MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the reliability and integrity of the consolidated financial statements and the notes to the consolidated financial statements.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and for reviewing and approving the consolidated financial statements. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board.

The Audit Committee meets periodically with management and the auditors to satisfy itself that each is properly discharging its responsibilities, to review significant accounting and reporting matters and to review the consolidated financial statements. The Audit Committee reports its findings and recommends the approval of the consolidated financial statements to the Board.

The consolidated financial statements have been audited on behalf of the shareholders by the independent auditors PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards.

"signed"

Richard F. McHardy
President & Chief Executive Officer

"signed"

Adam MacDonald
Interim Chief Financial Officer

March 11, 2015

March 10, 2015

Independent Auditor's Report

To the Shareholder of Spartan Energy Corp.

We have audited the accompanying consolidated financial statements of Spartan Energy Corp., which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that 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 consolidated financial statements present fairly, in all material respects, the financial position of Spartan Energy Corp. as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2R 0V6
T: +1 403 509 7500, F: +1 403 781 1825

Other matter

The combined consolidated financial statements of Spartan Energy Corp. (formerly known as Alexander Energy Ltd.) for the year ended December 31, 2013 were audited by another firm of auditors who expressed an unmodified opinion on those combined consolidated financial statements on March 19, 2014.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

Spartan Energy Corp.

Consolidated Financial Statements

For the Year Ended December 31, 2014

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

Spartan Energy Corp.
Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

		December 31 2014		December 31 2013
Assets				
Current assets				
Cash and cash equivalents	**$**	**180**	$	10,244
Trade receivables		**24,483**		1,084
Funds held in trust		**-**		8,540
Prepaid expenses and deposits		**2,151**		65
		26,814		19,933
Non-current assets				
Exploration and evaluation assets (note 4)		**33,237**		323
Properties and equipment (note 5)		**841,904**		29,981
Total Assets	**$**	**901,955**	$	50,237
Liabilities				
Current liabilities				
Trade and other liabilities	**$**	**38,723**		1,046
Derivative contracts (note 12)		**-**		33
Bank debt (note 6)		**74,434**		-
		113,157		1,079
Non-current liabilities				
Decommissioning liabilities (note 7)		**104,713**		6,593
Deferred income tax liability		**5,391**		-
Total Liabilities		**223,261**		7,672
Equity				
Share capital (note 8)	**$**	**640,079**	$	38,999
Contributed surplus		**17,313**		5,546
Warrants		**13,346**		14,400
Accumulated other comprehensive income		**1**		-
Retained Earnings (Deficit)		**7,955**		(16,380)
		678,694		42,565
Total Liabilities and Equity	**$**	**901,955**	$	50,237

Commitments - note 14

The accompanying notes are integral to the consolidated financial statements.

Spartan Energy Corp.
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended
(In thousands of Canadian dollars, except per share amounts)

		December 31 2014	December 31 2013
Revenue			
Oil and gas sales		**$ 173,872**	$ 15,726
Royalties		**(29,307)**	(2,624)
		144,565	13,102
Gain on property acquisition (note 3)		**15,000**	-
Gain (loss) on derivative contracts (note 12)		**9,438**	(506)
		169,003	12,596
Expenses			
Operating and transportation		**41,496**	3,807
Exploration and evaluation expenses (note 4)		**6,608**	-
General and administrative		**5,571**	2,036
Stock-based compensation		**8,831**	70
Transaction costs		**3,564**	-
Impairment		**-**	2,255
Depletion and depreciation (note 5)		**65,225**	5,645
		131,295	13,813
Finance expense:			
Interest expense		**2,918**	496
Accretion on decommissioning liabilities		**1,535**	54
		4,453	550
Income before income taxes		**33,255**	(1,767)
Deferred income tax (note 10)		**8,920**	-
Net income (loss) for the year		**$ 24,335**	$ (1,767)
Other comprehensive income			
Foreign currency translation on foreign operations		**1**	-
Comprehensive income (loss) for the year		**24,336**	(1,767)
Earnings (loss) per share	**Basic**	**$ 0.11**	$ (0.10)
	Diluted	**$ 0.10**	$ (0.10)

Spartan Energy Corp.
Statements of Changes in Equity
For the Periods Ended December 31
(In thousands of Canadian dollars)

	Share capital	Contributed surplus	Warrants	Retained earnings (Deficit)	Accumulated other comprehensive income	Total
Balance - January 1, 2014	**$ 38,999**	**$ 5,546**	**$ 14,400**	**$ (16,380)**	**$ -**	**$ 42,565**
Changes during period:						
Net income	-	-	-	24,335	-	24,335
Issue of common shares (note 8)	228,307	-	-	-	-	228,307
Issue of common shares and warrants related to acquisition (note 3)	376,064	-	1,537	-	-	377,601
Exercise of warrants	4,843	-	(1,682)	-	-	3,161
Expired warrants	-	-	(909)	-	-	(909)
Stock-based compensation	-	11,767	-	-	-	11,767
Share issue costs, net of tax	(8,134)	-	-	-	-	(8,134)
Foreign currency translation on foreign operations	-	-	-	-	1	1
Balance - December 31, 2014	**$ 640,079**	**$ 17,313**	**$ 13,346**	**$ 7,955**	**$ 1**	**$ 678,694**
Balance - January 1, 2013	**$ 25,054**	**$ 5,743**	**$ -**	**$ (14,613)**	**$ -**	**$ 16,184**
Changes during period:						
Net loss	-	-	-	(1,767)	-	(1,767)
Issue of common shares	7,567	-	-	-	-	7,567
Issue of units	5,833	-	-	-	-	5,833
Issue of warrants	-	-	14,400	-	-	14,400
Exercise of stock options	657	(267)	-	-	-	390
Stock-based compensation	-	70	-	-	-	70
Share issue costs, net of tax	(112)	-	-	-	-	(112)
Balance - December 31, 2013	**$ 38,999**	**$ 5,546**	**$ 14,400**	**$ (16,380)**	**$ -**	**$ 42,565**

The accompanying notes are integral to the consolidated financial statements.

Spartan Energy Corp.
Consolidated Statements of Cash Flows
For the Years Ended
(In thousands of Canadian dollars, except per share amounts)

	December 31 2014	December 31 2013
Cash and cash equivalents provided by (used in)		
Operating activities		
Net income (loss) for the year	**$ 24,335**	$ (1,767)
Items not affecting cash:		
Depletion and depreciation	**65,225**	5,645
Impairment	**-**	2,255
Accretion expense	**1,535**	54
Unrealized (gain) loss on derivative contracts	**(18,225)**	668
Stock-based compensation	**8,831**	70
Gain on property acquisition	**(15,000)**	-
Exploration and evaluation expenses	**6,608**	-
Deferred income tax	**8,920**	-
Net change in non-cash operating working capital items	**(5,581)**	(504)
	76,648	**6,421**
Investing activities		
Properties and equipment acquired	**(155,451)**	-
Exploration and evaluation assets acquired	**(9,457)**	-
Expenditures on properties and equipment	**(83,911)**	(3,516)
Expenditures on exploration and evaluation assets	**(3,507)**	-
Cash received through acquisition (note 3)	**131**	-
Net change in non-cash investing working capital items	**1,507**	(279)
	(250,688)	(3,795)
Financing activities		
Issuance of common shares	**228,307**	27,688
Exercise of stock options	**-**	390
Exercise of warrants	**3,789**	-
Share issue costs	**(10,979)**	-
Issuance of bank debt	**74,434**	-
Repayment of bank debt	**(140,106)**	(11,920)
Transfer from funds held in trust	**8,540**	(8,540)
	163,985	7,618
Foreign exchange effect on cash and cash equivalents	**(9)**	-
Change in cash and cash equivalents during year	**$ (10,064)**	$ 10,244
Cash and cash equivalents - beginning of year	**10,244**	-
Cash and cash equivalents - end of year	**$ 180**	$ 10,244
Interest paid	**$ 2,918**	$ 457

The accompanying notes are integral to the consolidated financial statements.

1 Reporting entity

Spartan Energy Corp. ("Spartan", the "Company" or the "Corporation") is an Alberta incorporated TSX exchange listed oil and natural gas exploration and production company whose business activities are focused in Western Canada and North Dakota, U.S. The consolidated financial statements of the Company as at and for the year ended December 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 Energy Corp. on February 18, 2014. The Company's head office address is Suite 500, 850 – 2nd Street SW, Calgary, Alberta T2P 0R8.

2 Basis of presentation and significant accounting policies

(a) Basis of presentation

These 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 consolidated financial statements.

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on March 10, 2014.

(b) Significant accounting estimates and judgements

The preparation of consolidated financial statements requires management to make certain judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. 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 consolidated financial statements are as follows:

(i) Use of Estimates

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

Reserve estimates

The Company's reserves have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH") and comply with the standards that govern all aspects of reserves as prescribed in National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Under NI 51-101 standards, proved plus probable reserves are considered a "best estimate" of future recoverable reserves.

The estimation of petroleum and natural gas reserves is an inherently complex process. Proved and probable reserves are estimated based on geological data, geophysical data, engineering data, projected future rates of production, estimated commodity prices, costs, discount rates and the timing of future expenditures. Reserves estimates, although not reported as part of the Company's consolidated financial statements, can have a significant effect on earnings, assets, as a result of their impact on depletion and impairment, decommissioning provisions, deferred income taxes and fair values in business combinations. Accordingly, the impact to the consolidated financial statements of changes to estimates of reserves in future periods could be material.

Decommissioning provisions

Amounts are recorded for decommissioning provisions that will be incurred by the Company at the end of the operating life of the facilities and properties, and upon retirement of its petroleum and natural gas assets. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The provision and related asset and expense are impacted by estimates with respect to the costs and timing of decommissioning.

Business combinations

Estimates are made of the fair value of assets and liabilities acquired and contingent liabilities assumed which includes assessing the value of oil and gas properties based on the estimation of recoverable quantities of proven and probable reserves.

Share-based compensation

Compensation expense recognized for the Company's share-based compensation plan is accrued over the vesting period based on fair values. Fair values are determined using the Black-Scholes option pricing model while the fair value of restricted and performance awards are valued based on the closing share price on the date immediately prior to the grant date. In assessing the fair value of share based compensation, significant assumptions such as expected volatility, dividend yield, expected term, estimated forfeiture rates and performance multipliers for performance awards are made.

Income taxes

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are recognized only to the extent that those assets are considered recoverable. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

(ii) Judgments

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Cash generating unit ("CGU")

For the purpose of impairment testing, petroleum and natural gas assets are aggregated into CGUs. 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 group of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

Impairment

Judgments are required to assess when impairment indicators exist and impairment testing is required. If such indicators exist, the estimated recoverable amount is calculated. The recoverable amounts of CGUs are based on the higher of their value-in-use and fair value less costs to sell. These calculations require the use of estimates and assumptions. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs to sell in the case of a lack of comparable transactions, based upon discounted after tax cash flows. An impairment loss is recognized in the statement of comprehensive income if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Exploration and evaluation assets ("E&E")

The decision to transfer assets from E&E to property, plant and equipment requires management to make certain judgments as to future events and is based on whether economic quantities of proved plus probable reserves have been found to determine a project's technical feasibility and commercial viability.

Joint control

Judgment is required to determine when Spartan has joint control over an arrangement, which requires an assessment of the capital and operating activities of the projects it undertakes with partners and when the decision in relation to those activities require unanimous consent.

Income taxes

Judgments are made by management at the end of the reporting period to determine the likelihood that deferred income tax assets will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make judgments related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in profit or loss in the period in which the change occurs.

(c) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements and have been applied consistently by the Company and its subsidiaries.

Basis of consolidation

The financial statements include the accounts of the Company, including the consolidated accounts of its wholly-owned subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. Subsidiaries of the Company are those entities which Spartan controls by having the power to govern their respective financial and operating policies.

Business combinations

The acquisition method of accounting is used to account for corporate acquisitions and assets which meet the definition of a business combination under IFRS. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of the acquisition, being the date on which the Company gains control. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost over the fair value of the Company's share of identifiable net assets acquired is recorded as goodwill. If the cost is less than the fair value of assets acquired, the difference is recognized directly in earnings.

Joint arrangements

Spartan conducts many of its petroleum and natural gas production activities through jointly controlled operations and the financial statements reflect only Spartan's proportionate interest in such activities. Joint control exists for contractual arrangements governing Spartan's assets whereby Spartan has less than 100 percent 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. Spartan does not have any joint arrangements that are material to the Company or that are structured through joint venture arrangements.

Property, plant and equipment

The Company's property, plant and equipment consist of petroleum and natural gas assets (petroleum and natural gas development and production assets) and corporate assets.

Capitalization

Property, plant and equipment is stated at cost, less accumulated depletion and depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the related estimate of any decommissioning provisions. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Exchanges of assets are measured at fair values unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. The gain or loss on derecognition of the asset given up is recognized in earnings.

Expenditures on major maintenance, inspections or overhauls are capitalized when the item enhances the life or performance of an asset above its original standard. Where an asset, or part of an asset, that was separately depreciated is replaced, and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. All other maintenance expenditures are expensed as incurred.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in earnings in the period in which the item is derecognized.

Depletion and Depreciation

The costs related to CGUs for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on proved and probable reserves.

Petroleum and natural gas assets are not depleted until production commences. The depletion calculation takes into account the estimated future development costs required to develop the proved and probable reserves.

Proved and probable reserves are estimated using independent reservoir engineering reports, in accordance with Canadian Securities Regulation National Instrument 51-101, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical, and engineering data demonstrate with a specific degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Natural gas volumes have been converted to barrels of oil equivalent using a ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an industry standard energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead.

Corporate assets are recorded in the statement of financial position at cost less accumulated depreciation. Depreciation is calculated on a diminishing balance method so as to write off the cost of these assets, less estimated residual values, over their estimated useful lives. Computer equipment is depreciated at a rate of 30 percent while office furniture and equipment are depreciated at a rate of 20 percent.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

The Company's property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent reservoir engineers. The CGUs are reviewed quarterly for indicators of impairment. Indicators are events or changes in circumstances that suggest the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the CGU is determined by reference to the higher of the CGUs value-in-use or fair value less cost to sell. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down to the recoverable amount with an impairment recognized in earnings.

Impairments of property, plant and equipment are reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been, had no impairment been recognized.

Exploration and Evaluation Assets

Capitalization

Certain costs incurred prior to acquiring the legal rights to explore, such as pre-license costs, are charged directly to earnings, as incurred.

All E&E costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal and including directly attributable general and administration costs and share-based payments, are accumulated and capitalized as E&E assets.

Depreciation and Impairment

E&E costs are not depreciated prior to the determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be determinable when proved and/or probable reserves are determined to exist. A review is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, E&E assets attributable to those reserves are tested for impairment and reclassified from E&E assets to property, plant and equipment. The cost of undeveloped land that expires, or any impairment recognized during a period, is charged to earnings.

E&E assets are assessed for impairment when (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the greater of fair value less costs to sell or value-in-use. For the purposes of impairment testing, E&E assets are allocated to cash-generating units. Any impairment loss on E&E assets, unsuccessful E&E costs and the cost of undeveloped land that has expired are charged to earnings as exploration and evaluation expense.

Foreign Operations

Spartan has operations in North Dakota, United States transacted by two United States subsidiaries whose functional currency is the United States dollar. The assets and liabilities of foreign operations are translated to Canadian dollars at the period-end exchange rate, while revenues and expenses are translated using average exchange rates for the period. Translation gains and losses related to the operations are included in other comprehensive income as a separate component of shareholders' equity.

Foreign Currency Transactions

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect at the transaction dates. Foreign currency assets and liabilities are translated to Canadian dollars at the period-end exchange rate, while revenue and expenses are translated using average exchange rates for the period. Gains and losses resulting from the settlement or translation of foreign currency transactions are included in earnings as incurred.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, term deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Financial Instruments

The Company measures all financial instruments at fair value on initial recognition in the financial statements. Subsequent measurement of the financial instruments is based on their classification. Each financial instrument is classified into one of the following categories: fair value through profit and loss (financial derivative contracts), available-for-sale (none), held-to-maturity (none), loans and receivables (cash and cash equivalents, funds held in trust and trade and other receivables), and other financial liabilities (trade and other payables and bank debt). Financial assets and liabilities classified as fair value through profit and loss are subsequently measured at fair value with changes in fair value recognized immediately in earnings. Available-for-sale financial assets and liabilities are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. Amounts recognized in other comprehensive income (loss) for available for sale financial assets are transferred to earnings when realized through disposal or impairment. Loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Transaction costs related to fair value through profit and loss instruments are immediately recognized in earnings. Transaction costs related to other financial liabilities are included in earnings or netted with the fair value of the financial instruments at initial measurement.

The Company uses derivative financial instruments to reduce exposure to fluctuations in interest rates and commodity prices, which include crude oil commodity contracts and interest rate swaps ("derivative contracts"). These contracts are not used for trading or speculative purposes. All derivative contracts are initially recognized at fair value on the consolidated statements of financial position on the date the derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. Associated transaction costs are recognized in earnings as incurred. Subsequent to initial recognition, changes in fair value are recognized in earnings.

Impairment

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. All impairment losses are recognized in earnings.

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.

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 earnings.

Leased Assets

Operating leases are not recognized on the Company's statement of financial position. Payments made under operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Share-Based Compensation

Long term incentives are granted to officers, directors and employees in accordance with the Company's stock option restricted and performance share award plans.

The grant date fair value of stock options is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that are forfeited. Upon the exercise of the stock options, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that options are forfeited, previously recognized compensation expense associated with the unvested portion of such stock options is reversed.

Joint Operations

Substantially all of the Company's petroleum and natural gas activities are conducted jointly with others and accordingly these consolidated financial statements reflect only the Company's proportionate interests in such activities.

Decommissioning Provisions

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provisions are made for the estimated costs of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the statement of financial position date. The fair value of the estimated obligation is recorded as a liability with a corresponding increase in the carrying amount of the related asset. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion expense whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent a provision was established.

Revenue Recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recognized when title passes to the customer on volume delivered at contractual delivery points and rates and collectability is reasonably assured. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue is measured at the fair value of the consideration received or receivable.

Transportation

Transportation expenses include costs incurred to transport crude oil, natural gas, condensate and natural gas liquids from the wellhead to the point of title transfer.

Share Capital

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings 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 on the 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.

The Company follows the asset/liability method for calculating deferred income taxes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, 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 taxable 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.

Per Share Amounts

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise of warrants and share options granted. The calculation assumes that the proceeds on exercise of share options or warrants are used to repurchase shares at the current market price.

Change in Accounting Policies

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 was not material. This policy is effective for years beginning on or after January 1, 2014.

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 financial statements. This policy is effective for years beginning on or after January 1, 2014.

IAS 36 Impairment of Assets 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 recognized 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 financial statements. This policy is effective for years beginning on or after January 1, 2014.

Accounting standards issued but not yet applied

IFRS 15 Revenue From Contracts With Customers was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The standard is required to be adopted either retrospectively or using a modified transaction approach for fiscal years beginning on or after January 1, 2017 with earlier adoption permitted. Spartan is currently evaluating the impact of the standard on the Company’s consolidated financial statements.

(Dollar amounts in thousands of Canadian, except as noted)

IFRS 9 Financial Instruments was issued on July 2014 and is intended to replace IAS 39, Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Spartan is currently evaluating the impact of the standard on the Company's consolidated financial statements.

3 Acquisitions

(a) 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 year ended December 31, 2014 includes $12.0 million of oil and gas sales and $0.1 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 $1.0 million of oil and gas sales and $0.3 million of net income would have been included in the consolidated statements of comprehensive income for the year ended December 31, 2014. Pro forma information with regard to revenue and net income related to the acquisition may not be representative of the results that would have been reported had these assets actually been combined for the relevant periods.

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 year ended December 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(b).

The values assigned to the acquired assets were as follows:

Exploration and evaluation assets	$	1,095
Properties and equipment		59,011
Deferred tax liability		(5,000)
Decommissioning liabilities		(7,606)
	$	47,500
Paid by:		
Cash	$	32,500
Gain on acquisition	$	15,000

(b) 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 entitled the holders to purchase one common share of Spartan at a price of $3.20 per share until November 2014. If all warrants were exercised it would have resulted in the issuance of an additional 1,387,166 common shares of Spartan.

(Dollar amounts in thousands of Canadian, except as noted)

By November 2014, 567,276 common shares were issued on exercised warrants while the remaining 819,890 warrants were allowed to expire. The revenue and expenses of Renegade for the three months ended March 31, 2014 have not been included in the Spartan consolidated statements of comprehensive income for that period.

Spartan and Renegade amalgamated on March 31, 2014.

Net income for the year ended December 31, 2014 includes $151.7 million of oil and gas sales and $7.4 million of net income generated from the Renegade assets since the acquisition date. If the assets had been acquired on January 1, 2014, an additional $52.0 million of oil and gas sales and $4.8 million of net income would have been included in the consolidated statements of comprehensive income for the year ended December 31, 2014. Pro forma information with regard to revenue and net income related to the acquisition may not be representative of the results that would have been reported had these assets and businesses actually been combined for the relevant periods.

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 $3.1 million were incurred by Spartan and recorded to the consolidated statements of comprehensive income.

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

Current assets (including cash of $131)	$	25,590
Current liabilities (excluding bank loan)		(59,917)
Bank loan		(140,106)
Exploration and evaluation assets		23,914
Properties and equipment		543,983
Deferred income tax asset		5,684
Decommissioning liabilities		(21,547)
	$	377,601
Paid by		
Common shares	$	376,064
Warrants		1,537
	$	377,601

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. Included in current assets are trade receivables of $23.8 million which are presented net of $1.3 million in allowance for doubtful accounts. Fair value of the acquired trade receivables includes management's best estimate of uncollectible amounts.

(c) On July 7, 2014, Spartan acquired certain interests in undeveloped land and producing petroleum and natural gas properties for cash consideration of $96.3 million. The consolidated statements of comprehensive income include the results of operations for the period following the close of the transaction on July 7, 2014. Net income for the year ended December 31, 2014 includes $15.0 million of oil and gas sales and $2.4 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 $15.7 million of oil and gas sales and $2.4 million of net income would have been included in the consolidated statements of comprehensive income for the year ended December 31, 2014. Pro forma information with regard to revenue and net income related to the acquisition may not be representative of the results that would have been reported had these assets actually been combined for the relevant periods.

(Dollar amounts in thousands of Canadian, except as noted)

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 $0.3 million were incurred by Spartan and recorded to the consolidated statements of comprehensive income.

The values assigned to the acquired assets were as follows:

Exploration and evaluation assets	$	2,850
Properties and equipment		104,518
Decommissioning liabilities		(11,037)
	$	96,331
Paid by:		
Cash	$	96,331

(d) On July 7, 2014, Spartan acquired certain interests in undeveloped land and producing petroleum and natural gas properties for cash consideration of $17.1 million. The consolidated statements of comprehensive income include the results of operations for the period following the close of the transaction on July 7, 2014. Net income for the year ended December 31, 2014 includes $2.2 million of oil and gas sales and $0.3 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 $2.3 million of oil and gas sales and $0.1 million of net income would have been included in the consolidated statements of comprehensive income for the year ended December 31, 2014. Pro forma information with regard to revenue and net income related to the acquisition may not be representative of the results that would have been reported had these assets actually been combined for the relevant periods.

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 $0.1 million were incurred by Spartan and recorded to the consolidated statements of comprehensive income.

The values assigned to the acquired assets were as follows:

Exploration and evaluation assets	$	4,483
Properties and equipment		15,218
Decommissioning liabilities		(2,635)
	$	17,066
Paid by:		
Cash	$	17,066

(e) On August 12, 2014, Spartan acquired certain interests in undeveloped land and producing petroleum and natural gas properties for cash consideration of $10.8 million. The consolidated statements of comprehensive income include the results of operations for the period following the close of the transaction on August 12, 2014. Net income for the year ended December 31, 2014 includes $0.9 million of oil and gas sales and $0.1 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 $1.4 million of oil and gas sales revenue and $0.2 million of net income would have been included in the consolidated statements of comprehensive income for the year ended December 31, 2014. Pro forma information with regard to revenue and net income related to the acquisition may not be representative of the results that would have been reported had these assets actually been combined for the relevant periods.

(Dollar amounts in thousands of Canadian, except as noted)

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 $0.1 million were incurred by Spartan and recorded to the consolidated statements of comprehensive income.
The values assigned to the acquired assets were as follows:

Exploration and evaluation assets	$	829
Properties and equipment		10,802
Decommissioning liabilities		(805)
	$	10,826
Paid by:		
Cash	$	10,826

(f) On August 27, 2014, Spartan acquired certain interests in undeveloped land and producing petroleum and natural gas properties for cash consideration of $4.3 million. The consolidated statements of comprehensive income include the results of operations for the period following the close of the transaction on August 27, 2014. Net income for the year ended December 31, 2014 includes $0.5 million of oil and gas sales and $0.2 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 $1.0 million of oil and gas sales and $0.3 million of net income would have been included in the consolidated statements of comprehensive income for the year ended December 31, 2014. Pro forma information with regard to revenue and net income related to the acquisition may not be representative of the results that would have been reported had these assets actually been combined for the relevant periods.

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.

The values assigned to the acquired assets were as follows:

Exploration and evaluation assets	$	24
Properties and equipment		4,455
Decommissioning liabilities		(228)
	$	4,251
Paid by:		
Cash	$	4,251

(Dollar amounts in thousands of Canadian, except as noted)

4 Exploration and evaluation assets

	Year Ended December 31 2014	Year Ended December 31 2013
Balance, beginning of period	$ 323	$ 2,347
Acquisitions – corporate	23,914	-
Acquisitions – resource properties	9,457	-
Additions	4,347	19
Lease expiries	(3,964)	-
Transfer to properties and equipment	(840)	(480)
Impairment	-	(1,563)
Balance, end of period	**$ 33,237**	**$ 323**

Exploration and evaluation ("E&E") assets consist of Spartan's undeveloped land and exploration projects which are pending the determination of proved or probable reserves. Additions represent Spartan's share of costs incurred on E&E assets during the period.

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
Balance as at December 31, 2013	**$ 54,524**	**$ 189**	**$ 54,713**
Accumulated depletion and depreciation:			
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
Balance as at December 31, 2013	**$ 24,573**	**$ 159**	**$ 24,732**
Properties and equipment as at December 31, 2013	**$ 29,951**	**$ 30**	**$ 29,981**

(Dollar amounts in thousands of Canadian, except as noted)

Cost:	**Petroleum and natural gas assets**	**Office equipment**	**Total**
Balance, as at December 31, 2013	$ 54,524	$ 189	$ 54,713
Acquisitions – corporate	542,993	990	543,983
Acquisitions – resource properties	198,039	-	198,038
Additions	81,824	13	81,837
Transfer from E&E assets	840	-	840
Change in decommissioning liabilities	52,450	-	52,450
Balance as at December 31, 2014	**$ 930,669**	**$ 1,192**	**$ 931,861**
Accumulated depletion and depreciation:			
Balance, as at December 31, 2013	$ 24,573	$ 159	$ 24,732
Depletion on resource assets	64,950	-	64,950
Depreciation on office assets	-	275	275
Balance as at December 31, 2014	**$ 89,523**	**$ 434**	**$ 89,957**
Properties and equipment as at December 31, 2014	**$ 841,146**	**$ 758**	**$ 841,904**

For the year ended December 31, 2014, approximately $2.5 million of directly attributable general and administrative costs and $2.9 million of directly attributable stock-based compensation were capitalized to properties and equipment (December 31, 2013 – $nil and $nil, respectively).

At December 31, 2014, future development costs of $350 million associated with proved plus probable undeveloped reserves are included in costs subject to depletion (December 31, 2013 – $4.3 million).

Impairment

At December 31, 2014, due to declining forward oil prices, the Company tested its CGUs for impairment. The recoverable amounts of the Company's CGUs were estimated as the fair value less costs to sell based on the net present value of the after tax cash flows from oil and gas proved plus probable reserves estimated by the Company's third party reserve evaluators discounted at a rate of 8%. In determining the appropriate discount rate the Company considered the acquisition metrics of recent transactions completed on assets similar to those in the specific CGU.

At December 31, 2014, it was determined that the recoverable amounts of the Company's CGUs exceeded their carrying values and therefore no impairment was recognized.

The benchmark prices used by the independent reserve evaluators in preparing the Company's reserve report are outlined in the following table. These estimates were used in determining whether impairment of the carrying value of the CGUs existed at December 31, 2014.

Average Price Forecast	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Crude Oil										
WTI (US$/bbl)	65.00	80.00	90.00	91.35	92.72	94.11	95.52	96.96	98.41	99.89
Canadian Light (Cdn$/bbl))	70.35	87.36	98.28	99.75	101.25	103.85	105.40	106.99	108.59	110.22
Natural Gas										
AECO (Cdn$/mmbtu)	3.32	3.71	3.90	4.47	5.05	5.13	5.22	5.31	5.40	5.49
Exchange rate – (US$/Cdn$)	0.85	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87

(Dollar amounts in thousands of Canadian, except as noted)

For the year ended December 31, 2014, a one per cent increase in the assumed discount rate would result in an impairment of approximately $11.1 million and a five per cent decrease in the estimated future cash flows would result in an impairment of approximately $10.6 million.

6 Bank debt

As at December 31, 2014, the Company had available a $250 million (December 31, 2013 - $13.25 million) syndicated revolving 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 December 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 December 31, 2014, the Company had $74.4 million drawn on the facility, excluding the letter of guarantee discussed below.

As at December 31, 2014, the Company had a letter of guarantee outstanding in the amount of $1.9 million against the credit facility.

The next borrowing base review is scheduled to occur on or before May 31, 2015.

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 undiscounted total future liabilities of $152.0 million (December 31, 2013 – $7.6 million). These payments are expected to be incurred over the next 5 to 30 years. At December 31, 2014, a risk-free rate of 2.33 percent (December 31, 2013 – 1.00 to 2.77 percent) and an inflation rate of 1.5 percent (December 31, 2013 – 2.3 percent) were used to calculate the net present value of the decommissioning provisions.

	Year Ended December 31 2014	Year Ended December 31 2013
Decommissioning liabilities, beginning of period	$ 6,593	$ 2,798
Acquired – corporate	21,547	-
Acquired – resource properties	22,588	-
Liabilities incurred	3,158	105
Accretion expense	1,535	54
Change in estimates(1)	49,292	3,636
Decommissioning liabilities, end of period	**$ 104,713**	**$ 6,593**

(1) This amount relates to the revaluation of acquired decommissioning obligations using the risk-free discount rate. At the date of the acquisitions, the obligations were recorded at fair value.

(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
Exercise of stock options	248,000	657
Less share issue costs	-	(112)
Balance as at December 31, 2013	**62,141,203**	**38,999**
Issued in exchange for private placement (iv)	1,275,000	2,500
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
Issued in exchange for private placement (viii)	39,870,500	149,514
Exercise of warrants	3,034,406	4,843
Less share issue costs (net of tax of $2,845)	-	(8,134)
Balance as at December 31, 2014	**264,260,327**	**640,079**

(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 vested and became 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 vested and became 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.

(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(b).

(viii) On June 17, 2014 Spartan issued 39,870,500 common shares priced at $3.75 per share through a brokered private placement financing.

Basic and diluted net income (loss) per share is calculated as follows:

	Year ended December 31,	
	2014	2013
Weighted average outstanding common shares (1)		
Basic	**213,665,978**	18,143,826
Diluted	**236,703,169**	18,143,826

(1) *Per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using a method which assumes that any proceeds received by the Company upon the exercise of in-the-money stock options or warrants plus unamortized share-based compensation expense would be used to buy back common shares at the average market price for the period.*

Warrants

Spartan has the following warrants outstanding:

	Number of warrants	**Weighted Average Exercise price**	**Amount (000s)**
Balance at December 31, 2012	-		-
Warrants issued	33,721,713	$ 0.80	14,400
Balance at December 31, 2013	**33,721,713**	**0.80**	**14,400**
Warrants assumed (note 3(b))	1,387,166	3.20	1,537
Warrants exercised(1)	(3,034,406)	(1.25)	(1,682)
Warrants expired	(819,891)	(3.20)	(909)
Balance at December 31, 2014(2)	**31,254,582**	**$ 0.80**	**13,346**

(1) *The weighted average price of the Company's common shares on the 2014 exercise dates was $3.17 per common share.*

(2) *As at December 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(b)). These warrants entitled the holder to purchase one common share of Spartan at a price of $3.20 per share until November 2014 at which time they expired. The fair value of these warrants was estimated at March 31, 2014 using a Black Scholes pricing model with the following weighted average assumptions:

(Dollar amounts in thousands of Canadian, except as noted)

Fair value ($/warrant)	1.11
Weighted-average exercise price ($)	3.20
Expected risk free rate (%)	2.0
Expected life (years)	0.7
Expected volatility (%)	125
Expected forfeiture rate (%)	10

The warrants outstanding at December 31, 2014 have a remaining life of 3.95 years, as they will expire on December 10, 2018.

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 options granted have an exercise price based on the trailing 5-day volume weighted average price of the Company's stock and the Plan provides that an option can have a maximum term of five years.

Options outstanding at December 31, 2014 are presented below. As at December 31, 2014, 685,833 of the options are vested and exercisable at a weighted average exercise price of $2.40 per common share.

	Number of Options	Remaining Life (years)	Weighted Average Exercise Price
Balance, December 31, 2012	737,750	2.90	$1.56
Forfeited	(489,750)	1.96	$1.56
Exercised(1)	(248,000)	1.96	$1.56
Issued	2,307,500	5.00	$2.40
Balance, December 31, 2013	**2,307,500**	**4.99**	**$2.40**
Issued	8,670,000	4.34	$3.30
Forfeited	(1,662,500)	(4.23)	($3.18)
Balance, December 31, 2014	**9,315,000**	**4.26**	**$3.10**

(1) The weighted average price of the Company's common shares on the 2013 exercise dates was $2.40 per common share.

Spartan uses the Black-Scholes option pricing model to calculate the estimated fair value of the stock options issued during the period. The following weighted average assumptions were used to arrive at the estimate of fair value as at the date of grant:

Years ended December 31,	2014	2013
Fair value ($/option)	2.61	1.51
Weighted-average exercise price ($)	3.30	2.40
Expected risk free rate (%)	2.0	1.1
Expected life (years)	5	3
Expected volatility (%)	114	145
Expected forfeiture rate (%)	10	10

(Dollar amounts in thousands of Canadian, except as noted)

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:

Year ended December 31	**2014**	**2013**
Income (loss) before income taxes	$ 33,255	$ (1,767)
Combined federal and provincial income tax rate	26.40%	25.00%
Computed income tax	8,779	(441)
Tax effects of:		
Stock-based compensation expense	2,331	17
Gain on property acquisition	(3,960)	-
Recognition of tax benefits previously not recorded	(1,420)	-
Transaction costs related to corporate acquisition	818	-
Change in estimates and other	2,372	76
Tax benefits not recognized	-	348
Deferred income tax for the period	**$ 8,920**	**$ -**

As at December 31, 2014 the Corporation had approximately $747 million of tax pools and losses available to reduce future taxable income. Of these, $551 million were related to the Renegade acquisition described in note 3(b).

The components of the net deferred income tax liability at December 31, 2014 were as follows:

	December 31 2014	**December 31 2013**
Deferred income tax assets:		
Share issue costs	$ 3,863	$ 45
Asset retirement obligation	27,644	1,649
Unrealized loss on financial derivative	-	8
Losses carryforward	46,432	1,120
	77,939	2,822
Deferred income tax liabilities:		
Property, plant and equipment	83,330	1,402
Deferred income tax liability (asset)	$ 5,391	$ (1,420)
Deferred tax asset not recognized	-	1,420
Net deferred income tax liability	**$ 5,391**	**$ -**

The deferred income tax liability continuity for the year is as follows:

	Year Ended December 31 2014	**Year Ended December 31 2013**
Deferred income tax liability at beginning of period	$ -	$ -
Amounts charged to earnings	8,920	(348)
Amounts credited to share capital	(2,845)	-
Amounts acquired in business combination	(5,684)	-
Amounts recognized on acquisition of properties	5,000	-
Deferred tax asset not recognized	-	348
Deferred income tax liability at end of period	**$ 5,391**	**$ -**

(Dollar amounts in thousands of Canadian, except as noted)

11 Supplemental cash flow information

Changes in non-cash working capital	Year Ended December 31 2014	Year Ended December 31 2013
Change in trade receivables	(23,399)	$53
Change in prepaid expenses and deposits	(2,086)	(2)
Change in trade and other liabilities	37,677	(834)
	$12,192	**($783)**
Relating to:		
Corporate acquisitions	16,266	-
Operating activities	(5,581)	(504)
Investing activities	1,507	(279)
	$12,192	**($783)**

12 Financial instruments & Risk management

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade receivables, funds held in trust, trade and other liabilities, derivative contracts and the Company's bank debt.

Spartan calculates the fair value of these 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 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, 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 carrying value of cash and cash equivalents, trade receivables, funds held in trust, trade and other liabilities and the Company's bank debt approximate fair value due to the short-term nature of those instruments or the indexed rate of interest on the bank debt.

Spartan's derivative contracts have been assessed on the fair value hierarchy described above. The derivative contracts are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

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. Net income (loss), cash flows and the fair value of financial assets and liabilities may fluctuate due to movement in market prices or as a result of the Company's exposure to credit and liquidity risks. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included in these financial statements.

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers.

Substantially all of the Company's petroleum and natural gas assets are marketed under standard industry terms. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. As a result, Spartan collects petroleum and natural gas revenues in an organized manner. Management monitors purchaser credit positions to mitigate any potential credit losses. To the extent that Spartan has joint interest activities with industry partners, the Company must collect, on a monthly basis, the partners' share of capital and operating expenses. These collections are subject to normal industry credit risk. The Company's policy to mitigate credit risk associated with these balances is to obtain partner approval of capital projects prior to expenditure and collecting in advance for significant amounts related to partners' share of capital expenditures in accordance with general industry operating practice. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, Spartan does have the ability to withhold production from joint venture partners in the event of non-payment.

The Company markets its petroleum and natural gas assets to several marketers so that the exposure to any one entity is minimized. Financial instruments that potentially subject Spartan to concentrations of credit risk consist primarily of trade and other receivables. The Company minimizes credit risk associated with possible non-performance to these financial instruments by entering into contracts with financially sound counterparties, limiting exposure to any one counterparty and monitoring customer approval procedures. The Company believes these risks are minimal. Substantially all of the Company's accounts receivable are due from customers and joint venture partners concentrated in the Canadian petroleum and natural gas industry.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. For the year ended December 31, 2014, no impairment provision was required on any of the financial assets of the Company due to the current nature of the receivables and historical success of collection.

The maximum exposure to credit risk is represented by the carrying amount of trade and other receivables and cash and cash equivalents. As at December 31, 2014 the Company's receivables consisted of $18.6 million of receivables from petroleum and natural gas marketers and $5.9 million of receivables from joint interest partners and other. As at December 31, 2014, of the $24.5 million in trade and other receivables, 95 percent were current and 5 percent were over 90 days due. Spartan has no material trade and other receivables deemed uncollectible. There are no material financial assets that the Company considers past due.

b) 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.

Spartan's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include but are not limited to, available bank lines, petroleum and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets.

(Dollar amounts in thousands of Canadian, except as noted)

As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

Trade and other payables consist of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. Spartan processes invoices within a normal payment period. Trade and other payables have contractual maturities of less than one year. The Company's $250 million credit facility is structured as a committed term loan. The credit facility is available for a revolving period of 364 days, maturing on May 31, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out, if not renewed. Repayments of principal are not required provided that the borrowings under the credit facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

Spartan anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows from operations and available bank debt. The Company has no defaults or breaches on its bank debt or any of its financial liabilities.

The timing of cash flows relating to financial liabilities as at December 31, 2014 is as follows:

	1 year	Total
Trade and other liabilities	$ 38,723	$ 38,723
Bank debt	74,434	74,434
	$ 113,157	$ 113,157

c) Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and U.S. dollar, but also global economic events that dictate the levels of supply and demand. Any material decline in prices could result in a reduction in petroleum and natural gas revenues.

During the first nine months of 2014, West Texas Intermediate (WTI), the US benchmark for light crude oil, averaged US$97.17 per barrel. In the fourth quarter of 2014, WTI averaged US$73.15 per barrel and for the first two months of 2015, it has averaged US$49.03 per barrel. This decline in commodity prices has created an extremely challenging environment for petroleum and natural gas producers both domestically and internationally. Some Companies are faced with uneconomic drilling projects, liquidity issues and limited financial flexibility. However, Spartan has drilling projects that are still highly economic at current oil prices and the Company has maintained a strong statement of financial position with available liquidity in excess of $160 million at December 31, 2014 on a $250 million credit facility.

Spartan may, from time to time, enter into physical hedges or financial derivative instruments in order to manage its commodity price risk. As at December 31, 2014, the Company had no crude oil or natural gas commodity contracts in place. The following crude oil and natural gas commodity contracts expired in

(Dollar amounts in thousands of Canadian, except as noted)

December 2014. The gain related to these financial derivative contracts is included in the Company's net income for the year ended December 31, 2014.

Period	Commodity	Contract	Quantity Contracted	Contract Price (1)
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 45% of the Company's fourth quarter 2014 oil production was hedged with the oil commodity contracts listed above.

Period	Commodity	Contract	Quantity Contracted	Contract Price (1)
April 1, 2014 – Dec 31, 2014	Natural Gas	Swap	700 gj/day	CAD $3.58

(1) AECO – C Spot monthly average.

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

Year ended December 31	2014	2013
Realized gain (loss) on derivative contracts	$ (8,787)	$ 162
Unrealized gain (loss) on derivative contracts	18,225	(668)
	$ 9,438	**$ (506)**

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of 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's financial assets and liabilities are not significantly affected by changes in currency rates at this point in time. Spartan has no foreign exchange contracts in place at December 31, 2014.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in interest rates. Spartan is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's bank debt which is subject to a floating interest rate. Assuming all other variables remain constant, an increase or decrease of 1 percent in interest rates would have an approximate $0.4 million impact on pre-tax earnings for the year ended December 31, 2014 (2013 - $0.1 thousand) based on average bank debt outstanding during the year.

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.

(Dollar amounts in thousands of Canadian, except as noted)

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.

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

13 Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Spartan has determined that the Company's key management personnel consist of its officers and directors. The key management personnel compensation is comprised of the following:

($ thousands)	**2014**	**2013**
Short-term employee benefits and director fees(1)	1,446	679
Reorganization termination benefits	-	500
Share-based compensation(2)	2,136	70
Total compensation	**3,582**	**1,249**

(1) Includes salaries and other short-term compensation.
(2) Represents the amortization of share-based compensation associated with the Company's stock option plan.

14 Commitments

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

As at December 31, 2014 ($ thousands)	**Amount**
Less than one year	1,752
Between one and five years	3,797
Total commitment	**5,549**