

Q3 2014 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

As at

(Thousands of Canadian dollars) (unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Accounts receivable	**$ 37,100**	$ 39,952
Prepaid expenses and deposits	**1,603**	2,185
Financial derivative instruments (note 9)	**476**	30
Assets held for sale (note 3)	**1,272**	3,214
	40,451	45,381
Investments (note 9)	**-**	326
Financial derivative instruments (note 9)	**193**	-
Exploration and evaluation assets (note 4)	**37,039**	58,410
Property, plant and equipment (note 5)	**673,033**	708,723
Deferred tax assets	**83,226**	79,488
	$ 833,942	$ 892,328
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 59,483**	$ 52,729
Dividends payable (note 8)	**1,921**	2,882
Other liabilities (note 10)	**4,933**	3,248
Financial derivative instruments (note 9)	**4,483**	11,278
Liabilities associated with assets held for sale (note 3)	**72**	269
	70,892	70,406
Long-term debt (note 6)	**267,400**	287,000
Long-term incentive plan liability (note 8)	**1,044**	808
Financial derivative instruments (note 9)	**79**	68
Decommissioning liabilities (note 7)	**83,317**	83,752
Shareholders' equity:		
Share capital (note 1 & 8)	**494,292**	494,292
Deficit (note 1)	**(83,082)**	(43,998)
	411,210	450,294
	$ 833,942	$ 892,328

See accompanying notes to the interim consolidated financial statements.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Petroleum and natural gas sales	**$ 61,731**	$ 80,859	**$ 215,974**	$ 207,105
Royalties	**(10,800)**	(17,354)	**(38,354)**	(42,952)
Revenues	**50,931**	63,505	**177,620**	164,153
Other income (note 3)	**2,890**	3,077	**8,512**	85,163
Gain (loss) on financial derivative instruments (note 9)	**6,831**	(8,437)	**(12,827)**	(14,082)
Expenses				
Operating	**24,242**	27,012	**77,537**	78,135
Transportation	**2,322**	3,069	**8,171**	8,863
Finance	**5,489**	5,113	**16,264**	13,217
Depletion, depreciation and impairments (note 4 & 5)	**30,066**	21,378	**75,432**	55,506
General and administration (note 12)	**4,395**	4,185	**13,267**	13,007
Long-term incentive plan (note 8 & 12)	**244**	570	**1,442**	1,441
Transaction costs (note 1)	**-**	-	**-**	13,451
	66,758	61,327	**192,113**	183,620
Income (loss) before taxes	**(6,106)**	(3,182)	**(18,808)**	51,614
Deferred taxes (recovery)	**(1,918)**	(1,780)	**(3,738)**	(8,583)
Net income (loss) and comprehensive income (loss)	**$ (4,188)**	$ (1,402)	**$ (15,070)**	$ 60,197
Income (loss) per share: (note 8)				
Basic and Diluted	**$ (0.03)**	$ (0.01)	**$ (0.12)**	$ 0.56

See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Changes in Equity

Nine months ended September 30

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

	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total Equity
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) and comprehensive income (loss) during the period	-	-	-	-	60,197	60,197
Dividends declared	-	-	-	-	(17,289)	(17,289)
Reduction of stated capital (note 1)	-	(86,020)	(12,787)	730	98,077	-
Balance, September 30, 2013	**128,076,720**	**$ 494,292**	**$ -**	**$ -**	**$ (18,487)**	**$ 475,805**
Net income (loss) and comprehensive income (loss) during the period	-	-	-	-	(16,866)	(16,866)
Dividends declared					(8,645)	(8,645)
Balance, December 31, 2013	**128,076,720**	**$ 494,292**	**$ -**	**$ -**	**$ (43,998)**	**$ 450,294**
Net income (loss) and comprehensive income (loss) during the period	-	-	-	-	(15,070)	(15,070)
Dividends declared	-	-	-	-	(24,014)	(24,014)
Balance, September 30, 2014	**128,076,720**	**$ 494,292**	**$ -**	**$ -**	**$ (83,082)**	**$ 411,210**

See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Cash Flows

(Thousands of Canadian dollars) (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Cash provided by (used in)				
Operations				
Net income (loss)	**$ (4,188)**	**$** (1,402)	$ **(15,070)**	$ 60,197
Items not involving cash:				
Depletion and depreciation (notes 4 & 5)	**30,066**	21,378	**75,432**	55,506
Accretion of decommissioning liabilities (note 7)	**1,453**	1,493	**4,321**	3,820
Non cash long-term incentive (note 8)	**244**	570	**1,442**	1,294
Other non-cash items	**89**	-	**89**	-
Gain on business combinations (note 1)	**-**	-	**-**	(81,866)
Gain on property dispositions (note 3)	**(2,595)**	(1,850)	**(7,867)**	(1,850)
Gain on sale of investments (note 9)	**-**	-	**(215)**	-
Unrealized (gain) loss on financial derivative instruments (note 9)	**(11,249)**	3,138	**(7,423)**	7,189
Deferred taxes (recovery)	**(1,918)**	(1,780)	**(3,738)**	(8,583)
Decommissioning expenditures (note 7)	**(516)**	(497)	**(3,616)**	(2,549)
Change in non-cash working capital (note 11)	**(2,988)**	(7,004)	**2,855**	(20,957)
Cash flow from operating activities	**8,398**	14,046	**46,210**	12,201
Financing				
Increase (decrease) in long-term debt	**(23,500)**	(3,400)	**(19,600)**	14,540
Dividends declared (note 8)	**(6,724)**	(8,645)	**(24,014)**	(17,289)
Change in non-cash working capital (note 11)	**(961)**	-	**(961)**	2,882
Cash flow from (used in) financing activities	**(31,185)**	(12,045)	**(44,575)**	133
Investing				
Capital expenditures	**(29,078)**	(24,559)	**(62,327)**	(44,663)
Cash acquired on business combination (note 1)	**-**	-	**-**	11,890
Property dispositions net of acquisitions (note 3)	**42,836**	10,199	**52,988**	10,199
Change in non-cash working capital (note 11)	**9,029**	12,359	**7,704**	10,205
Cash flow from (used in) investing activities	**22,787**	(2,001)	**(1,635)**	(12,369)
Changes in cash	**-**	-	**-**	(35)
Cash beginning of period	**-**	-	**-**	35
Cash end of period	**$ -**	**$** -	$ **-**	$ -

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

1. Background and general information

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

On March 28, 2013, Pace Oil & Gas Ltd. ("Pace"), Charger Energy Corp. ("Charger") and AvenEx Energy Corp ("AvenEx") completed a Plan of Arrangement (the "Arrangement") whereby Spyglass Resources Corp. was formed through the amalgamation of Pace, Charger and AvenEx. Pace subdivided its shares on a basis of 1.3 post-subdivided Pace shares for each 1.0 pre-subdivided Pace share. Pace shares were issued in exchange for the outstanding Charger shares on a basis of 0.18 Pace share for each Charger share and Pace shares were then issued in exchange for the outstanding AvenEx shares on a basis of 1.0 Pace share for each AvenEx share. Pace was then renamed to Spyglass Resources Corp. The Arrangement was accounted for as a business combination whereby Pace was deemed to be the acquirer and as such comparative amounts prior to the Arrangement reflect the history of Pace. Prior period common share 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.

These interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 13, 2014.

2. Basis of presentation & significant accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

The following accounting pronouncements and amendments were recently announced:

(a) IFRS 15 – *Revenue from Contracts with Customers,* issued on May 28, 2014, replaces IAS 18 – *Revenue* and IAS 11 – *Construction Contracts* and provides a new principle based model on revenue recognition to all contracts with customers. Mandatory adoption is effective for periods beginning on or after January 1, 2017. Adopting this standard is not expected to have material impact on the Company's consolidated financial statements.

(b) Amendments to IFRS 11 – *Joint Arrangements,* issued on May 6, 2014, clarify that acquisitions of interests in joint operations that constitute a business should apply the relevant principles for business combinations in IFRS 3 – *Business Combinations*. The amendment is to be applied prospectively effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. As this amendment is to be applied prospectively, no impact is expected on the interim consolidated financial statements. Upon adoption of this amendment, certain transactions which may previously have been treated as property acquisitions may instead be treated as business combinations.

(c) The final version of IFRS 9 – *Financial Instruments* was issued on July 24, 2014. The standard replaces IAS 39 – *Financial Instruments: Recognition and measurement*, supersedes all previous versions of *IFRS 9 – Financial Instruments*, and is mandatory effective for periods beginning on or after January 1, 2018 with early adoption permitted. The Company early adopted a previous version of IFRS 9 – *Financial Instruments* effective January 1, 2010. The Company is evaluating the impact of adopting the final version of IFRS 9 – *Financial Instruments*.

3. Assets sold, acquired and held for sale

(a) Assets sold and acquired

In the nine months ended September 30, 2014, Spyglass disposed of certain non-core producing properties and undeveloped land in the provinces of Alberta and Saskatchewan, including assets that were classified as held for sale at December 31, 2013, March 31, 2014 and June 30, 2014. The assets disposed of in the nine months ended September 30, 2014 had a net carrying value of $47.6 million and were sold for proceeds of $55.5 million. The transactions resulted in gains of $7.9 million which were recognized as other income in the Consolidated Statement of Income (Loss) during the nine months ended September 30, 2014. The Company also acquired certain producing, non-producing and additional working interest in assets in the province of Alberta with a third party at a cost of $2.5 million.

(b) Assets held for sale

The following is a continuity of assets and liabilities held for sale from December 31, 2013 to September 30, 2014.

Assets held for sale		
Exploration & evaluation assets	$	550
Property, plant and equipment		2,664
Assets held for sale at December 31, 2013	$	3,214
Exploration & evaluation assets	$	4,159
Property, plant and equipment		43,387
Disposals		(49,488)
Assets held for sale at September 30, 2014	**$**	**1,272**

Liabilities associated with assets held for sale		
Decommissioning liabilities at December 31, 2013	$	269
Decommissioning liabilities	$	2,323
Disposals		(2,520)
Liabilities associated with assets held for sale at September 30, 2014	**$**	**72**

The assets held for sale as at December 31, 2013 were reported at the carrying amount and were sold in Q1 2014 for proceeds of $3.0 million. Assets held for sale as at March 31, 2014 were written down to their fair value less costs of disposal at that time of $4.2 million which resulted in a loss of $2.3 million being recognized in the nine months ended September 30, 2014 under depletion, depreciation and impairments (note 5). These assets held for sale were subsequently sold in Q2 2014 for their fair value less costs of disposal of $4.2 million. Assets held for sale at June 30, 2014 and associated liabilities were reported at the carrying amount and were sold in Q3 2014 for proceeds of $42.8 million.

Assets held for sale as at September 30, 2014 were reported at the carrying amount and were sold in Q4 2014 for proceeds of $1.3 million.

4. Exploration and evaluation assets

	September 30, 2014	December 31, 2013
Balance, beginning of period	$ **58,410**	$ 30,775
Additions	**1,444**	3,090
Capitalized long-term incentive	**9**	14
Acquisitions (note 1)	**-**	47,473
Dispositions	**(475)**	(3,027)
Transfers to property, plant and equipment	**(506)**	(13,604)
Transfers to assets held for sale (note 3)	**(4,159)**	(550)
Expiries	**(6,532)**	(5,761)
Impairment	**(11,152)**	-
Balance, end of period	**$ 37,039**	58,410

During the nine months ended September 30, 2014, the Company recorded impairment on its exploration and evaluation assets of $11.2 million ($8.4 million net of tax) in the North Oil gas generating unit as a result of changes in management's future development plans. The assets were written down to the estimated recoverable amount based on fair value less costs of disposal. The fair value less costs of disposal was estimated based on recent undeveloped land sales in the area. This fair value measurement is non-recurring and is classified as level 2 in the fair value hierarchy (see note 9 for information on the fair value hierarchy).

5. Property, plant and equipment

	Cost	Accumulated depletion and depreciation	Net book Value
Balance, December 31, 2012	$ 867,580	$ (371,426)	$ 496,154
Additions	56,564	-	
Capitalized long-term incentive	302	-	
Acquisitions (note 1)	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
Additions	**60,883**	**-**	
Non Cash Additions (note 9)	**247**	**-**	
Capitalized long-term incentive	**306**	**-**	
Acquisitions (note 3)	**2,458**	**-**	
Disposals (note 3)	**(8,105)**	**6,759**	
Transfers from exploration and evaluation assets	**506**	**-**	
Transfers to assets held for sale (note 3)	**(64,866)**	**21,479**	
Decommissioning provision	**2,391**	**-**	
Depletion and depreciation	**-**	**(55,430)**	
Impairment loss	**-**	**(2,318)**	
Balance, September 30, 2014	**$ 1,133,342**	**$ (460,309)**	**$ 673,033**

In Q1 2014, an impairment loss of $2.3 million was recorded upon the transfer of property, plant and equipment into assets held for sale to write the carrying amount down to the recoverable amount based on the fair value less costs of disposal (Note 3). The

fair value less costs of disposal was determined using the price per the sales agreement. In Q2 2014 the Company completed the sale of these assets.

Future development costs of the Company's proved plus probable reserves of $258.1 million (December 31, 2013 – $364.0 million) were included in the depletion calculation.

6. Long-term debt

On May 5, 2014, Spyglass renewed and amended its revolving term credit facility with a syndicate of banks. On September 8, 2014 the credit facility was further amended as a result of property dispositions that occurred in the third quarter to reduce the borrowing base. The renewed and amended credit facility of $365 million provides for a $340 million revolving credit facility and a $25 million development loan. The development facility requires consent of the bank syndicate prior to being drawn. The facility is available on a revolving basis until April 28, 2015. On April 28, 2015 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 bank rates 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 September 30, 2014, $267.4 million was drawn on this facility (December 31, 2013 - $287.0 million). The Company is subject to certain non-financial covenants in its credit facility agreement. Covenants include reporting requirements, permitted dispositions, permitted financial derivatives, permitted encumbrances and other standard business operating covenants. The Company is not subject to any financial covenants. As at September 30, 2014 the Company is in compliance with all covenants. 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 September 30, 2014.

7. Decommissioning liabilities

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $367.4 million, excluding obligations associated with assets classified as held for sale (December 31, 2013 – $370.8 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 September 30, 2014 and December 31, 2013. The Company's credit-adjusted risk-free rate of 7% was used to calculate the fair value of the decommissioning liabilities at September 30, 2014 and December 31, 2013.

A reconciliation of the decommissioning liability is provided below:

	September 30, 2014	December 31, 2013
Balance, beginning of period	**$ 83,752**	$ 49,541
Acquired (note 1)	**-**	35,966
Change in estimate	**623**	389
Liabilities incurred	**1,768**	540
Liabilities settled	**(3,616)**	(3,574)
Liabilities transferred on sale of assets	**(1,208)**	(4,111)
Transferred to liabilities associated with assets held for sale (note 3)	**(2,323)**	(269)
Accretion expense	**4,321**	5,270
Balance, end of period	**$ 83,317**	$ 83,752

8. 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		Amount
Common shares:			
Balance, December 31, 2012	60,991,229	$	430,037
Issued on exercise of options	127		4
Issued per business combination - Charger (note 1)	12,117,821		27,144
Issued per business combination - Avenex (note 1)	54,967,543		123,127
Reduction of stated capital (note 1)	-		(86,020)
Balance, December 31, 2013	128,076,720	$	494,292
	-		-
Balance, September 30, 2014	**128,076,720**	**$**	**494,292**

Dividends:

Dividends declared during the nine months ended September 30, 2014 totaled $24.0 million (nine months ended September 30, 2013 – $17.3 million) in accordance with the table provided below:

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
March	March 11, 2014	March 27, 2014	April 15, 2014		0.0225
April	April 15, 2014	April 28, 2014	May 15, 2014		0.0225
May	May 6, 2014	May 28, 2014	June 16, 2014		0.0225
June	June 13, 2014	June 27, 2014	July 15, 2014		0.0225
July	July 14, 2014	July 27, 2014	August 15, 2014		0.0225
August	August 12, 2014	August 28, 2014	September 15, 2014		0.0150
September	September 11, 2014	September 26, 2014	October 15, 2014		0.0150

On October 16, 2014, Spyglass declared the October dividend of $0.0150 per share payable on November 17, 2014 to shareholders of record on October 31, 2014.

(c) 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:

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	**2014**	2013
Net income (loss) for the period	**$ (4,188)**	$ (1,402)	**$ (15,070)**	$ 60,197
Weighted average number of common shares - basic & diluted	**128,076,720**	128,076,720	**128,076,720**	106,697,849
Basic & Diluted net income (loss) per share	**$ (0.03)**	$ (0.01)	**$ (0.12)**	$ 0.56

As of September 30, 2014 and 2013 the Company has no dilutive instruments outstanding.

(d) Long-term incentive plans

In Q2 2013, the Company implemented a 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 grant and the awards granted are subject to a performance multiplier ranging from 0 to 2. The Company also grants director restricted share units ("DRSU") to non-management directors of the organization. DRSUs vest three years from the date of grant. RSUs, PSUs and DRSUs are to be settled in cash, based on the share price at the time of vesting. The number of share equivalent units at the time of vesting increases commensurately with each dividend declared by the Company after the grant date.

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

	Number of RSUs	Number of PSUs	Number of DRSUs
Balance, December 31, 2012	-	-	-
Granted	1,647,706	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
Granted	**1,691,711**	**854,366**	**218,618**
Reinvested through notional dividends	**184,043**	**159,946**	**26,363**
Forfeited	**(356,304)**	**(154,085)**	**-**
Settled	**(634,371)**	**-**	**(21,092)**
Balance, September 30, 2014	**2,401,573**	**1,971,270**	**396,136**

(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.

9. Financial instruments

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

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

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

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

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

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

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

The fair values of 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 disposed of its investment in a private company not quoted in an active market for $0.5 million in services and equipment during the nine months ended September 30, 2014. The investment was classified as fair value through profit and loss and was carried at fair value as a level 3 instrument. The determination of the fair value of the investment was a recurring measurement. As the investment was in a privately held oil and natural gas service company, the fair value was estimated using the most reliable data available at the time including earnings, cashflows and equity offerings. Spyglass used this information and had recorded the investment at its estimated fair value of $0.3 million, resulting in a gain on disposition of $0.2 million which was included in other income in the statement of the Consolidated Statement of Income (Loss) during the nine months ended September 30, 2014.

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 September 30, 2014 and December 31, 2013:

September 30, 2014	Fair value through profit and loss	Fair value through OCI	Loans and receivables	Financial liabilities	**Total carrying value**
Assets					
Accounts receivable	$ -	$ -	$ 37,100	$ -	**$ 37,100**
Derivatives - Interest Rate Swap	24	-	-	-	**24**
Derivatives - Commodity contracts	645	-	-	-	**645**
Investments	-	-	-	-	**-**
	$ 669	**$ -**	**$ 37,100**	**$ -**	**$ 37,769**
Liabilities					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 59,483	**$ 59,483**
Dividends payable	-	-	-	1,921	**1,921**
Derivatives - Interest Rate Swap	18	-	-	-	**18**
Derivatives - Commodity contracts	4,544	-	-	-	**4,544**
Long-term incentive plan liability	-	-	-	1,044	**1,044**
Long-term debt	-	-	-	267,400	**267,400**
	$ **4,562**	**$ -**	**$ -**	**$ 329,848**	**$ 334,410**

December 31, 2013	Fair value through profit and loss	Fair value through OCI	Loans and receivables	Financial liabilities	Total carrying value
Assets					
Accounts receivable	$ -	$ -	$ 39,952	$ -	$ 39,952
Derivatives - Interest Rate Swap	22	-	-	-	22
Derivatives - Commodity contracts	8	-	-	-	8
Investments	-	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 incentive plan liability	-	-	-	808	808
Long-term debt	-	-	-	287,000	287,000
	$ 11,346	$ -	$ -	$ 343,419	$ 354,765

Financial assets and financial 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 arrangements 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 September 30, 2014 and December 31, 2013.

The following table summarizes the financial derivatives Spyglass has outstanding as at September 30, 2014 and December 31, 2013 and their estimated fair value:

Commodity risk management contracts					**Fair Value as at**	
Instrument	Period	Price	Reference	Quantity	**September 30, 2014**	December 31, 2013
Crude Oil Contracts						
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	**(395)**	(320)
Swap	Jan 1, 2014 - Dec 31, 2014	$92.20	CDN$ WTI	1,000 bbl/d	**(819)**	(3,547)
Swap	Jan 1, 2014 - Dec 31, 2014	$93.25	CDN$ WTI	500 bbl/d	**(361)**	(1,583)
Swap	Feb 1, 2014 - Dec 31, 2014	-$21.70	CDN$ WCS (1)	500 bbl/d	**(224)**	-
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	**(166)**	(508)
Swap	Apr 1, 2014 - Dec 31, 2014	$96.90	CDN$ WTI	600 bbl/d	**(233)**	(688)
Swap	Jul 1, 2014 - Sep 30, 2014	$94.43	CDN$ WTI	500 bbl/d	**-**	(305)
Swap	May 1, 2014 - Dec 31, 2014	-$21.05	CDN$ WCS (1)	500 bbl/d	**(214)**	-
Swap	Oct 1, 2014 - Dec 31, 2014	$93.75	CDN$ WTI	250 bbl/d	**(170)**	(121)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.20	CDN$ WTI	500 bbl/d	**(166)**	(32)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.50	CDN$ WTI	500 bbl/d	**(153)**	(19)
Swap	Jan 1, 2015 - Jun 30, 2015	$98.40	CDN$ WTI	500 bbl/d	**(94)**	-
Swap	Jan 1, 2015 - Dec 31, 2015	-$22.80	CDN$ WCS (1)	500 bbl/d	**(334)**	-
Swap	Jan 1, 2015 - Dec 31, 2015	$101.15	CDN$ WTI	500 bbl/d	**407**	-
Swap	Apr 1, 2015 - Dec 31, 2015	$99.10	CDN$ WTI	500 bbl/d	**75**	-
					$ (2,847)	$ (10,338)
Natural Gas Contracts						
Swap	Jan 1, 2014 - Dec 31, 2014	$3.55	CDN$ GJ	1,500 GJ/d	**$ (76)**	$ (86)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.555	CDN$ GJ	5,000 GJ/d	**(230)**	(264)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.575	CDN$ GJ	6,250 GJ/d	**(276)**	(284)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.59	CDN$ GJ	5,000 GJ/d	**(215)**	(177)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.6075	CDN$ GJ	3,000 GJ/d	**(124)**	(87)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.64	CDN$ GJ	2,000 GJ/d	**(77)**	(34)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.71	CDN$ GJ	2,000 GJ/d	**(64)**	7
Swap	Jan 1, 2015 - Mar 31, 2015	$3.7625	CDN$ GJ	2,000 GJ/d	**(78)**	(17)
Swap	Jan 1, 2015 - Mar 31, 2015	$4.10	CDN$ GJ	3,000 GJ/d	**(26)**	-
Swap	Jan 1, 2015 - Mar 31, 2015	$4.14	CDN$ GJ	2,000 GJ/d	**(10)**	-
Swap	Jan 1, 2015 - Jun 30, 2015	$4.2025	CDN$ GJ	3,000 GJ/d	**161**	-
Put	Jan 1, 2014 - Dec 31, 2014	$3.40	CDN$ GJ	2,000 GJ/d	**(37)**	(58)
					$ (1,052)	$ (1,000)
Total					**$ (3,899)**	$ (11,338)

(1) Fixed $ WCS versus WTI

Interest rate risk management contract					**Fair Value as at**	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	**September 30, 2014**	December 31, 2013
Swap	Jul 5, 2012 - Jul 4, 2014	$75,000,000	CAD-BA-CDOR	1.145%	**$ -**	$ 22
Swap	Jan 14, 2014 - Jan 14, 2016	$75,000,000	CAD-BA-CDOR	1.281%	**6**	-
Total					**$ 6**	$ 22

For the three months ended September 30, 2014, Spyglass recorded a realized loss of $4.4 million (three months ended September 30, 2013 – $5.3 million) and an unrealized gain of $11.2 million (three months ended September 30, 2013 – $3.1 million loss). For the nine months ended September 30, 2014, Spyglass recorded a realized loss of $20.3 million (nine months ended September 30, 2013 – $6.9 million) and an unrealized gain of $7.4 million (nine months ended September 30, 2013 – $7.2 million loss).

10. Environmental Liabilities, Insurance Receivable and Dixonville Pipeline Incidents.

(a) Dixonville

On April 30 and May 1, 2014, Spyglass responded to two pipeline leaks in its operations at Dixonville. Containment and cleanup operations commenced within hours of the pipelines being shutoff. Both incidents fall within the Company's insurance coverage subject to a $0.5 million deductible per incident. The Company has chosen to sustain the cost of one incident totalling approximately $0.5 million and has filed for insurance coverage for the second incident which is expected to cost approximately $4.5 million. As of September 30, 2014, $2.8 million has been spent on cleanup costs with a further $0.5 million recorded in accrued liabilities for work performed to September 30, 2014 and $1.7 million accrued in other liabilities for future costs expected to be incurred.

(b) Rainbow

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 in the Rainbow Lake area in Northern Alberta. The estimated cost of the site clean-up and remediation is $25.0 million and falls within the Company's insurance coverage. $20.5 million of insurance proceeds were received to September 30, 2014. Spyglass has paid $22.0 million of clean-up and remediation costs as of September 30, 2014 with a further $3.0 million accrued in other liabilities for future costs expected to be incurred.

(c) Insurance receivable

Spyglass has recorded $8.4 million in accounts receivable for insurance receivable as at September 30, 2014. Spyglass has evaluated the credit worthiness of its insurance providers and has concluded it to be adequate.

11. Supplemental Information

(a) Cash flow information:

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Change in non-cash working capital:				
Accounts receivable	**$ 5,740**	$ 2,588	**$ 2,852**	$ (16,985)
Prepaid expenses and deposits	**709**	478	**582**	683
Accounts payable and accrued liabilities	**355**	2,711	**6,754**	20,560
Dividends payable	**(961)**	-	**(961)**	2,882
Other liabilities	**(91)**	-	**1,685**	(952)
Change in incentive plan liability	**(669)**	(422)	**(1,519)**	(938)
Non-cash portion of prepaid expenses	**(3)**	-	**205**	-
Working capital acquired on acquisition (note 1)	**-**	-	**-**	(13,120)
Change in working capital	**$ 5,080**	$ 5,355	**$ 9,598**	$ (7,870)
Relating to:				
Operating activities	**(2,988)**	(7,004)	**2,855**	(20,957)
Financing activities	**(961)**	-	**(961)**	2,882
Investing activities	**9,029**	12,359	**7,704**	10,205
Change in non-cash working capital	**$ 5,080**	$ 5,355	**$ 9,598**	$ (7,870)

(c) Cash interest paid:

The following represents the cash interest paid in each period:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Cash interest paid	**$ 3,910**	$ 4,038	**$ 11,870**	$ 10,533

12. Comparative figures

Long-term incentive plan expense has been moved to a separate line item in the consolidated income statement to increase clarity. These expenses were previously presented within general and administration expenses in the consolidated income statement. Comparative figures have been reclassified to conform with the presentation adopted in the current period.