SPYGLASS
RESOURCES CORP.

2013 CONSOLIDATED FINANCIAL STATEMENTS

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Spyglass Resources Corp. and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts that are based on estimates, which have been objectively developed by management using all relevant information. All financial and operating data in this report is consistent with the information in the consolidated financial statements.

Spyglass Resources Corp. maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements. Spyglass Resources Corp. has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the current requirements of Canadian securities legislation.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditor's report. Their report is presented with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of independent directors who are all financially literate. The Audit Committee meets regularly with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Signed *"Thomas Buchanan"*

Thomas Buchanan
Chief Executive Officer

Signed "*Mark Walker"*

Mark Walker
Senior VP Finance and CFO

Calgary, Alberta
March 11, 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Spyglass Resources Corp.:

We have audited the accompanying consolidated financial statements of Spyglass Resources Corp., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Spyglass Resources Corp. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed *"PricewaterhouseCoopers LLP"*
Chartered Accountants

Calgary, Canada
March 11, 2014

Consolidated Balance Sheets

As at

(000s of Canadian dollars)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ -	$ 35
Accounts receivable (note 17)	39,952	31,324
Prepaid expenses and deposits	2,185	2,323
Financial derivative instruments (note 17)	30	911
Assets held for sale (note 7)	3,214	-
	45,381	34,593
Investment (note 17)	326	326
Financial derivative instruments (note 17)	-	80
Exploration and evaluation assets (note 8)	58,410	30,775
Property, plant and equipment (note 9)	708,723	496,154
Deferred tax assets (note 13)	79,488	19,593
	$ 892,328	$ 581,521
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 17)	$ 52,729	$ 45,489
Dividends payable (note 12)	2,882	-
Other liabilities (note 18)	3,248	4,200
Financial derivative instruments (note 17)	11,278	-
Liabilities associated with assets held for sale (note 7)	269	-
	70,406	49,689
Long-term debt (note 10)	287,000	199,810
Long-term incentive plan liability (note 12)	808	-
Financial derivative instruments (note 17)	68	-
Decommissioning liabilities (note 11)	83,752	49,541
Shareholders' equity:		
Share capital (note 12)	494,292	430,037
Contributed surplus	-	12,646
Accumulated other comprehensive income (loss) (note 17)	-	(730)
Deficit	(43,998)	(159,472)
	450,294	282,481
	$ 892,328	$ 581,521

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

Signed "*Dennis Balderston*"
Dennis Balderston
Director

Signed "*Mike Shaikh*"
Mike Shaikh
Audit Committee Chair and Director

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

Years ended December 31,

(000s of Canadian dollars except per share amounts)

		2013		2012
Petroleum and natural gas sales (note 19)	$	273,014	$	212,353
Royalties		(56,711)		(46,921)
Revenues		216,303		165,432
Other income (note 15)		90,750		457
Gain (loss) on financial derivative instruments (note 17)		(19,876)		9,728
Expenses				
Operating		104,901		78,170
Transportation		12,208		10,096
Finance		18,718		11,523
Depletion, depreciation and impairments (note 8 & 9)		77,912		256,233
General and administration (note 12 & 14)		18,741		21,429
Transaction costs (note 6)		13,451		750
		245,931		378,201
Income (loss) before taxes		41,246		(202,584)
Deferred taxes (recovery) (note 13)		(2,085)		(49,593)
Net income (loss) and comprehensive income (loss)	$	43,331	$	(152,991)
Net income (loss) per share: (note 12)				
Basic and diluted	$	0.39	$	(2.50)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity
Years ended December 31, 2013 and 2012

(000s of Canadian dollars except number of common shares)

	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total Equity
Balance, December 31, 2011	**61,363,549**	**$ 432,668**	**$ 8,982**	**$ (730)**	**$ (6,481)**	**$ 434,439**
Normal course issuer bid	(372,320)	(2,631)	1,738	-	-	(893)
Stock based compensation	-	-	1,926	-	-	1,926
Net income (loss) during the year	-	-	-	-	(152,991)	(152,991)
Balance, December 31, 2012	60,991,229	$ 430,037	$ 12,646	$ (730)	$ (159,472)	$ 282,481
Issued per business combination	67,085,364	150,271	-	-	-	150,271
Issued on exercise of options	127	4	(4)			-
Stock based compensation	-	-	145	-	-	145
Net income (loss) during the year	-	-	-	-	43,331	43,331
Dividends declared	-	-	-	-	(25,934)	(25,934)
Reduction of stated capital (note 1)	-	(86,020)	(12,787)	730	98,077	-
Balance, December 31, 2013	**128,076,720**	**$ 494,292**	**$ -**	**$ -**	**$ (43,998)**	**$ 450,294**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years ended December 31,

(000s of Canadian dollars)

	2013	2012
Cash provided by		
Operations		
Net income (loss)	$ 43,331	$ (152,991)
Items not involving cash:		
Depletion, depreciation and impairments (notes 8 & 9)	77,912	256,233
Accretion of decommissioning liabilities (note 11)	5,270	3,327
Long-term incentive (note 12)	2,004	3,556
Gain on business combinations (note 6)	(84,181)	
Gain on property dispositions (note 7)	(5,163)	-
Unrealized loss (gain) on financial derivative instruments (note 17)	10,045	(2,433)
Deferred taxes (recovery) (note 13)	(2,085)	(49,593)
Decommissioning expenditures (note 11)	(3,574)	(1,264)
Change in non-cash working capital (note 19)	(21,998)	7,203
Cash flow from operating activities	21,561	64,038
Financing		
Increase in long-term debt	24,540	49,065
Dividends declared (note 12)	(25,934)	-
Purchase of common shares under normal course issuer bid (note 12)	-	(893)
Change in non-cash working capital (note 19)	2,882	43
Cash flow from financing activities	1,488	48,215
Investing		
Capital expenditures	(59,654)	(83,217)
Cash acquired on business combination (note 6)	11,890	-
Property dispositions (note 7)	22,714	-
Change in non-cash working capital (note 19)	1,966	(29,024)
Cash flow used in investing activities	(23,084)	(112,241)
Changes in cash	(35)	12
Cash beginning of period	35	23
Cash end of period	$ -	$ 35

Cash is defined as cash and cash equivalents.
See accompanying notes to the consolidated financial statements.

1. Background and general information

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

On March 28, 2013, Pace Oil & Gas Ltd. (“Pace”), Charger Energy Corp. (“Charger”) and AvenEx Energy Corp (“AvenEx”) completed a Plan of Arrangement (the “Arrangement”) whereby Spyglass Resources Corp. was formed through the amalgamation of Pace, Charger and AvenEx. Pace subdivided its shares on a basis of 1.3 post-subdivided Pace shares for each 1.0 pre-subdivided Pace share. Pace shares were issued in exchange for the outstanding Charger shares on a basis of 0.18 Pace share for each Charger share and Pace shares were then issued in exchange for the outstanding AvenEx shares on a basis of 1.0 Pace share for each AvenEx share. Pace was then renamed to Spyglass Resources Corp. The Arrangement is accounted for as a business combination (note 6) whereby Pace is deemed to be the acquirer and as such comparative amounts reflect the history of Pace. Prior period common share, option, restricted share award, preferred share award and deferred share award information has been adjusted for the share exchange ratio associated with the Arrangement. Pursuant to the Arrangement, Spyglass elected to perform a reduction of stated capital whereby the Company offset its deficit, contributed surplus and accumulated other comprehensive loss against share capital upon closing of the arrangement. The deficit at December 31, 2013 reflects the operations of Spyglass from March 28, 2013 to December 31, 2013.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 11, 2014.

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

(a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except where noted in the accounting policies.

(b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

3. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company, including the consolidated accounts of all wholly owned subsidiaries. The wholly owned subsidiaries of the Company include 1696527 Alberta Ltd., 1288916 Alberta Ltd., 1398850 Alberta Ltd., Pace Oil Resources Ltd., Seaview Energy Partnership, Pace Oil & Gas Partnership and Meota 2000 Partnership. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions have been eliminated.

(b) Financial instruments

Spyglass determines the classification of its financial assets and liabilities at initial recognition and re-evaluates this designation at year end as appropriate. All financial instruments are recognized initially at fair value including transaction costs except for instruments under the *fair value through profit and loss* category where transaction costs are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument. Financial instruments are classified as either: fair value through profit or loss; loans and receivables; fair value through other comprehensive income; held to maturity or financial liabilities measured at amortized cost.

Financial instruments classified as fair value through profit or loss are measured at fair value at each reporting period with the change in fair value recognized in the statement of income (loss). Loans and receivables, held to maturity and financial liabilities measured at amortized cost are all measured at amortized cost less any impairment using the effective interest method. Amortization of any discounts or premiums is recognized in finance expense. The Company's cash and cash equivalents are classified as loans and receivables and consist of cash and all investments that have a maturity of three months or less. Financial assets classified as fair value through other comprehensive income are measured at fair value with changes in fair value recognized in other comprehensive income (loss).

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced and/or substantially modified, the difference in the respective carrying amounts is recognized in net income (loss).

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairments are recognized in the statement of income (loss) as they occur.

Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis.

The Company early adopted IFRS 9 – *Financial Instruments: Classification and Measurement* effective January 1, 2010 and early adopted IAS 36 – *Impairment of Assets* effective January 1, 2013. Relevant accounting policies have been included above as well as relevant disclosure to Note 17.

(c) Exploration and evaluation assets

Exploration and evaluation ("E&E") costs are capitalized for projects prior to their technical feasibility and commercial viability being determined. These costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, including remuneration of production personnel and supervisory management, the projected costs of retiring the assets, and any activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. Assets classified as E&E are not amortized or depreciated.

Once technical feasibility and commercial viability are confirmed, the E&E asset is reclassified to property, plant and equipment and tested for impairment. For purposes of impairment testing, E&E assets are allocated to the appropriate cash generating units based on geographic proximity.

Expired lease costs are expensed as part of depletion and depreciation expense as they occur.

(d) Property, plant & equipment

Property, plant and equipment ("PP&E") includes costs directly attributable to oil and natural gas development and production and administrative assets. PP&E is recorded at cost less accumulated depletion, depreciation, and impairment losses net of recoveries. Gains and losses on disposal of PP&E are recognized in the statement of income (loss) for the difference in the proceeds and the carrying amount of the PP&E. The carrying amount of a replaced asset is derecognized when replaced.

(e) Depletion and depreciation

The provision for depletion for oil and natural gas assets is calculated for each major area using the unit-of-production method. Each area's production for the period is divided by the Company's estimated total proved and probable oil and natural gas reserve volumes before royalties for that area. Production and reserves of natural gas are converted at the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of oil. Estimates of future development costs for developing the proved and probable reserves are included in each area's depletion base. Office equipment and other assets are depreciated on a straight-line basis over their estimated useful lives.

(f) Impairment

At each reporting period the Company assesses whether there are indicators of impairment for its PP&E and E&E. Indicators of impairment of PP&E include changes in commodity prices, reserve volumes and discount rates. Indicators of impairment of E&E include expiration of the right to explore and discontinuation of exploration in specific areas, indication that commercial viability and technical feasibility will not be achieved in specific areas and indication that E&E costs in a specific area will not be recoverable from successful development or sale. If indicators exist, the Company determines if the recoverable amount of the asset or cash generating unit ("CGU") is greater than its carrying amount. A CGU is a group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in the statement of income (loss) as additional depletion expense. The recoverable amount is the greater of the value in use or fair value less costs of disposal. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs of disposal considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the CGUs' estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are netted with depletion and depreciation expense. The recovery is limited to the original carrying amount less depletion and depreciation that would have been recorded had the asset or CGU not been impaired.

(g) Assets held for sale

Non-current assets are classified as held for sale if the carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and the fair value less costs of disposal, with impairments recognized consolidated statement of income (loss). Non-current assets held for sale and liabilities associated with non-current assets held for sale are presented as current assets and current liabilities in the consolidated balance sheet. Assets are not depleted or depreciated once classified as held for sale.

(h) Business combinations and goodwill

Business combinations are recorded at fair value using the acquisition method. The fair value of the net assets acquired and the consideration transferred is measured at the acquisition date. Transaction costs related to business combinations are expensed when incurred.

If the fair value of the consideration exceeds the net identifiable assets acquired, it is recorded as goodwill. If the consideration is less than the fair value of the net identifiable assets acquired, the difference is recognized as a gain in the statement of income (loss).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(i) Joint arrangements

The Company conducts some of its activities through interests in joint operations where it has a direct ownership interest in and jointly controls the operations. The Company recognizes its proportionate share of the income, expenses, assets, and liabilities of these jointly controlled operations in the consolidated financial statements. The Company does not have any joint arrangements that are material to the Company or any joint arrangements that would be classified as joint ventures.

(j) Leases

Operating lease payments are recognized as an expense in the statement of income (loss) on a straight line basis over the lease term. Finance leases are capitalized and recorded at lower of the fair value of the leased property or the present value of the minimum lease payments with the obligation recorded as liability. Lease payments are apportioned between interest expense and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Leased assets are generally depreciated over the useful life of the asset.

(k) Decommissioning liabilities

Decommissioning liabilities are present obligations for restoring well and facility sites and decommissioning plants and oil batteries in the future.

The amount recognized represents management's estimate of the present value of the estimated future expenditures to abandon and reclaim the Company's net ownership in wells and facilities as well as an estimate of the future timing of the costs to be incurred. When a liability is recorded, the carrying amount of the related asset is increased by the same amount. These costs are subsequently depleted as part of the costs of the item of property, plant and equipment. Any changes in the estimated timing of the decommissioning or decommissioning cost estimates are accounted for prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment.

The Company uses a credit adjusted discount rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount of the decommissioning provision is included as a finance expense. The provision is re-measured at each reporting period in order to reflect the credit adjusted discount rates in effect at that time.

The Company recognizes the deferred tax asset regarding the temporary difference on the decommissioning liability and the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

(l) Long-term incentive plans

In 2013, the Company implemented a new Long Term Incentive Plan ("LTIP"), under which it issues different share based awards including Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), and Director Restricted Share Units ("DRSUs"). Under its previous LTIP the Company also issued stock options, restricted share awards ("RSAs"), performance share awards ("PSAs") and deferred share awards ("DSAs").

RSUs are granted to employees and RSUs and PSUs are granted to the management of the Company as compensation. DRSUs are granted to non-management directors of the Company. The fair value of the RSUs, PSUs and DRSUs is determined based on the fair value of the shares at grant date and is subsequently adjusted to reflect the fair value of the awards at each period end. This valuation incorporates the period end share price, the number of awards outstanding and estimates of performance factors for the PSUs. As a result, large fluctuations in LTIP compensation may occur due to the changes in the underlying share price. Compensation expense is amortized over the vesting period of the award and the corresponding liability is classified as long-term or current depending on the expected payout date. Under the Company's previous LTIP plan, RSAs were granted to employees, RSAs and PSAs were granted to management of the company and DSAs were granted to non-management directors of the Company. The fair value of RSAs, PSAs and DSAs were calculated in the same method as the fair value of RSUs, PSUs and DRSUs is calculated, as described above. PSUs were subject to a performance factors.

Stock options granted under the previous LTIP plan were equity settled and valued using the fair value method. Under this method, compensation cost attributable to stock options were measured at their fair value using a valuation model on the grant date and were expensed within general and administrative expense over the vesting period with a corresponding increase in contributed surplus. A forfeiture rate was estimated on the grant date and is adjusted to reflect the actual number of awards that vest. Upon exercise, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(l) Purchase of common shares under normal course issuer bid

In June 2012, the Company received regulatory approval to purchase common shares under Normal Course Issuer Bids ("NCIB"). When common shares were purchased, share capital was reduced by the average carrying value of the common shares. The difference between the purchase price and the carrying value was recorded to contributed surplus if the average carrying amount was greater than the payment amount and to contributed surplus or retained earnings if less than the payment amount. The purchased shares were subsequently cancelled.

(m) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments using the treasury stock method. The treasury stock method assumes proceeds from dilutive instruments are used to purchase common shares at the average market price during the period. The difference in the assumed purchases and equity issued is added to the weighted average shares outstanding provided the instruments are not anti-dilutive.

(n) Deferred taxes

Spyglass follows the liability method for calculating deferred taxes. Differences between the amounts reported in the financial statements and the respective tax bases are applied to tax rates in effect to calculate the deferred tax liability or asset. The effect of any change in income tax rates is recognized in the statement of income (loss). Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred tax assets are reviewed at each reporting date to ensure it is probable the asset will be utilized. Deferred tax relating to items recognized directly in equity is recognized in equity and not in the statement of income (loss).

(o) Revenue recognition

Revenue associated with the sale of natural gas, natural gas liquids ("NGLs") and crude oil owned by Spyglass is recognized when title passes from Spyglass to its customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue is measured at the fair value of the consideration received or receivable net of any royalties.

(p) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are substantially ready for their intended use. All other borrowing costs are recognized in the statement of income (loss) in the period in which they are incurred.

4. Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Depletion, depreciation and reserves

Depletion is based on the proved plus probable reserves as evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH"). The process of determining reserves is complex. Significant judgments are based on available geological, geophysical, engineering, and economic data. These judgements are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices and economic conditions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations (see note 9).

(b) CGU definition

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

(c) Impairment and business combinations (note 6, 8 & 9)

Judgments include determining whether indicators of impairment exist, as well as the discount rate used in discounted cash flow models. Estimates and assumptions include those used in the determination of the recoverable amounts of CGUs and individual assets which are based on the higher of their value-in-use and fair values less costs of disposal. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs of disposal. For PP&E, including PP&E acquired through business combinations, the Company generally estimates fair value less costs of disposal using a discounted cash flow model which has a significant number of assumptions including proved and probable reserves, forecasted commodity prices, future costs required to develop and produce reserves, discount rates and other relevant assumptions. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets. Further assumptions are discussed in Note 9.

For E&E, including E&E acquired through business combinations, estimates and assumptions include those used in the calculation of recoverable amounts for E&E CGUs and individual assets, which are based on the higher of value-in-use and fair value less costs of disposal, and are discussed further in note 8.

(d) Exploration and evaluation assets (note 8)

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated proved or probable reserves which are in part used to determine a project's technical feasibility and commercial viability. Judgments include when a project has reached technical feasibility and commercial viability.

(e) Decommissioning and restoration costs (note 11)

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of its assets. Judgments include the most appropriate discount rate to use. Estimates and assumptions include decommissioning costs, credit-adjusted risk free rate, and expected timing of expenditure. In the Company's judgment, the most appropriate discount rate to use is the Company's credit adjusted rate. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(f) Deferred taxes (note 13)

The Company follows the liability method for calculating deferred taxes. Judgments include assessment whether valuation allowances are required based on expectations of future cashflows from operations and the application of existing tax laws. Estimates and assumptions are used in the calculation of deferred taxes. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

(g) Long-term incentive plans (note 12)

The Company uses the fair value method of valuing its LTIP. Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine fair value. For stock options granted under the Company's LTIP plan prior to the arrangement, the Company used the Black-Scholes pricing model which required the Company to determine the most appropriate inputs including the expected life of the option, volatility, expected forfeitures and future dividends. The assumptions and models are discussed in note 12. For RSAs, PSAs and DSAs granted under the Company's LTIP plan prior to the arrangement and for RSUs, PSUs and DRSUs granted subsequent to the arrangement the fair value model is based on the Company's trading value at each reporting period. PSUs (and formerly PSAs under the LTIP plan prior to the arrangement) are subject to a performance multiplier that is subject to management estimation, the relative share performance of the Company compared to a set peer group and the absolute shareholder return during the period the awards are outstanding. The multiplier may change based on the future performance of the Company relative to its peers and absolute share performance which would result in changes to the estimates.

(h) Financial Derivatives (note 17)

The estimated fair value of financial derivatives is reliant upon a number of estimated variables including forward commodity prices, interest rates and volatility curves. A change in any one of these factors could result in a change to the overall estimated value of the instrument.

5. Recent accounting pronouncements and amendments

There were several recent accounting pronouncement and amendments adopted effective January 1, 2013 including 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*, and IAS 1 – P*resentation of Financial Statements,* IAS 32 – *Financial Instruments: Presentation*. The adoption of the above pronouncements and amendments had no impact on the consolidated financial statements other than disclosure requirements which have been incorporated. The Company early adopted IFRS 9 – *Financial Instruments: Classification and Measurement* effective January 1, 2010 and early adopted IAS 36 – *Impairment of Assets* effective January 1, 2013. Relevant accounting policies have been included in Note 3(b) as well as relevant disclosure to Note 17.

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2014 unless otherwise stated. Adopting these standards is expected to have minimal or no impact on the consolidated financial statements.

(a) IFRS 2 – *Share-based Payments* has been amended to clarify the definition of vesting conditions for share-based payment transactions for which the grant date is on or after July 1, 2014.

(b) IFRS 3 – *Business Combinations* amendments provide clarification related to contingent consideration in a business combination effective for business combinations where the effective date is on or after July 1, 2014. Further amendments to IFRS 3 include clarifications to the scope exception for joint arrangements and are effective for annual periods beginning on or after July 1, 2014.

(c) IAS 24 – *Related Party Transactions* has been amended to revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent and clarifies related disclosure requirements. The amendments are effective for annual periods beginning on or after July 1, 2014.

6. Strategic business combination and reorganization

On March 28, 2013 the plan of Arrangement was completed whereby Spyglass was formed through the amalgamation of Pace, Charger and AvenEx. In accordance with IFRS, the Arrangement is accounted for as a business combination whereby Pace is deemed to be the acquirer. Had the Arrangement closed on January 1, 2013, Spyglass' oil and gas sales and oil and gas sales less royalties, transportation and operating expenses for the year ended December 31, 2013 would have been approximately $293.9 million and $106.2 million respectively. This is not necessarily representative of future revenues and operations. The effect on net income is not determinable. Spyglass' oil and gas sales and oil and gas sales less royalties, transportation and operating expenses for the year ended December 31, 2013 includes approximately $61.4 million and $42.2 million respectively, attributable to the acquirees from March 28, 2013 to December 31, 2013.

(a) Charger Energy Corp.

On March 28, 2013 the acquisition of all issued and outstanding shares of Charger was completed by way of plan of arrangement. Charger was a public oil and gas company, listed on the TSX Venture Exchange, with properties primarily in Alberta. Total consideration of $27.1 million included the issuance of 12,117,821 shares as valued on closing. A gain on acquisition arises when the cost of an acquisition is less than the fair value of the assets acquired. The acquisition of Charger resulted in an excess of net assets acquired over consideration transferred of $34.2 million. This gain was recognized and is included in gain on business combination and other income.

The following are the estimated fair values of Charger:

Charger Energy Corp.		
Net assets acquired		
Property, plant and equipment	$	103,923
Exploration & evaluation assets		16,029
Deferred income tax assets		25,615
Working capital deficiency		(8,380)
Bank indebtedness		(62,650)
Derivative liability		(2,047)
Decommissioning liabilities		(11,118)
	$	61,372
Consideration		
Shares issued (12,117,821 common shares)	$	27,144
Excess of net assets acquired over consideration transferred	$	34,228

The recognized amounts of identifiable assets and liabilities assumed are best estimates by the Company's management and the fair values were calculated using discounted cash flow models considering reserve estimates. Subsequent to the initial accounting of this business combination, the amount recorded for the working capital deficiency was increased by $3.0 million, thereby reducing the initial bargain purchase gain and the amount recorded for the deferred tax asset increased by $2.1 million, thereby increasing the initial bargain purchase gain, resulting in an overall decrease in the bargain purchase gain of $0.9 million.

(b) AvenEx Energy Corp.

On March 28, 2013 the acquisition of all issued and outstanding shares of AvenEx was completed by way of plan of arrangement. AvenEx was a public oil and gas company, listed on the TSX, with properties primarily in Alberta. Total consideration of $123.1 million included the issuance of 54,967,543 shares as valued on closing. A gain on acquisition arises when the cost of an acquisition is less than the fair value of the assets acquired. The acquisition of AvenEx resulted in an excess of net assets acquired over consideration transferred of $50.0 million. This gain was recognized and is included in gain on business combination and other income.

The following are the estimated fair values of AvenEx:

AvenEx Energy Corp.		
Net assets acquired		
Property, plant and equipment	$	130,697
Exploration & evaluation assets		31,444
Deferred income tax assets		32,195
Working capital deficiency		(8,083)
Cash		11,890
Derivative liability		(215)
Decommissioning liabilities		(24,848)
	$	173,080
Consideration		
Shares issued (54,967,543 common shares)	$	123,127
Excess of net assets acquired over consideration transferred	$	49,953

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 were backstopped and indemnified by the purchaser until they were formally assumed. Management performed credit analysis on the purchaser and noted no concerns.

The recognized amounts of identifiable assets and liabilities assumed are best estimates by the Company's management and the fair values were calculated using discounted cash flow models considering reserve estimates. Subsequent to the initial accounting of this business combination, the amount recorded for the working capital deficiency was increased by $0.2 million, thereby reducing the initial bargain purchase gain and the amount recorded for the deferred tax asset increased by $3.5 million, thereby increasing the initial bargain purchase gain, resulting in an overall increase in the bargain purchase gain of $3.3 million.

7. Assets sold and held for sale

(a) Assets sold

In 2013, Spyglass disposed of certain non-core producing properties and undeveloped land in the provinces of Saskatchewan and Alberta. The assets sold had a net carrying value of $17.5 million for proceeds of $22.7 million. The transactions resulted in a gain of $5.2 million which was recognized as other income in the Consolidated Statement of Income (Loss).

(b) Assets held for sale

The following assets and liabilities were classified as held for sale as at December 31, 2013:

Assets held for sale		**December 31, 2013**		December 31, 2012
Exploration & evaluation assets	**$**	**550**	$	-
Property, plant and equipment		**2,664**		-
	$	**3,214**	$	-
Liabilities associated with assets held for sale				
Decommissioning liabilities	**$**	**269**	$	-

Assets held for sale at December 31, 2013 are reported at the carrying amount. In January 2014, the Company completed the sale of these assets for cash proceeds of $3.0 million prior to adjustments.

8. Exploration and evaluation assets

		December 31, 2013		December 31, 2012
Balance, beginning of period	$	**30,775**	$	87,562
Cash additions		**3,090**		16,751
Capitalized long-term incentive		**14**		91
Acquisitions (note 6)		**47,473**		-
Dispositions		**(3,027)**		-
Decommissioning provision		**-**		132
Transfers to property, plant and equipment		**(13,604)**		(2,343)
Transfers to assets held for sale		**(550)**		-
Expiries		**(5,761)**		(4,213)
Impairment		**-**		(67,205)
Balance, end of period	**$**	**58,410**	$	30,775

During the year ended December 31, 2012, the Company recorded E&E impairment of $67.2 million ($50.4 million net of tax) in the Haro South area as a result of changes in management's future development plans and from operational performance to date. The asset was written down to its estimated recoverable amount based on the fair value less costs of disposal. The fair value less costs of disposal was based on estimates of proceeds from the sale of the Company's infrastructure, facilities and land in the area.

9. Property, plant and equipment

		Cost		**Accumulated depletion and depreciation**		**Net book Value**
Balance, December 31, 2011	$	797,284	$	(186,611)	$	610,673
Additions		66,466		-		
Capitalized long-term incentive		625		-		
Transfers from exploration and evaluation assets		2,343		-		
Decommissioning provision		862		-		
Depletion and depreciation		-		(61,804)		
Impairment loss				(123,011)		
Disposals		-		-		
Balance, December 31, 2012	$	867,580	$	(371,426)	$	496,154
Additions		**56,564**		**-**		
Capitalized long-term incentive		**302**		**-**		
Acquisitions (note 6)		**234,620**		**-**		
Disposals		**(20,473)**		**1,838**		
Transfers from exploration and evaluation assets		**13,604**		**-**		
Transfers to assets held for sale		**(13,604)**		**10,940**		
Decommissioning provision		**929**		**-**		
Depletion and depreciation		**-**		**(72,151)**		
Balance, December 31, 2013	**$**	**1,139,522**	**$**	**(430,799)**	**$**	**708,723**

Future development costs of the Company's proved plus probable reserves of $364.0 million (2012 – $144.1 million) were included in the depletion calculation.

During 2012, a decline in forecasted oil and natural gas prices caused the Company to record a total of $123.0 million ($92.3 million net of tax) of impairments This comprised of impairments of $95.8 million ($71.8 million net of tax) in the North Gas CGU, $16.6 million ($12.5 million net of tax) in the North Oil CGU and $10.6 million ($8.0 million net of tax) in the South Gas CGU. These CGUs were written down to their recoverable amounts based on the fair value less costs of disposal of the CGUs. The estimated fair value less costs of disposal was determined using future cash flows adjusted for risks specific to the assets and discounted using after tax discount rates of 10 to 14 percent, based on consideration of risk of the individual CGU's. Discount rates were derived from the post-tax weighted average cost of capital for Spyglass' peer group.

The following forward commodity price estimates were used in the Company's impairment calculation at December 31, 2012:

Year	WTI Oil ($US/bbl)	AECO Gas (CDN $/mmbtu)	US$/Cdn $ Exchange rates
2013	92.50	3.35	1.000
2014	92.50	3.85	1.000
2015	93.60	4.35	1.000
2016	95.50	4.70	1.000
2017	97.40	5.10	1.000
2018	99.40	5.45	1.000
2019	101.40	5.55	1.000
2020	103.40	5.70	1.000
2021	105.40	5.80	1.000
2022	107.60	5.90	1.000
2023	109.70	6.00	1.000
2024	111.90	6.15	1.000
2025	114.10	6.25	1.000
2026	116.40	6.35	1.000
2027	118.80	6.50	1.000
Thereafter (1)	2%	2%	1.000

(1) Approximate percentage change in each year after 2027 to the end of the reserve life.

An increase of 1% in the discount rate would have resulted in an increase of $6.0 million in impairments. A 5% decrease in forward commodity prices would have resulted in an increase of $15.4 million in impairments.

10. Long-term debt

On March 28, 2013, Spyglass extinguished its $300 million revolving term credit facility with a syndicate of banks and repaid in full the balance outstanding on this facility. As at December 31, 2012 $199.8 million was drawn on this facility and $1.1 million in letters of credit were outstanding. On March 28, 2013, Spyglass entered into a $400 million revolving term credit facility with a syndicate of banks, which was subsequently renewed and amended on May 22, 2013. The facility is available on a revolving basis until April 29, 2014. On April 29, 2014 at the Company's discretion, the facility is available on a non-revolving basis for a period of 366 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company, subject to approval by the banks. The credit facility bears interest at the bank's prime rate or Bankers' Acceptance rates plus stamping fees. The facility is secured by a $1 billion first floating charge debenture and a general security agreement. At December 31, 2013, $287.0 million was drawn on this facility. The available level of credit is subject to semi-annual review by the syndicate of banks and may be adjusted for changes in reserves, commodity prices and other factors. The Company had $0.9 million in letters of credit outstanding at December 31, 2013.

For 2013, the effective interest rate on the average balance drawn was 4.9% (2012 – 4.1%).

11. Decommissioning liabilities

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $370.8 million (2012 – $258.3 million) which will be incurred over the operating lives of the assets, with the majority of costs to be incurred between 2017 and 2050. An inflation factor of 2% has been applied to the estimated decommissioning cost at December 31, 2013 and 2012. The Company's credit-adjusted risk-free rate of 7% was used to calculate the fair value of the decommissioning liabilities at December 31, 2013 and 2012.

A reconciliation of the decommissioning liability is provided below:

		December 31, 2013		December 31, 2012
Balance, beginning of period	**$**	**49,541**	$	46,484
Acquired (note 6)		**35,966**		-
Change in estimate		**389**		494
Liabilities incurred		**540**		500
Liabilities settled		**(3,574)**		(1,264)
Liabilities transferred on sale of assets		**(4,111)**		-
Transferred to liabilities associated with assets held for sale		**(269)**		-
Accretion expense		**5,270**		3,327
Balance, end of period	**$**	**83,752**	$	49,541

12. Share capital

(a) Authorized:

The authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series.

(b) Issued and outstanding:

	Number of Shares (1)		**Amount**
Common shares:			
Balance, December 31, 2011	61,363,549	$	432,668
Normal course issuer bid	(372,320)		(2,631)
Balance, December 31, 2012	60,991,229	$	430,037
Issued on exercise of options	127		4
Issued per business combination - Charger (note 1 & 6)	12,117,821		27,144
Issued per business combination - Avenex (note 1 & 6)	54,967,543		123,127
Reduction of stated capital (note 1 & 6)	-		(86,020)
Balance, December 31, 2013	**128,076,720**	**$**	**494,292**

(1) The number of common shares has been adjusted to reflect Pace's share exchange ratio of 1.3 to 1 pursuant to the Arrangement (note 1 & 6)

On June 28, 2012, the TSX accepted the Company's notice to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX authorized the Company to purchase up to 3,060,915 common shares during the period from July 3, 2012 to July 2, 2013. Shares purchased under bid were cancelled. There were 54,860 shares purchased at a weighted average cost of $2.17 during 2012. As the carrying value of the purchased shares was greater than $2.17 per share the $0.2 million difference between the carrying amount and the purchased amount was recorded as contributed surplus. No shares were purchased during 2013.

Under its previous bid, the TSX authorized the Company to purchase up to 3,095,027 common shares during the period from June 30, 2011 to June 29, 2012. Shares purchased under the bid were cancelled. There were 317,460 shares purchased during 2012 at a weighted average cost of $2.44 per share. As the carrying value of the purchased shares was greater than $2.44 per share the $1.5 million difference between the carrying amount and the purchased amount was recorded as contributed surplus.

(c) Dividends:

In April 2013, the Company initiated a monthly dividend of $0.0225 per share. Dividends declared during the year ended December 31, 2013 totaled $25.9 million (2012 – nil) in accordance with the table provided below:

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
July	July 9, 2013	July 26, 2013	August 15, 2013		0.0225
August	August 12, 2013	August 27, 2013	September 16, 2013		0.0225
September	September 13, 2013	September 27, 2013	October 15, 2013		0.0225
October	October 13, 2013	October 27, 2013	November 15, 2013		0.0225
November	November 13, 2013	November 28, 2013	December 16, 2013		0.0225
December	December 6, 2013	December 24, 2013	January 15, 2013		0.0225

Subsequent to December 31, 2013, the following dividends were declared:

2014 Dividends	Declaration Date	Record Date	Payment Date		Amount Per Common Share
January	January 15, 2014	January 28, 2014	February 17, 2014	$	0.0225
February	February 11, 2014	February 27, 2014	March 17, 2014		0.0225

(d) Earnings per share:

Basic earnings per share amounts are calculated by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the periods. The following table shows the calculation of basic and diluted earnings per share for the periods:

		2013		2012
Net income (loss) for the period	**$**	**43,331**	$	(152,991)
Weighted average number of common shares - basic & diluted		**112,086,499**		61,156,554
Basic & diluted net income (loss) per share	**$**	**0.39**	$	(2.50)

As of December 31, 2013 and 2012 there were no dilutive instruments outstanding.

(e) Long-term incentive plans

In Q2 2013, the Company implemented a new long-term incentive plan for employees and management which includes a blend of two types of share based awards depending on roles and responsibilities within the organization: restricted share units ("RSUs") and performance share units ("PSUs"). RSUs vest evenly over a three year period. PSUs vest three years from the date of grants and the awards granted are subject to a performance multiplier ranging from 0 to 2. The Company also grants director restricted share units ("DRSUs") to non-management directors of the organization. DRSUs vest three years from the date of grant. RSUs, PSUs and DRSUs are to be settled in cash, based on the share price at the time of vesting. The number of share equivalent units at the time of vesting increases commensurately with each dividend declared by the Company after the grant date.

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

	Number of RSUs	Number of PSUs	Number of DRSUs
Balance, December 31, 2012	-	-	-
Granted	1,647,706	1,043,398	157,702
Reinvested through notional dividends	144,215	99,001	14,545
Forfeited	(208,258)	(31,356)	-
Settled	(67,169)	-	-
Balance, December 31, 2013	**1,516,494**	**1,111,043**	**172,247**

At December 31, 2013, the PSUs were subject to a multiplier of 1.

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

The Company's previous long-term incentive plan for employees and management included a blend of three types of share based awards depending on roles and responsibilities within the organization: restricted share awards ("RSAs"), performance share awards ("PSAs") and stock options. RSA vested evenly over a three year period. PSAs vested three years from the date of grant and the number of awards granted was subject to a multiplier ranging from 0 to 2. As a result of the Arrangement (see note 6), vesting of RSAs, PSAs and options was accelerated to the Arrangement closing date of March 28, 2013 for the calculation of LTIP expense resulting in an additional $1.3 million of expense recorded in Q4 2012 and $0.7 million of expense recorded in Q1 2013.

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

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

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

[1] The number of RSAs, PSAs and DSAs has been adjusted to reflect Pace's share exchange ratio of 1.3 to 1 pursuant to the Arrangement (note 1 & 6)

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

The Company's previous stock option plan allowed common shares to be granted under option to employees, directors and other persons who provided ongoing management or consulting services to the Company. Stock options were granted for a term of three years and vested one third every nine months. The exercise price of each option equaled the market price of the Company's common shares on the date of the grant. The stock option plan was replaced in Q2 2013 with the new LTIP plan.

The summary of stock option activity is presented below:

	Number of options [1]	Weighted average exercise price [1]
Balance, December 31, 2012	4,217,918	$ 5.33
Exercised	(4,501)	1.92
Forfeited	(194,611)	5.21
Expired	(145,600)	8.17
Extinquished upon closing of the Arrangement	(3,873,206)	5.23
Balance, December 31, 2013	**-**	**$ -**
Exercisable at December 31, 2013	**-**	**$ -**

[1] Number of options and weighted average exercise prices have been adjusted to reflect Pace's share exchange ratio of 1.3 to 1 pursuant to the Arrangement (note 1 & 6)

(g) Long-term incentive plan expense

The Company accounts for its LTIP using the fair value method, which includes revaluing to market value at the end of each period. Under this method, a compensation expense is charged over the vesting period. During the year ended December 31, 2013, the Company expensed $2.0 million LTIP compensation (2012 - $3.6 million).

The fair value of options granted under the previous LTIP were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values for the grants made in the year ended December 31, 2012.

	December 31, 2012
Fair value of options	$ 1.14
Risk free interest rate	1.2%
Expected life of options (years)	2.0
Expected volatility	46%
Estimated forfeiture rate	3.0%
Dividend per share	$ -

The expected volatility of grants in 2012 was based on the Company's historical volatility.

13. Deferred taxes

The provision for deferred taxes in the consolidated statements of income (loss) and comprehensive income (loss) differ from the result that would have been obtained by applying the combined federal and provincial tax rate to the Company's income (loss) before taxes. The difference results from the following items:

	Year ended December 31, 2013	Year ended December 31, 2012
Income (loss) before taxes	**$ 41,246**	$ (202,584)
Combined federal and provincial tax rate	**25.0%**	25.0%
Computed "expected" tax expense (recovery)	**10,312**	(50,646)
Increase (decrease) in taxes resulting from:		
Permanent items	**(20,909)**	995
Derecognition of previously recognized deferred tax asset	**9,088**	-
Change in rates	**595**	(159)
Other	**(1,171)**	217
Deferred tax expense (recovery)	**$ (2,085)**	$ (49,593)

The following is a continuity of the associated temporary differences of the Company's deferred tax asset (liability) for 2013 and 2012:

	Balance December 31, 2012	Deferred tax recovery (expense)	Acquisition of Charger	Acquisition of AvenEx	**Balance December 31, 2013**
Petroleum and natural gas assets	$ (44,902)	$ 27,456	$ 5,628	$ 7,517	$ **(4,301)**
Decommissioning liabilities	12,385	(438)	2,779	6,212	**20,938**
Financial derivative instruments	(248)	2,511	512	54	**2,829**
Share issue costs	440	(428)	542	-	**554**
Other	253	68	-	-	**321**
Non-capital losses	51,665	(17,996)	16,154	18,412	**68,235**
Subtotal	19,593	11,173	25,615	32,195	**88,576**
Unrecognized deferred tax asset	-	(9,088)	-	-	**(9,088)**
Total deferred tax asset (liability)	**$ 19,593**	**$ 2,085**	**$ 25,615**	**$ 32,195**	**$ 79,488**

	Balance December 31, 2011	Deferred tax expense	Balance December 31, 2012
Petroleum and natural gas assets	$ (78,301)	$ 33,399	$ (44,902)
Decommissioning liabilities	11,621	764	12,385
Financial derivative instruments	360	(608)	(248)
Share issue costs	792	(352)	440
Other	262	(9)	253
Non-capital losses	35,266	16,399	51,665
Total deferred tax asset (liability)	$ (30,000)	$ 49,593	$ 19,593

Deferred income tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable income will be available in the future against which the unused tax losses and credits can be utilized. In 2013, it was determined that it is not probable that deferred tax assets related to certain successored tax pools from predecessor companies will be utilized in the carry-forward period. Income projections show sufficient taxable income to utilize the benefit of remaining unused tax losses and credits within the carry-forward period. As at December 31, 2013, the Company has tax pools totaling approximately $1.0 billion, with $215.9 million of non-capital losses expiring within 20 years.

Temporary differences of $2.8 million for financial derivative instruments and $0.4 million for share issue costs are expected to reverse in the next 12 months. The Company also has temporary differences in respect of its investments in Canadian subsidiaries for which no deferred taxes have been recorded as no taxes are expected to be paid in respect of the temporary differences related to its Canadian subsidiaries.

14. Salary, benefits and other compensation expenses

(a) Employee compensation expenses

The following table provides a breakdown of gross salaries, benefits and other compensation expenses included in the consolidated statement of income (loss) and comprehensive income (loss) for the periods, prior to capitalization and recoveries:

	Year ended December 31, 2013	Year ended December 31, 2012
Employee costs		
Operating expense	**$ 4,259**	$ 4,188
General and administrative expense	**17,323**	21,997
Total employee costs	**$ 21,582**	$ 26,185

(b) Key management compensation

Key management includes the Company's currently active directors, officers and other members of senior management, as well as their equivalents from Pace prior to the Arrangement. Compensation awarded to key management includes salaries and benefits including director's fees, short term incentive, and awards granted under the Company's long-term incentive plan. At December 31, 2013 key management personnel included 12 individuals (2012 – 17 individuals). Balances outstanding and payable as at December 31, 2013 were $0.8 million (2012 – $2.2 million). The following table summarizes total compensation attributed to key management for 2013 and 2012:

	Year ended December 31, 2013	Year ended December 31, 2012
Key management compensation		
Salaries, benefits and other short-term employee compensation	**$ 2,469**	$ 5,026
Long-term incentive plan	**885**	1,909
Total key management compensation	**$ 3,354**	$ 6,935

15. Other income

Other income includes $84.2 million in gains recognized as a result of an excess of the fair value of net assets acquired in the Arrangement (note 6) over consideration transferred, $5.2 million of gains on dispositions of non-core producing properties and undeveloped land as well as marketing revenue and seismic data sales.

Other income for 2012 includes marketing revenue and seismic data sales.

16. Contractual Obligations

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

As at December 31, 2013	**Total**	< 1 year	1-3 years	4-5 years	After 5 years
Operating leases	**$ 29,430**	$ 2,473	$ 7,275	$ 7,058	$ 12,624
Long-term debt [1]	**301,633**	13,436	288,197	-	-
Firm transportation charges	**4,054**	2,328	1,398	281	47
Total contractual obligations	**$ 335,117**	$ 18,237	$ 296,870	$ 7,339	$ 12,671

[1] Includes related interest.

Spyglass enters into fixed price contracts for the purchase of power. These contracts are in the normal course of business and are not intended to be settled for net cash payment. As such, these contracts are not recognized in the financial statements and future revenues or costs are recognized as earned over the term of the contract.

As at December 31, 2013, the following contracts were outstanding with respect to the purchase of power:

- A fixed price purchase of electrical power for the period January 1, 2013 to December 31, 2014 of 1.0 megawatt per month at a price of $56.30/megawatt hour.
- A fixed price purchase of electrical power for the period January 1, 2014 to December 31, 2014 of 2.0 megawatts per month at a price of $54.74/megawatt hour.
- A fixed price purchase of electrical power for the period January 1, 2014 to December 31, 2015 of 2.0 megawatts per month at a price of $52.40/megawatt hour.
- A fixed price purchase of electrical power for the period January 1, 2015 to December 31, 2015 of 2.0 megawatts per month at a price of $50.25/megawatt hour.

17. Financial instruments and capital management

The Company has exposure to credit, liquidity and market risk from its use of financial instruments. This note presents information about the Company's exposure to these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. Spyglass' management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

(a) Fair value of financial instruments:

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

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

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

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

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

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

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

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

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

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

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

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

December 31, 2013	Fair value through profit and loss	Fair value through OCI	Loans and receivables	Financial liabilities	**Total carrying value**
Assets					
Cash and cash equivalents	$ -	$ -	$ -	$ -	**$ -**
Accounts receivable	-	-	39,952	-	**39,952**
Derivatives - Interest Rate Swap	22	-	-	-	**22**
Derivatives - Commodity contracts	8	-	-	-	**8**
Investment	-	326	-	-	**326**
	$ 30	**$ 326**	**$ 39,952**	**$ -**	**$ 40,308**
Liabilities					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 52,729	**$ 52,729**
Dividends payable	-	-	-	2,882	**2,882**
Derivatives - Commodity contracts	11,346	-	-	-	**11,346**
Long-term compensation liability	-	-	-	808	**808**
Long-term debt	-	-	-	287,000	**287,000**
	$ **11,346**	**$ -**	**$ -**	**$ 343,419**	**$ 354,765**

December 31, 2012	Fair value through profit and loss	Fair value through OCI	Loans and receivables	Financial liabilities	Total carrying value
Assets					
Cash and cash equivalents	$ -	$ -	$ 35	$ -	$ 35
Accounts receivable	-	-	31,324	-	31,324
Derivatives - Interest Rate Swap	156	-	-	-	156
Derivatives - Commodity contracts	835	-	-	-	835
Investment	-	326	-	-	326
	$ 991	$ 326	$ 31,359	$ -	$ 32,676
Liabilities					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 45,489	$ 45,489
Long-term debt	-	-	-	199,810	199,810
	$ -	$ -	$ -	$ 245,299	$ 245,299

Financial assets and liabilities are only offset if Spyglass has the current legal right to offset and intends to settle on a net basis. Financial derivative instruments are subject to master netting agreements that create a legally enforceable right to offset financial assets and financial liabilities by counterparty when the commodity, currency and timing of settlement are the same. No financial assets and liabilities were offset in the consolidated balance sheet as at December 31, 2013 and December 31, 2012.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint operation partners and petroleum and natural gas marketers.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Spyglass' policy to mitigate credit risk associated with these balances is to maintain marketing relationships with large, established and reputable purchasers that are considered to be creditworthy. Spyglass has not experienced any collection issues with its petroleum and natural gas marketers. In 2013, 69% of the Company's revenue was sold to three marketers. At year end, Spyglass has received letters of credit and parental guarantees totaling $41.7 million from its marketers. Joint operation receivables are typically collected within two to three months of the joint operation bill being issued to the partner. Spyglass attempts to mitigate collection risk from joint operation receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint operation partners. Joint operation receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Spyglass does not request letters of credit in its favor from joint operation partners; however the Company does have the ability to withhold production from joint operation partners in the event of non-payment or may be able to register security on the assets of joint operation partners.

The following table is a summary of the Company's accounts receivable balances as at December 31, 2013 and 2012:

		December 31, 2013		December 31, 2012
Revenue receivable	**$**	**20,191**	$	14,489
Joint operation related receivables		**15,434**		6,827
Other accounts receivable [(1)]		**6,236**		11,310
Allowance for doubtful accounts		**(1,909)**		(1,302)
Accounts receivable	**$**	**39,952**	$	31,324

[(1)] Included in other accounts receivable at December 31, 2013 were insurance receivables related to the Rainbow Lake Oil Leak of $4.4 million (2012 - $8.0 million) (see note 18).

At December 31, 2013, the Company had $9.1 million (2012 – $2.6 million) of receivables that were considered past due. The majority of these amounts are due from large, well established joint operation partners. Other than the amounts allowed for in the allowance for doubtful accounts discussed below, management believes the balances will be collected.

Spyglass establishes an allowance for doubtful accounts as determined by management based on their assessment of collection; therefore, the carrying amount of accounts receivable represents the maximum credit exposure. During 2013, Spyglass reduced the allowance for doubtful accounts by writing off $0.1 million (2012 – $0.1 million) of accounts receivable that were deemed uncollectible and set up a new allowance of $0.2 million (2012 – nil). Although an allowance has been provided, Spyglass will continue to pursue collection of outstanding accounts receivables. The allowance may be adjusted if circumstances or events change.

The following table summarizes the changes in the allowance for doubtful accounts:

		December 31, 2013		December 31, 2012
Balance, beginning of the period	**$**	**(1,302)**	$	(1,352)
New allowance for doubtful account provision		**(173)**		-
Allowance for doubtful accounts provision acquired (note 6)		**(518)**		-
Account write-offs		**84**		50
Balance, end of period	**$**	**(1,909)**	$	(1,302)

Cash and cash equivalents, when held, consist of cash bank balances and short-term deposits maturing in less than 90 days. Spyglass manages the credit exposure related to short-term investments by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. Spyglass prepares an annual budget and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. Spyglass' financial liabilities consist of its long-term debt (note 10), dividends payable, long-term incentive plan liability and its accounts payable and accrued liabilities.

The following table summarizes the contractual maturities of financial liabilities as at December 31, 2013 and 2012:

December 31, 2013				
Financial Liability	**Total**	**Less Than 1 year**	**1-3 Years**	**3-5 Years**
Account payable and accrued liabilities	**$ 52,729**	**$ 52,729**	**$ -**	**$ -**
Financial derivative instruments	**11,346**	**11,278**	**68**	**-**
Long-term incentive plan liability	**808**	**-**	**808**	**-**
Long-term debt [(1)]	**301,633**	**13,436**	**288,197**	**-**
Total	**$ 366,516**	**$ 77,443**	**$ 289,073**	**$ -**

December 31, 2012				
Financial Liability	Total	Less Than 1 year	1-3 Years	3-5 Years
Account payable and accrued liabilities	$ 45,489	$ 45,489	$ -	$ -
Long-term debt [(1)]	211,978	8,112	203,866	-
Total	$ 257,467	$ 53,601	$ 203,866	$ -

[(1)] Includes related interest.

The following table summarizes the Company's accounts payable and accrued liabilities as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Accrued liabilities	**$ 30,132**	$ 27,546
Trade payables	**11,793**	11,728
Joint operation related payables	**10,779**	5,016
Other accounts payables	**25**	1,199
Accounts payable and accrued liabilities	**$ 52,729**	$ 45,489

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, commodity price risk and interest rate risk. The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used to reduce exposure to these risks.

i) Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. A strengthening Canadian dollar compared to the United States dollar negatively impacts Spyglass. The Company had no forward exchange rate contracts in place as at December 31, 2013 and December 31, 2012.

ii) Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. Spyglass' commodity price risk management program utilizes derivative instruments to provide protection against lower commodity prices and is designed to stabilize cash flows in order to support Spyglass' future capital programs and bank financing. The program protects a percentage of Spyglass' oil and natural gas production against decline in commodity prices.

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

Commodity risk management contracts					**Fair Value as at**	
					December 31,	December 31,
Instrument	Period	Price	Reference	Quantity	**2013**	2012
Crude Oil Contracts						
Swap	Jan 1, 2013 - Dec 31, 2013	$97.00	CDN$ WTI	500 bbl/d	**$ -**	$ 680
Swap	Aug 1, 2013 - Jul 31, 2014	$96.12	CDN$ WTI	250 bbl/d	**(406)**	-
Swap	Jan 1, 2014 - Mar 31, 2014	$93.65	CDN$ WTI	1,700 bbl/d	**(1,680)**	-
Swap	Jan 1, 2014 - Mar 31, 2014	$96.23	CDN$ WTI	500 bbl/d	**(384)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	-$24.99	CDN$ WCS [1]	500 bbl/d	**(320)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$92.20	CDN$ WTI	1,000 bbl/d	**(3,547)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$93.25	CDN$ WTI	500 bbl/d	**(1,583)**	-
Swap	Apr 1, 2014 - Jun 30, 2014	$95.27	CDN$ WTI	1,000 bbl/d	**(745)**	-
Swap	Apr 1, 2014 - Dec 31, 2014	$98.13	CDN$ WTI	600 bbl/d	**(508)**	-
Swap	Apr 1, 2014 - Dec 31, 2014	$96.90	CDN$ WTI	600 bbl/d	**(688)**	-
Swap	Jul 1, 2014 - Sep 30, 2014	$94.43	CDN$ WTI	500 bbl/d	**(305)**	-
Swap	Oct 1, 2014 - Dec 31, 2014	$93.75	CDN$ WTI	250 bbl/d	**(121)**	-
Swap	Jan 1, 2015 - Mar 31, 2015	$96.20	CDN$ WTI	500 bbl/d	**(32)**	-
Swap	Jan 1, 2015 - Mar 31, 2015	$96.50	CDN$ WTI	500 bbl/d	**(19)**	-
					$ (10,338)	$ 680
Natural Gas Contracts						
Collar	Jan 1, 2013 - Dec 31, 2013	$2.75 - $3.375	CDN$ GJ	5,000 GJ/d	**$ -**	$ 17
Swap	Jan 1, 2013 - Dec 31, 2013	$3.0625	CDN$ GJ	5,000 GJ/d	**-**	138
Swap	Jan 1, 2014 - Dec 31, 2014	$3.55	CDN$ GJ	1,500 GJ/d	**(86)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$3.555	CDN$ GJ	5,000 GJ/d	**(264)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$3.575	CDN$ GJ	6,250 GJ/d	**(284)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$3.59	CDN$ GJ	5,000 GJ/d	**(177)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$3.6075	CDN$ GJ	3,000 GJ/d	**(87)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$3.64	CDN$ GJ	2,000 GJ/d	**(34)**	-
Swap	Jan 1, 2014 - Dec 31, 2014	$3.71	CDN$ GJ	2,000 GJ/d	**7**	-
Swap	Jan 1, 2015 - Mar 31, 2015	$3.7625	CDN$ GJ	2,000 GJ/d	**(17)**	-
Put	Jan 1, 2014 - Dec 31, 2014	$3.40	CDN$ GJ	2,000 GJ/d	**(58)**	-
					$ (1,000)	$ 155
Total					**$ (11,338)**	$ 835

[1] Fixed $ WCS versus WTI

Subsequent to December 31, 2013 Spyglass entered into the following commodity risk management contracts:

- A WCS crude oil swap for 500 bbls/d for the period from February 1, 2014 to December 31, 2014 with a fixed price of -$21.70 CDN/bbl versus WTI.
- A WCS crude oil swap for 500 bbls/d for the period from January 1, 2015 to December 31, 2015 with a fixed price of -22.80 CDN/bbl versus WTI.
- A WTI crude oil swap for 500 bbls/d for the period from January 1, 2015 to June 30, 2015 with a fixed price of $98.40 CDN/bbl.
- A WTI crude oil swap for 500 bbls/d for the period from April 1, 2015 to December 31, 2015 with a fixed price of $99.10 CDN/bbl.
- An AECO natural gas swap contract for 3,000 GJ/d for the period from January 1, 2015 to March 31, 2015 with a fixed price of $4.10 CAD/GJ.

- An AECO natural gas swap contract for 2,000 GJ/d for the period from January 1, 2015 to March 31, 2015 with a fixed price of $4.14 CAD/GJ.

For the year ended December 31, 2013, Spyglass recorded a realized loss of $10.0 million (2012 – $7.3 million gain) and an unrealized loss of $9.9 million (2012 – $2.3 million gain) related to its commodity risk management contracts. During 2012, Spyglass monetized a crude oil swap for 2013 generating proceeds of $3.9 million.

The value of Spyglass' commodity price risk management contracts fluctuate with changes in the underlying market price of crude oil and natural gas.

An increase in CDN$ WTI by $5/bbl from the expected forward prices at December 31, 2013 would result in a decrease in Spyglass' gain (loss) on derivative instruments of $7.8 million. A decrease in CDN$ WTI by $5/bbl from the expected forward prices at December 31, 2013 would have an equal and opposite impact on the gain (loss) on derivative instruments.

An increase in CDN AECO by $0.25/Mcf from the expected forward prices at December 31, 2013 would result in a decrease in Spyglass' gain (loss) on derivative instruments of $2.3 million. A decrease in CDN AECO by $0.25/Mcf from the expected forward prices at December 31, 2013 would have an equal and opposite impact on the gain (loss) on derivative instruments.

iii) Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents, when held, and long-term debt that have a floating interest rates. Spyglass' interest rate risk management program utilizes derivative instruments to provide protection against rising interest rates by swapping a portion of Spyglass' floating rate debt for fixed rate debt.

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

Interest rate risk management contract					**Fair Value as at**	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	**December 31, 2013**	December 31, 2012
Swap	Jul 5, 2012 - Jul 4, 2014	$75,000,000	CAD-BA-CDOR	1.145%	**$ 22**	$ 156
Total					**$ 22**	$ 156

Subsequent to December 31, 2013, Spyglass entered into an interest rate swap contract with a fixed rate of 1.281% and a notional amount of $75,000,000 for the period from January 14, 2014 to January 14, 2016. The contract is to be settled monthly with reference to CAD-BA-CDOR.

For the year ended December 31, 2013, Spyglass recorded a realized gain of $0.1 million (2012 – $27 thousand) and an unrealized loss of $0.1 million (2012 – $0.1 million gain) related to its interest rate risk management contract.

An increase in interest rates of 0.25 percent from the expected forward prices at December 31, 2013 would result in an increase in Spyglass' gain (loss) on derivative instruments $0.1 million. A decrease in interest rates of 0.25 percent from the expected forward prices at December 31, 2013 would have an equal and opposite impact on the gain (loss) on derivative instruments.

Based on debt levels and removing the notional amount on the interest rate risk management contracts in place as at December 31, 2013, a reduction to interest rates of 25 basis points would result in an increase to annual net income of $0.5 million and an increase to cashflow from operating activities of $0.6 million. An equal and opposite impact would occur to net income and cashflow from operating activities if interest rates increase by 25 basis points.

(e) Capital management:

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

The management of capital includes share capital of $494.3 million (2012- $430.0 million) and long-term debt of $287.0 million (2012- $199.8 million). The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the forecasted commodity prices and resulting cash flows and debt levels. The Company monitors non-GAAP metrics including a calculation of its long-term debt to its trailing four quarters EBITDA as defined by its credit facility. EBITDA is equal to cash flow from operating activities plus interest expense, before site restoration expenditures and changes in non-cash working capital activities from operations adjusted on a pro forma basis for acquisitions and dispositions. At December 31, 2013, this ratio was 3.6 (December 31, 2012 - 3.0). Further, the Company monitors both its basic and all-in payout ratios with a target of approximately 100% for its all-in payout ratio. 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. The 2013 basic payout ratio was 43% while the 2013 all-in payout ratio was 104%. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, if available on reasonable terms, sell assets, farm out properties and adjust its capital spending to manage current and projected debt levels. The Company may also review its level of bank credit obtainable based on the growth of its oil and natural gas reserves.

18. Environmental liabilities and 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 $20.5 million of insurance proceeds to December 31, 2013. Spyglass has paid $21.6 million of clean-up and remediation costs as of December 31, 2013 with a further $0.4 million recorded in accrued liabilities for work performed to December 31, 2013 and $3.0 million accrued in other liabilities for future costs expected to be incurred. Spyglass has recorded $4.4 million in accounts receivable for insurance receivable as at December 31, 2013. Spyglass has evaluated the credit worthiness of its insurance providers and has concluded it to be adequate.

19. Supplemental Information

(a) Revenue by product:

For the years ended December 31, 2013 and 2012, petroleum and natural gas sales can be broken down into the following products:

December 31, 2013	Oil	Liquids	Natural gas	Total
Petroleum and natural gas sales	**$ 209,748**	**$ 8,378**	**$ 54,888**	**$ 273,014**

December 31, 2012	Oil	Liquids	Natural gas	Total
Petroleum and natural gas sales	$ 168,895	$ 6,929	$ 36,529	$ 212,353

(b) Cash flow information:

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

	Year ended December 31, 2013	2012
Change in non-cash working capital:		
Accounts receivable	**$ (8,628)**	$ 6,435
Prepaid expenses and deposits	**138**	(721)
Accounts payable and accrued liabilities	**7,240**	(29,279)
Dividends payable	**2,882**	-
Other liabilities	**(952)**	4,200
Non-cash portion of compensation liability	**(1,367)**	(2,413)
Working capital acquired on acquisition (note 6)	**(16,463)**	-
Change in working capital	**$ (17,150)**	$ (21,778)
Relating to:		
Operating activities	**(21,998)**	7,203
Financing activities	**2,882**	43
Investing activities	**1,966**	(29,024)
Change in non-cash working capital	**$ (17,150)**	$ (21,778)

The following represents the cash interest paid in each period:

	Year ended December 31, 2013	2012
Cash interest paid	**$ 14,118**	$ 8,228