# SPARTAN DELTA CORP. (FORMERLY, RETURN ENERGY INC.)
# MANAGEMENT'S DISCUSSION & ANALYSIS
# AS AT AND FOR THE THREE AND SIX MONTHS ENDED
# JUNE 30, 2020

## FINANCIAL AND OPERATING HIGHLIGHTS

| *(CA$ thousands, except as otherwise indicated)* | Three months ended June 30 **2020** | 2019 | Six months ended June 30 **2020** | 2019 |
|---|---|---|---|---|
| **OPERATING** | | | | |
| Average daily production (BOE/d) | | | | |
| Crude oil and condensate (bbls/d) | **473** | 24 | **250** | 27 |
| NGLs (bbls/d) | **2,243** | 13 | **1,130** | 15 |
| Natural gas (mcf/d) | **37,140** | 1,199 | **19,194** | 1,130 |
| BOE/d | **8,906** | 237 | **4,579** | 230 |
| Average realized prices, before financial instruments | | | | |
| Crude oil and condensate ($/bbl) | **45.56** | 67.54 | **45.43** | 64.62 |
| NGLs ($/bbl) | **15.02** | 56.31 | **15.22** | 56.59 |
| Natural gas ($/mcf) | **1.94** | 0.75 | **1.94** | 1.61 |
| Combined average ($/BOE) | **14.31** | 13.74 | **14.36** | 19.13 |
| Operating and Corporate Netbacks ($/BOE) (1) | | | | |
| Oil and gas sales, before financial instruments | **14.31** | 13.74 | **14.36** | 19.13 |
| Realized gain on financial instruments | **0.17** | - | **0.16** | - |
| Oil and gas sales, after financial instruments | **14.48** | 13.74 | **14.52** | 19.13 |
| Processing and other revenue | **0.69** | 1.53 | **0.72** | 1.49 |
| Royalties | **(0.93)** | 1.30 | **(0.91)** | 0.65 |
| Operating expenses | **(6.96)** | (23.97) | **(7.38)** | (21.97) |
| Transportation expenses | **(1.38)** | - | **(1.34)** | - |
| Operating Netback (1) | **5.90** | (7.40) | **5.61** | (0.70) |
| General and administrative expenses | **(1.48)** | (15.97) | **(2.47)** | (15.01) |
| Interest expense, net of interest income | **(0.23)** | - | **(0.13)** | - |
| Corporate Netback (1) | **4.19** | (23.37) | **3.01** | (15.71) |
| **FINANCIAL** | | | | |
| Oil and gas sales | **11,596** | 296 | **11,969** | 797 |
| Cash (used in) operating activities | **(6,033)** | (186) | **(6,579)** | (452) |
| Adjusted Funds from Operations (1) | **3,395** | (504) | **2,515** | (655) |
| $ per share, basic | **0.09** | (0.46) | **0.08** | (0.59) |
| $ per share, diluted | **0.07** | (0.46) | **0.06** | (0.59) |
| Net income (loss) and comprehensive income (loss) | **47,406** | (820) | **42,586** | (1,247) |
| $ per share, basic | **1.29** | (0.74) | **1.36** | (1.13) |
| $ per share, diluted | **1.01** | (0.74) | **1.01** | (1.13) |
| Capital expenditures, net of dispositions | **109,969** | 1 | **110,345** | (261) |
| Total assets | **339,064** | 11,628 | **339,064** | 11,628 |
| Net Debt (Surplus) (1) | **26,177** | (426) | **26,177** | (426) |
| Shareholders’ equity | **130,995** | 1,852 | **130,995** | 1,852 |
| Common shares outstanding (000s) (2) | | | | |
| Weighted average, basic | **36,655** | 1,106 | **31,380** | 1,106 |
| Weighted average, diluted | **47,113** | 1,106 | **42,183** | 1,106 |
| End of period | **58,106** | 1,106 | **58,106** | 1,106 |

(1) "Operating Netback", “Corporate Netback”, “Adjusted Funds from Operations” and "Net Debt (Surplus)" do not have standardized meanings under IFRS, refer to "Non-GAAP Measures" section of this MD&A.

(2) Refer to “Share Capital” section of this MD&A.

## INTRODUCTION

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”). Common shares of Spartan are listed on the TSX Venture Exchange (“TSXV”) and trade under the symbol “SDE” (formerly “RTN”) (see also, “Name Change and Share Consolidation”). 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.

Through its wholly-owned subsidiary Winslow Resources Inc. (“Winslow”), the Company 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. (“Bellatrix” or “BXE”) for total consideration of $108.8 million (the “BXE Asset Acquisition”). The transaction positions Spartan as an intermediate energy company whose growth strategy is focused on the acquisition and sustainable development of underexploited and undercapitalized assets. 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. Additional information is provided under the heading “BXE Asset Acquisition”.

The following Management’s Discussion and Analysis (“MD&A”) has been prepared by management as of August 19, 2020, in accordance with the requirements of National Instrument 51-102 – *Continuous Disclosure Requirements* ("NI 51-102"). This MD&A should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements and related notes for the three and six months ended June 30, 2020, and its audited consolidated annual financial statements and MD&A for the year ended December 31, 2019. The information provided in this MD&A is not intended to be a comprehensive review of all matters and developments concerning the Company and is not a substitute for detailed investigation or analysis on any particular issue. The Company is presently a “Venture Issuer” as defined in NI 51-102. Additional information relevant to the Company’s activities, including Spartan's Annual Information Form for the year ended December 31, 2019 (the "AIF"), can be found on SEDAR at www.sedar.com and the Company’s website at www.spartandeltacorp.com.

***Unless otherwise noted, the financial information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) also known as International Financial Reporting Standards (“IFRS”). This MD&A contains forward-looking statements, non-GAAP measures and other non-financial measures. Readers are cautioned that the MD&A should be read in conjunction with the Company’s disclosures under the headings “Non-GAAP Measures”, “Other Measurements” and “Forward-Looking Statements” included in this MD&A. All dollar amounts are quoted in thousands of Canadian dollars (CA$), the reporting and functional currency of the Company, unless otherwise indicated.***

## NAME CHANGE AND SHARE CONSOLIDATION

On March 4, 2020, the shareholders of the Company approved a name change from “Return Energy Inc.” to "Spartan Delta Corp." (the “Name Change”) and 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 Name Change and Share Consolidation were completed on June 1, 2020.

***All references to common shares, subscription receipts, warrants and stock options in this MD&A have been restated and are reflected on a post-consolidation basis.***

## NON-GAAP MEASURES

This MD&A contains certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS or GAAP. As these non-GAAP financial measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used. The non-GAAP measures used in this MD&A, represented by the capitalized and defined terms outlined below, are used by Spartan as key measures of financial performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities, net income or other measures of financial performance calculated in accordance with IFRS.

### Funds from Operations and Adjusted Funds from Operations

"Funds from Operations" is calculated as cash provided by (used in) operating activities before changes in non-cash working capital. "Adjusted Funds from Operations" is calculated by adding back transaction costs on acquisitions and settlements of decommissioning obligations to Funds from Operations.

The following table reconciles cash provided by (used in) operating activities to Adjusted Funds from Operations:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2020** | 2019 | **2020** | 2019 |
| Cash (used in) operating activities | **(6,033)** | (186) | **(6,579)** | (452) |
| Change in non-cash operating working capital | **7,121** | (363) | **6,160** | (263) |
| **Funds from Operations** | **1,088** | (549) | **(419)** | (715) |
| Transaction costs | **2,244** | - | **2,244** | - |
| Settlement of decommissioning obligations | **63** | 45 | **690** | 60 |
| **Adjusted Funds from Operations** | **3,395** | (504) | **2,515** | (655) |

Adjusted Funds from Operations per share is calculated on a consistent basis with net income (loss) per share, using basic and diluted weighted average common shares as determined in accordance with IFRS.

Adjusted Funds from Operations can also be calculated by deducting general and administrative and interest expenses (net of interest income) from Operating Income (Loss), as described further below.

### Operating Income (Loss), Operating Netback and Corporate Netback

"Operating Income (Loss)" is calculated by deducting operating and transportation expenses from total revenue, after realized gains or losses on commodity price derivative financial instruments. Total revenue is comprised of oil and gas sales, net of royalties, plus processing and other revenue.

The Company refers to Operating Income (Loss) expressed per unit of production as an "Operating Netback". Similarly, Spartan's "Corporate Netback" is equal to Adjusted Funds from Operations expressed per unit of production.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Oil and gas sales, net of royalties | **10,843** | 324 | **11,215** | 824 |
| Processing and other | **558** | 33 | **603** | 62 |
| Realized gain on derivative financial instruments | **136** | - | **136** | - |
| Operating expenses | **(5,637)** | (517) | **(6,152)** | (916) |
| Transportation expenses | **(1,121)** | - | **(1,121)** | - |
| **Operating Income (Loss)** | **4,779** | (160) | **4,681** | (30) |

| | | | | | |
|---|---|---|---|---|---|
| General and administrative expenses | | **(1,197)** | (344) | **(2,058)** | (625) |
| Interest expense, net of interest income | | **(187)** | - | **(108)** | - |
| **Adjusted Funds from Operations** | | **3,395** | (504) | **2,515** | (655) |
| Production (BOE) | | **810,407** | 21,561 | **833,224** | 41,678 |
| **Operating Netback** | ($ per BOE) | **5.90** | (7.40) | **5.61** | (0.70) |
| **Corporate Netback** | ($ per BOE) | **4.19** | (23.37) | **3.01** | (15.71) |

**Net Debt (Surplus)**

Throughout this MD&A, references to "Net Debt" include bank debt, net of Adjusted Working Capital. "Adjusted Working Capital" is calculated as current assets less current liabilities, excluding derivative financial instrument assets and liabilities and lease liabilities. As at June 30, 2020, the Adjusted Working Capital surplus includes cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and the current portion of decommissioning obligations. Spartan uses "Net Debt" as a measure of the Company's financial position and liquidity, however it is not intended to be viewed as an alternative to other measures calculated in accordance with IFRS.

| *(CA$ thousands)* | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Bank debt | **26,198** | - |
| Adjusted Working Capital deficit (surplus) | **(21)** | (23,538) |
| **Net Debt (Surplus)** | **26,177** | (23,538) |

**Net Debt to Trailing Adjusted Funds Flow**

The Company monitors its capital structure and short-term financing requirements using a "Net Debt to Trailing Adjusted Funds Flow" ratio, which is a non-GAAP financial measure calculated as the ratio of the Company's "Net Debt" to "Trailing Adjusted Funds Flow". Management believes that this ratio provides investors with information to understand the Company's liquidity risk. This ratio is also indicative of the "debt to cash flow" calculation used to determine the applicable margin for a quarter under the Company's Credit Facility agreement (though the calculation is not a precise match, it is representative).

"Adjusted Funds Flow" is calculated by deducting settlements of decommissioning obligations and lease payments from "Adjusted Funds from Operations". The Company believes Adjusted Funds Flow is an appropriate metric to compare relative to Net Debt because it reflects the net cash flow generated from routine business operations and because Spartan does not include lease liabilities in its definition of Net Debt. "Trailing Adjusted Funds Flow" is calculated by annualizing Adjusted Funds Flow for the most recently completed quarter.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2020** | 2019 | **2020** | 2019 |
| **Adjusted Funds from Operations** | **3,395** | (504) | **2,515** | (655) |
| Settlement of decommissioning obligations | **(63)** | (45) | **(690)** | (60) |
| Lease payments | **(485)** | - | **(485)** | - |
| **Adjusted Funds Flow** | **2,847** | (549) | **1,340** | (715) |
| **Trailing Adjusted Funds Flow** | **11,388** | n/a | **n/a** | n/a |

A calculation of the Company's Net Debt to Trailing Adjusted Funds Flow ratio as at June 30, 2020 is provided under the heading "Capital Resources and Liquidity".

## GROWTH STRATEGY

Structural changes to the market over the last two quarters have materially enhanced the opportunity set for Spartan's targeted acquisition and consolidation strategy. The Company is focused across multiple jurisdictions on rarely seen opportunities to acquire top tier assets at historically low valuations, while simultaneously utilizing restructuring tools to reduce burdensome debt, legacy fixed cost commitments and unnecessary overhead. The Company's intent is to acquire a diversified portfolio of quality assets that can be restructured, optimized and rebranded, financially or operationally to yield lower payout ratios and generate material free cash flow. Simultaneously, the Company continues to focus on the expansion of its opportunity suite through internally generated prospects and strategic tuck-in acquisitions.

## RESULTS OF OPERATIONS

### SECOND QUARTER 2020 HIGHLIGHTS:

- Spartan closed the BXE Asset Acquisition for total consideration of $108.8 million on June 1, 2020. The assets acquired include high quality, multi-zone, oil and gas production concentrated in the Deep Basin of west central Alberta, a large land base and working interest ownership in strategic infrastructure (the "BXE Assets"). A gain on acquisition of $53.0 million was recognized as the consideration was less than the estimated fair value of the net assets acquired. Spartan's financial results for the quarter ended June 30, 2020, include the results of operations from the BXE Assets for the 30 day period following closing of the acquisition.
- In connection with the BXE Asset Acquisition, the Company raised gross proceeds of $64.0 million through non-brokered equity private placements at a subscription price of $2.00 per common share. Spartan also established a $100.0 million revolving credit facility with a syndicate of financial institutions. Additional information regarding the Private Placements and the Credit Facility is provided under the heading "Capital Resources and Liquidity".
- The outbreak of the novel coronavirus ("COVID-19"), which was declared a pandemic by the World Health Organization in March 2020, continued to disrupt the global economy through the second quarter. 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 WTI oil price began to fall precipitously starting 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 slight 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.
- Spartan reported average production of 8,906 BOE per day (70% gas) for the three months ended June 30, 2020, reflecting production from the BXE Assets which averaged approximately 26,200 BOE per day for the month of June. Average production was 237 BOE per day (84% gas) in the second quarter of 2019.
- Oil and gas sales revenue (before royalties) was $11.6 million for the second quarter of 2020, compared to $0.3 million in the second quarter of 2019. Spartan's combined average realized price was $14.31 per BOE ($14.48 per BOE after financial instruments) for the three months ended June 30, 2020, 4% higher than the average price of $13.74 per BOE in the same period of 2019 as stronger natural gas prices more than offset lower oil and NGLs prices.
- The Company strategically hedged approximately 60% of its natural gas volumes for the second half of 2020 and approximately 45% of forecast natural gas volumes for 2021 to protect project economics and cash flows, while mitigating ongoing volatility in commodity markets.
- During the three months ended June 30, 2020, corporate royalty rates averaged 6.5% of oil and gas sales. Operating and transportation expenses averaged $6.96 per BOE and $1.38 per BOE, respectively.
- Spartan reported an Operating Netback of $5.90 per BOE for the second quarter of 2020, compared to an Operating Netback loss of $7.40 per BOE in the same quarter of 2019. The improved operating netback reflects the successful integration of the BXE Asset Acquisition and decrease in per unit operating costs.

- The Company reported Adjusted Funds from Operations of $3.4 million ($0.07 per share, diluted) for the three months ended June 30, 2020. On a per unit basis, Spartan's Adjusted Funds from Operations resulted in a Corporate Netback of $4.19 per BOE, after general and administrative and interest expenses of $1.48 per BOE and $0.23 per BOE, respectively.
- Net income for the second quarter of 2020 was $47.4 million ($1.01 per share, diluted), driven primarily by the gain recognized on the BXE Asset Acquisition. By comparison, the Company reported a loss of $0.8 million ($0.74 per share, diluted) in the second quarter of 2019.
- Total capital expenditures were $110.0 million for the second quarter of 2020. In addition to $108.8 million incurred for the BXE Asset Acquisition, the Company also spent approximately $1.0 million on seismic and $0.2 million on corporate assets.
- As of June 30, 2020, Spartan's Liability Management Rating ("LMR") exceeded 6.0 in Alberta versus an industry average of 4.9. The Alberta Energy Regulator uses the LMR rating to assess a company's ability to address its abandonment, remediation, and reclamation obligations and is calculated as a ratio of a company's deemed assets (production) to its deemed liabilities (abandonment and reclamation costs). Spartan is committed to environmental stewardship and seeks to maintain an industry leading LMR.
- As at June 30, 2020, Spartan had drawn $26.9 million on its Credit Facility with an authorized borrowing amount of $100.0 million and had Net Debt of $26.2 million. The Company is well positioned to confront the challenges of the current business environment and has sufficient financial flexibility to take advantage of future opportunities.

## PRODUCTION

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Average daily production** | | | | |
| Crude oil and condensate (bbls/d) | **473** | 24 | **250** | 27 |
| NGLs (bbls/d) | **2,243** | 13 | **1,130** | 15 |
| Natural gas (mcf/d) | **37,140** | 1,199 | **19,194** | 1,130 |
| Combined average (BOE/d) | **8,906** | 237 | **4,579** | 230 |
| % Oil and NGLs | **30%** | 16% | **30%** | 18% |

Average production of 8,906 BOE per day reported for the second quarter of 2020 reflects production from the BXE Assets which averaged approximately 26,200 BOE per day (30% liquids) for the 30 day period following closing of the acquisition on June 1, 2020. Year-to-date, production averaged 4,579 BOE per day compared to 230 BOE per day in the same period of 2019. The core producing properties acquired are geographically concentrated in the Ferrier, Brazeau, and Willesden Green areas of west central Alberta.

Production from the Company's legacy assets located at Rycroft-Valhalla averaged approximately 260 BOE per day during the three months ended June 30, 2020, up from 251 BOE per day during the previous quarter ended March 31, 2020.

## REVENUE

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| **Benchmark commodity prices** | **2020** | 2019 | % | **2020** | 2019 | % |
| WTI Cushing Oklahoma (US$/bbl) (1) | **27.84** | 59.84 | -53 | **37.01** | 57.33 | -35 |
| WTI Cushing Oklahoma (CA$/bbl) (3) | **38.41** | 80.04 | -52 | **50.01** | 76.46 | -35 |
| Canadian Light Sweet 40 API ($/bbl) (1) | **31.45** | 72.55 | -57 | **41.74** | 69.73 | -40 |
| NYMEX Henry Hub (US$/MMBtu) (1) | **1.76** | 2.51 | -30 | **1.81** | 2.69 | -33 |
| AECO 5A ($/GJ) (2) | **1.89** | 0.98 | 93 | **1.91** | 1.73 | 10 |
| Exchange rate (CA$/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)
(3) Calculated based the US$ WTI price multiplied by the average US$/CA$ exchange rate for the month

### Oil and gas sales

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | % | **2020** | 2019 | % |
| Crude oil and condensate | **1,961** | 149 | | **2,064** | 318 | |
| NGLs | **3,066** | 65 | | **3,129** | 150 | |
| Natural gas | **6,569** | 82 | | **6,776** | 329 | |
| Oil and gas sales, before royalties | **11,596** | 296 | | **11,969** | 797 | |
| Average realized prices, before financial instruments | | | | | | |
| Crude oil and condensate ($/bbl) | **45.56** | 67.54 | -33 | **45.43** | 64.62 | -30 |
| NGLs ($/bbl) | **15.02** | 56.31 | -73 | **15.22** | 56.59 | -73 |
| Natural gas ($/mcf) | **1.94** | 0.75 | 159 | **1.94** | 1.61 | 20 |
| Combined average ($/BOE) | **14.31** | 13.74 | 4 | **14.36** | 19.13 | -25 |

Oil and gas sales were $11.6 million for the second quarter of 2020, of which approximately $11.3 million relates to production from the BXE Assets for the month of June. Spartan's combined average realized price was $14.31 per BOE ($14.48 per BOE after financial instruments) for the three months ended June 30, 2020. Stronger AECO natural gas prices in 2020 helped to partly mitigate the impact of lower oil and NGLs prices compared to 2019.

The Canadian dollar equivalent WTI oil price decreased by 52% and averaged $38.41 per barrel in the second quarter of 2020, compared to $80.04 per barrel in the second quarter of 2019. Over the same period, the Canadian Light Sweet ("CLS") oil reference price fell by 57% and averaged $31.45 per barrel in the current quarter. Widening of the basis differential for Canadian crude oil added to the severity of the decrease in global crude oil prices. Improved supply/demand fundamentals resulting from OPEC+ production cuts and the gradual easing of COVID-19 restrictions on the economy, contributed to a modest recovery of oil prices in May and June compared to the April low, in which CLS averaged $11.27 per barrel. Spartan's realized price for its crude oil and condensate sales of $45.56 per barrel for the three months ended June 30, 2020, is higher than the average benchmark oil price for the quarter as the Company inventoried a portion of its April and May oil production and the majority of sales were in June following completion of the BXE Asset Acquisition.

The Company realized an average price for its NGLs sales of $15.02 per barrel during the three months ended June 30, 2020. While a portion of the decrease in NGLs price relative to 2019 is driven by lower crude oil reference prices, it also reflects a change in NGLs product mix related to the BXE Assets. Approximately 75% of NGLs extracted at the Company's deep cut gas plant are ethane and propane. Operation of the deep cut facility delivers a higher total NGLs yield, however, the average NGLs price is lower compared to a product mix more highly weighted to butane and pentane. Spartan has NGLs marketing arrangements in place whereby its ethane sales receive a premium to AECO gas prices resulting in higher corporate total revenue and operating netbacks compared to shallow cut.

While natural gas prices have also been adversely affected by oversupply and expectation of lower industrial demand due to COVID-19, AECO gas prices have improved relative to the comparative periods of 2019 due to narrowing of the Canadian basis differential. During the second quarter of 2020, the AECO 5A gas reference price averaged $1.89 per GJ, up 93% from $0.98 per GJ in the second quarter of 2019. Year-to-date, the average AECO gas reference price of $1.91 per GJ is 10% higher than the average price in the first half of 2019. The Company realized an average gas sales price of $1.94 per MCF ($1.98 per MCF after financial instruments) during both the three and six month periods ended June 30, 2020, compared to $0.75 per MCF and $1.61 per MCF during the comparative periods. Natural gas production from the BXE Assets has a higher heat content resulting in a premium of the realized price to the AECO 5A daily index. In June 2020, Spartan entered into derivative financial contracts to lock in the benefit of stronger gas prices and realized a gain of $0.1 million. The Company strategically hedged approximately 60% of its natural gas volumes for the second half of 2020 and approximately 45% of forecast natural gas volumes for 2021 to protect cash flows and manage the ongoing volatility in commodity markets (see "Commodity Price Risk").

**Royalties**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Crude oil and condensate | **507** | 4 | **508** | 4 |
| NGLs, before GCA | **552** | 24 | **574** | 48 |
| Natural gas, before GCA | **704** | 9 | **722** | 31 |
| Gas cost allowance ("GCA") | **(1,010)** | (65) | **(1,050)** | (110) |
| Total royalties | **753** | (28) | **754** | (27) |
| $ per BOE | **0.93** | (1.30) | **0.91** | (0.65) |
| Average royalty rate (% of sales) | **6.5%** | (9.5%) | **6.3%** | (3.4%) |

For the three months ended June 30, 2020, Spartan's estimated royalties of $0.8 million resulted in an average royalty rate of 6.5% of oil and gas sales. The increase in the average royalty rate relative to the comparative period reflects the higher liquids weighting of the Company's production following the BXE Asset Acquisition. In the comparative periods of 2019, the Company's total royalties were negative due to GCA recoveries for prior period royalties.

**Processing and other revenue**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Processing and other | **558** | 33 | **603** | 62 |
| $ per BOE | **0.69** | 1.53 | **0.72** | 1.49 |

Processing and other revenue primarily relates to gas processing and other fees earned on third party volumes processed through the Company's facilities. The increase in processing income reflects acquisition of the BXE Assets which included a significant infrastructure component, including working interest ownership in three gas plants. The processing income generated from these facilities reduces Spartan's net cost of operating the facilities.

**OPERATING EXPENSES**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Operating expenses | **5,637** | 517 | **6,152** | 916 |
| $ per BOE | **6.96** | 23.97 | **7.38** | 21.97 |

Per unit operating expenses averaged $6.96 per BOE during the second quarter of 2020, down from $23.97 per BOE in the comparative quarter of 2019. Year-to-date, per unit operating expenses averaged $7.38 per BOE compared to $21.97 per BOE during the first half of 2019. The decrease in operating expenses on a per unit basis is a result of the BXE Asset Acquisition and economies of scale achieved through a larger asset base with operations concentrated within central Alberta. The Company continues to focus on production optimization and integration activities and is evaluating its service providers to identify potential cost savings going forward.

Operating expenses of $5.6 million for the three months ended June 30, 2020 are net of an estimated recovery of $0.1 million under the Canada Emergency Wage Subsidy ("CEWS") program.

## TRANSPORTATION EXPENSES

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Transportation expenses | **1,121** | - | **1,121** | - |
| $ per BOE | **1.38** | - | **1.34** | - |

The Company entered into various new marketing and transportation contracts effective upon closing of the BXE Asset Acquisition. Transportation charges incurred up to the point control transfers to the purchaser are recognized as transportation expenses and were approximately $1.1 million for the month of June.

## GENERAL AND ADMINISTATIVE EXPENSES ("G&A")

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Salaries and benefits | **1,219** | 172 | **1,652** | 359 |
| Other G&A expenses | **286** | 172 | **721** | 266 |
| Gross G&A expenses | **1,505** | 344 | **2,373** | 625 |
| Overhead recoveries | **(49)** | - | **(56)** | - |
| Canada Emergency Wage Subsidy | **(259)** | - | **(259)** | - |
| G&A expenses, net of recoveries | **1,197** | 344 | **2,058** | 625 |
| Gross G&A ($ per BOE) | **1.86** | 15.97 | **2.85** | 15.01 |
| Net G&A ($ per BOE) | **1.48** | 15.97 | **2.47** | 15.01 |

The Company incurred G&A expenses, before recoveries, of $1.5 million during the three months ended June 30, 2020. Approximately $1.2 million of G&A expenses were incurred in June following completion of the BXE Asset Acquisition. Spartan is pleased to have hired new employees to its head office team in Calgary, Alberta.

Under the CEWS program, Canadian employers affected by COVID-19 are eligible for subsidy of up to $847 per week for eligible employees, provided that certain criteria are met. For the period from commencement of the CEWS on March 15$^{th}$ 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 G&A expenses and $0.1 million related to field employees is presented as a recovery of operating expenses.

G&A expenses are reported net of overhead recoveries, however, Spartan does not capitalize any direct G&A expenses. Net G&A expenses were $1.2 million ($1.48 per BOE) for the second quarter of 2020 and $2.1 million ($2.47 BOE) year-to-date.

## SHARE BASED COMPENSATION

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Share based compensation expense | **222** | 28 | **222** | 56 |
| $ per BOE | **0.27** | 1.31 | **0.27** | 1.35 |

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. The Company granted 3.4 million stock options with an exercise of $3.00 per share on June 1, 2020 upon closing of the BXE Asset Acquisition. The stock options granted had an average fair value of $1.41 per share, estimated on the grant date using the Black-Scholes option pricing model. Share based compensation is recognized over the three-year vesting period using graded amortization resulting in an expense of $0.2 million for the month of June.

There were no stock options outstanding prior to the grant on June 1, 2020 as all outstanding stock options previously granted by the Company were surrendered and cancelled effective December 19, 2019 in connection with the Recapitalization Transaction.

**FINANCING**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **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 |
| Interest expense, net of interest income ($ per BOE) | **0.23** | - | **0.13** | - |
| Financing ($ per BOE) | **0.68** | 1.29 | **0.60** | 1.38 |

Spartan established a revolving credit facility with a syndicate of financial institutions on June 1, 2020. The Credit Facility, which has an authorized borrowing amount of $100.0 million, was used to partially fund the BXE Asset Acquisition at closing and as of June 30, 2020, $26.9 million of bank debt was outstanding. Total interest and fees on bank debt of $0.2 million in the period include interest on borrowings, standby charges, and amortization of the upfront fees incurred to establish the Credit Facility. (Additional information regarding the Credit Facility is provided under the heading "Capital Resources and Liquidity".)

Total financing expenses include non-cash charges in respect of the Company's lease liabilities and decommissioning obligations. Spartan recorded $0.2 million of financing costs related to lease liabilities based on incremental borrowing rates between 4% and 6%.

**DEPLETION, DEPRECIATION AND IMPAIRMENT ("DD&I")**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Depletion and depreciation of PP&E | **2,665** | 260 | **3,576** | 529 |
| Impairment of PP&E | **-** | - | **2,998** | - |
| DD&I of PP&E | **2,665** | 260 | **6,574** | 529 |
| Depreciation of ROU assets | **594** | - | **594** | - |
| Total DD&I expense | **3,259** | 260 | **7,168** | 529 |
| Depletion and depreciation ($ per BOE) | **4.02** | 12.08 | **5.00** | 12.70 |
| Total DD&I expense ($ per BOE) | **4.02** | 12.08 | **8.60** | 12.70 |

*Depletion and depreciation ("D&D")*

D&D expense was $3.3 million for the three months ended June 30, 2020, up from $0.9 million in the previous quarter ended March 31, 2020. The increase in D&D expense reflects the significant increase in the carrying amount of PP&E and right-of-use ("ROU") assets upon completion of the BXE Asset Acquisition. The Company calculates depletion expense on a unit of production basis relative to total proved plus probable reserves. ROU assets and corporate assets are depreciated on a straight-line basis over the useful life. On a per unit basis, average D&D expense of $4.02 per BOE for the second quarter of 2020 decreased materially from the comparative periods, highlighting the acquisition of reserves at a significantly lower than historical capital cost.

*Impairment*

The Company has assessed each of its cash generating units ("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 acquisition date and reflects the weak forecast for commodity prices and challenging business environment.

As at March 31, 2020, the Company recognized an impairment loss of $3.0 million on its Rycroft-Valhalla CGU 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 CLS 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. Additional information regarding the impairment calculation completed as at March 31, 2020 is provided under the heading "Significant Estimates and Judgements".

## OTHER INCOME (EXPENSES)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Gain on sale of assets | **-** | - | **-** | 50 |
| Gain on acquisition | **52,952** | - | **52,952** | - |
| Discount rate adjustment on decommissioning obligations acquired | **(13,106)** | - | **(13,106)** | - |
| Transaction costs | **(2,244)** | - | **(2,244)** | - |
| Other income | **37,602** | - | **37,602** | 50 |

As more particularly described under the heading "BXE Asset Acquisition", 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 impact of the gain on Spartan's net income for the period is partly offset by transaction costs of $2.2 million incurred in connection with the BXE Asset Acquisition and $13.1 million of decommissioning costs that were expensed related to the acquired properties. On the acquisition date, the fair value of decommissioning obligations acquired of $27.2 million was estimated based on a "credit-adjusted risk-free rate" of 6.8%. 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 in the Company's core "Central Alberta" CGU and $13.1 million was expensed related to inactive properties included in the non-core "North Minors" and "South Minors" CGUs.

## INCOME TAXES

As at June 30, 2020, the Company's total tax pools are estimated to be $131.3 million, up from $19.9 million as of December 31, 2019. The increase is primarily due to the addition of $108.8 million of tax pools related to the purchase price for the BXE Asset Acquisition, which was allocated 80% to petroleum and natural gas rights (COGPE) and 20% to tangibles (UCC) under the asset purchase agreement.

The composition of the Company's estimated available tax pools as at June 30, 2020, is summarized below:

| *(CA$ thousands, unless otherwise indicated)* | Deduction Rate (1) | **Amount** | % of Total |
|---|---|---|---|
| Canadian oil and gas property expenses (COGPE) | 10% | **84,495** | 65% |
| Canadian development expenses (CDE) | 30% | **1,191** | 1% |
| Canadian exploration expenses (CEE) | 100% | **1,049** | 1% |
| Undepreciated capital cost (UCC) (2) | 25% | **18,901** | 14% |
| Share issue costs (SIC) | 5 years | **1,956** | 1% |
| Non-capital losses (NCL) (3) | 100% | **23,680** | 18% |
| Total tax pools | | **131,272** | 100% |

(1) The rates shown represent the maximum annual deduction permitted on a declining balance basis, except for SIC which are deductible on a straight-line basis over 5 years.

(2) The majority of the UCC balance relates to Class 41 assets which are deductible at 25% per year.

(3) NCLs expire in years 2025 to 2040, with $4.4 million expiring in 5 to 10 years and $19.3 million expiring in 10 to 20 years.

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 (1) | **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 (2) | **617** | - | **617** | 15 |
| Gain on acquisition | **(13,238)** | - | **(13,238)** | - |
| Change in tax rates (1) | **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)** | - |

(1) The Canadian statutory tax rate 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.

(2) Includes share based compensation expense and transaction costs.

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 to utilize its NCLs. Recognition of the previously unrecognized deferred income tax asset resulted in an increase in the deferred income tax recovery of $5.3 million for the second quarter and $4.2 million for the six months ended June 30, 2020.

## NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2020** | 2019 | **2020** | 2019 |
| Revenue | **11,401** | 357 | **11,818** | 886 |
| Gain on derivative financial instruments (1) | **2,302** | - | **2,302** | - |
| Expenses | **(11,987)** | (1,177) | **(17,224)** | (2,183) |
| Income (loss) before other items and taxes | **1,716** | (820) | **(3,104)** | (1,297) |
| Other income | **37,602** | - | **37,602** | 50 |
| Income (loss) before income taxes | **39,318** | (820) | **34,498** | (1,247) |
| Income tax recovery | **(8,088)** | - | **(8,088)** | - |
| Net income (loss) and comprehensive income (loss) | **47,406** | (820) | **42,586** | (1,247) |
| WA common shares outstanding – basic (000s) | **36,655** | 1,106 | **31,380** | 1,106 |
| WA common shares outstanding – diluted (000s) (2) | **47,113** | 1,106 | **42,183** | 1,106 |
| Net income (loss) $ per share – basic | **1.29** | (0.74) | **1.36** | (1.13) |
| Net income (loss) $ per share – diluted (2) | **1.01** | (0.74) | **1.01** | (1.13) |

(1) See also, “Commodity Price Risk”.

(2) 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.

Spartan’s net income was $47.4 million ($1.01 per share, diluted) for the three months ended June 30, 2020. The profit reported in the second quarter was driven by other income of $37.6 million recognized in connection with the BXE Asset Acquisition, a deferred income tax recovery of $8.1 million, as well as a gain of $2.3 million on derivative financial instruments.

Year-to-date, the Company’s net income is $42.6 million ($1.01 per share, diluted) reflecting the loss of $4.8 million incurred during the first three months of 2020. The impact of the COVID-19 pandemic and its effect on commodity prices was evident in the Company’s net loss for the first quarter of 2020, which included an impairment loss on PP&E of $3.0 million.

## CASH USED IN OPERATING ACTIVITIES AND ADJUSTED FUNDS FROM OPERATIONS

The following tables provide a continuity of income and expenses included in the Company's calculation of Operating Income, Adjusted Funds from Operations, and Funds from Operations generated during the three and six month periods ended June 30, 2020 and 2019, respectively, as well as the average Netback ($ per BOE) for each component. Operating Income, Adjusted Funds from Operations, Funds from Operations, and Netbacks are non-GAAP measures used by Spartan as key measures of performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by (used in) operating activities, income or other measures of financial performance calculated in accordance with GAAP/IFRS. The Company refers to Operating Income (Loss) expressed per unit of production as an "Operating Netback". Similarly, Spartan's "Corporate Netback" is equal to Adjusted Funds from Operations expressed per unit of production.

| **Three months ended June 30th** | **2020** | | 2019 | |
|---|---|---|---|---|
| *(CA$ thousands, except per BOE amounts)* | **Amount** | **$/BOE** | Amount | $/BOE |
| Revenue | **11,401** | **14.07** | 357 | 16.57 |
| Realized gain on derivative financial instruments | **136** | **0.17** | - | - |
| Operating expenses | **(5,637)** | **(6.96)** | (517) | (23.97) |
| Transportation expenses | **(1,121)** | **(1.38)** | - | - |
| **Operating Income (Loss) / Operating Netback (1)** | **4,779** | **5.90** | (160) | (7.40) |
| G&A expenses | **(1,197)** | **(1.48)** | (344) | (15.97) |
| Interest expense, net of interest income | **(187)** | **(0.23)** | - | - |
| **Adjusted Funds from Operations / Corporate Netback (1)** | **3,395** | **4.19** | (504) | (23.37) |
| Settlement of decommissioning obligations | **(63)** | **(0.08)** | (45) | (2.07) |
| Transaction costs | **(2,244)** | **(2.77)** | - | - |
| **Funds from Operations (1)** | **1,088** | **1.34** | (549) | (25.44) |
| Change in non-cash working capital | **(7,121)** | **(8.79)** | 363 | 16.84 |
| **Cash used in operating activities** | **(6,033)** | **(7.45)** | (186) | (8.60) |

(1) Refer to "Non-GAAP Measures" section of this MD&A.

The Company generated Adjusted Funds from Operations of $3.4 million during the three months ended June 30, 2020 resulting in a Corporate Netback of $4.19 per BOE. The increase from the comparative quarter of 2019 reflects the acquisition of the BXE Assets which contributed approximately $4.7 million of Operating Income for the 30 day period following closing of the acquisition, partly offset by higher G&A and interest incurred in connection with the Company's growth. After transaction costs and settlements of decommissioning obligations, Funds from Operations were $1.1 million for the second quarter of 2020.

Cash used in operating activities of $6.0 million for the quarter ended June 30, 2020 includes the change in non-cash working capital. Non-cash working capital related to operating activities increased by $7.1 million during the second quarter of 2020 primarily due to the increase in accrued revenue which is not received until the 25th of the following month, partly offset by an increase in accounts payable and accrued liabilities. An increase in non-cash working capital reduces the reported amount of cash provided by or used in operating activities.

Year-to-date in 2020, Adjusted Funds from Operations is $2.5 million ($3.01 per BOE) including the net outflow of $0.9 million during the first three months of 2020. The net outflow of Adjusted Funds from Operations was primarily due to G&A expenses incurred as the new management of Spartan evaluated acquisition opportunities during the first quarter. Prior to completion of the BXE Asset Acquisition, operating income generated from the Company's assets was nominal or negative. Spartan also incurred $0.7 million to settle decommissioning obligations during the first half of 2020. Total Funds used in Operations were $0.4 million for the six months ended June 30, 2020. The difference in timing of cash receipts for revenue and invoicing of expenses following completion of the BXE Asset Acquisition was also the primary driver of the increase in non-cash working capital related to operating activities for the six month period ended June 30, 2020, resulting in cash used in operating activities of $6.6 million.

| **Six months ended June 30th** | **2020** | | 2019 | |
|---|---|---|---|---|
| *(CA$ thousands, except per BOE amounts)* | **Amount** | **$/BOE** | Amount | $/BOE |
| Revenue | **11,818** | **14.17** | 886 | 21.27 |
| Realized gain on derivative financial instruments | **136** | **0.16** | - | - |
| Operating expenses | **(6,152)** | **(7.38)** | (916) | (21.97) |
| Transportation expenses | **(1,121)** | **(1.34)** | - | - |
| **Operating Income (Loss) / Operating Netback (1)** | **4,681** | **5.61** | (30) | (0.70) |
| G&A expenses | **(2,058)** | **(2.47)** | (625) | (15.01) |
| Interest expense, net of interest income | **(108)** | **(0.13)** | - | - |
| **Adjusted Funds from Operations / Corporate Netback (1)** | **2,515** | **3.01** | (655) | (15.71) |
| Settlement of decommissioning obligations | **(690)** | **(0.83)** | (60) | (1.43) |
| Transaction costs | **(2,244)** | **(2.69)** | - | - |
| **Funds used in Operations (1)** | **(419)** | **(0.51)** | (715) | (17.14) |
| Change in non-cash working capital | **(6,160)** | **(7.39)** | 263 | 6.32 |
| **Cash used in operating activities** | **(6,579)** | **(7.90)** | (452) | (10.82) |

(1) Refer to "Non-GAAP Measures" section of this MD&A.

## CAPITAL EXPENDITURES

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(CA$ thousands)* | **2020** | 2019 | **2020** | 2019 |
| Exploration and evaluation | **1,027** | - | **1,067** | - |
| Property plant and equipment | **160** | 1 | **496** | 4 |
| Capital expenditures, before A&D | **1,187** | 1 | **1,563** | 4 |
| Property acquisitions | **108,782** | - | **108,782** | - |
| Proceeds from dispositions | **-** | - | **-** | (265) |
| Capital expenditures, net of dispositions | **109,969** | 1 | **110,345** | (261) |

During the three months ended June 30, 2020, the Company's capital expenditures were $1.2 million, of which $1.0 million was spent on seismic and $0.2 million was spent on corporate assets. Spartan completed production optimization workovers on 7 (7.0 net) wells at a cost of $0.3 million during the first quarter of 2020 and total capital expenditures, before acquisitions, amounted to $1.6 million for the six months ended June 30, 2020. The Company continues to seek opportunities to optimize Spartan's existing asset base and expand on its suite of internal generally prospects.

The Company was focused on balance sheet preservation during 2019 and divested non-core assets for aggregate cash proceeds of $0.3 million during the first quarter of 2019.

### BXE Asset Acquisition

On April 22, 2020, the Company entered into an asset purchase agreement (the "APA") with Bellatrix Exploration Ltd. to acquire the BXE Assets for a purchase price of $87.4 million plus the assumption of certain liabilities. 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.

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 the unaudited condensed consolidated 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 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 |

Spartan assumed certain financial commitments from Bellatrix in respect of compression and facility leases with lease terms ending between March 2027 and November 2032. 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 $50.6 million on June 1, 2020. A contractual maturity of the undiscounted payments due under all of the Company's lease contracts in place at June 30, 2020 is provided under the heading "Commitments and Contingencies".

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. 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. "Operating Income" does not have a standardized meaning under IFRS, see advisories for "Non-GAAP Measures".

## CAPITAL RESOURCES AND LIQUIDITY

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 twelve months.

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, Spartan is well positioned to take advantage of the opportunities created during this period of low commodity prices. The BXE Asset Acquisition was completed on June 1, 2020 for total consideration of $108.8 million, comprised of $87.5 million of cash and assumed liabilities estimated to be $21.3 million. The purchase price was funded by a combination of cash on hand, $62.1 million of net proceeds from the Private Placements, and borrowings under a new $100.0 million Credit Facility. Future capital expenditures are expected to be funded through a combination of cash flow from operations and bank debt, and may be supplemented by new equity or debt offerings.

The Company monitors its capital structure and short-term financing requirements using a "Net Debt to Trailing Adjusted Funds Flow" ratio, which is a non-GAAP financial measure calculated as the ratio of the Company's "Net Debt" to "Trailing Adjusted Funds Flow" (definitions and details of the underlying calculations are provided under the heading "Non-GAAP Measures").

| | ***Pro forma* (1)** | **June 30, 2020** | December 31, 2019 |
|---|---|---|---|
| Bank debt | **26,198** | **26,198** | - |
| Adjusted Working Capital deficit (surplus) | **(21)** | **(21)** | (23,538) |
| **Net Debt (Surplus)** | **26,177** | **26,177** | (23,538) |
| Trailing Adjusted Funds Flow (1) | **33,780** | **11,388** | (3,152) |
| **Net Debt to Trailing Adjusted Funds Flow** | **0.8 x** | **2.3 x** | n/a |

(1) Trailing Adjusted Funds Flow is typically annualized based on the most recent quarter's Adjusted Funds Flow (see "Non-GAAP Measures"). For purposes of this pro-forma disclosure, Spartan estimated the *Pro forma* Trailing Adjusted Funds Flow by annualizing estimated Adjusted Funds Flow of approximately $2.8 million for the month of June, given the BXE Asset Acquisition closed on June 1, 2020. As this estimate is based on an extrapolation of June results, this *pro forma* information is not necessarily indicative of results that may be obtained in the future.

## CREDIT FACILITY

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. 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 under the heading "Market Risks"), 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.

**SHARE CAPITAL**

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.

Contemporaneous with closing of the BXE Asset Acquisition on June 1, 2020, the Company completed the Share Consolidation on the basis of a ratio of one-hundred (100) pre-consolidation common shares for each post-consolidation common share. All references to common shares, subscription receipts, warrants and stock options in this MD&A are on a post-consolidation basis.

The Company's common shares trade on the TSXV under the symbol "SDE" (formerly "RTN"). 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.

The table below summarizes the weighted average ("WA") number of common shares outstanding (000s) used in the calculation of net income (loss) per share and Adjusted Funds from Operations 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 | |
|---|---|---|---|---|
| (000s) | **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 |

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 and Adjusted Funds from Operations 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.

The total number of outstanding securities of the Company as of the dates indicated is provided below:

| Number of securities outstanding (000s) | December 31, 2019 | **June 30, 2020** | **August 19, 2020** |
|---|---|---|---|
| Common shares | 26,106 | **58,106** | **58,126** |
| Warrants (1) | 16,204 | **16,204** | **16,184** |
| Stock Options (2) | - | **3,350** | **3,350** |
| Total securities outstanding (3) | 42,310 | **77,660** | **77,660** |

(1) The common share purchase warrants have an exercise price of $1.00 per share and are fully vested. If exercised by the holders, the warrants will provide aggregate cash proceeds of $16.2 million to the Company. Additional information regarding the terms of the warrants is provided under the heading "Recapitalization Transaction".

(2) The Company granted 3.4 million stock options with an exercise price of $3.00 per share on June 1, 2020 upon closing of the BXE Asset Acquisition. The stock options outstanding are **not** in-the-money based on the closing price of the Company's common shares on the TSXV of $2.66 per share on June 30, 2020.

(3) The total number of securities outstanding is provided for information purposes only. This calculation does not factor in whether the securities are in-the-money or the number of shares deemed to be repurchased under the treasury stock method in accordance with IFRS. As such it should not be viewed as an alternative to the diluted weighted average number of common shares outstanding determined in accordance with IFRS.

### *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”). 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 and will provide aggregate cash proceeds of $16.2 million to the Company, if exercised by the holders.

As part of the Recapitalization Transaction, an aggregate of: (i) 2,000,000 Preferred Shares, being all of the issued and outstanding Preferred Shares (the “Preferred Shares”); (ii) 666,666 common share purchase warrants of the Company (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.

## COMMITMENTS AND CONTINGENCIES

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.

The table below provides a contractual maturity of the Company's financial liabilities and undiscounted lease liabilities as at June 30, 2020:

| *(CA$ thousands)* | Less than 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 13,068 | - | - | 13,068 |
| Bank debt and estimated interest (1) | 1,533 | 28,307 | - | 29,840 |
| Derivative financial instruments | - | 422 | - | 422 |
| Undiscounted lease liabilities | 7,652 | 45,763 | 9,399 | 62,814 |
| Total | 22,253 | 74,492 | 9,399 | 106,144 |

(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.

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

| *(CA$ thousands)* | Less than 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| Firm transportation | 5,400 | 3,698 | - | 9,098 |
| Short term lease | 317 | - | - | 317 |
| Total | 5,717 | 3,698 | - | 9,415 |

Spartan has firm transportation commitments on natural gas pipelines in Alberta until March 2022.

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.

*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 this MD&A, the Company has no material litigation or claims outstanding.

## 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.

## SUMMARY OF QUARTERLY INFORMATION

The financial information summarized below is presented in thousands of Canadian dollars, except for per share and per BOE amounts. Refer to "Results of Operations" section of this MD&A and the Company's previously issued MD&A's for detailed discussions of quarter-to-quarter variances in these key performance measures.

| *(CA$ thousands)* | **Q2 2020** | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **11,401** | 416 | 471 | 291 | 357 | 529 | 345 | 559 |
| Net income (loss) and | | | | | | | | |
| comprehensive income (loss) | **47,406** | (4,822) | (59) | (691) | (820) | (427) | (1,497) | (237) |
| $ per share, basic | **1.29** | (0.18) | (0.01) | (0.63) | (0.74) | (0.39) | (1.35) | (0.21) |
| $ per share, diluted | **1.01** | (0.18) | (0.01) | (0.63) | (0.74) | (0.39) | (1.35) | (0.21) |
| Funds from Operations (1) | **1,088** | (1,508) | (788) | (398) | (549) | (166) | (521) | (273) |
| Capital expenditures, net of dispositions | **109,969** | 376 | 29 | 1 | 1 | (261) | 7 | (120) |
| Total assets | **339,064** | 30,937 | 34,245 | 11,226 | 11,628 | 11,990 | 12,275 | 13,191 |
| Working capital surplus | **2,170** | 21,718 | 23,538 | 28 | 426 | 926 | 815 | 1,142 |
| Long-term liabilities | **189,206** | 7,542 | 7,213 | 9,292 | 9,123 | 8,876 | 8,743 | 8,018 |
| Shareholders' equity | **130,995** | 20,818 | 25,640 | 1,190 | 1,853 | 2,645 | 3,044 | 4,460 |
| Average daily production (BOE/d) | **8,906** | 251 | 223 | 215 | 237 | 224 | 229 | 257 |
| % Oil and NGLs | **30%** | 17% | 20% | 17% | 16% | 21% | 18% | 22% |
| Average realized price ($ per BOE) | **14.31** | 16.34 | 21.33 | 12.94 | 13.74 | 24.90 | 15.01 | 22.04 |
| Operating Netback ($ per BOE) (1) | **5.90** | (4.33) | (7.95) | (8.80) | (7.40) | 6.47 | (7.30) | 1.44 |

(1) "Funds from Operations" and "Operating Netback (Loss)" do not have standardized meanings under IFRS, refer to "Non-GAAP Measures" section of this MD&A.

Generally, the Company's results have been negatively impacted by low commodity prices over the past eight consecutive quarters. The Company suspended its capital expenditure program in the second half of 2018, launched a strategic alternatives process and began divesting of non-core assets. During the fourth quarter of 2019, the Company completed the $25.0 million Recap Private Placement as part of the Recapitalization Transaction and appointed the New Management Team and New Board. The significant increase in the net loss reported for the first quarter of 2020 is primarily due to an impairment loss of $3.0 million recognized as at March 31, 2020, which was also the main driver of the decrease in total assets and shareholders' equity in the first quarter of 2020 (see "Results of Operations – Depletion, Depreciation and Impairment"). The significant increase in the net income for the second quarter of 2020 is primarily due to the gain on acquisition of $53.0 million offset by the discount rate adjustment on decommissioning obligations of $13.1 million and transaction costs of $2.2 million related to the BXE Asset Acquisition. The BXE Asset Acquisition, which was transformational for Spartan, also significantly increased average production and liquids weighting, revenues, Funds from Operations, total capital expenditures, total assets, long-term liabilities, and total shareholders' equity.

## SIGNIFICANT ESTIMATES AND JUDGEMENTS

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. The significant judgments, estimates and assumptions made by management in the financial statements are outlined in note 2 of the December 31, 2019 consolidated annual financial statements and in note 2 of the unaudited interim financial statements as at June 30, 2020.

Although there have been no changes to the general nature of the Company's judgments and estimates during the interim period ended June 30, 2020 relative to those described in the most recent annual financial statements as at December 31, 2019:

- The outbreak of COVID-19 impacted certain key assumptions with respect to the valuation of property, plant and equipment, decommissioning obligations, and expected credit losses.
- The introduction of the Canada Emergency Wage Subsidy program impacted the estimate of government assistance receivable and is recorded as a recovery in general and administration expenses and operating expenses.
- The judgment required in the determination of the Company's CGUs following the BXE Asset Acquisition.
- The fair value of assets acquired and liabilities assumed in a business combination with respect to valuation impacted the carrying value of the net assets and gain on acquisition calculated.
- The judgment in reviewing whether an arrangement contains a lease and measurement of the right-of-use asset and lease liabilities.

Where applicable, details of specific changes in significant assumptions and estimates are provided in the respective sections of this MD&A and in the notes to the interim financial statements as at June 30, 2020.

*Canada Emergency Wage Subsidy*

The Company's accounts receivable as at June 30, 2020 includes an accrual for government assistance through the CEWS. 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 GJ 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 during the second quarter of 2020 are provided under the heading “BXE Asset Acquisition”.

*Impairment of PP&E*

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 CLS 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

## 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. The 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.

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, natural gas, condensate 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 "Risks and Uncertainties" below). 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. Clams 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.

## RISKS AND UNCERTAINTIES

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. The following information is a summary only of certain risk factors relating to the Company and should be read in conjunction with the Company's most recent MD&A as at December 31, 2019 and its AIF, which can be found at www.sedar.com. Prospective investors should carefully consider the risk factors set out below and consider all other information contained in this MD&A and in the Company's other public filings before making an investment decision. The risks set out below are not an exhaustive list, nor should be taken as a complete summary or description of all the risks associated with the Company's business and the oil and natural gas business generally.

**Public Health Crises**

Spartan's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency and on March 11, 2020, the World Health Organization declared the outbreak a pandemic. In China, reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel within China, temporary business closures, quarantines and a general reduction in consumer activity. The outbreak has spread throughout Europe, the Middle East, Canada and the United States, causing companies and various international jurisdictions to impose restrictions such as quarantines, business closures, restrictions on public gatherings and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Similarly, Spartan cannot estimate whether, or to what extent, this outbreak and the potential financial impact may extend to countries outside of those currently impacted.

Such public health crises can result in volatility and disruptions in the supply and demand for oil and natural gas, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk and inflation. In particular, oil prices have significantly weakened in response to the outbreak of COVID-19. The risks to Spartan of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak. At this point, the extent to which COVID-19 may impact Spartan is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Spartan's business, results of operations and financial condition.

**Market Risks**

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.

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, 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.

**Price Risks**

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatility. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

**Commodity Price Risk**

Further to the discussion under "Price Risks" above, commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. 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 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.

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 C$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 recognized in oil and gas sales each month as incurred.

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** | - |
| Realized gain ($ per BOE) | **0.17** | - | **0.16** | - |

**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.

**Currency Risk**

Currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are currently conducted in Canada and are denominated in Canadian dollars. Spartan is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given the Company's realized pricing in Canadian dollars is directly influenced by U.S. dollar denominated benchmark pricing. The CA$/US$

exchange rate closed at 1.3628 on June 30, 2020 (December 31, 2019 – 1.2988) and averaged 1.3859 during the second quarter of 2020. A stronger U.S. dollar has a positive impact on Canadian dollar equivalent commodity prices resulting in stronger realized pricing for the Company, all else being equal. During the second quarter of 2020, the impact of the stronger U.S. dollar on Spartan's realized oil price was partly offset as the discount of domestic crude oil prices widened. As at June 30, 2020, there were no foreign exchange risk management contracts outstanding.

**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. 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, the Company's Net Debt of $26.2 million, represented 26% of the authorized borrowing amount available under the Company's $100.0 million Credit Facility.

The Company is early in its life cycle and its growth strategy is capital intensive. As such, Spartan will be dependent on obtaining regular financings in order to continue its exploration, development and acquisition plans. Despite the Company's recent success establishing the Credit Facility and completing equity private placements for gross proceeds of $25.0 million in December 2019 and $64.0 million in May 2020, there is no guarantee of obtaining future financings.

**Credit Risk**

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial assets include cash and cash equivalents, accounts receivable, deposits and derivative financial instrument assets. 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 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).

## OTHER MEASUREMENTS

All dollar amounts are referenced in Canadian dollars, except when noted otherwise. This MD&A contains various references to the abbreviation BOE which means barrels of oil equivalent. Where amounts are expressed on a BOE basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and is significantly different than the value ratio based on the current price of crude oil and natural gas. This conversion factor is an industry accepted norm and is not based on either energy content or current prices. Such abbreviation may be misleading, particularly if used in isolation.

References to “oil” in this MD&A include crude oil and condensate. References to “natural gas liquids” or “NGLs” include pentane, butane, propane, and ethane. References to “liquids” includes oil and NGLs. References to “gas” relates to natural gas.

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.

## OTHER ABBREVIATIONS

| | |
|---|---|
| A&D | Acquisitions and Dispositions |
| AECO | Alberta Energy Company “C” Meter Station of the NOVA Pipeline System, the Canadian benchmark price for natural gas |
| API | American Petroleum Institute gravity |
| bbl | barrel |
| bbls/d | barrels per day |
| BOE | barrels of oil equivalent |
| BOE/d | barrels of oil equivalent per day |
| COVID-19 | refers to the outbreak of the novel coronavirus, a public health crisis |
| GJ | gigajoule |
| LMR | Liability Management Rating of the Alberta Energy Regulator |
| mbbls | one thousand barrels |
| mBOE | one thousands barrels of oil equivalent |
| mcf | one thousand cubic feet |
| mcf/d | one thousand cubic feet per day |
| MMBtu | one million British thermal units |
| mmcf | one million cubic feet |
| NGL | natural gas liquids |
| NYMEX | New York Mercantile Exchange |
| TSX | Toronto Stock Exchange |
| US$ | United States dollar |
| WTI | West Texas Intermediate, price paid in US$ at Cushing, Oklahoma, for crude oil of standard grade |

## FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "budget", "plan", "endeavour", "continue", "estimate", "evaluate", "expect", "forecast", "monitor", "may", "will", "can", "able", "potential", "target", "intend", "consider", "focus", "identify", "use", "utilize", "manage", "maintain", "remain", "result", "cultivate", "could", "should", "believe" and similar expressions. The Company believes that the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Without limitation, this MD&A contains forward-looking statements pertaining to:

- the intentions of management and the Company with respect to its growth strategy and business plan;
- Spartan's intention to maintain a flexible capital structure;
- Spartan's intentions to maintain a strong balance sheet to allow the Company to take advantage of opportunities;
- Spartan’s objective to maintain an industry leading LMR rating;
- estimated future development capital expenditures required to develop total proved plus probable reserves;
- investment and capital allocation strategies;
- deferred tax assets;
- Spartan's position to withstand future commodity price volatility;
- estimates used to calculate the decommissioning obligations, depletion and impairment of PP&E;
- Spartan's expectations of challenging long-term market conditions;
- the estimated total purchase price of the BXE Asset Acquisition, which includes an estimate of certain liabilities assumed;
- the amount of the gain recognized on the BXE Asset Acquisition which was estimated based on information available at the time of preparing the June 30, 2020 unaudited consolidated interim financial statements;
- Spartan’s potential eligibility for the Canada Emergency Wage Subsidy;
- commitments and contingencies; and
- expectations for realized commodity prices in 2020 and beyond.

With respect to the forward-looking statements contained in this MD&A, Spartan has made assumptions regarding, among other things:

- future commodity prices, price differentials and the actual prices received for the Company's products;
- delays in the optimization of operations at the Company's properties;
- operating costs and expenditures;
- future production and recovery;
- anticipated fluctuations in foreign exchange rates;
- deterioration in general economic conditions, including from the actions of oil and gas producing countries and the impact of COVID-19;
- expected net production transportation expenses and operating costs;
- estimated reserves of oil and natural gas;
- the ability to obtain equipment and services in the field in a timely and efficient manner;
- the ability to add production and reserves through acquisition and/or drilling at competitive prices;
- the ability to explore diversified gas markets;
- the timing of anticipated future production additions from the Company's properties and acquisitions;
- the continued availability of capital and skilled personnel;
- the ability to obtain financing on acceptable terms;
- the impact of increasing competition;
- the ability of the Company to secure adequate product transportation; and
- the continuation of the current tax, royalty and regulatory regime.

Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking statements due to a number of factors and risks. These include:

- adverse effects on general economic conditions in Canada, the United States and globally, including due to the COVID-19 pandemic;
- the material uncertainties and risks described under the headings "Risks and Uncertainties" and "Non-GAAP Measures";
- the risks associated with the oil and gas industry in general, such as operational risks in development, exploration and production;
- delays or changes in plans with respect to exploration or development projects or capital expenditures;
- volatility in market prices for oil and natural gas;
- uncertainties associated with estimating oil and natural gas reserves and the ability of the Company to realize value from its properties;
- geological, technical, drilling and processing problems;
- facility and pipeline capacity constraints and access to processing facilities and to markets for production;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- marketing and transportation;
- prevailing weather and break-up conditions;
- environmental risks;
- competition for, among other things, capital, acquisition of reserves, undeveloped lands and skilled personnel;
- net production and transportation costs and future development costs;
- the ability to access sufficient capital from internal and external sources; and
- changes in tax, royalty and environmental legislation.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, increased supply resulting from evolving exploitation methods, the attitude of lenders and investors towards corporations in the energy industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Also to be considered are increased levels of political uncertainty and possible changes to existing international trading agreements and relationships. Legal challenges to asset ownership, limitations to rights of access and adequacy of pipelines or alternative methods of getting production to market may also have a significant effect on the Company's business. Additional information on these and other factors that could affect the business, operations or financial results of Spartan are included in reports on file with applicable securities regulatory authorities, including (but not limited to) the AIF, which may be accessed on Spartan's SEDAR profile at www.sedar.com or on the Company's website at www.spartandeltacorp.com.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI"), including about Spartan's prospective results of operations, capital expenditures and operating netbacks, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and outlined under "Non-GAAP Measures".

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