SPYGLASS
RESOURCES CORP.

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 2013”) and the three months ended March 1, 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:

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

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:

Production	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	YTD 2012
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%

The following table sets out production volumes by business unit:

	Q2 2013	Q2 2012	Q1 2013	**YTD 2013**	YTD 2012
North					
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
Central					
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**	-
South					
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
Total Company					
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:

Prices and Marketing	Q2 2013	Q2 2012	Q1 2013	YTD 2013	YTD 2012
Benchmark Prices[1]					
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
Spyglass' Realized Prices					
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 ($/Mcf)	**3.74**	1.99	3.22	**3.53**	2.18
Total ($/boe)	**$ 51.32**	$ 40.04	$ 45.66	**$ 48.92**	$ 44.04

[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 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
Crude Oil Contracts						
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
Natural Gas Contracts						
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
Total					**$ (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
Total					**$ 100**	$ 156

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
(000s)					
Realized gain (loss)					
Oil	**$ (1,017)**	$ 4,722	$ (211)	**$ (1,228)**	$ 3,904
Gas	**(458)**	45	64	**(394)**	45
Interest	**14**	-	14	**28**	-
Total	**$ (1,461)**	$ 4,767	$ (133)	**$ (1,594)**	$ 3,949
Unrealized gain (loss)					
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
Total	**$ 1,011**	$ 6,844	$ (5,062)	**$ (4,051)**	$ 5,753
($/boe)					
Realized gain (loss)					
Oil ($/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**	-
Total ($/boe)	**$ (0.98)**	$ 3.81	$ (0.12)	**$ (0.62)**	$ 1.53
Unrealized gain (loss)					
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
Total ($/boe)	**$ 0.68**	$ 5.46	$ (4.64)	**$ (1.57)**	$ 2.23

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:

Petroleum and Natural Gas Sales (000s)	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	YTD 2012
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
Total	**$ 76,405**	$ 50,162	$ 49,841	**$ 126,246**	$ 113,512

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:

Royalties by Type (000s)	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	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
	$ 15,097	$ 10,603	$ 10,501	**$ 25,598**	$ 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%

Royalties by Commodity	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	YTD 2012
Oil					
(000s)	**$ 12,713**	$ 11,235	$ 10,134	**$ 22,847**	$ 26,490
% of Oil sales	**22.5%**	27.8%	26.7%	**24.2%**	28.8%
NGLs					
(000s)	**$ 911**	$ 540	$ 612	**$ 1,523**	$ 1,364
% of NGL sales	**35.4%**	30.5%	40.1%	**37.1%**	34.3%
Natural Gas					
(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:

Operating Expenses	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	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:

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

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.

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

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:

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

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:

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

Other Income	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	YTD 2012
(000s)					
Cash other income	**$ 157**	$ 155	$ 63	**$ 220**	$ 202
Non-cash other income	**-**	-	81,866	**81,866**	-
Total	**$ 157**	$ 155	$ 81,929	**$ 82,086**	$ 202
($/boe)					
Cash other income	**$ 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)
Operating netback	**$ 20.81**	$ 14.13	$ 11.67	**$ 16.94**	$ 15.65
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)
Cash flow netback	**$ 13.82**	$ 13.17	$ 6.46	**$ 10.69**	$ 12.12
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
Net income (loss)	**$ 0.18**	$ (45.16)	$ 56.21	**$ 23.87**	$ (23.89)

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
Current period	**$ 20,558**	$ 246	**$ 20,558**	$ 246

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:

Capital Expenditures (000s)	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	YTD 2012
North	**2,088**	4,887	5,455	**7,543**	29,065
Central	**371**	-	-	**371**	-
South	**4,027**	7,235	5,264	**9,291**	22,914
Office and other areas	**1,798**	1,566	1,101	**2,899**	3,405
Total before Acquisitions and Dispositions	**8,284**	13,688	11,820	**20,104**	55,384

Capital Expenditures (000s)	**Q2 2013**	Q2 2012	Q1 2013	**YTD 2013**	YTD 2012
Land	**$ 183**	$ 299	$ 109	**$ 292**	$ 1,690
Geological and geophysical	**69**	33	1,175	**1,244**	346
Drilling and completions	**4,726**	8,504	6,324	**11,050**	37,036
Facilities and equipment	**1,575**	3,336	3,159	**4,734**	12,873
Office, other and capitalized G&A	**1,731**	1,516	1,053	**2,784**	3,439
Capital Expenditures	**$ 8,284**	$ 13,688	$ 11,820	**$ 20,104**	$ 55,384
Acquisitions	**-**	-	282,093	**282,093**	-
Total capital expenditures and acquisitions	**$ 8,284**	$ 13,688	$ 293,913	**$ 302,197**	$ 55,384
Exploration and evaluation expenditures	**$ 303**	$ 827	$ 48,873	**$ 49,176**	$ 15,736
Property, plant and equipment expenditures	**7,981**	12,861	245,040	**253,021**	39,648
Total capital expenditures and acquisitions	**$ 8,284**	$ 13,688	$ 293,913	**$ 302,197**	$ 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 totaled 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.

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

2013 Dividends	**Declaration Date**	**Record Date**	**Payment Date**		**Amount Per Common Share**
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.

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

(1) 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:

Contractual Obligations (000s)	**Total**	< 1 year	1-3 years	4-5 years	After 5 years
Long-term debt and related interest	**$ 302,400**	$ 12,000	$ 290,400	$ -	$ -
Firm transportation charges	**4,253**	2,574	1,245	376	58
Operating leases	**30,662**	2,805	6,658	7,046	14,154
Total Contractual Obligations	**$ 337,315**	$ 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.

Selected Quarterly Information

Financial	2013		2012				2011	
(000s, except per share amounts)	**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
Operations								
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. 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.