

# PALOS

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## Weekly Commentary

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## Spartan Delta Corp. Reports Q3 Results – Sixth Straight Record Quarter

**Spartan Delta Corp. (TSX: SDE)** is a Canadian oil and gas exploration and production company based in Calgary, Alberta. Spartan’s high-quality portfolio of producing assets and probable reserves is focused on the Deep Basin play in central Alberta and the Montney play in northwest Alberta. On November 8, Spartan reported three month (Q3) and nine-month operating results for the period ended September 30.

The third quarter represented the sixth consecutive quarter of record results. Production averaging 46,2825 boe/d (barrels of oil equivalent per day) was 17% higher than in Q2/2021 and 76% higher than in Q3/2020. This dramatic growth in production was largely due to the integration of the Velvet Energy and Ferrier acquisitions, which closed in Q3. Combined, these acquisitions added over 732 Montney drilling locations, 440 net sections of Montney land, and approximately 23,000 boe/d in new production. Velvet, formerly a private company with operations in the Montney, contributed seven new wells in Q3 and Spartan’s drill program in the Deep Basin added another eight (net seven).

Adjusted funds from operations (AFFO) were higher by 28% over Q2 and net income of \$126.9 million in Q3 was largely driven by strong commodity pricing, operational excellence and contributions from acquisitions. Debt associated with the Velvet acquisition was repaid with cash, proceeds from the closing of a bought deal, and a revolving credit facility. The balance sheet is strong with total debt around \$480 million. Exploration and development expenditures in FY/2021 have been fully funded with cash from operations and the management’s 3-year plan to grow production and free funds flow is on solid footing. On September 1, SDE shares transitioned to trading on the Toronto Stock Exchange (TSX) from the “junior” focused TSX Venture Exchange (TSX-V).

Spartan is positioning itself to become a major player in the Montney oil and Deep Basin which are two of the most prolific plays in Western Canada. The management team, led by President and CEO Fotis Kalantzis, is highly experienced and respected with a track record of creating value in previous iterations under the Spartan banner (e.g., Spartan Energy, Spartan Oil, and Spartan Exploration). In addition to the “new” Spartan’s achievement in consolidating an impressive portfolio, the company is committed to building a

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sustainable energy company that incorporates progressive ESG principles. This includes Spartan's stated core values of respect, inclusiveness and support for indigenous communities, environmental stewardship, and accountable corporate governance.

In our view, Spartan Delta is well positioned to excel in terms of both financial and operational sustainability. The management team has a track record of success and given the company's presence in two highly valued plays we are confident that the "new" Spartan is well on its way to replicating management's prior success stories. The **Palos Income Fund LP**, the **Palos Equity Income Fund** and the **Palos-Mitchell Alpha Fund** currently own positions in SDE.

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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	\$10.34	25.74%
Palos Equity Income Fund - RRSP	PAL101	\$7.94	25.76%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL213	\$26.92	68.68%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$11.19	34.23%
S&P TSX Composite (Total Return with dividends reinvested)			27.77%
S&P 500 (Total Return with dividends reinvested)			26.20%
S&P TSX Venture (Total Return with dividends reinvested)			16.75%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.56%
Canadian Government 10-Year			1.67%
Crude Oil Spot			US \$80.79
Gold Spot			US \$1,868.50
US Gov't10-Year/Moody BAA Corp. Spread			167 bps
USD/CAD Exchange Rate Spot			US \$0.7968

<sup>1</sup> Period ending November 12th, 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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