

# PALOS

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## Weekly Commentary

Issue No. 26 | JUNE 28, 2021

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## Spartan Delta Corp. – Consolidation, sustainability, and organic growth in the Montney

**Spartan Delta Corp.** (SDE: TSX) is a small cap Canadian exploration and production company currently operating in the Alberta Montney and West Central Deep Basin (Spirit River and Cardium). Spartan's strategy is to identify assets that indicate superior investment and cash flow potential, acquire and develop a diversified portfolio of assets, with the long-term objective of optimizing production, maximizing cash flow and generating sustainable value for shareholders.

On June 22, Spartan Delta announced the acquisitions of two assets in the Gold Creek and Simonette areas of the Montney. The acquisitions add approximately 300 barrels of energy/day (boe/d) in production and roughly 35,000 net acres of Montney rights. The acquisitions are both synergistic and complementary given SDE's existing presence in the region. The 12,000 net acres at Gold Creek are contiguous with current land assets and production will fit into SDE's existing processing system. Simonette adds production that will flow into an existing gas plant. The total cost of the additions was C\$10.5 million.

On the operations front Spartan has realized 25% organic growth, increasing production from 25,000 boe/d to 32,000 boe/d. Operating costs saw a 27% reduction and a successful winter drilling program consisting of 8 new wells with a payout of under 6 months. An additional 9 wells are planned for the second half of 2021, 6 at Spirit River and 3 at Cardium. In the Montney play, 4 new wells are planned at Gold Creek. With infrastructure already in place, production can grow to 20,000 boe/d.

Spartan management is fully committed to sustainability and progressive ESG goals. Solar power generation is used at nearly every pad site and ambitious well **abandonment & reclamation** commitments are in place, many on First Nations lands. Management strives to strengthen working relationships with First Nations, maintain a policy of workforce diversity, and continue its success in generating carbon credits.

The **Palos Income Fund LP** and the **Palos Equity Income Fund** participated in a February financing (\$.4.00/share). The company is managed by a highly experienced and disciplined team with a strong track record. The balance sheet is strong and positions SDE for organic growth as a strategic consolidator and

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operating in one of the most prolific plays in Western Canada. At Friday's close (June 25), SDE shares were trading at \$5.66 for a gain of 41.5%.

**NOTE:** We will be taking our summer break and therefore our next weekly newsletter will be published the week of August 2. Also note, we will continue to send weekly performance updates. From the Palos team, we send you our best wishes for a safe and enjoyable summer holiday season.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$10.05	17.30%
Palos Equity Income Fund - RRSP	PAL101	\$7.48	17.66%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.08	48.13%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$12.59	19.54%
S&P TSX Composite (Total Return with dividends reinvested)			17.57%
S&P 500 (Total Return with dividends reinvested)			14.78%
S&P TSX Venture (Total Return with dividends reinvested)			8.41%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.52%
Canadian Government 10-Year			1.45%
Crude Oil Spot			US \$74.05
Gold Spot			US \$1775.60
US Gov't10-Year/Moody BAA Corp. Spread			188 bps
USD/CAD Exchange Rate Spot			US \$0.8134

<sup>1</sup> Period ending June 25, 2021. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays



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