

# **Spartan Energy Corp.**

Interim Consolidated Financial Statements

**For the Three Months Ended March 31, 2014**

*(Unaudited – dollar amounts in thousands of Canadian, except as noted)*

**Spartan Energy Corp.**  
**Interim Statements of Financial Position**  
*( Unaudited - In thousands of Canadian dollars )*

	<b>March 31</b>	<b>December 31</b>
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 59,266	\$ 10,244
Trade receivables	29,218	1,084
Funds held in trust	-	8,540
Prepaid expenses and deposits	1,769	65
	<b>90,253</b>	<b>19,933</b>
<b>Non-current assets</b>		
Exploration and evaluation assets (note 4)	25,332	323
Properties and equipment (note 5)	664,394	29,981
Deferred income tax asset	2,406	-
<b>Total Assets</b>	<b>\$ 782,385</b>	<b>\$ 50,237</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other liabilities	\$ 57,578	1,046
Derivative contracts	18,386	33
Bank debt (note 6)	140,106	-
	<b>216,070</b>	<b>1,079</b>
<b>Non-current liabilities</b>		
Decommissioning liabilities (note 7)	54,750	6,593
<b>Total Liabilities</b>	<b>270,820</b>	<b>7,672</b>
<b>Equity</b>		
Share capital (note 8)	\$ 491,016	\$ 38,999
Contributed surplus	5,992	5,546
Warrants	15,937	14,400
Deficit	(1,380)	(16,380)
	<b>511,565</b>	<b>42,565</b>
<b>Total Liabilities and Equity</b>	<b>\$ 782,385</b>	<b>\$ 50,237</b>

The accompanying notes are integral to the financial statements.

**Spartan Energy Corp.**

**Interim Statements of Comprehensive Income**

**For the Periods Ended March 31**

*( Unaudited - In thousands of Canadian dollars, except per share amounts )*

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
<b>Revenue</b>		
Oil and gas sales	\$ 5,853	\$ 3,647
Royalties	(1,143)	(518)
	4,710	3,129
Gain on property acquisition (note 3)	15,000	-
Loss on financial derivative instruments (note 11)	-	(249)
	19,398	2,880
<b>Expenses</b>		
Operating and production costs	1,176	1,021
Exploration and evaluation expenses (note 4)	33	-
General and administrative	442	298
Stock-based compensation	94	-
Transaction costs	2,911	-
Depletion and depreciation (note 5)	1,681	1,388
	6,337	2,707
Finance expense:		
Interest expense	7	140
Accretion on decommissioning provisions	44	11
	51	151
Interest income	127	-
<b>Income before income taxes</b>	<b>13,137</b>	<b>22</b>
Deferred income tax recovery (note 10)	(1,863)	-
<b>Income and comprehensive income for the period</b>	<b>\$ 15,000</b>	<b>\$ 22</b>
<b>Earnings per share</b>		
Basic	\$ 0.15	\$ 0.00
Diluted	\$ 0.12	\$ 0.00

**Spartan Energy Corp.**

**Interim Statements of Changes in Equity**

**For the Periods Ended March 31**

*( Unaudited - In thousands of Canadian dollars )*

	Share capital	Contributed surplus	Warrants	Deficit	Total
<b>Balance - January 1, 2014</b>	<b>\$ 38,999</b>	<b>\$ 5,546</b>	<b>\$ 14,400</b>	<b>\$ (16,380)</b>	<b>\$ 42,565</b>
Changes during period:					
Income and comprehensive income for the period	-	-	-	15,000	15,000
Issue of common shares (note 8)	78,792	-	-	-	78,792
Acquisition (note 3)	376,064	-	1,537	-	377,601
Stock-based compensation	-	446	0.00	-	446
Share issue costs, net of tax	(2,839)	-	-	-	(2,839)
<b>Balance - March 31, 2014</b>	<b>\$ 491,016</b>	<b>\$ 5,992</b>	<b>\$ 15,937</b>	<b>\$ (1,380)</b>	<b>\$ 511,565</b>
<b>Balance - January 1, 2013</b>	<b>\$ 25,054</b>	<b>\$ 5,743</b>	<b>\$ -</b>	<b>\$ (14,613)</b>	<b>\$ 16,184</b>
Changes during period:					
Income and comprehensive income for the period	-	-	-	22	22
<b>Balance - March 31, 2013</b>	<b>\$ 25,054</b>	<b>\$ 5,743</b>	<b>\$ -</b>	<b>\$ (14,591)</b>	<b>\$ 16,206</b>

The accompanying notes are integral to the financial statements.

**Spartan Energy Corp.**  
**Interim Statements of Cash Flows**  
**For the Periods Ended March 31**  
*( Unaudited - In thousands of Canadian dollars )*

	Three Months Ended March 31 2014	Three Months Ended March 31 2013
<b>Cash and cash equivalents provided by (used in)</b>		
<b>Operating activities</b>		
Income for the period	\$ 15,000	\$ 22
Items not affecting working capital		
Depletion and depreciation	1,681	1,388
Accretion expense	44	11
Unrealized loss on derivative contracts	193	381
Stock-based compensation	94	-
Gain on property acquisition	(15,000)	-
Exploration and evaluation expenses	33	-
Deferred income tax recovery	(1,863)	-
<b>Funds flow</b>	<b>182</b>	<b>1,802</b>
Net change in non-cash operating working capital items	(654)	83
	<b>(472)</b>	<b>1,885</b>
<b>Investing activities</b>		
Properties and equipment acquired	(31,405)	
Expenditures on properties and equipment	(4,006)	(1,497)
Exploration and evaluation assets acquired	(1,095)	-
Cash received through acquisition (note 3)	131	-
Net change in non-cash investing working capital items	2,323	86
	<b>(34,052)</b>	<b>(1,411)</b>
<b>Financing activities</b>		
Issuance of common shares	78,792	-
Share issue costs	(3,786)	-
Transfer from funds held in trust	8,540	(474)
	<b>83,546</b>	<b>(474)</b>
<b>Change in cash and cash equivalents during period</b>	<b>\$ 49,022</b>	<b>\$ -</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>10,244</b>	<b>-</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 59,266</b>	<b>\$ -</b>
<b>Interest (paid) received</b>	<b>\$ 127</b>	<b>\$ (101)</b>

The accompanying notes are integral to the financial statements.

## **Spartan Energy Corp.**

### **Notes to the Interim Consolidated Financial Statements**

#### **As at and for the Three Months Ended March 31, 2014**

*(Unaudited – dollar amounts in thousands of Canadian, except as noted)*

#### **1 Reporting entity**

Spartan Energy Corp. (“Spartan”, the “Company” or the “Corporation”) is an Alberta incorporated TSX Venture exchange listed oil and natural gas exploration and production company whose business activities are focused in Western Canada and North Dakota, U.S. The interim consolidated financial statements of the Company as at and for the three months ended March 31, 2014 are comprised of the Company and its wholly-owned subsidiaries Renegade Petroleum (North Dakota) Ltd. and Petro Uno Resources Ltd. – North Dakota, which were incorporated under the laws of the State of North Dakota. The Company changed its name from Alexander Energy Ltd. to Spartan on February 18, 2014. The Company’s head office address is Suite 500, 850 – 2<sup>nd</sup> Street SW, Calgary, Alberta T2P 0R8.

#### **2 Basis of presentation and significant accounting policies**

##### **(a) Basis of presentation**

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34 “Interim Financial Reporting”. These interim financial statements do not include all of the information required for full annual financial statements. The interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by IASB.

These interim consolidated financial statements were approved and authorized for issue by the Corporation’s Board of Directors on May 14, 2014.

The interim consolidated statements of financial position include the accounts of Spartan Energy Corp. and Renegade Petroleum Ltd. (“Renegade”) and its subsidiaries as at March 31, 2014. Renegade became a wholly-owned subsidiary of Spartan on March 31, 2014 and was amalgamated with Spartan on March 31, 2014. The interim consolidated statements of comprehensive income and the interim consolidated statements of cash flows reflect the operations of Spartan without Renegade for the three months ended March 31, 2014.

##### **(b) Significant accounting estimates and judgements**

The preparation of financial statements requires management to make certain judgments, accounting estimates and assumptions concerning the future. The nature of estimation means that actual outcomes could differ from those estimates. Management reviews estimates and assumptions on a continual basis and makes changes to such estimates based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, the impact of these estimates, assumptions and judgments are subject to management uncertainty, and the effect on the financial statements in future periods could be material. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim consolidated financial statements are outlined in the Company’s annual consolidated financial statements for the year ended December 31, 2013.

## **Spartan Energy Corp.**

### **Notes to the Interim Consolidated Financial Statements**

#### **As at and for the Three Months Ended March 31, 2014**

*(Unaudited – dollar amounts in thousands of Canadian, except as noted)*

#### (c) Significant accounting policies

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and accompanying notes for the year ended December 31, 2013. These interim consolidated financial statements have been prepared following the same accounting policies as described in note 3 of the Company's annual consolidated financial statements for the year ended December 31, 2013 except as noted below.

In May 2013, the IASB issued International Financial Reporting Interpretation Committee (IFRIC) 21 Levies. This clarifies that an entity recognizes a liability for a levy when the activity that triggers payment occurs. The Company is not currently subjected to significant levies so the impact on the Company is not material.

IAS 32, Financial Instruments: Presentation, has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The adoption of this standard had no impact on the amounts recorded in the Company's interim financial statements.

IAS 36 Impairment of Assets- IAS 36 was amended in May 2013 to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognised or reversed in the period. The amendments require retrospective application and were adopted by the Company on January 1, 2014. The adoption of this standard had no impact on the amounts recorded in the Company's interim financial statements.

### **3. Acquisitions**

- (a) On March 31, 2014 Spartan acquired all of the issued and outstanding shares of Renegade Petroleum Ltd. ("Renegade"), an oil and gas exploration and development company, in exchange for 117,520,001 common shares of Spartan.

In addition, Spartan assumed all outstanding Renegade warrants which entitle the holders to purchase one common share of Spartan at a price of \$3.20 per share until November 2014. If all warrants are exercised it will result in the issuance of an additional 1,387,166 common shares of Spartan. The revenue and expenses of Renegade for the three months ended March 31, 2014 have not been included in the Spartan interim consolidated statements of comprehensive income for that period.

If Renegade had been acquired on January 1, 2014 an additional \$52.0 million of oil and gas sales and \$3.0 million of net income would have been included in the Spartan interim consolidated statements of comprehensive income for the three months ended March 31, 2014. Spartan and Renegade amalgamated on March 31, 2014.

The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value. Transaction costs in the amount of \$2.9 million were incurred by Spartan and recorded to the consolidated statement of comprehensive income.

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

#### As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

The values assigned to the net assets acquired were as follows:

Current assets (including cash of \$131)	\$	25,590
Current liabilities (excluding bank loan)		(68,644)
Bank loan		(140,106)
Exploration and evaluation assets		23,914
Properties and equipment		553,798
Deferred income tax asset		4,596
Decommissioning liabilities		(21,547)
	\$	<u>377,601</u>
Paid by		
Common shares	\$	376,064
Warrants		1,537
	\$	<u>377,601</u>

The above allocation has been determined from information that is available to the management of Spartan at this time and incorporates estimates. Spartan has issued 117,520,001 common shares, valued at \$3.20 based on the weighted-average trading price on closing at March 31, 2014. The above acquisition accounting will be finalized after all actual results have been obtained and the final fair values of the assets and liabilities have been determined. Accordingly, the above acquisition accounting may be subject to change.

- (b) On February 3, 2014, Spartan acquired certain interests in undeveloped land and producing petroleum and natural gas properties for cash consideration of \$32.5 million. The consolidated statements of comprehensive income include the results of operations for the period following the close of the transaction on February 3, 2014. Net income for the three months ended March 31, 2014 includes \$2.1 million of oil and gas sales and \$1.1 million of net income generated from the acquired assets since the acquisition date. If the assets had been acquired on January 1, 2014, an additional \$1.7 million of petroleum and natural gas revenue and \$0.8 million of net income would have been included in the consolidated statements of comprehensive income for the three months ended March 31, 2014.

The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value. As a result of recording the net assets acquired and liabilities assumed at their fair values, a gain on acquisition of \$15.0 million was recognized in net income for the three months ended March 31, 2014. The gain on acquisition was primarily attributable to the seller seeking strategic alternatives and accepting a transaction in the best interest of its shareholders.

These assets were acquired from Renegade, prior to Spartan's acquisition of Renegade as described in note 3(a).

**Spartan Energy Corp.**

## Notes to the Interim Consolidated Financial Statements

**As at and for the Three Months Ended March 31, 2014***(Unaudited – dollar amounts in thousands of Canadian, except as noted)*

The values assigned to the acquired assets were as follows:

Exploration and evaluation assets	\$	1,095
Properties and equipment		53,421
Future tax liability		(5,000)
Decommissioning liabilities		(2,016)
	\$	<u>47,500</u>
Paid by:		
Cash	\$	<u>32,500</u>
Gain on acquisition	\$	<u>15,000</u>

The accounting for this acquisition will be finalized after all actual results have been obtained and the final fair values of the assets and liabilities have been determined. Accordingly, the above acquisition accounting may be subject to change.

**4 Exploration and evaluation assets**

	<b>As at March 31 2014</b>	<b>Year Ended December 31 2013</b>
Balance, beginning of period	\$ 323	\$ 2,347
Acquisitions – corporate	23,914	-
Acquisitions – resource properties	1,095	-
Additions	-	19
Transfer to properties and equipment	-	(480)
Impairment	-	(1,563)
<b>Balance, end of period</b>	<b>\$ 25,332</b>	<b>\$ 323</b>

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

#### 5 Properties & equipment

Cost:	Petroleum and natural gas assets	Office equipment	Total
Balance, as at December 31, 2012	\$ 46,830	\$ 166	\$ 46,996
Additions	3,474	23	3,497
Transfer from exploration and evaluation assets	480	-	480
Change in decommissioning liabilities	3,740	-	3,740
<b>Balance as at December 31, 2013</b>	<b>\$ 54,524</b>	<b>\$ 189</b>	<b>\$ 54,713</b>
<b>Accumulated depletion and depreciation:</b>			
Balance, as at December 31, 2012	\$ 18,250	\$ 145	\$ 18,395
Depletion on resource assets	5,631	-	5,631
Depreciation on office assets	-	14	14
Impairment	692	-	692
<b>Balance as at December 31, 2013</b>	<b>\$ 24,573</b>	<b>\$ 159</b>	<b>\$ 24,732</b>
<b>Properties and equipment as at December 31, 2013</b>	<b>\$ 29,951</b>	<b>\$ 30</b>	<b>\$ 29,981</b>
Cost:	Petroleum and natural gas assets	Office equipment	Total
Balance, as at December 31, 2013	\$ 54,524	\$ 189	\$ 54,713
Acquisitions – corporate	552,808	990	553,798
Acquisitions – resource properties	53,421	-	53,421
Additions	4,326	-	4,326
Change in decommissioning liabilities	24,549	-	24,549
<b>Balance as at March 31, 2014</b>	<b>\$ 689,628</b>	<b>\$ 1,179</b>	<b>\$ 690,807</b>
<b>Accumulated depletion and depreciation:</b>			
Balance, as at December 31, 2013	\$ 24,573	\$ 159	\$ 24,732
Depletion on resource assets	1,676	-	1,676
Depreciation on office assets	-	5	5
<b>Balance as at March 31, 2014</b>	<b>\$ 26,249</b>	<b>\$ 164</b>	<b>\$ 26,413</b>
<b>Properties and equipment as at March 31, 2014</b>	<b>\$ 663,379</b>	<b>\$ 1,015</b>	<b>\$ 664,394</b>

For the three months ended March 31, 2014, approximately \$0.7 million of directly attributable general and administrative costs and \$0.3 million of directly attributable stock-based compensation were capitalized to properties and equipment (March 31, 2013 – \$nil and \$nil, respectively).

At March 31, 2014, future development costs of \$1.7 million associated with proved plus probable undeveloped reserves are included in costs subject to depletion (December 31, 2013 – \$4.3 million).

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

#### As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

#### 6 Bank debt

As at March 31, 2014, the Company had available a \$250 million (December 31, 2013 - \$13.25 million) syndicated revolving demand credit facility with six Canadian chartered banks. The credit facility bears interest on a grid system which ranges from bank prime plus 1.0 percent to bank prime plus 4.5 percent depending on the Company's debt to EBITDA ratio ranging from less than or equal to 1:1 to greater than 3.5:1. The amount of the facility is subject to a borrowing base test performed at least annually, primarily based on reserves, using commodity prices estimated by the lender, as well as other factors. As at March 31, 2014 the Company was in compliance with all of its covenants.

The credit facility provides that advances may be made by way of direct prime rate loans, USBR loans, LIBOR Loans, bankers' acceptances, letters of credit or letters of guarantee. The facility is secured by a \$1.0 billion debenture and a general security agreement over all the petroleum and natural gas assets of the Company. As at March 31, 2014, the Company had \$140.1 million drawn on the facility, excluding the letter of guarantee discussed below.

As at March 31, 2014, the Company had a letter of guarantee outstanding in the amount of \$2.7 million against the credit facility.

The next borrowing base review is scheduled to occur on or before June 30, 2014.

#### 7 Decommissioning liabilities

The Company's future decommissioning liabilities were estimated by management based on the Corporation's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the decommissioning liabilities based on an undiscounted total future liabilities of \$84 million (December 31, 2013 – \$7.6 million). These payments are expected to be incurred over the next 5 to 30 years. At March 31, 2014, a risk-free rate of 2.96 percent (December 31, 2013 – 1.00 to 2.77 percent) and an inflation rate of 1.5 percent (December 31, 2012 – 2.3 percent) were used to calculate the net present value of the decommissioning provisions.

	<b>As at March 31 2014</b>	<b>Year Ended December 31 2013</b>
Decommissioning liabilities, beginning of period	\$ 6,593	\$ 2,798
Acquired – corporate	21,547	-
Acquired – resource properties	2,016	-
Liabilities incurred	71	105
Accretion expense	44	54
Change in estimates	24,479	3,636
<b>Decommissioning liabilities, end of period</b>	<b>\$ 54,750</b>	<b>\$ 6,593</b>

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

#### 8 Share capital

##### Authorized

Unlimited number voting Class A Shares.

Unlimited number of preferred shares, issuable in series.

##### a) Issued and outstanding

	Number of shares	Amount (\$ thousands)
Class A shares		
Balance as at January 1, 2013	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
Less share issue costs	-	(112)
Exercise of stock options	248,000	657
<b>Balance as at December 31, 2013</b>	<b>62,141,203</b>	<b>38,999</b>
Issued in exchange for private placement (iv)	1,275,000	2,499
Issued in exchange for private placement (v)	38,265,584	75,000
Issued in exchange for private placement (vi)	2,153,633	1,293
Issued for acquisition of Renegade (vii)	117,520,001	376,064
Less share issue costs (net of tax of \$948)		(2,839)
<b>Balance as at March 31, 2014</b>	<b>221,355,421</b>	<b>491,016</b>

- (i) On September 13, 2013 the Company issued 2,166,667 common shares to management and directors for gross proceeds of \$1,300,000.
- (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.
- (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.

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

#### As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

- (iv) On January 14, 2014 Spartan issued 1,275,000 common shares priced at \$1.96 per share through a non-brokered private placement financing.
- (v) On January 14, 2014 Spartan issued 38,265,584 common shares priced at \$1.96 per share through a brokered private placement financing.
- (vi) On January 16, 2014 Spartan announced a rights offering to all existing Spartan shareholders, except for the Spartan directors and management group, for up to a maximum of 2,153,633 common shares priced at \$0.60 per share. The offering was completed on March 19, 2014.
- (vii) On March 31, 2014 Spartan issued 117,520,001 common shares to purchase all of the outstanding shares of Renegade, as described in Note 3(a).

#### Warrants

Spartan has the following warrants outstanding:

	Number of warrants	Amount (\$ thousands)
Balance at December 31, 2012	-	-
Warrants issued	33,721,713	14,400
<b>Balance at December 31, 2013</b>	<b>33,721,713</b>	<b>14,400</b>
Warrants assumed (note 3)	1,387,166	1,537
<b>Balance at March 31, 2014<sup>(1)</sup></b>	<b>35,108,879</b>	<b>15,937</b>

(1) As at March 31, 2014 all warrants are vested and exercisable.

Spartan acquired 1,387,166 warrants as part of the acquisition of Renegade on March 31, 2014 (refer to note 3). These warrants entitle the holder to purchase one common share of Spartan at a price of \$3.20 per share until November 2014. The fair value of these warrants was estimated at March 31, 2014 using a Black Scholes pricing model with the following weighted average assumptions:

Weighted-average exercise price (\$)	3.20
Expected risk free rate (%)	2.0
Expected life (years)	0.7
Expected volatility (%)	125
Expected forfeiture rate (%)	10

#### 9 Stock-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.

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

#### As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

Options outstanding and exercisable at March 31, 2014 are presented below:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2012	737,500	\$1.56
Forfeited	(489,750)	\$1.56
Exercised	(248,000)	\$1.56
Issued	2,307,500	\$2.40
<b>Balance, December 31, 2013 and March 31, 2014</b>	<b>2,307,500</b>	<b>\$2.40</b>
<b>Exercisable, March 31, 2014</b>	<b>-</b>	<b>-</b>

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 March 31, 2014, the weighted average remaining life for the options granted during the year is 4.69 years.

## 10 Income taxes

The income tax provision is calculated by applying Canadian federal and provincial statutory tax rates to pre-tax income with adjustments as set out in the following table:

Three Months Ended March 31	2014	2013
Income before income taxes	\$ 13,137	\$ 22
Combined federal and provincial income tax rate	25.00%	25.00%
Computed income tax	3,284	5
Tax effects of:		
Stock-based compensation expense	23	-
Gain on property acquisition	(3,750)	
Recognition of tax benefits previously not recorded	(1,420)	
Tax benefits not recognized	-	(5)
<b>Deferred income tax recovery for the period</b>	<b>\$ (1,863)</b>	<b>\$ -</b>

As at March 31, 2014 the Corporation had approximately \$625 million of tax pools and losses available to reduce future taxable income. Of these, \$555 million were related to the Renegade acquisition described in note 3.

## 11 Financial instruments & Risk management

The Company's financial instruments recognized on the interim consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, trade and other payables, derivative contracts and the Company's bank loan.

Spartan's risk management policies are established to identify and analyze the risks faced by the Company, set appropriate limits and controls and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 6 of the Company's audited consolidated financial statements for the year ended December 31, 2013.

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

#### As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

As at March 31, 2014, the Company had the following crude oil commodity contracts in place with multiple counterparties:

<b>Period</b>	<b>Commodity</b>	<b>Contract</b>	<b>Quantity Contracted</b>	<b>Contract Price</b> <sup>(1)</sup>
January 2014 – December 2014	Crude Oil	Swap	500 bbls/d	CAD \$91.00/bbl
January 2014 – December 2014	Crude Oil	Swap	500 bbls/d	CAD \$91.00/bbl
January 2014 – December 2014	Crude Oil	Swap	500 bbls/d	CAD \$91.05/bbl
January 2014 – December 2014	Crude Oil	Swap	500 bbls/d	CAD \$91.20/bbl
January 2014 – December 2014	Crude Oil	Swap	1,000 bbls/d	CAD \$91.70/bbl
January 2014 – December 2014	Crude Oil	Swap	1,000 bbls/d	CAD \$96.00/bbl

(1) NYMEX WTI monthly average converted to Canadian dollars.

Approximately 64% of the Company's oil production is hedged with the oil commodity contracts listed above.

As at March 31, 2014, the Company had the following AECO natural gas commodity contract in place:

<b>Period</b>	<b>Commodity</b>	<b>Contract</b>	<b>Quantity Contracted</b>	<b>Contract Price</b> <sup>(1)</sup>
January 2014 – December 2014	Natural Gas	Swap	1,000 gjs/d	CAD \$3.58/bbl

(1) AECO – C Spot monthly average.

The gain (loss) from the financial derivative instruments during the period is as follows:

<b>Three Months Ended March 31</b>	<b>2014</b>	<b>2013</b>
Realized gain (loss) on financial derivative instruments	\$ (119)	\$ 132
Unrealized loss on financial derivative instruments	(193)	(381)
	<b>\$ (312)</b>	<b>\$ (249)</b>

### Capital Management

The Corporation's objective when managing capital is to maintain a capital structure which allows the Company 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 evaluates its ability to carry on business as a going concern on a quarterly basis. The Company considers its capital structure to include share capital and net debt (defined as current assets less current liabilities, excluding the fair value of derivative contracts). Spartan manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining equity to guard against the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or repay existing debt to manage current and projected debt levels.

Spartan manages and monitors its capital structure and short-term financing requirements using the ratio of net debt to funds flow from operations. Funds flow from operations is calculated based on cash flows from operating activities before changes in non-cash working capital, transaction costs from acquisitions and decommissioning expenditures incurred. This metric is used to monitor the Company's overall debt position and monitor the strength of the Company's statement of financial position.

## Spartan Energy Corp.

### Notes to the Interim Consolidated Financial Statements

#### As at and for the Three Months Ended March 31, 2014

(Unaudited – dollar amounts in thousands of Canadian, except as noted)

Spartan's total capitalization as at March 31, 2014 is as follows:

(\$ thousands)	Amount
Net debt <sup>(1)</sup>	107,429
Market capitalization <sup>(2)</sup>	710,551
<b>Total capitalization as at March 31, 2014</b>	<b>817,980</b>

(1) Excludes derivative contracts.

(2) As at March 31, 2014, the closing market price of Spartan Energy Corp. shares was \$3.21 per share.

The Company is not subject to any externally imposed restrictions on capital.

## 12 Related party transactions

During the three months ended March 31, 2014 amounts totaling \$19,388 were incurred related to a company controlled by one of the Corporation's directors (March 31, 2013 – \$NIL). These payments were made for field supervision and have been measured at the exchange amount. Of that amount, \$5,250 is included in the Corporations' current liabilities as at March 31, 2014 (December 31, 2013 - \$NIL).

## 13 Commitments & contingencies

The Company has lease commitments for office premises that expire in 2018. Future minimum lease payments, including operating costs, are as follows:

As at March 31, 2014 (\$ thousands)	Amount
Less than one year	1,780
Between one and five years	5,111
<b>Total commitment</b>	<b>6,891</b>