

Q1 2014 MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following Management's Discussion and Analysis ("MD&A") as provided by management of Spyglass Resources Corp. ("Spyglass" or the "Company") should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2014 and 2013 and the audited consolidated financial statements, related notes and Management's Discussion and Analysis for the years ended December 31, 2013 and 2012. This MD&A is dated as of May 6, 2014.

Forward Looking Statements

Certain statements contained within the MD&A, and in certain documents incorporated by reference into this document constitute forward looking statements. These statements relate to future events or future performance. All statements, other than statements of historical fact, may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

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

We believe the expectations reflected in the forward looking statements are reasonable but no assurance can be given that our expectations will prove to be correct and consequently, such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference in this MD&A. The actual results could differ materially from those anticipated as a result of the risk factors set forth below and elsewhere in this MD&A which include: (i) volatility in market prices for oil and natural gas; (ii) counterparty credit risk; (iii) access to capital; (iv) changes or fluctuations in production levels; (v) liabilities inherent in oil and natural gas operations; (vi) uncertainties associated with estimating oil and natural gas reserves; (vii) competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; (viii) stock market volatility and market valuation of Spyglass' stock; (ix) geological, technical, drilling and processing capabilities; (x) limitations on insurance; (xi) changes in environmental or legislation applicable to our operations, and (xii) our ability to comply with current and future environmental and other laws; (xiii) changes in tax laws and incentive programs relating to the oil and gas industry, and (xiv) the other factors discussed under "Risk Factors" in the Company's 2013 Annual Information Form.

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

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

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

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

compares the results of the three months ended March 31, 2014 ("Q1 2014") to the three months ended March 31, 2013 ("Q1 2013") and the three months ended December 31, 2013 ("Q4 2013").

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

On March 26, 2013, the shareholders of Pace, Charger and AvenEx approved the transaction and on March 28, 2013 the Arrangement was completed. Pace subdivided its shares on a basis of 1.3 post-subdivided Pace shares for each 1.0 pre-subdivided Pace share. 12,117,821 Pace shares were issued in exchange for the outstanding Charger shares on a basis of 0.18 Pace share for each Charger share. 54,967,543 Pace shares were issued in exchange for the outstanding AvenEx shares on a basis of 1.0 Pace share for each AvenEx share. Pace was then renamed Spyglass Resources Corp. which elected to perform a reduction of stated capital, whereby the Company offset its retained deficit, contributed surplus and accumulated other comprehensive loss against share capital. This resulted in 128,076,720 shares outstanding upon closing of the Arrangement, with a share capital of $494.3 million. Prior period common share information has been adjusted for the share exchange ratio associated with the Arrangement.

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

2014 Outlook and Capital Program

Halkirk-Provost Activity

Spyglass has successfully renegotiated its farm-in agreement which results in a more favourable royalty. The Company plans to commence a 10 well horizontal drilling program, targeting Viking light oil, in the third quarter.

Noel Activity

In mid-April, Spyglass commenced drilling a Cadomin natural gas well. The horizontal Cadomin well is expected to reach a measured depth of 4,400 meters with a 1,600 meter horizontal leg and will be drilled over a 40 day period. Completion and tie-in will occur after spring break-up and production is expected to come on stream in the middle of the third quarter. The Company has an extensive drilling inventory at Noel, with over 85 Cadomin horizontal locations identified.

Southern Alberta Activity

Spyglass has successfully drilled, completed and tested, 1 (1.0 net) Glauconite light oil well at Cessford with 24-hour test rates in excess of 1,000 boe/d (65 percent liquids). Given these test rates, facilities are being upsized to accommodate this location as well as potential follow up locations, with production from this well expected to be tied-in during the second quarter. The Company advises that although these initial test rates are encouraging, production test results are not necessarily indicative of performance or ultimate recovery.

Also during the first quarter the Company drilled 2 (1.3 net) vertical wells targeting the Glauconite zone at Retlaw/Enchant, 1 (1.0 net) horizontal Glauconite oil well in Enchant/Retlaw and 1 (1.0 net) horizontal Pekisko oil well at Matziwin. All of these new wells will be on production in the second quarter of 2014.

Dixonville Pipeline Incident

On April 30th and May 1st two separate pipeline leaks occurred in the Company's Dixonville area of Northern Alberta on emulsion pipelines that carry a mixture of oil and water. The leaks were quickly detected by Spyglass personnel based on a pressure drop at a central facility which monitors the gathering system and the Company immediately shut-in the pipelines and activated its emergency response plan.

As a result, an estimated 60 cubic meters of fluid with approximately 23 percent crude oil and the remainder produced water was released. Regulators and stakeholders were notified including the Alberta Energy Regulator ("AER"), Alberta Environment, First Nations, landowners and the local Municipal District. The AER has been onsite and Spyglass has been cooperating to ensure proper response and communication. On May 2nd, the Company in conjunction with the AER shut-in the entire Dixonville field pending assessment of the incident. On May 4th, the AER and the Company agreed that approximately 80 percent of the Dixonville field could be safely brought back on production. Currently, approximately 20 percent (600 boe/d) of the field remains shut-in and Spyglass continues to work with the AER to return the balance of the field to production in a safe and appropriate manner. There are no known wild life impacts related to the incident.

The Company estimates that the financial impact of these incidents will be a decrease to the 2014 second quarter operating cash flow and net income of approximately $2.5 million and $1.9 million respectively, including the insurance deductible, operating costs related to the cleanup, reduced revenues, royalties and deferred income taxes.

Outlook

The 2014 capital program is expected to total approximately $60 million (net of property dispositions) and will include approximately $40 million for drilling. With the addition of a Noel well, the 2014 capital program will include 19 gross (18.3 net) development wells, primarily in Southern and Central Alberta. Capital activity will be weighted towards the first and third quarters of 2014.

2014 Drilling Locations	Gross	Net
Halkirk-Provost Viking	10	10.0
Southern Alberta Pekisko	3	3.0
Southern Alberta Glauconite	5	4.3
Noel	1	1.0
Total	**19**	**18.3**

Management anticipates that the planned level of development activity coupled with the Company's 20 percent base decline rate is expected to result in 2014 average production of approximately 14,750 boe/d, taking into account year-to-date dispositions and the recent incident at Dixonville. Operating expenses in the first quarter reflect higher fuel and power costs and annual maintenance programs completed in winter access areas. Management anticipates 2014 average operating costs of $19.00 to $20.00 per boe, incorporating the impact of the Dixonville incident. 2014 Cash general and administrative expenses are expected to be approximately $3.00 per boe.

The current outlook for commodity prices coupled with Spyglass' net capital program, hedging position and current dividend level is expected to result in a target all-in payout ratio of approximately 100 percent.

The Company will continue to pursue non-core asset dispositions throughout 2014 to reduce debt, accelerate capital spending and further focus operations. To date in 2014, Spyglass has completed dispositions totaling approximately $9.9 million (prior to closing adjustments). Management continues to evaluate opportunities that would improve financial flexibility and allow the Company to accelerate the development of its large inventory of low risk light oil and natural gas drilling locations.

Non-GAAP Measurements

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

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

($000s)	**Q1 2014**	Q1 2013	Q4 2013
Cash flow from (used in) operating activities	**$ 10,342**	$ (3,174)	$ 9,360
Transaction costs	**-**	13,451	-
Decommissioning expenditures	**2,371**	1,704	1,025
Change in non-cash working capital	**3,313**	(4,928)	1,041
Funds from operations	**$ 16,026**	$ 7,053	$ 11,426

Combination of Pace with AvenEx and Charger

On March 26, 2013, the shareholders of Pace, Charger and AvenEx approved the transaction and on March 28, 2013 the Arrangement was completed whereby Spyglass Resources was formed as a dividend paying corporation. The Transaction resulted in former Pace shareholders holding 48% of the combined outstanding common shares of Spyglass, the former AvenEx shareholders holding 43% and the former Charger shareholders holding 9% with the former management team of Charger becoming the new management team of Spyglass. The transaction was accounted for as an acquisition of AvenEx and Charger by Pace. Consideration was $150.3 million for net assets of $234.5 million resulting in gains on acquisition of $84.2 million. Pursuant to the Arrangement, Spyglass elected to perform a reduction of stated capital whereby the Company offset its deficit, contributed surplus and accumulated other comprehensive loss against share capital upon closing of the arrangement.

Production

The Company categorizes and manages its production in three core areas: North, Central and South with a breakdown of production by product and by area provided in the following tables. Total company production for Q1 2014 averaged 14,560 boe/d compared to 15,873 in Q4 2013 and 12,128 in Q1 2013. Oil and liquids production in Q1 2014 represented 49% of total production at 7,175 bbls/d, a decrease of 670 bbls/d or 9% from 7,845 bbls/d in Q4 2013 and an increase of 1,020 bbls/d or 17% from 6,155 bbls/d in Q1 2013. Natural gas production for Q1 2014 averaged 44.3 Mmcf/d a decrease of 3.9 Mmcf/d or 8% from 48.2 Mmcf/d in Q4 2013 and an increase of 8.5 Mmcf/d or 24% from Q1 2013. The majority of the reported production increase in Q1 2014 over Q1 2013 reflects production contributed from AvenEx and Charger commencing on March 29, 2013, as well as production added through drilling activities partially offset by natural production declines.

Drilling activity in Q1 2014 included 8 gross (4.3 net) wells drilled with a 100% success rate, with 5 gross (4.2 net) wells in the South targeting crude oil in the Pekisko and Glauc formations, and 3 gross (0.1 net) non operated wells drilled in the North and Central core areas. Additional Q1 2014 production from drilling has been minimal as production tie-ins for all wells are expected to be completed in the second quarter.

The extreme cold temperatures challenged the Company in the first quarter of 2014 with production impacted in all three core areas. The severe cold through to the end of March contributed to an 8% or 3.9 Mmcf/d reduction in natural gas production compared to Q4 2013. Weather related production downtime also negatively impacted crude oil and liquids production which, in total, was down 9% from Q4 2013. Approximately 90 boe/d of production was sold in the quarter. On a combined basis, Q1 2014 production was 8% below Q4 2013 production.

For 2014, incorporating the Company's low decline rate and a $60 million capital budget, production is anticipated to average approximately 14,750 boe/d.

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

Production	**Q1 2014**	Q1 2013	Q4 2013
Oil (bbls/d)	**6,784**	5,876	7,198
NGLs (bbls/d)	**391**	279	647
Natural Gas (Mcf/d)	**44,312**	35,840	48,164
Total (boe/d)	**14,560**	12,128	15,873
Oil & Liquids weighting	**49%**	51%	49%

The following table sets out production volumes by core area:

	Q1 2014	Q1 2013	Q4 2013
North			
Oil (bbls/d)	**3,727**	3,810	3,738
NGLs (bbls/d)	**176**	157	393
Natural Gas (Mcf/d)	**28,125**	22,582	30,777
Total (boe/d)	**8,590**	7,731	9,261
Central			
Oil (bbls/d)	**580**	36	787
NGLs (bbls/d)	**84**	3	105
Natural Gas (Mcf/d)	**4,539**	293	4,958
Total (boe/d)	**1,421**	88	1,718
South			
Oil (bbls/d)	**2,477**	2,030	2,673
NGLs (bbls/d)	**131**	119	149
Natural Gas (Mcf/d)	**11,648**	12,965	12,429
Total (boe/d)	**4,549**	4,310	4,894
Total Company			
Oil (bbls/d)	**6,784**	5,876	7,198
NGLs (bbls/d)	**391**	279	647
Natural Gas (Mcf/d)	**44,312**	35,840	48,164
Total (boe/d)	**14,560**	12,128	15,873
Oil & Liquids weighting	**49%**	51%	49%

Commodity Pricing

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

The average US WTI price during Q1 2014 was $98.68 US/bbl ($108.89 CDN/bbl) compared to $94.37 US/bbl ($95.21 CDN/bbl) in Q1 2013 and $97.46 US/bbl ($102.31 CDN/bbl) in Q4 2013, with CDN$ WTI improving from prior quarters as the US/CDN average exchange rate has moved over the last year from close to par at 0.991 in Q1 2013 to 0.906 in Q1 2014. The average Edmonton par price for Q1 2014 was $99.83 CDN/bbl compared to $88.06 CDN/bbl in Q1 2013 and $86.55 CDN/bbl in Q4 2013. The Edmonton Par differential to CDN$ WTI continues to experience large fluctuations as noted by the differential average of approximately $9 CDN/bbl in Q1 2014, wider than the $7 CDN/bbl in Q1 2013 but significantly narrower when compared to $15.76 CDN/bbl in Q4 2013.

Spyglass' corporate differential incorporates its portfolio of oil sold through multiple crude oil streams reflecting differentials adjusted for quality and transportation. The corporate differential to CDN$ WTI average of $18.87/bbl in Q1 2014, improved from $23.49/bbl in Q1 2013 and $29.42/bbl in Q4 2013 representing an increase in quarter over quarter realized pricing of $4.62/bbl and $10.55/bbl respectively. The improvement in the corporate differential reflected the narrowing of the Western Canadian Select ("WCS") to CDN$ WTI differential to average approximately $26/bbl in Q1 2014 compared to $34/bbl in Q4 2013 as the sector recovered from key pipeline issues and refinery downtime.

Canadian natural gas prices remain volatile but have seen an improvement over the last six months from lows of approximately $2.00/Mcf to a high in February 2014 of over $7.50/Mcf. The Alberta daily spot natural gas price average in Q1 2014 of $5.71/Mcf was dramatically improved from the $3.20/Mcf AECO daily in Q1 2013 and the $3.53/Mcf daily AECO average in Q4 2013. Spyglass sells gas on a blend of the AECO monthly and daily index. In Q1 2014, the Company sold approximately 37% on the AECO daily index, 60% on the monthly index and 3% through aggregators, resulting in a realized natural gas price of $5.08/Mcf. This compares to $3.22/Mcf received in Q1 2013 and 3.40/Mcf in Q4 2013. The heat content of Spyglass' natural gas production is slightly above the industry average used in the benchmark $/Mcf prices and therefore realized prices for Spyglass are expected to be slightly higher than the

average of AECO Alberta daily and Alberta monthly benchmark prices. This was not the case in Q1 2014 due to the significant gap between AECO daily and monthly prices, with the majority of the Company's production sold on the monthly index.

Spyglass' NGL production represents less than 3 percent of production mix and consists of Ethane, Butane, Propane and Condensate. Pricing of NGL's is sensitive to the specific product produced and can vary from period to period depending on the mix of NGL production. In Q1 2014, overall realized NGL price averaged $76.59/bbl or 70% of CDN$ WTI compared to $60.81/bbl or 64% of CDN$ WTI in Q1 2013 and $43.46/bbl or 42% of CDN$ WTI in Q4 2013.

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

Prices and Marketing	**Q1 2014**	Q1 2013	Q4 2013
Benchmark Prices[1]			
WTI Oil ($US/bbl)	**$ 98.68**	$ 94.37	$ 97.46
US/CDN average exchange rate	**0.906**	0.991	0.953
WTI Oil ($CDN/bbl)	**108.89**	95.21	102.31
Edmonton Par ($/bbl)	**99.83**	88.06	86.55
Alberta daily spot ($/Mcf)	**5.71**	3.20	3.53
Alberta monthly ($/Mcf)	**$ 4.75**	$ 3.08	$ 3.15
Spyglass' Realized Prices			
Oil ($/bbl)	**$ 90.02**	$ 71.72	$ 72.89
NGLs ($/bbl)	**76.59**	60.81	43.46
Combined Oil & NGLs ($/bbl)	**89.28**	71.23	70.46
Natural gas ($/Mcf)	**5.08**	3.22	3.40
Total ($/boe)	**$ 59.46**	$ 45.66	$ 45.13

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

Financial Derivative Instruments

As part of its risk management program, Spyglass has entered into financial derivative contracts for a portion of its oil and natural gas production to assist with managing the volatility of crude oil and natural gas prices. Financial derivative contracts for natural gas are generally structured to reference an AECO monthly index for settlement. This index approximates the realized price received by the Company for the physical natural gas sold. The Company's financial derivative contracts for crude oil are generally structured to reference a WTI Canadian or WTI U.S. dollar price for settlement. The settlement price for these contracts may vary significantly from the realized crude oil price received for the physical sale of the Company's crude oil, as the WTI derivative contracts do not incorporate differentials associated with the Company's multiple crude oil streams where the price received for physical volumes is adjusted for both quality and transportation. The Company also enters into derivative contracts for the differentials between WCS and WTI. For a portion of the Company's physical crude oil sales, WCS provides a stronger correlation to the Company's realized price.

The following table summarizes financial derivatives outstanding as at March 31, 2014 and December 31, 2013 and their estimated fair value:

Commodity risk management contracts					**Fair Value as at**	
Instrument	Period	Price	Reference	Quantity	**March 31, 2014**	December 31, 2013
Crude Oil Contracts						
Swap	Aug 1, 2013 - Jul 31, 2014	$96.12	CDN$ WTI	250 bbl/d	**$ (445)**	$ (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	**(479)**	(320)
Swap	Jan 1, 2014 - Dec 31, 2014	$92.20	CDN$ WTI	1,000 bbl/d	**(4,427)**	(3,547)
Swap	Jan 1, 2014 - Dec 31, 2014	$93.25	CDN$ WTI	500 bbl/d	**(2,070)**	(1,583)
Swap	Feb 1, 2014 - Dec 31, 2014	-$21.70	CDN$ WCS (1)	500 bbl/d	**(34)**	-
Swap	Apr 1, 2014 - Jun 30, 2014	$95.27	CDN$ WTI	1,000 bbl/d	**(1,448)**	(745)
Swap	Apr 1, 2014 - Dec 31, 2014	$98.13	CDN$ WTI	600 bbl/d	**(1,685)**	(508)
Swap	Apr 1, 2014 - Dec 31, 2014	$96.90	CDN$ WTI	600 bbl/d	**(1,885)**	(688)
Swap	Jul 1, 2014 - Sep 30, 2014	$94.43	CDN$ WTI	500 bbl/d	**(637)**	(305)
Swap	Oct 1, 2014 - Dec 31, 2014	$93.75	CDN$ WTI	250 bbl/d	**(271)**	(121)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.20	CDN$ WTI	500 bbl/d	**(307)**	(32)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.50	CDN$ WTI	500 bbl/d	**(293)**	(19)
Swap	Jan 1, 2015 - Jun 30, 2015	$98.40	CDN$ WTI	500 bbl/d	**(331)**	-
Swap	Jan 1, 2015 - Dec 31, 2015	-$22.80	CDN$ WCS (1)	500 bbl/d	**(97)**	**-**
Swap	Apr 1, 2015 - Dec 31, 2015	$99.10	CDN$ WTI	500 bbl/d	**(53)**	-
					$(14,462)	$ (10,338)
Natural Gas Contracts						
Swap	Jan 1, 2014 - Dec 31, 2014	$3.55	CDN$ GJ	1,500 GJ/d	**$ (360)**	$ (86)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.555	CDN$ GJ	5,000 GJ/d	**(1,199)**	(264)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.575	CDN$ GJ	6,250 GJ/d	**(1,464)**	(284)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.59	CDN$ GJ	5,000 GJ/d	**(1,156)**	(177)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.6075	CDN$ GJ	3,000 GJ/d	**(679)**	(87)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.64	CDN$ GJ	2,000 GJ/d	**(434)**	(34)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.71	CDN$ GJ	2,000 GJ/d	**(395)**	7
Swap	Jan 1, 2015 - Mar 31, 2015	$3.7625	CDN$ GJ	2,000 GJ/d	**(154)**	(17)
Swap	Jan 1, 2015 - Mar 31, 2015	$4.10	CDN$ GJ	3,000 GJ/d	**(142)**	-
Swap	Jan 1, 2015 - Mar 31, 2015	$4.14	CDN$ GJ	2,000 GJ/d	**(87)**	-
Put	Jan 1, 2014 - Dec 31, 2014	$3.40	CDN$ GJ	2,000 GJ/d	**(91)**	(58)
					$ (6,161)	$ (1,000)
Total					**$(20,623)**	$ (11,338)

(1) Fixed $ WCS versus WTI

Interest rate risk management contract					**Fair Value as at**	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	**March 31, 2014**	December 31, 2013
Swap	Jul 5, 2012 - Jul 4, 2014	$75,000,000	CAD-BA-CDOR	1.145%	**$ 15**	$ 22
Swap	Jan 14, 2014 - Jan 14, 2016	$75,000,000	CAD-BA-CDOR	1.281%	**(8)**	-
Total					**$ 7**	$ 22

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

Financial Derivative Instruments	Q1 2014	Q1 2013	Q4 2013
(000s)			
Realized gain (loss)			
Oil	**$ (5,321)**	$ (211)	$ (3,776)
Gas	**(2,211)**	64	823
Interest	**8**	14	15
Total	**$ (7,524)**	$ (133)	$ (2,938)
Unrealized gain (loss)			
Oil	**$ (4,123)**	$ (3,912)	$ 316
Gas	**(5,161)**	(1,038)	(3,146)
Interest	**(16)**	(112)	(26)
Total	**$ (9,300)**	$ (5,062)	$ (2,856)
($/boe)			
Realized gain (loss)			
Oil ($/bbl)	**$ (8.72)**	$ (0.40)	$ (5.70)
Gas ($/Mcf)	**(0.55)**	0.02	0.19
Interest ($/boe)	**0.01**	0.01	0.01
Total ($/boe)	**$ (5.74)**	$ (0.12)	$ (2.01)
Unrealized gain (loss)			
Oil ($/bbl)	**$ (6.75)**	$ (7.40)	$ 0.48
Gas ($/Mcf)	**(1.29)**	(0.32)	(0.71)
Interest ($/boe)	**(0.01)**	(0.10)	(0.02)
Total ($/boe)	**$ (7.10)**	$ (4.64)	$ (1.96)

Subsequent to March 31, 2014, Spyglass entered into the following derivative commodity contracts:

- A WCS crude oil swap for 500 bbls/d for the period from May 1, 2014 to December 31, 2014 with a fixed price of -$21.05 CDN/bbl versus WTI.
- A WTI crude oil swap for 500 bbls/d for the period from January 1, 2015 to December 31, 2015 with a fixed price of $101.15 CDN/bbl.
- An AECO natural gas swap contract for 3,000 GJ/d for the period January 1, 2015 to June 30, 2015 with a fixed price of $4.2025 CAD/GJ.

Petroleum and Natural Gas Sales

Petroleum and natural gas sales totalled $77.9 million for Q1 2014 compared to $49.8 million for Q1 2013 and $65.9 million for Q4 2013. Oil and liquids sales increased $18.2 million from Q1 2013 with $11.7 million due to higher Edmonton Par pricing and narrower corporate differentials and $6.5 million due to increased oil and liquids production. Natural gas sales were up $9.9 million with $7.4 million due to higher gas prices and $2.5 million due to increased natural gas production.

Compared to Q4 2013, petroleum and natural gas sales increased $12.0 million, with oil and liquids accounting for $6.8 million and natural gas sales up $5.2 million. Oil and liquids sales reflect both a $12.2 million increase due to higher Edmonton Par pricing and narrower corporate differentials offset by a $5.4 million decrease related to lower production. Natural gas sales were up on account of higher natural gas prices by $6.7 million offset by a $1.5 million decrease due to lower production.

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

Petroleum and Natural Gas Sales (000s)	Q1 2014	Q1 2013	Q4 2013
Oil	**$ 54,954**	$ 37,931	$ 48,270
NGLs	**2,698**	1,526	2,587
Natural Gas	**20,265**	10,384	15,052
Total	**$ 77,917**	$ 49,841	$ 65,909

Royalties

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

Spyglass' Q1 2014 overall effective royalty rate for all products as a percentage of petroleum and natural gas sales was 18.0%, lower than both the 21.1% in Q1 2013 and the 20.9% in Q4 2013. The majority of the percentage decrease in royalties is due to revenue from natural gas comprising a larger portion of petroleum and natural gas sales with natural gas royalties, in general, paying at a lower royalty percentage.

Gross overriding and other royalties averaged approximately 3-4% of petroleum and natural gas sales for Q1 2014, consistent with Q1 2013 and Q4 2013. As a percentage of total royalties paid, gross overriding royalties for Q1 2014 accounted for 19% of the total, compared to 20% in Q4 2013 and 14% in Q1 2013. The Q1 2013 gross overriding royalty rate reflects only legacy Pace properties, prior to the addition of the Charger and AvenEx properties that incorporate encumbrances related to a large area farm out agreement in the Company's Central core area.

The following tables outline royalties by type and by commodity:

Royalties by Type (000s)	Q1 2014	Q1 2013	Q4 2013
Crown	**$ 11,275**	$ 8,992	$ 10,940
Gross overriding and other	**2,750**	1,509	2,819
	$ 14,025	$ 10,501	$ 13,759
$/boe	**$ 10.70**	$ 9.62	$ 9.42
% of Petroleum & natural gas sales	**18.0%**	21.1%	20.9%

Operating Expenses

Operating expenses totalled $29.2 million or $22.31/boe for Q1 2014 compared to $24.1 million or $22.06/boe in Q1 2013 and $26.8 million or $18.33/boe in Q4 2013. Operating costs for Q1 2013 reflect only the Pace legacy assets.

Operating costs for Q1 2014 were high on both an absolute dollar basis, as well as on a per boe basis. The extreme cold weather in Q1 resulted in additional costs to both maintain and bring production back on stream that had been impacted by the weather. High fuel costs resulted in additional cost of $1.6 million, or $1.21/boe above management's expectations. This was due to increased consumption given the cold temperatures primarily in our North core area, coupled with propane prices that were more than double historical averages. Seasonal maintenance and personnel costs to manage production in the extreme cold were significant, totalling in excess of $2.0 million above management's expectations or $1.53/boe. Removing the impact of fuel prices, maintenance and personnel cost overruns, operating costs per boe would have averaged $19.57/boe, within management expectations for a typical first quarter given that the Company performs the majority of the year's maintenance program in the North for all winter only access areas. With the majority of winter access maintenance completed for the year and lower fuel costs, management anticipates that 2014 operating costs will average in the range of $19.00 to $20.00 per boe.

The following table summarizes the Company's operating expenses:

Operating Expenses	Q1 2014	Q1 2013	Q4 2013
(000s)	**$ 29,235**	$ 24,075	$ 26,766
$/boe	**$ 22.31**	$ 22.06	$ 18.33

Transportation Expenses

Transportation expenses totalled $3.1 million or $2.35/boe for Q1 2014 compared to $2.5 million or $2.31/boe for Q1 2013 and $3.3 million or $2.29/boe in Q4 2013. Transportation costs are incurred for clean oil trucking and for oil and gas pipeline tariffs where tolls are paid directly to third parties.

Clean oil trucking charges relate primarily to the Dixonville property since the majority of the Company's other properties are tied into sales pipelines, although the Company does incur some clean oil trucking charges in Matziwin in its South core area. Total oil transportation charges per boe increased in Q1 2014 compared to Q1 2013 and remained flat to Q4 2013 as the Company continues to truck to further rail terminals that provide access to additional US markets.

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

The following table details the Company's transportation expenses:

Transportation Expenses	Q1 2014	Q1 2013	Q4 2013
(000s)			
Oil	**$ 2,124**	$ 1,749	$ 2,256
Gas	**961**	768	1,089
Total	**$ 3,085**	$ 2,517	$ 3,345
Oil ($/bbl)	**$ 3.48**	$ 3.31	$ 3.41
Gas ($/Mcf)	**0.24**	0.24	0.25
Total ($/boe)	**$ 2.35**	$ 2.31	$ 2.29

Finance Expenses

Interest expenses include interest on Spyglass' operating line of credit. Interest expenses totalled $3.6 million in Q1 2014, higher than the $2.5 million interest expense in Q1 2013 on account of higher debt levels reflecting the combined entities' operating bank line post Arrangement. The effective interest rate for Q1 2014 was 4.8%, compared to 5.0% in Q1 2013 and 4.9% in Q4 2013.

Accretion expense on decommissioning liabilities was $1.4 million in Q1 2013, an increase of $0.6 million from Q1 2013 and consistent with the Q4 2013 expense of $1.5 million. The increase from Q1 2013 reflects additional obligations assumed as a result of the Arrangement, while the slight decrease from Q4 2013 is due to the impact of properties disposed of in Q4 2013.

The following table details the Company's finance expenses:

Finance Expenses	Q1 2014	Q1 2013	Q4 2013
(000s)			
Interest	**$ 3,631**	$ 2,526	$ 4,051
Accretion	**1,420**	837	1,450
Total	**$ 5,051**	$ 3,363	$ 5,501
($/boe)			
Interest	**$ 2.77**	$ 2.31	$ 2.77
Accretion	**1.08**	0.77	0.99
Total ($/boe)	**$ 3.85**	$ 3.08	$ 3.76

Transaction Costs

In Q1 2013, Spyglass incurred $13.5 million of transaction costs related to the Arrangement. Costs include amounts for financial advisors, legal, other professional fees and change of control settlements.

General and Administration Expenses

In Q1 2014 cash general and administration ("G&A") expenses totalled $4.5 million compared to $3.1 million in Q1 2013 and $3.6 million in Q4 2013. The Q1 2013 G&A reflects only the G&A expense of Pace prior to the Arrangement combining Pace, Charger and AvenEx.

The $0.9 million increase in the cash portion of G&A in Q1 2014 compared to Q4 2013 primarily relates to the 2013 short term incentive plan paid out in the quarter and higher CPP and EI related employer contributions, as maximum annual limits for most employees are typically reached in the second and third quarters.

The largest portion of G&A is comprised of salaries and benefits and, as such, future G&A will depend on staff levels in 2014 along with changes to salaries and bonus incentives. Cash G&A for Q2 and Q3 2014 is expected to be lower than the comparative periods in the prior year as the Company incurred approximately $0.7 million in non-recurring integration costs in 2013, and had additional staff employed in the prior year through the transition period.

Cash G&A per boe was $3.41/boe in Q1 2013 and is targeted to average approximately $3.00/boe for 2014. While the absolute dollar amount of cash G&A is expected to be in line or lower than 2013 amounts, the anticipated decrease in year over year daily production will result in a higher per boe amount.

The components of G&A expenses were as follows:

General and Administration Expenses	Q1 2014	Q1 2013	Q4 2013
(000s)			
Cash G&A	**$ 4,464**	$ 3,099	$ 3,583
Non-Cash LTIP expense	**487**	724	710
Total	**$ 4,951**	$ 3,823	$ 4,293
($/boe)			
Cash G&A	**$ 3.41**	$ 2.84	$ 2.45
Non-Cash LTIP expense	**0.37**	0.66	0.49
Total	**$ 3.78**	$ 3.50	$ 2.94

Long-term incentive plan

The Company's long-term incentive plan for employees and management which includes a combination of two types of share based awards depending on roles and responsibilities within the organization: restricted share units ("RSUs") and performance share units

("PSUs"). RSUs vest evenly over a three year period. PSUs vest three years from the date of grants and the awards granted are subject to a multiplier ranging from 0 to 2 based on the performance of Spyglass on a total return basis compared to a selected peer group. The Company also grants director restricted share units ("DRSU") to non-management directors of the organization. DRSUs vest three years from the date of grant. RSUs, PSUs and DRSUs are to be settled in cash, based on the share price at the time of vesting. The number of share equivalent units at the time of vesting increases commensurately with each dividend declared by the Company after the grant date. During the three months ended March 31, 2014, the Company granted an additional 16,306 RSUs. As at March 31, 2014, incorporating the increase in units commensurate with each dividend declared by the Company, as well as forfeitures and settlements in the period, 1,556,192 RSUs, 1,152,694 PSUs and 157,335 DRSUs were outstanding.

Non-Cash LTIP expense for Q1 2013 was related to the previous Pace long-term incentive plan which was extinguished upon closing of the Arrangement.

Depletion, Depreciation and Impairments

For Q1 2014, depletion, depreciation and impairments ("D&D") was $21.5 million compared to $14.1 million for Q1 2013 and $22.4 million for Q4 2013.

Depletion, depreciation and impairments in Q1 2013 are related only to Pace legacy assets. The Q1 2014 D&D rate before impairment of $14.64/boe was lower than the rate of $15.34/boe in Q4 2013 mostly due to the timing of expired lands, with $1.66/boe expiring in Q4 2013 versus $0.56/boe in Q1 2014. The pre-impairment D&D rates are subject to change based on reserve updates, the timing of land expiries, depreciation of certain workover projects, and changes in production by area.

The YTD 2014 D&D impairment charge is related to the write down required on assets classified as held for sale at March 31, 2014 to fair value. These assets were held in the Peace River Arch CGU and were sold to a third party subsequent to March 31, 2014.

The components of D&D were as follows:

Depletion, depreciation and impairments	**Q1 2014**	Q1 2013	Q4 2013
(000s)			
Depletion & depreciation	**$ 19,190**	$ 14,052	$ 22,406
Impairment (net of reversals) (note 1)	**2,318**	-	-
Total	**$ 21,508**	$ 14,052	$ 22,406
($/boe)			
Depletion & depreciation	**$ 14.64**	$ 12.87	$ 15.34
Impairment (net of reversals) (note 1)	**1.77**	-	-
Total	**$ 16.41**	$ 12.87	$ 15.34

Note 1: The impairment charge of $2.3 million or $1.77 / boe is related to the write down required on assets classified as held for sale at March 31, 2014 to fair value.

Environmental Liabilities, Insurance Receivable and Subsequent Event

On May 19, 2012, Pace was made aware of a breach in an above-ground section of wellhead piping that resulted in a temporary release of an estimated 800 cubic meters of oil. This incident falls within the Company's insurance coverage and $20.5 million of insurance proceeds were received to March 31, 2014. A further $3.0 million has been accrued in other liabilities for future costs expected to be incurred.

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. The incidents fall within the Company's insurance coverage subject to a $0.5 million deductible per incident. As part of the review by the Alberta Energy Regulator ("AER"), Spyglass was required to shut-in the Dixonville field from May 2 until May 4, 2014. On May 4, the AER and the Company agreed that approximately 80% of the

Dixonville field could be safely brought back on production, with the remainder of the field to be brought back to production in a safe and appropriate manner. The Company estimates that the impact of this incident will be to decrease operating cash flow and net income by approximately $2.5 million and $1.9 million respectively, including the impact of the insurance deductible, operating costs related to the cleanup, reduced revenues, royalties and deferred income taxes.

Other Income

Q1 2014 other income of $1.2 million consists primarily of gains on the disposition of non-core producing properties. The remaining $0.1 million relates to seismic data sales completed in the quarter. The Q1 2013 other income includes $81.9 million in estimated gains recognized as a result of the fair value of assets acquired under the Arrangement exceeding the consideration paid, which was increased to $84.2 million in Q4 2013 as the purchase price allocation was finalized.

The following is a breakdown of other income:

Other Income	Q1 2014	Q1 2013	Q4 2013
(000s)			
Cash other income	**$ 73**	$ 63	$ (41)
Non-cash other income	**1,118**	81,866	5,628
Total	**$ 1,191**	$ 81,929	$ 5,587
($/boe)			
Cash other income	**$ 0.06**	$ 0.06	$ (0.03)
Non-cash other income	**0.85**	75.00	3.85
Total	**$ 0.91**	$ 75.06	$ 3.82

Deferred Taxes

Spyglass recorded a deferred tax recovery of $3.9 million in Q1 2014 compared to an expense of $7.3 million in Q4 2013, which included a valuation allowance on certain tax pools, and a recovery of $6.6 million in Q1 2013, which included a large gain on business combination of $81.9 million. The minimal difference between the Q1 2014 expected rate of 25.0% and the effective rate relates primarily to permanent differences as well as deductions for the spending associated with decommissioning expenditures.

Funds from Operations and Net Income (Loss)

For Q1 2014, funds from operations totalled $16.0 million and $0.13 per basic and diluted share compared to $7.1 million and $0.11 per basic and diluted share in Q1 2013 and $11.4 million or $0.09 per basic and diluted share in Q4 2013.

Funds from operations increased from Q1 2013 reflecting the Arrangement with production in Q1 2014 averaging 14,560 boe/d compared to 12,128 boe/d in Q1 2013.

Compared to Q4 2013, funds from operations increased $4.6 million due to higher natural gas pricing and crude oil pricing with narrower differentials, offset by lower production resulting in an increase to revenues of $12.0 million. This was offset by higher seasonal related operating expenses of $2.5 million and higher realized hedging losses of $4.6 million.

For Q1 2014, the Company had a net loss of $11.7 million or $0.09 per basic and diluted share compared to net income of $61.4 million in Q1 2013 or $0.97 per basic and diluted share and a loss of $16.9 million in Q4 2013 or $0.13 per basic and diluted share. Compared to Q1 2013, the decrease in Q1 2014 net income is due primarily to non-cash factors, including the gains on the acquisitions of Charger and AvenEx of $81.9 million recorded in Q1 2013. Compared to Q4 2013, the increase in net income is due primarily to the increase in funds from operations offset by higher unrealized hedging losses.

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

($/boe)	Q1 2014	Q1 2013	Q4 2013
Sales price	**$ 59.46**	$ 45.66	$ 45.13
Royalties	**(10.70)**	(9.62)	(9.42)
Operating expenses	**(22.31)**	(22.06)	(18.33)
Transportation expenses	**(2.35)**	(2.31)	(2.29)
Operating netback	**$ 24.10**	$ 11.67	$ 15.09
Cash other income (expense)	**0.06**	0.06	(0.03)
Realized gain (loss) on financial derivative instruments	**(5.74)**	(0.12)	(2.01)
Cash G&A	**(3.41)**	(2.84)	(2.45)
Interest	**(2.77)**	(2.31)	(2.77)
Cash flow netback	**$ 12.24**	$ 6.46	$ 7.83
Unrealized gain (loss) on financial derivative instruments	**(7.10)**	(4.64)	(1.96)
Non-cash other income (expense)	**0.85**	75.00	3.85
Depletion, depreciation and impairment	**(16.41)**	(12.87)	(15.34)
Accretion	**(1.08)**	(0.77)	(0.99)
Transaction costs	**-**	(12.32)	-
Long-term incentive compensation	**(0.37)**	(0.66)	(0.49)
Deferred taxes	**2.96**	6.01	(4.45)
Net income (loss)	**$ (8.91)**	$ 56.21	$ (11.55)

The following table provides reconciliations to the change in funds from operations and net income for Q1 2014 to Q1 2013 and for Q1 2014 to Q4 2013.

Change in Funds from Operations and Net Income (loss) (000s)	**Q1 2014 to Q1 2013**		**Q1 2014 to Q4 2013**	
	Funds from Operations	Net loss	**Funds from Operations**	Net loss
Comparative period	**$ 7,053**	$ 61,353	**$ 11,426**	$ (16,866)
Increase (decrease) in revenue:				
Change in production volumes	**9,992**	9,992	**(6,766)**	(6,766)
Change in prices	**18,084**	18,084	**18,774**	18,774
Change in royalties	**(3,524)**	(3,524)	**(266)**	(266)
(Increase) decrease in expenses:				
Operating	**(5,160)**	(5,160)	**(2,469)**	(2,469)
Transportation	**(568)**	(568)	**260**	260
Finance charges	**(1,105)**	(1,688)	**420**	450
Cash general and administration	**(1,365)**	(1,365)	**(881)**	(881)
Long-term incentive compensation	**-**	237	**-**	223
Depletion, depreciation and impairment	**-**	(7,456)	**-**	898
Deferred tax	**-**	(2,686)	**-**	10,372
Transaction costs	**-**	13,451	**-**	-
Increase (decrease) in:				
Other income	**10**	(80,738)	**114**	(4,396)
Gains (losses) on financial derivative instruments	**(7,391)**	(11,629)	**(4,586)**	(11,030)
Current period	**$ 16,026**	$ (11,697)	**$ 16,026**	$ (11,697)

Capital Expenditures, Acquisitions, Dispositions and Assets Held for Sale

Capital expenditures in Q1 2014 totalled $17.8 million with $13.5 million spent on drilling, completion and optimization activities, $2.5 million on facilities, pipelines, equipping and tie-ins, and $1.8 million on land, seismic and office costs, including capitalized G&A. A total of 8 gross (4.3 net) wells were drilled in Q1 2014 as part of the Company's capital program. Operated capital spent included 5 gross (4.2 net) wells in the South core area at Enchant. Non-operated drills totalled 3 gross (0.1 net) in our Central and North core areas. Office and other spend of $1.4 million was substantially capitalized G&A.

In Q1 2014, the company disposed of certain non-core producing properties in the province of Alberta, including assets that were classified as assets held for sale at December 31, 2013, for proceeds of $5.3 million, net of adjustments. At March 31, 2014, $4.2 million of non-core producing properties were classified as held for sale for accounting purposes. The net impact of these transactions was a net loss of $1.2 million which was recognized in the Consolidated Statement of Income (Loss).

The properties classified as assets held for sale at March 31, 2014 were subsequently sold for proceeds of $4.2 million prior to adjustments.

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

Capital Expenditures (000s)	**Q1 2014**	Q1 2013	Q4 2013
Land	**$ 224**	$ 109	$ 487
Geological and geophysical	**111**	1,175	142
Drilling and completions	**13,521**	6,324	10,045
Facilities and equipment	**2,547**	3,159	3,135
Office and capitalized G&A	**1,444**	1,053	1,182
Capital Expenditures	**$ 17,847**	$ 11,820	$ 14,991
Acquisitions	**-**	282,093	-
Dispositions	**(5,328)**	-	(12,515)
Total capital expenditures and acquisitions net of dispositions	**$ 12,519**	$ 293,913	$ 2,476
Exploration and evaluation expenditures	**$ 196**	$ 48,873	$ 170
Property, plant and equipment expenditures	**12,323**	245,040	2,306
Total capital expenditures and acquisitions net of dispositions	**$ 12,519**	$ 293,913	$ 2,476

Spyglass has approximately 562,000 net acres of undeveloped land under lease at March 31, 2014.

Equity

On March 28, 2013, pursuant to the Arrangement, 46,916,422 pre-subdivided Spyglass shares were subdivided on a basis of 1.3 to one to total 60,991,356 shares. Further, 12,117,821 shares were issued in exchange for all outstanding Charger shares and 54,967,543 shares were issued in exchange for all outstanding AvenEx shares. Outstanding shares subsequent to the Arrangement totaled 128,076,720 Spyglass shares and to date, no further shares have been issued.

The Company has no dilutive instruments outstanding.

Share Information	**Q1 2014**	Q1 2013	Q4 2013
Shares Outstanding			
Basic	**128,076,720**	128,076,720	128,076,720
Diluted	**128,076,720**	128,076,720	128,076,720
Weighted average shares outstanding			
Basic	**128,076,720**	63,227,413	128,076,720
Diluted	**128,076,720**	63,227,413	128,076,720

Dividends Declared and Payout Ratio

In April 2013, the Company initiated a monthly dividend of $0.0225 per share. During Q1 2014, the Company declared dividends of $8.6 million or $0.0675 per share. The Q1 basic payout ratio, calculated as dividends declared over funds from operations, was 54% while the all-in payout ratio, calculated using dividends declared and capital expenditures (net of property dispositions) over funds from operations, was 132%. The Q1 2014 all-in payout ratio of 132% reflects a higher level of capital activity as the Company completed approximately 30% of its 2014 drilling program in the quarter. The planned capital program for the remainder of 2014 of approximately $41 million, net of expected property dispositions, results in a forecast all-in payout ratio of approximately 100% for 2014.

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

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

On April 15, 2014, the Company declared the April 2014 dividend of $0.0225 per share, payable on May 15, 2014 to shareholders of record on April 28, 2014.

Liquidity and Capital Resources

Spyglass is listed as a senior issuer on the Toronto Stock Exchange trading under the symbol "SGL" and trades in the over the counter market in the United States under the symbol "SGLRF". The following is a summary of the trading history for Q1 2014, Q1 2013 and Q4 2013.

Trading History on the TSX	Q1 2014	Q1 2013	Q4 2013
Trading price			
High	**$ 2.14**	$ 2.71	$ 2.15
Low	**$ 1.71**	$ 1.98	$ 1.58
Close	**$ 1.82**	$ 2.22	$ 1.82
Volume (000's) [(1)]	**19,788**	6,924	25,028

[(1)] Trading volumes for Q1 2013 are stated in pre-subdivided amounts.

On the over the counter market, 5.2 million shares were traded in Q1 2014 compared to 2.5 million pre-subdivided shares in Q1 2013.

As at March 31, 2014 Spyglass had a $400 million revolving term credit facility with a syndicate of banks, which was subsequently renewed and amended on April 29, 2014. The available level of credit is subject to semi-annual review and may be adjusted for changes in reserves, commodity prices and other factors. At March 31, 2014, $294.9 million was drawn on the facility and the Company had a working capital deficit of $12.3 million (excluding current portion of financial derivative instruments and liabilities associated with assets held for sale) for net debt of $307.2 million. At March 31, 2014, there were $0.9 million of letters of credit outstanding.

On April 29, 2014 Spyglass renewed and amended its credit facility. The renewed and amended credit facility of $375 million provides for a $350 million revolving credit facility and a $25 million development loan. The development facility may be accessed only by permission from the banks. The facility is available on a revolving basis until April 28, 2015.

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

The Company anticipates adequate liquidity to fund future working capital and forecasted capital expenditures for the remainder of 2014 through a combination of cash flow and additional use of its bank facility. The Company is able to modify its capital program in response to changes in commodity prices and cash flows. Should the Company choose to expand its capital program, actual funding alternatives will be influenced by the then current market environment and the ability to access capital on reasonable terms, balanced with the investment opportunities presented.

Off Balance Sheet Transactions

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

Contractual Obligations

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

Contractual Obligations (000s)	Total	< 1 year	1-3 years	4-5 years	After 5 years
Long-term debt and related interest	**$ 321,124**	$ 14,304	$ 306,820	$ -	$ -
Firm transportation charges	**4,267**	1,854	2,136	237	40
Operating leases	**28,328**	2,580	6,948	7,058	11,742
Total Contractual Obligations	**$ 353,719**	$ 18,738	$ 315,904	$ 7,295	$ 11,782

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

The Company estimates it will incur costs of approximately $371.2 million on an undiscounted basis to settle its decommissioning liabilities to abandon and reclaim petroleum and natural gas assets including well sites, gathering systems and processing facilities. The present value of these expected costs is $82.5 million and has been recorded on the Company's balance sheet as at March 31, 2014. These costs will be incurred over the operating lives of the assets with the majority being at or after the end of production. The Company may enter into farm-in agreements where it commits to capital expenditures to earn and retain lands. These are considered routine in nature and form part of the normal course of operations for active oil and gas companies and are not included in the table above.

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

Financial Instruments

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

Spyglass' investment at March 31, 2014 is in common shares of a private oil and gas related business and has been recorded at its estimated fair value.

The Company's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The Company is exposed to credit, liquidity and market risk from its use of financial instruments. A description of these risks has been included in the Company's year-end audited consolidated financial statements for December 31, 2013.

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting ("ICFR")

Spyglass' Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance on the reliability of Spyglass' financial reporting and preparation of financial statements for external purposes in accordance with GAAP. The control framework to design Spyglass' ICFR is the Internal Control-Integrated Framework (COSO Framework) (1992) published by the Committee of Sponsoring Organizations of the Treadway Commission. As at March 31, 2014 Spyglass' Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the design of the Company's internal controls over financial reporting and have concluded that these controls are designed properly.

There were no weaknesses noted in controls during Q1 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Application of Critical Accounting Estimates

The significant accounting policies used by Spyglass are disclosed in the Company's year-end audited consolidated financial statements for the years ended December 31, 2013 and 2012.

Financial Reporting Update

Pronouncements and amendments for annual periods beginning on or after January 1, 2014 are disclosed in the Company's year end audited consolidated financial statements for the year ended December 31, 2013. Adopting these standards had no impact on the consolidated financial statements.

Risk Factors

There are a number of risk factors facing companies that participate in the Canadian oil and gas industry. A summary of certain risk factors relating to our business are disclosed below, a more exhaustive list is provided in the Risk Factors Section of our 2013 Annual Information Form filed on SEDAR at www.sedar.com.

Selected Quarterly Information

Financial (000s, except per share amounts)	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2
Petroleum and natural gas sales	**$ 77,917**	$ 65,909	$ 80,859	$ 76,405	$ 49,841	$ 49,475	$ 49,366	$ 50,162
Cash flow from (used in) operations	**10,342**	9,360	14,046	1,329	(3,174)	28,861	1,689	7,035
Funds from operations	**16,026**	11,426	21,547	20,558	7,053	13,631	14,006	16,485
Per share- Basic	**0.13**	0.09	0.17	0.16	0.11	0.22	0.23	0.27
Per share- Diluted	**0.13**	0.09	0.17	0.16	0.11	0.22	0.23	0.27
Net income (loss)	**$(11,697)**	$ (16,866)	$ (1,402)	$ 246	$ 61,353	$ (86,565)	$ (4,859)	$ (56,581)
Per share- Basic	**(0.09)**	(0.13)	(0.01)	0.00	0.97	(1.42)	(0.08)	(0.92)
Per share- Diluted	**(0.09)**	(0.13)	(0.01)	0.00	0.97	(1.42)	(0.08)	(0.92)
Capital expenditures	**$ 17,847**	$ 14,991	$ 24,559	$ 8,284	$ 11,820	$ 14,924	$ 12,909	$ 13,688
Corporate acquisitions	**-**	-	-	-	150,271	-	-	-
Dispositions	**(5,328)**	(12,515)	(10,199)	-	-	-	-	-
Total capital expenditures and acquisitions net of dispositions	**12,519**	2,476	14,360	8,284	162,091	14,924	12,909	13,688
Long term debt	**294,900**	287,000	277,000	280,400	271,700	199,810	214,879	200,611
Net debt	**307,150**	300,508	291,997	296,853	300,253	215,817	210,348	210,765
Total assets	**897,155**	892,328	921,752	930,843	944,625	581,521	691,162	697,290
Dividends Declared	**8,645**	8,645	8,645	8,644	-	-	-	-
Per share- Basic	**0.0675**	0.0675	0.0675	0.0675	-	-	-	-
Basic Payout Ratio	**54%**	76%	40%	42%	-	-	-	-
All-in Payout Ratio	**132%**	97%	107%	82%	-	-	-	-
Shares outstanding (000s)								
Basic	**128,077**	128,077	128,077	128,077	128,077	60,991	60,991	61,046
Diluted	**128,077**	128,077	128,077	128,077	128,077	65,209	65,267	65,725
Operations								
Average daily production								
Oil (bbls/d)	**6,784**	7,198	7,473	7,434	5,876	5,657	5,731	6,015
NGLs (bbls/d)	**391**	647	383	490	279	285	265	360
Natural gas (Mcf/d)	**44,312**	48,164	51,533	50,626	35,840	35,804	40,109	44,340
Combined (boe/d)	**14,560**	15,873	16,445	16,362	12,128	11,909	12,681	13,765
Operating netback ($/boe)	**$ 24.10**	$ 15.09	$ 22.09	$ 20.81	$ 11.67	$ 16.01	$ 16.55	$ 14.13

In Q1 2013, the Company completed the Arrangement and acquired AvenEx and Charger for consideration of $150.3 million, which resulted in a gain on acquisition of $84.2 million. In 2013, the Company drilled 16 gross (12.9 net) wells, and has drilled 8 gross (4.3 net) wells year to date in 2014.

Production averaged 14,560 boe/d in Q1 2014, lower than 2013's annual production average of 15,215 boe/d but higher than the 13,223 boe/d produced in 2012, reflecting the completion of the Arrangement late in Q1 2013. Commodity prices have been volatile over the previous eight trailing quarters which led to impairment losses in Q2 2012 and Q4 2012. This contributed to net losses of $56.6 million and $86.6 million in those periods respectively.

Additional Information

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