



Suite 500, 850 – 2<sup>nd</sup> Street SW  
Calgary, AB T2P 0R8  
Canada

Ph.: (403) 355-8920  
Fax: (403) 355-2779

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Spartan Energy Corp. ("Spartan" or the "Company") was prepared on, and is dated as at, November 11, 2015 and is management's assessment of the Company's financial and operating results for the quarter ended September 30, 2015. This MD&A should be read in conjunction with the interim consolidated financial statements and related notes thereto of the Company for the quarter ended September 30, 2015 and the audited consolidated financial statements and related notes thereto for year ended December 31, 2014. All financial measures are expressed in Canadian dollars unless otherwise indicated. The interim consolidated financial statements were prepared under International Accounting Standard (IAS) 34 interim Financial Reporting as issued by the international Accounting Standards Board, which is within Part 1 of the Canadian Institute of Chartered Accountants handbook, which itself is within the framework of International Financial Reporting Standards (IFRS). The results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for any future period, or for the fiscal year ended December 31, 2015. Additional information on the financial statements, this MD&A and other factors that could affect the Company's operations and financial results are included in reports, including the Company's Annual Information Form, on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

## REPORTING ENTITY

Spartan Energy Corp. ("Spartan" or the "Company") is an Alberta incorporated oil and natural gas exploration and production company whose business activities are focused in Western Canada. The interim consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2015 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's head office address is Suite 500, 850 – 2nd Street SW, Calgary, Alberta T2P 0R8. The common shares of the Corporation are listed on the Toronto Stock Exchange under the symbol "SPE".

## BASIS OF PRESENTATION

The interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). For a summary of the Company's detailed accounting policies, refer to note 2 of the Company's December 31, 2014 consolidated financial statements. This MD&A compares the results of the three months ended September 30, 2015 ("Q3 2015") to the three months ended September 30, 2014 ("Q3 2014") as well as the nine months ended September 30, 2015 to the nine months ended September 30, 2014. The terms "third quarter of 2015" and "same period of 2014" or similar terms are used throughout this document and refer to the three month periods ended September 30, 2015 and 2014, respectively.

## READER ADVISORIES

### *BOE Disclosure*

*The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet per barrel (6mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in the report are derived from converting gas to oil in the ratio mix of six thousand cubic feet of gas to one barrel of oil.*

### **Forward Looking Statements**

*Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A may include, but is not limited to, planned drilling and completion activities, future production levels and the completion of asset acquisitions.*

*The forward-looking statements contained in this MD&A are based on certain key expectations and assumptions made by Spartan, including expectations and assumptions concerning the success of future drilling, development and completion activities, the performance of existing wells, the performance of new wells, the availability and performance of facilities and pipelines, the geological characteristics of Spartan's properties, the successful application of drilling, completion and seismic technology, prevailing weather and break-up conditions, commodity prices, royalty regimes and exchange rates, the application of regulatory and licensing requirements, the availability of capital, labour and services, the creditworthiness of industry partners and the satisfaction of all conditions to the closing of the asset acquisitions.*

*Although Spartan believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Spartan can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), constraint in the availability of services, commodity price and exchange rate fluctuations, adverse weather or break-up conditions and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. These and other risks are set out in more detail in Spartan's Annual Information Form for the year ended December 31, 2014.*

*Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although Spartan believes that the expectations reflected in its forward looking information are reasonable, undue reliance should not be placed on forward-looking information because Spartan can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding and are implicit in, among other things, the timely receipt of any required regulatory approvals (including Court and shareholder approvals) and the satisfaction of all conditions to the completion of any transaction. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.*

*The forward-looking information contained in this MD&A is made as of the date hereof and Spartan undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this MD&A is expressly qualified by this cautionary statement.*

### **NON-IFRS MEASURES**

Certain financial measures referred to in this MD&A, such as funds flow from operations, funds flow from operations per share and net debt are not prescribed by IFRS. Funds flow from operations is calculated based on cash flows from operating activities before changes in non-cash working capital, transaction costs and decommissioning obligation expenditures incurred. Funds flow from operations per share is calculated using weighted average shares outstanding consistent with the calculation of net income (loss) per share. Spartan uses funds flow from operations to analyze operating performance and leverage, and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and repay debt. Spartan's determination of funds flow from operations, on an absolute and per share basis, may not be comparable to that reported by other companies.

The following table reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

(\$ thousands)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
Cash flow from (used in) operating activities	12,812	48,606	(74)	53,235	43,115	23
Transaction costs	-	353	n/a	2	3,489	(100)
Changes in non-cash working capital	1,529	(20,452)	(107)	(3,115)	9,367	(133)
<b>Funds flow from operations</b>	<b>14,341</b>	<b>28,507</b>	<b>(50)</b>	<b>50,122</b>	<b>55,971</b>	<b>(10)</b>

Net debt is calculated as bank debt plus current liabilities (excluding bank debt) less current assets. The following table reconciles bank debt (an IFRS measure) to net debt (a non-IFRS measure):

(\$ thousands)	September 30, 2015	December 31, 2014
Bank debt	82,179	74,434
Current assets	(19,864)	(26,814)
Current liabilities (excluding bank debt)	24,569	38,723
<b>Net Debt</b>	<b>86,884</b>	<b>86,343</b>

This MD&A also contains other industry benchmarks and terms, including total market capitalization (defined as net debt plus total outstanding common shares multiplied by the period end market price per share) and operating netbacks (calculated on a per unit basis as oil, gas and natural gas liquids revenues, less royalties, operating and transportation costs and realized loss (gain) on derivative contracts), which are not recognized measures under IFRS. Management believes that in addition to net income (loss) and cash flow from (used in) operating activities, funds flow from operations, net debt, total market capitalization and operating netbacks are useful supplemental measures as they provide an indication of Spartan's operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income (loss) and cash flow from (used in) operating activities, which are determined in accordance with IFRS, as indicators of Spartan's performance.

#### DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Interim Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures as defined in National Instrument 52-109 of the Canadian Securities Administrators, to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and the CFO have evaluated the effectiveness of Spartan's disclosure controls and procedures as at September 30, 2015 and have concluded that such disclosure controls and procedures are effective.

#### INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and the CFO have evaluated the effectiveness of Spartan's internal controls over financial reporting as at December 31, 2014 and have concluded that such internal controls over financial reporting are effective. There were no material changes to the Company's internal controls over financial reporting during the interim period from January 1, 2015 to September 30, 2015.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published an updated Internal Control – Integrated Framework and related illustrative documents, which supersedes the 1992 COSO Framework as of December 15, 2014. As of September 30, 2015, Spartan was utilizing the original framework published in 1992, but is transitioning to the 2013 COSO Framework as it relates to its internal control over financial reporting. Currently, management does not expect this transition to result in any significant changes to its internal controls over financial reporting.

It should be noted that while Spartan's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and are effective, they do not expect that these controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met. In addition, projections of any evaluation relating to the effectiveness in future periods are subject to the risk that controls

may become inadequate as a result of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

## RESULTS OF OPERATIONS

### Q3 2015 Highlights:

Spartan's highlights for the third quarter ended September 30, 2015 include:

- Averaged production of 8,042 boe/d, comprised of 95% oil and liquids, a 9 percent increase over the third quarter of 2014. Average production was impacted by approximately 100 boe/d in the quarter due to third party facilities constraints at our Alexander property which were resolved late in the third quarter.
- Realized continued improvements in operational efficiencies and cost reductions across all aspects of our business.
- Delivered operating and transportation costs of \$17.44 per boe, a reduction of 16% from the third quarter of 2014.
- Reduced net G&A costs to \$1.93 per boe in the third quarter, a reduction of 21% from the second quarter of 2015 and 8% from the third quarter of 2014.
- Continued to reduce drilling costs, with drill, complete and equip costs for open-hole horizontal wells drilled after the first quarter averaging approximately \$800,000.
- Realized an operating netback of \$22.29 per boe, resulting in quarterly funds flow from operations of \$14.3 million (\$0.05 per basic and diluted share).
- Drilled 19 (16.9 net) wells in the quarter and brought 18 (15.2 net) wells on production.
- Maintained our balance sheet strength, with net debt at the end of the quarter of approximately \$86.9 million.

### Production

For the three month period ended September 30, 2015, Spartan achieved average total production of 8,042 boe/d compared to 7,399 boe/d for the same period in 2014, a 9 percent increase. Average production for the nine months ended September 30, 2015 of 8,712 boe/d was 78 percent higher than production for the nine months ended September 30, 2014 of 4,906 boe/d.

The increase in average total production from Q3 2014 to Q3 2015 is a result of additional production from the Company's resource property acquisitions in the third quarter of 2014 as well as a successful development drilling program in the second half of 2014 and first three quarters of 2015.

Average production for the three months ended September 30, 2015 of 8,042 boe/d was 8 percent lower than production for the three months ended June 30, 2015 of 8,710 boe/d as a result of decreased production caused by natural well declines and temporary production interruptions in the Company's Alexander, Alberta field. Due to spring break up conditions in Saskatchewan, Spartan budgeted for limited development drilling activity in the second quarter of 2015. Post spring break up, as weakness in commodity prices continued, Spartan scaled back its capital expenditures budget for the second half of 2015 to more closely align budgeted capital expenditures to its forecasted funds flow from operations and manage the Company's net debt. Drilling activity increased in the second half of the third quarter and into the fourth quarter. By deferring certain capital expenditures to later in the 2015 year, the Company was able to realize anticipated cost savings.

	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
Crude Oil (bbls/d)	7,382	6,802	9	8,038	4,437	81
Natural Gas (mcf/d)	2,182	2,509	(13)	2,810	2,093	34
Liquids (bbls/d)	296	179	65	206	120	72
<b>Total (boe/d)</b>	<b>8,042</b>	<b>7,399</b>	<b>9</b>	<b>8,712</b>	<b>4,906</b>	<b>78</b>

### Oil and Gas Sales / Gain on Acquisition

Oil and gas sales for the three month period ended September 30, 2015 decreased 41 percent to \$35.1 million from \$59.2 million for the three month period ended September 30, 2014. For the nine months ended September 30, 2015, sales decreased by 2 percent to \$117.6 million from \$120.2 million for the same period in the prior year. The decrease in oil and gas sales for the three and nine months ended September 30, 2015 was caused by a significant decline in commodity prices resulting in a decrease in the Company's realized price for oil and gas sales. The Company's realized price for oil and gas sales in

the third quarter of 2015 decreased by 46 percent compared to the third quarter of 2014. The price decline was offset by an increase in production volumes from the third quarter of 2014 to the third quarter of 2015.

Sales are impacted by production levels and volatility in commodity pricing. Production levels are impacted by decline rates and the Company's capital program and asset acquisitions. Commodity prices are affected by both domestic and international factors that are beyond the control of the Company.

(\$ thousands, except per boe amounts)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Oil and gas sales by product:</b>						
Light crude oil	34,121	57,569	(41)	114,621	115,601	(1)
Natural gas	531	880	(40)	1,902	2,835	(33)
Natural gas liquids	415	831	(50)	1,038	1,753	(41)
<b>Total oil and gas sales</b>	<b>35,068</b>	<b>59,280</b>	<b>(41)</b>	<b>117,562</b>	<b>120,189</b>	<b>(2)</b>
Total oil and gas sales (\$/boe) <sup>(1)</sup>	47.40	87.09	(46)	49.43	89.75	(45)
Gain on acquisition	-	-	-	-	15,000	n/a

(1) Prior to realized derivative contracts

### Commodity Pricing

All of Spartan's crude oil was sold into the spot market during the three and nine months ended September 30, 2015. Spartan's realized price for its light crude oil and NGLs in the third quarter of 2015 was \$48.89/bbl compared to a realized price of \$90.94/bbl for the same period of 2014. For the nine months ended September 30, 2015, the Company's realized price for its light crude oil and NGLs was \$51.39/bbl compared to the September 30, 2014 year-to-date realized price of \$94.34/bbl.

The Company realized a gas price of \$2.65/mcf for the three months ended September 30, 2015 compared to \$3.81/mcf in the same period of 2014 and a realized price of \$2.48/mcf for the nine months ended September 30, 2015 compared to \$4.96/mcf for the same period of 2014.

Spartan's production is sold in Canada and is sensitive to commodity price variation and changes in the Canada/U.S. currency exchange rate as well as quality price differentials. Spartan's price realizations are influenced by changes to various crude benchmarks, including, but not limited to, Canadian LSB at Cromer, Manitoba. Commodity prices are affected by both domestic and international factors that are beyond the control of the Company. In addition, prices received for crude oil and NGLs are determined by the quality of the crude compared to a benchmark price for light oils. The decrease in Spartan's realized price is consistent with the decrease in the Canadian LSB at Cromer, Manitoba benchmark. The 43 percent decrease in the benchmark from Q3 2014 to Q3 2015 is consistent with the 46 percent decrease in the Company's average realized price for light crude oil and NGLs over the same period.

	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Average Benchmark Prices</b>						
Crude oil – WTI (US\$ per bbl)	46.43	97.17	(52)	51.00	99.61	(49)
Crude oil – WTI (CDN\$ per bbl)	60.71	105.76	(43)	64.08	109.00	(41)
Crude oil – Cromer LSB (35 API) (\$ per bbl)	54.21	95.70	(43)	56.86	99.19	(43)
Natural gas – AECO-C Spot (\$ per mcf)	2.92	4.03	(28)	2.78	4.78	(42)
Exchange rate – (US/CAD)	0.76	0.92	(17)	0.79	0.91	(13)
<b>Spartan's Average Realized Prices</b>						
Crude oil and natural gas liquids (\$ per bbl) <sup>(1)</sup>	48.89	90.94	(46)	51.39	94.34	(46)
Natural gas (\$ per mcf) <sup>(1)</sup>	2.65	3.81	(30)	2.48	4.96	(50)

(1) Prior to realized derivative contracts

### Royalties

Royalty payments are made to the owners of the mineral rights on leases, which include provincial governments and freehold landowners, as well as to other third parties by way of contractual overriding royalties. Overriding royalties are generally paid to third parties where Spartan has entered into agreements to earn an interest in their mineral rights by investing capital in

their property. Royalties also include the Saskatchewan resource surcharge royalty. As Saskatchewan revenues vary, this cost is expected to fluctuate in direct correlation.

For the three months ended September 30, 2015, total royalties were \$5.7 million compared to \$9.4 million for the same period of 2014. The Company's average royalty rate for the three months ended September 30, 2015 was 16 percent of sales compared to 16 percent for the same period of 2014. For the nine months ended September 30, 2015, royalties were \$18.4 million, or 16 percent of sales, as compared to \$20.3 million, or 17 percent of sales, for the same period in 2014. The decrease in royalties for the three and nine months ended September 30, 2015 compared to the same periods of 2014 is consistent with the decrease in oil and gas sales over the same periods.

Royalties as a percentage of sales were consistent from the third quarter of 2014 to the third quarter of 2015 and decreased from the nine months ended September 30, 2014 to the nine months ended September 30, 2015. The decrease in royalties as a percentage of sales for the nine months ended September 30, 2015 is due the Company's efforts to increase drilling on Crown lands. Spartan focused on drilling wells on Crown lands when possible to date in 2015 where oil and gas sales are eligible for Crown royalty incentives in the province of Saskatchewan.

Oil and gas sales generated in Saskatchewan are also subject to the Saskatchewan resource surcharge royalty. Wells drilled prior to October 1, 2002 are subject to a 3.0% surcharge on all oil and gas sales while wells drilled after September 30, 2002 are charged at a rate of 1.7% on all oil and gas sales.

(\$ thousands, except per boe amounts)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Royalties</b>	<b>5,674</b>	9,381	(40)	<b>18,399</b>	20,275	(9)
\$ per boe	<b>7.67</b>	13.78	(44)	<b>7.74</b>	15.14	(49)
% of oil and gas sales	<b>16</b>	16	-	<b>16</b>	17	(6)

#### Operating & Transportation

Operating and transportation costs totaled \$12.9 million, or \$17.44/boe, for the three months ended September 30, 2015 as compared to \$14.1 million, or \$20.67/boe, in the third quarter of 2014. For the nine months ended September 30, 2015, operating and transportation costs totaled \$41.6 million, or \$17.49/boe, compared to \$25.9 million, or \$19.31/boe, for the same period in the prior year.

Operating and transportation costs decreased on both a total dollar basis and per boe basis for the three months ended September 30, 2015, compared to the same period of 2014, as lower repairs and maintenance expenditures and well servicing costs were incurred to maintain production in 2015. Increased operating efficiencies in the field and realized cost savings from service providers in a lower commodity price environment have also contributed to lower operating and transportation costs in the third quarter of 2015.

Operating and transportation costs increased for the nine months ended September 30, 2015 compared to the same period in 2014 due to the growth in the Company's asset base. Spartan completed the acquisition of Renegade Petroleum Ltd. in the first quarter of 2014 and completed several resource property acquisitions in the third quarter of 2014 resulting in additional operating and transportation expenses in the second half of 2014 and first nine months of 2015.

(\$ thousands, except per boe amounts)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Operating and transportation costs</b>	<b>12,902</b>	14,071	(8)	<b>41,614</b>	25,854	61
Operating and transportation costs per boe (\$)	<b>17.44</b>	20.67	(16)	<b>17.49</b>	19.31	(9)

#### General and Administrative Expenses

During the third quarter of 2015, general and administrative expenses (G&A), net of capitalized and overhead recovery amounts, were \$1.4 million, or \$1.93/boe, as compared to the quarter ended September 30, 2014 where net G&A expenses were \$1.4 million, or \$2.09/boe. Gross G&A expenses prior to the effects of capitalized and overhead recoveries amounts were \$3.0 million, or \$4.01/boe, as compared to the quarter ended September 30, 2014 where gross G&A expenses were \$3.4 million, or \$5.01/boe.

For the nine months ended September 30, 2015, G&A, net of capitalized and overhead recovery amounts, was \$5.0 million, or \$2.09/boe, as compared to the September 30, 2014 amounts of \$3.7 million, or \$2.75/boe. Gross G&A expenses prior to the effects of capitalized and overhead recoveries amounts were \$9.5 million, or \$4.00/boe, for the nine months ended September 30, 2015 as compared to the same period of 2014 where gross G&A expenses were \$7.6 million, or \$5.70/boe.

G&A expenses for the three months ended September 30, 2015 were consistent with G&A expenses in the third quarter of 2014. G&A expenses increased for the nine months ended September 30, 2015 compared to the same period in the prior year due to increased corporate overhead costs to support the growth experienced by the Company in second half of 2014 subsequent to the Company's acquisition of Renegade Petroleum Ltd. on March 31, 2014. Gross and net G&A expenses decreased on a per boe basis for both the three and nine months ended September 30, 2015, compared to the same periods in the prior year, due to an increase in production volumes and the Company's focus towards reducing corporate overhead costs and increasing efficiencies.

(\$ thousands, except per boe amounts)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
Gross general and administrative expenses	2,968	3,410	(13)	9,523	7,627	25
Less – recoveries	(1,092)	(1,492)	(27)	(3,032)	(2,117)	43
Less - capitalized	(445)	(495)	(10)	(1,520)	(1,833)	(17)
<b>General and administrative expenses</b>	<b>1,431</b>	<b>1,423</b>	<b>1</b>	<b>4,971</b>	<b>3,677</b>	<b>35</b>
Net general and administrative expenses (\$/boe)	1.93	2.09	(8)	2.09	2.75	(24)
Gross general and administrative expenses (\$/boe)	4.01	5.01	(20)	4.00	5.70	(30)

#### Interest Expense

Interest expense, net of interest income, was \$0.7 million, or \$0.97/boe, for the three month period ended September 30, 2015 compared to \$1.0 million, or \$1.42/boe for the same period of 2014. Interest expense, net of interest income, was \$2.5 million, or \$1.03/boe, for the nine months ended September 30, 2015 compared to \$2.1 million, or \$1.56/boe, for the same period of 2014. Interest expense decreased for the three months ended September 30, 2015, compared to the same period in 2014, as the Company was able to save on excess standby charges and commitment fees by reducing its credit facility from \$250 million to \$150 million in the third quarter of 2015.

(\$ thousands, except per boe amounts)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Interest expense</b>	<b>720</b>	<b>967</b>	<b>(26)</b>	<b>2,456</b>	<b>2,095</b>	<b>17</b>
Interest expense (\$ per boe)	0.97	1.42	(32)	1.03	1.56	(34)

#### Depletion and Depreciation

For the third quarter of 2015, depletion and depreciation expense was \$22.2 million, or \$30.03/boe, as compared to the quarter ended September 30, 2014 in which the expense was \$24.9 million, or \$36.58/boe. For the nine months ended September 30, 2015, depletion and depreciation expense was \$72.8 million, or \$30.62/boe, as compared to the 2014 expense of \$45.7 million, or \$34.14/boe. The decrease in depletion expense per boe for the three and nine months ended September 30, 2015 is due to the growth in the Company's proved plus probable reserves year over year on lower capital spending.

(\$ thousands, except per boe amounts)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Total depletion and depreciation</b>	<b>22,215</b>	<b>24,897</b>	<b>(11)</b>	<b>72,834</b>	<b>45,714</b>	<b>59</b>
Depletion and depreciation (\$/boe)	30.03	36.58	(18)	30.62	34.14	(10)

## Impairment

At September 30, 2015, due to declining forward commodity 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 estimated net present value of the after tax cash flows from oil and gas proved plus probable reserves discounted at rates ranging from 9%-11%. 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.

It was determined that the net book value of the Company's Alberta - Alexander and West Central Saskatchewan - Viking CGUs exceeded their recoverable amounts and Spartan recognized an impairment charge of \$4.0 million (2014- \$nil) in its Alberta - Alexander CGU and \$30.0 million (2014- \$nil) in its West Central Saskatchewan – Viking CGU. The impairment charges relate to a decrease in forecasted prices for oil and natural gas. The recoverable amounts of the Company's CGUs are sensitive to fluctuations in commodity prices. As a result, further decreases to commodity prices could result in additional impairment charges. Alternatively, an increase in commodity prices could reverse the recognized impairment charge, less applicable depletion expenses.

At a future date, if there is an indicator that a previously recognized impairment charge may no longer exist, the recoverable amount of the CGU will be reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

## Income taxes

As at September 30, 2015 the Company had approximately \$756.1 million of tax pools and losses available to reduce future taxable income.

(\$thousands of dollars)	September 30, 2015
COPGE	323,346
CDE	130,597
CEE	14,340
FEDE	6
UCC	83,268
CEC	654
Share issue costs	11,525
Tax losses	192,326
<b>Total</b>	<b>756,062</b>

## Funds Flow from Operations and Net Income (Loss)

For the three months ended September 30, 2015, funds flow from operations decreased by 50 percent to \$14.3 million compared to \$28.5 million during the same period of 2014. Basic and diluted funds flow from operations per share for the quarter was \$0.05 per share compared to \$0.11 per basic share and \$0.10 per diluted share during the same period of 2014.

For the nine months ended September 30, 2015, funds flow from operations decreased by 10 percent to \$50.1 million compared to \$56.0 million during the same period of 2014. Basic and diluted funds flow from operations per share for the nine months ended September 30, 2015 were \$0.19 per share and \$0.17 per share respectively compared to \$0.28 per basic and \$0.25 per diluted share during the same period of 2014.

The decrease in funds flow from operations for the three and nine months ended September 30, 2015, compared to the same periods in the prior year, was caused by the decline in commodity prices and the resulting decrease in the Company's realized price for oil and gas sales. Despite higher production in 2015 and a reduction in all cash costs on a per boe basis from the third quarter of 2014 to the third quarter of 2015, the downturn in commodity prices has resulted in lower oil and gas sales and lower funds flow from operations for the three and nine months ended September 30, 2015 compared to the same periods in 2014.

The Company realized a net loss of \$33.4 million in the third quarter of 2015 compared to net income of \$6.1 million for the same period of 2014. The basic and diluted net loss per share for the quarter was \$0.13 compared to net income of \$0.02 per basic and diluted share for the three months ended September 30, 2014. The Company realized a net loss of \$51.7 million, or \$0.20 per basic share and diluted share, for the nine months ended September 30, 2015 compared to net income of \$22.5 million, or \$0.11 per basic share and \$0.10 per diluted share, in the same period of 2014. The net losses for the three and nine months ended September 30, 2015 were primarily a result of the \$34.0 million impairment charge recognized by the Company in the third quarter of 2015 and the decline in commodity prices in 2015 that resulted in a decrease in the Company's oil and gas sales .

(\$ thousands)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Funds flow from operations</b>	<b>14,341</b>	28,507	(50)	<b>50,122</b>	55,971	(10)
Funds flow from operations per basic share	<b>0.05</b>	0.11	(55)	<b>0.19</b>	0.28	(32)
Funds flow from operations per diluted share	<b>0.05</b>	0.10	(50)	<b>0.17</b>	0.25	(32)
<b>Net income (loss)</b>	<b>(33,388)</b>	6,123	(645)	<b>(51,658)</b>	22,480	(330)
Net income (loss) per basic share	<b>(0.13)</b>	0.02	(750)	<b>(0.20)</b>	0.11	(282)
Net income (loss) per diluted share	<b>(0.13)</b>	0.02	(750)	<b>(0.20)</b>	0.10	(300)

The following table summarizes the netbacks on a per boe basis for the three and nine months ended September 30, 2015.

(\$ per boe)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
Oil and gas sales price	<b>47.40</b>	87.09	(46)	<b>49.43</b>	89.75	(45)
Realized loss on derivative contracts	-	(7.24)	n/a	-	(9.20)	n/a
Net realized oil and gas sales price	<b>47.40</b>	79.85	(41)	<b>49.43</b>	80.55	(39)
Royalties	<b>(7.67)</b>	(13.78)	(44)	<b>(7.74)</b>	(15.14)	(49)
Operating and transportation costs	<b>(17.44)</b>	(20.67)	(16)	<b>(17.49)</b>	(19.31)	(9)
<b>Operating netback</b>	<b>22.29</b>	45.40	(51)	<b>24.20</b>	46.10	(48)
General and administrative expenses	<b>(1.93)</b>	(2.09)	(8)	<b>(2.09)</b>	(2.75)	(24)
Interest expense	<b>(0.97)</b>	(1.42)	(32)	<b>(1.03)</b>	(1.56)	(34)
<b>Corporate netback</b>	<b>19.39</b>	41.89	(54)	<b>21.08</b>	41.79	(50)

### Summary of Quarterly Results

Below is summarized quarterly information for the last eight quarters:

<b>Quarterly Summaries</b>	<b>September 30,</b>	June 30,	March 31,	December 31,
(\$ thousands, except per boe and per share amounts)	<b>2015</b>	2015	2015	2014
Production (boe/d)	<b>8,042</b>	8,710	9,402	8,844
Average realized price (\$/boe) – excluding derivatives	<b>47.40</b>	56.56	44.52	65.98
Oil and gas sales	<b>35,068</b>	44,822	37,672	53,683
Net income (loss)	<b>(33,388)</b>	(6,387)	(11,883)	1,855
Earnings per share - basic	<b>(0.13)</b>	(0.02)	(0.04)	0.01
Earnings per share – diluted	<b>(0.13)</b>	(0.02)	(0.04)	0.01
Funds flow from operations	<b>14,341</b>	22,266	13,515	29,823
Funds Flow from operations per share - basic	<b>0.05</b>	0.08	0.05	0.11
Funds Flow from operations per share - diluted	<b>0.05</b>	0.08	0.05	0.10

<b>Quarterly Summaries</b> (\$thousands of dollars, except per boe amounts)	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
Production (boe/d)	7,399	6,396	850	664
Average realized price (\$/boe) – excluding derivatives	87.09	94.59	76.54	52.64
Oil and gas sales	59,280	55,056	5,853	3,216
Net income (loss)	6,123	1,357	15,000	(1,718)
Earnings per share - basic	0.02	0.01	0.15	(0.07)
Earnings per share – diluted	0.02	0.01	0.12	(0.07)
Funds flow from operations	28,507	24,371	3,095	884
Funds Flow from operations per share - basic	0.11	0.11	0.03	0.03
Funds Flow from operations per share - diluted	0.10	0.09	0.01	0.03

Since commencing operations after the recapitalization of Alexander Energy Ltd. on December 10, 2013, Spartan's current management team has significantly grown the Company's asset and production base through a combination of successful development drilling and accretive acquisitions. Spartan acquired Renegade Petroleum Ltd. on March 31, 2014 and then completed five additional resource property acquisitions in 2014. Spartan has amassed a significant land base in southeast Saskatchewan with an extensive inventory of drilling locations that position the Company for future growth.

Spartan showed consistent production growth quarter over quarter from the fourth quarter of 2013 until the first quarter of 2015. The quarter over quarter production growth translated into a trend of increased oil and gas sales and funds flow from operations from the fourth quarter of 2013 through to the third quarter of 2014. Production decreased from the first quarter of 2015 to the third quarter of 2015 due to natural well declines and limited development drilling activity in the second quarter of 2015 driven by spring break up conditions in Saskatchewan. In addition, in an effort to realize anticipated cost savings as a result of decreased activity in the industry, a large percentage of the Company's post spring break up development drilling program was executed in the latter half of the third quarter and has continued into the fourth quarter resulting in a lower production impact to the third quarter production average. Spartan expects production to increase in the fourth quarter of 2015 as production is added through the Company's post spring break up development drilling program.

A declining commodity price environment in the second half of 2014 has continued to date in 2015 and has resulted in a significant decrease in the Company's realized price for oil and gas sales. In turn, Spartan has realized lower quarterly oil and gas sales and funds flow from operations in 2015 compared to the second, third and fourth quarters of 2014 despite increasing average production for the nine months ended September 30, 2015. Spartan's average realized sales price (excluding derivatives) decreased by 46 percent from the third quarter of 2014 to the third quarter of 2015 resulting in a 41 percent decrease in oil and gas sales and 50 percent decrease in funds flow from operations over the period.

### Capital Expenditures

The following table details the cash capital additions relating to the Company's property, plant and equipment and exploration and evaluation assets for the three and nine months ended September 30, 2015 and 2014:

(\$ thousands)	For the three months ended September 30,			For the nine months ended September 30,		
	2015	2014	% change	2015	2014	% change
Drilling & Completions	14,395	26,458	(46)	30,323	33,020	(8)
Equipment & Facilities	4,185	6,276	(33)	15,853	8,228	93
Land & Seismic	351	1,370	(74)	1,240	2,102	(41)
Other	445	510	(13)	1,520	1,848	(18)
<b>Total capital expenditures - excluding acquisitions</b>	<b>19,376</b>	<b>34,614</b>	<b>(44)</b>	<b>48,936</b>	<b>45,198</b>	<b>8</b>
Acquisitions	1,035	129,829	(99)	1,549	162,329	(99)
<b>Total capital expenditures - including acquisitions</b>	<b>20,411</b>	<b>164,443</b>	<b>(88)</b>	<b>50,485</b>	<b>207,527</b>	<b>(76)</b>

Drilling and completions costs for the three months ended September 30, 2015 were \$14.4 million compared to \$26.5 million for the same period in 2014. For the nine months ended September 30, 2015, Spartan incurred \$30.3 million in drilling and completions costs compared to \$33.0 million for the nine months ended September 30, 2014.

Spartan spud 19 (16.9 net) wells in the third quarter of 2015 and brought 14 (12.1 net) of those wells on production by September 30, 2015. The remaining five wells drilled in the third quarter were completed and brought on production in October. Spartan also brought 4 (3.1 net) wells on production in the third quarter that were drilled in previous quarters. A

summary of Spartan's drilling activity in 2015 is provided below. As at September 30, 2015, the Company had spud 42 (35.7 net) wells to date in 2015 and had brought 37 (30.9 net) wells on production.

<b>2015 Drilling Program</b>	<b>Wells Spud</b>		<b>Wells On Production</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
As at September 30, 2015				
Southeast Saskatchewan – Conventional Mississippian	36	29.8	32	26.0
Southeast Saskatchewan – Frac Midale	5	4.9	5	4.9
West Central Saskatchewan – Frac Viking	1	1.0	-	-
<b>Total</b>	<b>42</b>	<b>35.7</b>	<b>37</b>	<b>30.9</b>

Spartan incurred \$4.2 million in equipment and facilities capital expenditures in the third quarter of 2015 in the form of new well equipping and tie-in costs, well optimizations, well re-activations and facility upgrade projects. For the nine months ended September 30, 2015, equipment and facilities capital expenditures totaled \$15.9 million. Land and seismic costs for the three and nine months ended September 30, 2015 were \$0.4 million and \$1.2 million respectively as the Company continued to expand its land position in its core areas.

Spartan has executed on its capital program to date in 2015 while spending within funds flow from operations in this low commodity price environment. With the volatility in commodity oil and gas prices, Spartan continues to actively monitor capital spending plans and forecasted cash flows. Capital expenditures are largely discretionary and the flexibility of the capital plan provides the ability to allocate capital as warranted to preserve balance sheet strength. As at September 30, 2015, the Company had spent \$50.5 million in capital expenditures (including acquisitions) in 2015 while generating \$50.1 million in funds flow from operations over the nine month period.

#### *Resource Property Acquisitions*

During the nine months ended September 30, 2015, the Company completed minor property acquisitions for total consideration of approximately \$1.7 million, which included the issuance of 89,271 common shares of Spartan.

#### **CAPITALIZATION AND CAPITAL RESOURCES**

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

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 and decommissioning obligation 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's net debt to annualized funds flow from operations ratio was 1.5 times for the third quarter of 2015 and was 1.3 times for the nine months ended September 30, 2015.

## Share Capital

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
<b>Weighted average outstanding common shares<sup>(1)</sup></b>				
Basic	<b>264,277,846</b>	262,420,942	<b>264,270,046</b>	196,702,861
Diluted	<b>285,637,309</b>	287,939,818	<b>286,853,924</b>	221,767,007
<b>As at September 30, 2015</b>				
Common shares			<b>264,357,931</b>	
Warrants <sup>(2)</sup>			<b>31,246,249</b>	
Common share options <sup>(3)</sup>			<b>12,140,000</b>	

(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.

(2) All of the outstanding warrants were exercisable at September 30, 2015.

(3) As at September 30, 2015, 2,683,333 of the options to purchase common shares were vested and exercisable.

Spartan's total capitalization as at September 30, 2015 is as follows:

(\$ thousands)	Amount
Net debt	86,884
Market capitalization <sup>(1)</sup>	602,736
<b>Total capitalization as at September 30, 2015</b>	<b>689,620</b>

(1) As at September 30, 2015, the closing market price of Spartan Energy Corp. shares was \$2.28 per share.

## Liquidity

As at September 30, 2015, the Company had available a \$150 million (December 31, 2014 - \$250 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 (as defined by the lender) ranging from less than or equal to 1:1 to greater than 3.5:1. 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. At September 30, 2015, the Company had \$82.2 million drawn on the facility, excluding a letter of guarantee outstanding in the amount of \$2.7 million (December 31, 2014 - \$2.7 million) against the credit facility.

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 its syndicate of lenders, as well as other factors. During the third quarter, as part of the Company's ongoing cost reduction initiatives, Spartan voluntarily elected to reduce the credit facility to \$150 million effective July 29, 2015. Spartan continues to focus on prudent and conservative management of its balance sheet, and is of the view that the additional available lending capacity is not currently required by the Company. By reducing the facility to \$150 million, which continues to provide sufficient liquidity for the execution of the Company's business plan, Spartan will save excess standby and commitment fees. Spartan completed its mid-year borrowing base review with its syndicate of lenders on October 30, 2015 and agreed to maintain the credit facility at \$150 million. The next borrowing base review is scheduled to occur on or before May 31, 2016.

On an ongoing basis, Spartan will typically utilize three sources of funding to finance its capital expenditure program: internally generated cash flow from operations, debt where deemed appropriate and new equity issues if available on favourable terms. When financing corporate acquisitions, the Company may also assume certain future liabilities. In addition, the Company may adjust its capital expenditure program depending upon commodity price outlook.

The Company's investment selection process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth (development activity) and future cash flow from the discovery of reserves (exploration). This careful prospect selection process can yield consistent and efficient results. The Company focuses its activity in a small number of core areas and concentrates on play types with which management is familiar, allowing it to leverage off its experience and knowledge in these areas. The Company will consider the use of farmouts to minimize risk on plays it considers higher risk.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company does not have any special purpose entities nor is it a party to any off-balance sheet arrangements.

## **USE OF ESTIMATES AND JUDGMENTS**

The preparation of 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 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 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 decommissioning provisions and related assets and expenses 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. 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. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Management does not expect a significant difference between value in use and fair value less cost to sell.

#### *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 the Company 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.

#### **CHANGE IN ACCOUNTING POLICIES**

A summary of significant accounting policies used by the Company and changes in the Company's accounting policies are disclosed in note 2 of the Company's December 31, 2014 annual consolidated financial statements.

In May 2014, the International Accounting Standards Board 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 2014 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.

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.

## **BUSINESS RISKS**

Spartan is engaged in the exploration, development and production of crude oil and natural gas. There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector. Operationally, the Company faces risks that are associated with finding, developing, and producing oil and gas reserves. These include risks associated with drilling and completion, reservoir performance uncertainties, access to processing facilities, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates, access to capital markets, and the cost of goods and services.

Spartan attempts to mitigate these risks by employing highly qualified people, utilizing sound operating and business practices, and evaluating all potential and existing wells using the latest applicable technology. Spartan complies with government regulations and has in place an up-to-date emergency response test. Environment and safety policies and standards are adhered to. Decommissioning liabilities are recognized upon acquisition, construction, development and/or normal use of the assets. Spartan maintains property and liability insurance coverage. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

The following reviews the general and specific risks and includes Spartan's approach to managing these risks.

*Prices, Markets and Marketing of Crude Oil and Natural Gas*

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Company's oil and gas reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company are in part determined by the borrowing base of the Company. A sustained material decline in prices from historical average prices could limit or reduce the Company's borrowing base, therefore reducing the bank credit available to the Company, and could require that a portion of any existing bank debt of the Company be repaid.

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas, which may be acquired or discovered by the Company, will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines, which deliver natural gas to commercial markets. The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has limited direct experience in the marketing of oil and natural gas.

#### *Risk Management*

Spartan may, from time to time, enter into physical hedges or financial derivative instruments in order to manage its commodity price risk.

#### *Exploration Risk*

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Spartan attempts to minimize finding risk by ensuring that:

- the majority of its prospects have multi-zone potential;
- its activity is focused in core regions where management's expertise and experience are greatest;
- the number of wells drilled is large enough to increase the probability of statistical success rates;
- working interests are targeted at over 50 percent in new prospects; and
- geophysical techniques are utilized where appropriate.

#### *Investment Risk Profile*

The Company's investment selection process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth (development activity) and future cash flow from the discovery of reserves (exploration). This careful prospect selection process can yield consistent and efficient results. The Company focuses its activity in a small number of core areas and concentrates on play types with which management is familiar, allowing it to leverage off its experience and knowledge in these areas. The Company will consider the use of farmouts to minimize risk on plays it considers higher risk.

#### *Production*

Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. Spartan minimizes this risk by generating exploration prospects internally, targeting high quality products and attempting to operate the associated project. Operational control allows the Company to control costs, timing, method and sales of production. Production risk is also minimized by concentrating exploration efforts in regions where facilities and infrastructure are Spartan owned, or the Company can control the future development of new facilities and infrastructure.

### *Reserve Estimates*

Estimates of economically recoverable oil and natural gas reserves (including natural gas liquids) and the future net cash flows there from are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating costs. All of these estimates may vary from actual results. Estimates of the recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net revenues expected there from, may vary. The Company's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

### *Financial and Liquidity Risks*

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. On an ongoing basis, Spartan will typically utilize three sources of funding to finance its capital expenditure program: internally generated funds flow from operations, debt where deemed appropriate and new equity issues if available on favourable terms.

Cash flow is influenced by factors, which the Company cannot control, such as commodity prices, the Canada/U.S. currency exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect cash flow in a detrimental way, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. In such circumstances, Spartan would be required to either reduce the level of its capital expenditures or supplement its capital expenditure program with additional debt and/or equity financing. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

### *Issuance of Debt*

From time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

### *Environmental and Safety Risks*

There are potential risks to the environment inherent in the business activities of the Company. Spartan has developed and implemented policies and procedures to mitigate environmental, health and safety (EH&S) risks. These policies and procedures are designed to protect and maintain the environment, and public and employee safety, with respect to all corporate operations on behalf of shareholders, employees and the public at large. The Company mitigates environmental and safety risks by maintaining its facilities, complying with all provincial and federal environmental and safety regulations and maintaining adequate insurance.

### *Inflation Risks*

Inflation risks subject the Company to potential erosion of product netbacks. For example, increasing domestic prices for oil and natural gas production equipment and services can inflate the costs of operations.

### *Competitive Industry Conditions*

The oil and gas industry is highly competitive. The Company's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company.

The Company actively competes for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Company. The Company's competitors include major integrated oil and natural gas companies, income trusts and numerous other independent oil and natural gas companies and individual producers and operators.

The Company attempts to mitigate competitive risks through the pursuit of strategic farmins and the internal generation of its own exploration prospects. The goal of these efforts is to build a quality inventory of undeveloped lands and drillable prospects that can fuel future growth.

#### *Supply of Service and Production Equipment*

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity these services and supplies can become difficult to obtain. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. The Company attempts to mitigate this risk by developing strong long term relationships with suppliers and contractors and maintains an appropriate inventory of production equipment.

#### **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

Spartan is obligated to pay various costs associated with operations in the normal course of business. These costs include royalties paid to the Alberta and Saskatchewan governments, surface and mineral lease rentals to various landowners, and abandonment and reclamation costs. These costs are highly dependent on the future operating environment and are subject to changes in commodity prices, ownership, production volumes and government policies.

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

<b>As at September 30, 2015</b> (\$ thousands)	Amount
Less than one year	1,752
Between one and five years	2,483
<b>Total commitment</b>	<b>4,235</b>

#### **OUTLOOK**

Spartan remains committed to preserving our balance sheet flexibility in the current commodity price environment through cost control and disciplined capital spending. As compared to the third quarter of 2014, we have reduced production expenses by 16% and net G&A expenses by 8%. In addition, the reduction in our drill costs and outperformance of our wells has allowed us to reduce capital spending while maintaining our production targets.

Spartan intends to continue our business plan of measured, sustainable growth and prudent balance sheet management. Our open-hole wells remain highly economic at current prices, and we anticipate that we can maintain our estimated 2015 annual average production of 8,700 boe/d in 2016 within cash flow at a WTI oil price of approximately US\$45.

We continue to believe that the prolonged commodity price weakness will create acquisition opportunities in the coming months and that Spartan is well positioned to take advantage. We will continue to actively seek out accretive acquisitions while maintaining the discipline to pursue high quality assets that provide long-term value creation for our shareholders.