserves*".

"**Escrow Agent**" means Odyssey Trust Company, in its capacity as escrow agent pursuant to the Subscription Receipt Agreement.

"Escrow Release Conditions" has the meaning ascribed thereto under *"Details of the Offering – Subscription Receipts"*.

"Escrowed Funds" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Flow-Through Share" means a Common Share issued on a "flow-through" basis pursuant to the Tax Act.

"FOFI" has the meaning ascribed thereto under *"Special Note Regarding Forward-Looking Statements"*.

"Holder" has the meaning ascribed thereto under *"Canadian Federal Income Tax Considerations"*.

"IFRS" means International Financial Reporting Standards issued by the International Accounting Standards Board for publicly accountable enterprises, or such other generally accepted accounting principles and practices applied in Canada from time to time.

"Inception" means Inception Exploration Ltd.

"Inception Acquisition" has the meaning ascribed thereto under *"Recent Developments – March 2021 Transactions – The Inception Acquisition"*.

"Inception Acquisition Agreement" means the pre-acquisition agreement between the Corporation and Inception dated February 16, 2021.

"Inception Assets" means the petroleum and natural gas properties, interests, rights and related assets of Inception.

"Interim Financial Statements" means the unaudited condensed consolidated interim financial statements of the Corporation as at March 31, 2021 and for the three months ended March 31, 2021 and 2020, together with the notes thereto.

"Interim MD&A" means the management's discussion and analysis of the financial condition and operating results of the Corporation for the three months ended March 31, 2021 and 2020.

"January 2021 Acquisition" means the Corporation's acquisition on January 14, 2021, of all of the issued and outstanding shares of two private companies for an aggregate purchase price comprised of cash in the amount of \$300,000 and the issuance of 2,002,585 Common Shares at a deemed issuance price of \$3.096 per Common Share.

"Lenders" has the meaning ascribed thereto under *"Consolidated Capitalization"*.

"LMR" means liability management ratio.

"March 2021 Acquired Assets" means, together, the Inception Assets and the Simonette Assets.

"March 2021 Acquisitions" means, together, the Inception Acquisition and the Simonette Acquisition.

"March 2021 Non-Brokered Offering" has the meaning ascribed thereto under *"Recent Developments – March 2021 Transactions – The March 2021 Non-Brokered Offering"*.

"March 2021 Prospectus Offering" has the meaning ascribed thereto under *"Recent Developments – March 2021 Transactions – The March 2021 Prospectus Offering"*.

"May 2021 Acquisition" means the Corporation's acquisition on May 21, 2021, of all of the issued and outstanding shares of a private company in consideration for 306,271 Common Shares at a deemed issuance price of \$4.68 per Common Share.

"McDaniel" means McDaniel & Associates Consultants Ltd.

"McDaniel Report" means the independent engineering report dated March 11, 2021, evaluating the crude oil, natural gas and NGL reserves of the Corporation effective as of December 31, 2020.

"NBF" has the meaning ascribed thereto on the cover page of this short form prospectus.

"New Credit Agreement" has the meaning ascribed thereto under *"Recent Developments – New Credit Facilities"*.

"New Credit Facilities" has the meaning ascribed thereto under *"Recent Developments – New Credit Facilities"*.

"New Lenders" has the meaning ascribed thereto under *"Recent Developments – New Credit Facilities"*.

"NI 41-101" means National Instrument 41-101 – *General Prospectus Requirements*.

"NI 44-101" means National Instrument 44-101 – *Short Form Prospectus Distributions*.

"NI 51-101" means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*.

"NI 51-102" means National Instrument 51-102 – *Continuous Disclosure Obligations*.

"Non-Resident Holder" has the meaning ascribed thereto under *"Canadian Federal Income Tax Considerations – Holders Not Resident in Canada"*.

"Offering" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Offering Price" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Option Plan" means the Corporation's existing stock option plan.

"Options" means options to purchase Common Shares granted by the Board in accordance with the Option Plan.

"Over-Allotment Option" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Permit" means any license, permit, certificate, franchise, consent, order, grant, easement, covenant, approval, classification, registration or other authorization of and from any person, including any governmental authority.

"Preferred Shares" means the preferred shares in the capital of the Corporation.

"Resident Holder" has the meaning ascribed thereto under *"Canadian Federal Income Tax Considerations – Holders Resident in Canada"*.

"Rule 144A" has the meaning ascribed thereto under *"Details of the Offering – Book-Based System"*.

"SAF" has the meaning ascribed thereto under *"Recent Developments – New Credit Facilities"*.

"Securities" has the meaning ascribed thereto under *"Canadian Federal Income Tax Considerations"*.

"SEDAR" has the meaning ascribed thereto under *"Documents Incorporated by Reference"*.

"Simonette Acquisition" has the meaning ascribed thereto under *"Recent Developments – March 2021 Transactions – The Simonette Acquisition"*.

"Simonette Acquisition Agreement" means the asset purchase agreement between the Corporation and the Simonette Vendor dated February 16, 2021.

"Simonette Assets" means the petroleum and natural gas properties, interests, rights and related assets to be acquired by the Corporation from the Simonette Vendor pursuant to the terms of the Simonette Acquisition Agreement.

"Simonette Vendor" means the vendor of the Simonette Assets.

"Spartan Note" has the meaning ascribed thereto under *"Recent Developments – March 2021 Transactions – The Inception Acquisition"*.

"Subscription Receipt Agreement" means the agreement to be dated the Closing Date among the Corporation, the Co-Lead Underwriters and the Escrow Agent governing the terms of the Subscription Receipts.

"Subscription Receipts" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Tax Act" means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder.

"TCP Conditions" has the meaning ascribed thereto under *"Canadian Federal Income Tax Considerations – Other Dispositions of Subscription Receipts"*.

"Term Facility" has the meaning ascribed thereto under *"Recent Developments – New Credit Facilities"*.

"Termination Time" has the meaning ascribed thereto on the cover page of this short form prospectus.

"TSXV" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Underlying Common Shares" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Underwriters" has the meaning ascribed thereto on the cover page of this short form prospectus.

"Underwriting Agreement" means the underwriting agreement dated effective July 28, 2021 between the Corporation and the Underwriters.

"Underwriting Fee" has the meaning ascribed thereto on the cover page of this short form prospectus.

"United States" or **"U.S."** means the United States of America, its territories and possessions, any state of the United States and the District of Columbia.

"Velvet" means Velvet Energy Ltd. For further information about the company, please see *"The Velvet Acquisition"*.

"Velvet Acquisition" means the proposed acquisition of all of the issued and outstanding shares of Velvet pursuant to the Velvet Acquisition Agreement.

"Velvet Acquisition Agreement" means the pre-acquisition agreement entered into between the Corporation and Velvet, dated July 28, 2021.

"Velvet Assets" means all of the assets, properties, Permits, rights or other privileges (whether contractual or otherwise) of Velvet and, for greater certainty, includes the Velvet Leases and the Velvet Interests.

"Velvet Closing Date" means the date that the closing of the Velvet Acquisition occurs, which is currently expected to be August 31, 2021, or such other date as Spartan and Velvet agree in writing, and in any event not later than September 30, 2021.

"Velvet Financial Statements" has the meaning ascribed thereto under *"The Velvet Acquisition – Effect of the Velvet Acquisition on the Corporation"*.

"Velvet Interests" means the right of Velvet in and to the Velvet Leases, any and all reservations, Permits, licences, unit agreements, assignments, trust declarations, operating agreements, royalty agreements, gross overriding royalty agreements, agreements for the construction, ownership and operation of facilities, contract operating agreements, participation agreements, farm-in agreements, sale and purchase agreements, pooling agreements and any other documents and agreements granting, reserving or otherwise conferring rights to: (i)

explore for, drill for, produce, take, use or market petroleum substances; (ii) share in the production of petroleum substances; (iii) share in the proceeds from, or measured or calculated by reference to the value or quantity of, petroleum substances which are produced; and (iv) acquire any of the rights described in items (i) to (iii) of this definition; together with all related tangibles and miscellaneous interests; including interests and rights known as working interests, leasehold interests, royalty interests, overriding royalty interests, gross overriding royalty interests, production payments, profits interests, net profits interests, revenue interests, net revenue interests, economic interests and fee simple interests, including fractional or undivided interests in any of the foregoing.

"Velvet Leases" means Velvet's leases, Permits, concessions, concession agreements, contracts, subleases, reservations or other agreements, by virtue of which Velvet is entitled to drill for, win, take, own or remove the petroleum substances, or by virtue of which the holder thereof is deemed to be entitled to a share of petroleum substances removed from the lands, and includes, if applicable, all renewals and extensions of such documents and all documents issued in substitution therefor.

"Velvet Reserves Report" means the independent engineering evaluation of Velvet's oil, natural gas liquids and natural gas interests prepared by McDaniel effective July 1, 2021.

"Velvet Shares" means the issued and outstanding shares of Velvet.

"Warrants" means Common Share purchase warrants of the Corporation, each warrant entitling the holder thereof to purchase one Common Share at a price of \$1.00 for a period of five years from the date of issuance.

Words importing the singular number include the plural, and vice versa, and words importing any gender include all genders.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference into this short form prospectus, constitute forward-looking statements. All forward-looking statements are based on the Corporation's beliefs and assumptions based on information available at the time such assumptions were made. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this short form prospectus should not be unduly relied upon.

The reports of PricewaterhouseCoopers LLP and MNP LLP incorporated by reference in this short form prospectus refer exclusively to the historical financial statements described therein and do not extend to the prospective financial information included in this short form prospectus and should not be read to do so.

In particular, this short form prospectus and the documents incorporated by reference herein contain forward-looking statements pertaining to, but not limited to, the following:

- the Offering, including the use of proceeds from the Offering;
- the anticipated Velvet Closing Date;
- completion of the Offering, the Velvet Acquisition and the timing thereof;
- the anticipated benefits of the Velvet Acquisition, including the impact of the Velvet Acquisition on the Corporation's operations, reserves, inventory and opportunities, financial condition, available tax pools, access to capital and overall strategy;
- the listing of the Subscription Receipts issued pursuant to the Offering, including any Subscription Receipts issued pursuant to the exercise of the Over-Allotment Option;
- expectations with respect to production, Operating Netbacks, Operating Income, Adjusted Funds Flow, Free Funds Flow, capital expenditures and Net Debt (Surplus) relating to Velvet and Spartan following the Velvet Acquisition, as well as Net Debt assumed by the Corporation on the Velvet Closing Date;
- development and drilling plans for the Velvet Assets, including the drill locations associated therewith and timing of results therefrom;

- capacity of infrastructure;
- anticipated operational results for 2021 and 2022 including, but not limited to, estimated or anticipated production levels, Operating Netbacks, Operating Income, Adjusted Funds Flow, Free Funds Flow, Net Debt (Surplus), capital expenditures, drilling plans and other information discussed under "*Recent Developments*" in this short form prospectus;
- the performance characteristics of the oil and natural gas properties of the Corporation and Velvet;
- the estimated quantity of the Corporation's oil and natural gas reserves and anticipated future cash flows from such reserves;
- the estimated quantity of the oil and gas reserves associated with the Velvet Assets and anticipated future cash flows from such reserves;
- the source of funding for the Corporation's activities including development costs;
- projections of commodity prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the Corporation's ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws;
- expected production rates;
- fluctuations in depletion, depreciation, and accretion rates;
- possible changes in regulatory regimes in respect of royalty curves and regulatory improvements and the effects of such changes; and
- Spartan's business and acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the material risk factors set forth below, elsewhere in this short form prospectus and in the documents incorporated by reference herein:

- inability to complete the Velvet Acquisition;
- the conditions to the completion of the Offering may not be satisfied;
- the use of proceeds of the Offering by the Corporation may change if the Board determines that it would be in the best interests of the Corporation to deploy the proceeds for some other purpose;
- failure to realize the anticipated benefits of the Velvet Acquisition;
- unforeseen difficulties in integrating the business of Velvet into the Corporation's operations;
- volatility in market prices for oil and natural gas;
- operational risks and liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- changes in royalty regimes;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of benefits to be obtained from acquisitions and exploration and development programs (including the Velvet Acquisition);
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- adverse effects on general economic conditions in Canada, the United States and globally, including due to the COVID-19 pandemic and related variants;
- adverse effects of the Biden administration on the Canadian oil and gas industry;
- the accuracy of oil and gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates;
- the uncertainties in regard to the timing of Spartan's exploration and development program;
- fluctuations in the costs of borrowing;
- political or economic developments;
- ability to obtain regulatory approvals;
- the results of litigation or regulatory proceedings that may be brought against the Corporation;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under "*Risk Factors*" herein and in the AIF, Annual MD&A and Interim MD&A.

In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future.

This short form prospectus contains future-oriented financial information and financial outlook information (collectively, "**FOFI**") about the Corporation's prospective results of operations, operating costs, expenditures, Free Funds Flows, Adjusted Funds Flow, Operating Netbacks, Operating Income, Net Debt (Surplus), Net Debt, debt and components thereof, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this short form prospectus was made as of the date of this short form prospectus and was provided for the purpose of describing the anticipated effects of the Offering and the Velvet Acquisition on the Corporation's business operations. The Corporation disclaims any intention or obligation to update or revise any FOFI contained in this short form prospectus, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this short form prospectus should not be used for purposes other than for which it is disclosed herein. See "*Risk Factors*".

With respect to forward-looking statements contained in this short form prospectus, the Corporation has made assumptions regarding, among other things: the timing of obtaining regulatory and third party approvals and completion of the Offering and the Velvet Acquisition; that commodity prices will be consistent with the current forecasts of its engineers; operating netbacks; average production rates; costs to drill, complete and tie-in wells; ultimate recovery of reserves; royalty regimes will not be subject to material modification; that the Corporation will be able to obtain skilled labour and other industry services at reasonable rates; that the timing and amount of capital expenditures and the benefits therefrom will be consistent with the Corporation's expectations; the impact of increasing competition; that the conditions in general economic and financial markets will not vary materially; that the Corporation will be able to access capital, including debt, on acceptable terms; that drilling, completion and other equipment will be available on acceptable terms; that government regulations and laws will not change materially; that royalty rates will not change in any material respect; and that future operating costs will be consistent with the Corporation's expectations.

The Corporation has included the above summary of assumptions and risks related to forward-looking statements provided in this short form prospectus in order to provide investors with a more complete perspective on the Corporation's current and future operations and such information may not be appropriate for other purposes. Forward-looking statements contained in certain documents incorporated by reference into this short form prospectus are based on the key assumptions and are subject to the risks described herein and in the documents incorporated by reference herein. The reader is cautioned that such assumptions, although considered reasonable by the Corporation at the time of preparation, may prove to be incorrect.

Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this short form prospectus, and the documents incorporated by reference herein, are expressly qualified by this cautionary statement. These forward-looking statements contained in this short form prospectus are made as of the date of this short form prospectus, or in the case of the documents incorporated by reference herein, as of the dates of such documents, and except as required by applicable securities laws, neither Spartan nor any of the Underwriters undertake any obligation to publicly update or revise any forward-looking statements. Readers should also carefully consider the matters discussed under the heading "*Risk Factors*" in this short form prospectus.

CONVENTIONS

Certain terms used herein are defined in the "*Selected Definitions*". Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. References to "oil" in this short form prospectus include light crude oil and medium crude oil, combined. NI 51-101 includes condensate within the product type of "natural gas liquids". References to "natural gas liquids" or "NGLs" include pentane, butane, propane, ethane and condensate. References to "gas" or "natural gas" relates to conventional natural gas.

All financial information herein has been presented in Canadian dollars in accordance with IFRS. Words importing the singular number include the plural, and vice versa, and words importing any gender include all genders. All dollar amounts set forth in this short form prospectus are in Canadian dollars, except where otherwise indicated.

On June 1, 2020, the Corporation completed the Consolidation on the basis of one post-consolidation Common Share for each 100 pre-consolidation Common Shares. Unless otherwise indicated, all references to the number of Common Shares and other securities of the Corporation and the prices thereto prior to the Consolidation date in this short form prospectus have been restated to reflect the Consolidation. As a result, restated figures may be slightly greater than or less than their pre-consolidation equivalent due to rounding.

NON-IFRS FINANCIAL MEASURES

References are made herein, and in certain of the documents incorporated by reference herein, to terms commonly used in the oil and natural gas industry. The Corporation uses "Adjusted Funds Flow", "Adjusted Working Capital", "Free Funds Flow", "Funds from Operations", "Net Debt (Surplus)", "Net Debt", "Operating Income" and "Operating Netback", which do not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other companies. These non-IFRS measures are further described and defined below.

Adjusted Funds Flow, Free Funds Flow and Net Debt

"**Adjusted Funds Flow**" is calculated as Funds from Operations, adjusted to add back transaction costs on acquisitions and to deduct cash lease payments. Spartan believes Adjusted Funds Flow is an appropriate metric to compare relative to Net Debt (Surplus) because it reflects the net cash flow generated from routine business operations and because Spartan does not include lease liabilities in its definition of Net Debt (Surplus).

"**Adjusted Working Capital**" is calculated as current assets less current liabilities, excluding derivative financial instrument assets and liabilities and lease liabilities.

"**Free Funds Flow**" is calculated as Adjusted Funds Flow less total net capital expenditures, excluding acquisitions.

"**Funds from Operations**" represents cash flow provided by operating activities determined in accordance with IFRS, adjusted to add back changes in non-cash working capital.

"**Net Debt (Surplus)**" includes the Term Facility and indebtedness under the Credit Facility, net of Adjusted Working Capital.

"**Net Debt**" to be assumed or paid out in connection with the Velvet Acquisition is defined as bank debt, senior secured notes (adjusted for the fair value of foreign exchange financial instruments) plus working capital and excludes commodity hedging.

The Corporation uses Adjusted Funds Flow, Free Funds Flow and Funds from Operations to analyze financial and operating performance and feels these benchmarks are key measures of profitability and overall sustainability. Spartan's management considers Adjusted Funds Flow to be a key measure that demonstrates the Corporation's ability to generate the cash necessary to repay Net Debt (Surplus) and make capital investments. The Corporation believes that by excluding the temporary impact of changes in non-cash operating working capital, Funds from Operations provides a useful measure of Spartan's ability to generate cash that is not subject to short term movements in non-cash operating working capital. By removing the impact of total net capital expenditures (excluding acquisitions) from Adjusted Funds Flow, Spartan believes Free Funds Flow provides an indication to investors and Spartan shareholders of the funds Spartan has available for future capital allocation decisions. These measures are not intended to represent operating profits nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. For a reconciliation of Adjusted Funds Flow, Funds from Operations and Net Debt (Surplus), see the Corporation's Interim MD&A incorporated herein by reference.

Operating Income and Operating Netback

"**Operating Income**" is calculated by deducting operating and transportation expenses from total revenue, after realized gains or losses on commodity price derivative financial instruments.

"**Operating Netback**" refers to Operating Income expressed per unit of production on a boe basis. Total revenue is comprised of oil and gas sales, net of royalties, plus processing and other revenue.

The Corporation believes Operating Income and Operating Netback are useful supplemental measures that demonstrate the Corporation's ability to generate the cash necessary to repay debt or fund future capital investment. Spartan considers Operating Income and Operating Netback as important measures to evaluate its operational performance as it demonstrates its field level profitability relative to current commodity prices. For a reconciliation of Operating Income and Operating Netback, see the Corporation's Interim MD&A incorporated herein by reference.

The commodity price assumptions used in the Operating Netback forecasts in this short form prospectus are based on actual commodity prices for the first six months of 2021 and strip pricing (as of July 26, 2021) thereafter. Details of the specific assumptions are provided below.

The Operating Netback (\$/boe) assumptions used for the Velvet Assets are as follows:

<u>Velvet Assets (\$/boe)</u>	<u>2021 (4 months)</u>	<u>2022</u>
Oil and gas sales	51.28	47.32
Processing and other revenue	-	-
Royalties	(3.54)	(3.07)
Operating expenses	(10.48)	(9.95)
Transportation expenses	(4.65)	(3.76)
Operating Netback, before financial instruments	32.61	30.54
Loss on commodity price derivative contracts	(15.12)	(5.42)
Operating Netback, after financial instruments	17.49	25.12

The forecasted Operating Netbacks for the Velvet Assets are based on the following: (a) for the four month period from September 1 to December 31, 2021, US\$69.91/bbl WTI; C\$4.15/GJ AECO; C\$89.77/bbl Edmonton Condensate; C\$82.32/bbl Edmonton Oil; US\$1.11/Gal Conway; and an exchange of CA\$/US\$1.25; and (b) for 2022, US\$65.24/bbl WTI; C\$3.22/GJ AECO; C\$80.54/bbl Edmonton Condensate; C\$76.48/bbl Edmonton Oil; US\$0.89/Gal Conway; and an exchange of CA\$/US\$1.25.

The pro forma Operating Netback (\$/boe) assumptions used under "*Recent Developments – 2021 and 2022 Corporate Guidance*" are summarized in the table below and are based on the following annual average commodity price assumptions: (a) for 2021, US\$66.45/bbl WTI; C\$3.45/GJ AECO; C\$83.41/bbl Edmonton Condensate; C\$77.90/bbl Edmonton Oil; US\$0.99/Gal Conway; and an exchange of CA\$/US\$1.25; and (b) for 2022, US\$65.24/bbl WTI; C\$3.22/GJ AECO; C\$80.54/bbl Edmonton Condensate; C\$76.48/bbl Edmonton Oil; US\$0.89/Gal Conway; and an exchange of CA\$/US\$1.25. The pro forma Operating Netback and preliminary pro forma guidance is based on estimated cash flows only. The Corporation has not yet contemplated potential changes in presentation of certain transportation and operating costs that may occur when the contracts are evaluated under IFRS at closing.

<u>Pro forma Guidance (\$/boe)</u>	<u>2021</u> <u>Post-Acquisition</u>	<u>2022</u> <u>Post-Acquisition</u>
Oil and gas sales	33.60	35.80
Processing and other revenue	-	-
Royalties	(3.49)	(3.29)
Operating expenses	(6.41)	(7.28)
Transportation expenses	(2.05)	(2.50)
Operating Netback, before financial instruments	21.65	22.73
Loss on commodity price derivative contracts	(3.46)	(2.11)
Operating Netback, after financial instruments	18.19	20.62

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Mcf	cubic metres	28.317
cubic metres	cubic feet	35.315
Bbl	cubic metres	0.159
cubic metres	Bbl	6.289
Feet	Metres	0.305
Metres	Feet	3.281
Miles	kilometres	1.609
Kilometres	Miles	0.621
Acres	hectares	0.405
Hectares	Acres	2.471
Gigajoules	MMbtu	0.950
MMbtu	gigajoules	1.0526

ABBREVIATIONS

Oil and Natural Gas Liquids

Bbl or bbl	barrel
Bbls or bbls	barrels
Bbl/d	barrels per day
Mbbl	thousand barrels
Mbbl/d	thousand barrels per day
MMbbl	million barrels
Mstb	thousand stock tank barrels of oil
NGLs	natural gas liquids

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMbtu	million British Thermal Units
MMbtu/d	MMbtu per day
GJ	Gigajoule
GJ/d	Gigajoules per day

Other

AECO	Alberta Energy Company "C" Meter Station of the NOVA Pipeline System
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
BOE or boe	barrel or barrels of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one barrel of oil
boe/d	barrels of oil equivalent per day
USD	United States dollars
Mboe	thousand barrels of oil equivalent.
MMboe	million barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in USD at Cushing, Oklahoma for the crude oil standard grade
M\$	thousands of dollars
MM\$	millions of dollars

BARREL OF OIL EQUIVALENCY

The term "boe" means a barrel of oil equivalent on the basis of 6 Mcf of natural gas to 1 Bbl of oil. The term boe may be misleading, particularly if used in isolation. **A boe conversation ratio of 6 Mcf: 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf: 1Bbl, utilizing a conversion ratio at 6 Mcf: 1 Bbl may be misleading as an indication of value.**

DRILLING LOCATIONS

This short form prospectus discloses drilling inventory in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked/potential locations. Proved locations and probable locations are derived from the Velvet Reserves Report and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates of the Corporation based on the prospective acreage of the Velvet Assets and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Of the 732 net drilling locations identified herein, 159 are proved locations, 45 are probable locations and 528 are unbooked locations. Unbooked locations have been identified by management of the Corporation as an estimation of the Corporation's multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Corporation will drill all unbooked drilling locations and if drilled, there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations considered for future development will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells by Velvet in relative close proximity to such unbooked drilling locations, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir, and therefore, there is more uncertainty whether wells will be drilled in such locations. If these wells are drilled, there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in certain of the provinces of Canada. Copies of the documents incorporated by reference herein may be obtained on request without charge from the Chief Financial Officer of the Corporation at 500, Penn West Plaza – East Tower, 207 – 9th Avenue S.W., Calgary, Alberta T2P 1K3, telephone (403) 265-8011. These documents are also available through the internet on the System for Electronic Document Analysis and Retrieval ("**SEDAR**"), which can be accessed at www.sedar.com.

The following documents, filed with the securities commissions or similar authorities in certain of the provinces of Canada, are specifically incorporated by reference in, and form an integral part of, this short form prospectus, provided that such documents are not incorporated by reference to the extent that their contents are modified or superseded by a statement contained in this short form prospectus or in any other subsequently filed document that is also incorporated by reference in this short form prospectus:

1. the AIF;
2. the audited consolidated financial statements of the Corporation as at and for the years ended December 31, 2020 and 2019, together with the notes thereto and the auditors' report thereon;
3. the audited consolidated financial statements of the Corporation as at and for the years ended December 31, 2019 and 2018, together with the notes thereto and the auditors' report thereon;
4. the Annual MD&A;
5. the Interim Financial Statements;
6. the Interim MD&A;
7. the management information circular of the Corporation dated March 24, 2021, with respect to the annual general and special meeting of the shareholders of the Corporation held on April 14, 2021;
8. the material change report of the Corporation dated August 2, 2021 in respect of the Offering and the Velvet Acquisition;

9. the material change report of the Corporation dated March 26, 2021 in respect of the closing of the March 2021 Acquisitions, the March 2021 Non-Brokered Offering and the March 2021 Prospectus Offering;
10. the material change report of the Corporation dated February 22, 2021 in respect of the March 2021 Acquisitions, the March 2021 Non-Brokered Offering and the March 2021 Prospectus Offering; and
11. the "template version" (as such term is defined in NI 41-101) of the term sheet for the Offering dated and filed on SEDAR on July 28, 2021.

Any documents of the type required by NI 44-101 to be incorporated by reference in a short form prospectus including any material change reports (excluding material change reports filed on a confidential basis), comparative interim financial statements, comparative annual financial statements and the auditors' report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms, marketing materials (as such term is defined in NI 41-101) and business acquisition reports filed by the Corporation with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this short form prospectus and prior to the termination of this Offering are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

MARKETING MATERIALS

Any "template version" of any "marketing materials" (as such terms are defined in NI 41-101) that are utilized by the Underwriters in connection with the Offering are not part of this short form prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this short form prospectus. Any template version of any marketing materials that has been, or will be, filed on SEDAR before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this short form prospectus.

THE CORPORATION

The Corporation was incorporated under the ABCA as "Dualix Energy International Inc." on March 20, 2006. On May 24, 2006, the Corporation's share structure was amended by way of a court-approved plan of arrangement (the "**Arrangement**") under Section 193 of the ABCA. Under the Arrangement, the articles of the Corporation were amended to: (i) remove all share transfer restrictions in the articles of the Corporation; and (ii) create and authorize the Corporation to issue an unlimited number of non-voting, redeemable, retractable special Preferred Shares. On December 20, 2016, the Corporation consolidated its issued and outstanding Common Shares on the basis of ten (10) pre-consolidation Common Shares for one (1) post-consolidation Common Share and changed its name to "Return Energy Inc." On June 1, 2020, the Corporation completed the Consolidation and changed its name to "Spartan Delta Corp." On January 1, 2021, the Corporation amalgamated with its wholly-owned subsidiary Winslow Resources Inc. to form "Spartan Delta Corp." On January 14, 2021, the Corporation amalgamated with the two private companies acquired pursuant to the January 2021 Acquisition to form "Spartan Delta Corp." On March 18, 2021, the Corporation amalgamated with Inception to form "Spartan Delta Corp."

Spartan's head office is located at 500, Penn West Plaza – East Tower, 207 – 9th Avenue S.W., Calgary, Alberta, T2P 1K3, and its registered office is located at 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta, T2P 5C5.

The Corporation does not have any material subsidiaries.

BUSINESS OF THE CORPORATION

The Corporation is a public energy company focused on oil and gas exploration and production with its offices located in Calgary, Alberta. As of the date hereof, Spartan's core operating assets and land holdings are primarily located in and around: (a) the Ferrier, Baptiste, Brazeau and Willesden Green areas of the central Alberta Deep Basin, principally targeting liquids-rich natural gas and light oil in the Spirit River and Cardium formations, respectively; and (b) the Gold Creek, Simonette and Karr areas of northwest Alberta, targeting the Montney formation. The Corporation also holds minor interests in assets located in British Columbia and Saskatchewan. For further information on the Corporation and its business activities, see the AIF which is incorporated by reference herein.

RECENT DEVELOPMENTS

March 2021 Transactions

On March 18, 2021, the Corporation acquired Inception and the Simonette Assets concurrently with the closing of the March 2021 Prospectus Offering and the March 2021 Non-Brokered Offering.

The March 2021 Acquisitions, together with the January 2021 Acquisition, established a new core development area in the Montney fairway, providing multiple years of development inventory consistent with the Corporation's Montney growth strategy. The March 2021 Acquired Assets also provide additional Spirit River and Cardium development opportunities synergistic with Spartan's core operations in west-central Alberta. Additional information regarding the March 2021 Acquisitions is provided below.

The March 2021 Prospectus Offering

On March 8, 2021, the Corporation closed a bought deal public offering of 11,250,000 subscription receipts at a price of \$4.00 per subscription receipt for aggregate gross proceeds of approximately \$45.0 million (the "**March 2021 Prospectus Offering**"). The gross proceeds of the March 2021 Prospectus Offering were released from escrow upon completion of the Inception Acquisition (as described below) and the March 2021 Non-Brokered Offering, and each subscription receipt was automatically exchanged for one Common Share for no additional consideration.

The March 2021 Non-Brokered Offering

On March 18, 2021, the Corporation closed a non-brokered private placement of: (i) 6,250,000 Common Shares at a price of \$4.00 per Common Share for aggregate gross proceeds of \$25.0 million; and (ii) 10,976,626 Flow-Through Shares at a price of \$4.92 per Flow-Through Share for aggregate gross proceeds of approximately \$54.0 million (together, the "**March 2021 Non-Brokered Offering**").

The Inception Acquisition

On March 18, 2021, Spartan acquired all of the issued and outstanding common shares of Inception by way of an exempt take-over bid for aggregate share consideration of \$91.0 million, in addition to the assumption by the Corporation of net debt estimated to be \$4.2 million (the "**Inception Acquisition**"). Inception was an oil-weighted Montney focused private company with operations primarily in the Gold Creek area of north-west Alberta, in the vicinity of the Corporation's lands acquired pursuant to the January 2021 Acquisition. The Inception Acquisition anchored a second core development area for Spartan with over 30,000 net acres of delineated Montney acreage, production of approximately 3,700 boe/d at the time of the acquisition (45% crude oil, 9% NGLs, 46% natural gas), and 100% working interests in a 10 Mbb/d operated central oil battery and a 40 MMcf/d operated natural gas processing facility in Gold Creek with excess capacity to support significant production growth.

In addition, Spartan issued a \$50.0 million unsecured non-interest bearing convertible promissory note (the "**Spartan Note**") to a major shareholder and debtholder of Inception (the "**Inception Shareholder**"). The Spartan Note will mature five years from the closing of the Inception Acquisition, and is convertible in whole or in part beginning on the day that is two years following the closing of the Inception Acquisition, at the Corporation'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

Corporation 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 Common Shares issuable on conversion of the Spartan 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.

The Simonette Acquisition

Pursuant to the Simonette Acquisition Agreement, the Corporation purchased the Simonette Assets for approximately \$20.6 million, comprised of cash in the amount of \$14.8 million (after interim closing adjustments) and the issuance of 1,493,180 Common Shares (the "**Simonette Acquisition**"), effective March 18, 2021. The Simonette Assets are located primarily in the Simonette area of north-west Alberta.

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

The Velvet Acquisition

Overview

On July 28, 2021, the Corporation entered into the Velvet Acquisition Agreement with Velvet pursuant to which the Corporation agreed to acquire all of the Velvet Shares in consideration for: (a) the payment of an aggregate of \$355.9 million in cash; and (b) the issuance of an aggregate of approximately 2,962,264 Common Shares at a deemed issuance price of \$5.30 per Common Share. In addition, the Corporation agreed to assume Velvet's Net Debt (estimated to be a maximum of \$371.7 million on the Velvet Closing Date), inclusive of Velvet's transaction costs. The Common Shares issuable pursuant to the Velvet Acquisition will be subject to escrow, releasable in one-sixth increments beginning on the date that is one month following the Velvet Closing Date and continuing every month thereafter.

Concurrent with the execution of the Velvet Acquisition Agreement, holders of more than 90% of the issued and outstanding Velvet Shares have executed letters of transmittal irrevocably accepting the Corporation's offer and tendering Velvet Shares under the Velvet Acquisition (the "**Letters of Transmittal**"). Upon all of the conditions of the Velvet Acquisition having been satisfied or waived, the Corporation will take up and pay for the Velvet Shares deposited under the Velvet Acquisition in accordance with the terms of the Velvet Acquisition Agreement and the Letters of Transmittal. The Velvet Acquisition Agreement provides for, among other things, a non-solicitation covenant on the part of Velvet.

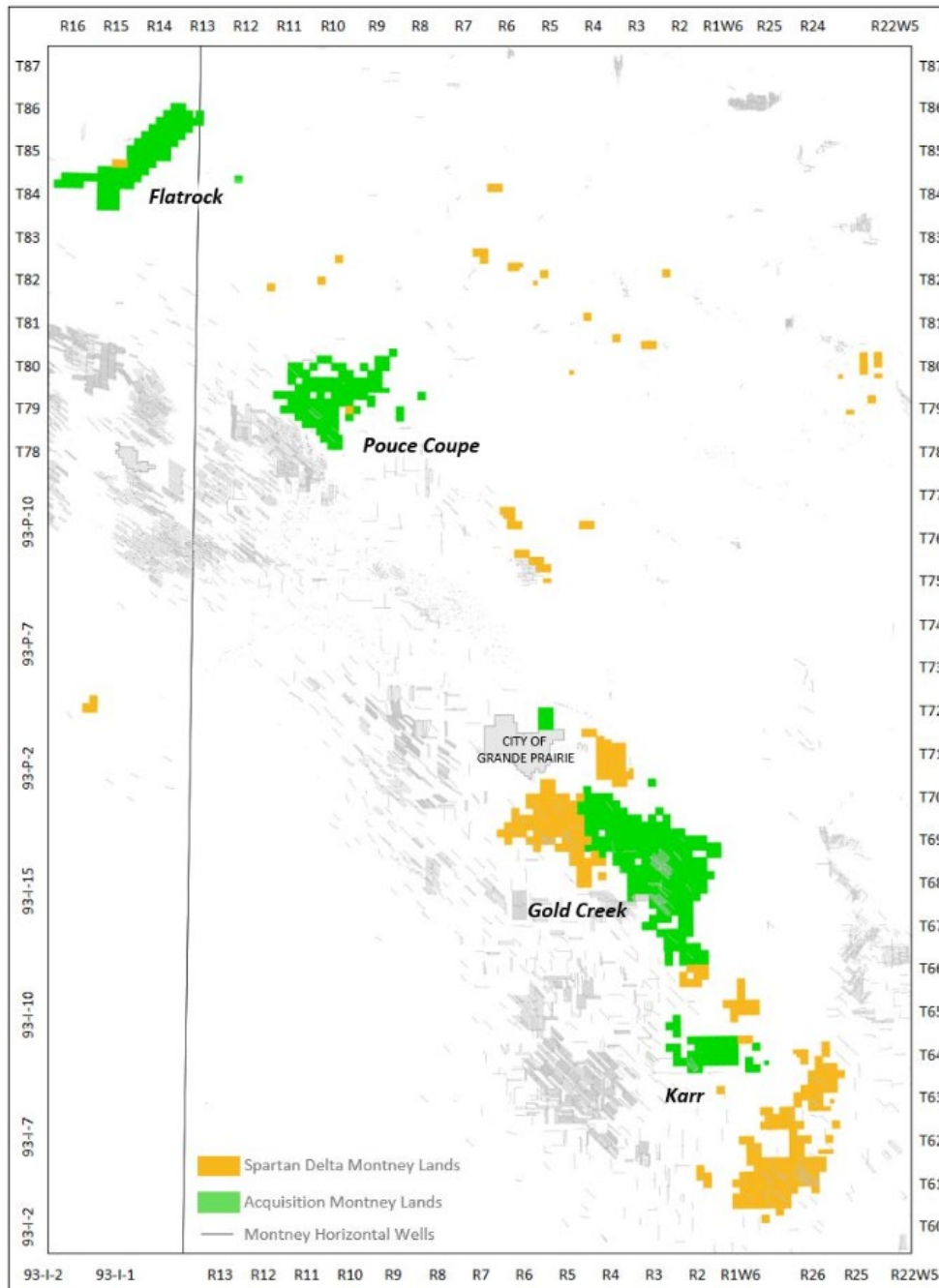
Closing of the Velvet Acquisition is expected to occur on or about August 31, 2021, subject to usual closing conditions and regulatory approvals, including the approval of the TSXV and the approval of the Commissioner of Competition pursuant to the *Competition Act* (Canada).

Benefits of the Velvet Acquisition

Closing of the Velvet Acquisition will represent a major milestone in the Corporation's Montney consolidation strategy, positioning Spartan as the largest producer and acreage holder in the oil window of Canada's Montney fairway. Production from the Velvet Assets is expected to be approximately 20,600 boe/d at close, consisting of 8,600 bbl/d of oil (42%), 3,000 bbl/d of NGLs (14%) and 54.0 MMcf/d of natural gas (44%). Significant growth opportunities have been identified on the 286,700 gross (281,700 net) acres of high working interest (98%) Montney Crown land associated with the Velvet Assets, including 732 net identified Montney drilling locations. Spartan expects to benefit from Velvet's Montney technical expertise on both the technical and operational fronts as the Corporation continues to develop this world class resource.

The Velvet Acquisition will further consolidate and add material scale to the Corporation's Montney focused core development area in northwest Alberta, building on the position acquired during the first half of 2021. The

following map below provides a visual representation of the Montney land holdings of both Spartan and Velvet in northwest Alberta and northeastern British Columbia.



The core assets to be acquired at Gold Creek represent more than 80% of Velvet's current production and include approximately 138,800 net acres (217 net sections) of contiguous Montney rights directly offsetting the Spartan assets acquired pursuant to the Inception Acquisition. The majority of the Velvet Gold Creek lands have been approved under Alberta's Emerging Resource Program, under which 42 existing wells and 34 future locations qualify for an enhanced royalty benefit which extends the 5% Crown royalty until the benefits expire in 2029. Integrated water recycling infrastructure at Gold Creek includes approximately 20 kilometres of produced water pipelines, nine disposal wells and a 100,000 cubic metre water storage pond. This infrastructure will provide a solid foundation for long-term sustainable development by ensuring reliable access to water while minimizing freshwater usage in completion operations.

The Velvet Assets at Karr are located between the Gold Creek and Simonette areas and will add to Spartan's existing land position at Karr, which was recently acquired through the May 2021 Acquisition. Karr will be a focus area for continued development and growth as the wells drilled to date are some of the most prolific Montney oil wells in the basin. In addition, the Velvet Assets provide further organic growth opportunities through low-risk Montney oil development at Pouce Coupe as well as significant undeveloped upside potential at Flatrock, an emerging resource property located in northeastern British Columbia. The production profile characteristics of the Velvet Assets compliment Spartan's current suite of assets, increasing oil-weighted production and drilling inventory while also providing further commodity diversification to the Corporation's portfolio.

The Velvet Assets have an industry leading LMR of 27.0 in Alberta (as of July 3, 2021) and will further improve the Spartan's combined LMR consistent with the Corporation's ESG objectives.

The Velvet Acquisition includes an estimated \$1.3 billion of available tax pools, including approximately \$0.6 billion of non-capital losses, which are expected to further enhance Spartan's future tax position by extending the Corporation's tax horizon.

The Velvet Acquisition has the following characteristics:

Total consideration ⁽¹⁾	\$743.3 million
2022E annual average production ⁽²⁾	23,750 boe/d
Montney land ⁽³⁾	281,700 net acres
Net Montney drilling locations ⁽⁴⁾	204 booked (528 unbooked)
Reserves volumes:	
Proved reserves ⁽⁵⁾⁽⁶⁾⁽⁷⁾	140.0 MMboe
Proved plus probable reserves ⁽⁵⁾⁽⁶⁾⁽⁷⁾	224.6 MMboe
Reserves values (discounted at 10% before tax):	
Proved reserves ⁽⁵⁾⁽⁶⁾	\$1,146.8 million
Proved plus probable reserves ⁽⁵⁾⁽⁶⁾	\$1,790.0 million
2022E Operating Netback ⁽⁸⁾⁽⁹⁾⁽¹⁰⁾	\$30.54/boe (\$25.12/boe after financial instruments)
2022E Operating Income ⁽⁸⁾⁽⁹⁾⁽¹⁰⁾	\$264.8 MM (\$217.8 MM after financial instruments)
Acquisition Metrics	
Multiple of 2022E Operating Income ⁽⁸⁾⁽⁹⁾⁽¹⁰⁾	2.8x (3.4x after financial instruments)
Proved reserves ⁽⁵⁾⁽⁶⁾⁽⁷⁾	\$5.31/boe
Proved plus probable reserves ⁽⁵⁾⁽⁶⁾⁽⁷⁾	\$3.31/boe

Notes:

- The aggregate consideration to be paid by the Corporation in respect of the Velvet Acquisition is estimated to be \$743.3 million, comprised of approximately \$355.9 million of cash consideration and the issuance of 2,962,264 Common Shares at a deemed issuance price of approximately \$5.30 per Common Share. The Net Debt of Velvet being assumed or paid out by the Corporation upon closing of the Velvet Acquisition is estimated to be \$371.7 million, inclusive of Velvet's transaction costs. See "*Non-IFRS Financial Measures*" for additional details.
- Production from the Velvet Assets is estimated to be approximately 20,600 boe/d at close, consisting of 8,600 bbl/d of oil (42%), 3,000 bbl/d of NGLs (14%) and 54.0 MMcf/d of natural gas (44%). Production estimates disclosed above are higher than historic production from the Velvet Assets disclosed in "*Information Concerning Velvet and the Velvet Assets – Summary of Reserves – Production History*" due to new wells that have been, or are expected to be, brought on production in the months of July and August, 2021. Specifically, three new Velvet oil wells have been brought on production in the Karr area, and four new Velvet oil wells in the Gold Creek area are currently being completed and are expected to be brought on production in late August 2021. The 2022 average production estimate of 23,750 boe/d is comprised 10,500 bbl/d of oil (44%), 3,080 bbl/d of NGLs (13%) and 61.0 MMcf/d of natural gas (43%).
- Total land holdings to be acquired is 383,895 net acres, of which approximately 281,700 net acres represent lands in the Montney formation. See "*Information Concerning Velvet and the Velvet Assets – Properties with No Attributable Reserves*" for additional details.
- See "*Drilling Locations*" for additional details.
- Reserves information is derived from the Velvet Reserves Report, in accordance with NI 51-101 and the most recent publication of the Canadian Oil and Gas Evaluation Handbook. See "*Information Concerning Velvet and the Velvet Assets*".
- Based on working interest reserves of the Velvet Assets before deduction of royalties and without including any royalty interest reserves.
- Proved reserves consisting of 52.7 MMbbl of oil (38%), 19.2 MMbbl of NGLs (14%) and 409.1 Bcf of natural gas (48%). Proved plus probable reserves consisting of 79.4 MMbbl of oil (35%), 31.1 MMbbl of NGLs (14%) and 684.6 Bcf of natural gas (51%).

8. See "Non-IFRS Financial Measures" for additional details.
9. The estimated Operating Income and Operating Netback for the Velvet Assets in 2022 is based on strip pricing as of July 26, 2021, specifically: US\$65.24/bbl WTI; C\$3.22/GJ AECO; C\$80.54/bbl Edmonton Condensate; C\$76.48/bbl Edmonton Oil; US\$0.89/Gal Conway; and an exchange of CA\$/US\$1.25. See "Non-IFRS Financial Measures" and "Special Note Regarding Forward-Looking Statements" for additional details.
10. Assumes an August 31, 2021 closing date for the Velvet Acquisition.

Significant Acquisition

The Velvet Acquisition will represent a "significant acquisition" for the Corporation for the purposes of Part 8 of NI 51-102. Accordingly, Spartan will be required under Canadian securities laws to file a business acquisition report in respect of the Velvet Acquisition.

2021 and 2022 Preliminary Corporate Guidance

The following table summarizes Spartan's pro forma operating and financial guidance for 2021 and preliminary outlook for 2022. The pro forma guidance for 2021 includes the Velvet Assets for the four-month period following the anticipated closing of the Velvet Acquisition on August 31, 2021. The forecasted financial guidance is based on the midpoint of production guidance of 44,000 boe/d and 68,500 boe/d, respectively, for 2021 and 2022.

Based on the Corporation's preliminary guidance for 2022, Spartan is forecasting Adjusted Funds Flow of approximately \$444.0 million on a capital expenditure budget of \$300.0 million. Free Funds Flow of \$144.0 million forecast for 2022 is expected to be used to reduce Net Debt (Surplus) to approximately \$302.0 million at December 31, 2022. Spartan's forecasted 2022 year-end Net Debt (Surplus) is estimated to be 0.7 times trailing Adjusted Funds Flow for 2022. The Corporation's 2021 guidance is based on calendar year average forecasts of US\$66.45 per barrel for WTI crude oil and \$3.45 per GJ for AECO natural gas. Spartan's preliminary forecast for 2022 is based on US\$65.24 per barrel for WTI crude oil and \$3.22 per GJ for AECO natural gas. See "Non-IFRS Financial Measures" for additional details.

	2021	2022
	Post-Acquisition⁽¹⁾⁽²⁾	Post-Acquisition⁽²⁾
Average production (boe/d) ⁽³⁾	43,000 - 45,000	66,000 - 71,000
% Oil and NGLs	34%	42%
Operating Netback (\$/boe) ⁽⁴⁾	\$18.19	\$20.62
Adjusted Funds Flow (\$MM) ⁽⁴⁾	\$249	\$444
Capital expenditures (\$MM) ⁽⁵⁾	\$175	\$300
Free Funds Flow (\$MM) ⁽⁴⁾	\$74	\$144
Net Debt (Surplus) (\$MM) ⁽⁴⁾	\$446	\$302
Common Shares outstanding, end of year (MM) ⁽⁶⁾	147.1	147.1

Notes:

1. Assumes an August 31, 2021 closing date for the Velvet Acquisition.
2. Changes in forecast commodity prices, differences in the timing of capital expenditures, and variances in average production estimates can have a significant impact on the key performance measures included in the guidance for 2021 and 2022. The Corporation's actual results may differ materially from these estimates. Holding all other assumptions constant for 2021: if the calendar year average forecast for AECO natural gas increased (decreased) by \$0.25/GJ, the Adjusted Funds Flow forecast for 2021 would increase (decrease) by approximately \$12 million; or, if the calendar year average price forecast for WTI crude oil increased (decreased) by US\$5.00/bbl, the Adjusted Funds Flow forecast for 2021 would increase (decrease) by approximately \$16 million. Assuming capital expenditures are unchanged, the impact on Free Funds Flow and resulting Net Debt (Surplus) would be equivalent to the increase or decrease in Adjusted Funds Flow. Holding all other assumptions constant for 2022: if the forecast for AECO natural gas increased (decreased) by \$0.25/GJ, the Adjusted Funds Flow forecast for 2022 would increase (decrease) by approximately \$16 million; or, if the forecast price for WTI crude oil increased (decreased) by US\$5.00/bbl, the Adjusted Funds Flow forecast for 2022 would increase (decrease) by approximately \$39 million. Assuming capital expenditures are unchanged, the impact on Free Funds Flow and resulting Net Debt (Surplus) would be equivalent to the increase or decrease in Adjusted Funds Flow.
3. Production guidance following the completion of the Velvet Acquisition shown under "2021 Post-Acquisition" and "2022 Post-Acquisition" consists of approximately 10% oil, 4% condensate, 20% NGLs and 66% natural gas for 2021, and 21% oil, 2% condensate, 19% NGLs and 58% natural gas for 2022.
4. See "Non-IFRS Financial Measures" for additional details.
5. Capital expenditures exclude acquisitions.

6. Includes 114,479,603 Common Shares outstanding as of the date hereof, 2,962,264 Common Shares to be issued in consideration for the Velvet Acquisition, and 29,703,000 Common Shares to be issued in connection with the Offering. The estimate assumes that the Over-Allotment Option is not exercised. The forecast does not include Common Shares potentially issuable in respect of dilutive securities.

New Credit Facilities

In connection with the Velvet Acquisition, on July 28, 2021, the Corporation entered into a commitment letter agreement with a syndicate of lenders (the "**New Lenders**") pursuant to which the New Lenders have agreed to fully underwrite and commit to provide the Corporation with new senior secured extendible revolving credit facilities in the aggregate principal amount of \$450.0 million (the "**New Credit Facilities**"), which will replace the Credit Facilities effective upon completion of the Velvet Acquisition.

The New Credit Facilities will be comprised of extendible revolving credit facilities consisting of a \$50.0 million operating loan facility and a \$400.0 million syndicated loan facility. The New Credit Facilities will have a revolving period of 364 days, extendible annually at the request of the Corporation, subject to approval of the Lenders. If not extended, the facilities will automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The borrowing base for the New Credit Facilities will be \$450.0 million, and will be subject to semi-annual redeterminations occurring by May 31st and by November 30th of each year, based upon the Corporation's annual independent engineering report or updates thereto. Notwithstanding the foregoing, the first scheduled review of the borrowing base will be completed by May 31, 2022. The New Credit Facilities will also be subject to redetermination upon, among other things, the LMR of the Corporation or any of its subsidiaries (a "**Loan Party**") falling below 2.00, or a Loan Party disposing of material properties or becoming subject to a material abandonment and reclamation order. The New Credit Facilities will be secured by a first fixed and floating charge debenture over all the Corporation's assets in the amount of \$1.0 billion and general assignment of book debts. The New Credit Facilities will bear interest at market interest rates that fluctuate plus a margin based on the net debt to cash flow ratio of the Corporation. Advances (including letters of credit) under the New Credit Facilities can be drawn in either Canadian or U.S. funds and bear interest at the agent bank's prime lending rate, bankers' acceptance discount rates or London Interbank Offered Rates, plus applicable margins. Repayments of principal are not required until the maturity date, provided that the borrowings under the New Credit Facilities do not exceed the borrowing base and the Corporation is in compliance with all covenants, representations and warranties provided for in the credit agreement to be entered into in connection with the New Credit Facilities (the "**New Credit Agreement**").

The Corporation will be subject to certain covenants under the terms of the New Credit Facilities which include, but are not limited to, the maintenance of the following financial covenants: (i) for the period commencing from the Velvet Closing Date and ending May 31, 2022, the Corporation's net debt to cash flow ratio (as defined in the New Credit Agreement) shall not exceed 2.0 to 1.0; and (ii) for so long as the following covenants applies to the Term Facility (as defined below): (A) the maximum total debt to EBITDA, calculated quarterly, shall not exceed 2.5 to 1.0, where total debt includes all secured debt under the New Credit Facilities and the Term Facility; and (B) the asset coverage ratio of the Corporation shall not be less than 1.5 to 1.0, calculated annually as the proved developed producing reserves of the Corporation (before income tax, discounted at 10% present value), as evaluated by an independent third party engineering report and evaluated on then strip commodity pricing, divided by the then outstanding total debt balance of the Corporation. The New Credit Facilities will also include operating restrictions on the Corporation, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements.

In connection with the Velvet Acquisition, a term sheet has also been provided by SAF Infrastructure & Credit LP, facilitated and managed by the SAF Group ("**SAF**"), to provide a \$150.0 million non-revolving term facility (the "**Term Facility**") to the Corporation. The Term Facility is a single drawdown facility and will be available solely to finance (directly or indirectly) the Velvet Acquisition, together with reasonable transaction costs and expenses related thereto. The Term Facility will have a sixty-month term and will be secured on a second-priority basis to the New Credit Facilities. The Term Facility will be subject to annual reviews and the principal is payable starting on the 37th month at an amortization rate of 7.5% per annum, payable monthly. The Corporation may repay the outstanding balance under the Term Facility at any time after six months, provided that if repayment occurs after six months and before 36 months after the Term Facility has been provided, the Corporation shall pay all interest and fees that would have otherwise been payable up to the 36th month. The Term Facility will bear interest at a floating annual interest rate (based on prime) of 7.70%, payable monthly at a floating rate (based on prime) of

0.6417% based on the monthly opening balance of the Term Facility. The Term Facility will also include the same asset coverage and total debt to EBITDA financial covenants as the New Credit Facilities, as described above.

The Corporation will utilize the Escrowed Funds, together with cash on hand and funds available under the Term Facility and the New Credit Facilities, to pay for the Velvet Shares pursuant to the Velvet Acquisition. A credit agreement has not yet been executed for the New Credit Facilities or the Term Facility, and any such agreements will be conditional upon closing of the Velvet Acquisition. See "*Consolidated Capitalization*" and "*Risk Factors – Credit Facilities Risk*".

The New Lenders will include additional lenders to the Corporation. Certain of the Underwriters are direct or indirect subsidiaries of Canadian chartered banks or other provincially regulated financial institutions, as applicable, that will be New Lenders. Consequently, the Corporation may be considered to be a "connected issuer" of such Underwriters under applicable securities laws. See "*Relationship between the Corporation and Certain Underwriters*".

Graduation to Toronto Stock Exchange

Spartan has received conditional approval from the Toronto Stock Exchange ("**TSX**") to list its Common Shares on the TSX. In connection with its graduation, the Common Shares will delist from the TSXV. Final approval for TSX listing is subject to Spartan fulfilling certain standard and customary conditions. The trading symbol for the Common Shares on the TSX will remain unchanged as "SDE".

INFORMATION CONCERNING VELVET AND THE VELVET ASSETS

Summary of Reserves

The reserves data for the assets of Velvet set forth below is based upon the Velvet Reserves Report with an effective date of July 1, 2021, as prepared by McDaniel. The properties evaluated in Velvet Reserves Report include all of Velvet's petroleum interests in the Gold Creek, Karr and Pouce Coupe areas in the province of Alberta. There are no booked reserves attributed to the Flatrock property. The reserves data summarizes the oil, natural gas liquids and natural gas interests reserves and the net present value of future net revenue for these reserves using forecast prices and costs. The Velvet Reserves Report has been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook and the reserve definitions contained in NI 51-101.

The Velvet Reserves Report was prepared for Velvet and the Corporation is unable to assess Velvet's procedures for providing information to McDaniel or for assembling and reporting other information to McDaniel associated with the Velvet Assets. See "*Risk Factors – Engineering, Title, Environmental and Economic Assessments required for the Velvet Acquisition that may be Materially Incorrect*".

On June 30, 2021, Velvet completed a disposition of certain oil and gas assets located primarily in the Edson area of Central Alberta (the "**Edson Assets**") for a gross cash proceeds of \$143.0 million (\$130.9 million after estimated purchase price adjustments) (the "**Edson Disposition**"). All reserves data and other information provided under the heading "*Information Concerning Velvet and the Velvet Assets*" in this short form prospectus expressly excludes the Edson Assets.

Summary of Oil and Natural Gas Reserves as at July 1, 2021 – Forecast Prices and Costs

RESERVES CATEGORY	Light and Medium Oil		Natural Gas		Coal Bed Methane		Natural Gas Liquids ⁽³⁾		TOTAL	
	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)	Gross (MBOE)	Net (MBOE)
Proved Reserves										
Developed Producing	8,800	7,615	79,807	75,537	-	-	4,771	4,155	26,872	24,360
Developed Non-Producing	-	-	-	-	-	-	-	-	-	-
Undeveloped	43,895	38,681	329,246	311,494	-	-	14,393	12,491	113,162	103,088
Total Proved	52,695	46,297	409,053	387,031	-	-	19,164	16,646	140,034	127,448
Probable	26,705	21,626	275,570	258,314	-	-	11,972	9,651	84,606	74,329
Total Proved Plus Probable	79,400	67,922	684,623	645,344	-	-	31,136	26,297	224,640	201,777

Notes:

- (1) Gross reserves are working interest reserves before royalty deductions.
- (2) Net reserves are working interest reserves after royalty deductions plus royalty interest reserves.
- (3) Natural Gas Liquids include Condensate volumes.

Net Present Value of Future Net Revenue as at July 1, 2021 – Forecast Prices and Costs

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR)				
	0	5	10	15	20
	(in \$ thousands)				
Proved Reserves					
Producing	489,919	433,231	388,380	353,518	325,971
Non-Producing	-	-	-	-	-
Undeveloped	1,364,698	1,005,502	758,414	582,629	453,649
Total Proved	1,854,617	1,438,733	1,146,793	936,147	779,620
Probable	1,279,327	878,262	643,190	496,017	398,454
Total Proved Plus Probable	3,133,944	2,316,995	1,789,983	1,432,164	1,178,074

Note:

- (1) Three Consultant Average Pricing (McDaniel, GLJ Ltd. and Sproule Associates Limited).

Total Future Net Revenue (Undiscounted) as at July 1, 2021 – Forecast Prices and Costs

RESERVES CATEGORY	Total Future Revenue (Undiscounted in \$ thousands)					Future Net Revenue Before Income Taxes
	Revenue ⁽¹⁾	Royalties ⁽²⁾	Operating Costs	Development Costs	Abandonment and Reclamation Costs ⁽³⁾	
Total Proved	6,116,386	587,372	2,357,685	1,275,486	41,226	1,854,617
Total Proved Plus Probable	9,750,655	1,098,198	3,816,247	1,652,992	49,273	3,133,944

Notes:

- (1) Includes all product revenues and other revenues as forecast.
- (2) Royalties include any net profits interests paid.
- (3) Abandonment and reclamation costs are defined by NI 51-101 as all costs associated with the process of restoring Velvet's properties that have been disturbed by oil and gas activities to a standard imposed by applicable government or regulatory authorities.

Net Present Value of Future Net Revenue by Production Type as at July 1, 2021 – Forecast Prices and Costs

CATEGORY	Future Net Revenue Before Income Taxes (Discounted at 10%/Year) (\$ thousands)	Unit Value Before Income Taxes (Discounted at 10%/Year) ⁽¹⁾ (\$/BOE)
Proved	1,146,793	8.19
Proved Plus Probable	1,789,983	7.97

Note:

- (1) Unit values are based on net reserves.

Pricing Assumptions

The forecast cost and price assumptions assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rates utilized in the Velvet Reserves Report were an average of three consultant's price forecasts (McDaniel, GLJ Ltd. and Sproule Associates Limited), as at June 30, 2021, as follows:

Year	Crude Oil WTI Cushing Oklahoma (US\$/Bbl)	Edmonton Light Crude Oil (C\$/Bbl)	Western Canadian Select (C\$/Bbl)	Edmonton Ethane (C\$/Bbl)	Edmonton Propane (C\$/Bbl)	Edmonton Butane (C\$/Bbl)	Edmonton Cond. & Natural gasoline (C\$/Bbl)	Alberta AECO Spot Price (C\$/MM Btu)	Capital / Operating Cost Inflation Rate (%/Yr) ⁽¹⁾	Exchange Rate (US\$/C\$)
2021	71.33	83.20	72.22	11.21	36.19	41.58	87.64	3.46	0	0.803

Year	Crude Oil WTI Cushing Oklahoma (US\$/Bbl)	Edmonton Light Crude Oil (C\$/Bbl)	Western Canadian Select (C\$/Bbl)	Edmonton Ethane (C\$/Bbl)	Edmonton Propane (C\$/Bbl)	Edmonton Butane (C\$/Bbl)	Edmonton Cond. & Natural gasoline (C\$/Bbl)	Alberta AECO Spot Price (C\$/MM Btu)	Capital / Operating Cost Inflation Rate (%/Yr) ⁽¹⁾	Exchange Rate (US\$/C\$)
2022	67.20	78.27	66.84	10.10	33.82	42.97	82.38	3.13	2.3	0.802
2023	63.95	74.06	61.73	8.72	31.62	44.34	78.45	2.72	2.3	0.800
2024	63.23	73.05	60.70	8.71	31.02	43.79	77.52	2.71	2.0	0.800
2025	64.50	74.51	61.91	8.89	31.64	44.66	79.07	2.76	2.0	0.800
2026	65.79	76.00	63.15	9.07	32.27	45.56	80.66	2.82	2.0	0.800
2027	67.10	77.52	64.42	9.25	32.92	46.47	82.27	2.88	2.0	0.800
2028	68.44	79.07	65.70	9.45	33.58	47.40	83.91	2.94	2.0	0.800
2029	69.81	80.66	67.02	9.64	34.25	48.34	85.59	2.99	2.0	0.800
2030	71.21	82.27	68.36	9.83	34.93	49.31	87.30	3.05	2.0	0.800
2031	72.63	83.91	69.72	10.03	35.63	50.30	89.05	3.12	2.0	0.800
Thereafter				Escalation rate of 2%/yr					2.0	0.800

Note:

(1) Exchange rates used to generate the benchmark reference prices in this table.

Velvet's weighted average realized sales prices for the 12-month period ended July 1, 2021 were \$59.18/Bbl light and medium crude oil, \$24.34/Bbl for NGLs and \$2.95/Mcf for natural gas. The average realized price on a total oil equivalent basis was \$33.98/BOE.

Other Oil and Natural Gas Information

Principal Properties

The following is a description of Velvet's principal oil and natural gas properties that are on production or under development as at July 1, 2021. Information in respect of current production is average production, net to its working interest, except where otherwise indicated. Reserves noted are company interest reserves which include both working interest and royalty interest values.

Velvet's oil and natural gas properties are concentrated in the Gold Creek, Karr and Pouce Coupe areas of north west Alberta. The Flatrock property located in northeastern British Columbia has no booked reserves.

Oil and Natural Gas Wells

The following table sets forth the number and status of wells in which Velvet had a working interest as at July 1, 2021.

Area	Category	Oil Well		Natural Gas Wells	
		Gross	Net	Gross	Net
Alberta	Producing	59	59.0	3	1.9
	Non-Producing	37	31.0	65	45.1

Note:

(1) Totals do not include abandoned wells or water disposal/injectors.

Properties with No Attributable Reserves

The following table sets out Velvet's developed and undeveloped land holdings as at July 1, 2021:

Province	Undeveloped Acres		Developed Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	287,746	278,815	65,874	50,872	353,620	329,687
British Columbia	54,208	54,208	-	-	54,208	54,208
Total	341,954	333,023	65,874	50,872	407,828	383,895

Velvet had 407,828 gross acres (163,392 gross hectares) and 383,895 net acres (153,817 net hectares) of developed and undeveloped land as at July 1, 2021 located in Alberta and British Columbia. Velvet has leases on 79,040 gross (75,980 net) acres that expire in 2021. Some of these leases may be extended at the discretion of the leaseholder.

Forward Contracts

The following tables summarize Velvet's risk management contracts outstanding as at June 30, 2021:

Risk Management Contract Summary ⁽¹⁾						
Oil and Condensates						
Period	US\$ WTI Swaps ⁽²⁾⁽³⁾		US\$ MSW – WTI Swaps ⁽²⁾⁽³⁾⁽⁴⁾		US\$ C5 - WTI Swaps ⁽²⁾⁽³⁾⁽⁴⁾	
	Volume (Bbl/d)	(US\$/bbl)	Volume (Bbl/d)	(US\$/bbl)	Volume (Bbl/d)	(US\$/bbl)
Q3 2021	6,337	\$47.83	4,000	(\$4.71)	1,000	(\$2.26)
Q4 2021	5,250	\$49.69	4,000	(\$4.71)	1,000	(\$2.26)
Q1 2022	4,750	\$49.71	-	-	-	-
Q2 2022	4,000	\$49.74	-	-	-	-

Notes:

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

Risk Management Contract Summary ⁽¹⁾						
Natural Gas						
Period	US\$ NYMEX Henry Hub Swaps – Short ⁽³⁾		US\$ NYMEX Henry Hub Swaps – Long ⁽³⁾		US\$ NYMEX Henry Hub Collar ⁽²⁾⁽³⁾⁽⁴⁾	
	Volume (MMbtu/d)	(US\$/MMbtu)	Volume (MMbtu/d)	(US\$/MMbtu)	Volume (MMbtu/d)	Floor – Ceiling (US\$/MMbtu)
Q3 2021	35,000	\$2.66	8,370	3.29	30,000	\$2.70 - \$2.90
Q4 2021	28,370	\$2.82	-	-	39,946	\$2.65 - \$3.09
Q1 2022	25,000	\$2.94	-	-	45,000	\$2.63 - \$3.16
Q2 2022	25,000	\$2.70	-	-	30,000	\$2.70 - \$2.90
Q3 2022	25,000	\$2.70	-	-	30,000	\$2.70 - \$2.90
Q4 2022	25,000	\$2.86	-	-	10,109	\$2.70 - \$2.90
Q1 2023	26,389	\$2.83	-	-	-	-
Q2 2023	10,000	\$2.65	-	-	-	-
Q3 2023	10,000	\$2.65	-	-	-	-
Q4 2023	10,000	\$2.65	-	-	-	-

Notes:

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

Risk Management Contract Summary ⁽¹⁾								
Natural Gas								
Period	C\$ AECO 5A Swaps - Short		C\$ AECO 7A Swaps - Long		US\$ NYMEX – AECO 7A Basis Swaps – Short ⁽²⁾		US\$ NYMEX – AECO 7A Basis Swaps – Long ⁽²⁾	
	Volume (GJ/d)	(C\$/GJ)	Volume (GJ/d)	(C\$/GJ)	Volume (MMbtu/d)	(US\$/MMbtu)	Volume (MMbtu/d)	(US\$/MMbtu)
Q3 2021	8,424	\$3.17	8,424	\$3.13	130,000	(\$1.09)	73,370	(\$0.75)
Q4 2021	-	-	-	-	130,000	(\$1.09)	45,000	(\$0.85)
Q1 2022	-	-	-	-	85,000	(\$1.13)	-	-
Q2 2022	-	-	-	-	85,000	(\$1.13)	-	-
Q3 2022	-	-	-	-	85,000	(\$1.13)	-	-
Q4 2022	-	-	-	-	85,000	(\$1.15)	-	-
Q1 2023	-	-	-	-	85,000	(\$1.13)	-	-
Q2 2023	-	-	-	-	85,000	(\$1.09)	-	-
Q3 2023	-	-	-	-	85,000	(\$1.08)	-	-
Q4 2023	-	-	-	-	85,000	(\$1.08)	-	-

Notes:

- (1) The prices and volumes in this table represent averages for contracts represented in the respective periods.
- (2) NYMEX swaps are settled based on the last day of settlement of monthly futures contracts.

Velvet entered into currency rate swap contracts to fix the exchange rate on the US\$175.0 million principal amount of its senior secured notes. The contracts are to buy U.S. dollars at an average rate of C\$1.3469 and expire January 31, 2022. The currency swap contract will be unwound on or prior to closing of the Velvet Acquisition in connection with the planned redemption of Velvet's senior secured notes, which is a condition precedent under Spartan's New Credit Facilities.

Tax Horizon

As at June 30, 2021, Velvet had approximately \$1.3 billion of available tax pools, of which approximately \$0.6 billion are non-capital losses. It is expected, based upon current legislation, the projections contained in the Velvet Reserves Report for the Velvet Assets, and various other assumptions that no cash income taxes are to be paid by Velvet for approximately five years. A higher or lower level of capital expenditures than those currently contemplated could further extend or shorten the estimated tax horizon.

Costs Incurred

The following table summarizes Velvet's property acquisition costs, exploration costs and development costs for the 12 months ended June 30, 2021. Consistent with the presentation of the Velvet Reserves Report, the summary of costs incurred relates to the properties to be acquired by Spartan and specifically excludes expenditures related to the Edson Assets. The amounts reported as unproved acquisition costs and exploration costs are consistent with capital expenditures classified as exploration and evaluation assets under IFRS. The amounts reported as proved acquisition costs and development costs are consistent with capital expenditures classified as property, plant and equipment under IFRS.

Acquisitions and Capital Expenditures ⁽³⁾	
Nature of Cost	Amount (M\$)
Corporate Acquisition Costs	-
Property Acquisition Costs	-
Unproved	391
Proved	100
Exploration Costs ⁽¹⁾	1,257
Development Costs ⁽²⁾	87,360
Total	89,108

Notes:

- (1) Geological and geophysical capital expenditures and drilling costs for exploration wells.
- (2) Development costs include development drilling costs and equipping, tie-in and facility costs for all wells.
- (3) Excludes capital expenditures associated with dispositions (including the Edson Disposition) during the period ended June 30, 2021.

Exploration and Development Activities

The following table sets forth the gross and net development wells completed by Velvet during 12 months ended June 30, 2021, in respect of the Velvet Assets:

	Development Wells		Exploration Wells	
	Gross	Net	Gross	Net
Light and Medium Crude Oil	9.0	9.0	-	-
Heavy Crude Oil	-	-	-	-
Conventional Natural Gas	-	-	-	-
Service	1.0	1.0	-	-
Dry and Abandoned	-	-	-	-
Stratigraphic Test	-	-	-	-
Total	10.0	10.0	-	-

Production Estimates

The following table sets out the first-year production forecast of volumes of Velvet's working interest (Company Gross) production for each product type estimated by McDaniel for the period of July 1, 2021 to December 31, 2021 in the Velvet Reserves Report which is reflected in the estimate of future net revenue disclosed in the tables above.

	Gross Lt & Med Crude Oil (Bbl/d)	Gross Conventional Natural Gas (Mcf/d)	Gross Natural Gas Liquids (Bbl/d)	Gross Barrel of Oil Equivalent (BOE/d)
Proved	9,004	56,700	3,206	21,658
Proved Plus Probable	9,627	59,000	3,321	22,779

Production History

The following tables disclose the average daily net production from the Velvet Assets for the year ended December 31, 2020 and the six-month period ended June 30, 2021.

Year Ended December 31, 2020 ⁽¹⁾					
Property	Crude Oil Lt & Med (Bbl/d)	Crude Oil Heavy (Bbl/d)	Natural Gas Liquids (Bbl/d)	Conventional Natural Gas (Mcf/d)	Total (BOE/d)
Gold Creek	5,952	-	2,573	45,942	16,182
Karr	661	-	50	744	835
Pouce Coue	634	-	94	6,432	1,800
Total	7,247	-	2,717	53,118	18,817

Six Months Ended June 30, 2021 ⁽¹⁾					
Property	Crude Oil Lt & Med (Bbl/d)	Crude Oil Heavy (Bbl/d)	Natural Gas Liquids (Bbl/d)	Conventional Natural Gas (Mcf/d)	Total (BOE/d)
Gold Creek	5,730	-	3,119	50,878	17,329
Karr	595	-	44	617	741
Pouce Coue	491	-	55	5,701	1,496
Total	6,816	-	3,218	57,196	19,566

Note:

(1) Average daily net production tables exclude production associated with dispositions (including the Edson Disposition) as at June 30, 2021, consisting of 8,414 boe/d for the year ended December 31, 2020 and 7,744 boe/d for the six months ended June 30, 2021.

Financial Statements

Appendix "A" hereto contains: (a) the audited annual financial statements of Velvet as at December 31, 2020, December 31, 2019 and January 1, 2019, and for the years ended December 31, 2020 and 2019, together with the notes thereto and the independent auditor's report thereon; and (b) the unaudited interim financial statements for Velvet as at and for the three months ended March 31, 2021 and 2020, together with the notes thereto (the "**Velvet Financial Statements**"). As more particularly described in the subsequent events notes to the Velvet Financial Statements, among other things, Velvet completed the Edson Disposition on June 30, 2021 for estimated net proceeds of \$130.9 million. During the year ended December 31, 2020, the Edson Assets contributed \$58.5 million of operating revenue and \$33.1 million of Operating Income before financial instruments (see, note 31 "Subsequent Events" of Velvet's annual financial statements). For the three months ended March 31, 2021, the Edson Assets contributed \$21.4 million of operating revenue and \$14.0 million of Operating Income before financial instruments (see, note 23 "Subsequent Events" of Velvet's interim financial statements). Proceeds from the Edson Disposition were used initially to pay down Velvet's syndicated credit facility.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Corporation as at March 31, 2021: (i) before giving effect to the Offering and the Velvet Acquisition; (ii) after giving effect to the Offering and the Velvet Acquisition (assuming the Over-Allotment Option is not exercised); and (iii) after giving effect to the Offering and the Velvet Acquisition, including the full exercise of the Over-Allotment Option. The table should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Corporation as at and for the three-month period ended March 31, 2021 and 2020.

	As at March 31, 2021 before giving effect to the Offering or the Velvet Acquisition	As at March 31, 2021 after giving effect to the Offering and the Velvet Acquisition ⁽¹⁾⁽²⁾	As at March 31, 2021 after giving effect to the Offering, the Velvet Acquisition and the Over-Allotment Option ⁽¹⁾⁽³⁾
Indebtedness			
Credit Facilities ⁽⁴⁾	\$Nil	\$Nil	\$Nil

New Credit Facilities ⁽⁵⁾	\$Nil	\$303,311,356 ⁽⁶⁾	\$281,711,334 ⁽⁶⁾
Term Facility ⁽⁵⁾	\$Nil	\$144,700,000 ⁽⁷⁾	\$144,700,000 ⁽⁷⁾
Spartan Note ⁽⁸⁾	\$50,000,000	\$50,000,000	\$50,000,000
Share Capital⁽⁹⁾⁽¹⁰⁾	\$325,017,000	\$485,519,645⁽¹¹⁾	\$507,326,667⁽¹¹⁾
Common Shares (unlimited)	113,932,280	146,597,544	151,052,994
Preferred Shares (unlimited)	Nil	Nil	Nil

Notes:

- See "*The Velvet Acquisition*" for further information on the Velvet Acquisition.
- Based on the issuance of: (i) 2,962,264 Common Shares in connection with the Velvet Acquisition, at a deemed issuance price of \$5.30 per Common Share; and (ii) 29,703,000 Underlying Common Shares pursuant to 29,703,000 Subscription Receipts issued in connection with the Offering for aggregate gross proceeds of \$150,000,150, less the Underwriting Fee of \$6,000,006 and the estimated expenses of the Offering of \$750,000 (exclusive of GST), for net proceeds to the Corporation of \$143,250,144.
- Based on the issuance of: (i) 2,962,264 Common Shares in connection with the Velvet Acquisition, at a deemed issuance price of \$5.30 per Common Share; and (ii) 34,158,450 Underlying Common Shares pursuant to 34,158,450 Subscription Receipts issued in connection with the Offering for aggregate gross proceeds of \$172,500,173, less the Underwriting Fee of \$6,900,007 and the estimated expenses of the Offering of \$750,000 (exclusive of GST), for net proceeds to the Corporation of \$164,850,166.
- As at March 31, 2021, Spartan had a \$100.0 million revolving credit facility (the "**Credit Facilities**") with a syndicate of lenders (collectively, the "**Lenders**") pursuant to a credit agreement dated June 1, 2020, as amended by a first amending agreement dated November 27, 2020, a second amending agreement dated February 8, 2021, a third amending agreement dated March 18, 2021 and a fourth amending agreement dated May 31, 2021 (collectively, the "**Credit Agreement**"). The Credit Facilities have a revolving period which currently expires on May 30, 2022, extendible annually at the request of the Corporation, subject to approval of the Lenders, and are repayable one year after the expiry of the revolving period. The Credit Facilities are secured by a first fixed and floating charge debenture over all the Corporation's assets in the amount of \$250.0 million and general assignment of book debts. The Credit Facilities bear interest at market interest rates that fluctuate plus a margin based on the net debt to cash flow ratio of the Corporation. Repayments of principal are not required until the maturity date, provided that the borrowings under the Credit Facilities do not exceed the borrowing base and the Corporation is in compliance with all covenants, representations and warranties provided for in the Credit Agreement. The Corporation is not subject to any financial covenants under the Credit Facilities and as at July 27, 2021, the Corporation was in compliance with all operating covenants provided for in the Credit Agreement. See "*Risk Factors – Credit Facilities Risk*", "*Risk Factors – Additional Indebtedness*" and "*Relationship Between the Corporation and Certain Underwriters*".
- In connection with the Velvet Acquisition, the Corporation has entered into agreements with the New Lenders for the New Credit Facilities for an aggregate authorized borrowing base of \$450.0 million, which will replace the Credit Facilities, and with SAF for the Term Facility in the principal amount of \$150.0 million. See "*Recent Developments – New Credit Facilities*". The Corporation will utilize the Escrowed Funds, together with funds available under the Term Facility and a portion of Spartan's cash on hand, to pay for the cash portion of the purchase price for the Velvet Shares pursuant to the Velvet Acquisition. The New Credit Facilities will be used to repay Velvet's bank debt and senior secured notes on the Velvet Closing Date. See "*Use of Proceeds*".
- The amount drawn on the New Credit Facilities after giving effect to the Offering and the Velvet Acquisition is based on the following: (i) cash consideration for the Velvet Acquisition of \$355.9 million; (ii) the assumption of Velvet's Net Debt estimated to be a maximum of \$371.7 million on the Velvet Closing Date, inclusive of Velvet's transaction costs and assuming cash settlement of the derivative financial instrument liability associated with foreign exchange rate swap expected to be unwound in conjunction with the redemption of Velvet's senior secured notes; and (iii) Spartan's estimated transaction expenses associated with the Velvet Acquisition of approximately \$4.25 million, and is net of the following sources of cash: (A) cash on hand of \$109.6 million as at March 31, 2021; (B) \$143.25 million of net proceeds from the Offering (or \$164.85 million assuming the Over-Allotment Option is exercised); (C) \$144.7 million of net proceeds from the provision of the Term Facility; and (D) Velvet's working capital deficit estimated to be approximately \$31.0 million, which is included in the estimate of total Net Debt to be assumed.
- Represents net proceeds from the \$150.0 million principal amount Term Facility, after upfront fees and other estimated issue costs in the aggregate amount of \$5.3 million.
- The principal amount of the Spartan Note is \$50.0 million and it matures five years from the closing of the Inception Acquisition. The Spartan Note is convertible in whole or in part beginning on the day that is two years following the closing of the Inception Acquisition, at Spartan'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 Spartan of a notice of conversion; and (ii) \$7.67, being two times the deemed issuance price of the Common Shares under the Inception Acquisition Agreement. See "*Recent Developments – March 2021 Acquisitions – The Inception Acquisition*".
- Does not include Options granted pursuant to the Option Plan or Warrants. As at March 31, 2021, Options to purchase an aggregate of approximately 4.5 million Common Shares were outstanding pursuant to the Option Plan. The average price at which outstanding Options are exercisable is \$3.26 per Common Share, and the outstanding Options have a weighted average remaining term to expiry of 4.4 years. Each Option entitles the holder upon

exercise to acquire one Common Share. As at each of March 31, 2021, approximately 16.1 million Warrants were outstanding. Each Warrant entitles the holder thereof to purchase one Common Share at a price of \$1.00 for a period of five years from the date of issuance. See "*Prior Sales*".

10. Share capital does not include: (i) 111,052 Common Shares issued upon exercise of Options subsequent to March 31, 2021; (ii) 130,000 Common Shares issued upon exercise of Warrants subsequent to March 31, 2021, and (iii) 306,271 Common Shares issued in connection with the May 2021 Acquisition. See "*Prior Sales*".
11. The deferred tax effect of \$1,552,501 in relation to the Offering (not including the Over-Allotment Option) and \$1,759,502 in relation to the Offering (including the Over-Allotment Option) has been offset against share issue costs in share capital.

PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES

The outstanding Common Shares are listed and traded on the TSXV under the trading symbol "SDE". The following table sets forth the price range and trading volume of the Common Shares as reported by the TSXV for the periods indicated.

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
<u>2020</u>			
August	3.20	2.68	1,412,230
September	2.95	2.35	2,396,983
October	3.10	2.44	6,319,436
November	3.35	2.89	4,557,069
December	3.26	2.86	2,691,045
<u>2021</u>			
January	3.95	2.86	3,475,943
February	4.36	3.45	4,252,065
March	4.27	3.84	6,747,938
April	4.55	3.85	4,664,981
May	5.18	4.44	3,202,195
June	6.10	4.99	3,164,948
July	6.20	4.55	5,472,002
August 1 - 9	4.83	4.60	1,519,958

On July 27, 2021 and August 9, 2021, the last trading days prior to the public announcement of the Offering and the date of this short form prospectus, respectively, the closing price of the Common Shares on the TSXV was \$5.20 and \$4.60, respectively.

PRIOR SALES

The following table summarizes the issuances of Common Shares and securities convertible into Common Shares within the 12-month period prior to the date of this short form prospectus.

<u>Date of Issuance</u>	<u>Description of Transaction</u>	<u>Number of Securities</u>	<u>Price per Security</u>
August 4, 2020	Exercise of Warrants	20,000 Common Shares	\$1.00
October 5, 2020	Exercise of Warrants	100,000 Common Shares	\$1.00
January 14, 2021	January 2021 Acquisition ⁽¹⁾	2,002,585 Common Shares	\$3.096 ⁽¹⁾
March 18, 2021	Inception Acquisition ⁽²⁾	23,734,379 Common Shares	\$3.83 ⁽²⁾
March 18, 2021	Simonette Acquisition ⁽³⁾	1,493,180 Common Shares	\$3.83 ⁽³⁾
March 18, 2021	March 2021 Prospectus Offering ⁽⁴⁾	11,250,000 Common Shares	\$4.00
March 18, 2021	March 2021 Non-Brokered Offering ⁽⁵⁾	6,250,000 Common Shares	\$4.00
March 18, 2021	March 2021 Non-Brokered Offering ⁽⁵⁾	10,976,626 Flow-Through Shares	\$4.92
May 21, 2021	May 2021 Acquisition ⁽⁶⁾	306,271 Common Shares	\$4.68 ⁽⁶⁾
June 1, 2021	Exercise of Options	39,329 Common Shares	\$3.00
June 2, 2021	Exercise of Options	13,931 Common Shares	\$3.00
June 3, 2021	Exercise of Options	14,365 Common Shares	\$3.00
June 4, 2021	Exercise of Options	20,099 Common Shares	\$3.00
June 8, 2021	Exercise of Options	6,666 Common Shares	\$3.00
June 9, 2021	Exercise of Options	2,332 Common Shares	\$3.00

<u>Date of Issuance</u>	<u>Description of Transaction</u>	<u>Number of Securities</u>	<u>Price per Security</u>
June 10, 2021	Exercise of Warrants	100,000 Common Shares	\$1.00
June 10, 2021	Exercise of Options	2,433 Common Shares	\$3.00
June 15, 2021	Exercise of Options	1,166 Common Shares	\$3.00
June 17, 2021	Exercise of Warrants	30,000 Common Shares	\$1.00
June 28, 2021	Exercise of Options	1,166 Common Shares	\$3.00
June 30, 2021	Exercise of Options	6,066 Common Shares	\$3.00
July 9, 2021	Exercise of Options	2,333 Common Shares	\$3.00
July 24, 2021	Exercise of Options	1,166 Common Shares	\$3.00

Notes:

- On January 14, 2021, the Corporation closed the January 2021 Acquisition. Pursuant to the share purchase agreement dated January 5, 2021, the purchase price included \$0.3 million of cash and the issuance of 2,002,585 Common Shares at a deemed issue price of \$3.096 per Common Share. The closing price of the Common Shares on the TSXV was \$3.95 on the closing date of January 14, 2021.
- On March 18, 2021, the Corporation closed the Inception Acquisition. Pursuant to the Inception Acquisition Agreement, the Corporation issued 23,734,379 Common Shares 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 the Common Shares for the 20 trading days immediately preceding February 16, 2021. The closing price of the Common Shares on the TSXV was \$3.88 on the closing date of March 18, 2021.
- On March 18, 2021, the Corporation closed the Simonette Acquisition, whereby the Corporation purchased the Simonette Assets for approximately \$20.6 million, comprised of cash in the amount of \$14.8 million (after estimated closing adjustments) and the issuance of 1,493,180 Common Shares at a deemed issuance price of approximately \$3.83 per Common Share, calculated using the volume weighted average trading price of the Common Shares for the 20 trading days immediately preceding February 16, 2021. The closing price of the Common Shares on the TSXV was \$3.88 on the closing date of March 18, 2021.
- On March 8, 2021, in connection with the closing of the March 2021 Acquisitions, the Corporation 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 Corporation issued 11,250,000 subscription receipts of Spartan at a price of \$4.00 per subscription receipt. Net proceeds of the March 2021 Prospectus Offering were \$42.7 million after underwriting commissions and other expenses. The net proceeds of the March 2021 Prospectus Offering were released from escrow on March 18, 2021 upon closing of the Inception Acquisition and the March 2021 Non-Brokered Offering. Each subscription receipt was automatically exchanged for one Common Share for no additional consideration.
- On March 18, 2021, in connection with the closing of the March 2021 Acquisitions, the Corporation issued to certain institutional investors on a private placement basis: (i) an aggregate of 6,250,000 Common Shares at a price of \$4.00 per share for aggregate gross proceeds of \$25.0 million; and (ii) an aggregate of 10,976,626 Flow-Through Shares at a price of \$4.92 per Flow-Through Share for aggregate gross proceeds of approximately \$54.0 million. Net proceeds of the March 2021 Non-Brokered Offering were approximately \$77.3 million after issue costs.
- On May 21, 2021, the Corporation closed the May 2021 Acquisition. Pursuant to the pre-acquisition agreement dated May 10, 2021 the purchase price was satisfied through the issuance of 306,271 Common Shares at a deemed issuance price of \$4.68 per Common Share. The closing price of the Common Shares on the TSXV was \$4.80 on the closing date of May 21, 2021.

USE OF PROCEEDS

The following table sets forth the principal purposes for which Spartan proposes to use the total funds available to the Corporation upon the completion of the Offering:

	<u>Amount</u>	<u>Total</u>
Cash portion of purchase price of Velvet Acquisition ⁽¹⁾	\$355,905,000	
Estimated payout of Velvet Net Debt on the Velvet Closing Date ⁽²⁾	\$340,707,500	
Estimated net cash required to complete the Velvet Acquisition		\$696,612,500
Gross proceeds raised pursuant to the Offering ⁽³⁾	\$150,000,150	
Underwriting Fee ⁽³⁾	(\$6,000,006)	
Expenses and costs relating to the Offering	(\$750,000)	
Total estimated net proceeds		\$143,250,144
Cash on hand as of March 31, 2021 ⁽⁴⁾		\$109,601,000

	<u>Amount</u>	<u>Total</u>
Portion of cash consideration to be funded by the New Credit Facilities and Term Facility ⁽⁵⁾		\$443,761,356

Notes:

- Does not include expenses or costs related to the Velvet Acquisition.
- As a condition precedent to the closing of the Velvet Acquisition pursuant to the Velvet Acquisition Agreement, Spartan must pay out Velvet's senior secured bank debt estimated to be approximately \$105.0 million (inclusive of transaction costs) on the Velvet Closing Date and redeem Velvet's senior secured notes in the amount US\$175.0 million (CA\$235.7 million converted based on a fixed CA\$/US\$ exchange rate of 1.3469 under a foreign exchange financial swap contract which will be unwound on or before the Velvet Closing Date as a condition precedent under the New Credit Facilities). To the extent that amounts outstanding under such instruments are more than estimated, the additional amounts required to complete the Velvet Acquisition will be funded by the New Credit Facilities.
- Assumes the Over-Allotment Option is not exercised. The aggregate gross proceeds from the Offering will be deposited in escrow pursuant to the terms of the Subscription Receipt Agreement. Upon satisfaction of the Escrow Release Conditions, the Escrowed Funds will be released from escrow, whereupon the remaining 50% of the Underwriting Fee (including any interest earned thereon, if any) will be paid to the Underwriters and the balance will be paid to the Corporation. The value in the table above does not include interest earned on the Escrowed Funds, if any. See "*Plan of Distribution*".
- As of July 30, 2021, Spartan had cash on hand in the amount of \$144.1 million representing a significant increase from the balance of \$109.6 million as of March 31, 2021, primarily due to Free Funds Flow generated since the end of the first quarter of 2021.
- Concurrently with the closing of the Velvet Acquisition, Spartan expects to enter into the New Credit Agreement in respect of the New Credit Facilities and create the Term Facility. See "*Recent Developments – New Credit Facilities*".

The foregoing is based on the issuance of 29,703,000 Subscription Receipts pursuant to the Offering for aggregate gross proceeds of \$150,000,150, less the Underwriting Fee of \$6,000,006 and the estimated expenses of the Offering of \$750,000 (exclusive of GST), resulting in net proceeds to the Corporation from the sale of the Subscription Receipts issuable hereunder of \$143,250,144. If the Over-Allotment Option is exercised in full, based on the issuance of 34,158,450 Subscription Receipts pursuant to the Offering for aggregate gross proceeds of \$172,500,173, less the Underwriting Fee of \$6,900,007 and the estimated expenses of the Offering of \$750,000 (exclusive of GST), the net proceeds to the Corporation from the sale of the Subscription Receipts issuable hereunder, including pursuant to the Over-Allotment Option, will be \$164,850,166. To the extent that the Over-Allotment Option is exercised, the portion of the purchase price of the Velvet Acquisition to be funded by the New Credit Facilities will be decreased by the amount of the net proceeds from the exercise of the Over-Allotment Option. See "*Plan of Distribution*". For the purposes of this short form prospectus, the Underwriting Fee has been calculated on the basis of 4.0% for all sales, notwithstanding the fact that no commission is payable in respect of certain orders as agreed between the Corporation and the Underwriters.

The gross proceeds from the Offering will be held by the Escrow Agent, and may be invested in short-term obligations of, or guaranteed by, the Government of Canada (or other approved investments in accordance with the terms of the Subscription Receipt Agreement) pending the satisfaction of the Escrow Release Conditions. Upon satisfaction of the Escrow Release Conditions at or before the Deadline, the Escrowed Funds and the interest earned thereon, if any (less the remaining portion of the Underwriting Fee, including the interest earned thereon, if any) will be released to the Corporation upon receipt of a notice by the Escrow Agent from the Corporation and acknowledged by the Co-Lead Underwriters that the Escrow Release Conditions have been satisfied. Spartan will utilize the Escrowed Funds, together with funds drawn under the New Credit Facilities and the Term Facility to complete the Velvet Acquisition pursuant to the Velvet Acquisition Agreement. See "*Recent Developments – The Velvet Acquisition*".

On release of the Escrowed Funds to the Corporation, holders of Subscription Receipts will receive one Underlying Common Share for each Subscription Receipt held, without payment of additional consideration or further action on the part of such holder. If the Velvet Acquisition is not completed by the Deadline, or if the Corporation advises the Co-Lead Underwriters or the Corporation announces to the public that it does not intend to proceed with the Velvet Acquisition, or if the Velvet Acquisition Agreement has been terminated, holders of Subscription Receipts will receive an amount equal to the full subscription price attributable to the Subscription Receipts and their pro rata entitlement to interest or other income earned on such amount from the Closing Date up to and including the Termination Time, if any. See "*Details of the Offering*".

The use of net proceeds of the Offering by the Corporation is consistent with the Corporation's stated business objectives and strategic goals of the exploration for and development and acquisition of oil and natural gas

reserves. Other than the successful completion of the Offering and the Velvet Acquisition, the success of the Corporation in meeting its business objectives will be dependent in part on the success of its drilling program and the availability of other accretive opportunities, which cannot be determined in advance. Upon completion of the Offering and the Velvet Acquisition, the Corporation believes it will be better positioned to further its business objectives of exploring for and developing oil and gas assets.

While Spartan believes that it has the skills and resources necessary to accomplish its stated business objectives and strategic goals, participation in the acquisition of, exploration for and development of oil and natural gas reserves has a number of inherent risks. See "*Risk Factors*" herein and in the AIF and "*Business Risks*" in each of the Interim MD&A and the Annual MD&A, which are incorporated by reference herein.

DETAILS OF THE OFFERING

Subscription Receipts

The following is a summary of the material attributes and characteristics of the Subscription Receipts. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Subscription Receipt Agreement, which, following the Closing Date, may be viewed under the Corporation's profile on SEDAR at www.sedar.com.

The Subscription Receipts will be issued on the Closing Date pursuant to the Subscription Receipt Agreement. The Escrowed Funds will be held by the Escrow Agent, and will be invested in short-term obligations of, or guaranteed by, the Government of Canada (or other approved investments in accordance with the terms of the Subscription Receipt Agreement) pending delivery by the Corporation to the Co-Lead Underwriters of a certificate to the effect, and the Co-Lead Underwriters being satisfied, acting reasonably, that: (i) all conditions, undertakings and other matters to be satisfied, completed and otherwise met prior to the completion of the Velvet Acquisition have been satisfied, completed and otherwise met (in accordance with the Velvet Acquisition Agreement and without material waiver thereof, in whole or in part, by any of the parties thereto, unless the consent of the Co-Lead Underwriters, on behalf of the Underwriters, is given to such waiver, acting reasonably), but for the payment of the purchase price to be satisfied in part by the release of the Escrowed Funds pursuant to the terms of the Subscription Receipt Agreement, and that the Corporation and Velvet are otherwise ready, willing and able to complete the Velvet Acquisition; and (ii) there have been no material amendments of the terms and conditions of the Velvet Acquisition Agreement (whether directly or indirectly) which have not been approved by the Co-Lead Underwriters, on behalf of the Underwriters (the "**Escrow Release Conditions**"). Upon satisfaction of the Escrow Release Conditions on or before the Deadline, the Escrowed Funds and the interest earned thereon, if any (less the remaining portion of the Underwriting Fee, including the interest earned thereon, if any) will be released to the Corporation upon: (i) receipt of a notice by the Escrow Agent from the Corporation, and acknowledged by the Co-Lead Underwriters, that the Escrow Release Conditions have been satisfied; and (ii) delivery of an irrevocable direction by the Corporation to the Escrow Agent, as the registrar and transfer agent of the Common Shares, to issue the Underlying Common Shares issuable pursuant to the Subscription Receipts to the holders thereof; following which each holder of Subscription Receipts will receive one Underlying Common Share for each Subscription Receipt held, without payment of additional consideration or further action on the part of such holder.

Spartan will utilize the Escrowed Funds to pay a portion of the purchase price pursuant to the Velvet Acquisition Agreement. See "*Use of Proceeds*".

If: (i) the Corporation fails to satisfy the Escrow Release Conditions on or before the Deadline; (ii) the Velvet Acquisition Agreement is terminated in accordance with its terms; or (iii) the Corporation advises the Escrow Agent and the Underwriters or formally announces to the public by way of a press release or otherwise that it does not intend to proceed with the Velvet Acquisition, the Corporation shall forthwith provide notice thereof to the Co-Lead Underwriters and the Escrow Agent, and the holders of Subscription Receipts will receive an amount equal to the full subscription price attributable to the Subscription Receipts and their pro rata entitlement to interest or other income earned on such amount from the Closing Date up to and including the Termination Time, if any. If the Termination Time occurs, the Underwriting Fee will be reduced to the amount payable upon Closing. See "*Details of the Offering*".

Upon satisfaction of the Escrow Release Conditions and the issuance of the Underlying Common Shares, the Corporation will issue a press release announcing that the Escrow Release Conditions have been satisfied and that the Underlying Common Shares have been issued.

Under the Subscription Receipt Agreement, original purchasers of Subscription Receipts under the Offering will have a contractual right of rescission against the Corporation both prior to and following the issuance of Underlying Common Shares issued pursuant to the Subscription Receipts to such purchaser to receive the amount paid for the Subscription Receipts if this short form prospectus (including the documents incorporated by reference herein) and any amendment contains a misrepresentation or is not delivered to such purchaser, provided such remedy for rescission is exercised within 180 days of Closing. This contractual right of rescission will be consistent with the statutory right of rescission described under the heading "*Statutory and Contractual Rights of Withdrawal and Rescission*" in this short form prospectus and is in addition to any right or remedy available to original purchasers under the securities legislation of certain provinces of Canada or otherwise at law.

In the event that, prior to the date the Underlying Common Shares become issuable pursuant to the Subscription Receipts, there is a subdivision, consolidation, reclassification or other change of the Common Shares or any reorganization, amalgamation, merger or sale of all or substantially all of the Corporation's assets, the Subscription Receipts will thereafter evidence the right of the holder to receive the securities, property or cash deliverable in exchange for or on conversion of or in respect of the Underlying Common Shares to which the holder of a Subscription Receipt would have been entitled immediately after such event if it had been a holder of such Underlying Common Shares prior to such event. Similarly, any distribution to all or substantially all of the holders of Common Shares of rights, options, warrants, evidences of indebtedness or assets will result in an adjustment in the number of Underlying Common Shares to be issued to holders of Subscription Receipts. Alternatively, such securities, evidences of indebtedness or assets may, at the Corporation's option, be issued to the Escrow Agent and delivered to holders of Subscription Receipts following the satisfaction of the Escrow Release Conditions.

The Subscription Receipt Agreement will provide for modifications and alterations thereto and to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term "extraordinary resolution" will be defined in the Subscription Receipt Agreement to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66 2/3% of the number of outstanding Subscription Receipts represented and voted at a meeting of holders or an instrument or instruments in writing signed by the holders of not less than 66 2/3% of the number of outstanding Subscription Receipts.

The TSXV has conditionally approved the listing of the Subscription Receipts issued pursuant to the Offering and the Underlying Common Shares. Such listing is subject to the Corporation fulfilling all of the listing requirements of the TSXV no later than three business days preceding the Closing Date. See "*Risk Factors – Market for Securities*". There is currently no public market for the Subscription Receipts and there can be no assurance that an active trading market will develop.

Original purchasers of Subscription Receipts are further advised that in certain provinces the statutory right of action for damages in connection with a prospectus misrepresentation is limited to the amount paid for the convertible, exchangeable or exercisable security that was purchased under a prospectus, and therefore a further payment at the time of conversion, exchange or exercise may not be recoverable in a statutory action for damages. Holders of Subscription Receipts are not shareholders and do not have rights as the Corporation's shareholders. Holders of Subscription Receipts are entitled only to receive Underlying Common Shares pursuant to their Subscription Receipts or to a return of the subscription price for the Subscription Receipts together with any payments of interest or other income as described above, if any.

Book-Based System

Except as otherwise provided herein, the Subscription Receipts will be issued in electronic form and must be purchased or transferred through a registered dealer who is a CDS Participant. Except as otherwise provided herein, on the Closing Date, the Subscription Receipts will be registered and represented electronically through CDS, and will be deposited with CDS pursuant to the book-based system administered by CDS. Unless the book-based system is terminated as described below or if Subscription Receipts are evidenced by Subscription Receipt Certificates, a person acquiring a beneficial interest in the Subscription Receipts (a "**Subscription Receipt Beneficial Owner**") will not be entitled to receive a certificate for Subscription Receipts, or, unless requested, for the Underlying Common Shares. Purchasers of Subscription Receipts will not be shown on the records maintained by CDS, except through a CDS Participant. Notwithstanding the foregoing, Subscription Receipts sold pursuant to an exemption from the registration requirement of the 1933 Act provided under Section 4(a)(2) thereof and Rule 506(b) thereunder, to subscribers who do not qualify as "qualified institutional buyers" within the

meaning of Rule 144A under the 1933 Act ("**Rule 144A**") will be represented by definitive physical certificates registered in the names of the subscribers thereof, which certificates will bear a legend with respect to certain matters under the 1933 Act. See "*Plan of Distribution*".

Beneficial interests in Subscription Receipts will be represented solely through the book-based system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the Subscription Receipts are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Subscription Receipts will be made only through the depository service of CDS.

As indirect holders of Subscription Receipts, investors should be aware that they (subject to the situations described below): (i) may not have Subscription Receipts registered in their name; (ii) may not have physical certificates representing their interest in the Subscription Receipts; (iii) may not be able to sell the Subscription Receipts to institutions required by law to hold physical certificates for securities they own; and (iv) may be unable to pledge Subscription Receipts as security.

The Subscription Receipts will be issued to beneficial owners thereof in fully registered and certificate form (the "**Subscription Receipt Certificates**") only if: (i) required to do so by applicable law; (ii) the book-based system ceases to exist; (iii) CDS advises the Escrow Agent that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Subscription Receipts and the Corporation is unable to locate a qualified successor; or (iv) the Corporation decides to terminate the book-based system through CDS.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Escrow Agent must notify CDS, for and on behalf of CDS Participants and Subscription Receipt Beneficial Owners, of the availability through CDS of Subscription Receipt Certificates. Upon surrender by CDS of the Subscription Receipts and receipt of instructions from CDS for the new registrations, the Escrow Agent will deliver the Subscription Receipts in the form of Subscription Receipt Certificates and thereafter the Corporation will recognize the holders of such Subscription Receipt Certificates as Subscription Receipt holders under the Subscription Receipt Agreement.

Neither the Corporation nor the Underwriters will assume any liability for: (i) any aspect of the records relating to the beneficial ownership of the Subscription Receipts held by CDS or any payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Subscription Receipts; or (iii) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a CDS Participant. The rules governing CDS provide that it acts as the agent and depository for the CDS Participants. As a result, CDS Participants must look solely to CDS and Subscription Receipt Beneficial Owners must look solely to CDS Participants for any payments relating to the Subscription Receipts paid by or on behalf of the Corporation to CDS.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Corporation has agreed to sell and the Underwriters have severally agreed to purchase on Closing, subject to the terms and conditions therein, an aggregate of 29,703,000 Subscription Receipts, at a price of \$5.05 per Subscription Receipts payable in cash to the Corporation against delivery. The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion upon the occurrence of certain stated events as set out in the Underwriting Agreement and described below.

The Underwriting Agreement provides that Spartan will pay the Underwriting Fee of 4.0% of the gross proceeds of the Offering, or \$0.202 per Subscription Receipt, other than in respect of certain orders as agreed between the Corporation and the Underwriters, resulting in net proceeds to the Corporation of \$144,000,144, or \$143,250,144 after deducting the estimated expenses of the Offering of \$750,000 (exclusive of GST). The Underwriting Fee in respect of the Subscription Receipts is payable as to 50% upon Closing and 50% (including any interest accrued thereon, if any) on the release of the Escrowed Funds. If: (i) the Corporation fails to satisfy the Escrow Release Conditions on or before the Deadline; (ii) the Velvet Acquisition Agreement is terminated in accordance with its terms; or (iii) the Corporation advises the Escrow Agent and the Underwriters or formally announces to the public by way of a press release or otherwise that it does not intend to proceed with the Velvet Acquisition, the Underwriting Fee will be limited to the 50% paid upon Closing. The terms of the Offering, including the Offering

Price, were determined by negotiation between the Corporation and the Co-Lead Underwriters, on their own behalf, and on behalf of the other Underwriters. For the purposes of this short form prospectus, the Underwriting Fee has been calculated on the basis of 4.0% for all sales, notwithstanding the fact that no commission is payable in respect of certain orders as agreed between the Corporation and the Underwriters.

The Corporation has granted to the Underwriters the Over-Allotment Option, exercisable from time to time, in whole or in part, at any time until 30 days following the Closing Date to purchase up to an additional 4,455,450 Subscription Receipts on the same terms and conditions as the Offering, to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the gross proceeds of the Offering, Underwriting Fee and net proceeds to the Corporation (after deducting expenses of the Offering) will be \$172,500,173, \$6,900,007 and \$164,850,166, respectively. This short form prospectus also qualifies the distribution of the Subscription Receipts issuable pursuant to the exercise of the Over-Allotment Option. A purchaser who acquires Subscription Receipts forming part of the Underwriters' over-allocation position acquires those Subscription Receipts under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, nor joint and several, and may be terminated at their discretion upon the occurrence of certain stated events. Such events include, but are not limited to: (i) any order to cease or suspend trading in any securities of the Corporation or prohibiting or restricting the distribution of any of the Subscription Receipts or the Common Shares is made, or proceedings are announced, commenced or threatened for the making of any such order, by any securities commission or similar regulatory authority, the TSXV or by any other competent authority, and has not been rescinded, revoked or withdrawn; (ii) any inquiry, action, suit, investigation (whether formal or informal) or other proceeding is instituted, announced or threatened or any order is issued under or pursuant to any relevant statute or policy or made by any federal, provincial, state or other governmental authority, commission, board, bureau, agency or instrumentality (including without limitation the TSXV or any securities regulatory authority) in relation to the Corporation, or there is any change in law, regulation or policy, or the interpretation or administration thereof, or there is a general moratorium on banking activities in the United States or Canada declared by relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services, which, in any such cases, in the opinion of any of the Underwriters, acting reasonably, operates to impact, suspend, restrict, inhibit, prevent or otherwise adversely impact the distribution or trading of the Subscription Receipts or the Common Shares; (iii) there should occur, be discovered by the Underwriters or be announced by the Corporation, any material change, a new material fact or a change in any material fact in the condition (financial or otherwise), earnings, business, affairs or business prospects of the Corporation and Velvet (taken as a whole) which, in the opinion of any of the Underwriters, acting reasonably, has or could be reasonably expected to have a significant adverse effect on the market price or value of the Subscription Receipts or the Underlying Common Shares; or could reasonably be expected to result in the purchasers of a material number of Subscription Receipts or Underlying Common Shares exercising their rights under applicable securities laws to withdraw from or rescind their purchase thereof or sue for damages in respect thereof; (iv) there should develop, occur or come into effect or existence, or be announced, any event, action, state, condition or occurrence of national or international consequence (including any natural catastrophe, act of war, terrorism, pandemic, including without limitation matters caused by, related to or resulting from the COVID-19 outbreak (and related variants) or similar event, except, with respect to the COVID-19 outbreak (and related variants), to the extent that there are material adverse developments related thereto after July 28, 2021), or any law, action, regulation or other occurrence of any nature whatsoever, which, in the opinion of the Underwriters or any one of them acting reasonably seriously adversely affects or involves, or will seriously adversely affect or involve, the financial markets generally or the business, operations or affairs of the Corporation or the Corporation and Velvet (taken as a whole); (v) the Corporation shall be in breach of or in default under or non-compliance with any covenant, term or condition of the Underwriting Agreement, the Subscription Receipt Agreement or the Velvet Acquisition Agreement (and, in the case of the Velvet Acquisition Agreement, that is either not susceptible to being cured or which remains uncured following the completion of any cure period prescribed in the applicable agreement), in any material respect, or any representation or warranty given by the Corporation in the Underwriting Agreement, the Subscription Receipt Agreement or the Velvet Acquisition Agreement becomes or is false in any material respect and, which in the sole opinion of the Underwriters, or any of them, acting reasonably, could be reasonably expected to have a material adverse effect on the market price or value of the Common Shares or the Subscription Receipts or any other securities of the Corporation; or (vi) the Termination Time occurs.

In certain circumstances, if one or more Underwriters fails or refuses to purchase the Subscription Receipts which it has agreed to purchase, the other Underwriter(s) may terminate their obligation to purchase their allotment of

Subscription Receipts, or may, but are not obligated to, purchase the Subscription Receipts not purchased by the Underwriter or Underwriters which fail to purchase the Subscription Receipts it has agreed to purchase; provided, however, that in the event that the percentage of the total number of Subscription Receipts which one or more Underwriters has failed or refused to purchase is not more than 10% of the total number of the Subscription Receipts which the Underwriters have agreed to purchase, the other Underwriters shall be obligated severally to purchase on a pro rata basis the Subscription Receipts which would otherwise have been purchased by the one or more Underwriters which failed or refused to purchase the Subscription Receipts it has agreed to purchase. The Underwriters are, however, obligated to take up and pay for all Subscription Receipts if any Subscription Receipts are purchased under the Underwriting Agreement.

The Underwriting Agreement also provides that the Corporation will indemnify the Underwriters and their agents, affiliates, directors, officers, shareholders, "controlling persons" (as defined under U.S. securities laws) and employees against certain liabilities, damages, costs and expenses.

It is expected that Closing will occur on or about August 18, 2021, or such other date as the Corporation and the Co-Lead Underwriters, on their own behalf and on behalf of the other Underwriters, may agree, but in any event no later than the date that is 42 days after the date of the receipt for this short form prospectus. The Subscription Receipts (other than any Subscription Receipts issuable pursuant to the exercise of the Over-Allotment Option) shall be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for this short form prospectus.

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market in accordance with applicable stabilization rules. Such transactions, if commenced, may be discontinued at any time.

Pursuant to rules and policy statements of certain securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Subscription Receipts ends and all stabilization arrangements relating to the Subscription Receipts are terminated, bid for or purchase Common Shares of the Corporation. The foregoing restrictions are subject to certain exceptions including: (i) a bid for or purchase of Common Shares of the Corporation if the bid or purchase is made through the facilities of the TSXV in accordance with applicable marketplace rules; (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the period of distribution as prescribed by the rules; and (iii) a bid or purchase to cover a short position entered into prior to the period of distribution as prescribed by the rules.

The Underwriters propose to offer the Subscription Receipts initially at the Offering Price specified herein. After reasonable efforts have been made to sell all of the Subscription Receipts at the price specified, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Subscription Receipts remaining unsold. In the event the Offering Price is reduced, the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Subscription Receipts is less than the gross proceeds paid by the Underwriters to the Corporation for the Subscription Receipts. Any such reduction will not affect the proceeds received by the Corporation.

The Corporation has agreed that, from the date of the Underwriting Agreement to the date that is 90 days following the Closing Date, it will not issue any additional Common Shares, Flow-Through Shares or other securities convertible or exchangeable into or exercisable for Common Shares, other than for purposes of employee stock options (including Options granted under the Option Plan), performance warrants, Warrants or awards or pursuant to other incentive plans of the Corporation (including Spartan's Share Award Plan approved by the Board on August 19, 2020), to satisfy existing instruments already issued on or before the Closing Date or in connection with arm's length acquisitions, including the Underlying Common Shares and Common Shares issued pursuant to the Velvet Acquisition, without the prior written consent of the Co-Lead Underwriters, which consent shall not be unreasonably withheld or delayed.

The TSXV has conditionally approved the listing of the Subscription Receipts issuable pursuant to the Offering and the Underlying Common Shares. Such listing is subject to the Corporation fulfilling all of the listing requirements of the TSXV no later than three business days preceding the Closing Date.

The Subscription Receipts offered hereby and the Underlying Common Shares issuable pursuant to the Subscription Receipts have not been and will not be registered under the 1933 Act or any state securities laws, and accordingly may not be offered, sold or delivered within the United States (as such term is defined in Regulation S under the 1933 Act) except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. Except as permitted in the Underwriting Agreement and as expressly permitted by applicable laws of the United States, the Underwriters will not offer, sell or deliver the Subscription Receipts within the United States. The Underwriting Agreement permits the Underwriters to offer and resell the Subscription Receipts that they have acquired pursuant to the Underwriting Agreement, through their U.S. broker-dealer affiliates, to "qualified institutional buyers" (as defined in Rule 144A) in the United States, provided that such offers and sales are made in transactions in accordance with Rule 144A and are exempt from registration under applicable state securities laws. The Underwriting Agreement also permits the Underwriters to designate accredited investors that meet the criteria in Rule 501(a) of Regulation D under the 1933 Act to whom the Corporation may sell the Subscription Receipts in transactions exempt from the registration requirements of the 1933 Act in accordance with Rule 506(b) of Regulation D under the 1933 Act and similar exemptions under applicable state securities laws. The Underwriting Agreement also provides that the Underwriters will offer and sell the Subscription Receipts outside the United States only in accordance with Rule 903 of Regulation S under the 1933 Act.

This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Subscription Receipts or Underlying Common Shares issuable pursuant to the Subscription Receipts in the United States. In addition, until 40 days after the commencement of the Offering, any offer or sale of Subscription Receipts or Underlying Common Shares issuable pursuant to the Subscription Receipts offered within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirement of the 1933 Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirement of the 1933 Act.

RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN UNDERWRITERS

NBF and National Bank Financial Markets, a Lender to the Corporation pursuant to the Credit Facilities and to which the Corporation is presently indebted (see note (4) to the table under "*Consolidated Capitalization*"), are both direct or indirect wholly-owned subsidiaries of National Bank of Canada. In addition, ATB Capital Markets Inc. is a wholly-owned subsidiary of ATB Financial. ATB Financial is a provincially regulated financial institution and is also a Lender of the Corporation pursuant to the Credit Facilities. Further, the Co-Lead Underwriters acted as financial advisors and Eight Capital acted as strategic advisor to the Corporation in connection with the Velvet Acquisition, and such Underwriters will receive a fee upon the closing of the Velvet Acquisition. CIBC World Markets Inc., TD Securities Inc. and BMO Nesbitt Burns Inc. are subsidiaries of Canadian chartered banks that will be New Lenders under the New Credit Facilities to be created in connection with the Velvet Acquisition. Consequently, the Corporation may be considered to be a "connected issuer" of the Underwriters within the meaning of applicable Canadian securities legislation.

As at July 1, 2021, the Corporation had approximately \$Nil owing under the Credit Facilities. The Corporation is in compliance with all terms of the Credit Facilities and the Lenders thereunder have not waived any breach by the Corporation of any agreements relating thereto since the execution of the Credit Facilities. The Credit Facilities are secured by a first fixed and floating charge debenture over all assets of the Corporation in the amount of \$250,000,000 and general assignment of book debts. Under the terms of the Credit Facilities, the Corporation is required to meet certain financial and engineering reporting requirements. Neither the financial position of the Corporation nor the value of the security under the Credit Facilities has changed substantially since the indebtedness of the Corporation under the Credit Facilities was incurred, other than in the ordinary course of the Corporation's business. See "*Consolidated Capitalization*".

The decision to distribute the Subscription Receipts hereunder and the determination of the terms of the Offering were made through negotiations between the Corporation and the Co-Lead Underwriters, on their own behalf and on behalf of the other Underwriters. The Lenders affiliated with NBF and ATB Capital Markets Inc. did not have any involvement in such decision or determination, but have been advised of the issuance and the terms hereof. As a consequence of this issuance, NBF and ATB Capital Markets Inc. will receive their respective share of the Underwriting Fee. See "*Plan of Distribution*".

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, counsel to Spartan, and Burnet, Duckworth & Palmer LLP, counsel to the Underwriters, (collectively, "**Counsel**"), the following is a summary of the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to a subscriber who acquires the Subscription Receipts pursuant to the Offering and who, for purposes of the Tax Act, beneficially owns the Subscription Receipts and will beneficially own the Underlying Common Shares issuable pursuant to the Subscription Receipts (collectively, the "**Securities**") as capital property and who, for purposes of the Tax Act and at all relevant times, deals at arm's length with, and is not affiliated with, the Corporation and the Underwriters (a "**Holder**"). Generally, the Securities will be considered to be capital property to a holder provided the holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Resident Holders who might not otherwise be considered to hold their Underlying Common Shares as capital property may, in certain circumstances, be entitled to make an irrevocable election permitted by subsection 39(4) of the Tax Act to have any Underlying Common Shares, and any other "Canadian Security" (as defined in the Tax Act) owned in the taxation year in which the election is made, and in all subsequent taxation years, deemed to be capital property. This election is not available in respect of the Subscription Receipts. Holders who do not hold their Securities as capital property should consult their own tax advisor regarding their particular circumstances.

This summary is not applicable to a Holder: (i) that is a "financial institution", as defined in the Tax Act, for purposes of the mark-to-market rules; (ii) an interest in which would be a "tax shelter investment" as defined in the Tax Act; (iii) that is a "specified financial institution" as defined in the Tax Act; (iv) that has elected to report its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian currency; (v) that has or will enter into a "derivative forward agreement" or a "synthetic equity arrangement" (each as defined in the Tax Act) with respect to the Securities; or (vi) that receives dividends on the Common Shares under or as part of a "dividend rental arrangement" as defined in the Tax Act. Any such holder should consult its own tax advisor with respect to an investment in the Securities. In addition, this summary does not address the deductibility of interest by an investor who has borrowed money to acquire Subscription Receipts under this Offering.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the "**Proposed Amendments**"), and Counsel's understanding of the current published administrative and assessing practices of the CRA. This summary assumes the Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate changes in the law, whether by legislative, governmental or judicial action, nor any provincial, territorial or foreign tax considerations which may differ significantly from those discussed below nor any changes in the administrative or assessing practices of the CRA.

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Securities (including interest, dividends, adjusted cost base and proceeds of disposition) must generally be expressed in Canadian dollars. Amounts denominated in any other currency must be converted into Canadian dollars generally based on the single daily exchange rate quoted by the Bank of Canada on the date such amounts arise or such other date of exchange as is acceptable to the CRA.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any prospective purchaser or holder of Securities, and no representations with respect to the income tax consequences to any prospective purchaser or holder are made. Consequently, prospective holders of Securities should consult their own tax advisors with respect to their particular circumstances.

Holders Resident in Canada

The following portion of the summary is generally applicable to a Holder who, at all relevant times, is resident or is deemed resident in Canada for the purposes of the Tax Act, or is a "Canadian partnership" as defined in the Tax Act (a "**Resident Holder**").

Acquisition of Underlying Common Shares Pursuant to Terms of the Subscription Receipts

A Resident Holder should not realize a capital gain or a capital loss on the acquisition of an Underlying Common Share pursuant to a Subscription Receipt.

The cost of any such Underlying Common Shares will generally be equal to the amount paid by such Resident Holder to acquire the Subscription Receipts. The adjusted cost base of Underlying Common Shares received will generally be averaged with the adjusted cost base of all other Common Shares held by the Resident Holder as capital property to determine the adjusted cost base of each Common Share held by the Resident Holder.

Other Dispositions of Subscription Receipts

A disposition or deemed disposition by a Resident Holder of Subscription Receipts (other than on the acquisition of an Underlying Common Share pursuant to the terms of the Subscription Receipts as discussed above), but including on the repayment of the subscription price thereof by the Escrow Agent in the event the Velvet Acquisition is not completed before the Deadline, will generally result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition are greater (or less) than the aggregate of the Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. The cost to a Resident Holder of a Subscription Receipt will generally be the amount paid to acquire the Subscription Receipt. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Holders Resident in Canada – Taxation of Capital Gains and Capital Losses*".

In the event that a Resident Holder becomes entitled to the repayment of the subscription price of a Subscription Receipt, any amount that is paid to the holder as, or on account of, interest, if any, and that is included in the Resident Holder's income, will be excluded from the holder's proceeds of disposition of the Subscription Receipts.

Pro Rata Share of Interest

If the Termination Time occurs, holders of Subscription Receipts shall receive an amount equal to the full subscription price attributable to the Subscription Receipts and their pro rata entitlement to interest or other income earned on such amount from the Closing Date up to and including the Termination Time, if any.

A Resident Holder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year the amount of any such interest accrued to the Resident Holder on the Escrowed Funds to the end of the Resident Holder's taxation year, or that is receivable or received by the Resident Holder before the end of that taxation year, except to the extent that any such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder that is entitled to receive its pro rata share of accrued interest, if any, will be required to include in computing income for a taxation year such interest that is receivable or received by the Resident Holder in that taxation year, depending upon the method regularly followed by the Resident Holder in computing income.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax on certain investment income, including interest income.

Dividends on Underlying Common Shares

Dividends received or deemed to be received on Underlying Common Shares held by a Resident Holder will be included in the Resident Holder's income for the purposes of the Tax Act.

Such dividends received by a Resident Holder that is an individual (other than certain trusts) will be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit in respect of dividends designated by the Corporation as "eligible dividends". There may be limitations on the ability of the Corporation to designate dividends as "eligible dividends". Taxable dividends received by a Resident Holder who is an individual

(other than certain trusts) may result in such Resident Holder being liable for alternative minimum tax under the Tax Act. Resident Holders who are individuals should consult their own tax advisors in this regard.

A Resident Holder that is a corporation will include such dividends in computing its income and generally will be entitled to deduct the amount of such dividends in computing its taxable income. A Resident Holder that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) may be liable under Part IV of the Tax Act to pay a refundable tax on dividends received or deemed to be received on the Underlying Common Shares to the extent that such dividends are deductible in computing the Resident Holder's taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend (other than, generally, any portion thereof that is subject to non-refunded Part IV tax) received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations are urged to consult their own tax advisors having regard to their particular circumstances.

Disposition of Underlying Common Shares

A disposition or a deemed disposition of an Underlying Common Share by a Resident Holder (except to the Corporation) will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Underlying Common Share exceeds (or is less than) the aggregate of the adjusted cost base to the Resident Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Holdings Resident in Canada – Taxation of Capital Gains and Capital Losses*".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year, and one-half of any capital loss (an "allowable capital loss") realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses in excess of taxable capital gains realized in a taxation year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of an Underlying Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Underlying Common Share (or on a share for which such Underlying Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Underlying Common Shares, directly or indirectly, through a partnership or a trust.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay a refundable tax on certain investment income, including taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act. Resident Holders who are individuals should consult their own tax advisors in this regard.

Holdings Not Resident in Canada

This portion of the summary is generally applicable to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention and at all relevant times, is not, and is not deemed to be, resident in Canada and does not use or hold, and is not deemed to use or hold, the Securities in carrying on a business in Canada (a "**Non-Resident Holder**"). This portion of the summary is also not applicable to a Non-Resident Holder: (i) that is an insurer carrying on an insurance business in Canada and elsewhere; or (ii) that is an "authorized foreign bank" as defined in the Tax Act. Prospective holders of Subscription Receipts who are not resident in Canada should consult their own tax advisors with respect to their particular circumstances in their country of residence.

Acquisition of Underlying Common Shares pursuant to terms of the Subscription Receipts

A Non-Resident Holder should not realize a capital gain or loss on the acquisition of an Underlying Common Share pursuant to a Subscription Receipt.

The adjusted cost base to a Non-Resident Holder of the Common Shares acquired pursuant to a Subscription Receipt will be the same as described above with respect to a Resident Holder under the heading "*Holders Resident in Canada – Acquisition of Underlying Common Shares pursuant to Terms of the Subscription Receipts*".

Other Dispositions of Subscription Receipts

On a disposition or deemed disposition of a Subscription Receipt (other than on the acquisition of an Underlying Common Share pursuant to the terms of Subscription Receipts as discussed above), a Non-Resident Holder should not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder, unless the Subscription Receipt constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the holder is not entitled to relief under an applicable income tax convention.

As long as the Common Shares are listed on a designated stock exchange (which currently includes the TSXV) at the time of disposition, Subscription Receipts should not constitute "taxable Canadian property" to a Non-Resident Holder at the time of the disposition or deemed disposition thereof unless at any particular time during the 60-month period immediately preceding the disposition the following two conditions have been met concurrently: (a) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length (within the meaning of the Tax Act), partnerships in which the Non-Resident Holder or a person with whom the Non-Resident Holder does not deal at arm's length (within the meaning of the Tax Act) holds a membership interest directly or indirectly through one or more partnerships, or any combination thereof owned 25% or more of any class of the capital stock of the Corporation; and (b) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (i) real or immovable property situated in Canada; (ii) "Canadian resource properties" (as defined in the Tax Act); (iii) "timber resource properties" (as defined in the Tax Act); or (iv) options in respect of, or interests in or for civil law rights in a such property described in (i) to (iii), whether or not such property exists (the conditions described in (a) and (b) are the "**TCP Conditions**"). Notwithstanding the foregoing, Subscription Receipts may be deemed to be "taxable Canadian property" in certain other circumstances. A Non-Resident Holder contemplating a disposition of Subscription Receipts that may constitute "taxable Canadian property" should consult its own tax advisor prior to such disposition.

Where a Non-Resident Holder disposes (or is deemed to have disposed) of a Subscription Receipt that is "*taxable Canadian property*" to that Non-Resident Holder and the Non-Resident Holder is not entitled to an exemption under an applicable income tax treaty or convention, the consequences described above under the headings "*Holders Resident in Canada – Other Dispositions of Subscription Receipts*" and "*Holders Resident in Canada – Taxation of Capital Gains and Capital Losses*" will generally be applicable to such disposition.

Pro Rata Share of Interest

If the Termination Time occurs, holders of Subscription Receipts shall receive an amount equal to the full subscription price attributable to the Subscription Receipts and their pro rata entitlement to interest or other income earned on such amount from the Closing Date up to and including the Termination Time, if any.

A Non-Resident Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of payment of, or in satisfaction of, any such interest.

Disposition of Underlying Common Shares

A Non-Resident Holder should not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of an Underlying Common Share, unless such Underlying Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax convention.

As long as the Common Shares are listed on a designated stock exchange (which currently includes the TSXV) at the time of disposition, Underlying Common Shares issued pursuant to the Subscription Receipts should not constitute "taxable Canadian property" to a Non-Resident Holder at the time of the disposition or deemed disposition thereof unless at any particular time during the 60 month period immediately preceding the disposition, the TCP Conditions are met. Notwithstanding the foregoing, Underlying Common Shares may be deemed to be "taxable Canadian property" in certain other circumstances. A Non-Resident Holder contemplating a disposition of Underlying Common Shares that may constitute "taxable Canadian property" should consult its own tax advisor prior to such disposition.

Where a Non-Resident Holder disposes (or is deemed to have disposed) of a Common Share that is "taxable Canadian property" to that Non-Resident Holder and the Non-Resident Holder is not entitled to an exemption under an applicable income tax treaty or convention, the consequences described above under the headings "*Holders Resident in Canada – Disposition of Underlying Common Shares*" and "*Holders Resident in Canada – Taxation of Capital Gains and Capital Losses*" will generally be applicable to such disposition.

Dividends on Underlying Common Shares

Any dividends paid or credited, or deemed to be paid or credited, on the Underlying Common Shares to a Non-Resident Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax treaty. For example, where the Non-Resident Holder is a resident of the United States that is entitled to full benefits under the *Canada-United States Income Tax Convention (1980)*, as amended, and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

ELIGIBILITY FOR INVESTMENT

In the opinion of Counsel, based on the current provisions of the Tax Act, the Subscription Receipts and the Underlying Common Shares would, if issued on the date hereof, be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan ("**RRSP**"), registered education savings plan ("**RESP**"), registered retirement income fund ("**RRIF**"), deferred profit sharing plan, registered disability savings plan ("**RDSP**") or tax-free savings account ("**TFSA**"), each as defined in the Tax Act (each, a "**Deferred Plan**") provided that at the time of acquisition by a Deferred Plan: (i) in the case of Underlying Common Shares, such shares are listed on a "designated stock exchange" as defined in the Tax Act (which includes the TSXV) or the Corporation is a "public corporation" as defined in the Tax Act; (ii) in the case of the Subscription Receipts either: (A) the Subscription Receipts are listed on a designated stock exchange; or (B) the Underlying Common Shares are listed on a designated stock exchange; (iii) the Corporation is not, and deals at arm's length (within the meaning of the Tax Act) with each person who is, an annuitant, a beneficiary, an employer, a subscriber or a holder under the particular Deferred Plan; and (iv) the Escrowed Funds are invested in one or more "qualified investments" (as defined in the Tax Act) for Deferred Plans.

Notwithstanding the foregoing, if the Subscription Receipts or the Underlying Common Shares are a "prohibited investment" within the meaning of the Tax Act for a particular RRSP, RRIF, RESP, RDSP or TFSA (each, a "**Registered Plan**"), the annuitant, subscriber or holder of the Registered Plan, as the case may be, will be subject to a penalty tax as set out in the Tax Act. The Subscription Receipts and the Underlying Common Shares will generally not be a "prohibited investment" for a Registered Plan unless the annuitant, subscriber or holder, as applicable, of the Registered Plan: (i) does not deal at arm's length with the Corporation for purposes of the Tax Act; or (ii) has a "significant interest" (within the meaning of the Tax Act) in the Corporation.

Prospective purchasers who intend to hold the Subscription Receipts and the Underlying Common Shares issued pursuant to the Subscription Receipts in a Deferred Plan should consult their own tax advisors as to whether the Subscription Receipts and the Underlying Common Shares will be prohibited investments in their particular circumstances.

RISK FACTORS

An investment in the Subscription Receipts and the Underlying Common Shares issuable pursuant to the Subscription Receipts involves a number of risks. Before investing, prospective purchasers of Subscription Receipts should carefully consider, in light of their own financial circumstances, the factors set out below, as well as other information and risk factors contained in or incorporated by reference in this short form prospectus,

including those risk factors set forth under the heading "*Risk Factors*" at pages 46 through 65, inclusive, of the AIF, and those risk factors set forth under the heading "*Risks and Uncertainties*" in each of the Interim MD&A and the Annual MD&A, which are incorporated by reference herein.

Possible Failure to Realize Anticipated Benefits of the Velvet Acquisition

The Corporation is proposing to complete the Velvet Acquisition to strengthen Spartan's position in the oil and natural gas industry and to create the opportunity to realize certain benefits as described in "*Recent Developments – The Velvet Acquisition*" and "*Information Concerning Velvet and the Velvet Assets*". Achieving the benefits of the Velvet Acquisition depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from integrating the Velvet Assets into Spartan's existing portfolio of properties. The integration of the Velvet Assets requires the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of the Velvet Acquisition.

Possible Failure to Complete the Velvet Acquisition

The Velvet Acquisition is subject to the satisfaction of the conditions set forth in the Velvet Acquisition Agreement summarized herein, as well as normal commercial risk that the Velvet Acquisition may not be completed on the terms negotiated or at all.

If closing of the Velvet Acquisition does not take place by the Deadline, the Escrow Agent will repay to holders of Subscription Receipts an amount equal to the issue price therefore plus a *pro rata* share of the interest earned on the Escrowed Funds, if any. In that case, the total return that a purchaser of Subscription Receipts would be entitled to receive would be limited to the purchaser's *pro rata* share of interest earned on the subscription price for such purchaser's Subscription Receipts, if any. The purchaser would not be entitled to participate in any growth in the trading price of the Common Shares. Further, the purchaser would be restricted from using the funds devoted to the acquisition of the Subscription Receipts for any other investment opportunities until the Escrowed Funds are returned to the purchaser. See "*Recent Developments*".

Potential Undisclosed Liabilities Associated with the Velvet Acquisition

In connection with the Velvet Acquisition, there may be liabilities that Spartan failed to discover or was unable to quantify in the Corporation's due diligence which the Corporation conducted prior to the execution of the Velvet Acquisition Agreement, and Spartan may not be indemnified for some or all of these liabilities.

Engineering, Title, Environmental and Economic Assessments required for the Velvet Acquisition that may be Materially Incorrect

Acquisitions of oil and natural gas properties or companies are based in large part on engineering, environmental and economic assessments made by the acquiror, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the Corporation's control. All such assessments involve a measure of geologic, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

Although title and environmental reviews are conducted prior to any purchase of resource assets, such reviews cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defects or deficiencies do not exist.

The Velvet Reserves Report was prepared for Velvet, and the Corporation is unable to assess procedures used for providing information to McDaniel, as applicable, or for assembling and reporting other information to McDaniel, associated with the Velvet Assets.

Operational, Environmental and Reserves Risks Relating to the Velvet Acquisition

The risk factors set forth in the AIF and in this short form prospectus relating to the oil and natural gas business, environmental and Spartan's operations and reserves apply equally in respect of the Velvet Assets.

Significant Transaction and Related Costs

The Corporation expects to incur a number of costs associated with completing the Velvet Acquisition and integrating the operations of Velvet into Spartan's existing operations. The substantial majority of such costs will be non-recurring expenses resulting from the Velvet Acquisition and will consist of transaction costs related to the Velvet Acquisition, facilities and systems consolidation costs and employment-related costs. Additional unanticipated costs may be incurred in the integration of Spartan and Velvet's respective businesses.

Completion of Offering

Although the Corporation has entered into the Underwriting Agreement with the Underwriters, there is no guarantee that all of the conditions to the completion of the Offering will be satisfied.

Credit Facilities Risk

The amount authorized under the Credit Facilities is dependent on the borrowing base determined by the Lenders. The Corporation is required to comply with covenants under the Credit Facilities, which from time to time either affect the availability, or price, of additional funding, and in the event that the Corporation does not comply therewith its access to capital could be restricted or repayment could be required. The failure of the Corporation to comply with such covenants, which may be affected by events beyond the Corporation's control, could result in a default under the Credit Facilities which could result in the Corporation being required to repay amounts owing thereunder. Even if the Corporation is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing, the lenders under the Credit Facilities could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the Credit Facilities may, from time to time, impose operating and financial restrictions on the Corporation that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to the Corporation's securities, incurring of additional indebtedness, provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

The Corporation's borrowing base is determined and re-determined by the Lenders based on the Corporation's reserves, commodity prices, applicable discount rate and other factors as determined by the Corporation's lenders. A material decline in commodity prices could reduce the Corporation's borrowing base, therefore reducing the funds available to the Corporation under the Credit Facilities which could result in a portion, or all, of the Corporation's bank indebtedness being required to be repaid.

Additional Indebtedness

Upon closing of the Velvet Acquisition, Spartan will create the New Credit Facilities and the Term Facility. Any additional indebtedness incurred by the Corporation under the New Credit Facilities and Term Facility will increase the amount of interest payable by the Corporation from time to time until such indebtedness is repaid, which will represent an increase in the Corporation's interest costs and a potential reduction in the Corporation's net income. The Corporation may also need to find additional sources of financing to repay any such additional indebtedness when it becomes due. There can be no guarantee that the Corporation will be able to obtain financing on terms acceptable to it or at all at such time.

Transaction and Related Costs

The Corporation expects to incur a number of costs associated with completing the Velvet Acquisition and integrating the Velvet Assets. Most of such costs will consist of transaction costs related to the Velvet Acquisition,

facilities and systems consolidation costs and employment-related costs. Additional unanticipated costs may be incurred in the integration of the Velvet Assets into the Corporation's business.

Subscription Receipt Structure

The holders of Subscription Receipts will receive Common Shares upon the satisfaction of the Escrow Release Conditions. Subject to the terms of the Underwriting Agreement, the Corporation may waive certain closing conditions in its favour in the Velvet Acquisition Agreement or agree to amend the Velvet Acquisition Agreement and consummate the Velvet Acquisition on terms that may be different from those described in this short form prospectus. As a result, the expected benefits of the Velvet Acquisition may not be fully realized. As a consequence, holders of Subscription Receipts will essentially assume the same risk as though they had invested directly in Common Shares on the Closing Date.

Effect of Commodity Prices on Operational and Financial Results

The Corporation's operational and financial results are dependent on the prices received for oil and natural gas production. Any substantial and extended decline in the price of oil and natural gas has had and, if such trends continue, will have an adverse effect on, among other things, the Corporation's revenues and financial condition. See also "*Risk Factors – Commodity Price Volatility*" in the AIF.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders to sell the Underlying Common Shares issued pursuant to the Subscription Receipts at an advantageous price. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Special Note Regarding Forward-Looking Statements*". In addition, the market price for securities in the stock markets, including the TSXV, recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Common Shares.

Market for Securities

The TSXV has conditionally approved the listing of the Subscription Receipts issuable pursuant to the Offering and the Underlying Common Shares. Such listing is subject to the Corporation fulfilling all of the listing requirements of the TSXV no later than three business days preceding the Closing Date. However, there is currently no market through which the Subscription Receipts may be sold and there is no guarantee that an active trading market will develop. Accordingly, purchasers may not be able to resell the Subscription Receipts distributed under this short form prospectus. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and the availability of trading prices and the liquidity of the securities. There can be no assurance that an active trading market will develop for the Subscription Receipts after the Offering, or if developed, that such a market will be sustained at the price level of the Offering.

Effect of COVID-19 and Other Infectious Disease, Pandemic or a Similar Health Threat

An outbreak of infectious disease, a pandemic or a similar public health threat, such as the recent outbreak of a novel strain of coronavirus, COVID-19 (including related variants), or a fear of any of the foregoing, could adversely impact the Corporation by causing operating, supply chain and project development delays, disruptions and challenges, labour shortages and challenges and shutdowns (including as a result of government regulation and prevention measures), and increased costs to the Corporation. In addition, the recent COVID-19 outbreak (including related variants) and prevention measures related thereto may have an impact on the economic activity in the markets in which the Corporation and its subsidiaries operate, causing negative impacts on the Corporation's business and financial results. See "*Results of Operations*" and "*Significant Estimates and Judgements*" in the Interim MD&A. Given the unprecedented and changing developments surrounding the COVID-19 pandemic, it is not possible to reliably estimate the impact of the COVID-19 pandemic (including

related variants) on the financial results and condition of the Corporation in future periods, but the impact could be significantly adverse.

U.S. Administration

The recent changes in control of the U.S. Congress and the election of President Biden may result in legislative and regulatory changes that could have an adverse effect on the Corporation. In particular, there is uncertainty regarding U.S. support for existing treaty and trade relationships with other countries, including Canada, as evidenced by President Biden's executive order on January 20, 2021 revoking the permit for the Keystone XL Pipeline. Implementation by the U.S. government of new legislative or regulatory policies could impose additional costs on the Corporation, decrease U.S. demand for the Corporation's products, or otherwise negatively impact the Corporation, which may have a material adverse effect on the Corporation's business, financial condition and operations. In addition, this uncertainty may adversely impact: (i) the ability of companies to transact business with companies such as the Corporation; (ii) the Corporation's profitability; (iii) regulation affecting the Canadian oil and gas industry; (iv) global stock markets (including the TSXV); and (v) general global economic conditions. All of these factors are outside of Spartan's control, but may nonetheless lead the Corporation to adjust its strategy in order to compete effectively in global markets.

Forward-Looking Statements and FOFI may Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information included in this short form prospectus or the documents incorporated by reference in this short form prospectus, including the forward-looking information under "*Recent Developments*". By their nature, forward-looking information and FOFI involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information and/or FOFI or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Some of the FOFI presented in this short form prospectus is based upon the completion of the Velvet Acquisition and the Offering, and if any of these transactions are not completed or not completed on the terms or timelines contemplated, this will impact the forward-looking FOFI provided herein and such impact may be material. See "*Special Note Regarding Forward-Looking Statements*".

Impact of Future Financings

In order to finance future operations, the Corporation may raise funds through the issuance of Common Shares or the issuance of debt instruments or securities convertible into Common Shares. The Corporation cannot predict the size of future issuances of Common Shares or the issuance of debt instruments or other securities convertible into Common Shares or the effect, if any, that future issuances and sales of the Corporation's securities will have on the market price of the Common Shares.

INTERESTS OF EXPERTS

Certain legal matters relating to the Offering will be passed upon by Stikeman Elliott LLP, on behalf of the Corporation, and by Burnet, Duckworth & Palmer LLP on behalf of the Underwriters. Based on securityholdings as of August 9, 2021, the partners and associates of Stikeman Elliott LLP, as a group, own, directly or indirectly, less than 1% of the outstanding Common Shares and the partners and associates of Burnet, Duckworth & Palmer LLP, as a group, own, directly or indirectly, less than 1% of the outstanding Common Shares. In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation except as disclosed under "*Directors and Officers*" in the AIF.

Certain reserve estimates in this short form prospectus and incorporated by reference in this short form prospectus are derived from reserve reports prepared by McDaniel; specifically, the Velvet Reserves Report and the McDaniel Report (the "**McDaniel Reports**"). As of the date hereof, to the knowledge of the Corporation, the directors, officers, employees and consultants of McDaniel who participated in the preparation of the McDaniel Reports who were in a position to directly influence the preparation or outcome of the preparation of the McDaniel Reports as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. In addition, none of the officers, directors, employees or consultants of McDaniel are currently expected to be elected,

appointed or employed as a director, officer or employee of the Corporation or any of the Corporation's associates or affiliates.

PricewaterhouseCoopers LLP is the current auditor of both the Corporation and Velvet. PricewaterhouseCoopers LLP has confirmed that it is independent of both the Corporation and Velvet within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta. MNP LLP is the previous auditor of the Corporation and has confirmed that it is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

Certain of the Company's directors and officers, namely Steve Lowden and Elliot H. Weissbluth, reside outside of Canada. Each of these persons has appointed 152928 Canada Inc., c/o Stikeman Elliott LLP, 4300 Bankers Hall West, 888 - 3rd Street S.W., Calgary, Alberta, T2P 5C5, as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if the party has appointed an agent for service of process.

STATUTORY AND CONTRACTUAL RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

In addition, under the Subscription Receipt Agreement, original purchasers of Subscription Receipts will have a contractual right of rescission against the Corporation both prior to and following the issuance of the Underlying Common Shares issued pursuant to the Subscription Receipts to such purchasers to receive the amount paid for the Subscription Receipts if this short form prospectus (including the documents incorporated by reference herein) and any amendment contains a misrepresentation or is not delivered to such purchaser, provided such remedy for rescission is exercised within 180 days of Closing.

APPENDIX "A"

VELVET FINANCIAL STATEMENTS

(See attached)



Annual Financial Statements

As at December 31, 2020, December 31, 2019, and January 1, 2019
and for the years ended December 31, 2020 and 2019



Independent auditor's report

To the Shareholders of Velvet Energy Ltd.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Velvet Energy Ltd. (the Company) as at December 31, 2020 and 2019 and January 1, 2019, and its financial performance and its cash flows for the years ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the balance sheets as at December 31, 2020 and 2019 and January 1, 2019;
- the statements of comprehensive income (loss) for the years ended December 31, 2020 and 2019;
- the statements of changes in equity for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the 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 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 financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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



the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
July 29, 2021

Velvet Energy Ltd.
Balance Sheet

As at (CAD \$000's)	Notes	December 31, 2020	December 31, 2019	January 1, 2019
ASSETS				
Current				
Cash and cash equivalents	21	2,934	3,148	4,204
Accounts receivable	21	43,058	38,458	25,834
Risk management contracts	21	14,964	29,291	55,691
Prepaid expenses and other	12	2,515	1,738	1,175
Assets held for sale	7	750	-	-
		64,221	72,635	86,904
Long term deposits and other	12	4,131	2,172	1,504
Risk management contracts	20	6,207	21,523	87,436
Property, plant and equipment, net	8,9	676,159	922,174	998,661
Exploration and evaluation assets	7,8,10,11	86,885	156,039	178,044
Deferred income tax asset	25	-	101,153	42,879
Total assets		837,603	1,275,696	1,395,428
LIABILITIES				
Current				
Accounts payable and accrued liabilities	21	57,829	83,249	101,150
Risk management contracts	21	40,660	29,875	3,881
Lease liabilities	13	3,487	4,847	3,828
Other liabilities	14	2,241	274	383
Bank loan	15	25,000	-	-
Decommissioning liability	17	1,000	2,500	3,000
Participating special shares	18	105,000	765,000	1,021,107
		235,217	885,745	1,133,349
Risk management contracts	21	39,521	36,638	2,916
Lease liabilities	13	3,757	5,778	10,465
Other liabilities	14	3,043	6,880	6,972
Decommissioning liability	17	73,545	76,269	70,115
Bank loan	15	184,811	216,058	186,083
Senior secured notes	16	220,382	223,028	233,907
Total liabilities		760,276	1,450,396	1,643,807
SHAREHOLDERS' EQUITY				
Share capital - common shares	19	596	596	522
Contributed surplus	19	8,263	7,301	5,902
Retained earnings (deficit)		68,468	(182,597)	(254,803)
Total shareholders' equity		77,327	(174,700)	(248,379)
Total liabilities and shareholders' equity		837,603	1,275,696	1,395,428

Commitments and contingencies (Note 26)

The accompanying notes are an integral part of the annual financial statements

On behalf of the Board of Directors:

Ken Woolner
Director
President & Chief Executive Officer

Vincent Chahley
Director
Chairman of the Audit Committee

Velvet Energy Ltd.
Statement of Comprehensive Income (Loss)

For the years ended December 31,
(CAD \$000's)

	Notes	2020	2019
REVENUE			
Petroleum and natural gas sales	23	246,609	299,420
Royalties		(12,213)	(18,901)
		234,396	280,519
Sale of commodities purchased from third parties	23	12,778	4,944
Processing revenue	23	3,537	5,136
Pipeline transportation revenue	23,24	15,193	4,249
		265,904	294,848
COMMODITY RISK MANAGEMENT CONTRACTS			
Realized gain on commodity risk management contracts	21	74,845	23,261
Unrealized loss on commodity risk management contracts	21	(21,826)	(141,715)
		53,019	(118,454)
		318,923	176,394
EXPENSES			
Operating		98,310	105,614
Transportation		33,730	25,273
Pipeline transportation	24	10,894	7,105
Commodities purchased from third parties		9,731	4,646
General and administrative	29	21,970	24,103
Share-based compensation	19	962	1,423
Transaction costs		510	745
Finance charges	20	34,983	33,920
Depletion and depreciation	9	101,589	129,890
Impairment loss	9	257,374	86,685
Exploration expense	10,11	66,662	33,230
Net (gain) loss on non-core asset dispositions	8	(4,077)	562
Foreign exchange gain	22	(5,779)	(2,495)
Other Income		(154)	(133)
		626,705	450,568
Net loss before taxes and revaluation of participating special shares		(307,782)	(274,174)
Revaluation of participating special shares	18	660,000	288,107
Net income before taxes		352,218	13,933
TAXES			
Deferred income tax expense (recoveries)	25	101,153	(58,273)
Net income and comprehensive income		251,065	72,206

The accompanying notes are an integral part of the annual financial statements

Velvet Energy Ltd.
Statement of Changes in Equity

(CAD 000's)	Notes	December 31, 2020	December 31, 2019
SHARE CAPITAL			
Balance, beginning of year		596	522
Exercise of stock options	19	-	74
Balance, end of year		596	596
CONTRIBUTED SURPLUS			
Balance, beginning of year		7,301	5,902
Exercise of stock options	19	-	(24)
Share-based compensation	19	962	1,423
Balance, end of year		8,263	7,301
RETAINED EARNINGS (DEFICIT)			
Balance, beginning of year		(182,597)	(254,803)
Net loss for the year		251,065	72,206
Balance, end of year		68,468	(182,597)
Total shareholder equity, end of year		77,327	(174,700)
	Notes	December 31, 2020	December 31, 2019
OUTSTANDING COMMON SHARES			
Balance, beginning of year		3,692,717	3,667,717
Issued upon exercise of stock options	19	-	25,000
Balance, end of year		3,692,717	3,692,717

The accompanying notes are an integral part of the annual financial statements

Velvet Energy Ltd.

Statement of Cash Flows

For the years ended December 31,
(CAD \$000's)

	Notes	2020	2019
OPERATING ACTIVITIES			
Net income (loss)		251,065	72,206
Non-cash items			
Share-based compensation	19	962	1,423
Finance income		(4)	(17)
Finance charges	20	34,983	33,920
Depletion and depreciation	9	101,589	129,890
Impairment loss	9	257,374	86,685
Exploration expense	10,11	66,662	33,230
Net (gain) loss on non-core asset dispositions	8	(4,077)	562
Unrealized (gain) loss on risk management contracts	21	43,310	152,028
Non-cash foreign exchange (gain) loss	22	(3,611)	(12,082)
Other non-cash	14	(1,627)	-
Deferred income tax expense (recoveries)	25	101,153	(58,273)
Revaluation of participating special shares	18	(660,000)	(288,107)
Pre-exploration expense	11	(75)	(3)
Decommissioning costs incurred	17	(1,227)	(1,476)
Adjusted Funds from operations		186,477	149,986
Net change in long term deposits and other		(1,959)	(668)
Net change in non-cash working capital	30	(10,412)	(19,942)
Cash from operating activities		174,106	129,376
FINANCING ACTIVITIES			
Proceeds on issuance of common shares	19	-	50
Proceeds on issuance of Participating Special Shares	18	-	32,000
Proceeds from bank loan	15	1,033,992	245,806
Repayment of bank loan	15	(1,041,242)	(214,909)
Other financing		(246)	(201)
Payments on lease liabilities	13	(3,311)	(4,013)
Interest and fees paid on bank loan and leases		(11,359)	(11,622)
Interest and fees paid on senior secured notes		(20,899)	(20,943)
Cash from (used in) financing activities		(43,065)	26,168
INVESTING ACTIVITIES			
Finance income		4	17
Cost of oil and natural gas acquisitions	8	-	(45)
Property, plant and equipment expenditures	9	(95,945)	(197,979)
Exploration and evaluation expenditures	10	(15,803)	(19,614)
Proceeds from non-core asset dispositions	8	403	71,805
Net change in non-cash working capital	30	(19,914)	(10,784)
Cash used in investing activities		(131,255)	(156,600)
Net decrease in cash and cash equivalents		(214)	(1,056)
Cash and cash equivalents, beginning of year		3,148	4,204
Cash and cash equivalents, end of year		2,934	3,148

Supplementary disclosure of cash flow information (Note 30)

The accompanying notes are an integral part of the annual financial statements

VELVET ENERGY LTD.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

December 31, 2020, December 31, 2019, and January 1, 2019

1. NATURE OF THE BUSINESS

Velvet Energy Ltd., ("Velvet" or the "Company") was incorporated on February 25, 2011 under the *Business Corporations Act* (Alberta). The Company is privately held and focuses on the exploration, development, acquisition, production and sales of light crude oil, natural gas liquids and natural gas. Velvet's head office is located at 1500, 308 – 4th Avenue S.W. Calgary, Alberta and it operates in the Province of Alberta and owns lands in the Provinces of Alberta, British Columbia, and Saskatchewan.

2. BASIS OF PREPARATION

These 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").

These financial statements for the year ended December 31, 2020, are the first the Company has prepared in accordance with IFRS. For all periods up to and including the year ended December 31, 2019, the Company prepared its financial statements following a specified basis of accounting with policies that were consistent with IFRS, with the exception of the accounting treatment of the Company's participating special shares ("PSS") as described in note 3. Refer to note 3 for information on how the Company adopted IFRS and an explanation of how the transition to IFRS has affected the reported balance sheets, changes to shareholders' equity, income and cash flows of the Company.

The financial statements have been prepared on a historical cost basis, except those items that are presented at fair value as detailed in the accounting policies disclosed in note 4 "Significant Accounting Policies".

A portion of the Company's activities are conducted in joint participation with others. These financial statements reflect only the Company's proportionate interest in such activities and are presented in Canadian dollars, the Company's functional currency. The financial statements were approved by the Company's Board of Directors on July 29, 2021.

Prior to 2019, Velvet had wholly owned subsidiaries related to the Company's 2018 acquisition of Iron Bridge Resources Inc. that we amalgamated on January 1, 2019.

3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The annual financial statements, for the year ended December 31, 2020, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2019, Company prepared its financial statements following a specified basis of accounting with policies that were consistent with IFRS, with the exception of the accounting treatment of the Company's participating special shares as described below:

- i) The Company's participating special shares convert to common shares under certain liquidity scenarios and at the Shareholder's option provided requisite approval is obtained. The number of common shares that are to be issued are variable depending on the value of the Company at the time of conversion. Under IFRS, these instruments do not meet the criteria for classification as equity, as they violate the "fixed for fixed" provisions within the definition of a financial liability in IAS 32 *Financial Instruments: Presentation*. The PSS are considered to be hybrid financial instruments and are required to be separated into two components from the proceeds of issuing the instrument a financial liability for the debt portion and an embedded derivative relating to the embedded conversion feature. The debt would be designated as a financial liability and measured at amortized cost and the embedded derivative would be designated as a financial liability at fair value through the profit or loss statement. There is also a one-time election available to treat both components as one financial instrument designated as a financial liability at fair value through the profit or loss statement. Furthermore, due to the ability of Shareholder's to convert at any time, the instruments are required to be classified as current liabilities under IFRS. The Company had previously recorded the issued PSS as long-term financial liabilities on the balance sheet, at cost, with no recognition of the embedded derivative, and not revaluing them at each reporting period.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities recognized in retained earnings unless certain exemptions are applied. The Company has applied all mandatory exemptions required

under IFRS 1. The Company has not applied any optional exemptions available under IFRS 1. No effect of hindsight was used in calculating transitional amounts.

Upon adoption of IFRS, the Company has treated the PSS as a hybrid financial and recorded them as a current liability on the balance sheet. The Company has elected to designate the entire hybrid financial instrument as a financial liability at fair value each reporting period with gains and losses on revaluation of the liability recorded through profit and loss.

Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at December 31, 2020, together with the comparative period data for the year ended December 31, 2019, as described in note 4 "Significant Accounting Policies". In preparing the financial statements, Velvet's opening balance sheet was prepared as at January 1, 2019, the Company's date of transition to IFRS.

The following tables summarize the changes made by the Company in adopting IFRS financial statements, including the balance sheet as at January 1, 2019 and the financial statements as of, and for, the years ended December 31, 2019 and December 31, 2020.

Balance Sheet – Effect of transition to IFRS

(\$000's)	Participating special shares - Current	Participating special shares – Long-Term	Retained earnings (deficit)
January 1, 2019			
Previously reported	-	671,833	94,471
IFRS	1,021,107	-	(254,803)
Effect of transition to IFRS	1,021,107	(671,833)	(349,274)
December 31, 2019			
Previously reported	-	703,833	(121,430)
IFRS	765,000	-	(182,597)
Effect of transition to IFRS	765,000	(703,833)	(61,167)

Statement of Comprehensive Income – Effect of transition to IFRS

(\$000's)	Revaluation of participating special shares	Net income (loss) before tax	Net income (loss) ⁽¹⁾
For the year ended December 31, 2019			
Previously reported	-	(274,174)	(215,901)
IFRS	288,107	13,933	72,206
Effect of transition to IFRS	288,107	288,107	288,107

(1) Net income (loss) and comprehensive income (loss)

Statement of Cash Flows – Effect of transition to IFRS

(\$000's)	Net income (loss)	Revaluation of participating special shares	Cash from operating activities
For the year ended December 31, 2019			
Previously reported	(215,901)	-	129,376
IFRS	72,206	(288,107)	129,376
Effect of transition to IFRS	288,107	(288,107)	-

4. SIGNIFICANT ACCOUNTING POLICIES

Participating Special Shares

Participating special shares are hybrid financial instruments, and the Company has recorded them as a liability on the balance sheet. The Company has elected to designate the entire hybrid financial instrument as a financial liability at fair value each reporting period with gains and losses on revaluation of the liability recorded through profit and loss. The Company has classified these liabilities as current liabilities on the balance sheet, reflecting that they can be converted at the option of the shareholder. Changes in fair value of the PSS due to changes in the associated credit risk are deemed to be nominal because the PSS are settled through common shares, and therefore, this has not been disclosed separately in other comprehensive income.

Class B common shares compensation expense

The Company is authorized to issue 4,195,000 Class B common shares with a stated purchase price of \$0.01 per share. Compensation costs attributable to Class B common shares are measured at fair value at the grant date and expensed over the vesting period of the shares with a corresponding increase to contributed surplus. The fair value of each Class B common share granted was originally estimated, on the date of grant, at a probability weighted discounted rate of return on the estimated total capital to be drawn from the total commitment available to the Company. The purchase of the shares is recorded at the stated purchase price, as share capital, at the time of purchase.

Share-based compensation plan

The Company has established a stock option plan whereby officers, directors, employees and providers of services may be granted options to purchase Class B common shares as approved by the Board of Directors. Compensation costs attributable to stock options are measured at fair value at the grant date and expensed over the expected vesting period with a corresponding increase to contributed surplus. The fair value of each option granted is estimated, on the date of grant, using the Black-Scholes options pricing model. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contributed surplus, is credited to share capital.

Cash and cash equivalents

Cash and cash equivalents include deposits held with banks and other short-term highly liquid investments with an initial maturity of three months or less.

Exploration and evaluation costs ("E&E")

Oil and gas E&E expenditures are accounted for in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Costs related to exploration and evaluation, where technical feasibility and commercial viability of the project has not been established, are grouped by area and are not subject to depletion. Such costs include exploration license and leasehold property acquisition costs, geological and geophysical costs and costs directly associated with an exploration well, including capitalized overhead. General prospecting or evaluation costs incurred prior to obtaining the right to explore for hydrocarbons in an area are charged to the statement of comprehensive income when incurred.

When an exploratory well in an area is drilled and is deemed to be successful, based on an assignment of proved reserves, the well cost and associated land, geological and geophysical costs are tested for impairment and transferred to property, plant and equipment and will be subject to depletion. Exploratory well costs can be transferred even though an area is still being evaluated for technical and commercial viability. The addition of reserves for proved and probable undeveloped drilling locations will also result in the transfer of associated land and geological costs to property, plant and equipment, after being tested for impairment.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and transferred to property, plant and equipment and will be subject to depletion. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue to work in the area, the unrecoverable costs are charged to the statement of comprehensive income.

Costs included in E&E assets are reviewed at the operating segment level at each reporting date to determine whether there are any indicators of impairment or reversal of impairment. If there are impairment indicators at the operating segment level, this will trigger a review of the E&E assets within the segment. All such carried costs are subject to review to confirm the continued intent and ability to develop or otherwise extract value from the associated oil and gas interests. Review will include assessing lease expiries for the right to explore, whether conclusions can be drawn from the results of exploratory activity as to whether commercially viable

quantities of resources exist, and whether or not there is any budgeted or future planned activity in the area. If no future activity is planned, or reasonably anticipated, prior to the expiry of the right to explore, the capitalized costs are charged to the statement of comprehensive income. In addition, if the intent and ability are confirmed, the Company will assess whether the carrying amount would likely be recovered from successful development or by sale, and if not, any excess will be charged to the statement of comprehensive income. No depletion or depreciation is provided for E&E assets.

Property, plant and equipment (“PP&E”)

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, including capitalized overhead, and the initial estimate of any asset decommissioning obligations.

Depletion of oil and natural gas assets and depreciation of production equipment is calculated using the unit-of-production method, based on volumes of total proved and probable oil and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. The depletable base includes all capitalized costs, estimated discounted future development costs of proved and probable undeveloped reserves, and discounted future estimated asset decommissioning costs.

In order to review assets for impairment, the assets are first grouped into Cash Generating Units (“CGUs”). The allocation of assets to CGUs is done at the lowest level at which there is identifiable cash flow that is largely independent of the cash flow of other groups of assets. Assessment for impairment occurs when there are indications that the carrying value of a CGU may not be recoverable. A CGU’s recoverable amount is the higher of its value in use or fair value less costs to dispose (“FVLCD”). Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired, and its assets are written down to the CGU’s recoverable amount. Any resulting impairment charge is subject to reversal if there has been objective evidence of a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

As a Lessee

The Company recognizes a lease as a Right of Use (“ROU”) asset and a corresponding liability on the date a leased asset becomes available for use. ROU assets are initially measured at cost which is composed of the amount of the initial measurement of the lease liability, less any incentives received, plus any lease payments made at, or before the commencement date and initial direct costs and asset restoration costs, if any. The ROU asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis or another systematic basis that is more representative of the pattern in which Velvet expects to consume the ROU asset. Depreciation of the ROU asset is recognized in Depletion, depreciation and amortization (“DD&A”) expense. Where appropriate, DD&A charges to the ROU asset are capitalized as additions to either E&E or PP&E depending on the nature of the underlying business activity.

Lease liabilities are measured at the net present value of the lease payments which include fixed lease payments, variable lease payments that are based on an index or a rate, amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if the Company is reasonably certain to exercise either of those options. Interest expense associated with the lease liability is charged to the statement of comprehensive income over the lease period with a corresponding increase to the lease liability. The lease liability is reduced as payments are made against the principal portion of the lease.

The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company’s incremental borrowing rate is used.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the leases increases by an amount proportionate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not proportionate, at the effective date of the lease modification, the Company will remeasure the lease liability and the corresponding ROU asset using the Company’s incremental borrowing rate, when the rate implicit in the lease is not readily available. A lease modification that decreases the scope of the lease

will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net earnings that reflects the proportionate decrease in scope.

The Company applies a practical expedient of IFRS 16 and does not recognize short-term leases and low-value assets on the balance sheet and lease payments are recognized in the financial statements as incurred. Further, lease and non-lease components are not separated and are accounted for as a single lease component.

As a Lessor

When the Company acts as a lessor, it determines at the inception of each lease whether it is a finance lease or an operating lease. This classification is dependent on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset, in which case the lease is a finance lease. In the circumstance where Velvet is an intermediate lessor, Velvet's interest in the head lease is accounted for separately from the sub-lease.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset and engage in an active program to locate a buyer and initiate completion of the transaction. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to dispose, with impairments recognized in the statement of comprehensive income in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted, depreciated or amortized.

Other capital assets

Depreciation of office furniture, leasehold improvements and computer hardware and software is calculated on the declining balance method using rates ranging from 20 percent to 30 percent.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued, and liabilities and contingent liabilities incurred or assumed at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill. At the acquisition date, any goodwill is allocated to a CGU or a group of CGUs.

Goodwill is assessed for impairment annually at year-end, or more frequently if events occur that indicate a possible impairment. Impairment is determined by assessing the recoverable amount of the operating segment to which the goodwill relates. Where the recoverable amount of the operating segment with allocated goodwill is less than the carrying amount, an impairment loss of goodwill is recognized.

Decommissioning obligations

Decommissioning obligations are management's best estimate of the future costs associated with asset removal and decommissioning, and site restoration. The present value of the liability for the Company's decommissioning obligations is recorded in the period in which it is incurred, discounted to its present value using a risk-free interest rate and the corresponding amount is capitalized to the associated oil and gas properties. The decommissioning asset is included in PP&E and is depleted over the life of the reserves.

Subsequent to the initial measurement, the liability is adjusted at each reporting period to reflect the passage of time, changes in discount rates, revisions to the estimated timing of cash flows or to the original estimated undiscounted cost. The increase in the liability due to the passage of time is recognized as accretion expense within the finance charges whereas changes due to revisions in the estimated future cash outflows and discount rate are capitalized to the extent the related asset is not impaired. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent of the liability recorded.

Income tax

Income tax is comprised of current and deferred taxes. Income tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in other comprehensive income or elsewhere in shareholders' equity, in which case the related income tax expense or recovery is also recognized directly in other comprehensive income or elsewhere in shareholders' equity.

Current tax expense is the expected cash tax payable on taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, along with any adjustment to taxes payable in respect of previous years.

In general, deferred tax expense and the related liability is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to continue to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Financial Instruments

(i) Non-derivative financial assets and liabilities

The Company initially records its cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, participating special shares, bank loan and senior secured notes at fair value adjusted for any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial assets and liabilities are measured at amortized cost using the effective interest rate method less any impairment losses.

Financial instruments measured at fair value on the balance sheet require classification into one of the following levels of the fair value hierarchy:

- 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 – Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly as of the reporting date. Level 2 valuations 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 – Inputs for the asset or liability that are not based on observable market data. The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The Company has categorized its financial instruments that are fair valued on the balance sheet according to the fair value hierarchy above.

(ii) Financial derivative instruments

Derivative instruments executed by the Company to manage market risk associated with volatile commodity prices have not been designated as effective accounting hedges, and accordingly, are recorded at their fair value on each balance sheet date and related gains and losses are recorded as realized and unrealized gains and losses on risk management contracts in the statement of comprehensive income in the period they occur. These instruments are not used for trading or speculative purposes.

The fair values of financial derivatives are recurring measurements and are determined whenever possible based on observable market data. If not available, the Company uses third-party models and valuation methodologies that utilize observable market data including forward commodity prices and interest rates to estimate the fair value of financial derivatives. In addition to market information, the Company incorporates transaction specific details that market participants would utilize in a fair value measurement.

Classification and measurement of financial instruments

The Company measures its financial assets and liabilities at fair value on initial recognition, which is the transaction price, unless a significant financing component exists. Subsequent measurement is dependent on the classification of the financial instrument. Financial assets are classified into three categories: i) measured at amortized cost; ii) fair value through other comprehensive income ("FVTOCI") and iii) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income.

- a) **Amortized cost:** The Company classifies its cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan and senior secured notes at amortized cost. These financial instruments are measured at fair value on initial recognition, which is typically the relevant transaction price unless a significant financing component exists. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method. The carrying values of the Company's cash and cash equivalent, accounts receivable, accounts payable and accrued liabilities, and bank loan approximate their fair values. The Company's senior secured notes carrying value does not approximate their fair value. Disclosure surrounding the estimated fair value is provided in note 16, and is based off comparable publicly traded bond from peers (level 3).
- b) **FVTPL:** The Company classifies its risk management contracts and participating special shares as measured at FVTPL. All of Velvet's risk management contracts currently in place are derivatives not designated for hedge accounting and are therefore measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the statement of comprehensive income.

Impairment of financial assets is determined by assessing the expected credit losses ("ECL"). The Company applies the simplified approach to measuring ECLs using a lifetime expected loss allowance for all accounts receivable. The Company's accounts receivable is the only financial asset that is subject to the ECL model. Cash and cash equivalents are also subject to impairment requirements; however, ECL allowances have not been recognized given the certainty with respect to its collectability.

Lifetime ECLs are a probability-weighted estimate of all possible default events over the expected life of a financial asset and are measured as the difference between the present value of the cash flows due to Velvet and the cash flows the Company expects to receive. In making an assessment as to whether Velvet's financial assets are credit impaired, the Company considers historically incurred bad debts, evidence of a debtor's present financial condition, any breach of contracts by the debtor, the probability the debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default and the term to maturity of the specified financial asset.

Additional disclosure related to Velvet's financial assets required by IFRS is included in note 21.

Derecognition of Financial Liabilities

If an amendment to a contract or agreement comprises a substantial modification, Velvet will derecognize the existing financial liability and recognize a new financial liability, with the difference recognized as a gain or loss in the statements of income. To determine whether a modification is substantial, Velvet performs a quantitative and qualitative test. Quantitatively, if the present value of the cash flows under the new terms is at least 10 percent different than the remaining cash flows of the original liability, the modification is deemed to be substantial. Qualitatively, the change is evaluated based on its impact to the economic risk associated with the liability and would be specific to the contract.

If the modification results in the derecognition of a liability any associated fees are recognized as part of the gain or loss. If the modification is not deemed to be substantial, any associated fees adjust the liability's carrying amount and are amortized over the remaining term.

Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Velvet recognizes revenue when control is transferred to the customer, which generally occurs at the delivery point. Velvet considers control to be transferred to the customers when: i) Velvet's performance obligation is satisfied with transfer of title and physical possession of commodity to customers at the transfer point; ii) significant risks and rewards of ownership have transferred to the customer; and iii) Velvet has the present right to payment.

Purchases and sales of products that are entered into in contemplation of each other with the same counterparty are recorded on a net basis. Revenues associated with services provided where Velvet is the agent are recorded as the services are provided. Velvet

recognizes revenue from the sale of crude oil and condensate, natural gas, natural gas liquids (“NGLs”), natural gas processing as well as marketing and transportation services.

Revenue measurement is based on the consideration specified in contracts with customers and payment for commodity sales occurs on the 25th of the month following delivery. Velvet does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. Velvet sells substantially all its production pursuant to contract pricing based on benchmark commodity indices, adjusted for quality, location or other factors. Revenue represents the Company’s share of sales before royalty deductions.

The Company applies a practical expedient of IFRS 15 *Revenue from contracts with customers* and does not disclose information about remaining performance obligations that have an original expected duration of one year or less and it does not have any long-term contracts with unfulfilled performance obligations.

Finance charges

Finance charges comprise interest expense on borrowings, finance fees and accretion of the discount on asset decommissioning obligations.

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. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. Grants related to assets are recorded as a reduction to the asset’s carrying value and are depreciated over the useful life of the asset. When the conditions of a grant relate to income or expense, it is recognized in the statements of comprehensive income (loss) as a reduction to the applicable expense, in the period in which the expenditures are incurred or income is earned.

5. CHANGES IN ACCOUNTING POLICIES

NEWLY ADOPTED ACCOUNTING POLICIES

IFRS 3 *Business Combinations*

Effective January 1, 2020, the Company adopted the amendment to IFRS 3 *Business Combinations* which clarified the definition of a business and permits a simplified assessment to determine whether an acquired set of activities and assets can be recognized as an asset acquisition, rather than a business combination. During the year ended December 31, 2020, Velvet did not have any acquisitions requiring application of this amendment.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of timely financial statements requires the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management. Actual results could differ materially from those estimated. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Oil and Gas Reserves

Reserves are estimated using numerous assumptions including those related to commodity pricing, discount rates, exchange rates and production costs as well as reservoir performance, which involves the interpretation of complex geological and engineering models and data. Actual reserves recovered could differ from these estimates. Changes in the actual reserves recovered will have a future impact on revenues, royalties, operating costs, depletion and decommissioning liabilities, impairment charges, and revaluations. All of these estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods and have a significant impact on net income and comprehensive income.

The following pricing assumptions were used in the reserves as at January 1, 2019, December 31, 2019, and December 31, 2020.

January 1, 2019	2019	2020	2021	2022	2023	2024	2025	2026	2027	Thereafter
WTI (US\$/bbl)	\$58.58	\$64.60	\$68.20	\$71.00	\$72.81	\$74.59	\$76.42	\$78.40	\$79.98	+2% / year
Edmonton Light Crude Oil (C\$/bbl)	\$67.30	\$75.84	\$80.17	\$83.22	\$85.34	\$87.33	\$89.50	\$91.89	\$93.76	+2% / year
AECO Gas (C\$/MMbtu)	\$1.88	\$2.31	\$2.74	\$3.05	\$3.21	\$3.31	\$3.39	\$3.46	\$3.54	+2% / year
NYMEX Henry Hub (US\$/MMbtu)	\$3.00	\$3.13	\$3.33	\$3.51	\$3.62	\$3.70	\$3.77	\$3.85	\$3.92	+2% / year
Exchange Rate (US\$/C\$)	\$0.757	\$0.782	\$0.797	\$0.803	\$0.807	\$0.808	\$0.808	\$0.808	\$0.808	\$0.808

December 31, 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Thereafter
WTI (US\$/bbl)	\$61.00	\$63.75	\$66.18	\$67.91	\$69.48	\$71.07	\$72.68	\$74.24	\$75.73	+2% / year
Edmonton Light Crude Oil (C\$/bbl)	\$72.64	\$76.06	\$78.35	\$80.71	\$82.64	\$84.60	\$86.57	\$88.49	\$90.31	+2% / year
AECO Gas (C\$/MMbtu)	\$2.04	\$2.32	\$2.62	\$2.71	\$2.81	\$2.89	\$2.96	\$3.03	\$3.09	+2% / year
NYMEX Henry Hub (US\$/MMbtu)	\$2.62	\$2.87	\$3.06	\$3.17	\$3.24	\$3.32	\$3.39	\$3.45	\$3.53	+2% / year
Exchange Rate (US\$/C\$)	\$0.760	\$0.770	\$0.785	\$0.785	\$0.785	\$0.785	\$0.785	\$0.785	\$0.785	\$0.785

December 31, 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Thereafter
WTI (US\$/bbl)	\$47.17	\$50.17	\$53.17	\$54.97	\$56.07	\$57.19	\$58.34	\$59.50	\$60.69	+2% / year
Edmonton Light Crude Oil (C\$/bbl)	\$55.76	\$59.89	\$63.48	\$65.76	\$67.13	\$68.53	\$69.95	\$71.40	\$72.88	+2% / year
AECO Gas (C\$/MMbtu)	\$2.78	\$2.70	\$2.61	\$2.65	\$2.70	\$2.76	\$2.81	\$2.87	\$2.92	+2% / year
NYMEX Henry Hub (US\$/MMbtu)	\$2.83	\$2.87	\$2.90	\$2.96	\$3.02	\$3.08	\$3.14	\$3.20	\$3.26	+2% / year
Exchange Rate (US\$/C\$)	\$0.737	\$0.748	\$0.748	\$0.750	\$0.750	\$0.750	\$0.750	\$0.750	\$0.750	\$0.750

Asset Impairment and Reversals

In order to test for impairment, costs included in PP&E and E&E are separated into CGUs. Each CGU is reviewed for impairment using the higher of Value in Use or Fair Value Less Costs of Disposal. Value in Use is determined by estimating the present value of future net cash flows expected to be derived from the continued use of the asset or CGU, whereas Fair Value less Costs of Disposal represents an estimated market value from proved and probable reserves. Refer to note 9 and note 10.

Assets are transferred from E&E to PP&E once technical feasibility and commercial viability have been determined. This determination depends largely on management's judgment as to whether proved and/or probable reserves exist.

Decommissioning and Restoration Costs

Amounts recorded for decommissioning obligations and the related accretion expense, requires the use of estimates regarding the future amount and timing of asset decommissioning and site remediation, and the selection of a risk-free discount rate. Refer to note 17.

Participating Special Shares

The calculation of the estimated net asset value used in the fair value calculation of the participating special shares requires the use of estimates and assumptions including future oil and natural gas prices, production rates, operating and capital costs, timing of new wells, inflation and discount rates, tax rates, and other assumptions that will change in the future which may impact the Company's estimated net asset value, and may, therefore, require a material adjustment to the participating special shares in the future. The Company validates this valuation by reviewing its methodology and fair value range with third-parties and uses a variety of peer comparison metrics and industry data.

Fair Value of Financial Assets and Liabilities

The determination of fair value in a business combination requires management to make assumptions and estimates about future events, particularly those related to the fair value of PP&E and E&E assets; including estimates of reserves acquired, forecast commodity prices and discount rates. Changes in any of the assumptions and estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill. Future net earnings can be affected as a result of changes in future depletion and asset impairment.

The estimated fair values of derivative instruments, resulting in financial assets and liabilities, are subject to measurement uncertainty as they are based on estimates of future commodity prices, interest rates, and other market factors. Refer to note 21.

Income Taxes

Legislation and regulation with respect to income taxes is subject to interpretation and change, resulting in measurement uncertainty. In addition, the recognition of a deferred tax asset or liability is dependent upon estimates of future cash flows, which are in turn, dependent upon reserve estimates. Refer to note 25.

Recent developments and Impact on estimation uncertainty

In March 2020, the World Health Organization (“WHO”) declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (“COVID-19”) resulting in significant public health measures and restrictions put in place. At the same time, the Organization of Petroleum Exporting Countries, and certain other countries, increased the planned supply of crude oil in an attempt to trigger a price war over market share.

The COVID-19 outbreak, decline in crude oil prices and related economic uncertainty have increased the complexity of estimates and assumptions used to prepare the financial statements, particularly related to the following key sources of estimation uncertainty:

(a) Impairment

Velvet’s impairment tests for oil and gas properties are generally based on fair value less cost of disposal (“FVLCD”). Determining the recoverable amounts require estimates and are subject to change as new information becomes available. Due to current economic conditions and continued volatility in the market, the risk of measurement uncertainty increases in estimating forward oil and natural gas reserves, forward prices, and value.

(b) Syndicated bank loan

The Company’s borrowing base is a function of the present value of Proved Developed Producing (“PDP”) reserves, which is dependent on several factors, including commodity prices, discount rates and the current credit environment. Lower commodity prices will influence the lending environment during the borrowing base reviews through 2020. Refer to note 15 for further details on the syndicated bank loan.

(c) Revaluation of participating special shares

Velvet has recorded its participating special shares at fair value at each reporting period. The Company measures the fair value of the participating special shares by determining a fair value range for the Company’s oil and natural gas assets, adjusted for debt, adjusted for working capital, and other corporate factors, to determine an estimated “net asset value”. The value is then allocated to the PSS, including the embedded derivative, in accordance with the terms of the PSS priority calculation. Determining the estimated net asset value requires estimates that are subject to change as new information becomes available. Due to current economic conditions and continued volatility in the market, the risk of measurement uncertainty increases in estimating the various components used to determine net asset value, including, but not limited to, forward oil and natural gas reserves, future development plans, forward prices, discount rates, and other corporate factors.

(d) Income tax provisions

Income taxes on earnings or losses in the interim period are accrued based on the tax rate applicable to the expected total annual earnings or losses. In the current economic environment, the expected total annual earnings are subject to measurement and estimation uncertainty and thus the assumptions used may result in a material adjustment to the carrying amount as well as the recoverability of the Company’s deferred tax assets and/or liabilities.

(e) Expected credit loss

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. The exposure to the Company primarily relates to cash and cash equivalents, accounts receivable and risk management assets. Substantially all of the accounts receivables are with customers and joint venture partners in the oil and gas industry and are subject to industry credit risks. Risk management contracts are held primarily by members of the banking syndicate. The Company has higher risk of credit loss as global events have had, and are expected to continue to have, a significant impact on companies and their credit risk, including Velvet’s customers, joint venture partners and financial counterparties. Velvet has incorporated these factors into its assessment of expected credit loss for the current period and will continue to assess and monitor its credit risk in future periods as global events evolve.

7. ASSETS HELD FOR SALE

(a) Simonette assets

The Company had committed to selling a portion of its Northwest assets at Simonette ("Simonette assets") and had initiated an active marketing program prior to the end of 2020. The designated assets have been reclassified from E&E to assets held for sale at the lower of its carrying amount and the fair value less costs to dispose ("FVLCD"). As a result of this reclassification, the Company determined the FVLCD was lower than the carrying amount and the Company incurred an impairment loss of \$1.4 million relating to the E&E assets (note 11). There were no associated decommissioning obligation relating to the designated assets.

The following amounts have been reclassified at December 31, 2020, all representing the carrying amounts:

(\$000's)	Total
Exploration and evaluation assets reclassified	750
Assets Held for Sale	750
Net assets	750

On February 17, 2021, the Company closed the transaction to dispose of its Simonette assets to an industry partner for cash consideration of \$0.7 million, prior to closing adjustments. The transaction will be accounted for as a business disposition.

8. PROPERTY ACQUISITIONS AND DISPOSITIONS

Acquisitions

Acquisitions completed during the year ended December 31, 2020 have been summarized below:

(\$000's)	PP&E	E&E Assets	Decommissioning liability	Total
Minor swaps	-	283	(18)	265
	-	283	(18)	265

Minor swaps consist primarily of the consolidation of various land holdings.

Dispositions

Dispositions completed during the year ended December 31, 2020 have been summarized below:

(\$000's)	PP&E	E&E Assets	Liabilities Held for Sale	Total
Minor swaps	-	(265)	-	(265)
Minor dispositions ⁽¹⁾	-	(378)	-	(378)
Whitecourt asset disposition (a)	-	-	(4,198)	(4,198)
Inventory disposition ⁽²⁾	(185)	-	-	(185)
	(185)	(643)	(4,198)	(5,026)

(1) Proceeds of \$364,000 on minor dispositions resulted in a net loss on disposal of \$14,000 during the year months ended December 31, 2020.

(2) Proceeds of \$38,000 on an inventory disposition resulted in a net loss on disposal of \$148,000 in the first quarter of 2020.

(a) Whitecourt assets

During the third quarter of 2020, the Company committed to selling a portion of its non-core Central Alberta assets at Whitecourt and McLeod ("Whitecourt assets") prior to the end of the third quarter of 2020. As a result, the designated assets were required to be reclassified from Property, plant & equipment to assets held for sale at the lower of its carrying amount and the FVLCD; however, the designated assets have a nil net carrying value. The associated decommissioning obligations related to the designated assets were reported as liabilities held for sale for \$4.2 million.

On October 20, 2020, the Company completed the transaction to dispose of its Whitecourt assets to an industry partner for cash consideration of \$1, prior to closing adjustments. The transaction was accounted for as a business disposition.

The following table summarizes the net proceeds from the sale of the Whitecourt assets:

(\$000's)	Total
Net Property, plant and equipment disposed	-
Liabilities held for sale disposed	4,198
Net liabilities disposed	(4,198)

(\$000's)	Total
Cash consideration	-
Interim statement of adjustments	(42)
Net cash consideration	(42)

Net gain on disposal	(4,240)
----------------------	---------

(b) West Pembina assets disposition

During the second quarter of 2019, the Company committed to selling a portion of its Central Alberta assets at Zeta Creek and Third Party South ("West Pembina assets"). As a result, the designated assets were reclassified from PP&E to assets held for sale at the lower of their carrying amount and the fair value less costs to dispose ("FVLCD"). As a result of this reclassification, the Company determined the FVLCD was lower than the carrying amount and the Company incurred an impairment loss of \$54.5 million relating to PP&E (note 9) and \$24.1 million relating to the associated E&E assets (note 10) during the second quarter of 2019. As at June 30, 2019, the remaining PP&E value of \$83.6 million was reported as assets held for sale and the associated decommissioning obligations were reported as liabilities held for sale for \$11.9 million.

On July 31, 2019, the Company completed the transaction to dispose of its West Pembina assets to an industry partner for cash consideration of \$71.1 million, after closing adjustments.

The following table summarizes the net proceeds from the sale of the West Pembina assets:

(\$000's)	Total
Net Property, plant and equipment disposed	83,631
Liabilities held for sale disposed	(11,984)
Net assets disposed	71,647

(\$000's)	Total
Cash consideration received	72,500
Transaction costs	(898)
Interim statement of adjustments	(517)
Net cash consideration	71,085

Net loss on disposal	562
----------------------	-----

9. PROPERTY, PLANT AND EQUIPMENT

Cost (\$000's)	P&NG Properties	Office	Right-of-use assets ⁽¹⁾	Total
Balance at January 1, 2019	1,350,912	5,059	13,196	1,369,167
Acquisitions	5	-	-	5
Additions	197,657	322	-	197,979
Decommissioning adjustment	17,600	-	-	17,600
Transfer from E&E assets to PP&E assets (note 10)	8,873	-	-	8,873
Right-of-use asset modification (note 13)	-	-	222	222
Disposal through assets held for sale (note 8)	(228,811)	-	-	(228,811)
Disposals	(960)	-	-	(960)
Balance at December 31, 2019	1,345,276	5,381	13,418	1,364,075
Additions	95,807	138	-	95,945
Decommissioning adjustment	45	-	-	45
Transfer from E&E assets to PP&E assets (note 10)	17,260	-	-	17,260
Right-of-use asset modification (note 13)	-	-	(117)	(117)
Disposal through assets held for sale (note 8)	(4,687)	-	-	(4,687)
Disposals (note 8)	(185)	-	-	(185)
Balance at December 31, 2020	1,453,516	5,519	13,301	1,472,336
Accumulated depletion, depreciation & impairment				
(\$000's)				
Balance at January 1, 2019	(367,768)	(2,738)	-	(370,506)
Depletion and depreciation	(128,197)	(546)	(1,147)	(129,890)
Impairment loss	(86,685)	-	-	(86,685)
Disposal through assets held for sale (note 8)	145,180	-	-	145,180
Balance at December 31, 2019	(437,470)	(3,284)	(1,147)	(441,901)
Depletion and depreciation	(100,137)	(474)	(978)	(101,589)
Impairment loss (a)	(257,374)	-	-	(257,374)
Disposal through assets held for sale (note 8)	4,687	-	-	4,687
Balance at December 31, 2020	(790,294)	(3,758)	(2,125)	(796,177)
Carrying Value January 1, 2019	983,144	2,321	13,196	998,661
Carrying Value December 31, 2019	907,806	2,097	12,271	922,174
Carrying Value December 31, 2020	663,222	1,761	11,176	676,159

(1) Includes initial recognition of lease liability under IFRS 16 on January 1, 2019.

Once the technical feasibility and commercial viability of a project has been established, costs are recorded as property, plant and equipment. These costs include the initial cost of an asset, its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of any asset decommissioning obligations.

The calculation of depletion and depreciation for the year ended December 31, 2020 includes an estimated \$2,045 million (December 31, 2019 - \$2,160 million) for future development costs associated with undeveloped proved plus probable reserves. Excluded from the depletion calculation as at December 31, 2020 was salvage value of \$15.7 million (December 31, 2019 - \$15.5 million). The Company's capitalized overhead was \$1.3 million for the year ended December 31, 2020, respectively (December 31, 2019 - \$1.9 million), as the operator of capital projects. No borrowing costs have been capitalized.

(a) Impairment loss

At the end of each reporting period, the Company reviews property, plant and equipment assets for indicators of impairment to determine whether the carrying value of its oil and natural gas properties is recoverable.

At March 31, 2020, the Company identified indicators of impairment as a result of the significant decline in forward commodity prices since December 31, 2019. As a result, an impairment test was performed, and concluded that the carrying value of the Central AB and Northwest AB CGUs exceeded the recoverable amount. Accordingly, an impairment loss was recognized in the amount of

\$167.8 million for the Central AB CGU and \$89.6 million for the Northwest AB CGU for a total impairment of \$257.4 million at March 31, 2020 and the full amount of the impairment was attributed to PP&E. Based on the impairment test performed, Central AB CGU had a recoverable amount of \$174 million and Northwest AB CGU had a recoverable amount of \$476 million.

The recoverable amount was estimated as the FVLCD and is classified as level 3 within the fair value hierarchy as certain key assumptions are not based on observable market data. The FVLCD of Velvet's CGUs was determined using the net present value of the future cash flows of proved and probable reserves from independent reserve estimates with a two percent inflation rate, an estimated after-tax discount rate of 13 percent and the following forward commodity price and exchange rate estimates as at March 31, 2020:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Thereafter
WTI (US\$/bbl)	\$29.17	\$40.45	\$49.17	\$53.28	\$55.66	\$56.87	\$58.01	\$59.17	\$60.35	\$61.56	+2% / year
Edmonton Light Crude Oil (C\$/bbl)	\$29.22	\$46.85	\$59.27	\$65.02	\$68.43	\$69.81	\$71.24	\$72.70	\$74.19	\$75.71	+2% / year
AECO Gas (C\$/MMbtu)	\$1.74	\$2.20	\$2.38	\$2.45	\$2.53	\$2.60	\$2.66	\$2.72	\$2.79	\$2.85	+2% / year
NYMEX Henry Hub (US\$/MMbtu)	\$2.10	\$2.58	\$2.79	\$2.86	\$2.93	\$3.00	\$3.07	\$3.13	\$3.19	\$3.25	+2% / year
Exchange Rate (US\$/C\$)	\$0.707	\$0.728	\$0.745	\$0.747	\$0.748	\$0.750	\$0.750	\$0.750	\$0.750	\$0.750	\$0.750

As at March 31, 2020, the following table demonstrates the sensitivity of the estimated recoverable amount of possible changes in key assumptions inherent in the estimate:

Impairment expense increase (\$000's)	Central Alberta CGU	Northwest Alberta CGU
5% decrease in cash flow estimates	\$ 6,589	\$ 11,050
1% increase in discount rate	\$ 12,693	\$ 41,575
1% increase in discount rate and 5% decrease in cash flows	\$ 18,766	\$ 51,090

At December 31, 2020, there were no indicators of impairment or impairment reversal.

10. EXPLORATION AND EVALUATION ASSETS

(\$000's)

Balance at January 1, 2019	178,044
Additions	19,614
Acquisitions	2,054
Dispositions	(1,774)
Decommissioning adjustment	201
Exploration expense (note 11)	(33,227)
Transfer from E&E assets to PP&E assets (note 9)	(8,873)
Balance at December 31, 2019	156,039
Additions	15,803
Acquisitions (note 8)	265
Dispositions (note 8)	(643)
Decommissioning adjustment	18
Exploration expense (note 11)	(66,587)
Transfer from E&E assets to PP&E assets (note 9)	(17,260)
Reclassification to asset held for sale (note 7)	(750)
Balance at December 31, 2020	86,885

Exploration and evaluation ("E&E") assets consist of undeveloped land and exploratory drilling costs for wells on which reserves have not yet been determined. Additions include pre-development stage expenditures on undeveloped land and engineering, geological and geophysical activities, as well as the cost to drill and complete wells with no assigned reserve value.

11. EXPLORATION EXPENSE

During the year ended December 31, 2020, E&E costs of \$63.1 million were written off, and recorded as exploration expense, as these areas were no longer in the Company's long-term development plans. Mineral lease expiries of \$2.0 million were recognized as exploration expense during the year ended December 31, 2020 (December 31, 2019 - \$2.3 million). An impairment loss of \$1.4 million was recognized as a result of the reclassification of the Simonette assets to assets held for sale (note 7).

During the second quarter of 2019, the Company committed to dispose of the West Pembina assets (note 8), which included undeveloped land; however, no value was attributed to these E&E assets, and as such, these assets were fully impaired as part of the reclassification of the West Pembina assets to assets held for sale. Accordingly, an impairment loss of \$24.1 million was recognized on the undeveloped land in the prior year.

During the fourth quarter of 2019, prior to transferring to PP&E, a completed well was determined to be impaired based on its net present value of future cash flows of proved and probable reserves from independent reserve estimates and, as such \$4.2 million was moved to exploration expense to reduce the amount moved to PP&E. Additionally, an exploratory well was deemed not to be commercially viable and \$2.4 million was moved to exploration expense.

(\$000's)	December 31, 2020	December 31, 2019
Write down	63,132	-
Impairment (note 7,8)	1,407	30,937
Mineral lease expiries	2,048	2,290
Pre-exploration expenses	75	3
	66,662	33,230

12. PREPAID EXPENSE AND OTHER ASSETS

Current (\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Prepaid expenses	1,328	1,043	878
Refundable deposits	357	337	297
Total prepaid expenses	1,685	1,380	1,175
Deferred letter of credit fees	830	358	-
Total prepaid expenses and other	2,515	1,738	1,175

Long Term (\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Flanagan South Transportation rights	2,929	-	-
Alberta Crown Royalty deposits	1,202	2,172	1,504
Total Long-term deposits and other assets	4,131	2,172	1,504

13. LEASE LIABILITIES

(\$000's)	December 31, 2020	December 31, 2019
Balance, beginning of year ⁽¹⁾	10,625	14,293
Interest charges – non-cash ⁽²⁾	88	126
Principal repayments	(3,311)	(3,794)
Modification of lease ⁽³⁾	(158)	-
Balance, end of period	7,244	10,625
Interest charges	583	844
Current portion	3,487	4,847
Long term	3,757	5,778

(1) Balance, January 1, 2019 – Includes initial recognition of lease liability under IFRS 16.

(2) Interest charges - non-cash relate to the Drilling Leases where no payment was made during the period. Payment is based on drilling days and therefore if the Right of Use ("ROU") asset was not used during the period and no payment is made, the non-cash interest is accrued.

(3) The modification of lease relates to drilling equipment that no longer meets the criteria of a lease. The right-of-use asset of \$117K (note 9) and the lease liability of \$158K were written off with \$41K recorded to net gain on non-core asset dispositions.

The Company has lease liabilities for contracts related to office space and drilling equipment. Lease terms are negotiated on an individual basis and contain a wide range of differing terms and conditions.

Payments recognized in the financial statements relating to short-term leases and leases of low-value assets for the year ended December 31, 2020 were \$0.7 million (December 31, 2019 – \$0.6 million). Short-term leases and leases of low-value assets consist of leases for surface rights not associated with mineral lease rights.

The Company has included extension options in the calculation of the lease liabilities, where the Company has the right to extend the lease term at its discretion and is more likely than not to exercise the extension option. The Company does not have any significant termination options and the residual amounts are not material.

Undiscounted cash outflows relating to the lease liabilities are as follows at December 31, 2020:

(\$000's)	2021	2022	2023	2024	2025	Total
Drilling arrangements	1,728	-	-	-	-	1,728
Real Estate – office space	1,318	1,336	1,206	1,217	922	5,999
	3,046	1,336	1,206	1,217	922	7,727

14. OTHER LIABILITIES

The Company's other liabilities primarily consist of cash received by the Company upon the expansion of a land dedication agreement with a senior midstream operator.

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
AMI financing ⁽¹⁾	5,176	6,800	6,800
Deferred processing revenue	9	105	164
Onerous contract ⁽²⁾	99	233	391
Other	-	16	-
	5,284	7,154	7,355
Current portion	2,241	274	383
Long term	3,043	6,880	6,972

(1) Pertains to an agreement with a senior midstream operator entered into on March 7, 2018 to amend and expand its defined area of mutual interest ("AMI") with them in Velvet's Northwest Alberta area in connection with lands acquired by Velvet on January 30, 2018. The AMI defines the boundaries within which Velvet wells must deliver liquids and natural gas production to central delivery facilities owned or constructed by the midstream operator. Terms of the agreement included a modest increase to handling fees paid by Velvet on all production processed by the midstream operator within the AMI in exchange for cash consideration of \$6.5 million which is amortized over the remaining term of the contract as an offset to processing fees. An additional \$0.3 million was received from the same midstream operator on November 15, 2018 for an additional land purchase to include in the original AMI which is repayable on September 30, 2022.

(2) The onerous contract is derived from the provision of a Calgary office lease, inherited by Velvet through the acquisition of Iron Bridge Resources Inc. The term of the contract extends to December 31, 2022. As at January 1, 2019, under the adoption of IFRS 16, a portion of the liability was reduced by the Right-of-Use asset value of \$0.9 million determined on initial recognition. The variable portion of the principal payments on this lease will reduce the remaining balance of the onerous provision over the term of the contract.

15. BANK LOAN

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Senior secured operating credit facility – Conforming	-	12,249	6,353
Senior secured syndicated credit facility – Conforming	135,000	205,000	180,000
Senior secured syndicated credit facility – Non-conforming	75,000	-	-
Total credit facility draws	210,000	217,249	186,353
Bankers' acceptance interest deferred	(189)	(1,191)	(270)
Bank Loan	209,811	216,058	186,083
Current portion	25,000	-	-
Long term	184,811	216,058	186,083
Credit facility commitment amounts:			
Senior secured operating credit facility – Conforming	25,000	40,000	40,000
Senior secured syndicated credit facility – Conforming	150,000	285,000	310,000
Senior secured syndicated credit facility – Non-conforming	75,000	-	-

At December 31, 2020, the Company had a \$250 million syndicated credit facility, consisting of a two-year \$175 million conforming and a \$75 million non-conforming facility. The \$175 million conforming facility consists of a \$150 million senior secured syndicated revolving credit facility and a \$25 million senior secured operating revolving credit facility. The \$75 million non-conforming facility of the syndicated credit facility is non-revolving whereby any repayments cannot be redrawn. The Company is required to reduce the non-conforming facility by \$25 million by April 30, 2021. Subsequent to year end, on February 17, 2021, the Company used proceeds from the Simonette disposition to pay \$0.8 million of the non-conforming facility and the remaining \$24.2 million was paid subsequent to period end on April 30, 2021.

At December 31, 2019, the Company had a \$325 million syndicated credit facility which consisted of a \$285 million senior secured syndicated revolving credit facility and a \$40 million senior secured operating credit facility. At January 1, 2019, the Company had a \$350 million syndicated credit facility which consisted of a \$310 million senior secured syndicated revolving credit facility and a \$40 million senior secured operating credit facility.

As a result of the decline in commodity prices due to the COVID-19 global pandemic, during the May 2020 borrowing base review the syndicated credit facility was reduced to \$275 million comprised of a \$200 million conforming and a \$75 million non-conforming facility. The \$200 million conforming facility consisted of a \$175 million senior secured syndicated revolving credit facility and a \$25 million senior secured operating revolving credit facility. The Company was required to reduce the non-conforming facility by \$25 million by November 30, 2020. On September 29, 2020, the Company completed this requirement, and the non-conforming facility was reduced to \$50 million. As part of the May 31, 2020 borrowing base review, the termination date of the two-year Credit Agreement was extended to May 31, 2022, resulting in a commitment fee of \$0.7 million.

As part of the November 2020 borrowing base review the syndicated credit facility was amended with the total facility remaining at a commitment amount of \$250 million, however, the conforming facility was reduced to \$175 million and the non-conforming facility was increased to \$75 million. In addition, the credit agreement was amended to require a reduction in the non-conforming facility of \$25 million prior to April 30, 2021 and limit capital expenditures for the December 2020 to May 2021 period to an agreed upon amount without the consent of the Majority Lenders.

The Company's credit facility is subject to two borrowing base reviews, typically in May and November. The next borrowing base review was scheduled for May 31, 2021, however, lenders have the right to request one additional borrowing base review at anytime. Subsequent to year end, the May 31, 2021 borrowing base redetermination was extended to June 30, 2021, which the Company completed concurrent with the disposition of the Company's Edson assets on June 30, 2021 (note 31). The Company's syndicated credit facility was reduced to \$150 million, consisting of a \$135 million senior secure syndicated revolving credit facility and a \$15 million senior secured operating credit facility. There was no non-conforming facility and associated restrictions related to the non-conforming facility were removed. Proceeds use from the disposition of the Company's Edson assets were initially used to pay down the syndicated credit facility.

The credit facilities are secured by a first priority floating charge and security interest in the assets of the Company. The Credit Agreement does not contain financial ratio covenants. As of December 31, 2020, the Company was compliant with all restrictions provided for in the Credit Agreement.

Advances to the Company may be made by way of direct advances, banker's acceptances or letters of credit. Direct advances bear interest at the bank's prime lending rate plus an applicable margin. The banker's acceptances bear interest at the applicable banker's acceptance rate plus an explicit stamping fee. U.S. dollar advances are also available bearing interest calculated by reference to London Interbank Offered Rates ("LIBOR") plus an applicable margin. The applicable margin and explicit stamping fee charged by the bank is dependent upon the Company's net debt to trailing earnings before interest, taxes, depletion, depreciation, and amortization ("EBITDA") ratio. The non-conforming credit facility has margin and stamping fees 200 basis points higher than the conforming credit facility. The conforming credit facility also includes standby fees on balances of unused credit availability.

The effective interest rate during 2020 on the weighted average outstanding syndicated debt was 4.10 percent.

In 2019, the Company entered into an arrangement with Export Development Canada ("EDC") and its banking syndicate agent, whereby EDC provided a Performance Security Guarantee ("PSG") Certificate of Cover for an amount up to \$20 million. During the third quarter of 2020, the Company increased the uncommitted unsecured demand revolving letter of credit facility (the "Facility") from \$20 million to \$40 million with a maximum individual letter of credit limit of \$15 million. The Facility can be used for the issuance of letters of credit denominated in Canadian or U.S. dollars at an agreed upon rate, in line with rates charged by the Company's banker. The PSG is applied to some, or all, of the Company's letters of credit on the Facility and is subject to standard fees, terms and conditions. As at December 31, 2020, the Company has a total of \$26.0 million in letters of credit of which \$25.6 million is secured by the PSG on the Facility. The remaining letters of credit are secured by the Company's operating credit facility and reduce the amount available to the Company under the facility.

16. SENIOR SECURED NOTES

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
US\$125 million 9.0% senior secured notes, due October 5, 2023 ^(1,2)	159,438	162,063	170,569
US\$50 million 9.0% senior secured notes, due October 5, 2023 ^(1,2)	63,775	64,825	68,227
Finance fees deferred	(2,831)	(3,860)	(4,889)
	220,382	223,028	233,907

(1) The U.S. dollar denominated Notes were translated into Canadian dollars at the period end exchange rate of US\$1=C\$1.2755 (US\$1=C\$1.2965 at December 31, 2019 and US\$1=C\$1.36455 at January 1, 2019).

(2) The estimated fair value of the senior secured notes as at December 31, 2020 is estimated at C\$165.7 million based off comparable publicly trade peer instruments (C\$217.1 million at December 31, 2019 and C\$227.8 million at January 1, 2019).

On October 5, 2016, Velvet closed a private placement of US\$125 million (C\$164.7 million at closing) Senior Secured Second Lien Notes (the "Notes"). The Notes bear interest at 9.0 percent per annum (calculated using a 360-day year), payable quarterly in arrears commencing on December 31, 2016 and mature on October 5, 2023. After October 5th of each of the following years, the Notes are redeemable at the Company's option, in whole or in part, at the following redemption prices, expressed as a percentage of the principal amount of the Notes: 2019 at 102.25 percent and 2020 at 100 percent (at par).

On October 4, 2017, Velvet completed an incremental US\$50 million (C\$62.4 million at closing) private placement of Senior Secured Second Lien Notes (the "Additional Notes") with an existing noteholder, on terms similar to the initial notes. Transaction costs and closing fees totaled C\$1.1 million. Similar to the initial private placement, these charges will be amortized over the life of the Notes. Net proceeds were initially used to pay down a portion of the bank loan.

The Company reviewed the terms of the Notes to determine if the prepayment options were embedded derivatives. While the prepayment options meet the definition of an embedded derivative, the Company determined the fair value of the prepayment options was not material and an embedded derivative has not been recorded.

Transaction costs and closing fees on the two issuances totaled C\$7.0 million and are amortized using the effective interest rate method over the life of the Notes, resulting in effective interest rates (including transaction costs) of 9.72% for the US\$125 million tranche and 9.38% for the US\$50 million tranche.

Subject to certain exceptions and qualifications, the Notes have no financial ratio covenants, but they do limit the Company's ability to, among other things: make certain payments and distributions; incur additional indebtedness; issue disqualified or preferred stock; create or permit liens to exist; make certain acquisitions or dispositions; transfer assets; and engage in amalgamations, mergers or consolidations.

17. DECOMMISSIONING LIABILITY

(\$000's)	December 31, 2020	December 31, 2019
Balance, beginning of year	78,769	73,115
Liabilities incurred	1,981	14,851
Liabilities settled	(1,227)	(1,476)
Liabilities acquired ⁽¹⁾	18	-
Liabilities disposed – assets held for sale (note 7)	(4,198)	(11,984)
Revaluation of liabilities acquired ⁽¹⁾	13	-
Revision in estimates ⁽²⁾	(1,949)	2,950
Accretion expense	1,138	1,313
Balance, end of year	74,545	78,769

(1) Liabilities acquired are revalued at the end of the period, using the risk-free discount rate.

(2) Revision in estimates includes changes in timing of cash flows, estimated costs for abandonment & reclamation, and changes in discount and inflation rates.

Current portion	1,000	2,500
Long term	73,545	76,269

Total future decommissioning obligations were estimated by management based on the expected cost to abandon and reclaim well sites and facilities and the estimated timing of costs to be incurred in future periods. The Company has estimated the total inflated undiscounted amount of cash flows required to settle its obligations at December 31, 2020 to be \$105 million (December 31, 2019 - \$117 million), which will be incurred between 2021 and 2077. The Company used risk-free rates, ranging from 0.41 percent to 1.24 percent (December 31, 2019 – 1.64 percent to 1.67 percent), to calculate the present value of the decommissioning obligation and an average inflation rate of 0.9 percent (December 31, 2019 – 2.0 percent) was used to inflate the costs.

18. PARTICIPATING SPECIAL SHARES (“PSS”)

Authorized

Unlimited number of Class A Participating Shares (“PSSA”)

1,178,720 Class B Participating Shares (“PSSB”)

Unlimited number of Class C Participating Shares (“PSSC”)

Unlimited number of Class D Participating Shares (“PSSD”)

Unlimited number of Class E Participating Shares (“PSSE”)

Class A Participating Shares

On May 31, 2011, the Company received commitments from institutional investors to purchase 33,560,000 PSSA at a stated purchase price of \$10.00 per share. PSSA bear a 7.0 percent cumulative coupon, compounded quarterly. These shares are entitled to certain participation privileges with respect to conversion to Class A Common Shares and distribution of the Company’s assets as described in the Conversion section below and are senior to the Company’s PSSB.

Class B Participating Shares

PSSB bear a 7.0 percent cumulative coupon, compounded quarterly. These shares are also entitled to certain participation privileges with respect to conversion to Class A Common Shares, and distribution of the Company’s assets as described in the Conversion section below, though they are subordinate to the PSSA.

Class C Participating Shares

On January 9, 2015, Velvet entered into a Share Purchase Agreement involving commitments from institutional investors to purchase 7,272,727 PSSC at a stated purchase price of \$13.75 per share. PSSC bear a 7.0 percent cumulative coupon, compounded quarterly. These shares are entitled to certain participation privileges with respect to conversion to Class A common shares and distribution of the Company’s assets as described in the Conversion section below and are senior to both the Company’s PSSA and PSSB.

Class D Participating Shares

On December 1, 2017, Velvet entered into a Share Purchase Agreement for 10,909,090 PSSD at a stated purchase price of \$13.75 per share. PSSD bear a 7.0 percent cumulative coupon, compounded quarterly. These shares are entitled to certain participation privileges with respect to conversion to Class A common shares and distribution of the Company’s assets as described in the Conversion section below, and are senior to each of the Company’s PSSA, PSSB and PSSC, in certain circumstances. On September 24, 2018, the Company amended the terms of the Participating Shares to allow a holder of Class D Participating Shares to elect to convert all or a portion of Class D Participating Shares held by such holder into Class C Common Shares instead of Class A Common Shares.

As a condition to the completion of this financing, the Company’s Amended and Restated Shareholder’s Agreement was revised to reflect that, among other things, if a qualifying Initial Public Offering is not completed within a specified time frame, the Corporation will promptly undertake and complete a review process (including the appointment of an independent financial advisor or advisors) to identify strategic alternatives available to the Corporation and the Investor Groups relating to a qualifying Initial Public Offering or sale. As at December 31, 2020, a qualifying Initial Public Offering was not completed, however, the Company has been exploring various financing and liquidity alternatives.

On May 18, 2018, the Company entered into a Share Purchase Agreement for 5,454,546 PSSD at a purchase price of \$13.75 per share, for aggregate proceeds of \$75 million, contingent upon certain terms and conditions. The most significant of these conditions was the closing of the purchase of more than 50% of the issued and outstanding common shares of Iron Bridge Resources Inc. (“Iron Bridge Acquisition”). On the same date, Velvet entered into a Share Purchase agreement also contingent upon the closing of the Iron Bridge Acquisition, providing an institutional investor the option, subject to certain terms and conditions, to purchase 2,327,273 PSSD at a purchase price of \$13.75 per share, for aggregate proceeds of \$32 million.

On September 24, 2018, upon closing the Iron Bridge Acquisition, the Company amended its Articles to increase the number of PSSD that could be issued to an unlimited number, converted the existing PSSD to the first series of PSSD and issued 5,454,546 Series – 2 PSSD at a purchase price of \$13.75 per share to CPPIB, for aggregate proceeds of \$75 million.

Class E Participating Shares

On September 24, 2018, the Company amended its Articles, authorizing the Company to issue an unlimited number of Class E Participating Shares. PSSE bear a 7.0 percent cumulative coupon, compounded quarterly. These shares are entitled to certain participation privileges with respect to conversion to Class A common shares and distribution of the Company's assets as described in the Conversion section below, and are senior to each of the Company's PSSC, PSSA and PSSB, in certain circumstances, and rank equally with the Company's PSSD. The Share Purchase Agreement for one of Velvet's institutional investors was also amended, whereby PSSE may be issued in lieu of PSSD.

On September 24, 2018, in conjunction with the purchase of PSSD by one of Velvet's institutional investors, certain members of Velvet's executive and Board of Directors purchased an aggregate of 72,180 PSSE at a purchase price of \$13.75 per share.

On January 28 and 29, 2019, the institutional investors exercised its option to purchase PSSE, and as such, the Company issued 2,327,273 PSSE at a purchase price of \$13.75, for aggregate proceeds of \$32 million.

Total Participating Shares

As at December 31, 2020, Velvet had drawn on all of the PSS commitments for total proceeds of \$704 million (December 31, 2019 - \$704 million). There are no undrawn PSS commitments remaining.

Conversion

Upon the occurrence of specified liquidation events, holders of the PSSD, PSSE, PSSC and PSSA are entitled to convert the PSS into Class A Common Shares of the Company, or Class C Common Shares (in the case of holders of PSSD) based on the purchase price of the PSS plus the accrued, but unpaid, coupon (the "Accreted Value"). PSSD & PSSE convert the principal in priority to PSSC, PSSA and PSSB and then convert the accrued, but unpaid, coupon in priority to PSSC, PSSA and PSSB. Assets, if any, remaining after conversion of liquidation preferences into Class A or Class C Common Shares ("Remaining Liquidation Proceeds") are distributed pro rata among holders of Class A Common Shares, Class B Common Shares, Class C Common Shares and the PSS on an as-converted basis. PSSD, PSSE and PSSC's were priced at \$13.75 per share, representing a value increase of \$3.75 over the \$10.00 issue price for PSSA and PSSB. To properly reflect this increase in value, upon distribution of the Remaining Liquidation Proceeds, the value attributed to Class A and Class C Common Shares converted from PSSD, PSSE and PSSC will be effectively reduced by this \$3.75 value increase.

PSSD, PSSE, PSSC and PSSA convert the principal in priority to PSSB, and then convert the accrued, but unpaid, coupon in priority to PSSB's.

Upon the occurrence of specified liquidation events, PSSB are automatically converted into Class A common shares at the stated purchase price of the PSS plus the accrued, but unpaid, coupon (the "Accreted Value") but are subordinate to the PSSD, PSSE, PSSC and PSSA as described above.

Each PSSD, PSSE, PSSC and PSSA is entitled to vote alongside Class A common shares on an as-converted basis described above. The PSSB are entitled to vote as a group, on all matters that would not otherwise adversely affect them vis a vis the rights of PSSA shareholders.

Summary of PSS Issuances

('000's)	Balance at Jan 1, 2019		Issued		Balance at Dec 31, 2019		Issued		Balance at Dec 31, 2020	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
PSSA	33,416	\$ 334,159	-	-	33,416	\$ 334,159	-	-	33,416	\$ 334,159
PSSB	1,179	\$ 11,787	-	-	1,179	\$ 11,787	-	-	1,179	\$ 11,787
PSSC	7,265	\$ 99,895	-	-	7,265	\$ 99,895	-	-	7,265	\$ 99,895
PSSD	16,364	\$ 225,000	-	-	16,364	\$ 225,000	-	-	16,364	\$ 225,000
PSSE	72	\$ 992	2,327	\$ 32,000	2,399	\$ 32,992	-	-	2,399	\$ 32,992
	58,296	\$ 671,833	2,327	\$ 32,000	60,623	\$ 703,833	-	-	60,623	\$ 703,833

Summary of PSS Accreted Value

('000's)	Balance at Jan 1, 2019			Balance at Dec 31, 2019			Balance at Dec 31, 2020		
	Principal	Accrued Coupon	Accreted Value	Principal	Accrued Coupon	Accreted Value	Principal	Accrued Coupon	Accreted Value
PSSA	\$ 334,159	\$ 179,861	\$ 514,023	\$ 334,159	\$ 216,801	\$ 550,960	\$ 334,159	\$ 256,505	\$ 590,664
PSSB	\$ 11,787	\$ 8,111	\$ 19,898	\$ 11,787	\$ 9,540	\$ 21,327	\$ 11,787	\$ 11,077	\$ 22,864
PSSC	\$ 99,895	\$ 18,407	\$ 118,302	\$ 99,895	\$ 26,909	\$ 126,804	\$ 99,895	\$ 36,046	\$ 135,941
PSSD	\$ 225,000	\$ 13,094	\$ 238,094	\$ 225,000	\$ 30,204	\$ 255,204	\$ 225,000	\$ 48,594	\$ 273,594
PSSE	\$ 992	\$ 18	\$ 1,010	\$ 32,992	\$ 2,202	\$ 35,194	\$ 32,992	\$ 4,738	\$ 37,730
	\$ 671,833	\$ 219,494	\$ 891,327	\$ 703,833	\$ 285,656	\$ 989,489	\$ 703,833	\$ 356,960	\$1,060,793

The accreted value represents the amount that would be attributable to PSS if, and only if, proceeds on liquidation were sufficient to cover the total accreted value of PSSD, PSSE, PSSC, PSSA and PSSB. The value in excess of the total accreted value would represent the remaining liquidation proceeds, and the PSS would participate, along with other common shares and options as described above. If proceeds on liquidation were less than the total accreted value, or the total principal contributed, the priority calculation above would determine the amounts attributable to each class of PSS.

Valuation

The Company measures the fair value of the participating special shares (Level 3) by determining a fair value range for the Company's oil and natural gas assets, adjusted for debt, adjusted for working capital, and other corporate factors, to determine an estimated "net asset value". The value is then allocated to the PSS, including the embedded derivative, in accordance with the terms of the PSS priority calculation. The value of oil and gas assets are determined by valuing reserves using the present value of the estimated future after-tax cash flows risked by reserve category at a range of discount rates and undeveloped land value is based on estimated market value. The Company also considered recent market transactions and share price trends for public peer companies. Oil and gas reserve pricing assumptions have been outlined in note 6.

The following table summarizes the fair value changes to the Level 3 financial instruments:

(\$000's)	December 31, 2020	December 31, 2019
Balance, beginning of year	765,000	1,021,107
Issued during the year	-	32,000
Fair value adjustment through profit and loss	(660,000)	(288,107)
Balance, end of year	105,000	765,000

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Discount Rate Assumptions	16% - 21%	12% - 14%	11% - 13%
Sensitivity to 1% change in discount rate	32,000	75,000	90,000

19. SHARE CAPITAL

(a) Authorized

An unlimited number of Class A common shares without nominal or par value

An unlimited number of Class B common shares without nominal or par value

An unlimited number of Class C common shares without nominal or par value

Class A common shares

Class A common shares are voting. There are no Class A common shares currently outstanding.

Class B common shares

Class B common shares participate equally with Class A common shares upon distribution of any of the Company's assets, but do not carry voting rights.

The Company is authorized to issue 4,195,000 Founder's shares that participate equally with all other Class A, Class B and Class C common shares in asset distributions upon liquidation, if any, in excess of the accreted amount available in priority to the PSS. Founder's shares are Class B common shares that vest over a period of four years ("Time Vesting") and in proportion to the aggregate amount of PSSA issued pursuant to funding commitments ("Dollar Vesting").

Each Founder's share will Time Vest at a rate of 20 percent per annum, with the first 20 percent vesting at the date of grant and 20 percent on each anniversary date of the grant thereafter. Each Founder's share will also Dollar Vest at various stages and in proportion to the aggregate amount of the PSSA issued pursuant to its funding commitments. Accelerated time vesting may occur in certain liquidation situations in order to deem all Founder's share as Time Vested; however, Dollar Vesting cannot be accelerated in most liquidation situations and Dollar Vesting is capped at a maximum, being the aggregate amount of PSSA issued in proportion to the PSSA funding commitment. All Founder's shares are Time and Dollar vested.

Class C common shares

On August 24, 2018, the Company amended its Articles, authorizing the Company to issue an unlimited number of Class C Common Shares. Class C common shares are voting. There are no Class C common shares currently outstanding.

(b) Issued and Outstanding

(000's)	Founder's Shares		Exercised Options		Total Class B common shares	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance at January 1, 2019	3,442	\$ 34	226	\$ 479	3,668	\$ 522
Options exercised	-	-	25	50	25	50
Contributed Surplus	-	-	-	-	-	24
Balance at December 31, 2019	3,442	\$ 34	251	\$ 529	3,693	\$ 596
Balance at December 31, 2020	3,442	\$ 34	251	\$ 529	3,693	\$ 596
Time Vested Shares	3,442		251		3,693	

Founder's options

Founder's shares repurchased may be re-issued at the greater of cost or fair market value ("FMV"). In 2015, an Option Plan was created to provide for the deferral of the purchase price of these Founder's shares, aligning them with stock options. Terms and conditions of these options are similar in all respects to the Company's Stock Options. Founder's shares re-issued under this revised option plan will be referred to as Founder's options. All Founder's options are fully dollar vested.

No Founder's options were exercised or forfeited during the year ended December 31, 2020.

(000's, except price)	Number of shares	Weighted Average Exercise Price
Balance January 1, 2019	723	\$ 3.20
Options exercised	(25)	\$ 2.00
Options forfeited	(365)	\$ 2.88
Balance December 31, 2019	333	\$ 2.77
Issued and outstanding balance December 31, 2020	333	\$ 2.77
Time Vested Options	332	
Founder's options available for issue	385	

Stock options

The Company has established a stock option plan whereby officers, directors, employees and providers of services may be granted options to purchase Class B Common Shares as approved by the Board of Directors. Stock options are subject to vesting. Each option will Time Vest at a rate of 20 percent per annum with the first 20 percent vesting at the date of the grant and 20 percent on each anniversary date of the grant thereafter. Each option will also Dollar Vest at various stages and in proportion to the aggregate amount of the PSS issued pursuant to its funding commitments. Accelerated time vesting may occur in certain liquidation situations in order to deem all stock options as Time Vested; however, Dollar Vesting cannot be accelerated in most liquidation situations and Dollar Vesting is capped at a maximum, being the aggregate amount of PSS issued in proportion to the respective PSS funding commitment. There are no outstanding PSS draws available under any of the classes of PSS, and therefore, all options are considered fully Dollar Vested.

The Company is authorized to issue 2,097,500 stock options with an exercise price of \$2.00 ("2.00 options") and 2,097,500 stock options with an exercise price of \$10.00 ("10.00 options"). Stock options are convertible into Class B common shares upon exercise and participate equally with all other Class A and Class B common shares in asset distributions upon liquidation, if any, in excess of the accreted amount available in priority to the PSS. All of the options are Dollar Vested as the PSSA Commitment was fully funded on August 6, 2014.

The Company's Amended Stock Option Plan, approved January 9, 2015 along with the PSSC agreement, provides authorization to issue an additional 909,000 stock options at \$3.75 per share, 455,000 stock options at \$10.00 per share and 455,000 stock options at \$17.50 per share. These options have Time and Dollar vesting terms similar to the original stock options. All of the options are Dollar Vested as the PSSC Commitment was fully funded on June 23, 2017.

A second amendment to the Company's Amended Stock Option Plan, approved December 1, 2017 along with the PSSD agreement, provides authorization to issue an additional 1,364,000 stock options at \$3.75 per share, 682,000 stock options at \$10.00 per share and 682,000 stock options at \$17.50 per share. These options have Time and Dollar vesting terms similar to the original stock options. All of the options are Dollar Vested as the PSSD Commitment was fully funded on December 1, 2017.

Upon issuance of the PSSD on September 24, 2018, the Company's Amended Stock Option Plan authorized the Company to issue an additional 682,000 stock options at \$3.75 per share, 341,000 stock options at \$10.00 per share and 341,000 stock options at \$17.50 per share. These options have Time and Dollar vesting terms similar to the original stock options. All of the options are Dollar Vested as the PSSD Commitment was fully funded on September 24, 2018. The first of these options were granted on November 28, 2018.

(000's)	\$2.00 Option	\$3.75 Option	\$10.00 Option	\$17.50 Option
Issued and outstanding at January 1, 2019	1,635	2,152	3,244	438
Stock Options granted	-	768	732	-
Stock Options forfeited	-	(496)	(315)	(64)
Issued and outstanding at December 31, 2019	1,635	2,424	3,662	374
Stock Options granted	-	329	15	-
Stock Options forfeited	-	(28)	(22)	-
Issued and outstanding at December 31, 2020	1,635	2,725	3,655	374
Time Vested Options	1,635	1,612	2,943	372
Options available for issue	72	576	70	1,253
Total exercised December 31, 2020	337	7	-	-

Compensation costs attributable to Founder's shares, Founder's options and stock options granted to employees or directors are measured at fair value at the grant date and expensed over the expected vesting time frame with a corresponding increase to contributed surplus.

The fair value of each Founder's share, Founder's option and stock options granted is estimated, on the date of grant, using the Black-Scholes option pricing model.

No Founder's shares or Founder's options were issued during the year ended December 31, 2020 and December 31, 2019.

The following stock options were granted during the year ended December 31, 2020:

Stock options granted	Exercise price	Fair value
329,000	\$ 3.75	\$ 1.69
14,500	\$ 10.00	\$ 0.76

The following stock options were granted during the year ended December 31, 2019:

Stock options granted	Exercise price	Fair value
768,000	\$ 3.75	\$ 1.47
731,750	\$ 10.00	\$ 0.48

The following weighted average assumptions were used to estimate the fair value of the stock options at their grant date using the Black-Scholes option pricing model.

	December 31, 2020	December 31, 2019
Weighted average share price	\$ 3.75	\$ 3.75
Expected volatility (%)	58.71%	47.93%
Risk free interest rate (%)	0.74%	1.74%
Expected life of stock options	4 years	4 years

For the year ended December 31, 2020, share-based compensation expense of \$1.0 million (December 31, 2019 – \$1.4 million) relating to Founder's shares, Founder's options and stock options was recorded with an offsetting credit to contributed surplus.

20. FINANCE CHARGES

(\$000's)	December 31, 2020	December 31, 2019
Bank loan interest paid	9,760	9,890
Bank loan finance fees paid	1,107	1,015
Senior secured notes interest paid	20,899	20,943
Finance lease interest paid	492	717
Cash finance charges	32,258	32,565
Net banker's acceptance interest expense (deferred) amortized	531	(1,278)
Net Senior secured notes finance fees amortized	1,029	1,029
Foreign exchange (gain) loss on Senior secured notes finance fees	(64)	164
Accretion of decommissioning obligations and other	1,138	1,314
Interest on leases	91	126
	34,983	33,920

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Risks associated with financial assets and liabilities

Credit risk

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. The exposure to the Company primarily relates to cash and cash equivalents, accounts receivable and risk management assets. Substantially all of the accounts receivables are with customers and joint venture partners in the oil and gas industry and are subject to current industry credit risks. Risk management contracts are held primarily by members of the banking syndicate.

The Company's credit risk consisted of the following:

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Cash on account with a Chartered bank	2,934	3,148	4,204
Crude oil and natural gas marketers	29,901	32,806	17,523
Joint venture partners	6,601	5,605	5,771
Government receipts (GST & GCA)	355	-	45
Chartered banks – realized risk management contracts	6,201	24	2,184
Other trade receivables	-	23	311
Chartered banks – unrealized risk management contracts	21,171	50,814	143,127
	67,163	92,420	173,165

The Company generally extends unsecured credit to customers from the sale of petroleum and natural gas production, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with reputable counterparties and partners with which they have previous relationships and marketing entities that have investment grade credit ratings. Receivables from commodity purchases and marketing companies are typically collected on the 25th day of the month following delivery and within one to three months following billing for joint interest receivables. Receivables from risk management contracts held with banking counterparties are typically collected by the 5th day of the month following settlement. Balances of accounts receivable outstanding for more than 90 days typically relate to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures and in certain circumstances may require cash call advances from its partners prior to the commencement of capital projects.

Velvet applies the simplified approach to providing for expected credit losses ("ECL") as prescribed under IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. The Company uses a combination of historical and forward-looking information to determine the appropriate loss allowance provision. As at December 31, 2020, \$3.2 million of accounts receivable are past due, all considered to be collectible (December 31, 2019 – \$1.5 million and January 1, 2019 - \$2.0 million). The lifetime ECL allowances related to Velvet's commodity product sales receivable and joint venture receivables were \$0.4 million as at, and for the year ended, December 31, 2020 (nominal as at, and for the year ended, December 31, 2019 and as at January 1, 2019) and was not recognized.

Global events have had, and are expected to continue to have, a significant impact on companies and their credit risk. The Company has considered the impact of the COVID-19 global pandemic (refer to note 6) and the resulting impact on commodity prices on the expected credit loss of the Company and has incorporated these factors into its assessment of expected credit losses at December 31, 2020.

The Company's accounts receivable was aged as follows:

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Current (Less than 90 days)	39,879	36,908	23,824
Past due (90 days to one year)	3,179	1,550	2,010
	<u>43,058</u>	<u>38,458</u>	<u>25,834</u>

Subsequent to December 31, 2020, \$2.5 million of past due amounts has been collected and the remaining balance is considered to be collectible.

The Company's risk management contracts are mainly financial in nature and are held with four financial institutions. Velvet's cash is held on account with one of these banks. The Company is confident that the credit rating of these banks supports the balance of transactions with them. The long-term portion of risk management contracts represents the net mark-to-market asset at December 31, 2020 for contracts with a term extending beyond December 31, 2021.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The impacts of the COVID-19 global pandemic, the resulting decreases in commodity prices, and changes to the Company's credit facility have increased the liquidity risk of the Company. The Company manages its liquidity risk through continuous monitoring of its cash flows from operating activities, review of the capital expenditure program, managing maturity profiles of financial assets and financial liabilities, maintaining sufficient capacity in the revolving credit facility and managing its commodity price risk management program. These activities ensure, as reasonably as possible, that the Company will have sufficient liquidity to meet its financial obligations when due, without incurring unacceptable losses. All material financial liabilities of the Company are estimated to be settled within one year of the balance sheet date except for the long-term portion of the bank loan, senior secured notes, some risk management contracts, lease liabilities and other liabilities.

The Company's credit facility is subject to a borrowing base review at any time. There are no assurances that the credit facility size or terms will remain the same at the next borrowing base review. The borrowing base is dependent on the value of the Company's reserves, as determined by independent reserve evaluators and bank commodity price assumptions. Changes in factors affecting reserves including production rates, commodity prices and production costs could affect the value of the borrowing base and the type, size and terms of the credit facility. If the borrowing base were to be redetermined at an amount lower than the total outstanding draws, a borrowing base shortfall would result, and a borrowing base shortfall notice could be issued at the discretion of the banks. Upon receipt of the borrowing base shortfall notice, the Company would be required to repay the amount of the shortfall within 30 days or remedy the shortfall through other sources of security acceptable to all banks. A shortfall would also result in an increase of 200 basis points (two percent) to the Company's borrowing rate for the duration of the shortfall. If the shortfall was not satisfactorily resolved within 30 days, an event of default would result, and the banks could request repayment of the entire loan balance. If a borrowing base shortfall were to occur the Company could address it through several means including but not limited to the disposition of assets, expansion of the banking syndicate to include government assistance programs through Export Development Canada, obtaining alternative financing related to the Company's facilities infrastructure, by selling off freehold royalty rights on our lands and existing production base, or by seeking external sources of equity.

The Company is required to reduce the non-conforming facility by \$25 million by April 30, 2021. Subsequent to year end, on February 17, 2021, the Company used proceeds from the Simonette disposition to pay \$0.8 million of the non-conforming facility and the remaining \$24.2 million was paid subsequent to period end on April 30, 2021.

The Company's senior secured notes are not repayable until October 5, 2023 and are not dependent on the Company's reserves value. While they are subject to certain exceptions and qualifications, the notes have no financial ratio maintenance covenants. An event of default, from non-payment of interest on the notes or the triggering of an event of default under the syndicated credit facility, could result in an early request for repayment of the principal and outstanding interest on the notes.

With the significant increase in crude oil prices subsequent to year end 2020, prudent management of its capital expenditures, and ongoing discussions with its syndicate of lenders and their continued support, the Company believes that it will have sufficient liquidity

to execute a constrained capital program focused on sustaining production and reducing debt. The Company continues to pursue additional equity or asset sales to improve its liquidity and reduce debt levels (note 31).

The Company's lease liabilities consist of contracts related to office space and drilling equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions and include extension options where the Company has the right to extend the lease term at its discretion. These contracts do not contain any covenants.

The following are contractual maturities of financial liabilities as at December 31, 2020:

(\$000's)	1 year	2-6 years
Accounts payable and accrued liabilities	57,829	-
Risk management contracts	40,660	39,521
Lease liabilities ⁽¹⁾	3,487	3,757
Other liabilities ⁽¹⁾	2,241	3,043
Bank loan	25,000	184,811
Interest on bank loan	10,629	4,397
Senior secured notes ⁽²⁾	-	220,382
Interest on senior secured notes ⁽²⁾	20,089	35,390

(1) Includes interest charges on Liabilities (note 13, 14)

(2) Principal and interest payments are calculated using the period end foreign exchange rate of US\$1 = C\$1.2755

The long-term portion of risk management contracts represents the net mark-to-market liability at December 31, 2020 for contracts with a term extending beyond December 31, 2021.

The following were contractual maturities of financial liabilities as at December 31, 2019:

(\$000's)	1 year	2-6 years
Accounts payable and accrued liabilities	83,249	-
Risk management contracts	29,875	36,638
Lease liabilities ⁽¹⁾	4,847	5,778
Other liabilities ⁽¹⁾	274	6,880
Bank loan	-	216,058
Interest on bank loan	8,977	3,705
Senior secured notes ⁽²⁾	-	223,028
Interest on senior secured notes ⁽²⁾	20,420	56,392

(1) Includes interest charges on Other Liabilities

(2) Principal and interest payments were calculated using the December 31, 2019 period end foreign exchange rate of US\$=C\$1.2965

Interest rate risk

The Company is exposed to fluctuations in interest rates on its bank debt. Velvet is charged interest on its bank debt at Prime, or Banker's Acceptance rates, plus an applicable margin. Interest rate risk arises from changes in market interest rates that may affect the future cash flows from the Company's financial assets or liabilities. Interest rate risk is mitigated through short-term fixed rate borrowings using banker's acceptances. If interest rates applicable to floating rate debt were to have increased by 25 basis points (0.25 percent), the Company's annual cash flows would have decreased by approximately \$0.6 million, based on the outstanding debt balance on December 31, 2020. The interest rate on senior secured notes coupon payment is fixed and is not subject to fluctuations from changes in market interest rates.

Commodity price risk

Due to the volatility of commodity prices, the Company is exposed to the adverse consequences of declining prices. The impacts of the COVID-19 global pandemic have significantly increased the volatility of commodity prices and the commodity price risk of the Company. Velvet may enter into future related oil and natural gas contracts in order to protect its cash flows from such consequences. The contracts reduce the fluctuation in sales revenue by locking in, or setting a minimum on, prices related to future production of light oil, natural gas liquids and natural gas. The use of these risk management contracts is subject to maximum limits established by the Board of Directors, the Credit Agreement and Senior Secured Notes Indenture hedge provisions.

Risk Management Contracts

The following tables summarize the average liquids and natural gas volumes associated with Velvet's risk management contracts in place as at December 31, 2020 with a mark-to-market liability of \$46.4 million.

Risk Management Crude Oil & Natural Gas Contract Summary ⁽¹⁾								
Period	Crude Oil							
	US\$ WTI Short Swaps ⁽³⁾		US\$ WTI Long Swaps ⁽³⁾		US\$ MSW – WTI Swaps ^{(2) (3) (4)}		US\$ C5 - WTI Swaps ⁽²⁾	
	Volume (bbl/d)	(US\$/bbl)	Volume (bbl/d)	(US\$/bbl)	Volume (bbl/d)	(US\$/bbl)	Volume (bbl/d)	(US\$/bbl)
Q1 2021	9,000	\$ 39.99	2,000	\$ 30.15	1,500	(\$ 4.57)	1,000	(\$ 0.65)
Q2 2021	7,000	\$ 41.25	-	-	4,000	(\$ 4.71)	1,000	(\$ 0.65)
Q3 2021	4,522	\$ 47.31	-	-	4,000	(\$ 4.71)	-	-
Q4 2021	-	-	-	-	4,000	(\$ 4.71)	-	-
Unrealized Asset (Liability) (000's)				(\$ 11,146)	\$859		(\$148)	

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

(2) Represent short positions

(3) WTI swaps are settled based on the WTI calendar month average

(4) MSW swaps are settled based on the monthly index benchmark pricing of the settlement month

Risk Management Crude Oil & Natural Gas Contract Summary ⁽¹⁾				
Period	Natural Gas			
	US\$ NYMEX Henry Hub Swaps/Collars ⁽²⁾⁽⁵⁾		US\$ NYMEX – AECO Basis Swaps ⁽⁵⁾⁽⁷⁾	
	Volume (mmbtu/d)	Floor – Ceiling ⁽⁶⁾ (US\$/mmbtu)	Volume (mmbtu/d)	(US\$/mmbtu)
Q1 2021	85,000	\$ 2.84 - \$ 3.12	85,000	(\$ 1.22)
Q2 2021	65,000	\$ 2.68 - \$ 2.77	85,000	(\$ 1.22)
Q3 2021	65,000	\$ 2.68 - \$ 2.77	85,000	(\$ 1.22)
Q4 2021	68,315	\$ 2.72 - \$ 2.98	85,000	(\$ 1.22)
Q1 2022	70,000	\$ 2.74 - \$ 3.08	85,000	(\$ 1.13)
Q2 2022	55,000	\$ 2.70 - \$ 2.81	85,000	(\$ 1.13)
Q3 2022	55,000	\$ 2.70 - \$ 2.81	85,000	(\$ 1.13)
Q4 2022	35,109	\$ 2.86 - \$ 2.89	85,000	(\$ 1.15)
Q1 2023	26,389	\$ 2.78 - \$ 2.78	85,000	(\$ 1.13)
Q2 2023	10,000	\$ 2.65 - \$ 2.65	85,000	(\$ 1.09)
Q3 2023	10,000	\$ 2.65 - \$ 2.65	85,000	(\$ 1.08)
Q4 2023	10,000	\$ 2.65 - \$ 2.65	85,000	(\$ 1.08)
Unrealized Asset (Liability) (000's)			\$ 10,458	(\$ 46,405)

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

(2) Represent short positions

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

(6) Floor and ceiling represent the average strike price of swaps sold, puts purchased, and calls sold

(7) Represents net amount of short and long basis positions. Amounts are contracted to AECO 7A. Velvet also enters into offsetting AECO 5A/7A swaps to match financial transactions to actual physical sales. These are typically entered 1 to 2 months in advance. These had an unrealized asset value of \$22 thousand at December 31, 2020, which was included in the Basis swap total.

The risk management contracts are financial in nature, meaning that the Company does not actually deliver the volumes of commodities contracted. Depending on the level of natural gas and crude oil benchmark prices for the period, relative to the fixed price, the Company will either make payment to its counterparties or receive payment from its counterparties, relating to the difference in prices.

Due to changes in the fair value of risk management contracts in place at December 31, 2020, the Company assesses the impact of changes in commodity prices on net income before tax, with all other variables held constant. When assessing the potential impact of these commodity price changes, the Company believes 10 percent volatility is a reasonable measure using current oil and natural gas futures prices as a base.

The following table demonstrates the impact of changes in commodity pricing on net income before tax, from risk management contracts in place as at December 31, 2020:

(\$000's)	10% increase	10% decrease
US\$ WTI	(10,246)	10,246
US\$ NYMEX HH	(14,500)	14,678
NYMEX HH-AECO Basis	8,585	(8,585)
MSW differential	787	(787)
C\$ AECO	(298)	298

Foreign Exchange Risk – Senior secured notes

The Company is further exposed to the risk of changes in the Canadian/U.S. dollar exchange rate on its senior secured notes, as the principal payments, due on October 5, 2023, and its quarterly interest payments are denominated in U.S. dollars. The Company had entered into risk management contracts to fix the exchange rate on the full principal amount as at January 31, 2022.

The following table summarizes the foreign exchange risk management contracts related to principal payments as at December 31, 2020:

Foreign Exchange Contracts related to Principal Payments			
Term	Amount (US\$)	C\$/US\$	Type (Buy/Sell)
Currency Rate Swaps – Principal payments			
January 2022	\$ 175 million	1.3469	Buy U.S. dollars
Unrealized Liability (000's)			(\$ 12,628)

When assessing the potential impact of the movement in foreign exchange rates, the Company believes \$0.05 volatility in Canadian to U.S. dollar exchange rate is a reasonable measure. An increase or decrease of \$0.05 in the Canadian/U.S. dollar exchange rate would result in a change of \$8.6 million to the unrealized gain or loss on foreign exchange commodity risk management contracts and related currency rate swap contracts on principal payments.

Total risk management

The Company has recorded the following gains and losses on risk management contracts:

(\$000's)	Year ended, December 31, 2020	Year ended, December 31, 2019
Realized gain		
Commodity contracts	74,845	23,261
Foreign exchange contracts (note 22)	41,897	517
Total realized gain	116,742	23,778
Unrealized loss		
Commodity contracts	(21,826)	(141,715)
Foreign exchange contracts (note 22)	(21,484)	(10,313)
Total unrealized loss	(43,310)	(152,028)
Total Risk Management gain (loss)	73,432	(128,250)

The net assets related to the transactions above have been recorded on the balance sheet as follows:

As at December 31, 2020

(\$000's)	Current	Long term	Total
Assets	14,964	6,207	21,171
Liabilities	(40,660)	(39,521)	(80,181)
	(25,696)	(33,314)	(59,010)

As at December 31, 2019

(\$000's)	Current	Long term	Total
Assets	29,291	21,523	50,814
Liabilities	(29,875)	(36,638)	(66,513)
	(584)	(15,115)	(15,699)

As at January 1, 2019

(\$000's)	Current	Long term	Total
Assets	55,561	87,436	143,127
Liabilities	(3,881)	(2,916)	(6,797)
	51,810	84,520	136,330

(b) Capital management

Velvet's primary sources of capital are cash flow, PSS equity issuances, term debt and its syndicated credit facility.

The Company continually monitors its capital structure and makes necessary adjustments in light of a combination of its drilling results, the general economic conditions in the petroleum industry and global events that may affect commodity prices. The objective in managing capital is to continue future development of the Central Alberta and Northwest Alberta lands and exploratory activities with a prudent mix of debt and equity, in order to provide the Company flexibility in future financings at a competitive cost of capital.

Capital funding and financing plans and targets are set by management based on expected development programs and forecasted financial results for the business and are approved by the Board of Directors on an annual basis. Periodically, management revises the development plan and capital program, which is also approved by the Board of Directors.

The following is a breakdown of the Company's capital structure:

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Current assets	64,221	72,635	86,904
Current liabilities (excluding PSS and bank debt)	(105,217)	(120,745)	(112,242)
Working capital deficit	(40,996)	(48,110)	(25,338)
Participating special shares	(105,000)	(765,000)	(1,021,107)
Long term bank debt	(209,811)	(216,058)	(186,083)
Senior secured notes	(220,382)	(223,028)	(233,907)
Shareholders' equity	(77,327)	174,700	248,379
	(612,520)	(1,029,386)	(1,192,718)

22. FOREIGN EXCHANGE GAIN (LOSS)

(\$000's)	Year ended December 31, 2020	Year ended December 31, 2019
Unrealized loss on FX contracts – Senior Secured Notes	(21,484)	(10,313)
Unrealized gain on revaluation - Senior Secured Notes	3,611	12,077
Unrealized gain on Other liabilities	-	5
Realized gain on FX contracts – Senior Secured Notes	22,901	-
Realized gain on FX contracts – interest	1,147	517
Realized gain on FX contracts – LIBOR loans	17,849	-
Realized loss on revaluation - LIBOR loans	(17,989)	-
Realized gain (loss) – other	(256)	209
Total foreign exchange gain	5,779	2,495

(1) Comparative period revised to reflect current period presentation. Unrealized risk management gain (loss) on principal and interest foreign exchange swaps were previously included in the risk management gains (losses)

23. REVENUE

Velvet generates revenue through sales contracts with customers primarily through the transfer of commodities at a point in time, representing the following major product types:

(\$000's)	Year ended December 31, 2020	Year ended December 31, 2019
Oil and condensates	142,229	197,415
Natural gas	79,739	68,831
NGLs	24,641	33,174
Total petroleum and natural gas sales	246,609	299,420
Sales of commodities purchased from third parties	12,778	4,944
Processing revenue	3,537	5,136
Pipeline transportation revenue (note 24)	15,193	4,249
	278,117	313,749

As at December 31, 2020, receivables from contracts with customers, which are included in accounts receivable, were \$29.9 million (December 31, 2019 – \$32.8 million).

In circumstances where Velvet is the principal to transportation arrangements, natural gas sales include revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at the sales delivery point where title transfer takes place. For the year ended December 31, 2020, transportation costs incurred in relation to these contracts were \$8.7 million (December 31, 2019 - \$8.8 million).

24. PIPELINE TRANSPORTATION REVENUE AND EXPENSE

Pipeline transportation revenue represents the margin generated from the Company's buy/sell arrangement with an international oil marketer, where barrels are purchased in Flanagan, Illinois and sold at Cushing, Oklahoma on the Spearhead pipeline. Pipeline transportation expense represents the contracted cost for Velvet to transport its allocated volumes, subject to apportionment by the pipeline operator, on the Spearhead pipeline.

(\$000's)	Year ended December 31, 2020	Year ended December 31, 2019
Pipeline transportation revenue	15,193	4,249
Pipeline transportation expense	(10,894)	(7,105)
Pipeline transportation Margin	4,299	(2,856)

25. INCOME TAXES

During the second quarter of 2019, the Alberta government enacted new legislation to reduce the provincial corporate tax rate from the current rate of 12 percent to eight percent on January 1, 2022. On July 1, 2019, the tax rate was reduced from 12 percent to 11 percent and will continue to decline by one percent every year on January 1st from 2020 to 2022, down to a combined federal and provincial corporate tax rate of 23 percent in 2022. On June 29, 2020 Alberta announced the previously scheduled rate reduction will be accelerated with the Alberta rate reducing to eight percent effective July 1, 2020. This new legislation was enacted on October 20, 2020.

Velvet anticipates that the majority of the Company's existing deferred income tax recoveries will reverse at an effective tax rate of approximately 23 percent. For the year ended December 31, 2020, Velvet recorded a deferred income tax expense reduction of \$3.1 million (December 31, 2019 – \$15.5 million) to reflect the decline in deferred provincial income taxes anticipated under the new legislation.

At December 31, 2020, the federal corporate tax rate is 15 percent, and the Alberta provincial tax rate is 8 percent (effective October 1, 2020) resulting in a combined annual rate in 2020 of 24 percent. The federal corporate tax rate in 2019 was 15 percent and the Alberta provincial tax rate was 11 percent (effective July 1, 2019) resulting in a combined rate of 26.5 percent.

For the year ended December 31, 2020, Velvet derecognized \$173.6 million in deferred tax asset to reflect the uncertainty of recoverability of its available tax losses based on estimates of the Company's future taxable income. At December 31, 2020, the Company had \$173.6 million of tax pools for which no benefit was recognized related to \$138.0 million of non-capital loss carry forward, \$4.0 of investment tax credits and \$31.6 million of other tax pools.

The Company's income tax recovery differs from the amount that would arise using the annual average tax rate of 24 percent (2019 – 26.5 percent) applied to income for the periods ended December 31, 2020 and 2019 as follows:

(\$000's)	Year ended December 31, 2020	Year ended December 31, 2019
Opening deferred income tax asset	101,153	42,879
Income tax recovery at statutory rates	84,533	3,691
Increase (decrease) resulting from:		
Non-deductible share-based compensation	231	377
Other non-deductible items	(1,038)	(97)
Unrecognized capital (gain) loss arising from unrealized FX gains	(441)	(1,577)
Adjustments to resource tax pools	(410)	158
Adjustments to statutory rates	3,083	15,522
Revaluation of participating special shares	(158,400)	(76,348)
Change in unrecognized deferred tax asset	173,595	-
Deferred income tax expense (recovery)	101,153	(58,274)
Closing deferred income tax asset	-	101,153

The following deductions are available for income tax purposes:

(\$000's)	December 31, 2020	December 31, 2019	January 1, 2019
Undepreciated capital cost (UCC)	138,538	159,819	181,782
Canadian development expense (CDE)	275,085	415,053	309,308
Canadian exploration expense (CEE)	159,870	155,568	152,698
Canadian oil and gas property expense (COGPE)	162,873	185,085	244,206
Non-capital loss carry forward	600,012	465,010	464,147
Scientific Research & Experimental Development (SRED) expense	22,757	16,436	12,733
Debt/Share issue costs	759	3,126	5,499
	1,359,894	1,400,097	1,370,373

At December 31, 2020 the Company has non-capital losses of \$600.0 million (December 31, 2019 – \$465.0 million and January 1, 2019 - \$464.0 million) that expire between 2027 and 2040. The Company also has SRED Investment Tax Credits totaling \$5.2 million at December 31, 2020 (December 31, 2019 – \$4.1 million and January 1, 2019 - \$3.6 million) that are available to offset income taxes payable.

Deferred tax asset / (liabilities) are comprised of the following:

(000's)	Capital assets in excess of tax value	Finance lease / other liabilities	Risk management asset/ (liability)	Decommissioning liability	Non-capital loss carry forward	Share issue costs	Investment tax credits	Senior secured notes	Deferred asset / (liability)
At January 1, 2019	(70,008)	401	(36,929)	19,741	125,318	669	2,615	1,072	42,879
Charged/(credited) to the income statement	37,300	2,132	40,436	(1,623)	(18,600)	(321)	566	(1,616)	58,274
At December 31, 2019	(32,708)	2,533	3,507	18,118	106,718	348	3,181	(544)	101,153
Charged/(credited) to the income statement	31,104	(777)	(2,607)	(18,118)	(106,718)	(348)	(3,181)	(508)	(101,153)
At December 31, 2020	(1,604)	1,756	900	-	-	-	-	(1,052)	-

26. COMMITMENTS

The Company's remaining commitments have been summarized in the table below as at December 31, 2020:

(\$000's)	2021	2022	2023	2024	2025	2026+	Total
Gas Transportation	12,701	11,269	10,971	11,734	11,678	23,649	82,002
Liquids Transportation ⁽¹⁾	27,297	41,112	42,844	22,616	11,917	12,365	158,151
NGL Fractionation	1,448	1,466	1,439	1,425	1,421	6,040	13,239
Processing Fee	10,088	10,542	5,302	146	81	-	26,158
Capital commitment ^{(2) (3)}	7,476	-	-	-	-	-	7,476
	59,010	64,388	60,556	35,921	25,097	42,054	287,026

(1) Liquids Transportation includes \$53.8 million (US\$42.1 million) related to the Spearhead pipeline commitment and \$32.1 million (US\$25.1 million) related to the Flanagan south pipeline. Velvet has provided the operator a US\$7.3 million (CA\$9.3 million) Letter of Credit as security under the Spearhead pipeline agreement (refer to note 24) and US\$8.9 million (CA\$11.3 million) Letter of Credit as security under the Flanagan south pipeline agreement. Also includes \$72.2 million related to upstream oil and NGL transportation contracts.

(2) Capital commitment includes a \$3.5 million commitment to repay pipeline expansion capital to a counterparty on July 1, 2021, if terms of a facility expansion agreement are not agreed to. There is the ability to delay the payment and decision date to January 1, 2022 by drilling and bringing on production two wells behind a specific facility prior to June 30, 2021.

(3) Capital commitment also includes an estimated \$4.0 million commitment to drill a water disposal well for which the estimated amount and timing was established subsequent to year end. On January 15, 2021, the Company entered into an agreement to obtain financing from an industry partner related to a requirement to drill and bring onstream a water disposal well. The total amount of the financing is expected to be \$4.0 million which is repayable in three years at 1.36 times the original amount drawn. The total balance repayable will be reduced by an agreed upon fee charged to dispose of the Company's water volumes related to this well, with the remaining balance repayable at the end of the three years. The Company also has certain obligations to accept and dispose of up to 2,000 barrels per day of third-party volumes, which will result in a reduction of total balance based off an agreed upon rate per barrel.

On March 30, 2021, Velvet completed a natural gas transportation capacity assignment swap with an industry counterparty for a fee of \$1.2 million paid over three years. The swap shortens Velvet's commitment terms of various contracts to March 2022, as well as changing the location of service, thereby mitigating an estimated \$23.0 million of future gas transportation commitments.

(\$000's)	2021	2022	2023	2024	2025	2026+	Total
Gas Transportation	(772)	(3,032)	(3,146)	(3,052)	(3,046)	(9,977)	(23,025)
Payment	304	300	604	-	-	-	1,208
Net impact	(468)	(2,732)	(2,542)	(3,052)	(3,046)	(9,977)	(21,817)

27. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2020, Velvet recorded \$0.4 million (December 31, 2019 – \$0.7 million) of legal fees relating to acquisitions, dispositions, senior secured notes, and in the normal course of business to a law firm of which a partner is a director of the Company. As at December 31, 2020, no amounts were payable (December 31, 2019 - no amounts were payable). Subsequent to year end, the partner was removed as a director of the Company and as a result, is no longer a related party.

All related party transactions are recorded at the exchange amount.

28. EXECUTIVE COMPENSATION

The Company's key management positions are comprised of its directors and executive officers. In addition to their salaries and benefits, the officers participate in the Company's bonus plan. They also have the right to purchase Founder's shares and to receive stock options. Directors began receiving fees in 2018, for the first time, and also have the right to purchase Founder's shares and to receive stock options.

Annual compensation relating to directors and officers, recorded as general and administrative expenses, was comprised of the following:

(\$000's)	Year ended December 31, 2020	Year ended December 31, 2019
Salaries and benefits	5,187	5,052
Share based compensation	192	302
	5,379	5,354

29. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

(\$000's)	Year ended December 31, 2020	Year ended December 31, 2019
Salaries and benefits ⁽¹⁾	16,926	19,771
Consultants	1,179	1,499
Office lease	913	992
Computer software	2,797	2,559
Professional services	965	895
Director's fees and expenses	371	514
Other	1,526	2,068
Gross general and administrative expenses	24,677	28,298
Overhead recoveries	(2,707)	(4,195)
Net general and administrative expenses	21,970	24,103

(1) \$1.4 million of amounts received under the Canadian Emergency Wage Subsidy program have been recorded as a reduction to salaries and benefits for the year ended December 31, 2020 (2019 – \$nil).

30. SUPPLEMENTAL CASH FLOW DISCLOSURE

(a) Changes in non-cash working capital, excluding acquired working capital:

(\$000's)	Year ended December 31, 2020	Year ended December 31, 2019
Accounts receivable	(4,600)	(12,624)
Prepaid expenses (note 12)	(305)	(205)
Accounts payable and accrued liabilities	(25,421)	(17,897)
	(30,326)	(30,726)

Relating to:

Operating activities	(10,412)	(19,942)
Investing activities	(19,914)	(10,784)
	(30,326)	(30,726)

(b) Changes in liabilities arising from financing activities:

(\$000's)	Lease Liabilities	Other Liabilities	Bank Loan	Senior Secured Notes	Participating Special Shares
Balance at January 1, 2019	14,293	7,355	186,083	233,907	1,021,107
Cash items:					
Finance lease principal payments	(4,013)	-	-	-	-
Other Financing	-	(201)	-	-	-
Proceeds from bank loan	-	-	245,806	-	-
Repayment of bank loan	-	-	(214,909)	-	-
Issuance of participating special shares	-	-	-	-	32,000
Non-cash items:					
Unrealized foreign exchange gain	(5)	-	-	(11,908)	-
Finance lease liabilities	350	-	-	-	-
Deferred / (amortized) financing costs	-	-	(922)	1,029	-
Revaluation of PSS	-	-	-	-	(288,107)
Balance at December 31, 2019	10,625	7,154	216,058	223,028	765,000
Cash items:					
Finance lease principal payments	(3,311)	-	-	-	-
Other Financing	-	(246)	-	-	-
Proceeds from bank loan	-	-	1,033,992	-	-
Repayment of bank loan	-	-	(1,041,242)	-	-
Non-cash items:					
Unrealized foreign exchange gain	-	-	-	(3,675)	-
Finance lease liabilities	(70)	-	-	-	-
Deferred / (amortized) financing costs	-	(1,624)	1,003	1,029	-
Revaluation of PSS	-	-	-	-	(660,000)
Balance at December 31, 2020	7,244	5,284	209,811	220,382	105,000

31. SUBSEQUENT EVENTS

a) Edson Disposition

Subsequent to year end, the Company had received an unsolicited offer from an industry partner for its Edson assets within the Central Alberta area ("Edson assets"), for a total sales price of \$130.9 million, net of estimated purchase price adjustments. On May 14, 2021, the Company's Board of Directors approved the disposition of the Edson assets, and the sale subsequently closed on June 30, 2021. During the year ended December 31, 2020, the Company's Edson assets contributed operating revenue of \$58.5 million (\$59.7 million – year ended December 31, 2019), and \$33.1 million of operating revenue and processing income less royalties, operating expense and transportation expense (\$32.1 million – year ended December 31, 2019). Proceeds from the disposition were initially used to pay down the syndicated credit facility.

b) Syndicated Credit Facility

Concurrent with the disposition of the Company's Edson assets on June 30, 2021, the Company completed its spring borrowing base redetermination. The Company's syndicated credit facility was reduced to \$150 million, consisting of a \$135 million senior secure syndicated revolving credit facility and a \$15 million senior secured operating credit facility. There was no non-conforming facility and associated restrictions related to the non-conforming facility were removed.

c) Spartan Delta Corp. Acquisition of Velvet Energy Ltd.

On July 28, 2021, Velvet Energy Ltd. and Spartan Delta Corp ("Spartan") announced a definitive agreement for Spartan to acquire all issued and outstanding shares of Velvet for total consideration of \$371.6 million, consisting of \$355.9 million in cash and 2,962,264 common shares at a deemed issuance price of \$5.30 per common share. The common shares issuable pursuant to the Acquisition will be subject to escrow, releasable in one-sixth increments beginning on the date that is one month following the closing date and continuing every month thereafter.

Concurrent with the execution of the Agreement, holders of more than 90% of the issued and outstanding Velvet Shares have executed letters of transmittal irrevocably accepting Spartan's offer and tendering Velvet Shares under the Acquisition (the "Letters of Transmittal"). Upon all of the conditions of the Acquisition having been satisfied or waived, Spartan will take up and pay for the Velvet Shares deposited under the Acquisition in accordance with the terms of the Agreement and the Letters of Transmittal. The Agreement provides for, among other things, a non-solicitation covenant on the part of Velvet. Closing of the Acquisition is expected to occur on or about August 31, 2021, subject to usual closing conditions and regulatory approvals, including the approval of the TSXV and the approval of the Commissioner of Competition pursuant to the *Competition Act* (Canada).



Condensed Interim Financial Statements

For the periods ended
March 31, 2021 and 2020

Velvet Energy Ltd.

Balance Sheet

(unaudited)

(CAD \$000's)	Notes	March 31, 2021	December 31, 2020
ASSETS			
Current			
Cash and cash equivalents	16	720	2,934
Accounts receivable	16	49,694	43,058
Risk management contracts	16	4,579	14,964
Prepaid expenses and other		2,548	2,515
Assets held for sale	4	2,702	750
		60,243	64,221
Long term deposits and other		4,131	4,131
Risk management contracts	16	4,652	6,207
Property, plant and equipment, net	5,6	650,251	676,159
Exploration and evaluation assets	5,7,8	86,864	86,885
Total assets		806,141	837,603
LIABILITIES			
Current			
Accounts payable and accrued liabilities	16	75,117	57,829
Risk management contracts	16	74,151	40,660
Lease liabilities	9	3,277	3,487
Other liabilities	10	3,545	2,241
Bank loan	11	24,250	25,000
Liabilities held for sale	4	1,867	-
Decommissioning liability	13	1,000	1,000
Participating special shares	14	200,000	105,000
		383,207	235,217
Risk management contracts	16	32,232	39,521
Lease liabilities	9	3,564	3,757
Other liabilities	10	6,044	3,043
Decommissioning liability	13	72,226	73,545
Bank loan	11	174,822	184,811
Senior secured notes	12	217,437	220,382
Total liabilities		889,532	760,276
SHAREHOLDERS' EQUITY			
Share capital - common shares	15	596	596
Contributed surplus	15	8,371	8,263
Retained earnings (deficit)		(92,358)	68,468
Total shareholders' equity		(83,391)	77,327
Total liabilities and shareholders' equity		806,141	837,603

Commitments and contingencies (Note 21)

See accompanying notes to the financial statements

On behalf of the Board of Directors:

Ken Woolner
Director
President & Chief Executive Officer

Vincent Chahley
Director
Chairman of the Audit Committee

Velvet Energy Ltd.
Statement of Comprehensive Income (Loss)
(unaudited)

(CAD \$000's)	Notes	Three months ended March 31,	
		2021	2020
REVENUE			
Petroleum and natural gas sales	18	89,587	66,122
Royalties		(5,402)	(3,852)
		84,185	62,270
Sale of commodities purchased from third parties	18	1,798	2,996
Processing revenue	18	1,095	1,254
Pipeline transportation revenue	18,19	3,195	5,946
		90,273	72,466
COMMODITY RISK MANAGEMENT CONTRACTS			
Realized gain (loss) on commodity risk management contracts	16	(19,087)	12,038
Unrealized gain (loss) on commodity risk management contracts	16	(35,095)	103,973
		(54,182)	116,011
		36,091	188,477
EXPENSES			
Operating		25,004	30,706
Transportation		9,442	7,446
Pipeline transportation	19	2,619	2,731
Commodities purchased from third parties		1,630	2,942
General and administrative		6,615	5,169
Share-based compensation	15	108	333
Transaction costs		666	16
Finance charges		8,333	8,556
Depletion and depreciation	6	22,277	31,002
Impairment loss	6	25,223	257,374
Exploration expense	7,8	307	64,355
Net (gain) loss on non-core asset dispositions	4,5	(87)	148
Foreign exchange (gain) loss	17	(184)	960
Other Income		(36)	(51)
		101,917	411,687
Net loss before taxes and revaluation of participating special shares		(65,826)	(223,210)
Revaluation of participating special shares	14	(95,000)	710,000
Net income (loss) before taxes		(160,826)	486,790
TAXES			
Deferred income tax	20	-	35,407
Net income (loss) and comprehensive income (loss)		(160,826)	451,383

See accompanying notes to the financial statements

Velvet Energy Ltd.
Statement of Changes in Equity
(unaudited)

(CAD 000's)	Notes	March 31, 2021	March 31, 2020
SHARE CAPITAL			
Balance, beginning of period		596	596
Balance, end of period		596	596
CONTRIBUTED SURPLUS			
Balance, beginning of period		8,263	7,301
Share-based compensation	15	108	333
Balance, end of period		8,371	7,634
RETAINED EARNINGS (DEFICIT)			
Balance, beginning of period		68,468	(182,597)
Net loss for the period		(160,826)	451,383
Balance, end of period		(92,358)	268,786
Total shareholder equity, end of period		(83,391)	277,016

	Notes	March 31, 2021	March 31, 2020
OUTSTANDING COMMON SHARES			
Balance, beginning of period		3,692,717	3,692,717
Balance, end of period		3,692,717	3,692,717

See accompanying notes to the financial statements

Velvet Energy Ltd.
Statement of Cash Flows
(unaudited)

(CAD \$000's)	Notes	Three months ended March 31,	
		2021	2020
OPERATING ACTIVITIES			
Net income (loss)		(160,826)	451,383
Non-cash items			
Share-based compensation	15	108	333
Finance income		(1)	(1)
Finance charges		8,333	8,556
Depletion and depreciation	6	22,277	31,002
Impairment loss	6	25,223	257,374
Exploration expense	7,8	307	64,355
Net (gain) loss on non-core asset dispositions	4,5	(87)	148
Unrealized (gain) loss on risk management contracts	16	38,142	(108,879)
Non-cash foreign exchange (gain) loss	17	(3,239)	20,476
Other non-cash		(539)	1
Deferred income tax	20	-	35,407
Revaluation of participating special shares	14	95,000	(710,000)
Decommissioning costs incurred	13	(71)	(785)
Adjusted Funds from operations		24,627	49,370
Net change in long term deposits, other, and accrued liabilities	22	904	(2,929)
Net change in non-cash working capital	22	8,538	(2,986)
Cash from operating activities		34,069	43,455
FINANCING ACTIVITIES			
Proceeds from bank loan	11	-	480,648
Repayment of bank loan	11	(10,750)	(454,898)
Other financing	10	3,943	(48)
Payments on lease liabilities	9	(427)	(1,221)
Interest and fees paid on bank loan and leases		(2,616)	(2,045)
Interest and fees paid on senior secured notes		(4,998)	(5,278)
Cash from (used in) financing activities		(14,848)	17,158
INVESTING ACTIVITIES			
Finance income		1	1
Cost of oil and natural gas acquisitions	5	(100)	-
Property, plant and equipment expenditures	6	(23,770)	(56,240)
Exploration and evaluation expenditures	7	(286)	(11,352)
Proceeds from non-core asset dispositions	5	837	38
Net change in non-cash working capital	22	1,883	5,909
Cash used in investing activities		(21,435)	(61,644)
Net decrease in cash and cash equivalents		(2,214)	(1,031)
Cash and cash equivalents, beginning of period		2,934	3,148
Cash and cash equivalents, end of period		720	2,117

Supplementary disclosure of cash flow information (Note 22)

See accompanying notes to the financial statements

VELVET ENERGY LTD.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (unaudited)

As at and for the three months ended March 31, 2021 and 2020

1. NATURE OF THE BUSINESS

Velvet Energy Ltd., (“Velvet” or the “Company”) was incorporated on February 25, 2011 under the *Business Corporations Act* (Alberta). The Company is privately held and focuses on the exploration, development, acquisition, production and sales of light crude oil, natural gas liquids and natural gas. Velvet’s head office is located at 1500, 308 – 4th Avenue S.W. Calgary, Alberta and it operates in the Province of Alberta and owns lands in the Provinces of Alberta, British Columbia, and Saskatchewan.

2. BASIS OF PREPARATION

These condensed interim financial statements (the “financial statements”) have been prepared in accordance with International Account Standard (“IAS”) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These financial statements are condensed as they do not include all the information required for annual financial statements, and therefore, should be read in conjunction with Velvet’s audited annual financial statements for the year ended December 31, 2020.

A summary of Velvet’s significant accounting policies is described in note 4 of the audited annual financial statements issued for the year ended December 31, 2020. The financial statements have been prepared on a historical cost basis, except those items that are presented at fair value as detailed in the accounting policies disclosed in note 4 “Significant Accounting Policies”.

A portion of the Company’s activities are conducted in joint participation with others. These financial statements reflect only the Company’s proportionate interest in such activities and are presented in Canadian dollars, the Company’s functional currency. The financial statements were approved by the Company’s Audit Committee of the Board of Directors on July 29, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 4 of the December 31, 2020 annual financial statements. Except as outlined below, these condensed interim financial statements as at March 31, 2021 have been prepared following the same accounting policies and methods of computation as the most recent annual financial statements as at, and for the year ended, December 31, 2020. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

RECENT DEVELOPMENTS AND IMPACT ON ESTIMATION UNCERTAINTY

In March 2020, the World Health Organization (“WHO”) declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (“COVID-19”) resulting in significant public health measures and restrictions put in place. At the same time, the Organization of Petroleum Exporting Countries, and certain other countries, increased the planned supply of crude oil in an attempt to trigger a price war over market share. Throughout the second half of 2020, economies started to reopen along with positive developments on the vaccine front leading to a strong recovery in oil prices in late 2020 and into the first quarter of 2021.

The potential impact of the COVID-19 pandemic has been considered by Management in making judgments, estimates and assumptions used in the preparation of these financial statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future financial periods as additional information becomes available.

4. ASSETS HELD FOR SALE

(a) Westerose assets

Prior to the end of the first quarter, the Company committed to selling a portion of its Central Alberta assets at Westerose (“Westerose assets”) and had initiated an active marketing program. The designated assets were reclassified from property, plant and equipment (“PP&E”) to assets held for sale (“AHFS”) at the lower of its carrying amount and the fair value less costs to dispose (“FVLCD”). As a result of this reclassification, the Company determined the FVLCD was lower than the carrying amount and the Company incurred an impairment loss of \$1.3 million relating to PP&E (note 6). The associated decommissioning obligation related to the designated assets was \$1.9 million, which has been reclassified to liabilities held for sale (note 13). There were no associated E&E assets relating to the designated area.

The following amounts have been reclassified at March 31, 2021, all representing the carrying amounts:

(\$000's)	Total
Assets Held for Sale - Net property, plant & equipment reclassified	2,702
Liabilities Held for Sale - Decommissioning liability reclassified	(1,867)
Net assets	835

(b) Simonette assets

At December 31, 2020, the Company had reclassified to assets held for sale \$0.8 million of exploration and evaluation assets related to its Northwest Alberta assets in Simonette (“Simonette assets”). On February 17, 2021, the Company closed the transaction to dispose of its Simonette assets to an industry partner for cash consideration of \$0.8 million, including closing adjustments (note 5). Proceeds were used to pay down the non-conforming syndicated credit facility (note 11).

5. PROPERTY ACQUISITIONS AND DISPOSITIONS

Acquisitions

Acquisitions completed during the three months ended March 31, 2021 have been summarized below:

(\$000's)	PP&E	E&E Assets	Decommissioning liability	Total
Minor acquisitions	100	-	-	100
	100	-	-	100

Dispositions

Dispositions completed during the three months ended March 31, 2021 have been summarized below:

(\$000's)	PP&E	E&E Assets	Decommissioning liability	Assets held for sale	Gain on disposition	Total
Simonette asset disposition	-	-	-	750	16	766
Other ⁽¹⁾	-	-	-	-	71	71
	-	-	-	750	87	837

(1) Gain on disposition primarily relates to minor purchase price adjustments related to dispositions from the prior year

6. PROPERTY, PLANT AND EQUIPMENT

Cost (\$000's)	P&NG Properties	Office	Right-of-use assets	Total
Balance at December 31, 2020	1,453,516	5,519	13,301	1,472,336
Additions	23,763	7	-	23,770
Acquisitions (note 5)	100	-	-	100
Reclassification to assets held for sale (note 4)	(42,100)	-	-	(42,100)
Decommissioning adjustment	424	-	-	424
Balance at March 31, 2021	1,435,703	5,526	13,301	1,454,530
Accumulated depletion, depreciation & impairment				
(\$000's)				
Balance at December 31, 2020	(790,294)	(3,758)	(2,125)	(796,177)
Depletion and depreciation	(21,990)	(62)	(225)	(22,277)
Impairment loss (a)	(25,223)	-	-	(25,223)
Reclassification to assets held for sale (note 4)	39,398	-	-	39,398
Balance at March 31, 2021	(798,109)	(3,820)	(2,350)	(804,279)
Carrying Value December 31, 2020	663,222	1,761	11,176	676,159
Carrying Value March 31, 2021	637,594	1,706	10,951	650,251

Once the technical feasibility and commercial viability of a project has been established, costs are recorded as property, plant and equipment. These costs include the initial cost of an asset, its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of any asset decommissioning obligations.

The calculation of depletion and depreciation for the three months ended March 31, 2021 includes an estimated \$2,031 million (December 31, 2020 - \$2,045 million) for future development costs associated with undeveloped proved plus probable reserves. Excluded from the depletion calculation as at March 31, 2021 was salvage value of \$14.8 million (December 31, 2020 - \$15.7 million). The Company capitalized overhead totalling \$0.2 million for the three months ended March 31, 2021 (March 31, 2020 - \$0.7 million), as the operator of capital projects. No borrowing costs have been capitalized.

(a) Impairment loss

At the end of each reporting period, the Company reviews property, plant and equipment assets for indicators of impairment to determine whether the carrying value of its oil and natural gas properties is recoverable.

At March 31, 2021, the Company reclassified its Westeros Asset from property, plant and equipment to assets held for sale at the lower of its carrying amount and the fair value less costs to dispose ("FVLCD"). As a result of this reclassification, the Company determined the FVLCD was lower than the carrying amount and the Company incurred an impairment loss of \$1.3 million (note 4).

Additionally, the Company noted indicators of impairment associated with the Company's remaining Central Alberta assets. Subsequent to period end, the Company had received an unsolicited offer from an industry partner for its Edson assets within the Central Alberta CGU ("Edson assets"), for a total sales price of \$143.0 million, prior to purchase price adjustments. On May 14, 2021, the Company's Board of Directors approved the disposition of the Edson assets, which subsequently closed on June 30, 2021 (note 23). The Company's net carrying amount of the Edson assets was determined to be in excess of the agreed upon sales price, requiring an impairment test. The impairment test was calculated using the estimated fair value less cost to dispose determined from the proposed sales price. The property, plant & equipment and exploration and evaluation assets reflect the remaining net carrying value the Central Alberta CGU, after the Westeros Assets had been reclassified to assets held for sale. The remaining assets within the Central Alberta CGU that are not included in the purchase and sale agreement are considered non-core and are deemed to be fully impaired, and have an associated decommissioning liability of \$9.2 million, at March 31, 2021, that was excluded from the impairment calculation.

The calculation of impairment for the Edson Assets was estimated at \$23.9 million, which was applied to the Company's property plant and equipment.

(\$000's)	Total
Property, plant & equipment, net	176,810
Exploration and evaluation assets	37,672
Decommissioning liability	(47,583)
Net carrying value	166,899
Fair value less cost to dispose	143,000
Impairment loss	23,899

At March 31, 2021, there were no indicators of impairment or impairment reversal associated with the Company's Northwest Alberta CGU.

7. EXPLORATION AND EVALUATION ASSETS

(\$000's)	
Balance at December 31, 2020	86,885
Additions	286
Exploration expense (note 8)	(307)
Balance at March 31, 2021	86,864

Exploration and evaluation ("E&E") assets consist of undeveloped land and exploratory drilling costs for wells on which reserves have not yet been determined. Additions include pre-development stage expenditures on undeveloped land and engineering, geological and geophysical activities, as well as the cost to drill and complete wells with no assigned reserve value.

At March 31, 2021, the Company assessed for indicators of impairment and wrote off \$0.3 million of E&E costs. Additionally, Central Alberta E&E balances were assessed as part of the PP&E impairment analysis. No other indicators of impairment were noted.

8. EXPLORATION EXPENSE

A write-off of \$0.3 million for E&E costs for undeveloped land, seismic and other minor costs were recognized as exploration expense during the three months ended March 31, 2021. Mineral lease expiries were insignificant during the three months ended March 31, 2021 (March 31, 2020 - \$2.0 million).

In the first quarter of 2020, previously capitalized E&E costs of \$62.3 million were written off, and recorded as exploration expense, as these areas were no longer in the Company's long-term development plans. Management's decision to write-off the E&E assets was based on a comprehensive review taking into consideration recent developments of the global pandemic and its economic impacts. Management reviewed spending to date, decisions to limit spending on these assets and the current business plan spending on certain assets go forward.

(\$000's)	Three months ended March 31,	
	2021	2020
Write down	297	62,307
Mineral lease expiries	10	2,048
	307	64,355

9. LEASE LIABILITIES

(\$000's)	March 31, 2021
Balance at December 31, 2020	7,244
Interest charges – non-cash ⁽¹⁾	24
Principal repayments	(427)
Balance at March 31, 2021	6,841
Interest charges	114
Current portion	3,277
Long term	3,564

(1) Interest charges - non-cash relate to the Drilling Leases where no payment was made during the period. Payment is based on drilling days and therefore if the Right of Use ("ROU") asset was not used during the period and no payment is made, the non-cash interest is accrued.

The Company has lease liabilities for contracts related to office space and drilling equipment. Lease terms are negotiated on an individual basis and contain a wide range of differing terms and conditions.

Short-term leases and leases of low-value assets consist of leases for surface rights not associated with mineral lease rights. Payments recognized in the financial statements relating to short-term leases and leases of low-value assets were nominal for the three months ended March 31, 2021 and March 31, 2020.

The Company has included extension options in the calculation of the lease liabilities, where the Company has the right to extend the lease term at its discretion and is more likely than not to exercise the extension option. The Company does not have any significant termination options and the residual amounts are not material.

Undiscounted cash outflows relating to the lease liabilities are as follows at March 31, 2021:

(\$000's)	2021	2022	2023	2024	2025	Total
Drilling arrangements	1,795	-	-	-	-	1,795
Real Estate – office space	992	1,336	1,206	1,217	922	5,673
	2,787	1,336	1,206	1,217	922	7,468

10. OTHER LIABILITIES

The Company's other liabilities primarily consist of cash received by the Company upon the expansion of a land dedication agreement with a senior midstream operator.

(\$000's)	March 31, 2021	December 31, 2020
AMI financing ⁽¹⁾	4,633	5,176
Karr Disposal well ⁽²⁾	4,000	-
Deferred processing revenue	4	9
Onerous contract ⁽³⁾	48	99
Long Term accrued liabilities (note 21, 22) ⁽⁴⁾	904	-
	9,589	5,284
Current portion	3,545	2,241
Long term	6,044	3,043

(1) Pertains to an agreement with a senior midstream operator entered into on March 7, 2018, to amend and expand its defined area of mutual interest ("AMI") with them in Velvet's Northwest Alberta area in connection with lands acquired by Velvet on January 30, 2018. The AMI defines the boundaries within which Velvet wells must deliver liquids and natural gas production to central delivery facilities owned or constructed by the midstream operator. Terms of the agreement included a modest increase to handling fees paid by Velvet on all production processed by the midstream operator within the AMI in exchange for cash consideration of \$6.5 million which is amortized over the remaining term of the contract as an offset to processing fees. An additional \$0.3 million was received from the same midstream operator on November 15, 2018 for an additional land purchase to include in the original AMI which is repayable on September 30, 2022.

(2) On January 15, 2021, the Company entered into an agreement to obtain financing from an industry partner related to a requirement to drill and bring onstream a water disposal well. The liability is due in three years at 1.36 times the original amount drawn. The total balance repayable will be reduced by payments that are tied to the amount of water disposed by the Company into this well, with the remaining balance repayable at the end of the three years. The Company also has certain obligations to accept and dispose of up to 2,000 barrels per day of third-party volumes, which will result in a reduction of total balance based off an agreed upon rate per barrel.

(3) The onerous contract is derived from the provision of a Calgary office lease, inherited by Velvet through the acquisition of Iron Bridge Resources Inc. The term of the contract extends to December 31, 2022. As at January 1, 2019, under the adoption of IFRS 16, a portion of the liability was reduced by the Right-of-Use asset value of \$0.9 million determined on initial recognition. The variable portion of the principal payments on this lease will reduce the remaining balance of the onerous provision over the term of the contract.

(4) During the first quarter of 2021, Velvet completed a natural gas transportation capacity assignment swap with an industry counterparty for a fee of \$1.2 million paid over three years. The full \$1.2 million was recognized as transportation expense in the first quarter, with an offsetting accrued liability, including \$0.9 million classified as long-term included in other liabilities.

11. BANK LOAN

(\$000's)	March 31, 2021	Net Change	December 31, 2020
Senior secured operating credit facility – Conforming	-	-	-
Senior secured syndicated credit facility – Conforming	125,000	(10,000)	135,000
Senior secured syndicated credit facility – Non-conforming	74,250	(750)	75,000
Total credit facility draws	199,250	(10,750)	210,000
Bankers' acceptance interest deferred	(178)	11	(189)
Bank Loan	199,072	(10,739)	209,811
Current portion	24,250	(750)	25,000
Long term	174,822	(9,989)	184,811
Credit facility commitment amounts:			
Senior secured operating credit facility – Conforming	25,000	-	25,000
Senior secured syndicated credit facility – Conforming	150,000	-	150,000
Senior secured syndicated credit facility – Non-conforming	74,250	(750)	75,000

At December 31, 2020, the Company had a \$250 million syndicated credit facility, consisting of a two-year \$175 million conforming and a \$75 million non-conforming facility. The \$175 million conforming facility consists of a \$150 million senior secured syndicated revolving credit facility and a \$25 million senior secured operating revolving credit facility. The \$75 million non-conforming facility of the syndicated credit facility is non-revolving whereby any repayments cannot be redrawn. The Company was required to reduce the non-conforming facility by \$25 million by April 30, 2021.

At March 31, 2021, the conforming balance remained unchanged from year-end, however, in February 17, 2021, the Company was required to use proceeds from the Simonette disposition to pay \$0.8 million of the non-conforming facility. The remaining \$24.2 million was paid subsequent to period end on April 30, 2021. The non-conforming facility was reduced to \$50 million at that time.

The Company's credit facility is subject to two borrowing base reviews, typically in May and November. The May 31, 2021 credit facility borrowing base redetermination was extended to June 30, 2021, which the Company completed concurrent with the disposition of the Company's Edson assets on June 30, 2021 (see note 23). The Company's syndicated credit facility was reduced to \$150 million, consisting of a \$135 million senior secure syndicated revolving credit facility and a \$15 million senior secured operating credit facility. There was no non-conforming facility and associated restrictions related to the non-conforming facility were removed. Proceeds use from the disposition of the Company's Edson assets were initially used to pay down the syndicated credit facility.

The credit facility is secured by a first priority floating charge and security interest in the assets of the Company. The Credit Agreement does not contain financial ratio covenants. As of March 31, 2021, the Company was compliant with all restrictions provided for in the Credit Agreement.

As at March 31, 2021, the effective interest rate on the weighted average outstanding debt was 4.66 percent.

As at March 31, 2021, the Company had a total of \$27.8 million in letters of credit of which \$26.6 million was secured by the Export Development Canada Performance Security Guarantee. The remaining letters of credit are secured by the Company's operating credit facility and reduce the amount available to the Company under the facility.

12. SENIOR SECURED NOTES

(\$000's)	March 31, 2021	December 31, 2020
US\$125 million 9.0% senior secured notes, due October 5, 2023 ⁽¹⁾	157,150	159,438
US\$50 million 9.0% senior secured notes, due October 5, 2023 ⁽¹⁾	62,860	63,775
Finance fees deferred	(2,573)	(2,831)
	217,437	220,382

(1) The U.S. dollar denominated Notes were translated into Canadian dollars at the period end exchange rate of US\$1=CS\$1.2572 (US\$1=CS\$1.2755 at December 31, 2020).

(2) The estimated fair value of the senior secured notes as at March 31, 2021 is estimated at C\$207.4 million based off comparable publicly trade peer instruments (C\$165.7 million at December 31, 2020).

The Company reviewed the terms of the Notes to determine if the prepayment options were embedded derivatives. While the prepayment options meet the definition of an embedded derivative, the Company determined the fair value of the prepayment options was not material and an embedded derivative has not been recorded.

Transaction costs and closing fees on the two issuances totaled C\$7.0 million and are amortized using the effective interest rate method over the life of the Notes, resulting in effective interest rates (including transaction costs) of 9.72% for the US\$125 million tranche and 9.38% for the US\$50 million tranche.

Subject to certain exceptions and qualifications, the Notes have no financial ratio covenants, but they do limit the Company's ability to, among other things: make certain payments and distributions; incur additional indebtedness; issue disqualified or preferred stock; create or permit liens to exist; make certain acquisitions or dispositions; transfer assets; and engage in amalgamations, mergers or consolidations.

13. DECOMMISSIONING LIABILITY

(\$000's)	March 31, 2021
Balance at December 31, 2020	74,545
Liabilities incurred	284
Liabilities settled	(71)
Revision in estimates	140
Accretion expense	195
Reclassification to liabilities held for sale (note 4)	(1,867)
Balance at March 31, 2021	73,226
Current portion	1,000
Long term	72,226

Total future decommissioning obligations were estimated by management based on the expected cost to abandon and reclaim well sites and facilities and the estimated timing of costs to be incurred in future periods. The Company has estimated the total inflated undiscounted amount of cash flows required to settle its obligations at March 31, 2021 to be \$114 million (December 31, 2020 - \$105 million), which will be incurred between 2021 and 2080. The Company used risk-free rates, ranging from 0.99 percent to 1.97 percent (December 31, 2020 - 0.41 percent to 1.24 percent), to calculate the present value of the decommissioning obligation and an average inflation rate of 1.7 percent (December 31, 2020 - 0.9 percent) was used to inflate the costs.

14. PARTICIPATING SPECIAL SHARES ("PSS")

Authorized

Unlimited number of Class A Participating Shares ("PSSA")

1,178,720 Class B Participating Shares ("PSSB")

Unlimited number of Class C Participating Shares ("PSSC")

Unlimited number of Class D Participating Shares ("PSSD")

Unlimited number of Class E Participating Shares ("PSSE")

Total Participating Shares

As at March 31, 2021, Velvet had drawn on all of the PSS commitments for total proceeds of \$704 million (December 31, 2020 - \$704 million). There are no undrawn PSS commitments remaining.

Conversion

Upon the occurrence of specified liquidation events, holders of the PSSD, PSSE, PSSC and PSSA are entitled to convert the PSS into Class A Common Shares of the Company, or Class C Common Shares (in the case of holders of PSSD) based on the purchase

price of the PSS plus the accrued, but unpaid, coupon (the "Accreted Value"). PSSD & PSSE convert the principal in priority to PSSC, PSSA and PSSB and then convert the accrued, but unpaid, coupon in priority to PSSC, PSSA and PSSB. Assets, if any, remaining after conversion of liquidation preferences into Class A or Class C Common Shares ("Remaining Liquidation Proceeds") are distributed pro rata among holders of Class A Common Shares, Class B Common Shares, Class C Common Shares and the PSS on an as-converted basis. PSSD, PSSE and PSSC's were priced at \$13.75 per share, representing a value increase of \$3.75 over the \$10.00 issue price for PSSA and PSSB. To properly reflect this increase in value, upon distribution of the Remaining Liquidation Proceeds, the value attributed to Class A and Class C Common Shares converted from PSSD, PSSE and PSSC will be effectively reduced by this \$3.75 value increase.

PSSD, PSSE, PSSC and PSSA convert the principal in priority to PSSB, and then convert the accrued, but unpaid, coupon in priority to PSSB's.

Upon the occurrence of specified liquidation events, PSSB are automatically converted into Class A common shares at the stated purchase price of the PSS plus the accrued, but unpaid, coupon (the "Accreted Value") but are subordinate to the PSSD, PSSE, PSSC and PSSA as described above.

Each PSSD, PSSE, PSSC and PSSA is entitled to vote alongside Class A common shares on an as-converted basis described above. The PSSB are entitled to vote as a group, on all matters that would not otherwise adversely affect them vis a vis the rights of PSSA shareholders.

('000's)	Balance at Dec. 31, 2020		Issued		Balance at Mar. 31, 2021		Accrued Coupon	Accreted value at Mar. 31, 2021
	# of shares	Amount	# of shares	Amount	# of shares	Amount	Amount	Amount
PSSA	33,416	\$ 334,159	-	-	33,416	\$ 334,159	\$ 266,698	\$ 600,857
PSSB	1,179	\$ 11,787	-	-	1,179	\$ 11,787	\$ 11,472	\$ 23,259
PSSC	7,265	\$ 99,895	-	-	7,265	\$ 99,895	\$ 38,392	\$ 138,287
PSSD	16,364	\$ 225,000	-	-	16,364	\$ 225,000	\$ 53,316	\$ 278,316
PSSE	2,399	\$ 32,992	-	-	2,399	\$ 32,992	\$ 5,389	\$ 38,381
	60,623	\$ 703,833	-	-	60,623	\$ 703,833	\$ 375,267	\$1,079,100

The accreted value represents the amount that would be attributable to PSS if, and only if, proceeds on liquidation were sufficient to cover the total accreted value of PSSD, PSSE, PSSC, PSSA and PSSB. The value in excess of the total accreted value would represent the remaining liquidation proceeds, and the PSS would participate, along with other common shares and options as described above. If proceeds on liquidation were less than the total accreted value, or the total principal contributed, the priority calculation above would determine the amounts attributable to each class of PSS.

Valuation

The Company measures the fair value of the participating special shares (Level 3) by determining a fair value range for the Company's oil and natural gas assets, adjusted for debt, adjusted for working capital, and other corporate factors, to determine an estimated "net asset value". The value is then allocated to the PSS, including the embedded derivative, in accordance with the terms of the PSS priority calculation. The value of oil and gas assets are determined by valuing reserves using the present value of the estimated future after-tax cash flows risked by reserve category at a range of discount rates and undeveloped land value is based on estimated market value. The Company also considered recent market transactions and share price trends for public peer companies.

The following table summarizes the fair value changes to the Level 3 financial instruments:

(\$000's)	March 31, 2021
Balance, beginning of period	105,000
Fair value adjustment through profit and loss	95,000
Balance, end of period	200,000

The following discount rate and pricing assumptions were used in determining the fair value range:

(\$000's)	March 31, 2021	December 31, 2020
Discount Rate Assumptions	16% - 22%	16% - 21%
Sensitivity to 1% change in discount rate	34,000	32,000

March 31, 2021	2021	2022	2023	2024	2025	2026	2027	2028	2029	Thereafter
WTI (US\$/bbl)	\$59.67	\$57.41	\$55.62	\$56.74	\$57.87	\$59.03	\$60.21	\$61.42	\$62.64	+2% / year
Edmonton Light Crude Oil (C\$/bbl)	\$69.68	\$67.21	\$65.03	\$66.33	\$67.66	\$69.01	\$70.40	\$71.80	\$73.24	+2% / year
AECO Gas (C\$/MMbtu)	\$2.70	\$2.73	\$2.66	\$2.71	\$2.76	\$2.82	\$2.88	\$2.93	\$2.99	+2% / year
NYMEX Henry Hub (US\$/MMbtu)	\$2.77	\$2.87	\$2.90	\$2.96	\$3.02	\$3.08	\$3.14	\$3.20	\$3.26	+2% / year
Exchange Rate (US\$/C\$)	\$0.792	\$0.787	\$0.780	\$0.780	\$0.780	\$0.780	\$0.780	\$0.780	\$0.780	\$0.780

15. SHARE CAPITAL

(a) Authorized

An unlimited number of Class A common shares without nominal or par value

An unlimited number of Class B common shares without nominal or par value

An unlimited number of Class C common shares without nominal or par value

Class A common shares

Class A common shares are voting. There are no Class A common shares currently outstanding.

Class B common shares

Class B common shares participate equally with Class A common shares upon distribution of any of the Company's assets, but do not carry voting rights.

The Company is authorized to issue 4,195,000 Founder's shares that participate equally with all other Class A, Class B and Class C common shares in asset distributions upon liquidation, if any, in excess of the accreted amount available in priority to the PSS. Founder's shares are Class B common shares that vest over a period of four years ("Time Vesting") and in proportion to the aggregate amount of PSSA issued pursuant to funding commitments ("Dollar Vesting").

Each Founder's share will Time Vest at a rate of 20 percent per annum, with the first 20 percent vesting at the date of grant and 20 percent on each anniversary date of the grant thereafter. Each Founder's share will also Dollar Vest at various stages and in proportion to the aggregate amount of the PSSA issued pursuant to its funding commitments. Accelerated time vesting may occur in certain liquidation situations in order to deem all Founder's share as Time Vested; however, Dollar Vesting cannot be accelerated in most liquidation situations and Dollar Vesting is capped at a maximum, being the aggregate amount of PSSA issued in proportion to the PSSA funding commitment. All Founder's shares are Time and Dollar vested.

Class C common shares

Class C common shares are voting. There are no Class C common shares currently outstanding.

(b) Issued and Outstanding

(000's)	Founder's Shares		Exercised Options		Total Class B common shares	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance at December 31, 2020	3,442	\$ 34	251	\$ 529	3,693	\$ 596
Balance at March 31, 2021	3,442	\$ 34	251	\$ 529	3,693	\$ 596
Time Vested Shares	3,442		251		3,693	

Founder's options

Founder's shares repurchased may be re-issued at the greater of cost or fair market value ("FMV"). In 2015, an Option Plan was created to provide for the deferral of the purchase price of these Founder's shares, aligning them with stock options. Terms and conditions of these options are similar in all respects to the Company's Stock Options. Founder's shares re-issued under this revised option plan will be referred to as Founder's options. All Founder's options are fully dollar vested.

No Founder's shares or Founder's options were issued during the three months ended March 31, 2021 and March 31, 2020 and no Founder's options were exercised during the three months ended March 31, 2020.

(000's, except price)	Number of shares	Weighted Average Exercise Price
Balance December 31, 2020	333	\$ 2.77
Founder's options forfeited	(7)	\$ 2.16
Issued and outstanding balance March 31, 2021	326	\$ 2.78
Time Vested Options	325	
Founder's options available for issue	402	

Stock options

The Company has established a stock option plan whereby officers, directors, employees, and providers of services may be granted options to purchase Class B Common Shares as approved by the Board of Directors. Stock options are subject to vesting. Each option will Time Vest at a rate of 20 percent per annum with the first 20 percent vesting at the date of the grant and 20 percent on each anniversary date of the grant thereafter. Each option will also Dollar Vest at various stages and in proportion to the aggregate amount of the PSS issued pursuant to its funding commitments. Accelerated time vesting may occur in certain liquidation situations in order to deem all stock options as Time Vested; however, Dollar Vesting cannot be accelerated in most liquidation situations and Dollar Vesting is capped at a maximum, being the aggregate amount of PSS issued in proportion to the respective PSS funding commitment. There are no outstanding PSS draws available under any of the classes of PSS, and therefore, all options are considered fully Dollar Vested.

(000's)	\$2.00 Option	\$3.75 Option	\$10.00 Option	\$17.50 Option
Issued and outstanding at December 31, 2020	1,635	2,725	3,655	374
Stock Options forfeited	(48)	(108)	(139)	(108)
Issued and outstanding at March 31, 2021	1,587	2,617	3,516	266
Time Vested Options	1,587	1,840	2,972	265
Options available for issue	119	684	208	1,362
Total exercised March 31, 2021	337	7	-	-

Compensation costs attributable to Founder's shares, Founder's options and stock options granted to employees or directors are measured at fair value at the grant date and expensed over the expected vesting time frame with a corresponding increase to contributed surplus. The fair value of each Founder's share, Founder's option and stock options granted is estimated, on the date of grant, using the Black-Scholes option pricing model.

There were no stock options granted during the three months ended March 31, 2021.

The following stock options were granted during the three months ended March 31, 2020:

Stock options granted	Exercise price	Fair value
329,000	\$ 3.75	\$ 1.69
14,500	\$ 10.00	\$ 0.76

The options granted during the three months ended March 31, 2020 used the following weighted average assumptions in the Black-Scholes option pricing model: a weighted average share price of \$3.75 per share, expected volatility of 58.71%, risk-free interest rate of 0.74% and expected life of four years.

For the three months ended March 31, 2021, share-based compensation expense of \$0.1 million (March 31, 2020 - \$0.3 million) relating to Founder's shares, Founder's options and stock options was recorded with an offsetting credit to contributed surplus.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Risks associated with financial assets and liabilities

Credit risk

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. The exposure to the Company primarily relates to cash and cash equivalents, accounts receivable and risk management assets. Substantially all of the accounts receivables are with customers and joint venture partners in the oil and gas industry and are subject to current industry credit risks. Risk management contracts are held primarily by members of the banking syndicate.

The Company's credit risk consisted of the following:

(\$000's)	March 31, 2021	December 31, 2020
Cash on account with a Chartered bank	720	2,934
Crude oil and natural gas marketers	34,042	29,901
Joint venture partners	11,160	6,601
Government receipts (GST & GCA)	1,965	355
Chartered banks – realized risk management contracts	2,527	6,201
Chartered banks – unrealized risk management contracts	9,231	21,171
	59,645	67,163

The Company generally extends unsecured credit to customers from the sale of petroleum and natural gas production, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with reputable counterparties and partners with which they have previous relationships and marketing entities that have investment grade credit ratings. Receivables from commodity purchases and marketing companies are typically collected on the 25th day of the month following delivery and within one to three months following billing for joint interest receivables. Receivables from risk management contracts held with banking counterparties are typically collected by the 5th day of the month following settlement. Balances of accounts receivable outstanding for more than 90 days typically relate to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures and in certain circumstances may require cash call advances from its partners prior to the commencement of capital projects.

Velvet applies the simplified approach to providing for expected credit losses ("ECL") as prescribed under IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. The Company uses a combination of historical and forward-looking information to determine the appropriate loss allowance provision. As at March 31, 2021, \$2.5 million of accounts receivable are past due, all considered to be collectible (December 31, 2020 – \$3.2 million). The lifetime ECL allowances related to Velvet's commodity product sales receivable and joint venture receivables were \$0.5 million as at, and for the three months ended, March 31, 2021 (as at, and for the three months ended March 31, 2020 – \$0.5 million) and was not recognized.

Global events have had, and are expected to continue to have, a significant impact on companies and their credit risk. The Company has considered the impact of the COVID-19 global pandemic (refer to note 3) and the resulting impact on commodity prices on the expected credit loss of the Company and has incorporated these factors into its assessment of expected credit losses at March 31, 2021.

The Company's accounts receivable was aged as follows:

(\$000's)	March 31, 2021	December 31, 2020
Current (Less than 90 days)	47,237	39,879
Past due (90 days to one year)	2,457	3,179
	49,694	43,058

Subsequent to March 31, 2021, \$1.7 million of past due amounts has been collected and the remaining balance is considered to be collectible.

The Company's risk management contracts are mainly financial in nature and are held with four financial institutions. Velvet's cash is held on account with one of these banks. The Company is confident that the credit rating of these banks supports the balance of transactions with them. The long-term portion of risk management contracts represents the net mark-to-market asset at March 31, 2021 for contracts with a term extending beyond March 31, 2022.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The impacts of the COVID-19 global pandemic, the resulting decreases in commodity prices, and changes to the Company's credit facility have increased the liquidity risk of the Company. The Company manages its liquidity risk through continuous monitoring of its cash flows from operating activities, review of the capital expenditure program, managing maturity profiles of financial assets and financial liabilities, maintaining sufficient capacity in the revolving credit facility and managing its commodity price risk management program. These activities ensure, as reasonably as possible, that the Company will have sufficient liquidity to meet its financial obligations when due, without incurring unacceptable losses. All material financial liabilities of the Company are estimated to be settled within one year of the balance sheet date except for the long-term portion of the bank loan, senior secured notes, some risk management contracts, lease liabilities and other liabilities.

The Company's credit facility is subject to a borrowing base review at any time. There are no assurances that the credit facility size or terms will remain the same at the next borrowing base review. The borrowing base is dependent on the value of the Company's reserves, as determined by independent reserve evaluators and bank commodity price assumptions. Changes in factors affecting reserves including production rates, commodity prices and production costs could affect the value of the borrowing base and the type, size and terms of the credit facility. If the borrowing base were to be redetermined at an amount lower than the total outstanding draws, a borrowing base shortfall would result, and a borrowing base shortfall notice could be issued at the discretion of the banks. Upon receipt of the borrowing base shortfall notice, the Company would be required to repay the amount of the shortfall within 30 days or remedy the shortfall through other sources of security acceptable to all banks. A shortfall would also result in an increase of 200 basis points (two percent) to the Company's borrowing rate for the duration of the shortfall. If the shortfall was not satisfactorily resolved within 30 days, an event of default would result, and the banks could request repayment of the entire loan balance. If a borrowing base shortfall were to occur the Company could address it through several means including but not limited to the disposition of assets, expansion of the banking syndicate to include government assistance programs through Export Development Canada, obtaining alternative financing related to the Company's facilities infrastructure, by selling off freehold royalty rights on our lands and existing production base, or by seeking external sources of equity.

The Company was required to reduce the non-conforming facility by \$25 million by April 30, 2021. On February 17, 2021, the Company used proceeds from the Simonette disposition to pay \$0.8 million of the non-conforming facility and the remainder of \$24.2 million was paid subsequent to period end on April 30, 2021.

The Company's senior secured notes are not repayable until October 5, 2023 and are not dependent on the Company's reserves value. While they are subject to certain exceptions and qualifications, the notes have no financial ratio maintenance covenants. An event of default, from non-payment of interest on the notes or the triggering of an event of default under the syndicated credit facility, could result in an early request for repayment of the principal and outstanding interest on the notes.

With the significant increase in crude oil prices subsequent to year end 2020, prudent management of its capital expenditures, and ongoing discussions with its syndicate of lenders and their continued support, the Company believes that it will have sufficient liquidity to execute a constrained capital program focused on sustaining production and reducing debt. The Company continues to pursue additional equity or asset sales to improve its liquidity and reduce debt levels (see note 23).

The Company's lease liabilities consist of contracts related to office space and drilling equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions and include extension options where the Company has the right to extend the lease term at its discretion. These contracts do not contain any covenants.

The following are contractual maturities of financial liabilities as at March 31, 2021:

(\$000's)	1 year	2-6 years
Accounts payable and accrued liabilities	75,117	-
Risk management contracts	74,151	32,232
Lease liabilities ⁽¹⁾	2,787	4,681
Other liabilities ⁽²⁾	4,025	7,003
Bank loan	24,250	174,822
Interest on bank loan	9,296	1,554
Senior secured notes ⁽³⁾	-	217,437
Interest on senior secured notes ⁽³⁾	19,801	30,000

(1) Amounts reflect undiscounted cash outflows related to future lease payments

(2) Includes interest charges on the Karr disposal well within other liabilities

(3) Principal and interest payments are calculated using the period end foreign exchange rate of US\$1 = C\$1.2572

The long-term portion of risk management contracts represents the net mark-to-market liability at March 31, 2021 for contracts with a term extending beyond March 31, 2022.

The following were contractual maturities of financial liabilities as at December 31, 2020:

(\$000's)	1 year	2-6 years
Accounts payable and accrued liabilities	57,829	-
Risk management contracts	40,660	39,521
Lease liabilities ⁽¹⁾	3,046	4,681
Other liabilities	2,241	3,043
Bank loan	25,000	184,811
Interest on bank loan	10,629	4,397
Senior secured notes ⁽²⁾	-	220,382
Interest on senior secured notes ⁽²⁾	20,089	35,390

(1) Amounts reflect undiscounted cash outflows related to future lease payments

(2) Principal and interest payments were calculated using the December 31, 2019 period end foreign exchange rate of US\$1 = C\$1.2755

Interest rate risk

The Company is exposed to fluctuations in interest rates on its bank debt. Velvet is charged interest on its bank debt at Prime, or Banker's Acceptance rates, plus an applicable margin. Interest rate risk arises from changes in market interest rates that may affect the future cash flows from the Company's financial assets or liabilities. Interest rate risk is mitigated through short-term fixed rate borrowings using banker's acceptances. If interest rates applicable to floating rate debt were to have increased by 25 basis points (0.25 percent), the Company's annual net income before tax would have decreased by approximately \$0.5 million, based on the outstanding debt balance on March 31, 2021. The interest rate on senior secured notes coupon payment is fixed and is not subject to fluctuations from changes in market interest rates.

Commodity price risk

Due to the volatility of commodity prices, the Company is exposed to the adverse consequences of declining prices. The impacts of the COVID-19 global pandemic have significantly increased the volatility of commodity prices and the commodity price risk of the Company. Velvet may enter into future related oil and natural gas contracts in order to protect its cash flows from such consequences. The contracts reduce the fluctuation in sales revenue by locking in, or setting a minimum on, prices related to future production of light oil, natural gas liquids and natural gas. The use of these risk management contracts is subject to maximum limits established by the Board of Directors, the Credit Agreement and Senior Secured Notes Indenture hedge provisions.

Risk Management Contracts

The following tables summarize the average liquids and natural gas volumes associated with Velvet's risk management contracts in place as at March 31, 2021 with a mark-to-market liability of \$81.5 million.

Risk Management Contract Summary ⁽¹⁾						
Period	Oil and Condensates					
	US\$ WTI Short Swaps ⁽³⁾		US\$ MSW – WTI Swaps ^{(2) (3) (4)}		US\$ C5 - WTI Swaps ⁽²⁾	
	Volume (bb/d)	(US\$/bbl)	Volume (bb/d)	(US\$/bbl)	Volume (bb/d)	(US\$/bbl)
Q2 2021	7,330	\$ 41.71	4,000	(\$ 4.71)	1,000	(\$ 0.65)
Q3 2021	6,337	\$ 47.83	4,000	(\$ 4.71)	1,000	(\$ 2.26)
Q4 2021	5,250	\$ 49.69	4,000	(\$ 4.71)	1,000	(\$ 2.26)
Q1 2022	4,750	\$ 49.71	-	-	-	-
Q2 2022	4,000	\$ 49.74	-	-	-	-
Unrealized Liability (000's)		(31,258)		(1,786)		(212)

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

(2) Represent short positions

(3) WTI swaps are settled based on the WTI calendar month average

(4) MSW swaps are settled based on the monthly index benchmark pricing of the settlement month

Risk Management Contract Summary ⁽¹⁾				
Period	Natural Gas			
	US\$ NYMEX Henry Hub Swaps/Collars ⁽²⁾⁽⁵⁾		US\$ NYMEX – AECO Basis Swaps ⁽⁵⁾⁽⁷⁾	
	Volume (mmbtu/d)	Floor – Ceiling ⁽⁶⁾ (US\$/mmbtu)	Volume (mmbtu/d)	(US\$/mmbtu)
Q2 2021	71,593	\$ 2.67 - \$ 2.75	85,000	(\$ 1.22)
Q3 2021	65,000	\$ 2.68 - \$ 2.77	85,000	(\$ 1.22)
Q4 2021	68,315	\$ 2.72 - \$ 2.98	85,000	(\$ 1.22)
Q1 2022	70,000	\$ 2.74 - \$ 3.08	85,000	(\$ 1.13)
Q2 2022	55,000	\$ 2.70 - \$ 2.81	85,000	(\$ 1.13)
Q3 2022	55,000	\$ 2.70 - \$ 2.81	85,000	(\$ 1.13)
Q4 2022	35,109	\$ 2.86 - \$ 2.89	85,000	(\$ 1.15)
Q1 2023	26,389	\$ 2.78 - \$ 2.78	85,000	(\$ 1.13)
Q2 2023	10,000	\$ 2.65 - \$ 2.65	85,000	(\$ 1.09)
Q3 2023	10,000	\$ 2.65 - \$ 2.65	85,000	(\$ 1.08)
Q4 2023	10,000	\$ 2.65 - \$ 2.65	85,000	(\$ 1.08)
Unrealized Asset (Liability) (000's)		4,222		(52,443)

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

(2) Represent short positions

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

(6) Floor and ceiling represent the average strike price of swaps sold, puts purchased, and calls sold

(7) Represents net amount of short and long basis positions. Amounts are contracted to AECO 7A. Velvet also enters into offsetting AECO 5A/7A swaps to match financial transactions to actual physical sales. These are typically entered 1 to 2 months in advance. These had an unrealized asset value of \$1 thousand at March 31, 2021, which was included in the Basis swap total.

The risk management contracts are financial in nature, meaning that the Company does not actually deliver the volumes of commodities contracted. Depending on the level of natural gas and crude oil benchmark prices for the period, relative to the fixed price, the Company will either make payment to its counterparties or receive payment from its counterparties, relating to the difference in prices.

Due to changes in the fair value of risk management contracts in place at March 31, 2021, the Company assesses the impact of changes in commodity prices on net income before tax, with all other variables held constant. The following table demonstrates the impact of changes in commodity pricing on net income before tax, from risk management contracts in place as at March 31, 2021:

(\$000's)		Change in price/ differential	Positive movement	Negative movement
US\$ WTI	US\$/bbl	+/- \$ 5.00	(15,597)	15,597
US\$ NYMEX HH	US\$/mmbtu	+/- \$ 0.25	(12,192)	12,600
NYMEX HH-AECO Basis ⁽¹⁾	US\$/mmbtu	+/- \$ 0.10	(10,498)	10,498
MSW differential ⁽¹⁾	C\$/bbl	+/- \$ 1.00	(1,361)	1,361
C5 differential ⁽¹⁾	C\$/bbl	+/- \$ 1.00	(340)	340

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

Foreign Exchange Risk – Senior secured notes

The Company is further exposed to the risk of changes in the Canadian/U.S. dollar exchange rate on its senior secured notes, as the principal payments, due on October 5, 2023, and its quarterly interest payments are denominated in U.S. dollars. The Company had entered into risk management contracts to fix the exchange rate on the full principal amount as at January 31, 2022.

The following table summarizes the foreign exchange risk management contracts related to principal payments as at March 31, 2021:

Foreign Exchange Contracts related to Principal Payments			
Term	Amount (US\$)	C\$/US\$	Type (Buy/Sell)
Currency Rate Swaps – Principal payments			
January 2022	\$ 175 million	1.3469	Buy U.S. dollars
Unrealized Liability (000's)			(\$ 15,675)

When assessing the potential impact of the movement in foreign exchange rates, the Company believes \$0.05 volatility in Canadian to U.S. dollar exchange rate is a reasonable measure. An increase or decrease of \$0.05 in the Canadian/U.S. dollar exchange rate would result in a change of \$8.6 million to the unrealized gain or loss on foreign exchange commodity risk management contracts and related currency rate swap contracts on principal payments.

Total risk management

The Company has recorded the following gains and losses on risk management contracts:

(\$000's)	Three months ended March 31,	
	2021	2020
Realized gain (loss)		
Commodity contracts	(19,087)	12,038
Foreign exchange contracts (note 17)	-	32,379
Total realized gain (loss)	(19,087)	44,417
Unrealized gain (loss)		
Commodity contracts	(35,095)	103,973
Foreign exchange contracts (note 17)	(3,047)	4,906
Total unrealized gain (loss)	(38,142)	108,879
Total Risk Management gain (loss)	(57,229)	153,296

The net assets related to the transactions above have been recorded on the balance sheet as follows:

As at March 31, 2021

(\$000's)	Current	Long term	Total
Assets	4,579	4,652	9,231
Liabilities	(74,151)	(32,232)	(106,383)
	(69,572)	(27,580)	(97,152)

As at December 31, 2020

(\$000's)	Current	Long term	Total
Assets	14,964	6,207	21,171
Liabilities	(40,660)	(39,521)	(80,181)
	(25,696)	(33,314)	(59,010)

(b) Capital management

Velvet's primary sources of capital are cash flow, PSS equity issuances, term debt and its syndicated credit facility.

The Company continually monitors its capital structure and makes necessary adjustments in light of a combination of its drilling results, the general economic conditions in the petroleum industry and global events that may affect commodity prices. The objective in managing capital is to continue future development of the Central Alberta and Northwest Alberta lands and exploratory activities with a prudent mix of debt and equity, in order to provide the Company flexibility in future financings at a competitive cost of capital.

Capital funding and financing plans and targets are set by management based on expected development programs and forecasted financial results for the business and are approved by the Board of Directors on an annual basis. Periodically, management revises the development plan and capital program, which is also approved by the Board of Directors.

The following is a breakdown of the Company's capital structure:

(\$000's)	March 31, 2021	December 31, 2020
Current assets	60,243	64,221
Current liabilities (excluding PSS and bank debt)	(158,957)	(105,217)
Working capital deficit	(98,714)	(40,996)
Bank debt	(199,072)	(105,000)
Senior secured notes	(217,437)	(209,811)
Participating special shares	(200,000)	(220,382)
Shareholders' equity	83,391	(77,327)
	(533,118)	(612,520)

17. FOREIGN EXCHANGE GAIN (LOSS)

(\$000's)	Three months ended March 31,	
	2021	2020
Unrealized gain (loss) on FX contracts – Senior Secured Notes	(3,047)	4,906
Unrealized gain (loss) on revaluation - Senior Secured Notes	3,239	(20,476)
Realized gain on FX contracts – Senior Secured Notes	-	14,008
Realized gain on FX contracts – Interest	-	522
Realized gain on FX contracts – LIBOR loans	-	17,849
Realized loss on revaluation - LIBOR loans	-	(17,989)
Realized gain (loss) – other	(8)	220
Total foreign exchange gain (loss)	184	(960)

18. REVENUE

Velvet generates revenue through sales contracts with customers primarily through the transfer of commodities at a point in time, representing the following major product types:

(\$000's)	Three months ended March 31,	
	2021	2020
Oil and condensates	49,838	40,312
Natural gas	26,478	20,407
NGLs	13,271	5,403
Total petroleum and natural gas sales	89,587	66,122
Sales of commodities purchased from third parties	1,798	2,996
Processing revenue	1,095	1,254
Pipeline transportation revenue (note 19)	3,195	5,946
	95,675	76,318

As at March 31, 2021, receivables from contracts with customers, which are included in accounts receivable, were \$34.0 million (December 31, 2020 – \$29.9 million).

In circumstances where Velvet is the principal to transportation arrangements, natural gas sales include revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at the sales delivery point where title transfer takes place. For the three months ended March 31, 2021, transportation costs incurred in relation to these contracts were \$2.2 million (March 31, 2020 – \$2.8 million).

19. PIPELINE TRANSPORTATION REVENUE AND EXPENSE

Pipeline transportation revenue represents the margin generated from the Company's buy/sell arrangement with an international oil marketer, where barrels are purchased in Flanagan, Illinois and sold at Cushing, Oklahoma on the Spearhead pipeline. Pipeline transportation expense represents the contracted cost for Velvet to transport its allocated volumes, subject to apportionment by the pipeline operator, on the Spearhead pipeline.

(\$000's)	Three months ended March 31,	
	2021	2020
Pipeline transportation revenue	3,195	5,946
Pipeline transportation expense	(2,619)	(2,731)
Pipeline transportation Margin	576	3,215

20. INCOME TAXES

During the second quarter of 2019, the Alberta government enacted new legislation to reduce the provincial corporate tax rate from 12 percent to eight percent by reducing the provincial corporate tax rate by one percent every year on January 1st from 2020 to 2022. On June 29, 2020 Alberta announced the previously scheduled rate reduction will be accelerated with the Alberta rate reducing to eight percent effective July 1, 2020. This new legislation was enacted on October 20, 2020.

For the period ended March 31, 2021, the federal corporate tax rate was 15 percent and the Alberta provincial tax rate was 8 percent resulting in a combined rate of 23 percent. For the period ended March 31, 2020, the federal corporate tax rate was 15 percent and the Alberta provincial tax rate was 10 percent resulting in a combined rate of 25 percent.

The Company's income tax recovery differs from the amount that would arise using the annual average tax rate of 23 percent (March 31, 2020 – 25 percent) applied to income for the periods ended March 31, 2021 and 2020 as follows:

(\$000's)	Three months ended March 31,	
	2021	2020
Opening deferred income tax asset	-	101,153
Income tax recovery at statutory rates	(36,990)	121,698
Increase (decrease) resulting from:		
Non-deductible share-based compensation	25	83
Other non-deductible items	(13)	8
Unrecognized capital (gain) loss arising from unrealized FX gains	(368)	2,527
Adjustments to statutory rates	-	4,255
Revaluation of participating special shares	21,850	(177,500)
Change in unrecognized deferred tax asset	15,496	84,336
Deferred income tax expense	-	35,407
Closing deferred income tax asset	-	65,746

21. COMMITMENTS

The Company's remaining commitments have been summarized in the table below as at March 31, 2021:

(\$000's)	2021	2022	2023	2024	2025	2026+	Total
Gas Transportation	9,356	8,284	7,867	8,670	8,622	13,665	56,464
Liquids Transportation ⁽¹⁾	20,565	40,984	42,700	22,503	11,917	12,365	151,034
NGL Fractionation	1,109	1,472	1,441	1,425	1,421	6,040	12,908
Processing Fee	7,770	10,541	5,302	146	81	-	23,840
Capital commitment ⁽²⁾	3,476	-	-	-	-	-	3,476
	42,276	61,281	57,310	32,744	22,041	32,070	247,722

(1) Liquids Transportation includes \$51.4 million (US\$40.2 million) related to the Spearhead pipeline commitment and \$31.7 million (US\$25.1 million) related to the Flanagan south pipeline. Velvet has provided the operator a US\$7.3 million (CA\$9.7 million) Letter of Credit as security under the Spearhead pipeline agreement (refer to note 19) and US\$8.9 million (CA\$11.8 million) Letter of Credit as security under the Flanagan south pipeline agreement. Also includes \$68.0 million related to upstream oil and NGL transportation contracts.

(2) Capital commitment includes a \$3.5 million commitment to repay pipeline expansion capital to a counterparty on July 1, 2021, if terms of a facility expansion agreement are not agreed to. There is the ability to delay the payment and decision date to January 1, 2022 by drilling and bringing on production two wells behind a specific facility prior to June 30, 2021.

During the first quarter of 2021, Velvet completed a natural gas transportation capacity assignment swap with an industry counterparty for a fee of \$1.2 million paid over three years. The swap shortens Velvet's commitment terms of various contracts to March 2022, as well as changing the location of service, thereby mitigating an estimated \$23.0 million of future gas transportation commitments. The full \$1.2 million was recognized as transportation expense in the first quarter, with an offsetting accrued liability, including \$0.9 million considered long term that was included in the long term other liabilities balance (note 10).

(\$000's)	2021	2022	2023	2024	2025	2026+	Total
Gas Transportation	(772)	(3,032)	(3,146)	(3,052)	(3,046)	(9,977)	(23,025)
Payment	304	300	604	-	-	-	1,208
Net impact	(468)	(2,732)	(2,542)	(3,052)	(3,046)	(9,977)	(21,817)

22. SUPPLEMENTAL CASH FLOW DISCLOSURE

(a) Changes in non-cash working capital, excluding acquired working capital:

(\$000's)	Three months ended March 31,	
	2021	2020
Accounts receivable	(6,636)	1,729
Prepaid expenses and other	(232)	(1,696)
Accounts payable and accrued liabilities	17,289	2,890
	10,421	2,923

Relating to:

Operating activities	8,538	(2,986)
Investing activities	1,883	5,909
	10,421	2,923

(b) Change in long term deposits, other, and accrued liabilities - operating activities:

(\$000's)	Three months ended March 31,	
	2021	2020
Long term deposits and other	-	(2,929)
Long term accrued liabilities (note 10)	904	-
	904	(2,929)

(c) Changes in liabilities arising from financing activities:

(\$000's)	Lease Liabilities	Other Liabilities	Bank Loan	Senior Secured Notes	Participating Special Shares
Balance at December 31, 2020	7,244	5,284	209,811	220,382	105,000
Cash items:					
Finance lease principal payments	(427)	-	-	-	-
Other Financing	-	3,943	-	-	-
Repayment of bank loan	-	-	(10,750)	-	-
Long term accrued liabilities	-	904	-	-	-
Non-cash items:					
Unrealized foreign exchange gain	-	-	-	(3,202)	-
Finance lease liabilities	24	-	-	-	-
Deferred / (amortized) financing costs	-	(542)	11	257	-
Revaluation of PSS	-	-	-	-	95,000
Balance at March 31, 2021	6,841	9,589	199,072	217,437	200,000

23. SUBSEQUENT EVENTS

a) Edson Disposition

Subsequent to period end, the Company had received an unsolicited offer from an industry partner for its Edson assets within the Central Alberta area ("Edson assets"), for a total sales price of \$130.9 million, net of estimated purchase price adjustments. On May 14, 2021, the Company's Board of Directors approved the disposition of the Edson assets, and the sale subsequently closed on June 30, 2021. During the period ended March 31, 2021, the Company's Edson assets contributed operating revenue of \$21.4 million (\$15.2 million – period ended March 31, 2020), and \$14.0 million of operating revenue and processing income less royalties, operating expense and transportation expense (\$8.3 million – period ended March 31, 2020). Proceeds from the disposition were initially used to pay down the syndicated credit facility.

b) Syndicated Credit Facility

Concurrent with the disposition of the Company's Edson assets on June 30, 2021, the Company completed its spring borrowing base redetermination. The Company's syndicated credit facility was reduced to \$150 million, consisting of a \$135 million senior secure syndicated revolving credit facility and a \$15 million senior secured operating credit facility. There was no non-conforming facility and associated restrictions related to the non-conforming facility were removed.

c) Spartan Delta Corp. Acquisition of Velvet Energy Ltd.

On July 28, 2021, Velvet Energy Ltd. and Spartan Delta Corp ("Spartan") announced a definitive agreement for Spartan to acquire all issued and outstanding shares of Velvet for total consideration of \$371.6 million, consisting of \$355.9 million in cash and 2,962,264 common shares at a deemed issuance price of \$5.30 per common share. The common shares issuable pursuant to the Acquisition will be subject to escrow, releasable in one-sixth increments beginning on the date that is one month following the closing date and continuing every month thereafter.

Concurrent with the execution of the Agreement, holders of more than 90% of the issued and outstanding Velvet Shares have executed letters of transmittal irrevocably accepting Spartan's offer and tendering Velvet Shares under the Acquisition (the "Letters of Transmittal"). Upon all of the conditions of the Acquisition having been satisfied or waived, Spartan will take up and pay for the Velvet Shares deposited under the Acquisition in accordance with the terms of the Agreement and the Letters of Transmittal. The Agreement provides for, among other things, a non-solicitation covenant on the part of Velvet. Closing of the Acquisition is expected to occur on or about August 31, 2021, subject to usual closing conditions and regulatory approvals, including the approval of the TSXV and the approval of the Commissioner of Competition pursuant to the *Competition Act* (Canada).

CERTIFICATE OF THE CORPORATION

Dated: August 10, 2021

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the Provinces of Canada, except Québec.

SPARTAN DELTA CORP.

(signed) "Fotis Kalantzis"
President and Chief Executive Officer

(signed) "Geri Greenall"
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS OF SPARTAN DELTA CORP.

(signed) "Richard F. McHardy"
Director

(signed) "Reginald J. Greenslade"
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: August 10, 2021

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the Provinces of Canada, except Québec.

NATIONAL BANK FINANCIAL INC.

CIBC WORLD MARKETS INC.

(signed) "*Arun Chandrasekaran*"

(signed) "*John Peltier*"

Head of Energy Investment Banking

Executive Director

ATB CAPITAL MARKETS INC.

BMO NESBITT BURNS INC.

TD SECURITIES INC.

(signed) "*Patrick Stables*"

(signed) "*Greg Stadnyk*"

(signed) "*Scott Barron*"

Managing Director

Director

Head of Calgary Investment Banking

EIGHT CAPITAL

(signed) "*Tony Loria*"

Principal, Vice Chairman