# Spartan Energy Corp.
## (formerly Alexander Energy Ltd)
***Financial Statements for the years ended December 31, 2013 and 2012***

## Management's Statement of Responsibility

To the Shareholders of Spartan Energy Corp.:

Management, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, has prepared the accompanying financial statements of Spartan Energy Corp. (formerly Alexander Energy Ltd.) (the "Company"). Financial and operating information presented throughout this report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

MNP LLP was appointed by the Company to conduct an audit of the financial statements so as to express an opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with IFRS.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

"signed"
Richard McHardy
President and Chief Executive Officer

"signed"
Michelle Wiggins
Vice President Finance and Chief Financial Officer

March 19, 2014

# Independent Auditors' Report

To the Shareholders of Spartan Energy Corp.:

We have audited the accompanying financial statements of Spartan Energy Corp. (formerly Alexander Energy Ltd.) (the "Company"), which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial position of Spartan Energy Corp. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

March 19, 2014
Calgary, Alberta

Chartered Accountants

# Spartan Energy Corp.
# (formerly Alexander Energy Ltd.)
**Statements of Financial Position**
**As at December 31,**
**(in thousands of Canadian dollars)**

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash | | $ 10,244 | $ - |
| Accounts receivable | | 1,084 | 1,137 |
| Funds held in trust | 5 | 8,540 | - |
| Prepaid expenses and deposits | | 65 | 63 |
| Financial derivative instruments | 6 | - | 636 |
| | | 19,933 | 1,836 |
| Exploration and evaluation | 7 | 323 | 2,347 |
| Property, plant and equipment | 7 | 29,981 | 28,601 |
| | | $ 50,237 | $ 32,784 |
| **Liabilities and Shareholders' Equity** | | | |
| Current | | | |
| Bank debt | 8 | $ - | $ 11,920 |
| Accounts payable and accrued liabilities | | 1,046 | 1,882 |
| Financial derivative instruments | 6 | 33 | - |
| Current portion of decommissioning obligations | 9 | 134 | - |
| | | 1,213 | 13,802 |
| Decommissioning obligations | 9 | 6,459 | 2,798 |
| | | 7,672 | 16,600 |
| **Shareholders' Equity** | | | |
| Share capital | 11 | 38,999 | 25,054 |
| Warrants | 12 | 14,400 | - |
| Contributed surplus | 14 | 5,546 | 5,743 |
| Deficit | | (16,380) | (14,613) |
| | | 42,565 | 16,184 |
| | | $ 50,237 | $ 32,784 |

SIGNED ON BEHALF OF THE BOARD

Michael Stark, Director

Reginald Greenslade, Director

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

# Spartan Energy Corp.
## (formerly Alexander Energy Ltd.)
**Statements of Comprehensive Income (Loss)**
**For the years ended December 31,**
**(in thousands of Canadian dollars, except per share amounts)**

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Revenue** | | | |
| Oil and natural gas sales | | $ 15,726 | $ 12,076 |
| Royalties | | (2,624) | (1,806) |
| Net revenue | | 13,102 | 10,270 |
| Other income | | - | 624 |
| Realized gain (loss) on financial derivative instruments | 6 | 162 | (56) |
| Unrealized gain (loss) on financial derivative instruments | 6 | (668) | 1,202 |
| | | 12,596 | 12,040 |
| **Expenses** | | | |
| Production and operating | | 3,807 | 3,497 |
| Depletion and depreciation | 7 | 5,645 | 5,061 |
| Impairment of property, plant and equipment | 7 | 692 | 71 |
| Impairment of exploration and evaluation assets | 7 | 1,563 | - |
| General and administrative | | 2,036 | 1,866 |
| Share based compensation | 13 | 70 | 121 |
| Finance expense | 18 | 550 | 604 |
| | | 14,363 | 11,220 |
| **Comprehensive income (loss) for the year** | | $ (1,767) | $ 820 |
| Income (loss) per share, basic and diluted | 17 | $ (0.10) | $ 0.05 |

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

# Spartan Energy Corp.
# (formerly Alexander Energy Ltd.)
**Statements of Changes in Shareholders' Equity**
**For the years ended December 31,**
**(in thousands of Canadian dollars, except number of shares)**

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | **Note** | **Number** | **$** | **Number** | **$** |
| **Share capital** | | | | | |
| Balance, beginning of year | | 15,559,869 | 25,054 | 15,559,869 | 25,054 |
| Common shares issued | 11 | 12,611,621 | 7,567 | - | - |
| Units issued | 11 | 33,721,713 | 5,833 | - | - |
| Share issue costs | 11 | - | (112) | - | - |
| Exercise of stock options | 11 | 248,000 | 657 | - | - |
| Share capital, end of year | | **62,141,203** | **38,999** | **15,559,869** | **25,054** |
| **Warrants** | | | | | |
| Balance, beginning of year | | - | - | 89,670 | 21 |
| Expired | 12 | - | - | (89,670) | (21) |
| Issued | 12 | 33,721,713 | 14,400 | - | - |
| Warrants, end of year | | **33,721,713** | **14,400** | **-** | **-** |
| **Contributed surplus** | | | | | |
| Balance, beginning of year | | - | 5,743 | - | 5,601 |
| Warrants expired | 14 | - | - | - | 21 |
| Exercise of stock options | 14 | - | (267) | - | - |
| Share based compensation | 14 | - | 70 | - | 121 |
| Contributed surplus, end of year | | **-** | **5,546** | **-** | **5,743** |
| **Deficit** | | | | | |
| Balance, beginning of year | | - | (14,613) | - | (15,433) |
| Comprehensive income (loss) for the year | | - | (1,767) | - | 820 |
| Deficit, end of year | | **-** | **(16,380)** | **-** | **(14,613)** |
| Total shareholders' equity, end of year | | - | 42,565 | - | 16,184 |

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

# Spartan Energy Corp.
# (formerly Alexander Energy Ltd.)
**Statements of Cash Flows**
**For the years ended December 31,**
**(in thousands of Canadian dollars)**

| | Note | | 2013 | | 2012 |
|---|---|---|---|---|---|
| **Cash from operating activities:** | | | | | |
| **Comprehensive income (loss) for the year** | | $ | (1,767) | $ | 820 |
| Adjustments for: | | | | | |
| Depletion and depreciation | 7 | | 5,645 | | 5,061 |
| Impairment of property, plant and equipment | 7 | | 692 | | 71 |
| Impairment of exploration and evaluation assets | 7 | | 1,563 | | - |
| Unrealized (gain)/loss on financial derivative instruments | 6 | | 668 | | (1,202) |
| Accretion | 9 | | 54 | | 44 |
| Share based compensation | 13 | | 70 | | 121 |
| Other income | | | - | | (624) |
| | | | 6,925 | | 4,291 |
| Change in non-cash working capital | 16 | | (504) | | 214 |
| **Cash from operating activities** | | | 6,421 | | 4,505 |
| **Cash from (used in) investing activities:** | | | | | |
| Additions to property, plant and equipment and exploration and evaluation assets | 7 | | (3,516) | | (4,060) |
| Change in non-cash working capital | 16 | | (279) | | 146 |
| **Cash used in investing activities** | | | (3,795) | | (3,914) |
| **Cash from (used) in financing activities:** | | | | | |
| Funds held in trust | 5 | | (8,540) | | - |
| Repayment of bank debt | 8 | | (11,920) | | (591) |
| Proceeds from share issuance, net of share issue costs | 11 | | 27,688 | | - |
| Proceeds from exercise of stock options | 13 | | 390 | | - |
| **Cash from (used in) financing activities** | | | 7,618 | | (591) |
| Change in cash | | | 10,244 | | - |
| Cash, beginning of year | | | - | | - |
| Cash, end of year | | $ | 10,244 | $ | - |
| Interest paid | | $ | 457 | $ | 527 |

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

## 1. Reporting entity

Spartan Energy Corp. (formerly Alexander Energy Ltd.) ("Spartan", or the "Company") is an Alberta incorporated TSX Venture exchange listed oil and natural gas exploration and production company whose business activities are focused in Western Canada. The Company has no subsidiaries. The Company's head office address is Suite 1540, 521-3rd Avenue SW, Calgary, Alberta T2P 3T3.

## 2. Basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect at December 31, 2013. The financial statements were authorized for issue by the Board of Directors on March 7, 2014.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for share based payment transactions and certain financial instruments which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) New accounting policies:

On January 1, 2013, Spartan adopted the following new standards and amendments which became effective for annual periods on or after January 1, 2013:

- IFRS 10, "Consolidated Financial Statements", supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard had no impact on the amounts recorded in the Company's financial statements.
- IFRS 11, "Joint Arrangements", whereby joint arrangements are classified as either joint operations or joint arrangements, each with their own accounting treatment. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard had no impact on the amounts recorded in the Company's financial statements.
- IFRS 12, "Disclosure of Interest in Other Entities", combines the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, and associates as well as unconsolidated structured entities. The adoption of this standard had no impact on the Company's financial statements.
- IFRS 13, "Fair Value Measurement", establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard had no impact on the Company's financial statements other than additional disclosure requirements (note 6).
- IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no impact on the Company's financial statements.

## 2. Basis of preparation *(continued)*

- The Company has adopted the amendments to IAS 1, Presentation of Financial Statements, effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to net and other comprehensive income or loss.

(e) Future accounting policies:

- In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by the Company on January 1, 2014 and the adoption will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- In May 2013, the IASB issued IFRIC 21 "Levies," which was developed by the IFRS Interpretations Committee ("IFRIC"). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning on or after January 1, 2014, with earlier adoption permitted. IFRIC 21 will be applied by the Company on January 1, 2014 and the adoption may have an impact on the Company’s accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12 "Income Taxes". The Company is currently assessing and quantifying the effect on its financial statements.
- The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.
- In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. the Company does not employ hedge accounting for its risk management contracts currently in place. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Joint arrangements:

The Company conducts many of its oil and gas production activities through jointly controlled operations and the financial statements reflect only the Company’s proportionate interest in such activities.

## 3. Significant accounting policies *(continued)*

(a) Joint arrangements *(continued)*

Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are structured through joint venture arrangements.

(b) Revenue:

Revenue associated with the sale of crude oil, natural gas, condensate and natural gas liquids (“NGLs”) owned by the Company is recognized when title is transferred from the Company to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas, condensate and NGLs (prior to deduction of transportation costs) is recognized when all of the following conditions have been satisfied:

- the Company has transferred the significant risks and rewards of ownership of the goods to the buyer;
- the Company retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(c) Property, plant and equipment (“PP&E") and exploration and evaluation ("E&E") assets:

(i) Recognition and measurement:

E&E expenditures:

E&E costs, including the costs of acquiring licenses, technical services and studies, and exploration drilling and testing, initially are capitalized as exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cash generating units (“CGUs”) by well, field or exploration area pending determination of technical feasibility and commercial viability. Costs incurred prior to obtaining the legal right to explore are expensed as incurred.

Technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. A review of each lease or field is carried out, in each reporting year, to ascertain whether proved or probable reserves have been discovered. Upon determination of proved or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to PP&E.

PP&E:

All costs directly associated with the development of oil, natural gas and liquids reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning obligations and transfers from exploration and evaluation assets.

### 3. Significant accounting policies *(continued)*

For divestitures of properties, a gain or loss is recognized in the statement of comprehensive income (loss). Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the statement of comprehensive income (loss).

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income or loss as incurred. Such costs generally represent amounts incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in production and operating expenses as incurred.

(iii) Depletion and depreciation

E&E expenditures are not depleted.

The net carrying value of PP&E is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Office equipment is depreciated on a declining balance basis at rates ranging from 20% - 50%. Depreciation rates, useful lives and residual values are reviewed at each reporting date.

(d) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of comprehensive income (loss) in the period in which they are incurred.

## 3. Significant accounting policies *(continued)*

(d) Impairment *(continued)*

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of comprehensive income (loss).

(ii) Non-financial assets:

The Company's PP&E and E&E assets are grouped into CGUs for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company. Geological formation, product type, geography and internal management are key factors considered when grouping the Company's PP&E and E&E assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment. If such indicators exist, an impairment test is performed by comparing the CGUs carrying value to its recoverable amount, defined as the greater of a CGUs fair value less cost to sell and its value in use. Any excess of carrying value over recoverable amount is recognized in the statements of comprehensive income (loss) as an impairment charge.

These calculations require the use of estimates and assumptions. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs to sell. The Company generally estimates fair value less costs to sell using a discounted cash flow model which has a significant number of assumptions. The model uses expected cash flows from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed in note 4 and subject to variability to changes in forecasted commodity prices. The discount rate applied to the cash flows is also subject to management's judgment and will affect the recoverable amount calculated.

Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. These indicators include changes in commodity prices, reserve volumes and discount rates.

The future cash flows are adjusted for risks specific to the asset and discounted using an appropriate discount rate. This discount rate is derived from the pre-tax weighted average cost of capital for the Company's peer group.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive income (loss) in the period in which they are incurred.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been objective evidence of a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying capital asset or project under construction are capitalized and added to the asset or project cost during construction until such time as the asset or project is substantially ready for its intended use. Where funds are specifically borrowed to finance an asset or project, the amount capitalized represents the actual amount of borrowing costs incurred.

## 3. Significant accounting policies *(continued)*

(e) Borrowing costs *(continued)*

Where funds used to finance an asset or project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the year. All other borrowing costs are recognized in the statement of comprehensive income (loss) in the year in which they are incurred.

(f) Share based payments:

The Company has a stock option plan under which the Company grants employees, directors and certain consultants options to purchase common shares of the Company. The Board of Directors has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. All options are equity settled share based compensation plans and all options awarded have a maximum term of five years. Vesting is determined by the Board of Directors.

The Company accounts for its stock options using the fair value method. The options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model. The fair value is charged to comprehensive income (loss) over the vesting year with a corresponding increase to contributed surplus. The Company estimates a forfeiture rate on the grant date based on weighted average historical forfeitures and the rate is adjusted to reflect the actual number of options that actually vest. The expected life of the options granted is estimated, based on the Company's best estimate, for the effects of non-transferability, exercise restrictions and behavioral patterns.

(g) Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value, using a risk-free rate, of management's best estimate of expenditures required to settle the present obligations at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligations. The increase in the provision due to the passage of time is recognized as financing expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash, funds held in trust, accounts receivable, bank debt and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through income or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

**3. Significant accounting policies** *(continued)*

(i) Non-derivative financial instruments *(continued)*

*Financial assets at fair value through income or loss:*

An instrument is classified at fair value through income or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through income or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in income or loss when incurred. Financial instruments at fair value through income or loss are measured at fair value, and changes therein are recognized in the statement of comprehensive income (loss) in the year in which they are incurred.

*Held-to-maturity investments, loans and receivables and other financial liabilities:*

Held-to-maturity investments, loans and receivables, and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Company classifies cash, funds held in trust and accounts receivable as loans and receivables, and classifies accounts payable and accrued liabilities and bank debt as other financial liabilities.

*Available-for-sale financial assets:*

Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (“OCI”), net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in the statements of comprehensive income (loss). Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is a significant or prolonged decrease in the value of the asset. The Company does not classify any assets as available for sale.

(ii) Risk management contracts:

Risk management assets and liabilities are derivative financial instruments classified as fair value through profit and loss unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded at fair value. Instruments are recorded in the statement of financial position as either an asset or liability with changes in fair value recognized in the statement of comprehensive income (loss). Realized gains or losses from financial derivatives related to natural gas and crude oil commodity prices are recognized in gain or loss on financial derivative instruments in the statement of income (loss) as the contracts are settled. Unrealized gains and losses are recognized at the end of each respective reporting period based on the changes in fair value of the contracts.

The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts. Derivative financial instruments are used by Spartan to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. The Company’s policy is not to utilize financial derivative instruments for speculative purposes.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**3. Significant accounting policies** *(continued)*

(i) Financing charges:

Financing charges comprises interest expense on bank borrowings, accretion on decommissioning obligations and accretion of deferred financing charges.

(j) Income tax:

Tax expense comprises current and deferred tax. Tax expense is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of transaction affects neither tax or accounting income or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied when the asset is realized or liability settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Tax is accrued using the tax rate that would be applicable to expected total statement of comprehensive income (loss).

(k) Income (loss) per share:

Basic income (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share is determined by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and warrants.

(l) Flow-through shares:

The Company may finance a portion of its exploration activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation.

The proceeds from the sale of flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the fair market price of the existing shares and the amount the investor pays for the flow-through shares (given no other differences between the securities). A flow-through share liability is recognized for this difference. On a pro-rata basis, the previously recorded flow-through share liability is reduced and is credited to other income on the statement of comprehensive income (loss) as qualifying expenditures are incurred.

## 3. Significant accounting policies *(continued)*

(m) Fair value measurements:

The carrying value of cash, funds held in trust, accounts receivable and accounts payable and accrued liabilities included on the statement of financial position approximate their fair values due to the short-term nature of those instruments and are not included in the hierarchy below. Spartan classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. 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 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of the Company's financial derivative instruments in note 6 is based on forward prices of commodities available in the market place and they are therefore classified as Level 2 financial instruments. The Company has no Level 1 or 3 financial instruments.

## 4. Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can materially differ from these estimates.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

(a) Accounts receivable

Accounts receivable are recorded at the estimated recoverable amount. No allowance was required at December 31, 2013 (December 31, 2012 – nil).

(b) Financial derivative instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage commodity price, foreign currency and interest rate exposures. The fair values of these financial derivative instruments are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty.

## 4. Significant accounting judgments, estimates and assumptions *(continued)*

(c) Oil and gas reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of PP&E properties. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of comprehensive income (loss) as further information becomes available and as the economic environment changes. Depletion and depreciation

Depletion of oil and gas properties is provided using the unit-of-production method and is based on production volumes (before royalties) in relation to total estimated gross proved and probable reserves as determined at year-end by the Company's independent engineers. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion of oil and gas properties including production equipment and facilities, are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the reserves are fully produced. Exploration and evaluation costs are excluded from depletion calculations.

The calculation of the unit-of-production rate of deletion could be impacted to the extent that actual production in the future is different from current forecast production. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in proved and probable reserves.
- Changes in estimates of future development costs.
- The effect on proved and probable reserves of differences between actual production as compared to forecasts as well as commodity price assumptions.
- Unforeseen operational issues.

(d) Exploration and evaluation assets

The decision to transfer assets from E&E to PP&E is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability. The determination of future economic benefits requires judgment and estimates and assumptions may change as new information becomes available.

(e) Cash generating unit

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

### 4. Significant accounting judgments, estimates and assumptions *(continued)*

(g) Impairment indicators

The recoverable amounts of CGUs and individual assets have been determined based on the higher of value in use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. Oil and gas development and production properties are evaluated for impairment by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules. It is possible that oil and gas price assumptions may change which may then impact the estimated life of fields and may then require a material adjustment to the carrying value of E&E assets and property, plant and equipment. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

(h) Decommissioning obligations

Decommissioning obligations will be incurred by the Company at the end of the operating life of certain facilities and properties. Decommissioning obligations are estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation and are inflated to the date of decommissioning of the asset and discounted at a risk-free rate. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(i) Share based payments

The fair value of stock options and warrants granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the options and warrants, the expected volatility of the Company's shares, the expected life of the options and warrants, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options and warrants is based on historical experience and estimates of the holder's behavior. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options and warrants that will be forfeited and the rate is adjusted to reflect the actual number of options and warrants that actually vest.

(j) Deferred taxes

Tax regulations and legislation and the interpretations thereof in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow and the expected settlement amount. As such, there may be a significant impact on the financial statements of future periods.

Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse an analysis of the amount of future taxable statement of comprehensive income (loss), the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that assumptions used in the recoverability assessment change, there may be a significant impact on the financial statements of future periods.

## 5. Funds held in trust

At December 31, 2013 the Company had $8.54 million (December 31, 2012 - $nil) held in a trust account pending the closing of the issuance of units and common shares (note 11). The unit and common share issuance closed on December 27, 2013 however the funds were not transferred to the Company until January 2014.

## 6. Financial instruments

**Risk Management**

The main financial risks affecting the Company are as follows:

(a) Credit Risk

Credit risk is the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production and the Company could be at risk for up to 55 days of production from any marketer. The Company sells its production to one petroleum marketer and one natural gas marketer so that the exposure to any one entity is minimized. Oil sales make up 83% of the Company's revenue and natural gas makes up the remaining 17% of revenue. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint arrangement receivables are typically collected within one month of the joint arrangement bill being issued to the partner. The Company attempts to mitigate the risk from joint arrangement receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from joint arrangement partners; it may cash call a partner in advance of the work being performed. The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection.

The Company enters into derivative contracts with counterparties with an acceptable credit rating and the capability to execute such contracts. The contracts are short term and are subject to limitations of the Board of Directors.

The maximum exposure to credit risk at the financial position date was equal to the carrying value of accounts receivable and financial derivative contracts. As of December 31, 2013 and 2012, all receivables were current and there were no receivables provided for or written off during the year.

(b) Market Risk

Market risk consists of commodity price, foreign currency and interest rate risks.

(i) Commodity Price Risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian and US dollar.

The Company is exposed to the risk of declining prices for production resulting in a corresponding reduction in projected cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous production declines from existing properties. Bank financing available to the Company is in the form of a production loan, which is reviewed quarterly, and which is based on future cash flows and commodity price forecasts. Changes to commodity prices will have an effect on credit available to the Company under its banking agreement. The Company enters into contracts which may involve financial derivative instruments, in order to reduce the fluctuation in production revenue by fixing prices of future deliveries of crude oil and natural gas and thus provide stability of future cash flow. The Company will not use these instruments for trading or speculative purposes.

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

**6. Financial instruments** *(continued)*

(i) Commodity Price Risk *(continued)*

The Company had the following financial derivative instrument contract in place at December 31, 2013:

| **Description** | **Total Quantity** | **Price** | **Remaining Term** |
|---|---|---|---|
| AECO (CDN$) - Swap | 700 gj/day | CDN$3.58 | Jan 1, 2014 – Dec 31, 2014 |

The following table summarizes the realized and unrealized gains and losses on financial derivative instruments:

| **Year ended December 31** | | **2013** | | 2012 |
|---|---|---|---|---|
| Realized gain (loss) on financial derivative instruments | **$** | **162** | $ | (56) |
| Unrealized gain (loss) on financial derivative instruments | | **(668)** | | 1,202 |
| Gain (loss) on financial instruments | **$** | **(506)** | $ | 1,146 |

The mark to market value of the 2014 AECO natural gas Swap contract was ($33) at December 31, 2013. This amount has been classified as a current liability. At December 31, 2012 the mark to market value of the Company's contracts was $636. This value was classified as a current asset.

A change of $0.10/mcf in the price of natural gas would result in a change in revenue of $21 for the year ending December 31, 2013 (December 31, 2012 – $55).

A change of $1.00/bbl in the price of oil would result in a change in revenue of $76 for the year ending December 31, 2013 (December 31, 2012 – $55).

(ii) Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2013 and 2012.

(iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. If interest rates on the bank debt changed by one percent, net income (loss) would have changed by $100 during the year ended December 31, 2013 (December 31, 2012 - $119).

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares capital expenditure budgets which are regularly monitored and updated as considered necessary.

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 6. Financial instruments *(continued)*

(c) Liquidity Risk *(continued)*

As well, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has bank debt that is a current demand loan which is reviewed annually by the lender. All financial liabilities are due within 12 months.

(d) Capital Management

The Company's objective when managing capital is to maintain a capital structure which allows it to execute its growth strategy through strategic acquisitions and expenditures on exploration and development activities, while maintaining a strong statement of financial position.

The Company considers its capital structure to include working capital (excluding assets and liabilities associated with financial instrument contracts), bank debt, and shareholders' equity.

The Company's capital structure consisted of the following:

| | | Year ended December 31, 2013 | | Year ended December 31, 2012 |
|---|---|---|---|---|
| Working capital surplus (deficiency) | $ | 18,720 | $ | (46) |
| Bank debt | | - | | (11,920) |
| Shareholders' equity | | 42,565 | | 16,184 |
| | $ | 61,285 | $ | 4,218 |

The Company manages its capital structure and makes adjustments by continually monitoring business conditions including: the current economic conditions; the risk characteristics of Spartan's oil and natural gas assets; current and forecasted debt levels; current and forecasted commodity prices; and other factors that influence commodity prices, such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, Spartan will consider: its capital expenditure program including acquisition opportunities; the current level of bank credit available from the Company's lenders; and issuance of new equity if available on favourable terms.

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 7. Exploration and evaluation assets and property plant and equipment assets

| | E&E Assets | PP&E Assets | Total |
|---|---|---|---|
| Balance at December 31, 2011 | $ 2,017 | $ 41,228 | $ 43,245 |
| Additions during the year | 2,492 | 1,418 | 3,910 |
| Transfer from E&E to PP&E | (2,162) | 2,162 | - |
| Impairment | - | (71) | (71) |
| Change in decommissioning obligations | - | 498 | 498 |
| Balance at December 31, 2012 | $ 2,347 | $ 45,235 | $ 47,582 |
| Additions during the year | 19 | 3,497 | 3,516 |
| Transfer from E&E to PP&E | (480) | 480 | - |
| Impairment | (1,563) | (692) | (2,255) |
| Change in decommissioning obligations | - | 3,740 | 3,740 |
| **Balance at December 31, 2013** | **$ 323** | **$ 52,260** | **$ 52,583** |
| | | | |
| Depletion and depreciation: | | | |
| Balance at December 31, 2011 | - | 11,573 | 11,573 |
| Depletion and depreciation for the year | - | 5,061 | 5,061 |
| Balance at December 31, 2012 | - | 16,634 | 16,634 |
| Depletion and depreciation for the year | - | 5,645 | 5,645 |
| **Balance at December 31, 2013** | **$ -** | **$ 22,279** | **$ 22,279** |
| | | | |
| Net book value: | | | |
| Balance at December 31, 2012 | $ 2,347 | $ 28,601 | $ 30,948 |
| **Balance at December 31, 2013** | **$ 323** | **$ 29,981** | **$ 30,304** |

At December 31, 2013 the Company evaluated its E&E Assets for impairment and recorded an impairment of $0.32 million related to the expiry of four sections of exploratory lands in the Alexander CGU.

At June 30, 2013 the Company evaluated its E&E Assets for impairment and recorded an impairment of $1.24 million. The Goose River exploration property was written down to $nil as the Company does not expect to incur any further expenditures on this property.

At December 31, 2013 the Company evaluated its PP&E Assets for impairment and recorded an impairment of $0.69 million. The recoverable amount was determined using fair value less costs to sell based on discounted cash flows of proved plus probable reserves using forecast future prices, costs to sell of 2% and a discount rate of 10%. The Alexander CGU was written down to its recoverable amount based on the future value of cash flows less costs to sell.

At December 31, 2012 the Company evaluated its PP&E Assets for impairment and an impairment of $71 was recorded. The recoverable amount was determined using fair value less costs to sell based on discounted cash flows of proved plus probable reserves using forecast future prices, costs to sell of 2% and a discount rate of 10%. The minor property CGU was written down to its recoverable amount based on the future value of cash flows less costs to sell. The impairment indicator was triggered by negative reserve value.

At December 31, 2013 estimated future costs to develop the proved plus probable reserves of $4.3 million (December 31, 2012 - $3.8 million) were added to property, plant and equipment for depletion and depreciation purposes.

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

### 7. Exploration and evaluation assets and property plant and equipment assets *(continued)*

As a result of reduced forward commodity price outlook for natural gas and widening price differential for crude oil, impairment tests were carried out at December 31, 2013 and were based on fair value less costs to sell calculations, using the following commodity price estimates:

| Year | Edmonton Light Crude Oil (Cdn$/bbl) | Natural Gas AECO (Cdn$/MMBtu) |
|---|---|---|
| 2014 | 77.81 | 4.00 |
| 2015 | 75.02 | 3.99 |
| 2016 | 75.29 | 4.00 |
| 2017 | 85.36 | 4.93 |
| 2018 | 86.64 | 5.01 |
| 2019 | 87.94 | 5.09 |
| 2020 | 89.26 | 5.18 |
| 2021 | 90.60 | 5.26 |
| 2022 | 91.96 | 5.35 |
| 2023 | 93.34 | 5.43 |
| 2024 | 94.74 | 5.52 |
| Remainder | +1.5%/year | +1.5%/year |

(1) Source: Sproule, effective December 31, 2013

### 8. Demand operating facilities

At December 31, 2013 the Company had a credit facility of $13.25 million (December 31, 2012 - $15.5 million) with a Canadian Chartered Bank consisting of: (A) a revolving operating demand loan with a maximum limit of $11.0 million (December 31, 2012 - $12.0 million), and (B) a non-revolving acquisition/development demand loan that provides an additional $2.25 million (December 31, 2012 - $3.5 million) of financing subject to bank approval. Interest is at prime plus 2.0% per annum for Facility A and prime plus 3.25% per annum for Facility B. Spartan has the ability to borrow by way of Bankers Acceptances.

At December 31, 2013 the balance outstanding under Facility A was $nil (December 31, 2012 - $10.8 million) and the amount outstanding under Facility B was $nil million (December 31, 2012 - $1.1 million).

The facilities are secured by a combined $65 million floating charge debenture over all the Company's assets with a negative pledge and undertaking to provide fixed charges on the Company's major producing properties at the request of the bank. The facilities are repayable on demand.

The Company is subject to a covenant on its credit facility to maintain its ratio of current assets (including the undrawn portion of the demand credit facility) to current liabilities (not including current bank debt and financial derivative instruments) of at least 1.0:1.0. As at December 31, 2013 and 2012, the Company was in compliance with all of its covenants.

For the year ended December 31, 2013 the Company incurred $39,000 (December 31, 2012 – $33,000) in transaction costs associated with renegotiating the annual credit facility. The amount is included in finance expense on the statement of net and comprehensive income (loss).

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 9. Decommissioning obligations

A reconciliation of the decommissioning obligations is provided below:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Balance, beginning of year | $ 2,798 | $ 2,407 |
| Additions | 105 | 97 |
| Change in estimate | 3,794 | 407 |
| Change in discount rate | (158) | (7) |
| Liabilities settled | - | (150) |
| Accretion | 54 | 44 |
| Balance, end of year | $ 6,593 | $ 2,798 |
| | | |
| Of which: | | |
| Current | $ 134 | $ - |
| Non | 6,459 | 2,798 |
| | $ 6,593 | $ 2,798 |

**Assumptions:**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Discount rate | 1.00 % – 2.77% | 0.93% – 2.77% |
| Inflation rate | 2.3% | 2.3% |

The Company has estimated the net present value of its total decommissioning obligations to be $6.6 million as at December 31, 2013 (December 31, 2012 - $2.8 million) based on a total undiscounted liability of $7.6 million (December 31, 2012 - $3.0 million). At December 31, 2013 management estimates that these payments are expected to be made over the next 12 years with the majority of these payments to be made in 2021.

## 10. Deferred taxes

Deferred tax assets and liabilities are based on the differences between the accounting amounts and the related tax bases of the Company's property, plant and equipment assets, exploration and evaluation assets, decommissioning obligations, share capital and unrealized gains and losses on investments.

At December 31, 2013 the Company has tax pools associated with exploration and evaluation assets, and property, plant and equipment assets of approximately $29.4 million. A deferred tax asset has not been recognized due to uncertainty as to future realization.

The provision for deferred taxes is different from the amount computed by applying the combined statutory Canadian federal and provincial tax rates to pre-tax income for the year.

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

**10. Deferred taxes** *(continued)*

The tax on the Company's income before tax differs from the amount that would arise using the average tax rate applicable to profits of the Company as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Income (loss) before income tax | $ (1,767) | $ 820 |
| Combined federal and provincial tax rate | 25.0% | 25.0% |
| Expected tax expense (recovery) | $ (441) | $ 205 |
| Tax effects of: | | |
| Share based compensation | 17 | 30 |
| Flow through share premium | - | 442 |
| Change in estimates and other | 76 | (480) |
| Tax benefits not recognized | 348 | (197) |
| Deferred tax expense (recovery) | $ - | $ - |

Deferred tax assets (liabilities) are attributable to the following temporary differences:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Property and equipment | $ (1,402) | $ 265 |
| Decommissioning obligations | 1,649 | 700 |
| Unrealized (gains)/losses on financial derivative instruments | 8 | (159) |
| Share issue costs | 45 | 102 |
| Non-capital loss carry forwards | 1,120 | 165 |
| | 1,420 | 1,073 |
| Deferred tax asset not recognized | (1,420) | (1,073) |
| Deferred tax asset (liability) | $ - | $ - |

The Company's assets have a tax basis of $29.4 million (December 31, 2012- $33.1 million) available for deduction against future taxable income.

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Canadian oil and gas property expense | $ 8,680 | $ 10,283 |
| Canadian development expense | 3,334 | 7,711 |
| Canadian exploration expense | 5,686 | 5,642 |
| Undepreciated capital cost | 6,997 | 8,371 |
| Share issue costs | 181 | 407 |
| Non capital losses | 4,479 | 659 |
| | $ 29,357 | $ 33,073 |

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 10. Deferred taxes *(continued)*

The Company's non-capital losses expire as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| 2029 | $ 310 | - |
| 2030 | 1,158 | $ 303 |
| 2031 | 2,497 | 356 |
| 2032 | 514 | - |
| | $ 4,479 | $ 659 |

## 11. Share capital

(a) Authorized

The authorized share capital of the Company is comprised of an unlimited number of preferred shares (issuable in series, with the specific terms of each series to be determined by the board of directors) and an unlimited number of common shares (voting, no par value).

(b) Issued

Share consolidation

Subsequent to December 31, 2013, the Company completed a share consolidation of the Company's issued and outstanding common shares on the basis of one new common share for four common shares issued and outstanding (note 20). As required under IFRS, all common shares, options, warrants and loss (income) per share amounts have been restated to give retrospective effect to the share consolidation.

| | Year ended December 31, 2013 | | Year ended December 31, 2012 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** |
| Balance, beginning of year | 15,559,869 | $25,054 | 15,559,869 | $25,054 |
| Issuance of common shares (i) | 2,166,667 | 1,300 | - | - |
| Issuance of units (ii) | 29,933,796 | 5,168 | - | - |
| Issuance of units (iii) | 3,787,917 | 665 | - | - |
| Issuance of common shares (iii) | 10,444,954 | 6,267 | - | - |
| Share issuance costs | - | (112) | - | - |
| Exercise of stock options | 248,000 | 657 | - | - |
| Balance, end of year | 62,141,203 | $38,999 | 15,559,869 | $25,054 |

(i) On September 13, 2013 the Company issued 2,166,667 common shares to management and directors for gross proceeds of $1,300,000. Share issuance costs totaled $27,370.

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 11. Share capital *(continued)*

(ii) On December 10, 2013 the Company closed the first tranche of a two tranche private placement by issuing 29,933,796 units ("Units") for gross proceeds of $18 million to the new management group of the Company and their designates. Each Unit consisted of one common share of the Company and one share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.80 for a period of five years. The Warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding $1.20, an additional one-third upon the price equaling or exceeding $1.60 and a final one-third upon the price equaling or exceeding $2.00. The warrants were assigned a value of $12.8 million (note 12).

(iii) On December 24, 2013 the Company closed the second tranche by issuing 3,787,917 Units and 10,444,954 common shares for gross proceeds of $8.5 million to the new management group of the Company and their designates. Each Unit consisted of one common share of the Company and one share purchase warrant. Each Warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.80 for a period of five years. The Warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding $1.20, an additional one-third upon the price equaling or exceeding $1.60 and a final one-third upon the price equaling or exceeding $2.00. The warrants were assigned a value of $1.6 million (note 12).

Share issuance costs on the two tranches of private placements totaled $83,925.

## 12. Warrants

| | Year ended December 31, 2013 | | Year ended December 31, 2012 | |
|---|---|---|---|---|
| | **Warrants** | **Amount** | **Warrants** | **Amount** |
| Balance, beginning of year | - | - | 89,670 | $21 |
| Warrants expired | - | - | (89,670) | (21) |
| Warrants issued | 33,721,713 | 14,400 | - | - |
| Balance, end of year | 33,721,713 | $14,400 | - | - |

At December 31, 2013 none of the warrants had vested.

The weighted-average exercise price and significant assumptions for warrants issued during 2013 were as follows:

| | |
|---|---|
| Weighted-average exercise price ($) | 0.80 |
| Expected risk free rate (%) | 1.8 |
| Expected life (years) | 5 |
| Expected volatility (%) | 124 |
| Expected forfeiture rate (%) | 10 |

## 13. Share based compensation

The Company has a stock option plan (the "Plan") for its officers, directors, employees and consultants. Under the Plan, the Company may grant options for up to 10% of the outstanding common shares. The term and vesting period of the options granted are determined at the discretion of the Board of Directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the Plan provides that an option can have a maximum term of ten years. The polices of the TSX Arrangement Exchange require "rolling" stock option plans to be approved on an annual basis by the shareholders of a listed issuer.

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 13. Share based compensation *(continued)*

Options outstanding and exercisable are presented below:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2011 | 1,308,750 | $2.20 |
| Expired | (516,000) | $1.56 |
| Forfeited - vested | (25,000) | $3.48 |
| Forfeited - unvested | (30,000) | $1.60 |
| Balance, December 31, 2012 | 737,750 | $1.56 |
| Forfeited | (489,750) | $1.56 |
| Exercised | (248,000) | $1.56 |
| Issued | 2,307,500 | $2.40 |
| **Balance, December 31, 2013** | **2,307,500** | **$2.40** |
| **Exercisable, December 31, 2013** | **-** | **-** |

On December 10, 2013 the Company issued 2,307,500 stock options to management and directors. The options vest over three years (one-third on each of the first, second and third anniversary of the grant date). The options are exercisable at a price of $2.40 per common share. As at December 31, 2013, the weighted average remaining life for the options granted during the year is 4.99 years.

The significant assumptions for options granted during 2013 were as follows:

| | |
|---|---|
| Weighted-average exercise price ($) | 2.40 |
| Expected risk free rate (%) | 1.1 - 1.2 |
| Expected life (years) | 1 - 3 |
| Expected volatility (%) | 145 |
| Expected forfeiture rate (%) | 10 |
| Weighted-average grant-date fair value ($/option) | 1.28 – 1.68 |

## 14. Contributed surplus

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| Balance, beginning of year | $5,743 | $5,601 |
| Exercise of stock options | (267) | - |
| Warrants expired | - | 21 |
| Share based compensation | 70 | 121 |
| Balance, end of year | $5,546 | $5,743 |

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 15. Related party transactions

Key management include all officers and directors of the Company.

| | | Year ended December 31, 2013 | | Year ended December 31, 2012 |
|---|---|---|---|---|
| Salaries, consulting fees and benefits | $ | 557 | $ | 346 |
| Directors fees | | 122 | | 210 |
| Reorganization termination benefits | | 500 | | - |
| Share based compensation | | 70 | | 121 |
| | $ | 1,249 | $ | 677 |

## 16. Supplemental cash flow information

| | | Year ended December 31, 2013 | | Year ended December 31, 2012 |
|---|---|---|---|---|
| Change in non-cash working capital items: | | | | |
| Accounts receivable | $ | 53 | $ | (220) |
| Prepaid expenses and deposits | | (2) | | 51 |
| Accounts payable and accrued liabilities | | (834) | | 529 |
| | $ | (783) | $ | 360 |
| | | | | |
| Amount related to operating activities | $ | (504) | $ | 146 |
| Amount related to investing activities | | (279) | | 214 |
| | $ | (783) | $ | 360 |

## 17. Income (loss) per share

| | | Year ended December 31, 2013 | | Year ended December 31, 2012 |
|---|---|---|---|---|
| Net and comprehensive income (loss) for the year | $ | (1,767) | $ | 820 |
| Net and comprehensive income (loss) per share, basic and diluted | $ | (0.10) | $ | 0.05 |
| Weighted average shares outstanding, basic and diluted | | 18,143,826 | | 15,559,869 |

(tabular amounts are in thousands of Canadian dollars unless otherwise stated)

## 18. Finance expense

| | | Year ended December 31, 2013 | | Year ended December 31, 2012 |
|---|---|---|---|---|
| Accretion (note 9) | $ | 54 | $ | 44 |
| Interest expense | | 496 | | 560 |
| Total finance expense | $ | 550 | $ | 604 |

## 19. Commitments

On August 23, 2012 the Company entered into an office lease effective October 1, 2012 for one year and nine months.

Future lease payments under the office lease are as follows:

| | | |
|---|---|---|
| 2014 | $ | 56 |

## 20. Subsequent events

On January 13, 2014 the Company completed a private placement offering of 1,275,000 common shares at a price of $1.96 per common share for proceeds of $2,499,000.

On January 14, 2014 the Company issued 38,265,500 special warrants at a price of $1.96 per warrant for gross proceeds of $75,000,380. On January 28, 2014 a prospectus was filed to qualify the distribution of 38,265,500 common shares upon the deemed exercise of 38,265,500 special warrants. Share issuance costs totaled $3.8 million for the issuance of the special warrants.

On February 3, 2014 the Company closed the acquisition from a third party of certain oil and gas properties in Saskatchewan for consideration of $32.5 million.

On February 18, 2014, the Company changed its name to Spartan Energy Corp. and consolidated its shares on a 4:1 basis (note 11). In addition, the shareholders approved a new stock option plan and the Company granted 2,307,500 stock options. The options vest over three years (one-third on each of the first, second and third anniversary of the grant date). The options are exercisable at a price of $2.40 per common share.

On March 19, 2014, the Company closed a rights offering to the shareholders of the Company. Under the rights offering, holders of common shares subscribed for and purchased an aggregate of 2,153,633 common shares at a price of $0.60 per share.

Spartan has entered into a formal arrangement agreement with Renegade Petroleum Ltd. (“Renegade”) whereby Renegade shareholders will receive 0.5625 shares of Spartan for every share held. Renegade is holding a shareholder meeting on March 31, 2014 to ratify the arrangement. In order to ratify the arrangement two thirds of the shareholders voting at the meeting must vote in favor.