



## SPYGLASS RESOURCES CORP. ANNOUNCES 2013 SECOND QUARTER RESULTS, AUGUST CASH DIVIDEND AND PROVIDES DRILLING UPDATE

All values are in Canadian dollars unless otherwise indicated. Conversion of natural gas volumes to barrels of oil equivalent (boe) are at 6:1.

Calgary, Alberta – August 12, 2013. Spyglass Resources Corp. (“Spyglass”, or the “Company”) (TSX: SGL) announces its unaudited interim financial and operating results for the quarter ended June 30, 2013. Selected financial and operational information is outlined below and should be read in conjunction with Spyglass’ interim Financial Statements and Management’s Discussion and Analysis filed on [www.sedar.com](http://www.sedar.com) and also available at [www.spyglassresources.com](http://www.spyglassresources.com).

### Second Quarter Summary

- Funds flow from operations was \$20.6 million (\$0.16 per share).
- Capital expenditures for the second quarter of 2013 were \$8.3 million focused primarily on workovers, optimization and maintenance operations. Spyglass’ 2013 drilling program began in late June with drilling rigs currently active in southern and central Alberta. These wells will commence production in August and new wells will continue to come on-stream during the third and fourth quarters.
- Production for the second quarter of 2013 averaged 16,362 boe/d, 48% oil and liquids. Field estimated July production increased to approximately 16,900 boe/d, reflecting the success of production optimization initiatives.
- The all-in payout ratio of 82% in the quarter reflects the lower level of activity primarily related to spring break-up. Spyglass is targeting an all-in payout ratio of approximately 100% for 2013.
- Net debt at the end of the second quarter was \$296.9 million, down slightly from the first quarter of 2013.

### Selected Financial and Operating Information

Operating	Q2 2013	2013 YTD <sup>(1)</sup>
Average daily production		
Oil (bbls/d)	7,434	6,659
NGLs (bbls/d)	490	385
Natural Gas (Mcf/d)	50,626	43,274
Total (boe/d)	16,362	14,256
Realized prices		
Oil (\$/bbl)	83.67	78.43
NGLs (\$/bbl)	57.75	58.85
Natural Gas (\$/mcf)	3.74	3.53
Total Revenue (\$/boe)	51.32	48.92

	Q2 2013	2013 YTD <sup>(1)</sup>
Netback (\$/boe)		
Revenue	51.32	48.92
Royalties	(10.14)	(9.92)
Operating expense	(18.17)	(19.81)
Transportation expense	(2.20)	(2.25)
Operating Netback <sup>(2)</sup>	20.81	16.94
General & Administrative Expense	(3.94)	(3.48)
Realized hedging gain (loss)	(0.98)	(0.62)
Interest & Financing & Other	(2.07)	(2.15)
Cash netback <sup>(2)</sup>	13.82	10.69
<b>Financial (\$MM)(except per share amounts)</b>	<b>Q2 2013</b>	<b>2013 YTD<sup>(1)</sup></b>
Funds Flow from Operations <sup>(2)</sup>	20.6	27.6
<i>per share</i>	0.16	0.29
Dividends	8.6	8.6
<i>per share</i>	0.0675	0.0675 <sup>(3)</sup>
Capital Expenditures	8.3	20.1
Net Debt <sup>(2)</sup>	296.9	296.9
<b>Share Information (000's)</b>	<b>Q2 2013</b>	<b>2013 YTD<sup>(1)</sup></b>
Common shares outstanding, end of period	128,077	128,077
Weighted average shares outstanding	128,077	95,831

(1) Year to date results for 2013 are presented as Pace standalone from January 1 to March 28, 2013 and incorporate the Arrangement and the combined financial and operating results for the three companies from March 29 to June 30, 2013.

(2) See Non-GAAP measures

(3) 2013 YTD dividends are calculated based on 128,076,752 shares outstanding on the initial record date of April 26, 2013.

## 2013 Capital Program and Outlook

Spyglass' mature, low decline producing assets coupled with its extensive capital efficient light oil development opportunities provide the scale, stability and diversification to support a sustainable monthly cash dividend to shareholders.

In the second quarter, Spyglass initiated the 2013 development drilling program, heavily weighted to the third and fourth quarters, with emphasis on achieving strong capital efficiencies. To date, Spyglass has drilled seven horizontal light oil wells in Southern and Central Alberta.

In Southern Alberta, the Company has drilled and completed five horizontal wells targeting the Pekisko and Glauconite zones. The 2013 capital program includes one additional follow-up Glauconite location in Southern Alberta. Preliminary indications from the first Pekisko and Glauconite wells have exceeded management expectations with pump constrained inflow volumes in excess of 300 bpd per well and oil rates in excess of 100 bbls/d per well and the wells are continuing to clean-up.

The Company also participated in two (0.67 net to Spyglass) oil wells in the quarter in the Glauconite channel play with encouraging results.

In late July 2013, Spyglass initiated an eight well drilling program in the Halkirk-Provost area with two Viking horizontal wells drilled to date.

Drilling and completion expenditures to date in 2013 are estimated to be 5% to 10% under budget. Production from newly drilled locations will commence in August and new wells will continue to come on stream during the third and fourth quarters of 2013.

Spyglass will defer the single Cadomin natural gas well originally contemplated for the fourth quarter of 2013 at Noel due to the lower natural gas price outlook. As a result, the 2013 capital program is expected to total \$67 million including drilling 20 light-oil wells (17 net). Management is revising its 2013 exit production guidance to 17,000 boe/d to 17,500 boe/d (51% - 53% oil and liquids), as a result of the deferral of the Noel Cadomin well. Production for 2013 is expected to average 15,500 boe/d to 16,000 boe/d (49% - 51% oil and liquids).

The following is selected information relating to Spyglass' 2013 capital program:

<b>2013 Capital Program (\$MM)</b>	
Drilling	<b>\$35</b>
Optimization & Maintenance	<b>14</b>
Abandonment, Reclamation, Remediation & Pipeline Integrity	<b>7</b>
Corporate (Capitalized G & A & Other)	<b>7</b>
Land & Seismic	<b>4</b>
<b>Total</b>	<b>\$67</b>
Q1 & Q2 2013 Capital Expenditures	<b>(20)</b>
<b>Capital Budget for Remainder of 2013</b>	<b>\$47</b>

Ongoing cost reduction initiatives have resulted in improved efficiencies, with second quarter operating costs averaging \$18.17 per boe, within management's guidance of \$17.00 per boe to \$18.50 per boe. As expected, general and administrative expenses for the second quarter reflected non-recurring integration costs related to the business combination that closed in the first quarter of 2013. Management expects general and administrative expenses to improve to approximately \$3.00 per boe for the second half of 2013.

During the third quarter Spyglass plans to close \$10 million to \$15 million of non-core asset dispositions with proceeds used to reduce debt. Spyglass is targeting an all-in payout ratio of approximately 100% for 2013.

## **August Dividend**

The board of directors (the “**Board**”) has approved the August cash dividend of \$0.0225 per share payable on September 16, 2013 to shareholders of record on August 27, 2013. The ex-dividend date will be August 23, 2013.

The dividend policy of Spyglass is at the discretion of the Board and is reviewed monthly in the context of a number of factors including current and forecast commodity prices, foreign exchange rates, an active commodity price risk management program, status of current operations and future investment opportunities.

## **Risk Management Update**

Spyglass uses a commodity price risk management program to mitigate the impact of crude oil and natural gas price volatility on cash flow which is intended to support the Spyglass dividend and capital program. Spyglass hedges production 12 to 18 months forward using a combination of fixed price and participating products.

For August to December 2013, Spyglass has approximately 51% of its estimated crude oil production hedged at an average fixed price of WTI C\$95.04/bbl (including both Canadian and US dollar denominated contracts) and approximately 49% of its estimated natural gas production hedged at an average fixed price of \$3.42/Mcf. Spyglass has protected an additional 10% of its estimated August to December 2013 natural gas production by purchasing put options with an average floor price of \$3.11/Mcf.

For calendar 2014, Spyglass has hedged approximately 39% of its estimated crude oil production at an average fixed price of WTI C\$94.51/bbl and approximately 34% of its estimated natural gas production at an average fixed price of \$3.75/Mcf.

For further detail on our risk management program please refer to Spyglass’ MD&A or [www.spyglassresources.com](http://www.spyglassresources.com).

## **Non-GAAP Measures**

This press release includes terms commonly referred to in the oil and gas industry that are considered non-GAAP measures. These non-GAAP measures do not have a standardized meaning prescribed by International Financial Reporting Standards (“IFRS” or, alternatively, “GAAP”) and therefore may not be comparable with the calculation of similar measures by other companies.

“**Funds from operations**” represents cash flow from operating activities adjusted for changes in non-cash working capital, transaction costs and decommissioning expenditures.

“**Operating netbacks**” are determined by deducting royalties, operating and transportation expenses from oil and gas revenue, calculated on a per boe basis.

“Cash netbacks” are determined by deducting cash general and administrative, realized hedging losses, interest expense and other income from Operating netbacks, calculated on a per boe basis.

“Cash dividends per share” represents cash dividends declared per share by Spyglass.

“Payout ratio” is calculated as cash dividends declared divided by funds from operations.

“All-in payout ratio” is calculated as cash dividends declared plus capital expenditures (net of dispositions) divided by funds from operations.

“Net debt” is calculated as bank debt plus working capital deficiency excluding current portion of risk management contracts.

**For more information, please contact:**

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**Reader Advisory and Note Regarding Forward Looking Information**

Certain statements contained within this press release, and in certain documents incorporated by reference into this document constitute forward looking statements. These statements relate to future events or future performance. 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 "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

In particular, this press release contains the following forward looking statements pertaining to, without limitation, the following: Spyglass’ (i) future production volumes and the timing of when additional production volumes will come on stream; Spyglass’ (ii) realized price of commodities in relation to reference prices; (iii) future commodity mix; (iv) future commodity prices; (v) expectations regarding future royalty rates and the realization of royalty incentives; (vi) expectation of future operating costs on a per unit basis; (vii) the relationship of Spyglass’ interest expense and the Bank of Canada interest rates; (viii) future general and administrative expenses; future development and exploration activities and the timing thereof; (ix) deferred tax liability; (x) estimated future contractual obligations; (xi) future liquidity and financial capacity of the Company; (xii) ability to raise capital and to add to reserves through exploration and development; (xiii) ability to obtain equipment in a timely manner to carry out exploration and development activities; (xiv) ability to obtain financing on acceptable terms, and (xv) ability to fund working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve assessments based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

We believe the expectations reflected in the forward looking statements are reasonable but no assurance can be given that our expectations will prove to be correct and consequently, such forward looking statements included in, or incorporated by reference into, this press release should not be unduly relied upon. These statements speak only as of the date of this press release or as of the date specified in the documents incorporated by reference in this press release. The actual

results could differ materially from those anticipated as a result of the risk factors set forth below and elsewhere in this press release which include: (i) volatility in market prices for oil and natural gas; (ii) counterparty credit risk; (iii) access to capital; (iv) changes or fluctuations in production levels; (v) liabilities inherent in oil and natural gas operations; (vi) uncertainties associated with estimating oil and natural gas reserves; (vii) competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; (viii) stock market volatility and market valuation of Spyglass' stock; (ix) geological, technical, drilling and processing capabilities; (x) limitations on insurance; (xi) changes in environmental or legislation applicable to our operations, and (xii) our ability to comply with current and future environmental and other laws; (xiii) changes in tax laws and incentive programs relating to the oil and gas industry, and (xiv) the other factors discussed under "Risk Factors" in the Company's 2012 Annual Information Form.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this press release and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and Spyglass does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

Barrel of oil equivalents or BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

This press release shall not constitute an offer to sell, nor the solicitation of an offer to buy, any securities in the United States, nor shall there be any sale of securities mentioned in this press release in any State in the United States in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities law of any such state.

NOT FOR DISTRIBUTION TO U.S. NEWSWIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF U.S. SECURITIES LAW.



## **Q2 2013 MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") as provided by management of Spyglass Resources Corp. ("Spyglass" or the "Company") should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2013 and 2012 and the audited consolidated financial statements, related notes and Management's Discussion and Analysis for the years ended December 31, 2012 and 2011. This MD&A is dated as of August 12, 2013.

### Forward Looking Statements

Certain statements contained within the MD&A, and in certain documents incorporated by reference into this document constitute forward looking statements. These statements relate to future events or future performance. 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 "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

In particular, this MD&A contains the following forward looking statements pertaining to, without limitation, the following: Spyglass' (i) future production volumes and the timing of when additional production volumes will come on stream; Spyglass' (ii) realized price of commodities in relation to reference prices; (iii) future commodity mix; (iv) future commodity prices; (v) expectations regarding future royalty rates and the realization of royalty incentives; (vi) expectation of future operating costs on a per unit basis; (vii) the relationship of Spyglass' interest expense and the Bank of Canada interest rates; (viii) future general and administrative expenses; future development and exploration activities and the timing thereof; (ix) deferred tax liability or tax asset; (x) estimated future contractual obligations; (xi) future liquidity and financial capacity of the Company; (xii) ability to raise capital and to add to reserves through exploration and development; (xiii) ability to obtain equipment in a timely manner to carry out exploration and development activities; (xiv) ability to obtain financing on acceptable terms, and (xv) ability to fund working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve assessments based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

We believe the expectations reflected in the forward looking statements are reasonable but no assurance can be given that our expectations will prove to be correct and consequently, such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference in this MD&A. The actual results could differ materially from those anticipated as a result of the risk factors set forth below and elsewhere in this MD&A which include: (i) volatility in market prices for oil and natural gas; (ii) counterparty credit risk; (iii) access to capital; (iv) changes or fluctuations in production levels; (v) liabilities inherent in oil and natural gas operations; (vi) uncertainties associated with estimating oil and natural gas reserves; (vii) competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; (viii) stock market volatility and market valuation of Spyglass' stock; (ix) geological, technical, drilling and processing capabilities; (x) limitations on insurance; (xi) changes in environmental or legislation applicable to our operations, and (xii) our ability to comply with current and future environmental and other laws; (xiii) changes in tax laws and incentive programs relating to the oil and gas industry, and (xiv) the other factors discussed under "Risk Factors" in the Company's 2012 Annual Information Form.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and Spyglass does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

### Basis of Presentation & Plan of Arrangement (the "Arrangement")

The financial data presented in this MD&A has been prepared in accordance with Part I of Canadian Generally Accepted Accounting Principles ("GAAP") or International Financial Reporting Standards ("IFRS") unless otherwise noted.

The reporting and the measurement currency is in Canadian dollars. For the purpose of calculating unit costs, natural gas is converted to a barrel equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf to 1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The following MD&A compares the results of the six months ended June 30, 2013 ("YTD 2013") to the six months ended June 30, 2012 ("YTD 2012") and



the results of the three months ended June 30, 2013 ("Q2 2013") to the three months ended June 30, 2012 ("Q2 2012") and the three months ended March 31, 2013 ("Q1 2013").

On December 20, 2012, Pace Oil & Gas Ltd. ("Pace") entered into an arrangement agreement with Charger Energy Corp. ("Charger") and AvenEx Energy Corp. ("AvenEx"), pursuant to which Pace, Charger and AvenEx agreed to amalgamate by way of a plan of arrangement (the "Arrangement") to form Spyglass Resources Corp., an intermediate, dividend paying oil and gas producer.

On March 26, 2013, the shareholders of Pace, Charger and AvenEx approved the transaction and on March 28, 2013 the Arrangement was completed. Pace subdivided its shares on a basis of 1.3 post-subdivided Pace shares for each 1.0 pre-subdivided Pace share. 12,117,821 Pace shares were issued in exchange for the outstanding Charger shares on a basis of 0.18 Pace share for each Charger share. 54,967,543 Pace shares were issued in exchange for the outstanding AvenEx shares on a basis of 1.0 Pace share for each AvenEx share. Pace was then renamed Spyglass Resources Corp. which elected to perform a reduction of stated capital, whereby the Company offset its retained deficit, contributed surplus and accumulated other comprehensive loss against share capital. This resulted in 128,076,752 shares outstanding upon closing of the Arrangement, with a share capital of \$494.3 million. Prior period common share, option, restricted share award, preferred share award and deferred share award information has been adjusted for the share exchange ratio associated with the Arrangement.

The financial statements and MD&A present the historical financial positions, results of operations and cash flows of Pace for all prior periods up to and including March 28, 2013. The results of operations after March 28, 2013 include Pace, AvenEx and Charger.

## **2013 Capital Program and Outlook**

Spyglass' mature, low decline producing assets coupled with its extensive capital efficient light oil development opportunities provide the scale, stability and diversification to support a sustainable monthly cash dividend to shareholders.

In the second quarter, Spyglass initiated the 2013 development drilling program, heavily weighted to the third and fourth quarters, with emphasis on achieving strong capital efficiencies. To date, Spyglass has drilled seven horizontal light oil wells in Southern and Central Alberta.

In Southern Alberta, the Company has drilled and completed five horizontal wells targeting the Pekisko and Glauconite zones. The 2013 capital program includes one additional follow-up Glauconite location in Southern Alberta. Preliminary indications from the first Pekisko and Glauconite wells have exceeded management expectations with pump constrained inflow volumes in excess of 300 bpd per well and oil rates in excess of 100 bbls/d per well and the wells are continuing to clean-up.

The Company also participated in two (0.67 net to Spyglass) oil wells in the quarter in the Glauconite channel play with encouraging results.

In late July 2013, Spyglass initiated an eight well drilling program in the Halkirk-Provost area with two Viking horizontal wells drilled to date.

Drilling and completion expenditures to date in 2013 are estimated to be 5% to 10% under budget. Production from newly drilled locations will commence in August and new wells will continue to come on stream during the third and fourth quarters of 2013.

Spyglass will defer the single Cadomin natural gas well originally contemplated for the fourth quarter of 2013 at Noel due to the lower natural gas price outlook. As a result, the 2013 capital program is expected to total \$67 million including drilling 20 light-oil wells (17 net). Management is revising its 2013 exit production guidance to 17,000 boe/d to 17,500 boe/d (51% - 53% oil and liquids), as a result of the deferral of the Noel Cadomin well. Production for 2013 is expected to average 15,500 boe/d to 16,000 boe/d (49% - 51% oil and liquids).

The following is selected information relating to Spyglass' 2013 capital program:

<b>2013 Capital Program (\$MM)</b>	
Drilling	<b>\$35</b>
Optimization & Maintenance	<b>14</b>
Abandonment, Reclamation, Remediation & Pipeline Integrity	<b>7</b>
Corporate (Capitalized G & A & Other)	<b>7</b>
Land & Seismic	<b>4</b>
<b>Total</b>	<b>\$67</b>
Q1 & Q2 2013 Capital Expenditures	<b>(20)</b>
<b>Capital Budget for Remainder of 2013</b>	<b>\$47</b>

Ongoing cost reduction initiatives have resulted in improved efficiencies, with second quarter operating costs averaging \$18.17 per boe, within management's guidance of \$17.00 per boe to \$18.50 per boe. As expected, general and administrative expenses for the second quarter reflected non-recurring integration costs related to the business combination that closed in the first quarter of 2013. Management expects general and administrative expenses to improve to approximately \$3.00 per boe for the second half of 2013.

During the third quarter Spyglass plans to close \$10 million to \$15 million of non-core asset dispositions with proceeds used to reduce debt. Spyglass is targeting an all-in payout ratio of approximately 100% for 2013.

### Non-GAAP Measurements

In the MD&A references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share, netbacks, net debt, working capital deficit, basic payout ratio and all-in payout ratio are not defined by GAAP and are referred to as non-GAAP measures. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Operating netback equals total revenue net of royalties and operating and transportation expenses calculated on a per boe basis. Cash flow netback equals operating netbacks described above and cash portion of other income, less cash general and administrative expenses, cash interest expenses and realized gain (loss) on financial derivative instruments. Cash flow and cash flow netbacks do not include transaction costs related to the Arrangement. Working capital (deficit) equals current assets less current liabilities. Net debt equals long-term debt and working capital (deficit) excluding current portion of financial derivative instruments. The basic payout ratio equals dividends declared divided by funds from operations. The all-in payout ratio equals dividends declared and capital expenditures (net of property dispositions) divided by funds from operations. Management utilizes these measures to analyze operating performance and leverage. Funds from operations is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Funds from operations is commonly referred to as cash flow by research analysts and is used to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations. Total boes are calculated by multiplying the average daily production by the number of days in the period.

The following table reconciles cash flow from operating activities to funds from operations which is used in the MD&A:

(\$000s)	Q2 2013	Q2 2012	Q1 2013	YTD 2013	YTD 2012
Cash flow from (used in) operating activities	\$ 1,329	\$ 7,035	\$ (3,174)	\$ (1,845)	\$ 33,488
Transaction costs	-	-	13,451	13,451	-
Decommissioning expenditures	348	(141)	1,704	2,052	53
Change in non-cash working capital	18,881	9,591	(4,928)	13,953	(2,329)
Funds from operations	\$ 20,558	\$ 16,485	\$ 7,053	\$ 27,611	\$ 31,212

## Combination of Pace with AvenEx and Charger

On March 26, 2013, the shareholders of Pace, Charger and AvenEx approved the transaction and on March 28, 2013 the Arrangement was completed whereby Spyglass Resources was formed as a dividend paying corporation. The Transaction resulted in former Pace shareholders holding 48% of the combined outstanding common shares of Spyglass, the former AvenEx shareholders holding 43% and the former Charger shareholders holding 9% with the former management team of Charger becoming the new management team of Spyglass. The transaction was accounted for as an acquisition of AvenEx and Charger by Pace. Consideration was \$150.3 million for net assets of \$232.1 million resulting in gains on acquisition of \$81.9 million. Pursuant to the Arrangement, Spyglass elected to perform a reduction of stated capital whereby the Company offset its deficit, contributed surplus and accumulated other comprehensive loss against share capital upon closing of the arrangement.

On February 15, 2013, AvenEx sold the assets of Elbow River Marketing Limited Partnership ("Elbow River"). As part of the terms of sale, the purchaser of the assets have continued operations under the Elbow River Marketing name. All post-closing operations and obligations are backstopped and indemnified by the purchaser during the business transition period.

## Production

Production for Q2 2013 averaged 16,362 boe/d compared to 13,765 in Q2 2012 and 12,128 in Q1 2013. Oil and liquids production represented 48% of total production at 7,924 bbls/d, an increase of 1,549 bbls/d or 24% from 6,375 bbls/d in Q2 2012 and an increase of 1,769 bbls/d or 29% from 6,155 bbls/d in Q1 2013. Q2 2013 reflects the first complete quarter with production contributed from AvenEx and Charger which accounts for the majority of the reported production increases compared to Q1 2013 and Q2 2012.

Spyglass' North business unit includes Dixonville, the Company's largest oil producing property, which continues to achieve excellent waterflood response, with decreased gas to oil ratios. Liquids production in the North averaged 4,539 bbls/d, compared to 4,100 bbls/d in Q2 2012 and 3,967 bbls/d in Q1 2013. Q2 2013 production was not impacted by the compressor failure and remediation activities undertaken in Q1 2013.

Production in the Central business unit averaged 1,538 boe/d, with 806 bbls/d of liquids in the quarter. Liquids production in Central is mostly from the Provost area, in which the Company plans a third quarter 5 well drilling program.

In the South business unit, Q2 2013 production averaged 4,742 boe/d with 2,579 bbls/d of liquids production compared to 4,909 boe/d in Q2 2012 with 2,279 bbls/d liquids and 4,310 boe/d in Q1 2013 with 2,149 bbls/d liquids. The Company drilled 3 wells in the Matziwin area in the South with completions on these wells underway in Q3 2013 with expected production to commence in the first half of August. This quarter also saw decreased average daily production in the Retlaw area of approximately 120 boe/d due to scheduled facility turnarounds in May.

YTD 2013 production averaged 14,256 boe/d, up 94 boe/d from 14,162 boe/d recorded YTD 2012. Liquids production increased 260 boe/d while gas production decreased 991 Mcf/d. 2013 YTD comparatives incorporate production acquired from AvenEx and Charger commencing on March 29, 2013. As the Company continues to focus on its oil opportunities, gas production is expected to decline.

The following table outlines production volumes for the periods indicated below:

<b>Production</b>	<b>Q2 2013</b>	<b>Q2 2012</b>	<b>Q1 2013</b>	<b>YTD 2013</b>	<b>YTD 2012</b>
Oil (bbls/d)	<b>7,434</b>	6,015	5,876	<b>6,659</b>	6,410
NGLs (bbls/d)	<b>490</b>	360	279	<b>385</b>	374
Natural Gas (Mcf/d)	<b>50,626</b>	44,340	35,840	<b>43,274</b>	44,265
<b>Total (boe/d)</b>	<b>16,362</b>	13,765	12,128	<b>14,256</b>	14,162
<b>Oil &amp; Liquids weighting</b>	<b>48%</b>	46%	51%	<b>49%</b>	48%

The following table sets out production volumes by business unit:

	Q2 2013	Q2 2012	Q1 2013	YTD 2013	YTD 2012
<b>North</b>					
Oil (bbls/d)	4,239	3,936	3,810	4,026	4,308
NGLs (bbls/d)	300	164	157	229	187
Natural Gas (Mcf/d)	33,257	28,536	22,582	27,949	28,709
Total (boe/d)	10,082	8,856	7,731	8,913	9,280
<b>Central</b>					
Oil (bbls/d)	738	-	36	388	-
NGLs (bbls/d)	68	-	3	36	-
Natural Gas (Mcf/d)	4,389	-	293	2,352	-
Total (boe/d)	1,538	-	88	816	-
<b>South</b>					
Oil (bbls/d)	2,457	2,079	2,030	2,245	2,102
NGLs (bbls/d)	122	196	119	120	187
Natural Gas (Mcf/d)	12,980	15,804	12,965	12,973	15,556
Total (boe/d)	4,742	4,909	4,310	4,527	4,882
<b>Total Company</b>					
Oil (bbls/d)	7,434	6,015	5,876	6,659	6,410
NGLs (bbls/d)	490	360	279	385	374
Natural Gas (Mcf/d)	50,626	44,340	35,840	43,274	44,265
Total (boe/d)	16,362	13,765	12,128	14,256	14,162
Oil & Liquids weighting	48%	46%	51%	49%	48%

## Commodity Pricing

The principal trading exchange that affects Spyglass' oil price is the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") spot price. The US WTI is the basis for settling of the Edmonton par benchmark to which most of Spyglass' crude is marked.

The average US WTI price during Q2 2013 was \$94.22 US/bbl (\$96.39 CDN/bbl) compared to \$93.38 US/bbl (\$94.34 CDN/bbl) in Q2 2012 and \$94.37 US/bbl (\$95.21 CDN/bbl) in Q1 2013. The average Edmonton par price was \$92.68 CDN/bbl compared to \$84.07 CDN/bbl in Q2 2012 and \$88.06 CDN/bbl in Q1 2013. The Edmonton Par differential to CDN\$ WTI experienced large fluctuations in the trailing twelve months, diverging as much as \$20 CDN/bbl in the mid months of 2012 before narrowing. The Edmonton Par differential narrowed to average approximately \$4 CDN/bbl in Q2 2013 compared to approximately \$10 CDN/bbl in Q2 2012 and approximately \$7 CDN/bbl in Q1 2013. Spyglass' corporate differential incorporates its portfolio of oil sold through multiple crude oil streams reflecting differentials adjusted for quality and transportation. The corporate differential to CDN\$ WTI improved to \$12.72/bbl compared to \$20.60/bbl in Q2 2012 and \$23.49/bbl in Q1 2013. The improved differentials in Q2 2013 reflect a dynamic and volatile market for crude oil produced in Western Canada. Differentials have improved as refinery outages in Q1 2013 have come back on stream and the increased use of rail transport for crude oil has allowed for volumes produced in both Western Canada and North Dakota to access alternative markets.

Canadian natural gas prices improved in Q2 2013 with Spyglass natural gas averaging at \$3.74/Mcf. Q2 2012 saw lows of under \$2.00/Mcf before recovering through the second half of 2012 and the first two quarters of 2013. Spyglass sells gas on a blend of the AECO monthly and daily index. During the quarter, the Company sold approximately 35% of production on the AECO daily index, 53% on the monthly index and 12% through aggregators, resulting in a realized natural gas price of \$3.74/Mcf. This compares to \$1.99/Mcf in Q2 2012 and \$3.22/Mcf in Q1 2013. The heat content of Spyglass' natural gas production is slightly above the industry average used in the benchmark \$/Mcf prices. Therefore realized prices for Spyglass are expected to be slightly higher than the average of AECO Alberta daily and Alberta monthly benchmark prices.

As part of its risk management program, Spyglass has entered into commodity derivative contracts for a portion of its oil and natural gas production to protect against downward pressure on crude oil and natural gas pricing. Refer to "Financial Derivative Instruments" section.

Spyglass' NGL production represents less than 3 percent of production mix and consists of Ethane, Butane, Propane and Condensate. Pricing of NGL's is sensitive to the specific product produced and can vary from period to period depending on the mix of NGL production. In Q2 2013, overall realized NGL price averaged \$57.75/bbl or 60% of CDN\$ WTI compared to \$54.05/bbl or 57% of CDN\$ WTI in Q2 2012 and \$60.81/bbl or 64% of CDN\$ WTI in Q1 2013.

The following table outlines benchmark prices compared to Spyglass' realized prices:

<b>Prices and Marketing</b>	<b>Q2 2013</b>	<b>Q2 2012</b>	<b>Q1 2013</b>	<b>YTD 2013</b>	<b>YTD 2012</b>
<b>Benchmark Prices<sup>(1)</sup></b>					
WTI Oil (\$US/bbl)	\$ 94.22	\$ 93.38	\$ 94.37	\$ 94.29	\$ 98.16
Cdn/US average exchange rate	0.978	0.990	0.991	0.984	0.994
WTI Oil (\$CDN/bbl)	96.39	94.34	95.21	95.80	98.72
Edmonton Par (\$/bbl)	92.68	84.07	88.06	90.38	88.32
Alberta daily spot (\$/Mcf)	3.64	1.90	3.20	3.42	2.02
Alberta monthly (\$/Mcf)	\$ 3.59	\$ 1.83	\$ 3.08	\$ 3.34	\$ 2.18
<b>Spyglass' Realized Prices</b>					
Oil (\$/bbl)	\$ 83.67	\$ 73.74	\$ 71.72	\$ 78.43	\$ 78.87
NGLs (\$/bbl)	57.75	54.05	60.81	58.85	58.35
Combined Oil & NGLs (\$/bbl)	82.07	72.63	71.23	77.36	77.74
Natural gas (\$/Mcf)	3.74	1.99	3.22	3.53	2.18
<b>Total (\$/boe)</b>	<b>\$ 51.32</b>	<b>\$ 40.04</b>	<b>\$ 45.66</b>	<b>\$ 48.92</b>	<b>\$ 44.04</b>

<sup>(1)</sup> Natural gas benchmark prices are from the Canadian Gas Price Reporter with the price per GJ converted to Mcf at 1.0546. Oil benchmark prices are the volume weighted average of the Net Energy and TMX indexes.

## Financial Derivative Instruments

The following table summarizes financial derivatives outstanding as at June 30, 2013 and December 31, 2012 and their estimated fair value:

Commodity risk management contracts					Fair Value as at	
Instrument	Period	Price	Reference	Quantity	June 30, 2013	December 31, 2012
<b>Crude Oil Contracts</b>						
Swap	Aug 1, 2012 - Jul 31, 2013	\$101.05	USD\$ WTI	150 bbl/d	\$ 22	\$ -
Swap	Aug 1, 2012 - Jul 31, 2013	\$105.75	USD\$ WTI	200 bbl/d	60	-
Swap	Jan 1, 2013 - Dec 31, 2013	\$97.00	CDN\$ WTI	500 bbl/d	(300)	680
Swap	Feb 1, 2013 - Dec 31, 2013	\$92.97	CDN\$ WTI	1,000 bbl/d	(1,339)	-
Swap	Feb 1, 2013 - Dec 31, 2013	\$93.49	CDN\$ WTI	1,000 bbl/d	(1,244)	-
Swap	Apr 1, 2013 - Dec 31, 2013	\$97.15	CDN\$ WTI	250 bbl/d	(143)	-
Swap	Jun 1, 2013 - Dec 31, 2013	\$91.89	CDN\$ WTI	1,000 bbl/d	(1,537)	-
Swap	Aug 1, 2013 - Jul 31, 2014	\$96.12	CDN\$ WTI	250 bbl/d	(167)	-
Swap	Jan 1, 2014 - Mar 31, 2014	\$96.23	CDN\$ WTI	500 bbl/d	(52)	-
Swap	Jan 1, 2014 - Mar 31, 2014	\$93.65	CDN\$ WTI	1,700 bbl/d	(568)	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$92.20	CDN\$ WTI	1,000 bbl/d	(1,190)	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$93.25	CDN\$ WTI	500 bbl/d	(406)	-
Swap	Apr 1, 2014 - Jun 30, 2014	\$95.27	CDN\$ WTI	1,000 bbl/d	(67)	-
Swap	Jul 1, 2014 - Sep 30, 2014	\$94.43	CDN\$ WTI	500 bbl/d	(16)	-
Swap	Oct 1, 2013 - Dec 31, 2014	\$93.75	CDN\$ WTI	250 bbl/d	(1)	-
Call	Jan 1, 2013 - Dec 31, 2013	\$105.00	USD\$ WTI	200 bbl/d	(70)	-
Call	Jan 1, 2013 - Dec 31, 2013	\$105.00	CDN\$ WTI	100 bbl/d	(12)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$72.50	USD\$ WTI	200 bbl/d	(883)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$88.25	CDN\$ WTI	100 bbl/d	(234)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$120.00	USD\$ WTI	250 bbl/d	(2)	-
Sold Call	Apr 1, 2013 - Dec 31, 2013	\$120.00	USD\$ WTI	200 bbl/d	(4)	-
					\$ (8,153)	\$ 680
<b>Natural Gas Contracts</b>						
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.0625	CDN\$ GJ	5,000 GJ/d	3	138
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.00	CDN\$ GJ	1,000 GJ/d	(6)	-
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.00	CDN\$ GJ	1,000 GJ/d	(12)	-
Swap	Apr 1, 2013 - Jun 30, 2013	\$3.29	CDN\$ GJ	2,000 GJ/d	8	-
Swap	May 1, 2013 - Dec 31, 2013	\$3.44	CDN\$ GJ	5,000 GJ/d	349	-
Swap	Jun 1, 2013 - Dec 31, 2013	\$3.625	CDN\$ GJ	4,500 GJ/d	466	-
Swap	Jul 1, 2013 - Dec 31, 2013	\$3.645	CDN\$ GJ	2,000 GJ/d	214	-
Swap	Nov 1, 2013 - Dec 31, 2013	\$3.835	CDN\$ GJ	3,000 GJ/d	105	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.55	CDN\$ GJ	1,500 GJ/d	119	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.59	CDN\$ GJ	5,000 GJ/d	462	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.575	CDN\$ GJ	6,250 GJ/d	555	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.555	CDN\$ GJ	5,000 GJ/d	408	-
Collar	Jan 1, 2013 - Dec 31, 2013	\$2.75 - \$3.375	CDN\$ GJ	5,000 GJ/d	(22)	17
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$7.40	CDN\$ GJ	3,000 GJ/d	-	-
Put	Jan 1, 2013 - Dec 31, 2013	\$2.80	CDN\$ GJ	1,850 GJ/d	20	-
Put	Jan 1, 2013 - Dec 31, 2013	\$3.10	CDN\$ GJ	1,650 GJ/d	52	-
Put	April 1, 2013 - Oct 31, 2013	\$3.00	CDN\$ GJ	3,000 GJ/d	10	-
					\$ 2,731	\$ 155
<b>Total</b>					\$ (5,422)	\$ 835

Interest rate risk management contract					Fair Value as at	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	June 30, 2013	December 31, 2012
Swap	Jul 5, 2012 - Jul 4, 2014	\$75,000,000	CAD-BA-CDOR	1.145%	\$ 100	\$ 156
<b>Total</b>					<b>\$ 100</b>	<b>\$ 156</b>

The following table summarizes the impact on net income (loss) for the financial derivative instrument contracts throughout the periods:

Financial Derivative Instruments	Q2 2013	Q2 2012	Q1 2013	YTD 2013	YTD 2012
<b>(000s)</b>					
<b>Realized gain (loss)</b>					
Oil	\$ (1,017)	\$ 4,722	\$ (211)	\$ (1,228)	\$ 3,904
Gas	(458)	45	64	(394)	45
Interest	14	-	14	28	-
<b>Total</b>	<b>\$ (1,461)</b>	<b>\$ 4,767</b>	<b>\$ (133)</b>	<b>\$ (1,594)</b>	<b>\$ 3,949</b>
<b>Unrealized gain (loss)</b>					
Oil	\$ (3,260)	\$ 7,038	\$ (3,912)	\$ (7,172)	\$ 5,947
Gas	4,216	(215)	(1,038)	3,178	(215)
Interest	55	21	(112)	(57)	21
<b>Total</b>	<b>\$ 1,011</b>	<b>\$ 6,844</b>	<b>\$ (5,062)</b>	<b>\$ (4,051)</b>	<b>\$ 5,753</b>
<b>(\$/boe)</b>					
<b>Realized gain (loss)</b>					
Oil (\$/bbl)	\$ (1.50)	\$ 8.63	\$ (0.40)	\$ (1.02)	\$ 3.35
Gas (\$/Mcf)	(0.10)	0.01	0.02	(0.05)	0.01
Interest (\$/boe)	0.01	-	0.01	0.01	-
<b>Total (\$/boe)</b>	<b>\$ (0.98)</b>	<b>\$ 3.81</b>	<b>\$ (0.12)</b>	<b>\$ (0.62)</b>	<b>\$ 1.53</b>
<b>Unrealized gain (loss)</b>					
Oil (\$/bbl)	\$ (4.82)	\$ 12.86	\$ (7.40)	\$ (5.95)	\$ 5.10
Gas (\$/Mcf)	0.92	(0.05)	(0.32)	0.41	(0.03)
Interest (\$/boe)	0.04	0.02	(0.10)	(0.02)	0.01
<b>Total (\$/boe)</b>	<b>\$ 0.68</b>	<b>\$ 5.46</b>	<b>\$ (4.64)</b>	<b>\$ (1.57)</b>	<b>\$ 2.23</b>

Subsequent to June 30, 2013 Spyglass entered into the following derivative commodity contracts:

- A WTI crude oil swap contract for 500 bbls/d for the period August 1, 2013 to December 31, 2013 with a fixed price of \$105.00 CDN/bbl.
- A WTI crude oil swap contract for 600 bbls/d for the period April 1, 2014 to December 31, 2014 with a fixed price of \$96.90 CDN/bbl.
- A WTI crude oil swap contract for 600 bbls/d for the period April 1, 2014 to December 31, 2014 with a fixed price of \$98.13 CDN/bbl.

## Petroleum and Natural Gas Sales

Petroleum and natural gas sales totalled \$76.4 million for Q2 2013 compared to \$50.2 million for Q2 2012 and \$49.8 million in Q1 2013. Oil and liquids sales increased \$17.0 million from Q2 2012 with \$6.8 million due to higher Edmonton Par pricing and narrower corporate differentials and \$10.2 million due to increased oil and liquids production from the Arrangement. Natural gas sales were up \$9.2 million with \$8.1 million due to higher gas prices and \$1.1 million due to increased natural gas production.

Compared to Q1 2013, petroleum and natural gas sales increased \$26.6 million, with oil and liquids sales higher by \$19.7 million and natural gas sales up \$6.9 million. In addition to increased production, liquids pricing and natural gas prices have improved from Q1 2013.

On an YTD 2013 basis, petroleum and natural gas sales have improved to \$126.2 million from \$113.5 million for the same period in 2012. Oil and liquids sales have improved \$2.6 million with increased production contributing to the majority of the increase offset by a small decrease due to price. Natural gas sales improved \$10.1 million, with the improvement in gas price, offset by a small decrease in production.

The following table outlines petroleum and natural gas sales for the periods indicated below:

<b>Petroleum and Natural Gas Sales (000s)</b>	<b>Q2 2013</b>	<b>Q2 2012</b>	<b>Q1 2013</b>	<b>YTD 2013</b>	<b>YTD 2012</b>
Oil	\$ 56,600	\$ 40,364	\$ 37,931	\$ 94,531	\$ 92,010
NGLs	2,575	1,770	1,526	4,101	3,973
Natural Gas	17,230	8,028	10,384	27,614	17,529
<b>Total</b>	<b>\$ 76,405</b>	<b>\$ 50,162</b>	<b>\$ 49,841</b>	<b>\$ 126,246</b>	<b>\$ 113,512</b>

## Royalties

Royalty payments are made by producers of oil and natural gas to the owners of the mineral rights on leases that include provincial governments (Crown) and freehold landowners as well as to other third parties by way of contractual overriding royalties. Royalties are sensitive to both pricing and production and will fluctuate accordingly.

Spyglass' Q2 2013 overall effective royalty rate for all products as a percentage of petroleum and natural gas sales was 19.8% which was lower than Q2 2012 and Q1 2013 which were both at 21.1%. The Q2 2013 crude oil royalty rate of 22.5% was lower than the 27.8% in Q2 2012 and the 26.7% recorded in Q1 2013 largely due to lower oil royalty rates on properties held by AvenEx and Charger. The Q2 2013 effective natural gas royalty rate has increased to 8.5% and reflects the improvement in natural gas prices. This compares to recoveries of natural gas royalties recorded in Q2 2012 and Q1 2013 that incorporate both lower natural gas prices and the impact of gas crown allowance credits that minimize the amount of Crown royalty paid on natural gas and natural gas liquids. Removing the impact of gas crown credits for both Q2 2013 and Q1 2013, would result in an effective gas royalty rate of approximately 13% for both quarters.

Gross overriding and other royalties averaged approximately 3-4% of revenue for Q2 2013, consistent with Q2 2012 and Q1 2013. As a percentage of total royalties paid, gross overriding royalties for Q2 2013 were 15%, comparable to historical rates of 14-16%.



The following tables outline royalties by type and by commodity:

<b>Royalties by Type (000s)</b>	<b>Q2 2013</b>	Q2 2012	Q1 2013	<b>YTD 2013</b>	YTD 2012
Crown	\$ 12,775	\$ 8,929	\$ 8,992	\$ 21,767	\$ 23,285
Gross overriding and other	2,322	1,674	1,509	3,831	3,893
	<b>\$ 15,097</b>	\$ 10,603	\$ 10,501	<b>\$ 25,598</b>	\$ 27,178
\$/boe	\$ 10.14	\$ 8.46	\$ 9.62	\$ 9.92	\$ 10.54
% of Petroleum & natural gas sales	19.8%	21.1%	21.1%	20.3%	23.9%

  

<b>Royalties by Commodity</b>	<b>Q2 2013</b>	Q2 2012	Q1 2013	<b>YTD 2013</b>	YTD 2012
<b>Oil</b>					
(000s)	\$ 12,713	\$ 11,235	\$ 10,134	\$ 22,847	\$ 26,490
% of Oil sales	22.5%	27.8%	26.7%	24.2%	28.8%
<b>NGLs</b>					
(000s)	\$ 911	\$ 540	\$ 612	\$ 1,523	\$ 1,364
% of NGL sales	35.4%	30.5%	40.1%	37.1%	34.3%
<b>Natural Gas</b>					
(000s)	\$ 1,473	\$ (1,172)	\$ (245)	\$ 1,228	\$ (676)
% of Natural gas sales	8.5%	-14.6%	-2.4%	4.4%	-3.9%

## Operating Expenses

Operating expenses totalled \$27.0 million or \$18.17/boe for Q2 2013 compared to \$19.2 million or \$15.34/boe in Q2 2012 and \$24.1 million or \$22.06/boe in Q1 2013.

Q2 2013 operating costs of \$18.17/boe are within guidance and include power costs which spiked in the months of April and May to levels as high as \$120 per kilowatt hour ("KWH"). In June, the power costs decreased back to a range of \$50 to \$60 per KWH. The spikes in power costs resulted in approximately \$1.3 million of increased operating cost, or \$0.88/boe. Operating costs for the quarter reflect the first complete quarter with the assets of AvenEx and Charger combined with the Pace legacy assets and fall within Spyglass' guidance range of \$17.00/boe to \$18.50/boe. Q2 2012 operating costs of \$15.34/boe relates only to Pace legacy assets.

On a year to date basis, 2013 operating costs of \$19.81/boe incorporate the impact from the first quarter of extreme weather and remediation projects undertaken in the North core area that totalled approximately \$3.21/boe in Q1 2013 or \$1.36 YTD 2013. YTD 2012 operating costs of \$15.74/boe includes only the Pace legacy assets. Operating expenses for the remaining quarters of 2013 are expected to be in the range of \$17.00/boe to \$18.50/boe.

The following table summarizes the Company's operating expenses:

<b>Operating Expenses</b>	<b>Q2 2013</b>	Q2 2012	Q1 2013	<b>YTD 2013</b>	YTD 2012
(000s)	\$ 27,048	\$ 19,220	\$ 24,075	\$ 51,123	\$ 40,563
\$/boe	\$ 18.17	\$ 15.34	\$ 22.06	\$ 19.81	\$ 15.74

## Transportation Expenses

Transportation expenses totalled \$3.3 million or \$2.20/boe for Q2 2013 compared to \$2.6 million or \$2.11/boe for Q2 2012 and \$2.5 million or \$2.31/boe in Q1 2013. Transportation costs are incurred for clean oil trucking and for oil and gas pipeline tariffs where tolls are paid directly to third parties.

Oil transportation charges relate primarily to the Dixonville property since the majority of the other properties are tied into sales lines. Total oil transportation charges have increased from prior quarters as the Company started trucking to rail terminals in March that provide access to additional US markets and continued to do so through Q2 2013.

Spyglass pays tariffs on its natural gas volumes transported through third party pipelines and has entered into firm transportation commitments for a portion of those volumes; refer to "contractual obligations" section.

The following table details the Company's transportation expenses:

<b>Transportation Expenses</b>	<b>Q2 2013</b>		<b>Q2 2012</b>		<b>Q1 2013</b>		<b>YTD 2013</b>		<b>YTD 2012</b>	
<b>(000s)</b>										
Oil	\$	<b>2,213</b>	\$	1,814	\$	1,749	\$	<b>3,962</b>	\$	3,773
Gas		<b>1,064</b>		833		768		<b>1,832</b>		1,669
<b>Total</b>	<b>\$</b>	<b>3,277</b>	<b>\$</b>	<b>2,647</b>	<b>\$</b>	<b>2,517</b>	<b>\$</b>	<b>5,794</b>	<b>\$</b>	<b>5,442</b>
Oil (\$/bbl)	\$	<b>3.27</b>	\$	3.31	\$	3.31	\$	<b>3.29</b>	\$	3.23
Gas (\$/Mcf)		<b>0.23</b>		0.21		0.24		<b>0.23</b>		0.21
<b>Total (\$/boe)</b>	<b>\$</b>	<b>2.20</b>	<b>\$</b>	<b>2.11</b>	<b>\$</b>	<b>2.31</b>	<b>\$</b>	<b>2.25</b>	<b>\$</b>	<b>2.11</b>

## Finance Expenses

Interest expenses include interest on Spyglass' operating line of credit. Interest expenses totalled \$3.3 million in Q2 2013, higher than the \$2.1 million interest expense in Q2 2012 and \$2.5 million in Q1 2013. The increase in Q2 2013 compared to Q2 2012 and Q1 2013 reflect the combined entities' operating bank line post Arrangement and higher interest rates. The effective interest rate for Q2 2013 was 4.3% compared to 3.8% in Q2 2012 and 5.0% in Q1 2013.

Accretion expense on decommissioning liabilities was \$1.5 million in Q2 2013, an increase of \$0.7 million from both Q2 2012 and Q1 2013. The increase reflects additional obligations assumed as a result of the Arrangement.

<b>Finance Expenses</b>	<b>Q2 2013</b>		<b>Q2 2012</b>		<b>Q1 2013</b>		<b>YTD 2013</b>		<b>YTD 2012</b>	
<b>(000s)</b>										
Interest	\$	<b>3,251</b>	\$	2,077	\$	2,526	\$	<b>5,777</b>	\$	3,801
Accretion		<b>1,490</b>		828		837		<b>2,327</b>		1,642
<b>Total</b>	<b>\$</b>	<b>4,741</b>	<b>\$</b>	<b>2,905</b>	<b>\$</b>	<b>3,363</b>	<b>\$</b>	<b>8,104</b>	<b>\$</b>	<b>5,443</b>
<b>(\$/boe)</b>										
Interest	\$	<b>2.18</b>	\$	1.66	\$	2.31	\$	<b>2.24</b>	\$	1.47
Accretion		<b>1.00</b>		0.66		0.77		<b>0.90</b>		0.64
<b>Total (\$/boe)</b>	<b>\$</b>	<b>3.18</b>	<b>\$</b>	<b>2.32</b>	<b>\$</b>	<b>3.08</b>	<b>\$</b>	<b>3.14</b>	<b>\$</b>	<b>2.11</b>

## Transaction Costs

In Q1 2013, Spyglass incurred \$13.5 million of transaction costs related to the Arrangement. In Q4 2012, \$0.8 million of transaction costs were incurred. Costs include amounts for financial advisors, legal, other professional fees and change of control settlements. No additional transaction costs were incurred in Q2 2013.

## General and Administration Expenses

In Q2 2013 cash general and administration ("G&A") expenses totalled \$5.9 million compared to \$4.1 million in Q2 2012 and \$3.1 million in Q1 2013. The Company expected increased G&A costs in Q2 2013 given the \$0.8 million non-recurring integration costs incurred in the quarter and increased costs related to additional staff employed through a transition period that concluded at quarter end. Spyglass also implemented new long-term and short-term incentive plans in the quarter, which is cash based.

The largest portion of G&A is comprised of salaries and benefits and, as such, future G&A will depend on staff levels in 2013 along with changes to salaries and bonus incentives. G&A per boe was \$3.94/boe in Q2 2013 and is expected to decrease in Q3 2013 and Q4 2013 towards \$3.00/boe due to cost synergies realized from the Arrangement and increased production.

The components of G&A expenses were as follows:

	Q2 2013	Q2 2012	Q1 2013	YTD 2013	YTD 2012
<b>General and Administration Expenses</b>					
<b>(000s)</b>					
Cash G&A	\$ 5,870	\$ 4,052	\$ 3,099	\$ 8,969	\$ 9,467
Non-Cash LTIP expense	-	149	724	724	1,421
<b>Total</b>	<b>\$ 5,870</b>	<b>\$ 4,201</b>	<b>\$ 3,823</b>	<b>\$ 9,693</b>	<b>\$ 10,888</b>
<b>(\$/boe)</b>					
Cash G&A	\$ 3.94	\$ 3.23	\$ 2.84	\$ 3.48	\$ 3.67
Non-Cash LTIP expense	-	0.12	0.66	0.28	0.55
<b>Total</b>	<b>\$ 3.94</b>	<b>\$ 3.35</b>	<b>\$ 3.50</b>	<b>\$ 3.76</b>	<b>\$ 4.22</b>

#### *Long-term incentive plans*

In Q2 2013, the Company implemented a new long-term incentive plan for employees and management which includes a combination of two types of share based awards depending on roles and responsibilities within the organization: restricted share units ("RSUs") and performance share units ("PSUs"). RSUs vest evenly over a three year period. PSUs vest three years from the date of grants and the awards granted are subject to a multiplier ranging from 0 to 2 based on the performance of Spyglass on a total return basis compared to a selected peer group. The Company also grants director restricted share units ("DRSU") to non-management directors of the organization. DRSUs vest three years from the date of grant. RSUs, PSUs and DRSUs are to be settled in cash, based on the share price at the time of vesting. The number of share equivalent units at the time of vesting increases commensurately with each dividend declared by the Company after the grant date. During the 3 months ended June 30, 2013, the Company granted 1,521,316 RSUs, 1,043,398 PSUs, and 140,843 PSUs. As at June 30, 2013, 1,526,216 RSUs, 1,056,159 PSUs and 142,566 DRSUs were outstanding.

The previous Pace long-term incentive plan included a blend of three types of share based awards depending on roles and responsibilities within the organization: restricted share awards ("RSA"), performance share awards ("PSA") and stock options. RSAs were granted to employees and management of the organization and vested evenly over a three year period with payments to be made to the owner of the award on the deemed anniversary date of the grant. PSAs were granted to management of the organization and vested three years from the date of grant. The number of PSAs granted were subject to a multiplier ranging from 0 to 2 based on a mix of how Pace performed compared to a selected peer group on a total return basis combined with how Pace performed against a set minimum threshold of share performance. Payments of the PSAs were made based on the amount granted subject to the above mentioned multiplier. Stock options had a three year life and one third of each grant vested every nine months. Deferred share awards ("DSA") were granted to non-management directors of the organization. The awards vested immediately but were not settled until the Board member ceased to be a member of the Board. Payment of the awards were valued based on the granted number of awards using the share price at and around the date the Board member ceases to be a Board member.

All RSAs, PSAs and DSAs became vested upon the closing of the Arrangement at a value of \$2.77 per per-subdivided award. PSAs were subject to a multiplier of 0.8. A total payout of \$2.9 million was made in Q2 2013 to settle the RSAs, PSAs and DSAs.

All outstanding options under the Pace plan were extinguished upon the closing of the Arrangement. 4,501 (3,462 pre-subdivided) options were in the money, and exercised on a cash-less basis for 159 (122 pre-subdivided) shares. In Q1 2013, prior to the closing of the Arrangement, 261,701 pre sub-divided options expired or were forfeited. The remaining 4,213,417 (2,979,389 pre-subdivided) outstanding options were extinguished at \$0.001 per pre-sub divided option upon closing of the Arrangement.

#### **Depletion, Depreciation and Impairments**

For Q2 2013, depletion, depreciation and impairments ("D&D") was \$20.1 million compared to \$97.7 million for Q2 2012 and \$14.1 million for Q1 2013. Q2 2012 D&D included \$80.3 million of impairments.

The Q2 2013 D&D rate of \$13.48/boe was lower than the Q2 2012 pre-impairment rate of \$13.86/boe and slightly higher than the Q1 2013 rate of \$12.87/boe. The pre-impairment D&D rates are subject to change based on the timing of land expiries, depreciation of capitalized maintenance projects, and changes in production by area.

The Q2 2012 D&D impairment charges were related to impairments in the North Gas CGU, the North Oil CGU and the South Gas CGU which was caused, at the time, by a weak natural gas pricing environment while declines in forecasted oil prices revised the longer term price outlook downward.

The components of D&D were as follows:

<b>Depletion, depreciation and impairments</b>	<b>Q2 2013</b>	Q2 2012	Q1 2013	<b>YTD 2013</b>	YTD 2012
<b>(000s)</b>					
Depletion & depreciation	\$ 20,076	\$ 17,367	\$ 14,052	\$ 34,128	\$ 35,095
Impairment (net of reversals)	-	80,306	-	-	80,306
<b>Total</b>	<b>\$ 20,076</b>	\$ 97,673	\$ 14,052	<b>\$ 34,128</b>	\$ 115,401
<b>(\$/boe)</b>					
Depletion & depreciation	\$ 13.48	\$ 13.86	\$ 12.87	\$ 13.23	\$ 13.62
Impairment (net of reversals)	-	64.11	-	-	31.16
<b>Total</b>	<b>\$ 13.48</b>	\$ 77.97	\$ 12.87	<b>\$ 13.23</b>	\$ 44.78

## Environmental Liabilities & Insurance Receivable

On May 19, 2012, Pace was made aware of a breach in an above-ground section of wellhead piping that resulted in a temporary release of an estimated 800 cubic meters of oil. The release occurred as a result of a hole caused by internal pit corrosion that was accelerated through stray electrical currents in the surrounding area. Containment and recovery operations began within hours of notification. Following mechanical recovery operations to remove the leaked oil, management worked with Alberta Environment and Sustainable Resources Development (AESRD) to conduct two planned and controlled burns of remaining oil. Spyglass is continuing its surface and ground water sampling, and wildlife monitoring systems and continues to work with AESRD to further refine a site remediation plan. The majority of the site is being bio-remediated and naturally attenuated and an excavation contingency plan for the area surrounding the well head is being developed if the need arises.

The estimated cost of the site clean-up and remediation is \$25.0 million. This incident falls within the Company's insurance coverage and \$16.9 million of insurance proceeds were received during 2012. Spyglass has paid \$20.4 million of clean-up and remediation costs as of June 30, 2013 with a further \$1.6 million recorded in accrued liabilities for work performed to June 30, 2013 and \$3.0 million accrued in other liabilities for future costs expected to be incurred. Spyglass has recorded \$8.0 million in accounts receivable for insurance receivable as at June 30, 2013. Spyglass has evaluated the credit worthiness of its insurance providers and has concluded it to be adequate.

## Other Income

Q2 2013 other income of \$0.2 million includes minor amounts of seismic data sales. Q1 2013 other income of \$81.9 million is comprised of \$81.9 million in gains recognized as a result of the fair value of assets acquired under the Arrangement exceeding the consideration paid as well as minor amounts of seismic data sales.

	Q2 2013	Q2 2012	Q1 2013	YTD 2013	YTD 2012
<b>Other Income</b>					
<b>(000s)</b>					
Cash other income	\$ 157	\$ 155	\$ 63	\$ 220	\$ 202
Non-cash other income	-	-	81,866	81,866	-
Total	\$ 157	\$ 155	\$ 81,929	\$ 82,086	\$ 202
<b>(\$/boe)</b>					
Cash other income	\$ 0.11	\$ 0.12	\$ 0.06	\$ 0.09	\$ 0.08
Non-cash other income	-	-	75.00	31.73	-
Total	\$ 0.11	\$ 0.12	\$ 75.06	\$ 31.82	\$ 0.08

## Deferred Taxes

Spyglass recorded a deferred tax recovery of \$0.2 million in Q2 2013 compared to a recovery of \$6.6 million in Q1 2013 and a recovery of \$18.7 million in Q2 2012. The difference between the Q2 2013 expected rate of 25.0% and the effective rate relates primarily to permanent differences as well as deductions for the spending associated with decommissioning expenditures.

During Q4 2010, Canada Revenue Agency ("CRA") issued reassessments against predecessors to Spyglass which denied the deduction of approximately \$43 million in tax claims between 2004 and 2007. Spyglass has filed Notices of Objection to CRA's assessments as management believes that there is a reasonable likelihood that the Notices of Objection will be successful in whole or in part. The \$43 million of tax pool balances have been included in the Company's estimates of its resource tax pools. There has been no change in status as of the date of this MD&A.

## Funds from Operations and Net Income (Loss)

For Q2 2013, funds from operations totalled \$20.6 million or \$0.16 per basic and diluted share compared to \$16.5 million and \$0.27 per basic and diluted share in Q2 2012 and \$7.1 million and \$0.11 per basic and diluted share in Q1 2013. Funds from operations increased in Q2 2013 from Q2 2012 reflecting an increase in production volumes accompanied by an improvement in the per boe cash flow netback.

For Q2 2013, the Company had net income of \$0.2 million compared to a net loss of \$56.6 million in Q2 2012 and net income of \$61.4 million in Q1 2013. The majority of the Q1 2013 income is due to the \$81.9 million gain on business combination as a result of the Arrangement, while Q2 2012 saw an impairment charge of \$80.3 million. The per basic and diluted share income was \$nil compared to net loss of \$0.92 and net income of \$0.97 per basic and diluted share in Q2 2012 and Q1 2013 respectively.

The following table summarizes the net income on a boe basis for the periods indicated:

(\$/boe)	Q2 2013	Q2 2012	Q1 2013	YTD 2013	YTD 2012
Sales price	\$ 51.32	\$ 40.04	\$ 45.66	\$ 48.92	\$ 44.04
Royalties	(10.14)	(8.46)	(9.62)	(9.92)	(10.54)
Operating expenses	(18.17)	(15.34)	(22.06)	(19.81)	(15.74)
Transportation expenses	(2.20)	(2.11)	(2.31)	(2.25)	(2.11)
<b>Operating netback</b>	<b>\$ 20.81</b>	<b>\$ 14.13</b>	<b>\$ 11.67</b>	<b>\$ 16.94</b>	<b>\$ 15.65</b>
Cash other income (expense)	0.11	0.12	0.06	0.09	0.08
Realized gain (loss) on financial derivative instruments	(0.98)	3.81	(0.12)	(0.62)	1.53
Cash G&A	(3.94)	(3.23)	(2.84)	(3.48)	(3.67)
Interest	(2.18)	(1.66)	(2.31)	(2.24)	(1.47)
<b>Cash flow netback</b>	<b>\$ 13.82</b>	<b>\$ 13.17</b>	<b>\$ 6.46</b>	<b>\$ 10.69</b>	<b>\$ 12.12</b>
Unrealized gain (loss) on financial derivative instruments	0.68	5.46	(4.64)	(1.57)	2.23
Non-cash other income (expense)	-	-	75.00	31.73	-
Depletion, depreciation and impairment	(13.48)	(77.97)	(12.87)	(13.23)	(44.78)
Accretion	(1.00)	(0.66)	(0.77)	(0.90)	(0.64)
Transaction costs	-	-	(12.32)	(5.21)	-
Long-term incentive compensation	-	(0.12)	(0.66)	(0.28)	(0.55)
Deferred taxes	0.16	14.96	6.01	2.64	7.73
<b>Net income (loss)</b>	<b>\$ 0.18</b>	<b>\$ (45.16)</b>	<b>\$ 56.21</b>	<b>\$ 23.87</b>	<b>\$ (23.89)</b>

The following table provides reconciliations to the change in funds from operations and net income for Q2 2013 to Q2 2012 and for Q2 2013 to Q1 2013.

Change in Funds from Operations and Net Income (loss) (000s)	Q2 2013 to Q2 2012		Q2 2013 to Q1 2013	
	Funds from Operations	Net Income	Funds from Operations	Net Income
Comparative period	\$ 16,485	\$ (56,581)	\$ 7,053	\$ 61,353
Increase (decrease) in revenue:				
Change in production volumes	9,461	9,461	18,142	18,142
Change in prices	16,782	16,782	8,422	8,422
Change in royalties	(4,494)	(4,494)	(4,596)	(4,596)
(Increase) decrease in expenses:				
Operating	(7,828)	(7,828)	(2,973)	(2,973)
Transportation	(630)	(630)	(760)	(760)
Finance charges	(1,174)	(1,836)	(725)	(1,378)
Cash general and administration	(1,818)	(1,818)	(2,771)	(2,771)
Long-term incentive compensation	-	149	-	724
Depletion, depreciation and impairment	-	77,597	-	(6,024)
Deferred tax	-	(18,497)	-	(6,317)
Transaction costs	-	-	-	13,451
Increase (decrease) in:				
Other income	2	2	94	(81,772)
Gains (losses) on financial derivative instruments	(6,228)	(12,061)	(1,328)	4,745
<b>Current period</b>	<b>\$ 20,558</b>	<b>\$ 246</b>	<b>\$ 20,558</b>	<b>\$ 246</b>

## Capital Expenditures, Acquisitions and Dispositions

Q2 2013 capital expenditures totalled \$8.3 million with \$4.7 million spent on drilling and optimization activities, \$1.6 million on facilities, pipelines, equipping and tie-ins, and \$2.0 million on land, seismic, and office costs, including capitalized G&A.

The Company spent \$4.1 million in the South business unit, with \$2.3 million spent on drilling 3 gross (3 net) wells in Matziwin. Three wells commenced drilling in the quarter with the third well spud late in June and finished in July. The remaining \$1.8 million was spent on capital maintenance projects. The \$2.1 million spent in the North business unit and \$0.5 million in the Central business unit was on various workovers and recompletions to enhance recoverability and maintain base production.

The following table highlights the breakdown of expenditures by area and by category for the periods indicated:

<b>Capital Expenditures (000s)</b>	<b>Q2 2013</b>	<b>Q2 2012</b>	<b>Q1 2013</b>	<b>YTD 2013</b>	<b>YTD 2012</b>
North	<b>2,088</b>	4,887	5,455	<b>7,543</b>	29,065
Central	<b>371</b>	-	-	<b>371</b>	-
South	<b>4,027</b>	7,235	5,264	<b>9,291</b>	22,914
Office and other areas	<b>1,798</b>	1,566	1,101	<b>2,899</b>	3,405
<b>Total before Acquisitions and Dispositions</b>	<b>8,284</b>	13,688	11,820	<b>20,104</b>	55,384
<b>Capital Expenditures (000s)</b>	<b>Q2 2013</b>	<b>Q2 2012</b>	<b>Q1 2013</b>	<b>YTD 2013</b>	<b>YTD 2012</b>
Land	<b>\$ 183</b>	\$ 299	\$ 109	<b>\$ 292</b>	\$ 1,690
Geological and geophysical	<b>69</b>	33	1,175	<b>1,244</b>	346
Drilling and completions	<b>4,726</b>	8,504	6,324	<b>11,050</b>	37,036
Facilities and equipment	<b>1,575</b>	3,336	3,159	<b>4,734</b>	12,873
Office, other and capitalized G&A	<b>1,731</b>	1,516	1,053	<b>2,784</b>	3,439
Capital Expenditures	<b>\$ 8,284</b>	\$ 13,688	\$ 11,820	<b>\$ 20,104</b>	\$ 55,384
Acquisitions	-	-	282,093	<b>282,093</b>	-
<b>Total capital expenditures and acquisitions</b>	<b>\$ 8,284</b>	\$ 13,688	\$ 293,913	<b>\$ 302,197</b>	\$ 55,384
Exploration and evaluation expenditures	<b>\$ 303</b>	\$ 827	\$ 48,873	<b>\$ 49,176</b>	\$ 15,736
Property, plant and equipment expenditures	<b>7,981</b>	12,861	245,040	<b>253,021</b>	39,648
<b>Total capital expenditures and acquisitions</b>	<b>\$ 8,284</b>	\$ 13,688	\$ 293,913	<b>\$ 302,197</b>	\$ 55,384

Spyglass has approximately 635,000 net acres of undeveloped land under lease at June 30, 2013.

## Equity

On March 28, 2013, pursuant to the Arrangement, 46,916,422 pre-subdivided Spyglass shares were subdivided on a basis of 1.3 to one to total 60,991,388 shares. Further, 12,117,821 shares were issued in exchange for all outstanding Charger shares and 54,967,543 shares were issued in exchange for all outstanding AvenEx shares. Outstanding shares subsequent to the Arrangement totalled 128,076,752 Spyglass shares.

In Q1 2013, all outstanding options were extinguished upon the closing of the Arrangement. A total of 4,501 options were in the money, and exercised on a cashless basis for 159 shares and 340,211 options expired or were forfeited. The remaining 3,873,206 outstanding options were extinguished at \$0.001 per option upon closing of the Arrangement.

On June 28, 2012, the Toronto Stock Exchange (the "TSX") accepted Pace's notice to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX authorized Pace to purchase up to 3,060,915 (2,354,550 pre-subdivided) common shares (5% of the shares outstanding) with the daily maximum of 38,098 (29,306 pre-subdivided) common shares in accordance with the TSX rules during the period July 3, 2012 to July 2, 2013. Shares purchased under the bid were cancelled. There

were 54,860 (42,200 pre-subdivided) shares purchased during the year ended December 31, 2012 at a weighted average cost of \$2.17 (\$2.82 pre-subdivided) per share for a net cost of \$0.1 million under this bid. No shares were repurchased in 2013.

<b>Share Information</b>	<b>Q2 2013</b>	<b>Q2 2012</b>	<b>Q1 2013</b>	<b>YTD 2013</b>	<b>YTD 2012</b>
Shares Outstanding					
Basic	<b>128,076,752</b>	61,046,050	128,076,752	<b>128,076,752</b>	61,046,050
Diluted	<b>128,076,752</b>	65,724,914	128,076,752	<b>128,076,752</b>	65,724,914
Weighted average shares outstanding					
Basic	<b>128,076,752</b>	61,275,341	63,227,413	<b>95,831,224</b>	61,319,426
Diluted	<b>128,076,752</b>	61,275,341	63,227,413	<b>95,831,224</b>	61,319,426

## Dividends Declared and Payout Ratio

In April 2013, the Company initiated a monthly dividend of \$0.0225 per share. During Q2 2013, the Company declared dividends of \$8.6 million or \$0.0675 per share. The Q2 basic payout ratio, calculated as dividends declared over funds from operations, was 42% while the all-in payout ratio, calculated using dividends declared and capital expenditures (net of property dispositions) over funds from operations, was 82%. The Company is targeting an all-in payout ratio of approximately 100% for 2013. The Q2 2013 all-in payout ratio of 82% reflects the lower level of capital activity in the quarter as the Company initiated its 2013 drilling program in late June, following spring breakup.

Dividends declared per common share and outstanding for the period are as follows:

<b>2013 Dividends</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Common Share</b>
April	April 9, 2013	April 26, 2013	May 15, 2013	\$ 0.0225
May	May 13, 2013	May 27, 2013	June 17, 2013	0.0225
June	June 17, 2013	June 27, 2013	July 15, 2013	0.0225

Subsequent to quarter end, the Company declared the July 2013 dividend of \$0.0225 per share on July 9, 2013, payable on August 15, 2013 to shareholders of record on July 26, 2013.

## Liquidity and Capital Resources

Spyglass is listed as a senior issuer on the Toronto Stock Exchange trading under the symbol "SGL" and trades in the over the counter market in the United States under the symbol "SGLRF". The following is a summary of the trading history for Q2 2013, Q2 2012, Q1 2013 and YTD 2013 and YTD 2012.

<b>Trading History on the TSX</b>	<b>Q2 2013</b>	<b>Q2 2012</b>	<b>Q1 2013</b>	<b>YTD 2013</b>	<b>YTD 2012</b>
Trading price					
High	<b>\$ 2.60</b>	\$ 3.90	\$ 2.71	<b>\$ 2.71</b>	\$ 4.85
Low	<b>\$ 1.75</b>	\$ 1.58	\$ 1.98	<b>\$ 1.75</b>	\$ 1.58
Close	<b>\$ 1.90</b>	\$ 2.35	\$ 2.22	<b>\$ 1.90</b>	\$ 2.35
Volume (000's) <sup>(1)</sup>	<b>20,600</b>	6,095	6,924	<b>27,524</b>	15,068

<sup>(1)</sup> Trading volumes for Q2 2012, Q1 2013 and YTD 2012 are stated in pre-subdivided amounts.

On the over the counter market, 9.0 million shares were traded YTD in 2013 compared to 4.2 million pre-subdivided shares YTD in 2012.



Spyglass has a \$400 million revolving term credit facility with a syndicate of banks which was renewed on May 22, 2013. The facility is available on a revolving basis until April 29, 2014. The available level of credit is subject to semi-annual review and may be adjusted for changes in reserves, commodity prices and other factors. At June 30, 2013 \$280.4 million was drawn on the facility and the Company had a working capital deficit of \$16.5 million (excluding current portion of financial derivative instruments) for net debt of \$296.9 million. At June 30, 2013, there were \$0.9 million of letters of credit outstanding.

The Company's policy is to maintain a strong capital base to maintain financial flexibility and allow for execution of its capital investment program, provide creditor and market confidence and sustain the future development of the business.

The Company anticipates adequate liquidity to fund future working capital and forecasted capital expenditures for the remainder of 2013 through a combination of cash flow and additional use of its bank facility. The Company is able to modify its capital program in response to changes in commodity prices and cash flows. Should the Company choose to expand its capital program, actual funding alternatives will be influenced by the then current market environment and the ability to access capital on reasonable terms, balanced with the investment opportunities presented.

## Off Balance Sheet Transactions

There were no off balance sheet transactions entered into during the period, nor are there any outstanding as of the date of this MD&A.

## Contractual Obligations

The contractual obligations for which the Company is responsible are as follows:

<b>Contractual Obligations (000s)</b>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Long-term debt and related interest	<b>\$ 302,400</b>	\$ 12,000	\$ 290,400	\$ -	\$ -
Firm transportation charges	<b>4,253</b>	2,574	1,245	376	58
Operating leases	<b>30,662</b>	2,805	6,658	7,046	14,154
<b>Total Contractual Obligations</b>	<b>\$ 337,315</b>	\$ 17,379	\$ 298,302	\$ 7,422	\$ 14,212

The Company enters into many contractual obligations in the course of conducting its day to day business. Material contractual obligations consist of long-term debt under its bank facility, firm transportation charges and operating lease arrangements.

The Company estimates it will incur costs of approximately \$391.4 million on an undiscounted basis to settle its decommissioning liabilities to abandon and reclaim petroleum and natural gas assets including well sites, gathering systems and processing facilities. The present value of these expected costs is \$86.7 million and has been recorded on the Company's balance sheet as at June 30, 2013. These costs will be incurred over the operating lives of the assets with the majority being at or after the end of production. The Company may enter into farm-in agreements where it commits to capital expenditures to earn and retain lands. These are considered routine in nature and form part of the normal course of operations for active oil and gas companies and are not included in the table above.

The Company is currently undergoing tax reviews related to issuance of flow through shares and has accrued a provision for reassessments which it is currently reviewing.

## Financial Instruments

Financial instruments comprise cash and cash equivalents, accounts receivable, financial derivative instruments, investments, accounts payable and accrued liabilities, dividends payable, long-term compensation liability and long-term debt. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable approximate their carrying amounts due to their short-term maturities. Spyglass' financial derivative instruments and long-term compensation liability have been recorded at their fair value.

Spyglass' investment at June 30, 2013 is in common shares of a private oil and gas related business and has been recorded at its estimated fair value.

The Company's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The Company is exposed to credit, liquidity and market risk from its use of financial instruments. A description of these risks has been included in the Company's year-end audited consolidated financial statements for December 31, 2012.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed by Spyglass is accumulated and communicated to management as appropriate to allow timely disclosures. Spyglass' Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Spyglass is made known to them by Spyglass employees.

### **Internal Control over Financial Reporting ("ICFR")**

Spyglass' Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance on the reliability of Spyglass' financial reporting and preparation of financial statements for external purposes in accordance with GAAP. The control framework to design Spyglass' ICFR is the Internal Control-Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. As at June 30, 2013 Spyglass' Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the design of the Company's internal controls over financial reporting and have concluded that these controls are designed properly.

Spyglass' internal controls have been maintained from Pace while the new management team from Charger provides oversight controls. There were no weaknesses noted in controls during 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that while Spyglass' Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure and internal control procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **Application of Critical Accounting Estimates**

The significant accounting policies used by Spyglass are disclosed in the Company's year-end audited consolidated financial statements for the years ended December 31, 2012 and 2011.

### **Financial Reporting Update**

Recent accounting pronouncements and amendments adopted effective January 1, 2013 as disclosed in the annual consolidated financial statements for the year ended December 31, 2012 have no impact on the Company's consolidated financial statements other than disclosure requirements which have been incorporated. The new IFRS pronouncements and amendments adopted include IFRS 10 – *Consolidation*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interest in Other Entities*, IFRS 13 – *Fair Value Measurement*, IAS 17 – *Separate Financial Statements*, IAS 28 – *Investments in Associates and Joint Ventures*, IAS 1 – *Presentation of Financial Statements* and IAS 32 – *Financial Instruments: Presentation*.

### **Risk Factors**

There are a number of risk factors facing companies that participate in the Canadian oil and gas industry. A summary of certain risk factors relating to our business are disclosed below, a more exhaustive list is provided in the Risk Factors Section of our 2012 Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## Selected Quarterly Information

Financial (000s, except per share amounts)	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	\$ 76,405	\$ 49,841	\$ 49,475	\$ 49,366	\$ 50,162	\$ 63,350	\$ 69,317	\$ 58,104
Cash flow from (used in) operations	1,329	(3,174)	28,861	1,689	7,035	26,453	19,618	28,110
Funds from operations	20,558	7,053	13,631	14,006	16,485	14,727	26,159	21,174
Per share- Basic	0.16	0.11	0.22	0.23	0.27	0.24	0.43	0.34
Per share- Diluted	0.16	0.11	0.22	0.23	0.27	0.24	0.43	0.34
Net income (loss)	\$ 246	\$ 61,353	\$ (86,565)	\$ (4,859)	\$ (56,581)	\$ (4,986)	\$ 454	\$ 5,524
Per share- Basic	0.00	0.97	(1.42)	(0.08)	(0.92)	(0.08)	0.01	0.09
Per share- Diluted	0.00	0.97	(1.42)	(0.08)	(0.92)	(0.08)	0.01	0.09
Capital expenditures	\$ 8,284	\$ 11,820	\$ 14,924	\$ 12,909	\$ 13,688	\$ 41,696	\$ 44,129	\$ 21,794
Corporate acquisitions	-	150,271	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	23	-
Long term debt	280,400	271,700	199,810	214,879	200,611	168,020	150,745	152,372
Net debt	296,853	300,253	215,817	210,348	210,765	212,873	186,129	166,273
Total assets	930,843	944,625	581,521	691,162	697,290	755,655	738,530	703,770
Dividends Declared	8,644	-	-	-	-	-	-	-
Per share- Basic	0.0675	-	-	-	-	-	-	-
Basic Payout Ratio	42%	-	-	-	-	-	-	-
All-in Payout Ratio	82%	0%	0%	0%	0%	0%	0%	0%
Shares outstanding (000s)								
Basic	128,077	128,077	60,991	60,991	61,046	61,364	61,364	61,585
Diluted	128,077	128,077	65,209	65,267	65,725	65,962	66,360	65,791
<b>Operations</b>								
Average daily production								
Oil (bbls/d)	7,434	5,876	5,657	5,731	6,015	6,804	6,627	5,784
NGLs (bbls/d)	490	279	285	265	360	388	338	277
Natural gas (Mcf/d)	50,626	35,840	35,804	40,109	44,340	44,190	43,442	44,981
Combined (boe/d)	16,362	12,128	11,909	12,681	13,765	14,557	14,205	13,558
Operating netback (\$/boe)	\$ 20.81	\$ 11.67	\$ 16.01	\$ 16.55	\$ 14.13	\$ 17.09	\$ 24.18	\$ 20.40

Spyglass spent \$169.2 million over the previous eight trailing quarters in capital expenditures with 29 (26.5 net) wells drilled in Q3 to Q4 of 2011 and 15 (14.4 net) wells drilled in 2012. In Q1 2013, the Company completed the Arrangement and acquired AvenEx and Charger for consideration of \$150.3 million, which resulted in a gain on acquisition of \$81.9 million. In Q2 2013, the Company drilled 3 gross (3 net) wells.

Production averaged 16,362 boe/d in Q2 2013 reflecting completion of the Arrangement late in Q1 2013. Commodity prices have been volatile over the previous eight trailing quarters which led to impairment losses in Q2 2012 and Q4 2012. This contributed to net losses of \$56.6 million and \$86.6 million respectively.

## Additional Information

Additional information relating to Spyglass is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at Spyglass Resources Corp., 1700, 250- 2nd Street SW, Calgary, Alberta T2P 0C1 or by email to [ir@spyglassresources.com](mailto:ir@spyglassresources.com) or by accessing the website at [www.spyglassresources.com](http://www.spyglassresources.com).



## **Q2 2013 CONSOLIDATED FINANCIAL STATEMENTS**

# Consolidated Balance Sheets

As at

(Thousands of Canadian dollars) (unaudited)

	June 30, 2013	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 35
Accounts receivable	50,897	31,324
Prepaid expenses and deposits	2,118	2,323
Financial derivative instruments (note 9)	2,379	911
	<b>55,394</b>	<b>34,593</b>
Investments (note 9)	326	326
Financial derivative instruments (note 9)	581	80
Exploration and evaluation assets (note 4)	71,531	30,775
Property, plant and equipment (note 5)	724,463	496,154
Deferred tax assets	78,548	19,593
	<b>\$ 930,843</b>	<b>\$ 581,521</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 63,338	\$ 45,489
Dividends payable (note 8)	2,882	-
Other liabilities (note 10)	3,248	4,200
Financial derivative instruments (note 9)	7,784	-
	<b>77,252</b>	<b>49,689</b>
Long-term debt (note 6)	280,400	199,810
Long-term compensation liability (note 8)	118	-
Financial derivative instruments (note 9)	498	-
Decommissioning liabilities (note 7)	86,723	49,541
Shareholders' equity:		
Share capital (note 1 & 8)	494,292	430,037
Contributed surplus (note 1)	-	12,646
Accumulated other comprehensive income (loss) (note 1)	-	(730)
Deficit (note 1)	(8,440)	(159,472)
	<b>485,852</b>	<b>282,481</b>
	<b>\$ 930,843</b>	<b>\$ 581,521</b>

See accompanying notes to the interim consolidated financial statements.

## Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Thousands of Canadian dollars except per share amounts) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Petroleum and natural gas sales (note 11)	\$ 76,405	\$ 50,162	\$ 126,246	\$ 113,512
Royalties (note 11)	(15,097)	(10,603)	(25,598)	(27,178)
<b>Revenues</b>	<b>61,308</b>	39,559	<b>100,648</b>	86,334
<b>Gain on business combinations and other income (note 3)</b>	<b>157</b>	155	<b>82,086</b>	202
<b>Gain (loss) on financial derivative instruments (note 9)</b>	<b>(450)</b>	11,611	<b>(5,645)</b>	9,702
<b>Expenses</b>				
Operating	27,048	19,220	51,123	40,563
Transportation	3,277	2,647	5,794	5,442
Finance	4,741	2,905	8,104	5,443
Depletion, depreciation and impairments (note 4 & 5)	20,076	97,673	34,128	115,401
General and administration	5,870	4,201	9,693	10,888
Transaction costs (note 3)	-	-	13,451	-
	<b>61,012</b>	126,646	<b>122,293</b>	177,737
Income (loss) before taxes	3	(75,321)	54,796	(81,499)
Deferred taxes (recovery)	(243)	(18,740)	(6,803)	(19,932)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 246</b>	\$ (56,581)	<b>\$ 61,599</b>	\$ (61,567)
Income (loss) per share: (note 8)				
Basic and Diluted	\$ -	\$ (0.92)	\$ 0.64	\$ (1.00)

See accompanying notes to the interim consolidated financial statements.

## Consolidated Statements of Changes in Equity

Six months ended June 30

(Thousands of Canadian dollars except number of common shares) (unaudited)

	Number of Common Shares	Share Capital	Contributed Surplus	Accu- mulated Other Compre- hensive Income (loss)	Deficit	Total Equity
<b>Balance, December 31, 2011</b>	<b>61,363,549</b>	<b>\$ 432,668</b>	<b>\$ 8,982</b>	<b>\$ (730)</b>	<b>\$ (6,481)</b>	<b>\$ 434,439</b>
Normal course issuer bid	(317,460)	(2,243)	1,469	-	-	(774)
Long-term incentive	-	-	1,163	-	-	1,163
Net income (loss) during the period	-	-	-	-	(61,567)	(61,567)
<b>Balance, June 30, 2012</b>	<b>61,046,089</b>	<b>\$ 430,425</b>	<b>\$ 11,614</b>	<b>\$ (730)</b>	<b>\$ (68,048)</b>	<b>\$ 373,261</b>
Normal course issuer bid	(54,860)	(388)	269	-	-	(119)
Stock based compensation	-	-	763	-	-	763
Net income (loss) during the period	-	-	-	-	(91,424)	(91,424)
<b>Balance, December 31, 2012</b>	<b>60,991,229</b>	<b>\$ 430,037</b>	<b>\$ 12,646</b>	<b>\$ (730)</b>	<b>\$ (159,472)</b>	<b>\$ 282,481</b>
Issued per business combination	67,085,364	150,271	-	-	-	150,271
Issued on exercise of options	159	4	(4)	-	-	-
Stock based compensation	-	-	145	-	-	145
Net income (loss) and comprehensive income (loss) during the period	-	-	-	-	61,599	61,599
Dividends declared	-	-	-	-	(8,644)	(8,644)
Reduction of stated capital (note 1)	-	(86,020)	(12,787)	730	98,077	-
<b>Balance, June 30, 2013</b>	<b>128,076,752</b>	<b>\$ 494,292</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (8,440)</b>	<b>\$ 485,852</b>

<sup>(1)</sup> The number of common shares has been adjusted to reflect Pace's share exchange ratio of 1.3 to 1 pursuant to the Arrangement (note 1 & 3)

See accompanying notes to the interim consolidated financial statements.

# Consolidated Statements of Cash Flows

(Thousands of Canadian dollars) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Cash provided by (used in)</b>				
<b>Operations</b>				
Net income (loss)	\$ 246	\$ (56,581)	\$ 61,599	\$ (61,567)
Items not involving cash:				
Depletion and depreciation (notes 4 & 5)	20,076	97,673	34,128	115,401
Accretion of decommissioning liabilities (note 7)	1,490	828	2,327	1,642
Non cash long-term incentive (note 8)	-	149	724	1,421
Gain on business combinations (note 3)	-	-	(81,866)	-
Unrealized (gain) loss on financial derivative instruments (note 9)	(1,011)	(6,844)	4,051	(5,753)
Deferred taxes (recovery)	(243)	(18,740)	(6,803)	(19,932)
Decommissioning expenditures (note 7)	(348)	141	(2,052)	(53)
Change in non-cash working capital (note 11)	(18,881)	(9,591)	(13,953)	2,329
Cash flow from (used in) operating activities	1,329	7,035	(1,845)	33,488
<b>Financing</b>				
Increase in long-term debt	8,700	32,591	17,940	49,866
Dividends declared	(8,644)	-	(8,644)	-
Purchases of common shares under normal course issuer	-	(774)	-	(774)
Change in non-cash working capital (note 11)	2,882	(127)	2,882	(127)
Cash flow from financing activities	2,938	31,690	12,178	48,965
<b>Investing</b>				
Capital expenditures	(8,284)	(13,688)	(20,104)	(55,384)
Cash acquired on business combination (note 3)	-	-	11,890	-
Change in non-cash working capital (note 11)	4,017	(25,085)	(2,154)	(27,050)
Cash flow used in investing activities	(4,267)	(38,773)	(10,368)	(82,434)
<b>Changes in cash</b>				
Cash beginning of period	-	(48)	(35)	19
Cash end of period	\$ -	\$ 42	\$ -	\$ 42

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim consolidated financial statements.



# Notes to the interim consolidated Financial Statements

For the three and six months ended June 30, 2013 and 2012

(Tabular amounts are stated in thousands of Canadian dollars except share and per share amounts) (unaudited)

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## 1. Background and general information

Spyglass Resources Corp. ("Spyglass" or the "Company") is an oil and gas exploration and production company that conducts its operations in the Western Canadian Sedimentary Basin. Spyglass' head office is located at 1700, 250 2nd St. SW, Calgary, Alberta T2P 0C1. The Company's common shares are listed on the TSX under the symbol "SGL".

On March 28, 2013, Pace Oil & Gas Ltd. ("Pace"), Charger Energy Corp. ("Charger") and AvenEx Energy Corp ("AvenEx") completed a Plan of Arrangement (the "Arrangement") whereby Spyglass Resources Corp. was formed through the amalgamation of Pace, Charger and AvenEx. Pace subdivided its shares on a basis of 1.3 post-subdivided Pace shares for each 1.0 pre-subdivided Pace share. Pace shares were issued in exchange for the outstanding Charger shares on a basis of 0.18 Pace share for each Charger share and Pace shares were then issued in exchange for the outstanding AvenEx shares on a basis of 1.0 Pace share for each AvenEx share. Pace was then renamed to Spyglass Resources Corp. The Arrangement is accounted for as a business combination (note 3) whereby Pace is deemed to be the acquirer and as such comparative amounts reflect the history of Pace. Prior period common share, option, restricted share award, preferred share award and deferred share award information has been adjusted for the share exchange ratio associated with the Arrangement. Pursuant to the Arrangement, Spyglass elected to perform a reduction of stated capital whereby the Company offset its deficit, contributed surplus and accumulated other comprehensive loss against share capital upon closing of the arrangement. The deficit at June 30, 2013 reflects the operations of Spyglass from March 28, 2013 to June 30, 2013.

These interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 12, 2013.

## 2. Basis of presentation & significant accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

Recent accounting pronouncements and amendments adopted effective January 1, 2013 as disclosed in the annual consolidated financial statements for the year ended December 31, 2012 have no impact on the Company's consolidated financial statements other than disclosure requirements which have been incorporated. The new IFRS pronouncements and amendments adopted include IFRS 10 – *Consolidation*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interest in Other Entities*, IFRS 13 – *Fair Value Measurement*, IAS 17 – *Separate Financial Statements*, IAS 28 – *Investments in Associates and Joint Ventures*, IAS 1 – *Presentation of Financial Statements* and IAS 32 – *Financial Instruments: Presentation*.

## 3. Strategic business combination and reorganization

On March 28, 2013 the plan of Arrangement was completed whereby Spyglass was formed through the amalgamation of Pace, Charger and AvenEx. In accordance with IFRS, the Arrangement is accounted for as a business combination whereby Pace is deemed to be the acquirer. Had the Arrangement closed on January 1, 2013, Spyglass' oil and gas sales and oil and gas sales less royalties, transportation and operating expenses for the six months ended June 30, 2013 would have been approximately \$147.1 million and \$50.8 million respectively. This is not necessarily representative of future revenues and operations. The effect on net income is not determinable. Spyglass' oil and gas sales and oil and gas sales less royalties, transportation and operating expenses for the six months ended June 30, 2013 includes approximately \$21.2 million and \$15.4 million respectively, attributable to the acquirees from March 28, 2013 to June 30, 2013.

(a) Charger Energy Corp.

On March 28, 2013 the acquisition of all issued and outstanding shares of Charger was completed by way of plan of arrangement. Charger was a public oil and gas company, listed on the TSX Venture Exchange, with properties primarily in Alberta. Total consideration of \$27.1 million included the issuance of 12,117,821 shares as valued on closing. A gain on acquisition arises when the cost of an acquisition is less than the fair value of the assets acquired. The acquisition of Charger resulted in an excess of net assets acquired over consideration transferred of \$35.2 million. This gain was recognized and is included in gain on business combination and other income.

The following are the estimated fair values of Charger:

**Charger Energy Corp.**

**Net assets acquired**

Property, plant and equipment	\$	103,923
Exploration & evaluation assets		16,029
Deferred income tax assets		23,480
Working capital surplus (deficiency)		(5,301)
Bank indebtedness		(62,650)
Derivative liability		(2,047)
Decommissioning liabilities		(11,118)
	\$	62,316

**Consideration**

Shares issued (12,117,821 common shares)	\$	27,144
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Excess of net assets acquired over consideration transferred	\$	35,172
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The recognized amounts of identifiable assets and liabilities assumed are preliminary estimates by Spyglass' management and are subject to change. Preliminary fair values are calculated using discounted cash flow models considering reserve estimates.

(b) AvenEx Energy Corp.

On March 28, 2013 the acquisition of all issued and outstanding shares of AvenEx was completed by way of plan of arrangement. AvenEx was a public oil and gas company, listed on the TSX, with properties primarily in Alberta. Total consideration of \$123.1 million included the issuance of 54,967,543 shares as valued on closing. A gain on acquisition arises when the cost of an acquisition is less than the fair value of the assets acquired. The acquisition of AvenEx resulted in an excess of net assets acquired over consideration transferred of \$46.7 million. This gain was recognized and is included in gain on business combination and other income.

The following are the estimated fair values of AvenEx:

<b>AvenEx Energy Corp.</b>	
<b>Net assets acquired</b>	
Property, plant and equipment	\$ 130,697
Exploration & evaluation assets	31,444
Deferred income tax assets	28,672
Working capital surplus (deficiency)	(7,819)
Cash	11,890
Derivative liability	(215)
Decommissioning liabilities	(24,848)
	<b>\$ 169,821</b>
<b>Consideration</b>	
Shares issued (54,967,543 common shares)	\$ 123,127
Excess of net assets acquired over consideration transferred	\$ 46,694

On February 15, 2013, AvenEx sold the assets of Elbow River Marketing Limited Partnership ("Elbow River"). As part of the terms of sale, the purchaser of the assets have continued operations under the Elbow River Marketing name. All operations and obligations are backstopped and indemnified by the purchaser until they are formally assumed. Management has performed credit analysis on the purchaser and noted no concerns.

The recognized amounts of identifiable assets and liabilities assumed are preliminary estimates by Spyglass' management and are subject to change. Preliminary fair values are calculated using discounted cash flow models considering reserve estimates.

#### 4. Exploration and evaluation assets

	<b>June 30, 2013</b>	December 31, 2012
Balance, beginning of period	\$ 30,775	\$ 87,562
Additions	1,703	16,751
Capitalized long-term incentive	6	91
Acquisitions (note 3)	47,473	-
Decommissioning provision	-	132
Transfers to property, plant and equipment	(6,976)	(2,343)
Expiries	(1,450)	(4,213)
Impairment	-	(67,205)
Balance, end of period	<b>\$ 71,531</b>	30,775

During 2012, the Company recorded E&E impairment of \$67.2 million (\$50.4 million net of tax) in the Haro South area as a result of changes in management's future development plans and operational performance to date. The asset was written down to its estimated recoverable amount based on the fair value less cost to sell. The fair value less cost to sell was based on estimates of proceeds from the sale of the Company's infrastructure, facilities and land in the area.

## 5. Property, plant and equipment

	Cost	Accumulated depletion and depreciation	Net book Value
Balance, December 31, 2011	\$ 797,284	\$ (186,611)	\$ 610,673
Additions	66,466	-	
Capitalized long-term incentive	625	-	
Transfers from exploration and evaluation assets	2,343	-	
Decommissioning provision	862	-	
Depletion and depreciation	-	(61,804)	
Impairment loss, net of reversals	-	(123,011)	
Balance, December 31, 2012	\$ 867,580	\$ (371,426)	\$ 496,154
Additions	<b>18,401</b>	-	
Capitalized long-term incentive	<b>49</b>	-	
Acquisitions (note 3)	<b>234,620</b>	-	
Transfers from exploration and evaluation assets	<b>6,976</b>	-	
Decommissioning provision	<b>941</b>	-	
Depletion and depreciation	-	<b>(32,678)</b>	
<b>Balance, June 30, 2013</b>	<b>\$ 1,128,567</b>	<b>\$ (404,104)</b>	<b>\$ 724,463</b>

Future development costs of the Company's proved plus probable reserves of \$348.2 million (December 31, 2012 – \$144.1 million) were included in the depletion calculation.

During 2012, a decline in forecasted oil and natural gas prices caused the Company to record a total of \$123.0 million (\$92.3 million net of tax) of impairments.

## 6. Long-term debt

On March 28, 2013, Spyglass extinguished its \$300 million revolving term credit facility with a syndicate of banks and repaid in full the balance outstanding on this facility. As at December 31, 2012 \$199.8 million was drawn on this facility and \$1.1 million in letters of credit were outstanding. On March 28, 2013, Spyglass entered into a \$400 million revolving term credit facility with a syndicate of banks, which was subsequently renewed and amended on May 22, 2013. The facility is available on a revolving basis until April 29, 2014. On April 29, 2014 at the Company's discretion, the facility is available on a non-revolving basis for a period of 366 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company, subject to approval by the banks. The credit facility bears interest at the bank's prime rate or Bankers' Acceptance rates plus stamping fees. The facility is secured by a \$1 billion first floating charge debenture and a general security agreement. At June 30, 2013, \$280.4 million was drawn on this facility. The available level of credit is subject to semi-annual review by the syndicate of banks and may be adjusted for changes in reserves, commodity prices and other factors. The Company had \$0.9 million in letters of credit outstanding at June 30, 2013.

## 7. Decommissioning liabilities

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately \$391.4 million (December 31, 2012 – \$258.3 million) which will be incurred over the operating lives of the assets, with the majority of costs to be incurred between 2017 and 2050. An inflation factor of 2% has been applied to the estimated decommissioning cost at June 30, 2013 and December 31, 2012. The Company's credit-adjusted risk-free rate of 7% was used to calculate the fair value of the decommissioning liabilities at June 30, 2013 and December 31, 2012.

A reconciliation of the decommissioning liability is provided below:

	June 30, 2013	December 31, 2012
Balance, beginning of period	\$ 49,541	\$ 46,484
Acquired (note 3)	35,966	-
Change in estimate	389	494
Liabilities incurred	105	500
Liabilities settled	(2,052)	(1,264)
Accretion expense	2,319	3,327
Balance, end of period	\$ 86,268	\$ 49,541

## 8. Share Capital

(a) Authorized:

The authorized share capital consists of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of Shares <sup>(1)</sup>	Amount
Common shares:		
Balance, December 31, 2011	61,363,549	\$ 432,668
Normal course issuer bid	(372,320)	(2,631)
Balance, December 31, 2012	60,991,229	\$ 430,037
Issued on exercise of options	159	4
Issued per business combination - Charger (note 1 & 3)	12,117,821	27,144
Issued per business combination - Avenex (note 1 & 3)	54,967,543	123,127
Reduction of stated capital (note 1 & 3)	-	(86,020)
<b>Balance, June 30, 2013</b>	<b>128,076,752</b>	<b>\$ 494,292</b>

<sup>(1)</sup> The number of common shares has been adjusted to reflect Pace's share exchange ratio of 1.3 to 1 pursuant to the Arrangement (note 1 & 3)

(c) Dividends:

In April 2013, the Company initiated a monthly dividend of \$0.0225 per share. Dividends declared during the six months ended June 30, 2013 totaled \$8.6 million (six months ended June 30, 2012 – nil) in accordance with the table provided below:

<b>2013 Dividends</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Common Share</b>
April	April 9, 2013	April 26, 2013	May 15, 2013	\$ 0.0225
May	May 13, 2013	May 27, 2013	June 17, 2013	0.0225
June	June 17, 2013	June 27, 2013	July 15, 2013	0.0225

On July 9, 2013, Spyglass declared the July dividend of \$0.0225 per share payable on August 15, 2013 to shareholders of record on July 26, 2013.

(d) Earnings per share:

Basic earnings per share amounts are calculated by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the periods.

The following table shows the calculation of basic and diluted earnings per share for the periods:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
Net income (loss) for the period	\$ 246	\$ (56,581)	\$ 61,599	\$ (61,567)
Weighted average number of common shares - basic & diluted	<b>128,076,752</b>	61,275,341	<b>95,831,224</b>	61,319,426
Basic & Diluted net income (loss) per share	\$ -	\$ (0.92)	\$ 0.64	\$ (1.00)

As of June 30, 2013 the Company has no dilutive instruments outstanding. For the three and six months ended June 30, 2012 3,599,126 options were anti-dilutive.

(e) Long-term incentive plans

In Q2, the Company implemented a new long-term incentive plan for employees and management which includes a blend of two types of share based awards depending on roles and responsibilities within the organization: restricted share units ("RSUs") and performance share units ("PSUs"). RSUs vest evenly over a three year period. PSUs vest three years from the date of grants and the awards granted are subject to a performance multiplier ranging from 0 to 2. The Company also grants director restricted share units ("DRSU") to non-management directors of the organization. DRSUs vest three years from the date of grant. RSUs, PSUs and DRSUs are to be settled in cash, based on the share price at the time of vesting. The number of share equivalent units at the time of vesting increases commensurately with each dividend declared by the Company after the grant date.

A summary of RSU, PSU and DRSU activity is presented below:

	Number of RSUs	Number of PSUs	Number of DRSUs
Balance, December 31, 2012	-	-	-
Granted	1,521,316	1,043,398	140,843
Reinvested through notional dividends	18,440	12,761	1,723
Forfeited	(13,540)	-	-
Settled	-	-	-
<b>Balance, June 30, 2013</b>	<b>1,526,216</b>	<b>1,056,159</b>	<b>142,566</b>

(f) Long-term incentive plans prior to the Arrangement

The Company's previous long-term incentive plan for employees and management included a blend of three types of share based awards depending on roles and responsibilities within the organization: restricted share awards ("RSAs"), performance share awards ("PSAs") and stock options. RSA vested evenly over a three year period. PSA vested three years from the date of grant and the number of awards granted was subject to a multiplier ranging from 0 to 2. As a result of the Arrangement (see note 3), vesting of RSAs, PSAs and options was accelerated to the Arrangement closing date of March 28, 2013 for the calculation of LTIP expense resulting in an additional \$1.3 million of expense recorded in Q4 2012 and \$0.7 million of expense recorded in Q1 2013.

The Company also previously had granted deferred share awards ("DSAs") to non-management directors of the organization. DSAs vest immediately but are not settled until the Board member ceased to be a member of the Board or if "change in control" provisions are triggered in accordance with the award terms and conditions.

A summary of RSA, PSA and DSA activity is presented below:

	Number of RSAs <sup>(1)</sup>	Number of PSAs <sup>(1)</sup>	Number of DSAs <sup>(1)</sup>
Balance, December 31, 2011	586,689	406,380	68,250
Granted	759,178	-	-
Forfeited or expired	(95,043)	(20,540)	-
Settled	(192,299)	-	-
Balance, December 31, 2012	1,058,525	385,840	68,250
Forfeited or expired	(86,109)	-	-
Settled	(972,416)	(385,840)	(68,250)
<b>Balance, June 30, 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> The number of RSAs, PSAs and DSAs has been adjusted to reflect Pace's share exchange ratio of 1.3 to 1 pursuant to the Arrangement (note 1 & 3)

All outstanding RSAs, PSAs and DSAs vested upon closing of the Arrangement at a value of \$2.77 per award. PSAs were subject to a multiplier of 0.8. A total payout of \$2.9 million was made subsequent in Q2 2013 to settle the RSAs, PSAs and DSAs.

The Company's stock option plan allowed common shares to be granted under option to employees, directors and other persons who provide ongoing management or consulting services to the Company. Stock options were granted for a term of three years and vested one third every nine months. The exercise price of each option equaled the market price of the Company's common shares on the date of the grant. The Company's stock option plan was replaced in Q2 with the new LTIP plan.

The summary of stock option activity is presented below:

	Number of options <sup>(1)</sup>	Weighted average exercise price <sup>(1)</sup>
Balance, December 31, 2011	4,996,809	\$ 5.56
Granted	257,898	3.42
Forfeited or expired	(1,036,789)	5.96
Balance, December 31, 2012	4,217,918	\$ 5.33
Exercised	(4,501)	1.92
Forfeited or expired	(4,213,417)	5.33
<b>Balance, June 30, 2013</b>	<b>-</b>	<b>\$ -</b>
<b>Exercisable at June 30, 2013</b>	<b>-</b>	<b>\$ -</b>

<sup>(1)</sup> Number of options and weighted average exercise prices have been adjusted to reflect Pace's share exchange ratio of 1.3 to 1 pursuant to the Arrangement (note 1 & 3)

Pursuant to the Arrangement all outstanding unexercised options were cancelled immediately prior to closing for consideration of \$0.001 per pre subdivided option. 2,979,389 pre-subdivided options were cancelled upon closing of the arrangement.

(g) Long-term incentive plan expense

The Company accounts for its LTIP using the fair value method. Under this method, a compensation expense is charged over the vesting period. During the three and six months ended June 30, 2013, the Company expensed \$0.2 million and \$0.9 million of LTIP compensation respectively (three and six months ended June, 2012 - \$0.1 million and \$1.4 respectively).

The fair value of options granted under the previous LTIP were estimated on the date of grant using the Black-Scholes option-pricing model.

## 9. Financial instruments

Financial instruments comprise cash and cash equivalents, accounts receivable, financial derivative instruments, investments, accounts payable and accrued liabilities, dividends payable, long-term compensation liability and long-term debt.

There are three levels of fair value by which a financial instrument can be classified:

Level 1- Quoted prices in active markets for identical assets and liabilities such as traded securities on a registered exchange where there are a sufficient frequency and volume of transactions to provide ongoing pricing information.

Level 2- Inputs other than quoted prices that are observable for the asset and liability either directly or indirectly such as quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace; and

Level 3- Inputs that are not based on observable market data

The Company's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between the fair value hierarchy levels in the period.

The Company's finance department is responsible for performing the valuation of financial instruments including level 3 fair values. The valuation process and results are reviewed and approved by management at least once every quarter, in line with the Company's quarterly reporting dates.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying amounts due to their short-term maturities. The Company's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

The long term compensation liability is recorded at fair value at each reporting period based on quoted market prices of the underlying shares and is a level 1 financial instrument.



The Company's investment is classified as fair value through profit and loss and is an investment in a private company that is not quoted in an active market. This investment is carried at fair value as a level 3 instrument. The determination of the fair value of the investment is a recurring measurement. As the investment is in a privately held oil and natural gas service company, the fair value is estimated using the most reliable data available. This information includes earnings, cashflows and equity offerings. Spyglass used this information and has recorded the investment at its estimated fair value of \$0.3 million. In 2011, a temporary reduction in value of \$0.8 million was recorded as a \$0.7 million loss in other comprehensive income net of \$0.1 million deferred tax recovery.

The Company's financial derivative instruments are carried at fair value on a recurring basis at each reporting date and are considered a Level 2 instrument. The fair value is determined by reference to independent monthly forward settlement prices, currency rates and interest rates.

The following table summarizes Spyglass' financial instruments as at June 30, 2013 and December 31, 2012:

	Fair value through profit and loss		Fair value through OCI		Loans and receivables	Financial liabilities	Total carrying value			
<b>June 30, 2013</b>										
<b>Assets</b>										
Cash and cash equivalents	\$	-	\$	-	\$	-	\$	-		
Accounts receivable		-		-	50,897	-		50,897		
Derivatives - Interest Rate Swap		100		-	-	-		100		
Derivatives - Commodity contracts		2,860		-	-	-		2,860		
Investments		-		326	-	-		326		
	\$	2,960	\$	326	\$	50,897	\$	-	\$	54,183
<b>Liabilities</b>										
Accounts payable and accrued liabilities	\$	-	\$	-	\$	-	\$	63,338	\$	63,338
Dividends payable		-		-		-		2,882		2,882
Derivatives - Commodity contracts		8,282		-		-		-		8,282
Long-term compensation liability		-		-		-		118		118
Long-term debt		-		-		-		280,400		280,400
	\$	8,282	\$	-	\$	-	\$	346,738	\$	355,020
<b>December 31, 2012</b>										
<b>Assets</b>										
Cash and cash equivalents	\$	-	\$	-	\$	35	\$	-	\$	35
Accounts receivable		-		-		31,324		-		31,324
Derivatives - Interest Rate Swap		156		-		-		-		156
Derivatives - Commodity contracts		835		-		-		-		835
Investments		-		326		-		-		326
	\$	991	\$	326	\$	31,359	\$	-	\$	32,676
<b>Liabilities</b>										
Accounts payable and accrued liabilities	\$	-	\$	-	\$	-	\$	45,489	\$	45,489
Long-term debt		-		-		-		199,810		199,810
	\$	-	\$	-	\$	-	\$	245,299	\$	245,299

The following table summarizes the financial derivatives Spyglass has outstanding as at June 30, 2013 and December 31, 2012 and their estimated fair value:

<b>Commodity risk management contracts</b>					<b>Fair Value as at</b>	
<b>Instrument</b>	<b>Period</b>	<b>Price</b>	<b>Reference</b>	<b>Quantity</b>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>Crude Oil Contracts</b>						
Swap	Aug 1, 2012 - Jul 31, 2013	\$101.05	USD\$ WTI	150 bbl/d	\$ 22	\$ -
Swap	Aug 1, 2012 - Jul 31, 2013	\$105.75	USD\$ WTI	200 bbl/d	60	-
Swap	Jan 1, 2013 - Dec 31, 2013	\$97.00	CDN\$ WTI	500 bbl/d	(300)	680
Swap	Feb 1, 2013 - Dec 31, 2013	\$92.97	CDN\$ WTI	1,000 bbl/d	(1,339)	-
Swap	Feb 1, 2013 - Dec 31, 2013	\$93.49	CDN\$ WTI	1,000 bbl/d	(1,244)	-
Swap	Apr 1, 2013 - Dec 31, 2013	\$97.15	CDN\$ WTI	250 bbl/d	(143)	-
Swap	Jun 1, 2013 - Dec 31, 2013	\$91.89	CDN\$ WTI	1,000 bbl/d	(1,537)	-
Swap	Aug 1, 2013 - Jul 31, 2014	\$96.12	CDN\$ WTI	250 bbl/d	(167)	-
Swap	Jan 1, 2014 - Mar 31, 2014	\$96.23	CDN\$ WTI	500 bbl/d	(52)	-
Swap	Jan 1, 2014 - Mar 31, 2014	\$93.65	CDN\$ WTI	1,700 bbl/d	(568)	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$92.20	CDN\$ WTI	1,000 bbl/d	(1,190)	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$93.25	CDN\$ WTI	500 bbl/d	(406)	-
Swap	Apr 1, 2014 - Jun 30, 2014	\$95.27	CDN\$ WTI	1,000 bbl/d	(67)	-
Swap	Jul 1, 2014 - Sep 30, 2014	\$94.43	CDN\$ WTI	500 bbl/d	(16)	-
Swap	Oct 1, 2013 - Dec 31, 2014	\$93.75	CDN\$ WTI	250 bbl/d	(1)	-
Call	Jan 1, 2013 - Dec 31, 2013	\$105.00	USD\$ WTI	200 bbl/d	(70)	-
Call	Jan 1, 2013 - Dec 31, 2013	\$105.00	CDN\$ WTI	100 bbl/d	(12)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$72.50	USD\$ WTI	200 bbl/d	(883)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$88.25	CDN\$ WTI	100 bbl/d	(234)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$120.00	USD\$ WTI	250 bbl/d	(2)	-
Sold Call	Apr 1, 2013 - Dec 31, 2013	\$120.00	USD\$ WTI	200 bbl/d	(4)	-
					<b>\$ (8,153)</b>	<b>\$ 680</b>
<b>Natural Gas Contracts</b>						
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.0625	CDN\$ GJ	5,000 GJ/d	3	138
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.00	CDN\$ GJ	1,000 GJ/d	(6)	-
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.00	CDN\$ GJ	1,000 GJ/d	(12)	-
Swap	Apr 1, 2013 - Jun 30, 2013	\$3.29	CDN\$ GJ	2,000 GJ/d	8	-
Swap	May 1, 2013 - Dec 31, 2013	\$3.44	CDN\$ GJ	5,000 GJ/d	349	-
Swap	Jun 1, 2013 - Dec 31, 2013	\$3.625	CDN\$ GJ	4,500 GJ/d	466	-
Swap	Jul 1, 2013 - Dec 31, 2013	\$3.645	CDN\$ GJ	2,000 GJ/d	214	-
Swap	Nov 1, 2013 - Dec 31, 2013	\$3.835	CDN\$ GJ	3,000 GJ/d	105	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.55	CDN\$ GJ	1,500 GJ/d	119	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.59	CDN\$ GJ	5,000 GJ/d	462	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.575	CDN\$ GJ	6,250 GJ/d	555	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.555	CDN\$ GJ	5,000 GJ/d	408	-
Collar	Jan 1, 2013 - Dec 31, 2013	\$2.75 - \$3.375	CDN\$ GJ	5,000 GJ/d	(22)	17
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$7.40	CDN\$ GJ	3,000 GJ/d	-	-
Put	Jan 1, 2013 - Dec 31, 2013	\$2.80	CDN\$ GJ	1,850 GJ/d	20	-
Put	Jan 1, 2013 - Dec 31, 2013	\$3.10	CDN\$ GJ	1,650 GJ/d	52	-
Put	April 1, 2013 - Oct 31, 2013	\$3.00	CDN\$ GJ	3,000 GJ/d	10	-
					<b>\$ 2,731</b>	<b>\$ 155</b>
<b>Total</b>					<b>\$ (5,422)</b>	<b>\$ 835</b>

Interest rate risk management contract					Fair Value as at	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	June 30, 2013	December 31, 2012
Swap	Jul 5, 2012 - Jul 4, 2014	\$75,000,000	CAD-BA-CDOR	1.145%	\$ 100	\$ 156
<b>Total</b>					<b>\$ 100</b>	<b>\$ 156</b>

For the three months ended June 30, 2013, Spyglass recorded a realized loss of \$1.5 million (three months ended June 30, 2012 – \$4.8 million gain) and an unrealized gain of \$1.0 million (three months ended June 30, 2012 – \$6.8 million). For the six months ended June 30, 2013, Spyglass recorded a realized loss of \$1.6 million (six months ended June 30, 2012 – \$4.0 million gain) and an unrealized loss of \$4.1 million (six months ended June 30, 2012 – \$5.7 million gain).

Subsequent to June 30, 2013 Spyglass entered into the following derivative commodity contracts:

- A WTI crude oil swap contract for 500 bbls/d for the period August 1, 2013 to December 31, 2013 with a fixed price of \$105.00 CDN/bbl.
- A WTI crude oil swap contract for 600 bbls/d for the period April 1, 2014 to December 31, 2014 with a fixed price of \$96.90 CDN/bbl.
- A WTI crude oil swap contract for 600 bbls/d for the period April 1, 2014 to December 31, 2014 with a fixed price of \$98.13 CDN/bbl.

## 10. Environmental Liabilities & Insurance Receivable

On May 19, 2012, Spyglass was made aware of a breach in an above-ground section of wellhead piping that resulted in a temporary release of an estimated 800 cubic meters of oil. The release occurred as a result of a hole caused by internal pit corrosion that was accelerated through stray electrical currents in the surrounding area. Spyglass began containment and recovery operations within hours of notification. Following mechanical recovery operations to remove the leaked oil, the Spyglass team worked with Alberta Environment and Sustainable Resources Development (AESRD) to conduct two planned and controlled burns of remaining oil. Spyglass is continuing its surface and ground water sampling, and wildlife monitoring systems and continues to work with AESRD to further refine a site remediation plan. The majority of the site is being bio-remediated and naturally attenuated and an excavation contingency plan for the area surrounding the well head is being developed if the need arises.

The estimated cost of the site clean-up and remediation is \$25.0 million. This incident falls within the Company's insurance coverage and the Company has received confirmation of coverage from all its insurance providers and received \$16.9 million of insurance proceeds during 2012. Spyglass has paid \$20.4 million of clean-up and remediation costs as of June 30, 2013 with a further \$1.6 million recorded in accrued liabilities for work performed to June 30, 2013 and \$3.0 million accrued in other liabilities for future costs expected to be incurred. Spyglass has recorded \$8.0 million in accounts receivable for insurance receivable as at June 30, 2013. Spyglass has evaluated the credit worthiness of its insurance providers and has concluded it to be adequate.

## 11. Supplemental Information

(a) Revenue by product:

For the three and six months ended June 30, 2013 and 2012, revenue can be broken down into the following products:

<b>Three months ended June 30, 2013</b>		Oil	Liquids	Natural gas	Total
Petroleum and natural gas sales	\$	56,600	\$ 2,575	\$ 17,230	\$ 76,405
Royalties		(12,713)	(911)	(1,473)	(15,097)
<b>Revenues</b>	<b>\$</b>	<b>43,887</b>	<b>\$ 1,664</b>	<b>\$ 15,757</b>	<b>\$ 61,308</b>

<b>Six months ended June 30, 2013</b>		Oil	Liquids	Natural gas	Total
Petroleum and natural gas sales	\$	94,531	\$ 4,101	\$ 27,614	\$ 126,246
Royalties		(22,847)	(1,523)	(1,228)	(25,598)
<b>Revenues</b>	<b>\$</b>	<b>71,684</b>	<b>\$ 2,578</b>	<b>\$ 26,386</b>	<b>\$ 100,648</b>

<b>Three months ended June 30, 2012</b>		Oil	Liquids	Natural gas	Total
Petroleum and natural gas sales	\$	40,364	\$ 1,770	\$ 8,028	\$ 50,162
Royalties		(11,235)	(540)	1,172	(10,603)
<b>Revenues</b>	<b>\$</b>	<b>29,129</b>	<b>\$ 1,230</b>	<b>\$ 9,200</b>	<b>\$ 39,559</b>

<b>Six months ended June 30, 2012</b>		Oil	Liquids	Natural gas	Total
Petroleum and natural gas sales	\$	92,010	\$ 3,973	\$ 17,529	\$ 113,512
Royalties		(26,490)	(1,364)	676	(27,178)
<b>Revenues</b>	<b>\$</b>	<b>65,520</b>	<b>\$ 2,609</b>	<b>\$ 18,205</b>	<b>\$ 86,334</b>

(b) Cash flow information:

The following is a reconciliation of the balance sheet changes in working capital items to the balances recorded on the Consolidated Statements of Cash flows as change in non-cash working capital:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Change in non-cash working capital:				
Accounts receivable	\$ 3,411	\$ (20,934)	\$ (19,573)	\$ (13,923)
Prepaid expenses and deposits	2,275	(340)	205	(33)
Accounts payable and accrued liabilities	(20,616)	(26,200)	17,849	(23,982)
Dividends payable	2,882	-	2,882	-
Other liabilities	(52)	12,727	(952)	12,727
Cash long term compensation liability	118	-	118	-
Non-cash portion of compensation liability	-	(56)	(634)	363
Working capital acquired on acquisition (note 3)	-	-	(13,120)	-
Change in working capital	\$ (11,982)	\$ (34,803)	\$ (13,225)	\$ (24,848)
Relating to:				
Operating activities	(18,881)	(9,591)	(13,953)	2,329
Financing activities	2,882	(127)	2,882	(127)
Investing activities	4,017	(25,085)	(2,154)	(27,050)
Change in non-cash working capital	\$ (11,982)	\$ (34,803)	\$ (13,225)	\$ (24,848)

(c) Cash interest paid:

The following represents the cash interest paid in each period:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Cash interest paid	\$ 4,430	\$ 1,703	\$ 6,495	\$ 3,643