



Q1 2013 MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following Management's Discussion and Analysis ("MD&A") as provided by the 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 months ended March 31, 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 May 13, 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 our 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' future production volumes and the timing of when additional production volumes will come on stream; Spyglass' realized price of commodities in relation to reference prices; the Company's future commodity mix; future commodity prices; the Company's expectations regarding future royalty rates and the realization of royalty incentives; Spyglass' expectation of future operating costs on a per unit basis; the relationship of Spyglass' interest expense and the Bank of Canada interest rates; future general and administrative expenses; future development and exploration activities and the timing thereof; the deferred tax liability of the Company; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; the ability to raise capital and to continually add to reserves through exploration and development; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms, and Spyglass' ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, 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 those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and 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 into this MD&A, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this MD&A which include: volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; stock market volatility and market valuation of Spyglass' stock; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry, and 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 the Canadian dollar. 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 three months ended March 31, 2013 ("Q1 2013") to the three months ended March 31, 2012 ("Q1 2012") and the results of the three months ended December 31, 2012 ("Q4 2012").

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 whereby Spyglass Resources was formed. 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 to Spyglass Resources Corp. and the Company 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 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 Management, Discussion and Analysis 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 capital efficient light oil development opportunities provide the scale, stability and low-risk running room to support a sustainable yield model.

Spyglass' 2013 capital budget is anticipated to be approximately \$72 million, including the \$12 million spent by Pace in the first quarter of 2013. The capital program will be primarily focused on low risk, light oil development opportunities intended to offset the Company's natural production declines (estimated at 20 percent) and sustain the monthly cash dividend to shareholders. Approximately 67% of the remaining \$60 million capital budget will be allocated to development drilling, including approximately 18 to 20 net wells focused primarily on Southern Alberta (Glaucinite, Mannville, Pekisko) and the Viking light oil play at Halkirk-Provost. The remainder of the capital budget will be directed towards optimization, workovers, maintenance, land, seismic, integrity, reclamation and corporate items. As expected, spring breakup has resulted in reduced activity levels during the second quarter and as such, the capital program will be substantially weighted towards the second half of 2013.

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

2013 Capital Program (\$MM)	
Drilling	\$40
Optimization & Maintenance	14
Abandonment, Reclamation, Remediation & Pipeline Integrity	7
Corporate (Capitalized G & A & Other)	7
Land & Seismic	4
Total	\$72
Q1 2013 Capital Expenditures	(12)
Capital Budget for Remainder of 2013	\$60

Consistent with previous guidance, this level of development activity is expected to result in 2013 exit production of approximately 18,000 boe/d (50% – 52% oil and liquids) and full year 2013 average of approximately 16,000 boe/d (which reflects Pace results for the first quarter). With minimal activity occurring in the second quarter of 2013 it is expected that production volumes will decline slightly in the quarter and increase in the second half of the year as capital activity increases. Management anticipates 2013 operating expenses of \$17.00 to \$18.50 per boe.

Spyglass' 2013 budget is expected to result in a basic dividend payout ratio of approximately 30% and an all-in payout ratio of approximately 100%, assuming 2013 average prices of WTI C\$94.54 / bbl for oil with a 20% corporate oil differential and AECO \$3.57 / Mcf for natural gas. Net debt at year end is expected to be in line with current levels. The company will also be evaluating non-core asset dispositions throughout the remainder of 2013 to enhance financial flexibility. Spyglass continues to focus on the integration of our people, assets and systems, with an emphasis on realizing synergies and cost efficiencies.

Spyglass' low decline, stable asset base and low risk portfolio of capital efficient development opportunities is well-suited to sustaining a monthly cash dividend and delivering a strong total return to shareholders.

Non-GAAP Measurements

Within the MD&A references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks 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, net of cash general and administrative expense, 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. 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)	Q1 2013	Q1 2012	Q4 2012
Cash flow from (used in) operating activities	\$ (3,174)	\$ 26,453	\$ 28,861
Transaction costs	13,451	-	750
Decommissioning expenditures	1,704	194	886
Change in non-cash working capital	(4,928)	(11,920)	(16,866)
Funds from operations	\$ 7,053	\$ 14,727	\$ 13,631

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. Deficit at March 31, 2013 of \$42 thousand reflects the operations of Spyglass from March 28, 2013 to March 31, 2013.

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.

Production

Production for Q1 2013 averaged 12,128 boe/d compared to 11,909 in Q4 2012 and 14,557 in Q1 2012. Oil and liquids production was 6,155 bbls, down from Q1 2012 by 1,037 bbls or 14% and up from Q4 2012 by 213 bbls or 4%.

Spyglass' largest oil producing property is Dixonville, where oil production averaged 3,041 boe/d compared to 2,697 boe/d in Q4 2012 and 3,202 boe/d in Q1 2012. The Company is observing excellent waterflood response in the phase 4 and phase 5 areas of the Dixonville waterflood project completed in Q4 2012, with decreasing gas to oil ratios.

In Southern Alberta, liquids production declined 188 bbls/d from Q1 2012 and 120 bbls/d from Q4 2012 and total production declined 627 boe/d from Q1 2012 and 302 boe/d from Q4 2012 on account of natural declines.

In Northwest Alberta, gas production recovered by 1,017 Mcf/d compared to Q4 2012 which experienced lost production on account of extreme cold temperatures and third party compressor failures and pipeline distortions. This was offset by liquids production decreasing 140 bbls/d on account of compressor failure and environmental remediation requirements in Spitzee in the quarter. Compared to Q1 2012, production decreased 1,025 boe/d primarily due to flaring restrictions.

Production for the quarter also includes 176 boe/d of production from properties acquired as part of the Arrangement from AvenEx and Charger for the last three days of March.

Pro forma production for the first quarter of 2013, including Pace, AvenEx and Charger for the entire quarter) was approximately 17,340 boe/d consisting of 49% crude oil and liquids.

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

Production	Q1 2013	Q1 2012	Q4 2012
Oil (bbls/d)	5,876	6,804	5,657
NGLs (bbls/d)	279	388	285
Natural Gas (Mcf/d)	35,840	44,190	35,804
Total (boe/d)	12,128	14,557	11,909
Oil & Liquids weighting	51%	49%	50%

The following table breaks out the Company's production volumes by operating area:

	Q1 2013	Q1 2012	Q4 2012
Dixonville			
Oil (bbls/d)	3,041	3,202	2,697
NGLs (bbls/d)	-	-	-
Natural Gas (Mcf/d)	1,735	2,496	1,974
Total (boe/d)	3,330	3,618	3,026
Southern Alberta			
Oil (bbls/d)	1,994	2,119	2,077
NGLs (bbls/d)	115	178	152
Natural Gas (Mcf/d)	12,671	15,307	13,766
Total (boe/d)	4,221	4,848	4,523
Northwest Alberta			
Oil (bbls/d)	416	925	572
NGLs (bbls/d)	82	100	66
Natural Gas (Mcf/d)	13,186	16,177	12,169
Total (boe/d)	2,696	3,721	2,666
Peace River Arch			
Oil (bbls/d)	350	551	306
NGLs (bbls/d)	6	8	8
Natural Gas (Mcf/d)	1,580	2,248	1,611
Total (boe/d)	619	934	583
Deep Basin			
Oil (bbls/d)	3	7	5
NGLs (bbls/d)	69	102	59
Natural Gas (Mcf/d)	6,081	7,962	6,284
Total (boe/d)	1,086	1,436	1,111
AvenEx and Charger, March 28, 2013 to March 31, 2013			
Oil (bbls/d)	72	-	-
NGLs (bbls/d)	7	-	-
Natural Gas (Mcf/d)	587	-	-
Total (boe/d)	176	-	-
Total Company			
Oil (bbls/d)	5,876	6,804	5,657
NGLs (bbls/d)	279	388	285
Natural Gas (Mcf/d)	35,840	44,190	35,804
Total (boe/d)	12,128	14,557	11,909
Oil & Liquids weighting	51%	49%	50%

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 Q1 2013 was \$94.37 US/bbl (\$95.21 CDN/bbl) compared to \$102.93 US/bbl (\$103.05 CDN/bbl) in Q1 2012 and \$88.18 US/bbl (\$87.41 CDN/bbl) in Q4 2012. The average Edmonton par price was \$88.06 CDN/bbl compared to \$92.57 CDN/bbl in Q1 2012 and \$83.98 CDN/bbl in Q4 2012. The Edmonton Par differential to CDN\$ WTI experienced large fluctuations in the trailing twelve months, diverging as much as approximately \$20 CDN/bbl in the mid months of 2012 and narrowing to \$3 CDN/bbl in Q4 2012 and averaging \$7/bbl in Q1 2013. Spyglass' corporate differential to CDN\$ WTI widened to \$23.49/bbl when compared to \$19.64/bbl in Q1 2012 and \$15.72/bbl in Q4 2012. The wider differentials reflect a heavy maintenance season for refiners in the US Midwest and Gulf Coast which shut-in almost double the average capacity when compared to the past 5 years and depressed demand for oil. In addition, US/Canadian production has been increasing, leading to higher inventory levels negatively impacting price.

Canadian natural gas prices have seen downward pressure over the past two years, recovering some ground over Q4 2012 and during Q1 2013. Spyglass sells gas on a blend of the monthly and daily index. The Company sold approximately 44% of production on the AECO daily index, 54% on the monthly index and 2% through aggregators, resulting in a realized natural gas price of \$3.22/Mcf. Spyglass' heat content of its natural gas is slightly above the industry average used in the benchmark \$/Mcf prices, therefore Spyglass' realized prices are also slightly higher than the average of Alberta daily and Alberta monthly benchmark prices.

As part of a 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 Spyglass' production mix and consists of Ethane, Butane, Propane and Condensate. Pricing of NGL's is sensitive to the specific product being produced and can therefore vary from period to period depending on the mix with Spyglass' NGL production. In Q1 2013, Spyglass' overall realized NGL price averaged \$60.81/bbl or 64% of CDN\$ WTI compared to \$62.34/bbl or 60% of CDN\$ WTI in Q1 2012 and \$54.83/bbl or 63% of CDN\$ WTI in Q4 2012.

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

Prices and Marketing	Q1 2013	Q1 2012	Q4 2012
Benchmark Prices⁽¹⁾			
WTI Oil (\$US/bbl)	\$ 94.37	\$ 102.93	\$ 88.18
Cdn/US average exchange rate	0.991	0.999	1.009
WTI Oil (\$CDN/bbl)	95.21	103.05	87.41
Edmonton Par (\$/bbl)	88.06	92.57	83.98
Alberta daily spot (\$/Mcf)	3.20	2.15	3.21
Alberta monthly (\$/Mcf)	\$ 3.08	\$ 2.52	\$ 3.06
Spyglass's Realized Prices			
Oil (\$/bbl)	\$ 71.72	\$ 83.41	\$ 71.69
NGLs (\$/bbl)	60.81	62.34	54.83
Combined Oil & NGLs (\$/bbl)	71.23	82.27	70.88
Natural gas (\$/Mcf)	3.22	2.36	3.26
Total (\$/boe)	\$ 45.66	\$ 47.82	\$ 45.16

⁽¹⁾ 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 the financial derivatives Spyglass had outstanding as at March 31, 2013 and December 31, 2012 and their estimated fair value:

Commodity risk management contracts					Fair Value as at	
Instrument	Period	Price	Reference	Quantity	March 31, 2013	December 31, 2012
Crude Oil Contracts						
Swap	Aug 1, 2012 - Jul 31, 2013	\$101.05	USD\$ WTI	150 bbl/d	\$ 66	\$ -
Swap	Aug 1, 2012 - Jul 31, 2013	\$105.75	USD\$ WTI	200 bbl/d	205	-
Swap	Jan 1, 2013 - Dec 31, 2013	\$97.00	CDN\$ WTI	500 bbl/d	(234)	680
Swap	Feb 1, 2013 - Dec 31, 2013	\$92.97	CDN\$ WTI	1,000 bbl/d	(1,571)	-
Swap	Feb 1, 2013 - Dec 31, 2013	\$93.49	CDN\$ WTI	1,000 bbl/d	(1,428)	-
Swap	Apr 1, 2013 - Dec 31, 2013	\$97.15	CDN\$ WTI	250 bbl/d	(107)	-
Swap	Aug 1, 2013 - Jul 31, 2014	\$96.12	CDN\$ WTI	250 bbl/d	(75)	-
Call	Jan 1, 2013 - Dec 31, 2013	\$105.00	USD\$ WTI	200 bbl/d	(71)	-
Call	Jan 1, 2013 - Dec 31, 2013	\$105.00	CDN\$ WTI	100 bbl/d	(26)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$72.50	USD\$ WTI	200 bbl/d	(1,322)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$88.25	CDN\$ WTI	100 bbl/d	(314)	-
Sold Call	Jan 1, 2013 - Dec 31, 2013	\$120.00	USD\$ WTI	250 bbl/d	(6)	-
Sold Call	Apr 1, 2013 - Dec 31, 2013	\$120.00	USD\$ WTI	200 bbl/d	(9)	-
					\$ (4,892)	\$ 680
Natural Gas Contracts						
Swap	May 1, 2012 - Apr 30, 2013	\$2.055	CDN\$ GJ	5,000 GJ/d	(184)	-
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.0625	CDN\$ GJ	5,000 GJ/d	(576)	138
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.00	CDN\$ GJ	1,000 GJ/d	(144)	-
Swap	Jan 1, 2013 - Dec 31, 2013	\$3.00	CDN\$ GJ	1,000 GJ/d	(144)	-
Swap	Apr 1, 2013 - Jun 30, 2013	\$3.29	CDN\$ GJ	2,000 GJ/d	(23)	-
Swap	May 1, 2013 - Dec 31, 2013	\$3.44	CDN\$ GJ	5,000 GJ/d	(83)	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.55	CDN\$ GJ	1,500 GJ/d	(16)	-
Swap	Jan 1, 2014 - Dec 31, 2014	\$3.5900	CDN\$ GJ	5,000 GJ/d	31	-
Collar	Jan 1, 2013 - Dec 31, 2013	\$2.75 - \$3.375	CDN\$ GJ	5,000 GJ/d	(340)	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	11	-
Put	Jan 1, 2013 - Dec 31, 2013	\$3.10	CDN\$ GJ	1,650 GJ/d	28	-
Put	Apr 1, 2013 - Oct 31, 2013	\$3.00	CDN\$ GJ	3,000 GJ/d	(47)	-
					\$ (1,487)	\$ 155
Total					\$ (6,379)	\$ 835
Interest rate risk management contract					Fair Value as at	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	March 31, 2013	December 31, 2012
Swap	Jul 5, 2012 - Jul 4, 2014	\$75,000,000	CAD-BA-CDOR	1.145%	\$ 46	\$ 156
Total					\$ 46	\$ 156

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

	Q1 2013	Q1 2012	Q4 2012
Financial Derivative Instruments			
(000s)			
Realized gain (loss)			
Oil	\$ (211)	\$ (818)	\$ 2,262
Gas	64	-	(299)
Interest	14	-	14
Total	\$ (133)	\$ (818)	\$ 1,977
Unrealized gain (loss)			
Oil	\$ (3,912)	\$ (1,091)	\$ (1,544)
Gas	(1,038)	-	912
Interest	(112)	-	68
Total	\$ (5,062)	\$ (1,091)	\$ (564)
(\$/boe)			
Realized gain (loss)			
Oil (\$/bbl)	\$ (0.40)	\$ (1.32)	\$ 4.35
Gas (\$/Mcf)	0.02	-	(0.09)
Interest (\$/boe)	0.01	-	0.01
Total (\$/boe)	\$ (0.12)	\$ (0.62)	\$ 1.80
Unrealized gain (loss)			
Oil (\$/bbl)	\$ (7.40)	\$ (1.76)	\$ (2.97)
Gas (\$/Mcf)	(0.32)	-	0.28
Interest (\$/boe)	(0.10)	-	0.06
Total (\$/boe)	\$ (4.64)	\$ (0.82)	\$ (0.51)

Subsequent to March 31, 2013 Spyglass entered into the following derivative commodity contracts:

- A WTI crude oil swap contract for 1,000 bbls/d for the period June 1, 2013 to December 31, 2013 with a fixed price of \$91.89 CDN/bbl.
- A WTI crude oil swap contract for 1,700 bbls/d for the period January 1, 2014 to March 31, 2014 with a fixed price of \$93.65 CDN/bbl.
- A WTI crude oil swap contract for 1,000 bbls/d for the period January 1, 2014 to December 31, 2014 with a fixed price of \$92.20 CDN/bbl.
- An AECO natural gas swap contract for 4,500 GJ/d for the period June 1, 2013 to December 31, 2013 with a fixed price of \$3.625 CAD/GJ.
- An AECO natural gas swap contract for 2,000 GJ/d for the period July 1, 2013 to December 31, 2013 with a fixed price of \$3.645 CAD/GJ.
- An AECO natural gas swap contract for 3,000 GJ/d for the period November 1, 2013 to December 31, 2013 with a fixed price of \$3.835 CAD/GJ.
- An AECO natural gas swap contract for 5,000 GJ/d for the period January 1, 2014 to December 31, 2014 with a fixed price of \$3.555 CAD/GJ.
- An AECO natural gas swap contract for 6,250 GJ/d for the period January 1, 2014 to December 31, 2014 with a fixed price of \$3.575 CAD/GJ.

Petroleum and Natural Gas Sales

Petroleum and natural gas sales totalled \$49.8 million for Q1 2013 compared to \$63.4 million for Q1 2012 and \$49.5 million in Q4 2012. Oil and liquids revenue decreased \$14.4 million from Q1 2012 with \$6.1 million due to price decreases resulting from lower WTI CDN prices and wider corporate differentials as well as \$8.3 million due to lower liquids production. Gas revenue was up \$0.9 million due \$2.8 million to higher gas prices offset \$1.9 million by lower natural gas production.

Compared to Q4 2012, petroleum and natural gas sales was flat, with oil and liquids sales higher by \$0.7 million mostly on higher production offset by lower natural gas sales of \$0.3 million driven by both price and volume.

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

	Q1 2013	Q1 2012	Q4 2012
Petroleum and Natural Gas Sales (000s)			
Oil	\$ 37,931	\$ 51,646	\$ 37,308
NGLs	1,526	2,203	1,440
Natural Gas	10,384	9,501	10,727
Total	\$ 49,841	\$ 63,350	\$ 49,475

Royalties

Royalty payments are made by producers of oil and natural gas to the owners of the mineral rights on the Company's 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' Q1 2013 overall effective royalty rate for all product as a percentage of petroleum and natural gas sales was 21.1%, lower than Q1 2012 of 26.2% and higher than Q4 2012 of 19.4%. The Q1 2013 crude oil royalty rate of 26.7% is comparable to Q4 2012 of 26.3% and lower than the 29.5% in Q1 2012 due to the lower realized crude oil prices. The effective gas royalty rate was a recovery of 2.4% compared to an expense of 5.2% in Q1 2012 and a recovery of 8.2% in Q4 2012 due to gas crown allowance credits which minimize the amount of crown royalty paid on both natural gas and natural gas liquids. Removing the impact of crown credits, the effective gas royalty rate was approximately 14%, higher than prior quarters due to improving gas prices. NGL royalty increased to 40.1% in Q1 2013 compared to 37.4% in Q1 2012 and decreased from 46.7% in Q4 2012 because of changes in NGL mix and pricing.

Gross overriding and other royalties averaged approximately 3-4% of revenue for Q1 2013, consistent with Q1 2012 and Q4 2012. As a percentage of total royalties paid, gross overriding for Q1 2013 was 14%, comparable to Q1 2012 and comparable to historical rates of 15-16%.

The following tables outline royalties by type and by commodity:

Royalties by Type (000s)	Q1 2013	Q1 2012	Q4 2012
Crown	\$ 8,992	\$ 14,356	\$ 7,646
Gross overriding and other	1,509	2,219	1,957
	\$ 10,501	\$ 16,575	\$ 9,603
\$/boe	\$ 9.62	\$ 12.51	\$ 8.76
% of Revenue	21.1%	26.2%	19.4%

Royalties by Commodity	Q1 2013	Q1 2012	Q4 2012
Oil			
(000s)	\$ 10,134	\$ 15,255	\$ 9,808
% of Revenue	26.7%	29.5%	26.3%
NGLs			
(000s)	\$ 612	\$ 824	\$ 672
% of Revenue	40.1%	37.4%	46.7%
Natural Gas			
(000s)	\$ (245)	\$ 496	\$ (877)
% of Revenue	-2.4%	5.2%	-8.2%

Operating Expenses

Operating expenses totalled \$24.1 million or \$22.06/boe for Q1 2013 compared to \$21.3 million or \$16.11/boe in Q1 2012 and \$20.1 million in Q4 2012 or \$18.36/boe.

The majority of the increase in operating costs were incurred in Northwest Alberta, a winter access only area, which incurred \$7.9 million of operating costs in Q1 2013 compared to \$6.3 million in Q1 2012 and \$4.4 million in Q4 2012. Operating costs were higher than expected in Q1 2013 with unusually heavy snowfall at the beginning of the winter season resulting in an extra \$0.5 million (\$0.46/boe) of winter access costs. This was followed by extreme cold at the beginning of the quarter which resulted in higher power costs, increased seasonal maintenance, chemical and personnel costs of \$1.7 million (\$1.56/boe). The Company also completed needed repair and remediation projects in the quarter in Rainbow which resulted in an extra \$1.3 million (\$1.19/boe) of expense. Northwest Alberta is a winter access only area, which completes the majority of its maintenance program in Q1 2013. Operating expenses in the remaining quarters of 2013 are expected to average \$17.00/boe to \$18.50/boe.

In Dixonville, pipeline repairs and remediation for historic Fiberspar and Flexpipe deficiencies began in late Q4 2012 and continued into Q1 2013 resulting in remediation and repair costs of \$1.0 million (\$0.92/boe). The majority of Fiberspar and Flexpipe lines were replaced at Dixonville in Q1 2013, with some work to complete in Q2 2013.

The following table summarizes the Company's operating expenses:

Operating Expenses	Q1 2013	Q1 2012	Q4 2012
(000s)	\$ 24,075	\$ 21,343	\$ 20,116
\$/boe	\$ 22.06	\$ 16.11	\$ 18.36

Transportation Expenses

Transportation expenses totalled \$2.5 million or \$2.31/boe for Q1 2013 compared to \$2.8 million or \$2.11/boe for Q1 2012 and \$2.2 million or \$2.03/boe in Q4 2012. Transportation costs are incurred for clean oil trucking and for oil and gas pipeline tariffs where the Company pays its tolls directly to a third party.

Oil transportation charges are primarily from the Company's Dixonville property, as the majority of the other properties are tied into sales lines. Total oil transportation charges in Q1 2013 have increased from prior quarters as the Company began trucking to rail terminals that provide access to additional US markets in March.

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. Third party natural gas transportation rates have increased starting in the middle of Q4 2012 and remained consistent through Q1 2013.

The following table details the Company's transportation expenses:

Transportation Expenses	Q1 2013	Q1 2012	Q4 2012
(000s)			
Oil	\$ 1,749	\$ 1,959	\$ 1,484
Gas	768	836	744
Total	\$ 2,517	\$ 2,795	\$ 2,228
Oil (\$/bbl)	\$ 3.31	\$ 3.16	\$ 2.85
Gas (\$/Mcf)	0.24	0.21	0.23
Total (\$/boe)	\$ 2.31	\$ 2.11	\$ 2.03

Finance Expenses

Interest expense includes interest on Spyglass' operating line. Interest expenses totalled \$2.5 million in Q1 2013, higher than the \$1.7 million interest expense in Q1 2012 and \$2.3 million in Q4 2012. The increase in Q1 2013 compared to Q1 2012 was primarily due to higher debt levels and higher interest rates. The increase in Q1 2013 compared to Q4 2012 is also due to higher borrowing levels and higher interest rates. The effective interest rate was 5.0% compared to 4.2% in Q1 2012 and 4.3% in Q4 2012.

Accretion expense on decommissioning liabilities was \$0.8 million in Q1 2013, consistent with Q1 2012 and Q4 2012.

Finance Expenses	Q1 2013	Q1 2012	Q4 2012
(000s)			
Interest	\$ 2,526	\$ 1,724	\$ 2,258
Accretion	837	814	843
Total	\$ 3,363	\$ 2,538	\$ 3,101
(\$/boe)			
Interest	\$ 2.31	\$ 1.30	\$ 2.06
Accretion	0.77	0.61	0.77
Total (\$/boe)	\$ 3.08	\$ 1.91	\$ 2.83

Transaction Costs

In Q1 2013, the company incurred \$13.5 million of transaction costs related to the Arrangement, in addition to \$0.8 million of transaction costs that were incurred in Q4 2012. Costs incurred include amounts for financial advisors, legal, other professional fees and change of control settlements.

General and Administration Expenses

In Q1 2013 general and administration ("G&A") expenses totalled \$3.8 million compared to \$6.7 million in Q1 2012 and \$5.8 million in Q4 2012. The cash G&A portion of \$3.1 million decreased from \$5.4 million in Q1 2012 and \$4.0 million in Q4 2012. The decrease from Q1 2012 was the result of non-recurring restructuring charges and adjustments to the 2011 short term incentive plan incurred in Q1 2012. The decrease from Q4 2012 is the result of downward adjustments to the 2012 short term incentive plan in Q1 2013 and lower staffing levels due to attrition.

In Q1 2013, Spyglass capitalized \$1.1 million of cash G&A in addition to \$0.1 million of capitalized long term incentive compensation that directly related to exploration and development activities. In Q1 2012, Spyglass capitalized \$1.7 million of cash G&A and \$0.2 million of long-term incentive compensation. In Q4 2012, Spyglass capitalized \$1.5 million of cash G&A and \$0.2 million of long-term incentive compensation. The decrease in capitalized G&A from Q1 2012 and Q4 2012 relates to the adjustment to the 2012 short term incentive payment noted above in Q1 2013.

The largest portion of the Company's G&A is comprised of salaries and benefits and, as such, the Company's future G&A will depend on the staff levels in 2013 along with any changes to salaries and bonus incentives. In Q2 2013 the Company is expecting total G&A to increase as costs related to the integration of the three companies are incurred. However, G&A per boe is expected to decrease in Q3 2013 and Q4 2013 towards \$3.00/boe due to cost synergies realized and increased production from the Arrangement.

The components of G&A expense were as follows:

	Q1 2013	Q1 2012	Q4 2012
General and Administration Expenses			
(000s)			
Cash G&A	\$ 3,099	\$ 5,415	\$ 3,958
LTIP expense	724	1,272	1,830
Total	\$ 3,823	\$ 6,687	\$ 5,788
(\$/boe)			
Cash G&A	\$ 2.84	\$ 4.09	\$ 3.61
LTIP expense	0.66	0.96	1.67
Total	\$ 3.50	\$ 5.05	\$ 5.28

Long-term incentive plans

Spyglass is currently working towards implementing a comprehensive long term incentive plan that is expected to be finalized by the end of Q2 2013.

The previous 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 vest evenly over a three year period with a payment 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 vest three years from the date of grant. The number of PSAs granted is subject to a multiplier ranging from 0 to 2 based on a mix of how Spyglass performed compared to a selected peer group on a total return basis combined with how Spyglass performed against a set minimum threshold of share performance. Payments of the PSAs are made based on the amount granted subject to the above mentioned multiplier. Stock options have a three year life and one third of each grant vests every nine months. Deferred share awards ("DSA") were granted to non-management directors of the organization. The awards vested immediately but are not settled until the Board member ceases 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 subsequent to March 31, 2013 to settle the RSAs, PSAs and DSAs.

All outstanding options under the old 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 Q1 2013, depletion, depreciation and impairments ("D&D") was \$14.1 million compared to \$17.7 million for Q1 2012 and \$124.4 million for Q4 2012. Q4 2012 D&D included \$109.9 million of impairments.

The Q1 2013 D&D rate prior to impairments of \$12.87/boe was lower than the Q1 2012 rate of \$13.38/boe and the Q4 2012 rate of 13.23/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.

Included in Q4 2012 D&D were impairment charges of \$109.9 million is \$42.7 million of property, plant and equipment ("PP&E") impairments and \$67.2 million of exploration and evaluation ("E&E") impairments. PP&E impairments were the result of declines in forecasted oil and natural gas prices which caused the Company to record impairments on all of its gas CGUs and on its Peach River Arch oil CGU. The Company also reduced the carrying value of its E&E assets by \$67.2 million. The Company does not have any immediate plans to continue development at Haro South and has reduced the carrying value accordingly. Should forward commodity prices recover or development plans change, the carrying values of these assets could be increased in future periods.

The components of D&D were as follows:

Depletion, depreciation and impairments	Q1 2013	Q1 2012	Q4 2012
(000s)			
Depletion & depreciation	\$ 14,052	\$ 17,728	\$ 14,498
Impairment (net of reversals)	-	-	109,910
Total	\$ 14,052	\$ 17,728	\$ 124,408
(\$/boe)			
Depletion & depreciation	\$ 12.87	\$ 13.38	\$ 13.23
Impairment (net of reversals)	-	-	100.31
Total	\$ 12.87	\$ 13.38	\$ 113.54

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 \$20.0 million of clean-up and remediation costs as of March 31, 2013 with a further \$2.0 million recorded in accrued liabilities for work performed to March 31, 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 March 31, 2013. Spyglass has evaluated the credit worthiness of its insurance providers and has concluded it to be adequate.

Other Income

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 per the Arrangement exceeding the consideration paid. Q1 2013 other income also included minor amounts of seismic data sales consistent with Q1 2012 and Q4 2012.

	Q1 2013	Q1 2012	Q4 2012
Other Income			
(000s)			
Cash other income	\$ 63	\$ 47	\$ 342
Non-cash other income	81,866	-	-
Total	\$ 81,929	\$ 47	\$ 342
(\$/boe)			
Cash other income	\$ 0.06	\$ 0.04	\$ 0.31
Non-cash other income	75.00	-	-
Total	\$ 75.06	\$ 0.04	\$ 0.31

Deferred Taxes

Spyglass recorded a deferred tax recovery of \$6.6 million in Q1 2013 compared to a recovery of \$1.2 million in Q1 2012 and \$28.2 million in Q4 2012. The difference between the Q1 2013 expected rate of 25.0% and the effective rate of negative 12.0% relates to permanent differences arising from the gain on corporate acquisitions of \$81.9 million recognized (see other income), long-term incentive plan expense as well as deduction for the spending associated with decommissioning expenditures.

During Q4 2010, Canada Revenue Agency ("CRA") issued reassessments against predecessor corporations 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 and management believes that it is more likely than not that the Notices of Objection will be successful. 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 to the status as of the date of this MD&A.

Funds from Operations and Net Income (Loss)

For Q1 2013, funds from operations totalled \$7.1 million or \$0.11 per basic and diluted share compared to \$14.7 million and \$0.24 per basic and diluted share in Q1 2012 and \$13.6 million and \$0.22 per basic and diluted share in Q4 2012. Funds from operations decreased from Q1 2012 primarily as a result of a decrease in production volume and commodity prices as well as an increase in operating expenses.

For Q1 2013, the Company had a net income of \$61.4 million compared to a net loss of \$5.0 million in Q1 2012 and \$86.6 million in Q4 2012. The majority of the Q1 2013 income is due to the \$81.9 million gain on business combination as a result of the Arrangement. The per basic and diluted share income was \$0.97 compared to net loss of \$0.08 and \$1.42 per basic and diluted share in Q1 2012 and Q4 2012 respectively.

The following table summarizes the net income on a barrel of oil equivalent basis (boe) for the periods indicated:

(\$/boe)	Q1 2013	Q1 2012	Q4 2012
Sales price	\$ 45.66	\$ 47.82	\$ 45.16
Royalties	(9.62)	(12.51)	(8.76)
Operating expenses	(22.06)	(16.11)	(18.36)
Transportation expenses	(2.31)	(2.11)	(2.03)
Operating netback	\$ 11.67	\$ 17.09	\$ 16.01
Cash other income (expense)	0.06	0.04	0.31
Realized gain (loss) on financial derivative instruments	(0.12)	(0.62)	1.80
Cash G&A	(2.84)	(4.09)	(3.61)
Interest	(2.31)	(1.30)	(2.06)
Cash flow netback	\$ 6.46	\$ 11.12	\$ 12.45
Unrealized gain (loss) on financial derivative instruments	(4.64)	(0.82)	(0.51)
Non-cash other income (expense)	75.00	-	-
Depletion, depreciation and impairment	(12.87)	(13.38)	(113.54)
Accretion	(0.77)	(0.61)	(0.77)
Transaction costs	(12.32)	-	(0.68)
Long-term incentive compensation	(0.66)	(0.96)	(1.67)
Deferred taxes	6.01	0.90	25.74
Net income (loss)	\$ 56.21	\$ (3.75)	\$ (78.98)

The following table provides reconciliations to the change in funds from operations and net income for Q1 2013 to Q1 2012 and for Q1 2013 to Q4 2012.

Change in Funds from Operations and Net Income (loss) (000s)	Q1 2013 to Q1 2012		Q1 2013 to Q4 2012	
	Funds from Operations	Net Income	Funds from Operations	Net Income
Comparative period	\$ 14,727	\$ (4,986)	\$ 13,631	\$ (86,565)
Increase (decrease) in revenue:				
Change in production volumes	(11,151)	(11,151)	(185)	(185)
Change in prices	(2,358)	(2,358)	551	551
Change in royalties	6,074	6,074	(898)	(898)
(Increase) decrease in expenses:				
Operating	(2,732)	(2,732)	(3,959)	(3,959)
Transportation	278	278	(289)	(289)
Finance charges	(802)	(825)	(268)	(262)
Cash general and administration	2,316	2,316	859	859
Long-term incentive compensation	-	548	-	1,106
Depletion, depreciation and impairment	-	3,676	-	110,356
Deferred tax	-	5,368	-	(21,639)
Transaction costs	-	(13,451)	-	(12,701)
Increase (decrease) in:				
Other income	16	81,882	(279)	81,587
Gains (losses) on financial derivative instruments	685	(3,286)	(2,110)	(6,608)
Current period	\$ 7,053	\$ 61,353	\$ 7,053	\$ 61,353

Capital Expenditures, Acquisitions and Dispositions

Q1 2013 capital expenditures totalled \$11.8 million with \$6.3 million spent on drilling, completion and optimization activities, \$3.2 million on facilities, pipelines, equipping and tie-ins and \$1.2 million on seismic. Spyglass focused its capital spend on the completion of 1 gross (1 net) well drilled in Q4 2012 and on capital maintenance projects. The company also capitalized \$1.1 million of G&A directly attributable to exploitation activities.

Spyglass spent \$5.3 million in Southern Alberta, of which \$1.6 million was spent on the completion and tie-in of 1 gross (1 net) wells in Matziwin and an additional \$0.8 million on completion and tie-in work started in Q4 2012. Spyglass also spent \$1.2 million to shoot seismic in Matziwin and \$1.7 million on various workovers and recompletions to enhance recoverability.

In Dixonville \$2.3 million was spent including \$1.0 million on pipeline replacements and \$1.3 million on pump upsizing and downhole equipment replacements. In Northwest Alberta, \$2.6 million was spent, including \$1.2 million on facility maintenance projects, \$0.8 million on pipeline integrity and inspections, and \$0.6 million on downhole equipment replacements.

The remaining capital spent in Peace River Arch and Deep Basin was incurred on minor workover and turnaround projects.

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

Capital Expenditures (000s)	Q1 2013	Q1 2012	Q4 2012
Dixonville	2,310	4,881	1,937
Southern Alberta	5,264	15,679	10,539
Northwest Alberta	2,581	13,785	1,013
Peace River Arch	266	2,814	(126)
Deep Basin	298	2,698	(44)
Office and other areas	1,101	1,839	1,605
Total before Acquisitions and Dispositions	11,820	41,696	14,924

Capital Expenditures (000s)	Q1 2013	Q1 2012	Q4 2012
Land	\$ 109	\$ 1,391	\$ (92)
Geological and geophysical	1,175	313	140
Drilling and completions	6,324	28,532	10,654
Facilities and equipment	3,159	9,537	2,639
Office, other and capitalized G&A	1,053	1,923	1,583
Capital Expenditures	\$ 11,820	\$ 41,696	\$ 14,924
Acquisitions	282,093	-	-
Total capital expenditures and acquisitions	\$ 293,913	\$ 41,696	\$ 14,924

Exploration and evaluation expenditures	\$ 48,873	\$ 14,909	\$ (661)
Property, plant and equipment expenditures	245,040	26,787	15,585
Total capital expenditures and acquisitions	\$ 293,913	\$ 41,696	\$ 14,924

In addition to the capital expenditures discussed above, the Company capitalized \$0.1 million of long-term incentive compensation for Q1 2013 consistent with the exploration and development cash G&A that was added to the property base. In Q1 2012, the amount capitalized for long-term incentive compensation was \$0.2 million. The amount was \$0.2 million in Q4 2012.

On March 28, 2013, the Company acquired all the issued and outstanding shares of Charger and AvenEx for consideration of 67,085,364 shares valued at \$150.3 million. The fair value of net assets acquired was \$232.1 million. As part of the Arrangement, Spyglass acquired \$282.1 million of exploration and expenditure assets and property, plant and equipment assets from AvenEx and Charger which represents the fair value of those assets.

Spyglass has approximately 640,000 net acres of undeveloped land under lease at March 31, 2013.

Equity

On June 28, 2012, the Toronto Stock Exchange (the "TSX") accepted Spyglass' notice to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX has authorized Spyglass 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 Q1 2013.

Pursuant to the Arrangement, 46,916,422 pre-subdivided Spyglass shares were subdivided on a basis of 1.3 to 60,991,388 shares. On March 28, 2013, 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.

During the quarter, all outstanding options were extinguished upon the closing of the Arrangement. 4,501 options were in the money, and exercised on a cashless basis for 159 shares. In Q1 2013, prior to the closing of the Arrangement, 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.

Subsequent to quarter end, Spyglass declared a dividend of \$0.0225 per share payable on May 15, 2013 to be paid to shareholders of record on April 26, 2013.

Share Information	Q1 2013	Q1 2012	Q4 2012
Shares Outstanding			
Basic	128,076,752	61,363,549	60,991,229
Diluted	128,076,752	65,962,317	65,209,108
Weighted average shares outstanding			
Basic	63,227,413	61,363,510	60,991,190
Diluted	63,227,413	61,363,946	60,991,190

Liquidity and Capital Resources

Spyglass Resources Corp. 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 "PACED". The following is a summary of the trading history for Q1 2013, Q1 2012 and Q4 2012.

Trading History on the TSX	Q1 2013	Q1 2012	Q4 2012
Trading price			
High	\$ 2.71	\$ 4.85	\$ 2.83
Low	\$ 1.98	\$ 3.34	\$ 2.07
Close	\$ 2.22	\$ 3.82	\$ 2.53
Volume (000's) ⁽¹⁾	6,924	8,973	9,147

⁽¹⁾ Trading volumes are stated in pre-subdivided amounts.

On the over the counter market, 2.5 million pre-subdivided shares were traded in Q1 2013 compared to 1.9 million pre-subdivided shares in Q1 2012 and 2.4 million pre-subdivided shares in Q4 2012.

Spyglass has a \$400 million revolving term credit facility with a syndicate of banks. At March 31, 2013 \$271.7 million was drawn on the facility and the Company had a working capital deficit of \$28.6 million (excluding current portion of financial derivative instruments) for net debt of \$300.3 million. At March 31, 2013, there were \$2.0 million of letters of credit outstanding.

The Company's policy is to maintain a strong capital base in order to maintain financial flexibility which will allow it to execute on its capital investment program, provide creditor and market confidence and sustain the future development of the business.

The Company anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures in the remainder of 2013 through a combination of cash flow and additional use of its existing credit 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:

Contractual Obligations (000s)	Total	< 1 year	1-3 years	4-5 years	After 5 years
Long-term debt and related interest	\$ 287,581	\$ 13,612	\$ 273,969	\$ -	\$ -
Firm transportation charges	5,341	3,001	1,827	447	66
Operating leases	31,474	2,947	6,442	7,064	15,021
Total Contractual Obligations	\$ 324,396	\$ 19,560	\$ 282,238	\$ 7,511	\$ 15,087

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 with a syndicate of major banks, firm transportation charges and operating lease arrangements.

The Company estimates it will incur approximately \$365.5 million 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 cashflows is \$84.6 million and has been recorded on the Company's balance sheet as at March 31, 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 farmin agreements where it commits to capital expenditures in order to earn and retain certain 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 related reviews related to issuance of flow through shares by predecessor companies acquired through the Arrangement. The Company has received and 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 and long-term debt. The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities. Spyglass' financial derivative instruments have been recorded at their fair value.

Spyglass' investment at March 31, 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 as they relate to Spyglass 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 have been designed to ensure that information required to be disclosed by Spyglass is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required 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, including its consolidated subsidiaries, is made known to them by others within those entities.

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 related to the Company to provide reasonable assurance regarding the reliability of Spyglass’ financial reporting and preparation of financial statements for external purposes in accordance with GAAP. The control framework the officers used 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 March 31, 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 Q1 2013 that have materially affected, or are reasonable likely to 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.

Selected Quarterly Information

Financial (000s, except per share amounts)	2013		2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Petroleum and natural gas sales	\$ 49,841	\$ 49,475	\$ 49,366	\$ 50,162	\$ 63,350	\$ 69,317	\$ 58,104	\$ 65,307	
Cash flow from (used in) operations	(3,174)	28,861	1,689	7,035	26,453	19,618	28,110	22,137	
Funds from operations	7,053	13,631	14,006	16,485	14,727	26,159	21,174	25,920	
Per share- Basic	0.11	0.22	0.23	0.27	0.24	0.43	0.34	0.42	
Per share- Diluted	0.11	0.22	0.23	0.27	0.24	0.43	0.34	0.42	
Net income (loss)	\$ 61,353	\$ (86,565)	\$ (4,859)	\$ (56,581)	\$ (4,986)	\$ 454	\$ 5,524	\$ 9,042	
Per share- Basic	0.97	(1.42)	(0.08)	(0.92)	(0.08)	0.01	0.09	0.15	
Per share- Diluted	0.97	(1.42)	(0.08)	(0.92)	(0.08)	0.01	0.09	0.15	
Capital expenditures	\$ 11,820	\$ 14,924	\$ 12,909	\$ 13,688	\$ 41,696	\$ 44,129	\$ 21,794	\$ 15,910	
Corporate acquisitions	150,271	-	-	-	-	-	-	-	
Dispositions	-	-	-	-	-	23	-	-	
Long term debt	271,700	199,810	214,879	200,611	168,020	150,745	152,372	166,210	
Net debt	300,253	215,817	210,348	210,765	212,873	186,129	166,273	163,459	
Total assets	944,625	581,521	691,162	697,290	755,655	738,530	703,770	710,589	
Shares outstanding (000s)									
Basic	128,077	60,991	60,991	61,046	61,364	61,364	61,585	61,901	
Diluted	128,077	65,209	65,267	65,725	65,962	66,360	65,791	66,656	
Operations									
Average daily production									
Oil (bbls/d)	5,876	5,657	5,731	6,015	6,804	6,627	5,784	5,670	
NGLs (bbls/d)	279	285	265	360	388	338	277	407	
Natural gas (mcf/d)	35,840	35,804	40,109	44,340	44,190	43,442	44,981	49,111	
Combined (boe/d)	12,128	11,909	12,681	13,765	14,557	14,205	13,558	14,262	
Operating netback (\$/boe)	\$ 11.67	\$ 16.01	\$ 16.55	\$ 14.13	\$ 17.09	\$ 24.18	\$ 20.40	\$ 24.11	

Spyglass spent \$176.9 million over the previous eight trailing quarters in capital expenditures with 30 (27.5 net) wells drilled in Q2 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.

Production reached highs of 14,557 boe/d in Q1 2012 with recent declines in production due mostly to natural declines, unscheduled downtime at third party facilities and pipeline outages. Commodity pricing has been volatile over the previous eight trailing quarters with downward trending on natural gas prices. This has led to impairment losses in Q2 2012 and Q4 2012, which 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. 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 or by accessing the website at www.spyglassresources.com.