SPARTAN DELTA CORP. (FORMERLY, RETURN ENERGY INC.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2020

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
[UNAUDITED]

(CA$ thousands)	[Notes]	**June 30, 2020**	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**330**	24,653
Accounts receivable	[4]	**12,306**	229
Prepaid expenses and deposits		**1,469**	48
Derivative financial instruments	[4]	**2,588**	-
Total current assets		**16,693**	24,930
Exploration and evaluation assets	[6]	**2,311**	349
Property, plant and equipment	[7]	**269,392**	8,966
Right-of-use assets	[8]	**50,668**	-
Total assets		**339,064**	34,245
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[4]	**13,068**	940
Lease liabilities	[8]	**4,779**	-
Decommissioning obligations	[9]	**1,016**	452
Total current liabilities		**18,863**	1,392
Bank debt	[10]	**26,198**	-
Derivative financial instruments	[4]	**422**	-
Lease liabilities	[8]	**46,247**	-
Decommissioning obligations	[9]	**109,059**	7,213
Deferred income tax liability	[12]	**7,280**	-
Total liabilities		**208,069**	8,605
SHAREHOLDERS' EQUITY			
Share capital	[11]	**108,295**	45,748
Warrants	[11]	**9,965**	9,965
Contributed surplus		**8,640**	8,418
Retained earnings (deficit)		**4,095**	(38,491)
Total shareholders' equity		**130,995**	25,640
Total liabilities and shareholders' equity		**339,064**	34,245
Commitments and contingencies	[17]		

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Approved on behalf of the Board of Directors:

[signed] "Richard McHardy"
Richard McHardy, Director

[signed] "Donald Archibald"
Donald Archibald, Director

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
[UNAUDITED]

		Three months ended June 30		Six months ended June 30	
(CA$ thousands, except per share amounts)	[Notes]	**2020**	2019	**2020**	2019
Revenue					
Oil and gas sales, net of royalties	[13]	**10,843**	324	**11,215**	824
Processing and other		**558**	33	**603**	62
		11,401	357	**11,818**	886
Gain on derivative financial instruments	[4]	**2,302**	-	**2,302**	-
Expenses					
Operating		**5,637**	517	**6,152**	916
Transportation		**1,121**	-	**1,121**	-
General and administrative		**1,197**	344	**2,058**	625
Share based compensation	[11]	**222**	28	**222**	56
Financing	[14]	**551**	28	**503**	57
Depletion, depreciation and impairment	[7,8]	**3,259**	260	**7,168**	529
		11,987	1,177	**17,224**	2,183
Other income (expenses)					
Gain on sale of assets	[6]	**-**	-	**-**	50
Gain on acquisition	[5]	**52,952**	-	**52,952**	-
Discount rate adjustment on decommissioning obligations acquired	[9]	**(13,106)**	-	**(13,106)**	-
Transaction costs	[5]	**(2,244)**	-	**(2,244)**	-
Net income (loss) before income taxes		**39,318**	(820)	**34,498**	(1,247)
Income tax recovery	[12]	**(8,088)**	-	**(8,088)**	-
Net income (loss) and comprehensive income (loss)		**47,406**	(820)	**42,586**	(1,247)
Net income (loss) per share					
Basic	[11]	**1.29**	(0.74)	**1.36**	(1.13)
Diluted	[11]	**1.01**	(0.74)	**1.01**	(1.13)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
[UNAUDITED]

(CA$ thousands)	[Note]	Share capital	Warrants	Contributed surplus	Retained earnings (deficit)	Total
Balance at December 31, 2019		45,748	9,965	8,418	(38,491)	25,640
Net income and comprehensive income		-	-	-	42,586	42,586
Common shares issued, net of costs						
Private placements	[11]	64,000	-	-	-	64,000
Issue costs, net of deferred tax	[11]	(1,453)	-	-	-	(1,453)
Share based compensation		-	-	222	-	222
Balance at June 30, 2020		**108,295**	**9,965**	**8,640**	**4,095**	**130,995**
Balance at December 31, 2018		30,968	2,200	6,369	(36,494)	3,043
Net loss and comprehensive loss		-	-	-	(1,247)	(1,247)
Share based compensation		-	-	56	-	56
Balance at June 30, 2019		30,968	2,200	6,425	(37,741)	1,852

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW
[UNAUDITED]

(CA$ thousands)	[Note]	Three months ended June 30 **2020**	2019	Six months ended June 30 **2020**	2019
Operating activities					
Net income (loss)		**47,406**	(820)	**42,586**	(1,247)
Items not affecting cash:					
Unrealized gain on derivative financial instruments	[4]	**(2,166)**	-	**(2,166)**	-
Share based compensation		**222**	28	**222**	56
Financing	[14]	**364**	28	**395**	57
Depletion, depreciation and impairment		**3,259**	260	**7,168**	529
Gain on acquisition		**(52,952)**	-	**(52,952)**	-
Gain on sale of assets		**-**	-	**-**	(50)
Discount rate adjustment on decommissioning obligations acquired		**13,106**	-	**13,106**	-
Deferred income tax recovery	[12]	**(8,088)**	-	**(8,088)**	-
Settlement of decommissioning obligations	[9]	**(63)**	(45)	**(690)**	(60)
Change in non-cash working capital	[15]	**(7,121)**	363	**(6,160)**	263
Cash used in operating activities		**(6,033)**	(186)	**(6,579)**	(452)
Financing activities					
Increase in bank debt	[10]	**26,198**	-	**26,198**	-
Issue of common shares, net of costs	[11]	**62,098**	-	**62,098**	-
Lease payments	[8]	**(485)**	-	**(485)**	-
Change in non-cash working capital	[15]	**104**	-	**104**	-
Cash provided by financing activities		**87,915**	-	**87,915**	-
Investing activities					
Exploration and evaluation assets	[6]	**(1,027)**	-	**(1,067)**	-
Property, plant and equipment	[7]	**(160)**	(1)	**(496)**	(4)
Property acquisitions	[5]	**(108,782)**	-	**(108,782)**	-
Property dispositions	[6,7]	**-**	-	**-**	265
Change in non-cash working capital	[15]	**4,578**	-	**4,686**	-
Cash (used in) provided by investing activities		**(105,391)**	(1)	**(105,659)**	261
Net change in cash and cash equivalents		**(23,509)**	(187)	**(24,323)**	(191)
Cash and cash equivalents, beginning of period		**23,839**	971	**24,653**	975
Cash and cash equivalents, end of period		**330**	784	**330**	784

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. GENERAL INFORMATION

Spartan Delta Corp. (formerly Return Energy Inc., “Spartan” or the “Company”) was incorporated under the *Business Corporations Act* (Alberta) on March 20, 2006. The Company was recapitalized on December 19, 2019 upon completion of a non-brokered private placement for gross proceeds of $25.0 million and the appointment of a new management team and new board of directors (the “Recapitalization Transaction”) (note 12). The Company’s shareholders approved the name change from “Return Energy Inc.” to "Spartan Delta Corp." which was completed on June 1, 2020.

The Company, through its wholly-owned subsidiary Winslow Resources Inc. (“Winslow”), is engaged in the exploration for, and development and production of petroleum and natural gas properties in Western Canada. On June 1, 2020, Spartan closed a transformational transaction whereby Winslow acquired substantially all of the assets of Bellatrix Exploration Ltd. for total consideration of $108.8 million (the “BXE Asset Acquisition”) (note 5). The Company’s core land holdings are concentrated in the Deep Basin of west central Alberta, principally focused on development of liquids-rich natural gas and light oil prospects in the Spirit River and Cardium formations. The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the three and six months ended June 30, 2020 includes the results of operations related to the acquired assets for the 30 day period from closing the acquisition on June 1, 2020.

Spartan’s common shares are listed on the TSX Venture Exchange and trade under the symbol “SDE” (formerly “RTN”). The Company’s head office is located at 1920, 800 – 5th Avenue S.W., Calgary, Alberta T2P 3T6. The registered office is located at 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5.

2. BASIS OF PREPARATION

a) Statement of compliance

These condensed consolidated interim financial statements are presented under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. Certain disclosures included in the notes to the annual financial statements have been condensed in the following interim note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2019. The Company’s Board of Directors approved these interim financial statements on August 19, 2020.

b) Basis of measurement

Unless otherwise indicated, all references to dollar amounts in these financial statements and related notes are in thousands of Canadian dollars (CA$), which is the functional and presentation currency of the Company and its subsidiary.

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 4 of these financial statements.

c) Use of estimates and judgments

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially 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 reviewed and for any future years affected. Except as discussed below, the significant judgments, estimates and assumptions made by management in the financial statements are consistent with those outlined in note 2 of the December 31, 2019 consolidated annual financial statements.

Impact of COVID-19

The outbreak of the novel coronavirus ("COVID-19") was declared a pandemic by the World Health Organization on March 11, 2020. Global financial markets have experienced significant volatility and weakness as a consequence of the pandemic and governments worldwide have enacted emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Crude oil prices have declined dramatically due to the actual and anticipated impacts of COVID-19 on global commerce and energy demand, and due to disagreements between major oil producing nations of Saudi Arabia and Russia with respect to production quotas. After averaging between US$50-60 per barrel throughout the majority of 2019 and for the first two months of 2020, the West Texas Intermediate ("WTI") oil price began to fall precipitously on March 9, 2020 and dropped to a low average of US$16.70 per barrel in April. Production cuts announced by the Organization of Petroleum Exporting Countries ("OPEC") and allied countries (collectively, "OPEC+"), along with gradual easing of COVID-19 restrictions, resulted in a modest recovery of oil prices in May and June. The WTI oil price averaged US$27.84 per barrel for the three months ended June 30, 2020. The decrease in global crude oil prices has adversely affected the Company's realized selling prices for crude oil, condensate and natural gas liquids ("NGLs"), which has a direct impact on revenue and cash flow. In addition, COVID-19 has impacted certain key estimates and assumptions with respect to impairment of property, plant and equipment ("PP&E") (note 7), the risk-free rate used to calculate the present value of decommissioning obligations (note 9), and the provision of expected credit losses (note 4).

The challenging business environment presented by COVID-19 and the rapid decline of global oil prices has also created certain opportunities for well capitalized companies, such as Spartan, to acquire assets at historically low valuations. This opportunity is highlighted by the BXE Asset Acquisition completed by Spartan on June 1, 2020, which resulted in a gain on acquisition of $53.0 million based on the difference between the total consideration of $108.8 million compared to the estimated fair value of the net assets acquired. Further information regarding the BXE Asset Acquisition and the significant estimates and assumptions applied is provided under the heading of "Business Combinations" below and in note 5.

The duration and full extent of the impact of COVID-19 is uncertain as information surrounding the pandemic continues to evolve.

Canada Emergency Wage Subsidy

The Company's accounts receivable as at June 30, 2020 includes an accrual for government assistance through the Canada Emergency Wage Subsidy ("CEWS") program. Under the CEWS program, Canadian employers affected by COVID-19 are eligible for a subsidy of up to $847 per week for eligible employees, provided that certain criteria are met. For the period from commencement of the CEWS on March 15th to the quarter ended June 30, 2020, Spartan has estimated the Company is eligible for a subsidy of approximately $0.3 million, of which, $0.2 million related to head office employees is presented as a recovery of general and administrative expenses and $0.1 million related to field employees is presented as a recovery of operating expenses.

Bill C-20, *An Act respecting further COVID-19 measures* ("Bill C-20"), was passed on July 27, 2020 providing for certain amendments to the CEWS previously announced in Bill C-17, *An Act respecting additional COVID-19 measures*. Among other changes, the legislation introduced by Bill C-20 includes extension of the CEWS until December 19, 2020 and addresses various technical issues with the CEWS identified by stakeholders. In particular, Bill C-20 provides continuity rules to address circumstances where an employer purchased all or substantially all of another entity's business assets. Spartan is currently evaluating whether the Company may be eligible for the CEWS for periods subsequent to June 30, 2020. However, an initial review of July revenue suggests that Spartan's future revenue may not decrease relative to Bellatrix's revenue in the same period of 2019 based on the recovery of AECO gas prices in 2020. During the third quarter of 2019, the AECO 5A gas reference price averaged $0.86 per gigajoule and production from the BXE Assets is approximately 70% natural gas. Spartan continues to monitor recent legislative changes and evaluation of the Company's eligibly for the CEWS and other government assistance is ongoing.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, production costs, forecast benchmark commodity prices, foreign exchange rates, and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain on acquisition resulting from a bargain purchase) in the acquisition equation. Future net income (loss) will be affected as the fair value on initial recognition impacts future depletion and depreciation expenses, as well as the risk of potential impairment in future periods.

Details regarding the significant judgements and estimates applied in the accounting for the BXE Asset Acquisition are provided in note 5.

Determination of Cash Generating Units ("CGUs")

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

Following the BXE Asset Acquisition on June 1, 2020, the Company has reviewed and realigned its CGUs taking into consideration the factors outlined above. As at June 30, 2020, Spartan has two core CGUs, namely: "Central Alberta" and "Rycroft-Valhalla", which represent approximately 97% and 2% of the carrying value of PP&E, respectively. The Central Alberta CGU includes the core properties acquired from Bellatrix, which are comprised primarily of liquids-rich natural gas assets, in a geographically concentrated area with shared infrastructure. In addition, the Company has two non-core CGUs, namely: "North Minors" and "South Minors" which primarily include interests inactive properties and collectively represent less than 1% of the carrying value of PP&E.

As at December 31, 2019 and March 31, 2020, the Company had three CGUs, namely: Rycroft-Valhalla, Gordondale, and Rainbow. The Rycroft-Valhalla CGU represented 100% of the total carrying value of PP&E as at March 31, 2020, as carrying amounts of the Gordondale and Rainbow CGUs were fully depleted/impaired.

Leases

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement, including lease term and discount rate. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Where the rate implicit in a lease is not readily determinable, the discount rate of the lease obligations is estimated using a discount rate similar to Spartan's company-specific incremental borrowing rate. This rate represents the rate that Spartan would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment. Refer to note 8 for additional information.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2019 consolidated annual financial statements. These condensed consolidated interim financial statements at June 30, 2020 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements for the year ended December 31, 2019, except as discussed below.

The Company's accounting policy disclosure was updated to add the following information to supplement its existing accounting policies for the following:

Revenue recognition

- Spartan evaluates its arrangements with third parties and partners to determine if the Company acts as a principal or as an agent. In making this evaluation, management considers if Spartan obtains control of the product delivered, which is indicated by Spartan having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Spartan acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any realized by the Company from the transaction.

- Processing fees charged to other entities for use of pipelines and facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Processing fees charged to other entities under contracts with customers are recognized in revenue when the related services are provided.

Transportation

- Costs paid by Spartan for the transportation of crude oil, condensate, natural gas and NGLs to the point of control transfer are recognized when the transportation is provided.

Financial Instruments

- The Company may utilize financial derivatives and commodity sales contracts requiring physical delivery to manage financial risks (see note 4). The Company does not enter into derivative financial instruments for trading or speculative purposes. Financial derivatives are classified as fair value through profit or loss.

- The Company has accounted for its forward physical commodity sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements, as executory contracts. As such, physical sales contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements on these physical sales contracts are recognized in oil and gas sales.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. Claims under government grant programs related to income are deducted in reporting the related expense and are recorded as in the period in which eligible expenses were incurred or when the services have been performed.

Adoption of Amendments to IFRS 3 Business Combinations ("IFRS 3")

IFRS 3 has been amended to update the definition of a business. The narrow-scope amendments help entities determine whether an acquired set of activities and assets is a business or not. Entities are required to apply the amendments to business combinations for which the acquisition date is on or after January 1, 2020.

The amendments clarify the minimum requirements to be a business, narrow the definition of outputs, and remove the assessment of a market participant's ability to replace missing elements. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. To be a business without outputs, there will now need to be an organized workforce. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments also introduce an optional concentration test to permit a simplified assessment. An entity can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. Entities may elect whether or not to apply the concentration test on a transaction-by-transaction basis.

The adoption of the amendments to IFRS 3 did not impact the financial statements, however the guidance is incorporated into the Company's assessment of business combinations that occur on or after January 1, 2020, including the BXE Asset Acquisition (note 5).

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at June 30, 2020, financial instruments of the Company include cash and cash equivalents, accounts receivable, deposits, derivative financial instruments, accounts payable and accrued liabilities and bank debt. The fair values of these financial assets and liabilities approximate their carrying value due to the short term to maturity of those instruments. In addition, the fair value of bank debt approximates its carrying value given it bears a floating rate of interest. The methodology used to determine the fair value for the Company's derivative financial instruments is described further in this note.

The Company is exposed to financial risks arising from its financial assets and liabilities that include credit and liquidity risk in addition to the market risks associated with commodity prices, and interest and foreign exchange rates. 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.

Risk Management Overview

Spartan's risk management objective is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. The Company uses derivative financial instruments to manage market risks and has certain minimum hedging requirements under its Credit Facility, which are described further below. All such transactions are conducted in accordance with the Company's established risk management policies that permit management to enter into derivative financial contracts, provided that:

i) the contracts are not entered into for speculative purposes;
ii) the aggregate quantity hedged, at the time of entering into the contract, does not exceed 75% of future forecasted average daily production; and
iii) the contracted term does not exceed 36 months.

Under the Company's Credit Facility (note 10), Spartan is required to have commodity swap contracts in place for natural gas prices. Specifically, the Company must hedge a minimum of 60% of forecast natural gas production volumes for the period from June 1, 2020 to March 31, 2021 and 40% of forecast natural gas production volumes for the period from April 1, 2021 to March 31, 2022. Spartan is in compliance with this requirement and a summary of the derivative financial contracts in place as of June 30, 2020 is provided under the heading "Commodity Price Risk" below.

a) Market Risks

Further to the discussion in note 2, the COVID-19 pandemic has resulted in significant economic uncertainty. Global financial markets, and commodity prices in particular, have consequently experienced significant weakness and volatility. Notwithstanding current uncertainties, Spartan remains committed to responding to market fundamentals and is carefully monitoring emerging developments. The Company is well positioned to confront these challenges and to take advantage of the opportunities presented by the current business environment.

Commodity price risk

Inherent to the business of producing oil and gas, the Company's revenue and cash provided by operating activities is subject to commodity price risk. Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices are impacted by world economic events that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and U.S. dollar.

To date in 2020, crude oil prices have declined dramatically as a result of the COVID-19 pandemic and disagreements between major oil producing nations with respect to production quotas. Natural gas prices have also been adversely affected by oversupply and expectation of lower industrial demand, however the AECO gas reference price has improved relative to the comparative periods of 2019 due to narrowing of the Canadian basis differential.

	Three months ended June 30			Six months ended June 30		
	2020	2019	%	**2020**	2019	%
WTI Cushing Oklahoma (US$/bbl) (1)	**27.84**	59.84	-53	**37.01**	57.02	-35
Canadian Light Sweet 40 API ($/bbl) (1)	**31.45**	72.55	-57	**41.74**	68.87	-39
NYMEX Henry Hub (US$/MMBtu) (1)	**1.76**	2.51	-30	**1.81**	2.53	-28
AECO 5A ($/GJ) (2)	**1.89**	0.98	93	**1.91**	1.67	14
Exchange rate (CA$/US$) (1)	**1.39**	1.34	4	**1.36**	1.33	2

(1) Source: Sproule Associates Limited
(2) Source: Canadian Gas Price Reporter (NGX AB-NIT Same Day Index 5A)

To protect the Company's capital project economics and cash flows, while mitigating ongoing volatility in commodity markets, Spartan has strategically hedged approximately 60% of its natural gas volumes for the latter half of 2020 and approximately 45% of forecast natural gas volumes for 2021. These contracts satisfy the hedging requirements under the Company's Credit Facility. As at June 30, 2020, the following financial derivative contracts are outstanding:

Contract Type	Remaining Term	Notional Volume (GJ/d)	Fixed Price (CA$/GJ)	Reference Price	Fair value Asset (Liability)
Natural gas fixed	Jul 1, 2020 to Mar 31, 2021	60,000	2.23	AECO 7A	1,821
Natural gas fixed	Apr 1, 2021 to Oct 31, 2021	5,000	2.02	AECO 7A	(34)
Natural gas fixed	Apr 1, 2021 to Mar 31, 2022	35,000	2.25	AECO 7A	379
Net derivative instrument financial asset (liability)					**2,166**

The fair values of these contracts are sensitive to changes in the natural gas reference prices. Holding other assumptions constant, if the AECO 7A price increased (decreased) by $0.10 per gigajoule, the fair market value of the net derivative financial instrument asset would increase (decrease) by approximately $3.0 million.

In March 2020, the Company entered into a forward physical commodity sales contract to fix the price of 750 gigajoules per day of natural gas production at $1.54 per gigajoule from April 1 to October 31, 2020. Physical sales contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the consolidated statement of financial position. Settlements on this contract are be recognized in oil and gas sales each month as incurred.

Foreign exchange risk

Spartan is exposed to fluctuations of the Canadian to United States dollar (US$) exchange rate given the Company's realized pricing in Canadian dollars is directly influenced by US$ denominated benchmark pricing. As at June 30, 2020, there were no foreign exchange risk management contracts outstanding.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its Credit Facility which bears a floating rate of interest. Based on average bank debt outstanding of $3.5 million during the six months ended June 30, 2020, an increase (decrease) in the market rate of interest by 50 basis points would have a nominal impact on interest expense over the same period. Based on $26.9 million of bank debt outstanding on the Credit Facility as at June 30, 2020, a 50 basis point change in market interest rates would increase (decrease) interest expense by approximately $0.1 million on an annual basis. As at June 30, 2020, there are no interest rate risk management contracts outstanding.

Gains and losses on derivative financial instruments

The table below summarizes the realized and unrealized component of the gain on the Company's derivative financial instruments during the periods:

	Three months ended June 30		Six months ended June 30	
(*CA$ thousands)*	**2020**	2019	**2020**	2019
Realized gain	**136**	-	**136**	-
Unrealized gain	**2,166**	-	**2,166**	-
Gain on derivative financial instruments	**2,302**	-	**2,302**	-

Fair value measurements

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

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.

The table below summarizes fair value measurements for each hierarchy level as at June 30, 2020:

(CA$ thousands)	Level 1	Level 2	Level 3
Financial assets			
Derivative financial instruments	-	2,588	-
Financial liabilities			
Derivative financial instruments	-	422	-

Offsetting of financial instruments

Financial assets and liabilities are only offset in the Consolidated Statements of Financial Position if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Spartan offsets derivative financial instrument assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same.

b) Liquidity Risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they become due. The Company's financial liabilities as at June 30, 2020 include accounts payable, derivative financial instrument liabilities, and bank debt. In addition, the Company has financial commitments in respect of lease liabilities (note 8).

The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, to the extent possible, that it will have sufficient liquidity to meet its obligations. As at June 30, 2020, Spartan's working capital deficit of $2.2 million combined with bank debt of $26.2 million, represented 28% of the authorized borrowing amount available under the Company's Credit Facility of $100 million. The Company has sufficient liquidity to meet its financial obligations and to take advantage of future opportunities as they arise.

The table below outlines a contractual maturity analysis for the Company's financial liabilities as at June 30, 2020:

(CA$ thousands)	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	13,068	-	-	13,068
Derivative financial instrument liability	-	422	-	422
Bank debt and estimated interest (1)	1,533	28,307	-	29,840
Total	**14,601**	**28,729**	**-**	**43,330**

(1) Estimated interest for future periods related to the Credit Facility was calculated using the interest rate on bank borrowings of 5.7% for the second quarter ended June 30, 2020, applied to the principal balance outstanding as at that date. Principal repayment under the Credit Facility is assumed to be on May 31, 2022.

c) Credit Risk

The carrying amount of cash and cash equivalents, accounts receivable, deposits and derivative financial instrument assets, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

The composition of the Company's accounts receivable is set out in the following table:

(CA$ thousands)	**June 30, 2020**	December 31, 2019
Oil and gas marketers	**11,298**	133
Joint venture partners	**227**	86
GST input tax credits	**305**	10
Derivative financial instruments	**136**	-
Other	**340**	-
Accounts receivable	**12,306**	229

During the three months ended June 30, 2020, sales to two oil and gas marketers each individually represented more than 10% of revenue. Sales to these marketers account for approximately 56% and 26% of total oil and gas sales revenue (before royalties), respectively. Spartan's oil and gas marketers are large, credit-worthy institutions that have been rated investment-grade by reputable ratings agencies.

The aging of the Company's accounts receivable is summarized as follows:

(CA$ thousands)	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at June 30, 2020	**12,225**	**17**	**-**	**64**	**12,306**
Balance at December 31, 2019	171	13	-	45	229

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas; this occurs on the 25th day following the month of sale. As a result, the Company's production revenues are current. All other accounts receivable are generally contractually due within 30 days, however the collection period is typically between 60 to 90 days. Amounts outstanding for more than 90 days are generally considered "past due" and relate primarily to receivables from the Company's joint venture partners. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. Due to the current business environment and low commodity prices, many oil and gas companies, including some of Spartan's partners, are facing significant financial challenges. Management has reviewed past due accounts receivable balances as at June 30, 2020 and expects the accounts to be collectible, except for approximately $65 thousand of accounts receivable which are provided for in the expected credit loss provision ($32 thousand at December 31, 2019).

5. PROPERTY ACQUISITION

BXE Asset Acquisition

On April 22, 2020, the Company entered into an asset purchase agreement (the "APA") with Bellatrix Exploration Ltd. ("Bellatrix" or "BXE") to acquire substantially all of Bellatrix's assets (the "BXE Assets") for a purchase price of $87.4 million plus the assumption of certain liabilities (the "BXE Asset Acquisition"). The acquisition was completed on June 1, 2020 (the "Closing Date") for estimated total consideration of $108.8 million, comprised of $87.5 million of cash and assumed liabilities estimated to be $21.3 million. Approximately $16.6 million of the liabilities were settled by payment to various third parties on and after the Closing Date. The remaining $4.7 million of accrued liabilities outstanding as of June 30, 2020 are expected to be settled over the next 12 months.

The BXE Assets, which are primarily located in the Deep Basin of west-central Alberta, are comprised of interests in producing petroleum and natural gas properties alongside an extensive land base, as well as working interest ownership in strategic infrastructure. The Company also assumed certain financial commitments from Bellatrix in respect of compression and facility leases (details of the foregoing are provided in note 8).

In connection with the BXE Asset Acquisition, the Company raised gross proceeds of $64.0 million pursuant to the Private Placements (hereinafter defined and further described in note 11). The remaining purchase price was funded by a combination of cash on hand and bank borrowings under Spartan's new Credit Facility. The Credit Facility, which has an authorized borrowing amount of up to $100.0 million, was established concurrently with closing of the BXE Asset Acquisition (additional information regarding the Credit Facility is provided in note 10).

Spartan assessed the property acquisition and determined it to constitute a business combination in accordance with IFRS 3. The table below summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed on the Closing Date, as well as the resulting gain on acquisition:

(CA$ thousands)	**June 1, 2020**
Cash purchase price	87,532
Assumed liabilities (estimate) (1)	21,250
Total consideration (1)	**108,782**
Exploration and evaluation assets	895
Property, plant and equipment	203,845
Right-of-use assets	50,642
Lease liabilities	(50,642)
Decommissioning obligations	(27,189)
Deferred income tax liability	(15,817)
Fair value of net assets acquired (1)	**161,734**
Gain on acquisition (1)	**(52,952)**

(1) Estimates for the total amount of assumed liabilities, the fair values of identifiable assets and liabilities acquired, and the resultant gain on acquisition are management's best estimates based on information available at the time of preparing these unaudited interim financial statements as at June 30, 2020. The reader is cautioned that revisions to these estimates over the measurement period could result in a material change from the amounts reported herein.

Spartan recognized a gain on acquisition as the estimated fair value of the net assets acquired exceeded the consideration paid by $53.0 million. The COVID-19 pandemic and collapse of global crude oil prices in March and April 2020 exacerbated the financial challenges facing Bellatrix, which had previously commenced restructuring proceedings under the *Companies' Creditors Arrangement Act* (Canada) on October 2, 2019. The gain is attributed to the distressed nature of the transaction and Spartan's ability to access capital in a challenging business environment, allowing the

Company the opportunity to acquire assets at a historically low valuation. The Company incurred approximately $2.2 million of transaction costs related to the acquisition that are recognized as an expense during the second quarter ended June 30, 2020.

The fair value of PP&E acquired was estimated based on fair value less costs of disposal ("FVLCD") methodology, calculated using the present value of the expected future cash flows discounted at 25% after-tax. The projected cash flows used in the FVLCD calculation were derived from a report on Bellatrix's oil and gas reserves which was prepared by an independent qualified reserve evaluator as of December 31, 2019. The cash flow estimates derived from the 2019 reserve report were internally updated by Spartan to reflect the following changes to key assumptions as at June 1, 2020:

- the long-term forecast for commodity prices and foreign exchange rates was revised based on an average of the second quarter 2020 forecasts published by four independent qualified reserve evaluators;
- mechanical update of the reserves database to a reference/discount date of June 1, 2020, such that forecast cash flows for 2020 are for the remaining seven-month period ending December 31, 2020;
- future development capital ("FDC") expenditures were reduced to $35.2 million to reflect the low-end of Spartan's planned capital expenditures for the acquired assets; and
- the impact of changes in marketing and transportation contracts on realized pricing relative to benchmark prices, as well as the impact of disclaimed contracts on forecasted operating and transportation costs.

The fair value of PP&E, deferred income tax liability and resulting gain on acquisition are sensitive to the discount rate used in the FVLCD calculation. The discount rate used of 25% after-tax is significantly higher than rates typically used to determine the fair value of PP&E acquired in a business combination, however the Company believes the high discount rate is appropriate in this circumstance, given the material uncertainties facing the oil and gas industry and global markets at the time of the acquisition. The table below summarizes the fair value of PP&E calculated at various after-tax discount rates (holding all other assumptions constant), and the resulting impact on the deferred tax liability and gain on acquisition:

(CA$ millions)	**15%**	**20%**	**25%**	**30%**
Property, plant and equipment	307.0	245.4	**203.8**	174.1
Deferred income tax liability	39.5	25.4	**15.8**	9.0
Gain on acquisition	132.4	85.0	**53.0**	30.0

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the period ended June 30, 2020 includes the results of operations for the BXE Assets acquired starting from the Closing Date. Specifically, Spartan's net income for the three and six months ended June 30, 2020, includes an estimated $11.1 million of revenue (after royalties) and an estimated $4.7 million of operating income generated from the BXE Assets for the 30 day period from June 1 to June 30, 2020. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2020, pro-forma revenue and operating income is estimated to be approximately $66.6 million and $28.2 million, respectively, for the six months ended June 30, 2020. Given this estimate is based on an extrapolation of June results, this pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

6. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation ("E&E") assets consist primarily of undeveloped land and seismic. The following table reconciles the change in carrying value during the periods:

(CA$ thousands)	**June 30, 2020**	December 31, 2019
Balance, beginning of year	**349**	353
Additions	**1,067**	-
Property acquisitions (note 5)	**895**	-
Transfers to property, plant and equipment	**-**	(4)
Balance, end of period	**2,311**	349

(1) On March 28, 2019, the Company sold undeveloped land for cash proceeds of $50,000. The carrying amount of the non-core lands sold was nil resulting in a gain on sale on $50,000 in the first quarter of 2019.

The Company's accounting policy is to charge the cost of expired mineral leases to exploration expenses in the period, however, the carrying value of expired mineral leases in the current and prior year was nil.

7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment ("PP&E") consist of development and production assets ("D&P") and corporate assets. D&P assets include the Company's interests in developed petroleum and natural gas properties, as well as interests in facilities and pipelines. The following tables reconcile the movements in the cost and accumulated depletion, depreciation and impairment ("DD&I") during the periods:

Property, plant and equipment, at cost	D&P	Corporate	Total PP&E
Balance at December 31, 2018	13,510	19	13,529
Additions	5	29	34
Dispositions (1)	(524)	-	(524)
Transfers from E&E	4	-	4
Decommissioning costs	1,036	-	1,036
Balance at December 31, 2019	14,031	48	14,079
Additions	348	148	496
Property acquisitions (note 5)	203,670	175	203,845
Discount rate adjustment on decommissioning costs acquired (note 9)	57,209	-	57,209
Decommissioning costs	5,450	-	5,450
Balance at June 30, 2020	**280,708**	**371**	**281,079**

Accumulated DD&I	D&P	Corporate	Total PP&E
Balance at December 31, 2018	2,899	12	2,911
Depletion and depreciation	1,432	11	1,443
Dispositions (1)	(90)	-	(90)
Impairment	849	-	849
Balance at December 31, 2019	5,090	23	5,113
Depletion and depreciation (2)	3,558	18	3,576
Impairment	2,998	-	2,998
Balance at June 30, 2020	**11,646**	**41**	**11,687**

Net carrying value	D&P	Corporate	Total PP&E
Balance at December 31, 2019	8,941	25	8,966
Balance at June 30, 2020	**269,062**	**330**	**269,392**

(1) On March 29, 2019, the Company closed a disposition of certain non-core assets located at Valhalla, Alberta, for cash proceeds of $0.2 million after closing adjustments. The assets and associated decommissioning liabilities disposed had a net carrying value of $0.2 million resulting in a loss on sale of $0.02 million. The loss was recognized during the fourth quarter ended December 31, 2019, upon finalization of accounting estimates for the disposition at year-end.

(2) FDC costs required to develop total proved plus probable reserves in the amount of $67.0 million are included in the depletion calculation for D&P assets for the three months ended June 30, 2020 ($31.8 million at December 31, 2019 and March 31, 2020). The increase in estimated FDC costs of $35.2 million during the second quarter reflects the BXE Asset Acquisition (note 5).

Impairment of PP&E

The Company has assessed each of its CGUs for indicators of potential impairment as at June 30, 2020 and concluded there are no indicators of impairment (or reversals of previously recognized impairments). Approximately 98% of the total carrying value of PP&E as at June 30, 2020 was included in the BXE Asset Acquisition. The PP&E acquired from Bellatrix was measured at fair value on the Closing Date of the acquisition and reflects the challenges of the current business environment and weak forecast commodity prices.

The disclosure below outlines details of the estimates and assumptions applied in the impairment analysis completed as of the prior quarter ended March 31, 2020, which resulted in the recognition of an impairment loss of $3.0 million during the first quarter of 2020.

At March 31, 2020, an indication of potential impairment was identified as a result of the significant decrease in forecast commodity prices compared to forecast prices as at December 31, 2019. In particular, the price forecast for Canadian Light Sweet crude oil fell by 67% for the remainder of 2020, by 45% in 2021, and by 25% in years 2022 and thereafter. The AECO-C Spot natural gas price decreased by 30% for the remainder of 2020, by 10% in 2021, and by 16% in years 2022 and thereafter. A summary of selected benchmark price forecasts, as published by Sproule Associates Limited ("Sproule"), is provided in **Table 1** below.

The recoverable amount of the Rycroft-Valhalla CGU was estimated as at March 31, 2020 based on FVLCD methodology, calculated using the present value of the CGUs' expected future cash flows discounted at 15% before-tax. The projected cash flows used in the FVLCD calculation were derived from a report on the Company's oil and gas reserves which was prepared by Sproule, an independent qualified reserve evaluator, as of December 31, 2019 (the "2019 Sproule Report"). The projected cash flows derived from the 2019 Sproule Report have been updated internally by management to reflect the following changes to key assumptions as at March 31, 2020:

- The long-term forecast for commodity prices and foreign exchange rates was updated based on the escalated price forecast published by Sproule as at March 31, 2020 (refer to **Table 1** below).
- The reserves database was mechanically updated to a reference/discount date of April 1, 2020, such that forecast cash flows for 2020 are for the remaining nine-month period ending December 31, 2020.
- Future development capital ("FDC") expenditures of $21.8 million for the Rycroft-Valhalla CGU which were originally planned to be incurred in years 2020 and 2021 have been deferred by two years and are now expected to be incurred in years 2022 and 2023.

Based on the FVLCD calculation at March 31, 2020, the Company recorded an impairment of $3.0 million on the Rycroft-Valhalla CGU. The impairment represents the shortfall of the recoverable amount calculated based on the assumptions described above, relative to the carrying amount of the Rycroft-Valhalla CGU of $9.2 million before impairment. The recoverable amount estimated pursuant to the FVLCD calculation is sensitive to the discount rate and forecast commodity prices. Holding all other assumptions in the calculation constant:

- if the discount rate increased (decreased) by 1%, the impairment of the Rycroft-Valhalla CGU would increase (decrease) by approximately $0.3 million; and
- if the forecast combined average realized price decreased (increased) by 5%, the impairment of the Rycroft-Valhalla CGU would increase (decrease) by approximately $1.7 million.

The forecast future commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs) used in the impairment evaluations as at March 31, 2020, reflect the benchmark prices set-forth in **Table 1** below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

Table 1 – Selected Benchmark Price Forecasts

As at March 31, 2020	2020	2021	2022	2023	2024(1)
WTI Cushing Oklahoma (US$/bbl)	25.00	37.00	48.00	48.96	49.94
Canadian Light Sweet 40 API ($/bbl)	24.29	43.15	58.67	59.84	61.04
NYMEX Henry Hub (US$/MMBtu)	2.00	2.50	2.75	2.81	2.86
AECO-C Spot ($/MMBtu)	1.43	2.05	2.33	2.41	2.48
Exchange rate (CA$/US$)	1.4286	1.3699	1.3333	1.3333	1.3333

(1) Prices escalate at 2.0% thereafter

8. LEASES

The Company's has various lease contracts in place for facilities, office buildings and vehicles. Spartan's lease obligations and corresponding right-of-use assets are recognized initially based on the present value of the remaining lease payments, except for short term leases which have been charged to general and administrative expenses or operating expenses, as appropriate depending on the nature of the lease, in the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss). The Company's significant leases are summarized below.

Compressor Leases

In connection with the BXE Asset Acquisition, the Company assumed certain contracts for leased compression facilities (the "Compressor Leases"). The Compressor Leases acquired from Bellatrix were amended and restated by Spartan and the lessor effective June 1, 2020, providing for a significant reduction in lease payments over the remaining lease term ending March 31, 2027. The present value of the lease payments was determined based on an estimated incremental borrowing rate ("IBR") of 6.0%, which resulted in recognition of a lease liability and corresponding ROU asset of $43.4 million on June 1, 2020. The Compressor Leases each contain an option to purchase the facilities, which may be exercised by Spartan at any time during the lease term, upon 30 days notice. The purchase options have not been factored into the lease term or included in the present value of the lease payments on initial recognition as the Company is not reasonably certain that those rights will be exercised. These assumptions will be reassessed in future periods.

The value of the lease liability is sensitive to the IBR used in the calculation: a 100 basis point increase (decrease) in the estimated IBR would decrease (increase) the present value of the lease liability by approximately $1.4 million.

Facility Leases

The Company also assumed certain facility lease contracts (the "Facility Leases") in connection with the BXE Asset Acquisition. The Facility Leases have terms expiring between November 2030 and November 2032. The present value of the lease payments was determined based on an estimated IBR of 6.0%, which resulted in recognition of a lease liability and corresponding ROU asset of $7.3 million on June 1, 2020. A 100 basis point increase (decrease) in the estimated IBR would decrease (increase) the present value of the lease liability by approximately $0.3 million.

Other leases

In June 2020, the Company entered into an agreement to lease its field office in Drayton Valley, Alberta, for a term of five years ending June 30, 2025. The Company also has a fleet of leased vehicles with terms of one to three years. The field office and vehicle leases, combined, resulted in the addition of lease liability and ROU asset of $0.6 million.

Short term leases

The Company currently has short term leases in place for its head office and certain vehicle leases with a term less than twelve months. The total amount expensed in respect of short-term leases was less than $0.1 million during the six months ended June 30, 2020. Spartan is currently evaluating various options to relocate its head office in downtown Calgary, upon expiry of its temporary office lease in December 2020.

RIGHT-OF-USE ASSETS

The following table reconciles the change in the Company's right-of-use ("ROU") assets for the period ended June 30, 2020. ROU assets are depreciated on a straight-line basis over the term of the lease.

Right-of-use asset, at cost	**June 30, 2020**	December 31, 2019
Balance, beginning of year	-	-
Additions	620	-
Property acquisitions (note 5)	50,642	-
Balance at June 30, 2020	**51,262**	-
Accumulated depreciation		
Balance, beginning of year	-	-
Depreciation expense	594	-
Balance at June 30, 2020	**594**	**-**
Right-of-use asset, net carrying value	**50,668**	-

LEASE LIABILITIES

As at June 30, 2020, the present value of the Company's total lease liability is $51.0 million, of which approximately $4.8 million is expected to be settled in the next twelve months. A continuity of the lease obligation is provided below:

Lease liabilities	**June 30, 2020**	December 31, 2019
Balance, beginning of year	**-**	-
Additions	**620**	-
Property acquisitions (note 5)	**50,642**	-
Lease payments	**(485)**	-
Financing cost (note 14)	**249**	-
Balance, end of period	**51,026**	-
Expected to be settled within one year	**4,779**	-
Expected to be settled beyond one year	**46,247**	-

The table below outlines a contractual maturity of the undiscounted payments due under the Company's lease contracts in place at June 30, 2020:

(CA$ thousands)	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Lease liabilities	7,652	45,763	9,399	62,814
Short term leases	317	-	-	317
Total lease payments (undiscounted)	**7,969**	**45,763**	**9,399**	**63,131**

9. DECOMMISSIONING OBLIGATIONS

Decommissioning liabilities arise as a result of the Company's net ownership interests in petroleum and natural gas assets including well sites, processing facilities and infrastructure. The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

(CA$ thousands)	**June 30, 2020**	December 31, 2019
Balance, beginning of year	**7,665**	6,843
Obligations acquired (note 5)	**27,189**	-
Discount rate adjustment on obligations acquired	**70,315**	
Obligations disposed	**-**	(198)
Obligations settled	**(690)**	(129)
Changes in estimates	**5,450**	1,036
Accretion (note 14)	**146**	113
Balance, end of period	**110,075**	7,665
Expected to be settled within one year	**1,016**	452
Expected to be settled beyond one year	**109,059**	7,213

The undiscounted amount of decommissioning obligations acquired pursuant to the BXE Asset Acquisition is estimated to be approximately $73.7 million ($143.6 million inflated at 2%). The fair value of decommissioning obligations acquired of $27.2 million was estimated by discounting the inflated cost estimates using a "credit-adjusted risk-free rate" of 6.8% on the Closing Date. The obligations acquired were immediately subsequently remeasured in accordance with the Company's accounting policy, whereby decommissioning obligations are discounted using a "risk-free rate". Remeasurement of the decommissioning obligations acquired at a risk-free rate of 1.1% on June 1, 2020, resulted in an increase in the present value of decommissioning obligations acquired by $70.3 million. Of this total, $57.2 million of decommissioning costs were added to the carrying amount of PP&E (note 7) and $13.1 million was expensed in the period. The decommissioning costs expensed relate to inactive properties included in the non-core "North Minors" and "South Minors" CGUs.

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at June 30, 2020, the total undiscounted amount of the estimated cash flows required to settle the obligation is $81.6 million and is expected to be incurred over the next 50 years ($7.4 million as of December 31, 2019). Based on an inflation rate of 2.0%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $153.1 million at June 30, 2020 (December 31, 2019 – $9.8 million).

As at June 30, 2020, the carrying amount of the decommissioning obligations is based on a risk-free rate of 1.0%, down significantly compared to the risk-free rate of 1.8% at December 31, 2019, and down from 1.1% at June 1, 2020. The decrease in risk-free interest rates is largely driven by the Bank of Canada's response to the economic uncertainty created by the COVID-19 pandemic and weak commodity prices. The decrease in discount rate contributed to approximately $5.0 million of the total change in estimate of $5.4 million during the six months ended June 30, 2020.

10. BANK DEBT

Effective June 1, 2020, in connection with closing of the BXE Asset Acquisition, the Company established a revolving committed term credit facility (the "Credit Facility") with a syndicate of lenders comprised of National Bank of Canada, ATB Financial and Canadian Western Bank (together, the "Lenders"). The Credit Facility has an authorized borrowing amount of $100.0 million and is available for a revolving period of 364 days maturing on May 31, 2021 and may be extended annually at the Company's option and subject to approval of the Lenders, with a 365 day term-out period if not renewed. As at June 30, 2020, Spartan had drawn $26.9 million on the Credit Facility and has issued $1.4 million of undrawn standby letters of credit.

(CA$ thousands)	**June 30, 2020**	December 31, 2019
Bank loan	**26,900**	-
Unamortized financing fees	**(702)**	-
Bank debt	**26,198**	-

The Credit Facility will be subject to semi-annual borrowing base reviews, occurring on or before May 31 and November 30 of each year. In the event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the Lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

There are no financial covenants under the Credit Facility and Spartan is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted dispositions (to a maximum in each calendar year which are in the aggregate not more than 5% of the borrowing base then in effect), permitted risk management activities (as more particularly described in note 4), permitted encumbrances and other standard business operating covenants. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $250.0 million and general assignment of book debts.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime plus 3.0% to bank prime plus 5.75%, depending upon the Company's then current debt to cash flow ratio of between less than one times to greater than three times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 4.0% to 5.5%, depending upon the Company's then current debt to cash flow ratio of between less than one times to greater than three times.

11. SHARE CAPITAL

On March 4, 2020, the shareholders of the Company approved a consolidation of common shares on the basis of a ratio of one-hundred (100) pre-consolidation common shares for each post-consolidation common share (the "Share Consolidation"). The Share Consolidation was completed on June 1, 2020.

All references to common shares, subscription receipts, warrants and stock options in these financial statements have been restated and are reflected on a post-consolidation basis.

a) Authorized

The Company is authorized to issue an unlimited number of common shares, an unlimited number of preferred shares, and an unlimited number of special shares, each without par value. The preferred shares may be issued in series, with the directors determining the terms of the preferred shares on a series by series basis.

b) Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares or special shares outstanding as of June 30, 2020 (December 31, 2019 – nil).

	Number of shares (000s)	Amount ($ thousands)
Balance at December 31, 2018	1,106	$ 30,968
Recap Private Placement:		
Common shares issued	25,000	25,000
Allocation to Recap Warrants	-	(9,965)
Issue costs	-	(255)
Balance at December 31, 2019	26,106	$ 45,748
Private Placements	32,000	64,000
Issue costs, net of deferred tax ($449)	-	(1,453)
Balance at June 30, 2020	**58,106**	**$ 108,295**

Private Placements

On May 8, 2020, Spartan completed a non-brokered offering of 29,455,000 subscription receipts (the "Subscription Receipts") at a price of $2.00 per Subscription Receipt for gross proceeds of $58.91 million (the "Subscription Receipt Offering"). Upon closing of the BXE Asset Acquisition on June 1, 2020, the proceeds from the sale of the Subscription Receipts were released from escrow to the Company and Subscription Receipts were exchanged for 29,455,000 common shares for no additional consideration. Concurrently, the Company raised additional gross proceeds of $5.09 million by issuing 2,545,000 common shares at a price of $2.00 per common share (the "Common Share Offering"). The Subscription Receipt Offering and Common Share Offering resulted in aggregate gross proceeds of $64.0 million (together, the "Private Placements"). After issue costs of $1.9 million, net proceeds are $62.1 million.

Pursuant to applicable securities laws, the Subscription Receipts, the underlying common shares and the common shares issued pursuant to the Common Share Offering are subject to a hold period of four months plus one day following the distribution date.

Recapitalization Transaction

On December 19, 2019, the Company completed the Recapitalization Transaction pursuant to a definitive reorganization and investment agreement which provided for: (a) a non-brokered private placement for gross proceeds of $25.0 million (the "Recap Private Placement"); and (b) the appointment of a new management team (the "New Management Team") and new board of directors (the "New Board") of Spartan.

In respect of the Recap Private Placement, the Company issued a total of 8,796,500 common shares and 16,203,500 units (the "Recap Units") of the Company at a price of $1.00 per common share and Recap Unit, respectively, for aggregate gross proceeds of $25.0 million ($24.7 million after issue costs). The Recap Units issued under the Recap Private Placement were issued to the New Management Team, the New Board and certain additional subscribers. Each Recap Unit was comprised of one common share and one common share purchase warrant (each, a "Recap Warrant"). The terms of the Recap Warrants are further described in part c) of this note.

As part of the Recapitalization Transaction, an aggregate of: (i) 2,000,000 Preferred Shares, being all of the issued and outstanding Preferred Shares; (ii) 666,666 common share purchase warrants (the "Legacy Warrants"), being all of the issued and outstanding Legacy Warrants; and (iii) 69,250 stock options, being all of the granted and outstanding stock options, were cancelled for nominal consideration effective December 19, 2019.

c) Warrants

The following tables summarizes the change in common share purchase warrants issued and outstanding:

	Number of warrants (000s)	Amount ($ thousands)	Average exercise price
Balance at December 31, 2018	667	$ 2,200	$ 10.00
Recapitalization Transaction:			
Recap Warrants issued	16,204	9,965	1.00
Legacy Warrants surrendered and cancelled	(667)	(2,200)	(10.00)
Balance at December 31, 2019	16,204	$ 9,965	$ 1.00
Balance at June 30, 2020	**16,204**	**$ 9,965**	**$ 1.00**

The Recap Warrants issued in connection with the Recap Private Placement were allocated a value of $9,965,150. The fair value was estimated as of the date of issuance on December 19, 2019, using the Black-Scholes model with the following assumptions: expected life of five years; volatility of 75%; risk-free interest rate of 1.7%; a dividend yield of 0%; and a forfeiture rate of 0%.

Each Recap Warrant entitles the holder to purchase one common share at a price of $1.00 (the "Exercise Price") for a period of five years. The Recap Warrants vest and become exercisable as to one third upon the 10-day weighted average trading price of the common shares (the "Market Price") equaling or exceeding 100% of the Exercise Price, an additional one-third upon the Market Price equaling or exceeding 150% of the Exercise Price and a final one-third upon the Market Price equaling or exceeding 200% of the Exercise Price.

As at June 30, 2020, the Recap Warrants are fully vested. The Recap Warrants will provide aggregate cash proceeds of $16.2 million to the Company, if exercised by the holders.

d) Share based compensation

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board of Directors has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. All stock options have a maximum term of five years and the vesting period for each grant is determined at the discretion of the Board of Directors.

The following table summarizes the change in stock options outstanding:

	Number of options (000s)	Average exercise price
Balance at December 31, 2018	71	$ 16.00
Forfeited/cancelled (1)	(70)	(12.42)
Expired	(1)	(230.00)
Balance at December 31, 2019	-	-
Granted (2)	3,358	3.00
Forfeited	(8)	(3.00)
Balance at June 30, 2020	**3,350**	**$ 3.00**

(1) In connection with the Recapitalization Transaction, all outstanding stock options previously granted were surrendered and cancelled effective December 19, 2019.
(2) The options granted on June 1, 2020 vest 1/3 per year on the anniversary date of the grant.

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions as follows:

	Six months ended June 30	
	2020	2019
Risk free interest rate	**0.3%**	-
Expected life (years)	**3.5**	-
Expected volatility	**67.9%**	-
Expected dividend yield	**0.0%**	-
Expected forfeiture rate	**4.7%**	-
Average fair value of options granted during the period ($/share)	**$ 1.41**	-

(1) Spartan has estimated the expected volatility over the life of the option based on a peer group average for intermediate oil and gas companies. A peer group average was used because the Company's historical share price volatility is not expected to be representative of future volatility following completion of the BXE Asset Acquisition on June 1, 2020.

The following table summarizes information regarding stock options outstanding at June 30, 2020:

Exercise price ($/share)	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$ 3.00	**3,350**	**4.9**	**$ 3.00**	**-**	**-**

The volume weighted average trading price of the Company's common shares on the TSXV for the three and six months ended June 30, 2020 was $2.82 and $3.00, respectively.

e) Per share amounts

The table below summarizes the weighted average ("WA") number of common shares outstanding (000's) used in the calculation of net income (loss) per share for the three and six months ended June 30, 2020 and June 30, 2019:

	Three months ended June 30		Six months ended June 30	
(CA$ thousands, except per share amounts)	**2020**	2019	**2020**	2019
WA common shares outstanding, basic	**36,655**	1,106	**31,380**	1,106
Dilutive effect of stock options	**-**	-	**-**	-
Dilutive effect of warrants	**10,458**	-	**10,803**	-
WA common shares outstanding, diluted	**47,113**	1,106	**42,183**	1,106
Net income (loss)	**$ 47,406**	$ (820)	**$ 42,586**	$ (1,247)
$ per common share, basic	**1.29**	(0.74)	**1.36**	(1.13)
$ per common share, diluted	**1.01**	(0.74)	**1.01**	(1.13)

The Company uses the treasury stock method to determine the impact of dilutive securities. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted net income per share. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price during the period.

In computing diluted net income per share for the three and six months ended June 30, 2020, the effect of stock options was excluded as they were anti-dilutive. During the comparative periods ended June 30, 2019, the outstanding stock options, Legacy Warrants and Preferred Shares were antidilutive to the net loss per share.

12. INCOME TAXES

As at June 30, 2020, total tax pools available to the Company are estimated to be approximately $131.3 million (December 31, 2019 – $19.9 million), of which $23.7 million are non-capital losses ("NCLs").

The movement in deferred tax assets and liabilities, without taking into consideration the offsetting balances within the same tax jurisdiction are as follows:

(*CA$ thousands*)	Balance Dec 31, 2019	Recognized in net income	Recognized in BS[1]	**Balance June 30, 2020**
Derivative financial instruments	-	(550)	-	**(550)**
Accelerated tax basis depreciation	(1,164)	(15,126)	(22,070)	**(38,360)**
Decommissioning obligations	1,772	17,312	6,253	**25,337**
Leases	-	149	-	**149**
Share issue costs	69	(56)	449	**462**
Non-capital losses and other	3,528	2,154	-	**5,682**
Unrecognized deferred tax asset	(4,205)	4,205	-	**-**
Deferred tax asset (liability)	-	8,088	(15,368)	**(7,280)**

(1) "BS" refers to the Consolidated Statements of Financial Position (balance sheet).

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and deductible temporary differences can be utilized. At December 31, 2019, the Company had an unrecognized deferred tax asset of $4.2 million. Following completion of the BXE Asset Acquisition, Spartan anticipates the Company will have sufficient taxable profits in the future in order to utilize its NCLs which expire in years 2025 to 2040 and has recognized the deferred tax asset related to NCLs, net of its deferred tax liability.

The following table reconciles income taxes calculated at the weighted average Canadian statutory rate with the actual provision for income taxes per the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss):

	Three months ended June 30		Six months ended June 30	
(CA$ thousands)	**2020**	2019	**2020**	2019
Net income (loss) before income taxes	**39,318**	(820)	**34,498**	(1,247)
Canadian statutory tax rate	**25.0%**	27.0%	**25.0%**	27.0%
Expected income tax expense (recovery)	**9,830**	(221)	**8,625**	(337)
Increase (decrease) resulting from:				
Non-deductible expenses	**617**	-	**617**	15
Gain on acquisition	**(13,238)**	-	**(13,238)**	-
Change in tax rates	**143**	-	**241**	-
True-up tax pools	**(127)**	-	**(128)**	-
Change in unrecognized deferred tax asset	**(5,313)**	221	**(4,205)**	322
Deferred income tax recovery	**(8,088)**	-	**(8,088)**	-
Current income tax	**-**	-	**-**	-
Income tax recovery	**(8,088)**	-	**(8,088)**	-

The Canadian statutory tax rate per the rate reconciliation above represents the average combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the provincial tax rate in Alberta is 10% in 2020. On June 28, 2019, the Alberta government enacted legislation which reduced the Alberta corporate income tax rate from 12% to: 11% effective July 1, 2019; 10% effective January 1, 2020; 9% effective January 1, 2021; and 8% effective January 1, 2022 and thereafter.

13. OIL AND GAS SALES, NET OF ROYALTIES

	Three months ended June 30		Six months ended June 30	
(CA$ thousands)	**2020**	2019	**2020**	2019
Oil and gas sales				
Crude oil and condensate (1)	**1,961**	149	**2,064**	318
Natural gas liquids	**3,066**	66	**3,129**	150
Natural gas	**6,569**	81	**6,776**	329
Oil and gas sales	**11,596**	296	**11,969**	797
Royalties	**(753)**	28	**(754)**	27
Oil and gas sales, net of royalties	**10,843**	324	**11,215**	824

(1) National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* includes condensate within the product type of "natural gas liquids". Spartan has disclosed condensate sales separate from natural gas liquids because the value equivalency of condensate is more closely aligned with crude oil. The Company believes the presentation of condensate as disclosed herein provides a more accurate representation of operations and results therefrom.

14. FINANCING

The following table summarizes the significant components of the Company's financing expenses, which are presented net of financing income in the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss).

	Three months ended June 30		Six months ended June 30	
(*CA$ thousands*)	**2020**	2019	**2020**	2019
Interest and fees on bank debt	**202**	-	**202**	-
Financing cost of lease liabilities	**249**	-	**249**	-
Accretion of decommissioning obligations	**115**	28	**146**	57
Financing expenses	**566**	28	**597**	57
Interest income	**(15)**	-	**(94)**	-
Financing	**551**	28	**503**	57

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
(*CA$ thousands*)	**2020**	2019	**2020**	2019
Accounts receivable	**(12,012)**	111	**(12,077)**	(7)
Prepaid expenses and deposits	**(1,305)**	19	**(1,421)**	39
Accounts payable and accrued liabilities	**10,878**	233	**12,128**	231
Change in non-cash working capital	**(2,439)**	363	**(1,370)**	263
Relating to:				
Operating activities	**(7,121)**	363	**(6,160)**	263
Financing activities	**104**	-	**104**	-
Investing activities	**4,578**	-	**4,686**	-
Change in non-cash working capital	**(2,439)**	363	**(1,370)**	263

16. CAPITAL MANAGEMENT

Spartan's capital management objectives are to maintain a flexible capital structure in order to meet its financial obligations, execute on strategic opportunities throughout the business cycle and respond to changes in economic conditions. As at June 30, 2020, the Company's capital structure is comprised of working capital, bank debt and shareholders' equity and its existing capital resources are sufficient to satisfy its financial obligations for the next 12 months. In order to maintain or adjust its capital structure in the future, the Company may issue new common shares or other equity securities, issue debt, adjust capital expenditures and acquire or dispose of assets.

The significant components of the Company's capital structure are summarized below:

(*CA$ thousands*)	**June 30, 2020**	December 31, 2019
Bank debt	**26,198**	-
Working capital deficit (surplus) (1)	**2,170**	(23,538)
Bank debt, net of working capital deficit (surplus)	**28,368**	(23,538)
Total shareholders' equity	**130,995**	25,640

(1) The working capital deficit (surplus) is calculated as total current liabilities less total current assets.

The Company's business plan is dynamic and evolving in response to the current business environment which continues to be volatile and uncertain. Despite the challenges facing the oil and gas industry, the Company believes Spartan is well positioned to take advantage of the opportunities created during this period of low commodity prices. On June 1, 2020, the Company closed the BXE Asset Acquisition which was funded by a combination of cash on hand and bank debt under the new Credit Facility with a borrowing base of $100.0 million. The Company also concurrently completed the Private Placements for net proceeds of $62.1 million. Details of the foregoing are provided in notes 5, 10 and 11, respectively.

As at June 30, 2020, the Company is not subject to any externally imposed capital requirements.

17. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's commitments at June 30, 2020:

(CA$ thousands)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Firm transportation	5,400	3,698	-	-	9,098
Total	**5,400**	**3,698**	**-**	**-**	**9,098**

Spartan has firm transportation commitments on natural gas pipelines in Alberta until March 2022. A contractual maturity of the Company's financial liabilities and the payments due under lease contracts are provided in notes 4 and 8, respectively.

Litigation

In the normal course of the Company's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes with partners or other stakeholders. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined to have an adverse affect on the Company's future operations or financial condition. As of the date of these financial statements, the Company has no material litigation or claims outstanding.

18. RELATED PARTY DISCLOSURES

a) Inter-corporate relationships

Spartan has one wholly-owned subsidiary, Winslow Resources Inc. Balances and transactions between the Company and its subsidiary have been eliminated on consolidation.

b) Related party transactions

During the six months ended June 30, 2020, the Company incurred approximately $1.3 million of legal fees to a law firm where the corporate secretary of the Company is a partner (nil in the comparative period of 2019). The fees are primarily transaction costs related to the BXE Asset Acquisition and share issue costs incurred in respect of the Private Placements. Approximately $0.1 million are included in the balance of accounts payable and accrued liabilities as at June 30, 2020. The Company expects to continue using the services of this law firm in the future.