SPYGLASS RESOURCES CORP. ANNOUNCES 2014 YEAR END, FOURTH QUARTER RESULTS AND RESERVES

All values are in Canadian dollars unless otherwise indicated. Conversion of natural gas volumes to barrels of oil equivalent (boe) are at 6:1.

Calgary, Alberta – March 11, 2015. Spyglass Resources Corp. ("Spyglass", or the "Company") (TSX: SGL, OTCQX: SGLRF) announces annual financial and operating results for the year ended and fourth quarter ended December 31, 2014. Selected financial and operational information is outlined below along with 2014 reserves evaluated in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). This information should be read in conjunction with Spyglass' Audited Consolidated Financial Statements and Management's Discussion and Analysis for the years ended December 31, 2014 and 2013 on www.sedar.com and also available at www.spyglassresources.com.

In 2014, Spyglass made progress towards its objectives with a reduction in net debt by $107 million reflecting the completion of key property dispositions, including the sale of a 50 percent working interest in the Dixonville field and ongoing initiatives to reduce operating and administrative costs. Highlighting the year was the execution of the Company's $65 million low risk, light oil drilling and optimization program incorporating 21 (17.3 net) successful wells. During 2014 the Company spent an additional $12.5 million on pipeline remediation at Dixonville as a result of the previously reported pipeline incidents.

Fourth Quarter and 2014 Summary

- Spyglass generated cash proceeds of $163.9 million from property dispositions net of acquisitions in 2014 through the sale of approximately 2,700 boe/d of production and 10.2 MMboe PDP reserves, 14.4 MMboe total proved ("TP") reserves and 23.2 MMboe proved plus probable ("2P") reserves. Disposition metrics were approximately $60,350 per boe/d and 8.0x trailing cash flow.
- Production for 2014 averaged 13,798 boe/d, a decrease from 15,215 boe/d in 2013 reflecting the Company's 2014 disposition program and downtime at Dixonville partially offset by the successful light oil and natural gas drilling and optimization program.
- Production for the fourth quarter of 2014 averaged 12,666 boe/d (45 percent oil and liquids), incorporating the impact of successful non-core asset dispositions (approximately 1,400 boe/d) and Dixonville downtime (approximately 850 boe/d) as compared to the same period in 2013.
- Capital expenditures (prior to dispositions) for 2014 were $77.5 million which included successfully drilling 20 (16.3 net) horizontal light oil wells in Southern and Central Alberta, 1 (1 net) natural gas well at Noel in northeast British Columbia and remediation of the Dixonville property following the pipeline incidents in 2014.

- During the fourth quarter of 2014, capital expenditures (prior to dispositions) were $15.2 million. Development capital in the quarter was focused on the drilling and completion of 2.0 (2.0 net) oil wells in the Halkirk-Provost area, completing the tie in of wells drilled in the third quarter and pipeline remediation at Dixonville.
- Operating costs for the fourth quarter and full year of 2014 were better than guidance at $19.11 per boe and $19.82 per boe respectively.
- 2014 Cash general and administrative expenses were $3.22 per boe, consistent with guidance. Fourth quarter 2014 cash general and administrative expenses were $2.53 per boe, largely achieved through staff reductions related to the sale of non-core assets throughout the year.
- Funds flow from operations for the fourth quarter of 2014 was $11.9 million ($0.09 per share), reflecting lower crude oil pricing during the quarter.
- Funds flow from operations in 2014 totalled $58.9 million ($0.46 per share) compared to $60.6 million ($0.54 per share) in 2013. The 2014 results were impacted by downtime at Dixonville that resulted in approximately $15 million less cash flow contributed by the Dixonville property than in 2013.
- Net loss of $155.8 million in 2014 is driven by non-cash impairment charges of $126.6 million and a valuation allowance taken against the deferred tax asset of $49.3 million; both charges reflecting the significant decline in commodity price forecasts.
- Net debt at December 31, 2014 was $193.8 million, comprised of $174.7 million in long-term bank debt and a $19.1 million working capital deficit, lower by $107 million as compared to net debt of $300.5 million at December 31, 2013.

Selected Financial and Operating Information

Operating	Q4 2014	Q4 2013	2014	2013[1]
Average daily production				
Oil (bbls/d)	5,389	7,198	5,839	7,000
NGLs (bbls/d)	280	647	404	450
Natural Gas (Mcf/d)	41,981	48,164	45,332	46,588
Total (boe/d)	12,666	15,873	13,798	15,215
Realized prices				
Oil ($/bbl)	$66.21	$72.89	$85.33	$82.09
NGLs ($/bbl)	50.61	43.46	60.23	50.96
Natural Gas ($/mcf)	3.82	3.40	4.48	3.23
Total Revenue ($/boe)	$41.95	$45.13	$52.59	$49.16
Netback ($/boe)				
Revenue	$41.95	$45.13	$52.59	$49.16
Royalties	(7.48)	(9.42)	(9.35)	(10.21)
Operating expense	(19.11)	(18.33)	(19.82)	(18.89)
Transportation expense	(1.87)	(2.29)	(2.06)	(2.20)
Operating Netback[2]	13.49	15.09	21.36	17.86
Cash General & Administrative Expense	(2.53)	(2.45)	(3.22)	(3.01)
Realized hedging gain (loss)	1.59	(2.01)	(3.65)	(1.77)
Interest, Financing & Other	(2.34)	(2.80)	(2.81)	(2.17)
Cash netback[2]	$10.21	$7.83	$11.68	$10.91

Financial *($000)(except per share figures)*	Q4 2014	Q4 2013	2014	2013[1]
Funds Flow from Operations[2]	$11,883	$11,426	$58,854	$60,584
per share	0.09	0.09	0.46	0.54
Net Income (Loss)	(140,753)	(16,866)	(155,823)	43,331
per share	(1.10)	(0.13)	(1.22)	0.39
Dividends	3,843	8,645	27,857	25,934
per share[3]	0.0300	0.0675	0.2175	0.2025
Capital Expenditures	15,205	14,991	77,532	59,654
Capital Expenditures (net of dispositions)	(95,730)	2,476	(166,381)	36,940
Net Debt[2]	$193,819	$300,508	$193,819	$300,508

Share Information (000's)	Q4 2014	Q4 2013	2014	2013[1]
Common shares outstanding, end of period	127,805	128,077	127,805	128,077
Weighted average shares outstanding	128,062	128,077	128,073	112,086

(1) 2013 Year to date results are presented as Pace standalone from January 1 to March 28, 2013 and incorporate the Arrangement and combined financial and operating results for the three companies from March 29 to December 31, 2013.
(2) See Non-GAAP measures.
(3) 2013 YTD dividends are calculated based on 128,076,720 shares outstanding on the initial record date of April 26, 2013.

2014 Oil and Natural Gas Reserves

Spyglass' year ending December 31, 2014 reserves were evaluated by independent reserves evaluator McDaniel & Associates Consultants Ltd. ("McDaniel"). Reserves are stated on a gross company working interest basis unless otherwise noted. The evaluation of Spyglass' oil and gas properties was done in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). In addition to the information disclosed below more detailed information will be included in Spyglass' AIF which will be filed by March 31, 2015.

Highlights of the 2014 reserve evaluation include:

- December 31, 2014 2P reserves decreased to 54.1 MMboe from 82.4 MMboe at December 31, 2013. Production and dispositions accounted for the majority of changes in the reserves with dispositions representing a reduction in 2P reserves of 23.2 MMboe in 2014.
- December 31, 2014 TP decreased to 36.0 MMboe from 54.7 MMboe at December 31, 2013, largely as a result of production and property dispositions throughout the year.
- December 31, 2014 proved developed producing reserves ("PDP") decreased to 23.9 MMboe from 38.7 MMboe at December 31, 2013, primarily due to production and property dispositions throughout the year.
- Maintained a reserve life index of 11.7 years for 2P reserves and 7.8 years for TP reserves, based on fourth quarter 2014 production of 12,666 boe/d.
- Present value of reserves before tax at a 10 percent discount rate ("PV10") was $517.9 million on a 2P basis, $357.0 million on a TP basis and $267.0 million on a proved developed producing basis, using McDaniel's January 1, 2015 forecast prices.
- Net asset value calculated on a 2P basis is approximately $367 million or $2.87 per share.

Summary of Reserves

Working Interest Reserves [(1)(2)]

Category	Oil (Mbbl)	Natural Gas (MMcf)	NGL (Mbbl)	Total (Mboe)
Proved producing	13,041	62,193	509	23,915
Proved non-producing	555	16,358	183	3,465
Proved Undeveloped	4,475	23,893	156	8,612
Total Proved[(3)]	**18,071**	**102,444**	**848**	**35,993**
Probable	8,880	52,449	514	18,136
Total proved plus probable[(3)]	**26,951**	**154,893**	**1,362**	**54,129**

(1) Based on the McDaniel January 1, 2015 forecast prices.
(2) Working interest reserves are total working interest before the deduction of any royalties.
(3) Numbers may not add due to rounding.

Summary of Before Tax Net Present Values ($MM)[(1)]

Category	0%	5%	10%	15%	20%
Proved producing	$509	$349	$267	$218	$186
Proved non-producing	67	46	34	26	22
Proved Undeveloped	162	93	56	34	20
Total Proved[(2)]	**738**	**488**	**357**	**278**	**227**
Probable	503	255	161	114	86
Total proved plus probable[(2)]	**$1,241**	**$744**	**$518**	**$392**	**$312**

Summary of After Tax Net Present Values ($MM)[(1)]

Category	0%	5%	10%	15%	20%
Proved producing	$509	$349	$267	$218	$186
Proved non-producing	67	46	34	26	22
Proved Undeveloped	162	93	56	34	20
Total Proved[(2)]	**738**	**488**	**357**	**278**	**227**
Probable	413	227	151	110	84
Total proved plus probable[(2)]	**$1,151**	**$716**	**$508**	**$388**	**$311**

(1) Based on the McDaniel January 1, 2015 forecast prices.
(2) Numbers may not add due to rounding.

Net Asset Value as at Dec. 31, 2014 ($MM)	TP	2P
BTAX NPV10	$357	$518
Net Debt[(1)]	(194)	(194)
Undeveloped Land[(2)]	42	42
NAV[(3)]	$206	$367
per Share	$1.61	$2.87

(1) Net debt at December 31, 2014.
(2) Undeveloped land value is based on an internally generated estimate of $100 / acre.
(3) May not add due to rounding.

Reconciliation of Gross (Working Interest) Reserves by Product

Proved Developed Producing	Light & Medium Oil (Mstb)	Heavy Oil (Mstb)	Assoc & Non Assoc Gas (MMcf)	NGL (Mstb)	Total Oil Equivalent (Mboe)
Opening balance as of Dec. 31, 2013	**21,055**	**1,746**	**90,565**	**763**	**38,658**
Discoveries	0	0	0	0	0
Extensions and Improved Recovery(1)	546	69	6,827	36	1,789
Technical Revisions	(523)	(7)	(2,806)	33	(965)
Acquisitions	100	0	894	9	258
Dispositions	(7,632)	(135)	(13,353)	(167)	(10,210)
Production	(1,807)	(306)	(16,147)	(144)	(4,948)
Economic factors	(2)	(12)	(3,787)	(21)	(667)
Closing Balance as of Dec. 31, 2014	**11,687**	**1,354**	**62,193**	**509**	**23,915**

Total Proved	Light & Medium Oil (Mstb)	Heavy Oil (Mstb)	Assoc & Non Assoc Gas (MMcf)	NGL (Mstb)	Total Oil Equivalent (Mboe)
Opening balance as of Dec. 31, 2013	**26,971**	**2,096**	**146,960**	**1,114**	**54,675**
Discoveries	0	0	0	0	0
Extensions and Improved Recovery(1)	868	93	7,161	31	2,185
Technical Revisions	(793)	66	(3,449)	205	(1,097)
Acquisitions	103	9	871	11	269
Dispositions	(9,076)	(135)	(29,038)	(346)	(14,397)
Production	(1,807)	(306)	(16,147)	(144)	(4,948)
Economic factors	3	(23)	(3,914)	(22)	(694)
Closing Balance as of Dec. 31, 2014	**16,271**	**1,800**	**102,444**	**848**	**35,993**

Total Proved plus Probable	Light & Medium Oil (Mstb)	Heavy Oil (Mstb)	Assoc & Non Assoc Gas (MMcf)	NGL (Mstb)	Total Oil Equivalent (Mboe)
Opening balance as of Dec. 31, 2013	**39,838**	**2,769**	**228,228**	**1,801**	**82,447**
Discoveries	0	0	0	0	0
Extensions and Improved Recovery(1)	1,508	115	9,839	43	3,306
Technical Revisions	(1,707)	62	(12,788)	303	(3,473)
Acquisitions	124	13	1,069	13	328
Dispositions	(13,545)	(176)	(53,119)	(643)	(23,217)
Production	(1,807)	(306)	(16,147)	(144)	(4,948)
Economic factors	64	(2)	(2,190)	(12)	(315)
Closing Balance as of Dec. 31, 2014	**24,475**	**2,476**	**154,893**	**1,362**	**54,129**

(1) Extensions: Reserves added as a result of the development of an oil or gas pool by drilling wells which extend the pool boundaries. Improved Recovery: Reserves added by improving the recovery from a pool by infill drilling, installation of a secondary or tertiary recovery scheme or installation of field facilities such as compression, line looping, etc.

Finding and Development Costs

Finding and development costs (F&D costs) include all costs to develop reserves, including land and seismic costs. The methodology to calculate F&D costs under NI 51-101 requires that F&D costs incorporate changes in the future development capital (FDC), which is included in the reserve evaluation. This development capital is part of the ongoing development process to bring production on stream and generate cash flow. F&D costs for 2014 were \$23.57/boe TP and \$13.10/boe 2P. Including technical revisions, F&D costs were \$47.32/boe TP. The following table presents the details of the 2014 F&D cost calculations.

2014 F&D Costs[1,2]:

Working Interest Reserves Changes, Mboe	Total Proved	Total Proved plus Probable
Drilling Extensions & Improved Recovery	2,185	3,306
Capital (000s)		
2014 Capital[3]	\$71,824	\$71,824
Change in FDC (excluding dispositions)	(20,319)	(28,527)
Total Capital	\$51,505	\$43,297
F&D (\$/boe)	**\$23.57**	**\$13.10**
F&D including Technical Revisions		
Working Interest Reserve Changes, Mboe		
Drilling Extensions & Improved Recovery	2,185	3,306
Technical Revisions	(1,097)	(3,473)
Total Reserve Additions & Technical Revisions	1,088	(167)
Capital (000s)		
2014 Capital[3]	\$71,824	\$71,824
Change in FDC	(20,319)	(28,527)
Total Capital	\$51,505	\$43,297
F&D including Technical Revisions (\$/boe)	**\$47.32**	**N/A[4]**

Notes:

1. The aggregate of the exploration and development costs incurred during the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
2. Finding and development costs are calculated on the basis of barrels of oil equivalent. BOEs may be misleading particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
3. The capital expenditures exclude capitalized administration and office costs and include \$12.5 million spent on pipeline remediation at Dixonville.
4. Results are not applicable as total additions plus technical revisions are negative.

2015 Capital Program and Outlook

Lower commodity prices present a challenging business environment for the Company as 2015 progresses. Spyglass has prudently managed costs through reductions in staffing levels, renegotiating contract rates with business partners, and scaling back the capital program to \$8 million, with spending focused primarily on maintenance capital initiatives with the majority of drilling projects deferred until commodity prices improve.

Management anticipates that the 2015 capital program coupled with the Company's 21 percent decline rate is expected to result in average production of approximately 9,000 boe/d for the year.

Spyglass will continue to focus on strengthening its financial position in 2015 using proceeds from asset sales to reduce debt, fund organic growth opportunities and streamline operations. The focus remains on managing through a difficult commodity price environment and balancing development activity in preparation for future growth with necessary debt reduction.

Risk Management Update

Spyglass uses a commodity price risk management program to mitigate the impact of crude oil and natural gas price volatility on cash flow which is intended to support the dividend and capital program. Spyglass hedges production up to 24 months forward, using a combination of fixed price and participating products. Please refer to the Company's website at www.spyglassresources.com under Investors for a detailed list of the Company's risk management contracts.

For calendar 2015, Spyglass currently has approximately 1,350 bbl/d of its crude oil production hedged at an average fixed price of WTI CDN$99.23/bbl. In addition, the Company has hedged WCS at CDN$22.80/bbl for 2015 on 500 bbls/day. The Company has hedged approximately 5,750 Mcf/d of its natural gas production at an average fixed price of $3.82/Mcf.

Power costs are a significant driver of operating costs and as a result, the Company has hedged power usage in order to reduce operating cost volatility. Currently, 40 percent of 2015 power requirements are hedged at $51.33/MWH.

Non-GAAP Measures

This press release includes terms commonly referred to in the oil and gas industry that are considered non-GAAP measures. These non-GAAP measures do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS" or, alternatively, "GAAP") and therefore may not be comparable with the calculation of similar measures by other companies.

"**Funds from operations**" represents cash flow from operating activities adjusted for changes in non-cash working capital, transaction costs and decommissioning expenditures.

"**Operating netbacks**" are determined by deducting royalties, operating and transportation expenses from oil and gas revenue, calculated on a per boe basis.

"**Cash netbacks**" are determined by deducting cash general and administrative, realized hedging losses, interest expense and other income from Operating netbacks, calculated on a per boe basis.

"**Net debt**" is calculated as bank debt plus working capital deficiency excluding current portion of risk management contracts and liabilities associated with assets held for sale.

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Information Regarding Disclosure on Oil and Gas Reserves, Resources and Operational Information

In accordance with NI 51-101, McDaniel evaluated, as at December 31, 2014, the oil, natural gas and NGL reserves attributable to the properties of Spyglass. The tables contained in this press release are a summary of the oil, natural gas and NGL reserves attributable to the properties of Spyglass and the net present value of future net revenue attributable to such reserves as evaluated by McDaniel based on forecast price and cost assumptions. The tables summarize the data contained in the McDaniel Report and, as a result, may contain slightly different numbers than such report due to rounding. Also due to rounding, certain columns may not add exactly. The net present value of future net revenue attributable to reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures and well abandonment costs for only those wells assigned reserves by McDaniel. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by McDaniel represent the fair market value of those reserves. The recovery and reserve estimates of oil, NGL and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein.

All amounts in this news release are stated in Canadian dollars unless otherwise specified. Where applicable, natural gas has been converted to barrels of oil equivalent ("BOE") based on 6 Mcf:1 BOE. The BOE rate is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. Use of BOE in isolation may be misleading. All reserves volumes in this press release (and all information derived therefrom) are based on company gross reserves, before deduction of Crown and other royalties, unless otherwise stated. Spyglass' oil and gas reserves statement for the year-ended December 31, 2014, which will include complete disclosure of our oil and gas reserves and other oil and gas information in accordance with NI 51-101, will be contained within our Annual Information Form which will be available on our SEDAR profile at www.sedar.com.

Reader Advisory and Note Regarding Forward Looking Information

Certain statements contained within this press release, 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 press release 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; (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 press release should not be unduly relied upon. These statements speak only as of the date of this press release or as of the date specified in the documents incorporated by reference in this press release. The actual results could differ materially from those anticipated as a result of the risk factors set forth below and elsewhere in this press release 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, (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 press release and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this press release speak only as of the date thereof 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.

Barrel of oil equivalents or BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

This press release shall not constitute an offer to sell, nor the solicitation of an offer to buy, any securities in the United States, nor shall there be any sale of securities mentioned in this press release in any State in the United States in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities law of any such State.

SPYGLASS
RESOURCES CORP.

2014 MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") as provided by management of Spyglass Resources Corp. ("Spyglass" or the "Company") should be read in conjunction with the audited consolidated financial statements, related notes and Management's Discussion and Analysis for the years ended December 31, 2014 and 2013. This MD&A is dated as of March 10, 2015. Additional information relating to Spyglass, including a detailed reserve analysis, will be included in our annual information form, which may be found on Sedar at www.sedar.com.

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 year ended December 31, 2014 ("2014") to the year ended December 31, 2013 ("2013") and the results of the three months ended December 31, 2014 (“Q4 2014”) to the three months ended December 31, 2013 (“Q4 2013”) and the three months ended September 30, 2014 (“Q3 2014”).

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 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 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. 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.

2015 Capital Program and Outlook

Lower commodity prices present a challenging business environment for the Company as 2015 progresses. Spyglass has prudently managed costs through reductions in staffing levels, renegotiating contract rates with business partners, and scaling back the capital program to $8 million, with spending focused primarily on maintenance capital initiatives with the majority of drilling projects deferred until commodity prices improve.

Management anticipates that the 2015 capital program coupled with the Company’s 21 percent decline rate is expected to result in average production of approximately 9,000 boe/d for the year.

Spyglass will continue to focus on strengthening its financial position in 2015 using proceeds from asset sales to reduce debt, fund organic growth opportunities and streamline operations. The focus remains on managing through a difficult commodity price environment and balancing development activity in preparation for future growth with necessary debt reduction.

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 and working capital deficit 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. 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:

($000s)	Q4 2014	Q4 2013	Q3 2014	2014	2013
Cash flow from operating activities	**$ 8,938**	$ 9,360	$ 8,398	**$ 55,148**	$ 21,561
Transaction costs	**-**	-	-	**-**	13,451
Decommissioning expenditures	**3,146**	1,025	516	**6,762**	3,574
Change in non-cash working capital	**(201)**	1,041	2,988	**(3,056)**	21,998
Funds from operations	**$ 11,883**	$ 11,426	$ 11,902	**$ 58,854**	$ 60,584

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 2014 averaged 13,798 boe/d compared to 15,215 in 2013. Annual 2014 production was largely consistent with guidance provided in the Q3 2014 press release of approximately 14,000 boe/d.

Production in Q4 2014 averaged 12,666 boe/d compared to 13,518 boe/d in Q3 2014 and 15,873 boe/d in Q4 2013, a decrease of 6% and 20% respectively.

During the quarter, the Company successfully closed several property sales totalling to approximately 260 boe/d of production, and also sold a 50% working interest in its Dixonville property to a third party with an effective date of January 1, 2015. Spyglass also continued work on its pipeline remediation project in Dixonville, which began in the second quarter and saw various sections of the field shut-in and production brought back on in stages as work was completed. The Company completed the majority of the pipeline remediation work by the end of the year, and as of February 15, 2015, gross production capability of 95% or 2,700 boe/d was restored.

The Company saw encouraging results from its 2014 drilling program, which was weighted towards the first and third quarters. Production from new wells drilled in the year totalled to approximately 810 boe/d, and the 10 gross (10.0 net) oil wells drilled in the third quarter contributed to approximately 380 boe/d of new production in the fourth quarter. Combined with restarted production in Dixonville, this improved the Company's oil weighting to 45% in the quarter, compared to 40% in Q3 2014, and increased oil and liquids production to 5,669 bbls/d from 5,455 bbls/d.

Compared to 2013, production in 2014 was lower by 1,417 boe/d, with production from new wells and optimization projects offset by approximately 500 boe/d of sold production, natural declines in production, and downtime at Dixonville of approximately 750 boe/d related to the pipeline remediation project, which is more fully described in the "Environmental Liabilities, Insurance Receivable and Dixonville Pipeline Incidents" section of this MD&A.

Natural gas production for 2014 averaged 45.3 MMcf/d a decrease of 1.3 MMcf/d or 3% from 46.6 MMcf/d in 2013. Decreases in natural gas production are the result of property dispositions and natural declines, offset by additions from 2014 drilling activity, including a horizontal gas well in Noel that was tied-in in July with 30 day initial production rates of 1,100 boe/d.

For 2015, incorporating the Company's low decline rate, 2014 drilling success, non-core dispositions and a $8 million capital budget which is flexible to changes in commodity pricing, production is anticipated to average approximately 9,000 boe/d.

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

Production	Q4 2014	Q4 2013	Q3 2014	2014	2013
Oil (bbls/d)	**5,389**	7,198	5,045	**5,839**	7,000
NGLs (bbls/d)	**280**	647	410	**404**	450
Natural Gas (Mcf/d)	**41,981**	48,164	48,379	**45,332**	46,588
Total (boe/d)	**12,666**	15,873	13,518	**13,798**	15,215
Oil & Liquids weighting	**45%**	49%	40%	**45%**	49%

The following table sets out production volumes by core area:

	Q4 2014	Q4 2013	Q3 2014	**2014**	2013
North					
Oil (bbls/d)	**2,589**	3,738	1,984	**2,806**	3,994
NGLs (bbls/d)	**78**	393	145	**164**	262
Natural Gas (Mcf/d)	**24,215**	30,777	30,272	**27,973**	30,035
Total (boe/d)	**6,703**	9,261	7,174	**7,632**	9,262
Central					
Oil (bbls/d)	**631**	787	603	**604**	559
NGLs (bbls/d)	**81**	105	104	**99**	62
Natural Gas (Mcf/d)	**4,502**	4,958	4,108	**4,515**	3,615
Total (boe/d)	**1,462**	1,718	1,392	**1,455**	1,224
South					
Oil (bbls/d)	**2,169**	2,673	2,458	**2,429**	2,447
NGLs (bbls/d)	**121**	149	161	**141**	126
Natural Gas (Mcf/d)	**13,264**	12,429	13,999	**12,844**	12,938
Total (boe/d)	**4,501**	4,894	4,952	**4,711**	4,729
Total Company					
Oil (bbls/d)	**5,389**	7,198	5,045	**5,839**	7,000
NGLs (bbls/d)	**280**	647	410	**404**	450
Natural Gas (Mcf/d)	**41,981**	48,164	48,379	**45,332**	46,588
Total (boe/d)	**12,666**	15,873	13,518	**13,798**	15,215
Oil & Liquids weighting	**45%**	49%	40%	**45%**	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 2014 US WTI price was $92.94 US/bbl ($102.65 CDN/bbl) compared to $98.00 US/bbl ($100.94 CDN/bbl) in 2013. The 2014 increase in CDN WTI pricing from 2013 incorporates the exchange rate movement from 0.971 US/CDN in 2013 to 0.905 US/CDN in 2014.

Spyglass' corporate differential incorporates its portfolio of oil sold through multiple crude oil streams, reflecting differentials adjusted for quality and transportation. Differentials can vary widely for all crude oil streams depending on market conditions. For Spyglass' crude oil streams, the realized prices were $85.33 CDN/bbl in 2014, compared to $82.09 CDN/bbl in 2013. As a percentage of CDN WTI the corporate differential was 17% in 2014 and 19% in 2013. Realized prices across the quarters were $66.21 CDN/bbl in Q4 2014, $87.58 CDN/bbl in Q3 2014 and $72.89/bbl in Q4 2013. The decrease in Q4 2014 realized pricing from Q3 2014 is primarily related to the decline in benchmark pricing, with differentials increasing slightly from the prior quarter. Compared to Q4 2013, there was a considerable decrease in benchmark pricing, however differentials were much narrower in the current quarter. As a percentage of CDN WTI the corporate differential was 20% in Q4 2014, 17% in Q3 2014 and 29% in Q4 2013.

Canadian natural gas prices remain volatile but have improved from the prior year. The Alberta daily spot natural gas price average in 2014 of $4.50/Mcf was improved from the $3.20/Mcf AECO daily in 2013. Spyglass sells gas on a blend of both the AECO monthly and daily index. In 2014, the Company sold approximately 43% on the AECO daily index, 55% on the monthly index and 2% through aggregators, resulting in a realized natural gas price of $4.48/Mcf. This compares to $3.23/Mcf received in 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 are expected to be slightly higher than the Spyglass weighted average sales of natural gas on the AECO Alberta daily and Alberta monthly indicies. The Q4 2014 daily spot natural gas price of $3.60/Mcf was lower than the Q3 2014 price of $4.02/Mcf but higher than the Q4 2013 price of $3.53/Mcf. Realized natural gas prices were $3.82/Mcf in Q4 2014 versus $4.25/Mcf in Q3 2014 and $3.40/Mcf in Q4 2013.

Spyglass' NGL production represents approximately 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 2014, overall realized NGL price averaged $60.23/bbl or 59% of CDN$ WTI compared to $50.96/bbl or 50% of CDN$ WTI in 2013. Q4 2014 realized NGL price averaged $50.61/bbl or 61% of CDN$ WTI compared to $57.46/bbl or 54% of CDN$ WTI in Q3 2014 and $43.46 or 42% in Q4 2013.

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

Prices and Marketing	Q4 2014	Q4 2013	Q3 2014	2014	2013
Benchmark Prices(1)					
WTI Oil ($US/bbl)	**$ 73.15**	$ 97.46	$ 97.17	**$ 92.94**	$ 98.00
US/CDN average exchange rate	**0.881**	0.953	0.918	**0.905**	0.971
WTI Oil ($CDN/bbl)	**83.08**	102.31	105.85	**102.65**	100.94
Edmonton Par ($/bbl)	**75.69**	86.55	97.16	**94.51**	93.08
Alberta daily spot ($/Mcf)	**3.60**	3.53	4.02	**4.50**	3.20
Alberta monthly ($/Mcf)	**$ 4.01**	$ 3.15	$ 4.15	**$ 4.39**	$ 3.16
Spyglass' Realized Prices					
Oil ($/bbl)	**$ 66.21**	$ 72.89	$ 87.58	**$ 85.33**	$ 82.09
NGLs ($/bbl)	**50.61**	43.46	57.46	**60.23**	50.96
Combined Oil & NGLs ($/bbl)	**65.44**	70.46	85.31	**83.71**	80.21
Natural gas ($/Mcf)	**3.82**	3.40	4.25	**4.48**	3.23
Total ($/boe)	**$ 41.95**	$ 45.13	$ 49.64	**$ 52.59**	$ 49.16

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

Financial Derivative Instruments

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 partially mitigate the financial impact of 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. Derivative contracts for the differentials between WCS and WTI are entered into for a portion of the Company's physical crude oil sales as WCS provides a stronger correlation to the Company's realized price.

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

Commodity risk management contracts					**Fair Value as at**	
Instrument	Period	Price	Reference	Quantity	**December 31, 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	**-**	(320)
Swap	Jan 1, 2014 - Dec 31, 2014	$92.20	CDN$ WTI	1,000 bbl/d	**-**	(3,547)
Swap	Jan 1, 2014 - Dec 31, 2014	$93.25	CDN$ WTI	500 bbl/d	**-**	(1,583)
Swap	Apr 1, 2014 - Jun 30, 2014	$95.27	CDN$ WTI	1,000 bbl/d	**-**	(745)
Swap	Apr 1, 2014 - Dec 31, 2014	$98.13	CDN$ WTI	600 bbl/d	**-**	(508)
Swap	Apr 1, 2014 - Dec 31, 2014	$96.90	CDN$ WTI	600 bbl/d	**-**	(688)
Swap	Jul 1, 2014 - Sep 30, 2014	$94.43	CDN$ WTI	500 bbl/d	**-**	(305)
Swap	Oct 1, 2014 - Dec 31, 2014	$93.75	CDN$ WTI	250 bbl/d	**-**	(121)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.20	CDN$ WTI	500 bbl/d	**1,504**	(32)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.50	CDN$ WTI	500 bbl/d	**1,517**	(19)
Swap	Jan 1, 2015 - Jun 30, 2015	$98.40	CDN$ WTI	500 bbl/d	**3,112**	-
Swap	Jan 1, 2015 - Dec 31, 2015	-$22.80	CDN$ WCS (1)	500 bbl/d	**(739)**	-
Swap	Jan 1, 2015 - Dec 31, 2015	$101.15	CDN$ WTI	500 bbl/d	**6,328**	-
Swap	Apr 1, 2015 - Dec 31, 2015	$99.10	CDN$ WTI	500 bbl/d	**4,342**	-
					$ 16,064	$ (10,338)
Natural Gas Contracts						
Swap	Jan 1, 2014 - Dec 31, 2014	$3.55	CDN$ GJ	1,500 GJ/d	**$ -**	$ (86)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.555	CDN$ GJ	5,000 GJ/d	**-**	(264)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.575	CDN$ GJ	6,250 GJ/d	**-**	(284)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.59	CDN$ GJ	5,000 GJ/d	**-**	(177)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.6075	CDN$ GJ	3,000 GJ/d	**-**	(87)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.64	CDN$ GJ	2,000 GJ/d	**-**	(34)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.71	CDN$ GJ	2,000 GJ/d	**-**	7
Swap	Jan 1, 2015 - Mar 31, 2015	$3.7625	CDN$ GJ	2,000 GJ/d	**174**	(17)
Swap	Jan 1, 2015 - Mar 31, 2015	$4.10	CDN$ GJ	3,000 GJ/d	**352**	-
Swap	Jan 1, 2015 - Mar 31, 2015	$4.14	CDN$ GJ	2,000 GJ/d	**242**	-
Swap	Jan 1, 2015 - Jun 30, 2015	$4.2025	CDN$ GJ	3,000 GJ/d	**836**	-
Put	Jan 1, 2014 - Dec 31, 2014	$3.40	CDN$ GJ	2,000 GJ/d	**-**	(58)
					$ 1,604	$ (1,000)
Total					**$ 17,668**	$ (11,338)

(1) Fixed $ WCS versus WTI

Interest rate risk management contract					**Fair Value as at**	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	**December 31, 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	$75,000,000	CAD-BA-CDOR	1.281%	**34**	-
Total					**$ 34**	$ 22

Subsequent to December 31, 2014 Spyglass entered into the following commodity risk management contracts:

- An AECO natural gas swap contract for 3,000 GJ/d for the period April 1, 2015 to December 31, 2015 with a fixed price of $2.94/GJ

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

Financial Derivative Instruments	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
(000s)					
Realized gain (loss)					
Oil	**$ 2,307**	$ (3,776)	$ (3,468)	**$ (12,855)**	$ (11,793)
Gas	**(463)**	823	(947)	**(5,557)**	1,905
Interest	**6**	15	(3)	**12**	57
Total	**$ 1,850**	$ (2,938)	$ (4,418)	**$ (18,400)**	$ (9,831)
Unrealized gain (loss)					
Oil	**$ 18,912**	$ 316	$ 8,949	**$ 26,404**	$ (9,358)
Gas	**2,655**	(3,146)	2,320	**2,603**	(552)
Interest	**28**	(26)	(20)	**11**	(135)
Total	**$ 21,595**	$ (2,856)	$ 11,249	**$ 29,018**	$ (10,045)
($/boe)					
Realized gain (loss)					
Oil ($/bbl)	**$ 4.65**	$ (5.70)	$ (7.47)	**$ (6.03)**	$ (4.62)
Gas ($/Mcf)	**(0.12)**	0.19	(0.21)	**(0.34)**	0.11
Interest ($/boe)	**0.01**	0.01	-	**-**	0.01
Total ($/boe)	**$ 1.59**	$ (2.01)	$ (3.55)	**$ (3.65)**	$ (1.77)
Unrealized gain (loss)					
Oil ($/bbl)	**$ 38.14**	$ 0.48	$ 19.28	**$ 12.39**	$ (3.66)
Gas ($/Mcf)	**0.69**	(0.71)	0.52	**0.16**	(0.03)
Interest ($/boe)	**0.02**	(0.02)	(0.02)	**-**	(0.02)
Total ($/boe)	**$ 18.53**	$ (1.96)	$ 9.05	**$ 5.76**	$ (1.81)

Petroleum and Natural Gas Sales

Petroleum and natural gas sales totalled $264.9 million for 2014 compared to $273.0 million for 2013. Oil and liquids sales decreased $27.4 million from 2013 with $35.4 million attributable to lower production volumes offset by an $8.0 million attributable to increased realized corporate pricing. Natural gas sales were up $19.2 million in 2014 compared to 2013 with $20.7 million due to higher gas prices offset by $1.5 million related to lower production volumes.

Petroleum and natural gas sales for Q4 2014 decreased by $12.8 million compared to Q3 2014, with oil and liquids accounting for $8.7 million of the decline and natural gas sales down $4.1 million. Oil and liquids sales reflect a $10.4 million decrease on account of lower pricing offset by $1.7 attributed to increased production. Natural gas sales were down $4.1 million with $2.4 million a result of lower production and $1.7 million a result of lower pricing.

Compared to Q4 2013, Q4 2014 petroleum and natural gas sales decreased $17.0 million to $48.9 million, down from $65.9 million. Oil and liquids sales decreased from Q4 2013 by $16.7 million with decreased production responsible for $14.1 million of the decrease and declining prices accounting for a further $2.6 million decrease. Natural gas sales were down by $0.3 million from Q4 2013 with reduced production contributing to $1.9 million of the decrease being offset by improvement in gas prices of $1.6 million.

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

Petroleum and Natural Gas Sales (000s)	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
Oil	**$ 32,828**	$ 48,270	$ 40,642	**$ 181,868**	$ 209,748
NGLs	**1,304**	2,587	2,170	**8,880**	8,378
Natural Gas	**14,752**	15,052	18,919	**74,110**	54,888
Total	**$ 48,884**	$ 65,909	$ 61,731	**$ 264,858**	$ 273,014

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' 2014 overall effective royalty rate for all products as a percentage of petroleum and natural gas sales was 17.8%, down from 20.8% in 2013. The majority of the percentage decrease in royalties compared to 2013 is due to natural gas revenue comprising a larger portion of petroleum and natural gas sales, with natural gas royalties, in general, having lower royalty percentages than oil.

Gross overriding and other royalties averaged approximately 3-4% of petroleum and natural gas sales for 2014, consistent with 2013. As a percentage of total royalties paid, gross overriding royalties for 2014 accounted for 18% of the total compared to 16% in 2013.

For Q4 2014, the effectively royalty rate was 17.8% compared with 17.5% in Q3 2014 and 20.9% in Q4 2014. The slight increase from Q3 2014 relates to a higher oil weighting in the quarter while the decrease form Q4 2013 is the result of a lower oil weighting in the quarter.

The following tables outline royalties by type:

Royalties by Type (000s)	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
Crown	**$ 7,140**	$ 10,940	$ 8,665	**$ 38,638**	$ 47,576
Gross overriding and other	**1,580**	2,819	2,135	**8,436**	9,135
	$ 8,720	$ 13,759	$ 10,800	**$ 47,074**	$ 56,711
$/boe	**$ 7.48**	$ 9.42	$ 8.68	**$ 9.35**	$ 10.21
% of Petroleum & natural gas sales	**17.8%**	20.9%	17.5%	**17.8%**	20.8%

Operating Expenses

Operating expenses totalled $99.8 million or $19.82/boe for 2014 compared to $104.9 million or $18.89/boe in 2013. The 2014 expenses were lower than 2013 by $5.1 million on an absolute dollar basis, but higher by $0.93 on a per boe basis due primarily to the fixed component of operating expenses spread over a reduced production base. Operating costs for the year at $19.82 per boe were just under guidance of $20.00 per boe.

Operating costs for Q4 2014 of $22.3 million or $19.11/boe were down $1.9 million on an absolute dollar basis and $0.38 on a per boe basis from Q3 2014 operating costs of $24.2 million or $19.49/boe. Operating costs from Q4 2013 to Q4 2014 decreased by $4.5 million on an absolute dollar basis, but were slightly higher on a per boe basis as a result of the fixed component of operating costs. The decrease in absolute dollar costs from Q4 2014 to both Q3 2014 and Q4 2013 reflect a decrease in production.

The following table summarizes the Company's operating expenses:

Operating Expenses	Q4 2014	Q4 2013	Q3 2014	2014	2013
(000s)	**$ 22,274**	$ 26,766	$ 24,242	**$ 99,811**	$ 104,901
$/boe	**$ 19.11**	$ 18.33	$ 19.49	**$ 19.82**	$ 18.89

Transportation Expenses

Transportation expenses totalled $10.4 million or $2.06/boe for 2014 compared to $12.2 million or $2.20/boe in 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. The decrease in oil transportation charges on an absolute dollar basis and a per boe basis in 2014 compared to 2013 is primarily the result of constrained production at Dixonville during 2014.

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.

Transportation expenses totaled $2.2 million or $1.87/boe in Q4 2014 which was $0.1 million lower than Q3 2014 on an absolute dollar basis but consistent with Q4 2013 on a per boe basis. Compared to Q4 2013 transportation expense decreased by $1.2 million or $0.42/boe primarily as a result of constrained production in Dixonville in 2014.

The following table details the Company's transportation expenses:

Transportation Expenses	Q4 2014	Q4 2013	Q3 2014	2014	2013
(000s)					
Oil	**$ 1,401**	$ 2,256	$ 1,310	**$ 6,709**	$ 8,255
Gas	**782**	1,089	1,012	**3,645**	3,953
Total	**$ 2,183**	$ 3,345	$ 2,322	**$ 10,354**	$ 12,208
Oil ($/bbl)	**$ 2.83**	$ 3.41	$ 2.82	**$ 3.15**	$ 3.23
Gas ($/Mcf)	**0.20**	0.25	0.23	**0.22**	0.23
Total ($/boe)	**$ 1.87**	$ 2.29	$ 1.87	**$ 2.06**	$ 2.20

Finance Expenses

Interest expenses include interest on Spyglass' operating line of credit and totalled $15.8 million in 2014 compared to $13.4 million in 2013. The increase in interest expense in 2014 is the result of higher average borrowings throughout the year due to our capital spending offset by property dispositions and obligations assumed as a result of the Arrangement completed on March 28, 2013.

The effective interest rate for 2014 was 5.1%, compared to 4.9% in 2013.

Interest expense of $3.8 million in Q4 2014 was $0.2 million less than Q3 2014 interest expense of $4.0 million. The decrease is the result of lower debt levels in Q4 2014 as a result of asset dispositions that occurred in the third and fourth quarters. Interest expense also decreased by $0.2 million compared to Q4 2013. This decrease was the result of asset dispositions that occurred in 2014, partially offset by higher interest rates.

The effective interest rate for Q4 2014 was 5.5% compared to 5.4% in Q3 2014 and 4.9% in Q4 2013.

Accretion expense on decommissioning liabilities was $5.7 million in 2014 compared with $5.3 million in 2013. The increase from 2013 reflects additional obligations assumed as a result of the Arrangement completed on March 28, 2013.

Q4 2014 accretion expense of $1.4 million was slightly lower than Q3 2014 accretion expense of $1.5 million and Q4 2013 accretion expense of $1.5 million as a result of property dispositions.

The following table details the Company's finance expenses:

Finance Expenses	Q4 2014	Q4 2013	Q3 2014	2014	2013
(000s)					
Interest	$ 3,844	$ 4,051	$ 4,036	$ 15,787	$ 13,448
Accretion	1,403	1,450	1,453	5,724	5,270
Total	$ 5,247	$ 5,501	$ 5,489	$ 21,511	$ 18,718
($/boe)					
Interest	$ 3.30	$ 2.77	$ 3.25	$ 3.13	$ 2.42
Accretion	1.20	0.99	1.17	1.14	0.95
Total ($/boe)	$ 4.50	$ 3.76	$ 4.42	$ 4.27	$ 3.37

Transaction Costs

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

General and Administration Expenses

In 2014 general and administration ("G&A") expenses totalled $16.2 million compared to $16.6 million in 2013. The 2014 G&A expenses incorporate non-recurring reorganization costs of $1.3 million associated with staff reductions related to the sale of non-core assets. Removing the impact of non-recurring reorganization costs would reduce 2014 G&A expense to $14.9 million or $2.96/boe. The 2013 G&A costs reflected a first quarter of Pace as a stand-alone entity followed by a quarter significantly burdened by transition costs associated with the Arrangement.

The largest portion of G&A is comprised of salaries and benefits and, as such, future G&A will depend on staff levels along with reorganization costs and changes to salaries and bonus incentives. G&A per boe at $3.22 for 2014 was less than guidance of $3.25/boe.

G&A expenses for Q4 2014 totalled $3.0 million compared to $4.4 million in Q3 2014 and $3.6 million in Q4 2013. The Q4 2014 reductions in G&A costs were achieved largely through changes to staffing levels related to the sale of non-core assets.

The following table summarizes the Company's G&A expenses:

General and Administration Expenses	Q4 2014	Q4 2013	Q3 2014	2014	2013
(000s)	$ 2,952	$ 3,583	$ 4,395	$ 16,219	$ 16,590
$/boe	$ 2.53	$ 2.45	$ 3.53	$ 3.22	$ 2.98

Long-term Incentive Plan

The Company's long-term incentive plan ("LTIP") for employees and management 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 increased commensurately with dividends declared by the Company after the grant date. During the year ended December 31, 2014, the Company granted 1,700,915 RSUs, 854,366 PSUs and 218,618 DRSUs. As at December 31, 2014, incorporating the increase in units commensurate with each dividend declared by the Company, as well as forfeitures and settlements in the period, 2,409,702 RSUs, 1,963,504 PSUs and 416,703 DRSUs were outstanding.

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. As such, LTIP expense fluctuates with the number of RSUs, PSUs and DRSUs outstanding and share prices at the end of the period.

The following table summarizes the Company's LTIP expense:

Long-term Incentive Plan Expense	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
(000s)	**$ (1,214)**	$ 710	$ 244	**$ 228**	$ 2,151
$/boe	**$ (1.04)**	$ 0.49	$ 0.20	**$ 0.05**	$ 0.39

Depletion, Depreciation and Impairments

For 2014, depletion, depreciation and impairments ("D&D") totalled $207.4 million compared to $77.9 million for 2013. For Q4 2014 D&D was $132.0 million compared to $30.1 million in Q3 2014 and $22.4 million in Q4 2013. The large fluctuations between the years and the quarters relates primarily to impairment changes that were recorded.

The 2014 D&D rate prior to impairment was $16.05/boe compared to $14.03/boe in 2013. The Q4 2014 D&D rate prior to impairments of $16.20/boe was higher than the Q3 2014 and Q4 2013 pre impairment D&D rates of $15.21/boe and $15.34/boe respectively. 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.

Included in 2014 D&D is $126.6 million of impairment charges. The Company recorded $115.4 million of property, plant and equipment ("PP&E") impairments and $11.2 million of exploration and evaluation ("E&E") impairments. Impairments recorded in Q4 2014 reflect the significant drop in crude oil and natural gas prices factoring in Management's view of forecast prices beyond 2014. The Company recorded impairments of PP&E within its North Gas, Central, North Oil and Dixonville cash generating units ("CGUs") of $113.1 million. PP&E impairment charges include a $2.3 million write down to fair value on assets classified as held for sale at March 31, 2014. The E&E impairment charge of $11.2 million relates to the write down of assets in Q3 2014 in the North Oil cash generating unit to fair value as a result of changes in management's future development plans. The carrying value of impaired assets could be increased in future periods should development plans change.

The components of D&D are as follows:

Depletion, depreciation and impairments	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
(000s)					
Depletion & depreciation	**$ 18,879**	$ 22,406	$ 18,914	**$ 80,841**	$ 77,912
Impairment	**113,092**	-	11,152	**126,562**	-
Total	**$ 131,971**	$ 22,406	$ 30,066	**$ 207,403**	$ 77,912
($/boe)					
Depletion & depreciation	**$ 16.20**	$ 15.34	$ 15.21	**$ 16.05**	$ 14.03
Impairment	**97.05**	-	8.97	**25.13**	-
Total	**$ 113.25**	$ 15.34	$ 24.18	**$ 41.18**	$ 14.03

Environmental Liabilities, Insurance Receivable and Dixonville Pipeline Incidents

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 fell within the Company's insurance coverage subject to a $0.5 million deductible per incident. As part of the review by the 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 sustained clean-up and remediation costs for one of the incidents which are estimated to be $0.5 million and has filed for insurance coverage for the clean-up and remediation costs for the second incident which are estimated to total approximately $4.5 million. Spyglass has insurance coverage of up to $40 million related to this incident. As of December 31, 2014, $3.5 million has been spent on cleanup costs with a further $0.3 million recorded in accrued liabilities for work performed to December 31, 2014 and $1.2 million accrued in other liabilities for future costs expected to be incurred. Subsequent to December 31, 2014, $2.0 million of insurance proceeds were received.

On June 26, 2014, a third incident occurred on an emulsion pipeline in Dixonville, with less than 10 cubic meters of fluid released resulting in minor cleanup costs below the Company's insurance deductible. Subsequent to this incident, the AER issued a shut-in order for the Dixonville oil field pending pipeline inspections. Throughout the remainder of 2014 and into February 2015, Spyglass undertook an extensive pipeline remediation project that involved pulling tight liners through existing pipe and in limited circumstances replaced sections of the pipeline. As the work was completed the Dixonville field was returned to production in stages and as at February 15, 2015, gross production capability of 95% or 2,700 boe/d was restored.

The Company estimates that the impact of the Dixonville pipeline incidents decreased operating cash flow and net income by approximately $3.4 million and $2.6 million for the three months ended December 31, 2014 respectively, and $15.0 million and $11.3 million for the year ended December 31, 2014 when compared to 2013 performance. This factors in the impact of the insurance deductible, operating costs related to the cleanup, reduced revenues, royalties, operating expenses and deferred income taxes against 2013 performance for the area. Capital expenditures associated with the remediation project are expected to total approximately $13.4 million, with $12.5 million of this incurred in 2014.

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 of Northern Alberta. This incident falls within the Company's insurance coverage and $20.5 million of insurance proceeds were received to December 31, 2014. An additional $0.6 million of insurance proceeds was received subsequent to year end. Spyglass has insurance coverage of up to $30 million related to this incident. The Company has accrued $1.9 million in other liabilities for future costs expected to be incurred.

Other Income

Cash other income of $1.6 million in 2014 and $1.4 million in 2013 consists primarily of seismic data sales. Non-cash other losses of $13.3 million in 2014 include losses on dispositions of producing properties and undeveloped land of $13.5 million offset by a $0.2 million gain on the sale of investments. Non-cash other income in 2013 of $89.3 million includes $84.2 million in gains recognized as a result of the fair value of assets acquired under the Arrangement exceeding the consideration paid and $5.2 million of gains on the disposition of non-core producing properties and undeveloped land.

Q4 2014 cash other income of $1.2 million consists primarily of seismic data sales while non-cash other income consists of losses on dispositions of producing properties and undeveloped land in the quarter.

The following is a breakdown of other income:

Other Income	Q4 2014	Q4 2013	Q3 2014	2014	2013
(000s)					
Cash other income	**$ 1,204**	$ (41)	$ 295	**$ 1,634**	$ 1,406
Non-cash other income (loss)	**(21,409)**	5,628	2,595	**(13,327)**	89,344
Total	**$ (20,205)**	$ 5,587	$ 2,890	**$ (11,693)**	$ 90,750
($/boe)					
Cash other income	**$ 1.03**	$ (0.03)	$ 0.24	**$ 0.32**	$ 0.25
Non-cash other income (loss)	**(18.37)**	3.85	2.09	**(2.65)**	16.09
Total	**$ (17.34)**	$ 3.82	$ 2.33	**$ (2.33)**	$ 16.34

Deferred Taxes

Spyglass recorded a deferred tax expense of $17.0 million in 2014 versus a deferred tax recovery of $2.1 million in 2013. The difference between the 2014 expected rate of 25.0% and the effective rate relates primarily to a valuation allowance recognized on certain successored tax pools from predecessor companies that are unlikely to be utilized given the forecasted prices used to evaluate the PP&E assets at 2014 year end. The Company has $234 million of tax pools for which no deferred tax asset has been recognized as at December 31, 2014. The following table shows a reconciliation of the Company's income before taxes at the combined federal and provincial rate compared to the deferred tax expense (recovery) recorded:

	Year ended December 31, 2014	Year ended December 31, 2013
Income (loss) before taxes	**$ (138,817)**	$ 41,246
Combined federal and provincial tax rate	**25.0%**	25.0%
Computed "expected" tax expense (recovery)	**(34,704)**	10,312
Increase (decrease) in taxes resulting from:		
Permanent items	**149**	(20,909)
Derecognition of previously recognized deferred tax asset	**49,328**	9,088
Change in rates	**49**	595
Other	**2,184**	(1,171)
Deferred tax expense (recovery)	**$ 17,006**	$ (2,085)
Effective tax rate	-12%	-5%

The following is a breakdown of the Company's tax pools by type. These tax pool balances are subject to changes as tax returns are completed and annual claims are made. Additionally, reclassification of items between categories may occur.

Tax Pools (000s)	December 31, 2014
Canadian exploration expense	$ 101,300
Canadian development expense	252,500
Canadian oil and gas property expense	82,000
Undepreciated capital cost	190,700
Share issue costs	8,200
Non-Capital losses	246,400
Other	200
Total	$ 881,300

Funds from Operations and Net Income (Loss)

For 2014 funds from operations totalled $58.9 million compared to $60.6 million in 2013. Results in 2014 have been impacted by lower production, however, the operating netback year over year increased to $21.36/boe from $17.86/boe and the cash flow netback increased to $11.68/boe from $10.91/boe. On a per share basis 2014 funds from operations of $0.46 per basic and diluted share compares to $0.54 per basic and fully diluted share in 2013. The weighted average shares used in the calculation in 2013 at 112.1 million reflects shares issued from March 28, 2013 forward as part of the Arrangement whereas the 2014 weighted average shares incorporate 128.1 million shares outstanding throughout the majority of the year with a reduction in shares of 0.3 million near the end of the year related to shares repurchased under the normal course issuer bid.

Funds from operations in Q4 2014 increased by $0.5 million over Q4 2013 reflecting lower operating netbacks per boe of $13.49 in Q4 2014 compared to $15.09 in Q4 2013, however, this was more than offset by the increase in cash flow netbacks to $10.21 in Q4 2014 compared to $7.83 in Q4 2013. In Q4 2014 the reduced crude oil prices drove a $3.7 million decrease in field cash flow and lower production volumes resulted in a further decrease of $13.3 million. These reductions were more than offset by quarter over quarter decreases in royalties and expenses and increases in gains on financial derivative instruments and other income including lower royalties and operating expenses of $5.0 million and $4.4 million respectively. Additionally, the Company realized gains on derivative instruments in Q4 2014 versus losses on derivative instruments in Q4 2013 which contributed $4.8 million to the quarter over quarter increase in funds from operations.

Compared to Q3 2014, funds from operations remained consistent at $11.9 million, however operating netbacks per boe decreased to $13.49 in Q4 2014 from $19.60 in Q3 2014. The significant decreases in crude oil and natural gas sales prices in the fourth quarter drove a $9.0 million decrease in field cash flow with lower production volumes contributing a further decrease of $3.9 million. This was offset by decreased royalties of $2.0 million, decreased operating costs of $1.8 million, decreased G&A of $1.4 million and realized Q4 2014 gains on derivative instruments versus losses on derivative instruments in Q3 2014 which contributed $6.3 million to the increase in funds from operations. The result is reflected in an increase in Q4 2014 cash flow netbacks to $10.21 per boe up from $9.58 per boe in Q3 2014.

For 2014, the Company had a net loss of $155.8 million or $1.22 per basic and diluted share compared to a net income of $43.3 million in 2013 or $0.39 per basic and diluted share. The decrease of net income in 2014 is primarily related to non-cash factors including total impairment losses of $126.6 million, losses on property dispositions of $13.5 million and deferred tax expense of $17.0 million offset by unrealized gains on derivative financial instruments of $29.0 million recognized in 2014. The 2013 net income included gains on the acquisition of Charger and Avenex of $84.2 million, gains on property dispositions of $5.2 million and a deferred tax recovery of $2.1 million offset by unrealized losses on derivative financial instruments of $10.0 million.

For Q4 2014 the company had a net loss of $140.8 million or $1.10 per basic and diluted share compared to a net loss of $4.2 million or $0.03 per basic and diluted share in Q4 2013 and a net loss of $16.9 million or $0.13 per basic and diluted share in Q4 2013. Compared to Q3 2014, the increase in the loss is primarily related to impairments recorded in Q4 2014, deferred tax expense in Q4 2014 versus a recovery in Q3 2014, losses on property dispositions incurred in Q4 2014 and decreased revenue partially offset by increased unrealized gains on derivative instruments and decreased royalties and operating expenses. The increase in losses compared to Q4 2013 is primarily related to impairments recorded in Q4 2014, increased deferred tax expense in Q4 2014, losses on property dispositions incurred in Q4 2014 and decreased revenue partially offset by increased unrealized gains on derivative instruments, decreased royalties and decreased operating expenses.

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

($/boe)	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
Sales price	**$ 41.95**	$ 45.13	$ 49.64	**$ 52.59**	$ 49.16
Royalties	**(7.48)**	(9.42)	(8.68)	**(9.35)**	(10.21)
Operating expenses	**(19.11)**	(18.33)	(19.49)	**(19.82)**	(18.89)
Transportation expenses	**(1.87)**	(2.29)	(1.87)	**(2.06)**	(2.20)
Operating netback	**$ 13.49**	$ 15.09	$ 19.60	**$ 21.36**	$ 17.86
Other non-cash expenses	**(0.07)**	-	0.07	**-**	-
Cash other income (expense)	**1.03**	(0.03)	0.24	**0.32**	0.25
Realized gain (loss) on financial derivative instruments	**1.59**	(2.01)	(3.55)	**(3.65)**	(1.77)
G&A	**(2.53)**	(2.45)	(3.53)	**(3.22)**	(3.01)
Interest	**(3.30)**	(2.77)	(3.25)	**(3.13)**	(2.42)
Cash flow netback	**$ 10.21**	$ 7.83	$ 9.58	**$ 11.68**	$ 10.91
Unrealized gain (loss) on financial derivative instruments	**18.53**	(1.96)	9.05	**5.76**	(1.81)
Other non-cash expenses	**0.07**	-	(0.07)	**-**	-
Non-cash other income (expense)	**(18.37)**	3.85	2.09	**(2.65)**	16.09
Depletion, depreciation and impairment	**(113.25)**	(15.34)	(24.18)	**(41.18)**	(14.03)
Accretion	**(1.20)**	(0.99)	(1.17)	**(1.14)**	(0.95)
Transaction costs	**-**	-	-	**-**	(2.42)
Long-term incentive compensation	**1.04**	(0.49)	(0.20)	**(0.05)**	(0.36)
Deferred taxes	**(17.80)**	(4.45)	1.54	**(3.38)**	0.38
Net income (loss)	**$ (120.77)**	$ (11.55)	$ (3.36)	**$ (30.96)**	$ 7.81

The following table provides reconciliations to the change in funds from operations and net income for Q4 2014 to Q4 2013 and for Q4 2014 to Q3 2014.

Change in Funds from Operations and Net Income (loss) (000s)	**Q4 2014 to Q4 2013**		**Q4 2014 to Q3 2014**	
	Funds from Operations	Net income / (loss)	**Funds from Operations**	Net income / (loss)
Comparative period	**$ 11,426**	$ (16,866)	**$ 11,902**	$ (4,188)
Increase (decrease) in revenue:				
Change in production volumes	**(13,315)**	(13,315)	**(3,889)**	(3,889)
Change in prices	**(3,710)**	(3,710)	**(8,958)**	(8,958)
Change in royalties	**5,039**	5,039	**2,080**	2,080
(Increase) decrease in expenses:				
Operating	**4,410**	4,492	**1,797**	1,968
Transportation	**1,162**	1,162	**139**	139
Finance charges	**207**	254	**192**	242
General and administration	**631**	631	**1,443**	1,443
Long-term incentive compensation	**-**	1,924	**-**	1,458
Depletion, depreciation and impairment	**-**	(109,565)	**-**	(101,905)
Deferred tax	**-**	(14,246)	**-**	(22,662)
Transaction costs	**-**	-	**-**	-
Increase (decrease) in:				
Other income	**1,245**	(25,792)	**909**	(23,095)
Gains (losses) on financial derivative instruments	**4,788**	29,239	**6,268**	16,614
Current period	**$ 11,883**	$ (140,753)	**$ 11,883**	$ (140,753)

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures in 2014 totalled $77.5 million with $46.0 million spent on drilling, completion and optimization activities, $24.5 million on facilities, pipelines, equipping and tie-ins including pipeline integrity activities in Dixonville, $4.9 million on office and capitalized G&A, and the remaining $2.1 million on land and seismic. A total of 21 gross (17.3 net) wells were drilled and completed as part of Spyglass' 2014 capital program. Operated capital included the drilling and completion of 10 gross (10.0 net) oil wells in the Halkirk-Provost area, 7 gross (6.2 net) oil wells in the South core area at Matziwin and Enchant and 1 gross (1.0 net) gas well at Noel. Operated capital also included $12.5 million spent in the year on pipeline remediation, primarily at Dixonville. Non-operated drilling was limited to 3 gross (0.1 net) wells in our Central and North core areas.

Capital expenditures in Q4 2014 totalled $15.2 million with $4.7 million spent on drilling, completion and optimization activities, $8.9 million on facilities, pipelines, equipping and tie-ins including pipeline integrity activities at Dixonville, $0.9 million on capitalized G&A and office related expenditures and $0.7 million on land and seismic. Capital spending focused on the drilling and completion of 2 gross (2.0 net) oil wells in the Halkirk-Provost areas as well as the tie in of wells drilled in the third quarter. Additionally, Q4 2014 capital spend includes $4.8 million on pipeline remediation projects.

2014 acquisitions include the purchase of certain producing properties in the province of Alberta. Net assets acquired totalled $3.3 million with total consideration of $3.3 million comprised of $2.5 million of cash and $0.8 million of producing properties and undeveloped land.

In Q4 2014, Spyglass closed the disposition of a 50% working interest in its producing properties and undeveloped land in the Dixonville area to an unrelated third party oil and gas exploration and production company. The assets disposed of had a net carrying amount of $111.7 million and were sold for net proceeds of $98.8 million resulting in losses of $12.9 million which were recognized as other income in the Consolidated Statement of Income (Loss). Spyglass retained a 50% working interest and maintains operatorship of the field.

Additional dispositions of non-core producing properties and undeveloped land were completed in 2014 in the provinces of Alberta and Saskatchewan. The assets disposed of had a net carrying value of $69.0 million and were sold for net proceeds of $68.4 million. The transactions resulted in losses of $0.6 million which were recognized as other income in the Consolidated Statement of Income (Loss).

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

Capital Expenditures (000s)	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
Land	**$ 153**	$ 487	$ 61	**$ 844**	$ 1,182
Geological and geophysical	**569**	142	428	**1,292**	1,842
Drilling and completions	**4,653**	10,045	15,821	**46,082**	40,321
Facilities and equipment	**8,885**	3,135	11,615	**24,450**	10,752
Office and capitalized G&A	**945**	1,182	1,153	**4,864**	5,557
Capital Expenditures	**$ 15,205**	$ 14,991	$ 29,078	**$ 77,532**	$ 59,654
Acquisitions	**-**	-	-	**2,458**	282,093
Dispositions	**(110,935)**	(12,515)	(42,836)	**(166,381)**	(22,714)
Total capital expenditures and acquistions net of dispostions	**$ (95,730)**	$ 2,476	$ (13,758)	**$ (86,391)**	$ 319,033
Exploration and evaluation expenditures	**$ (5)**	$ 170	$ (3,607)	**$ (2,803)**	$ 50,219
Property, plant and equipment expenditures	**(95,725)**	2,306	(10,151)	**(83,588)**	268,814
Total capital expenditures and acquisitions net of dispositions	**$ (95,730)**	$ 2,476	$ (13,758)	**$ (86,391)**	$ 319,033

Spyglass has approximately 424,000 net acres of undeveloped land under lease at December 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. There have been no shares issued subsequent to the Arrangement and Spyglass does not have any dilutive instruments outstanding.

On December 18, 2014, the TSX accepted the Company's notice to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX authorized the Company to purchase up to 12,460,689 common shares during the period from December 22, 2014 to December 21, 2015. Shares purchased under bid will be cancelled. There were 272,000 shares purchased at a weighted average cost of $0.36 subsequent to December 18, 2014 and prior to January 1, 2015. As the carrying value of the purchased shares was greater than $3.86 per share the $1.0 million difference between the carrying amount and the purchased amount was recorded as contributed surplus. Spyglass has not repurchased any further common shares up to the date of the MD&A.

The Company has no dilutive instruments outstanding.

Share Information	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
Shares Outstanding					
Basic	**127,804,720**	128,076,720	128,076,720	**127,804,720**	128,076,720
Diluted	**127,804,720**	128,076,720	128,076,720	**127,804,720**	128,076,720
Weighted average shares outstanding					
Basic	**128,061,742**	128,076,720	128,076,720	**128,072,945**	112,086,499
Diluted	**128,061,742**	128,076,720	128,076,720	**128,072,945**	112,086,499

Dividends Declared

During 2014, the Company declared dividends of $27.9 million or $0.2175 per share. During Q4 2014, the Company declared dividends of $3.8 million or $0.03 per share. 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
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
October	October 16, 2014	October 31, 2014	November 17, 2014	0.0150
November	November 13, 2014	November 28, 2014	December 15, 2014	0.0150

On December 16, 2014 Spyglass announced the suspension of its monthly dividend in order to manage cash flow and capital resources in response to changes in commodity prices.

Liquidity and Capital Resources

Spyglass is listed 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:

Trading History on the TSX	**Q4 2014**	Q4 2013	Q3 2014	**2014**	2013
Trading price					
High	**$ 1.40**	$ 2.15	$ 1.77	**$ 2.14**	$ 2.71
Low	**$ 0.29**	$ 1.58	$ 1.37	**$ 0.29**	$ 1.53
Close	**$ 0.33**	$ 1.82	$ 1.38	**$ 0.33**	$ 1.82
Volume (000's)	**27,452**	25,028	16,159	**86,244**	76,067

On the over the counter market, 33.5 million shares were traded in 2014 compared to 19.5 million shares in 2013.

On May 5, 2014, Spyglass renewed and amended its revolving term credit facility with a syndicate of banks. On September 8, 2014 and December 18, 2014 the credit facility was further amended as a result of property dispositions that occurred in the third and fourth quarters. Under the renewed and amended agreement, Spyglass currently has a $200 million revolving credit facility. 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 December 31, 2014, $174.7 million was drawn on the facility and the Company had a working capital deficit of $19.1 million (excluding current portion of financial derivatives) for net debt of $193.8 million. During 2014, Spyglass reduced its long term debt by $112.3 million from $287.0 million at December 31, 2013. 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 December 31, 2014 the Company is in compliance with all covenants. 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. At December 31, 2014, $1.1 million of letters of credit were outstanding under this facility.

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 recognizes the difficulties of operating in the current commodity price environment and has taken steps to manage its leverage. In the fourth quarter of 2014, Spyglass realized $110.9 million of net cash proceeds on property dispositions and in December

2014 suspended dividend payments with a $23 million annual obligation. Further, in February 2015 Spyglass announced a reduction to its 2015 capital expenditure budget from $26 million down to $8 million with the objective of holding debt near 2014 year end levels. The Company anticipates adequate liquidity to fund future working capital and forecasted capital expenditures for 2015 through a combination of cash flow, property dispositions and use of its bank facility. With continued property dispositions, the Company would expect to have a borrowing base reduction under its current bank facility, however, proceeds from property dispositions would normally be expected to be in excess of any reduction that would occur. 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.

The management of capital includes share capital of $493.2 million (2013- $494.3 million) and long-term debt of $174.7 million (2013- $287.0 million). The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the forecasted commodity prices and resulting cash flows and debt levels. The Company monitors non-GAAP metrics including a calculation of its long-term debt to its trailing four quarters EBITDA as defined by its credit facility. EBITDA is equal to cash flow from operating activities plus interest expense, before site restoration expenditures and changes in non-cash working capital activities from operations adjusted on a pro forma basis for acquisitions and dispositions. At December 31, 2014, this ratio was 3.4 (December 31, 2013 - 3.6).

In order to maintain or adjust the capital structure, the Company may from time to time issue shares, if available on reasonable terms, sell assets, farm out properties and adjust its capital spending to manage current and projected debt levels. The Company may also review its level of bank credit obtainable based on the change of its oil and natural gas reserves.

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	**$ 185,835**	$ 8,908	$ 176,927	$ -	$ -
Firm transportation charges	**5,432**	1,749	2,349	596	738
Operating leases	**27,337**	3,525	7,220	7,253	9,339
Total Contractual Obligations	**$ 218,604**	$ 14,182	$ 186,496	$ 7,849	$ 10,077

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 $348.9 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 $66.9 million and has been recorded on the Company's balance sheet as at December 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 the issuance of flow through shares and has accrued a provision for reassessments which it is currently reviewing.

Financial Instruments

Financial instruments comprise accounts receivable, financial derivative instruments, accounts payable and accrued liabilities, long-term incentive plan liability and long-term debt. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, 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.

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, 2014.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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. Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of Spyglass' Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of Spyglass' financial reporting and its preparation of financial statements for external purposes in accordance with GAAP. Spyglass' Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual 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.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of Spyglass' Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at December 31, 2014, that such disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting ("ICFR")

Management, under the supervision of and with the participation of Spyglass' Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions ("COSO") in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2014, Spyglass' internal controls over financial reporting were effective.

There were no weaknesses noted in controls during 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, 2014 and 2013. Certain accounting policies required that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The emergence of new information and changes in circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion identifies the critical accounting policies and practices of the Company and helps assess the likelihood of materially different results being reported.

(a) Depletion, depreciation and reserves

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

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

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

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations (see note 8 to the consolidated financial statements).

(b) CGU definition

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

(c) Impairment and business combinations

Judgments include determining whether indicators of impairment exist, as well as the discount rate used in discounted cash flow models. Estimates and assumptions include those used in the determination of the recoverable amounts of CGUs and individual assets which are based on the higher of their value-in-use and fair values less costs of disposal. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs of disposal. For PP&E, including PP&E acquired through business combinations, the Company generally estimates fair value less costs of disposal using a discounted cash flow model which has a significant number of assumptions including proved and probable reserves, forecasted commodity prices, future costs required to develop and produce reserves, discount rates and other relevant assumptions. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets. See note 8 to the consolidated financial statements for further discussion.

For E&E, including E&E acquired through business combinations, estimates and assumptions include those used in the calculation of recoverable amounts for E&E CGUs and individual assets, which are based on the higher of value-in-use and fair value less costs of disposal. See note 7 to the consolidated financial statements for further discussion.

(d) Exploration and evaluation assets

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

(e) Decommissioning and restoration costs

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

(f) Deferred taxes

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

(g) Long-term incentive plans

The Company uses the fair value method of valuing its LTIP. Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine fair value. For RSUs, PSUs and DRSUs the fair value model is based on the Company's trading value at each reporting period. PSUs are subject to a performance multiplier that is subject to management estimation, the relative share performance of the Company compared to a set peer group and the absolute shareholder return during the period the awards are outstanding. The multiplier may change based on the future performance of the Company relative to its peers and absolute share performance which would result in changes to the estimates.

(h) Financial Derivatives

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

Financial Reporting Update

Recent accounting pronouncement and amendments adopted effective January 1, 2014 including IFRIC 21 – Levies had no impact on the consolidated financial statements other than disclosure requirements which have been incorporated. The Company early adopted IFRS 9 – Financial Instruments: Classification and Measurement effective January 1, 2010 and early adopted IAS 36 – Impairment of Assets effective January 1, 2013. Relevant accounting policies have been included in Note 3 and relevant disclosures have been incorporated into the notes of the consolidated financial statements.

The following pronouncements and amendments have been issued. Adopting these standards is expected to have minimal or no impact on the consolidated financial statements.

(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 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*.

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 2014 Annual Information Form filed on SEDAR at www.sedar.com.

i) Risks to Spyglass' Revenues

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Company's oil and gas reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company are in part determined by the borrowing base of the Company. A sustained material decline in prices from historical average prices could limit or reduce the Company's borrowing base, therefore reducing the bank credit available to the Company, and could require that a portion of any existing bank debt of the Company be repaid.

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has limited direct experience in the marketing of oil and natural gas.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by Spyglass is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or the prevailing perception of the potential for conflicts, arising in the Middle East and other areas of the world have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of Spyglass' net production revenue.

In addition, Spyglass' oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of Spyglass' properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on the Spyglass' business, financial condition, results of operations and prospects. Spyglass does not have insurance to protect against the risk from terrorism.

Delay in Cash Receipts and Credit Worthiness of Counterparties

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of Spyglass' properties, and by the operator to Spyglass, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of Spyglass' properties or the establishment by the operator of reserves for such expenses. In addition, the insolvency or financial impairment of any counterparty owing money to Spyglass, including industry partners and marketing agents, could prevent Spyglass from collecting such debts.

Substantial Capital Requirements, Liquidity

Spyglass may have to make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If revenues or reserves decline, Spyglass may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require Spyglass to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the market price for the Common Shares will be subject to market trends generally, notwithstanding the financial and operational performance of Spyglass.

ii) Operational Risks

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Spyglass depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of Spyglass may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, Spyglass is not fully insured against all of these risks, nor are all such risks insurable. Although Spyglass maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event Spyglass could incur significant costs that could have a materially adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Project Risks

The Company manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Company's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Company's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Spyglass could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Reserve Replacement

Spyglass' future oil and natural gas reserves and production and the cash flows to be derived therefrom are highly dependent on successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Spyglass may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend not only on Spyglass' ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Spyglass' future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Operational Dependence

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Spyglass and may delay exploration and development activities.

To the extent Spyglass will not be the operator of its oil and natural gas properties, it will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent.

In addition, the success of Spyglass will be largely dependent upon the performance of its management and key employees. Spyglass does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Spyglass' ability to market oil and natural gas from its wells also depends upon numerous other factors beyond its control, including, among other things, the availability of natural gas processing and storage capacity, the availability of pipeline capacity, the price of oilfield services and the effects of inclement weather. Because of these factors, Spyglass may be unable to market some or all of the oil and natural gas it produces or to obtain favorable prices for the oil and natural gas it produces.

Reserve Estimates

There are numerous uncertainties inherent in evaluating quantities of reserves and the net present value of future net revenue to be derived therefrom, including many factors beyond the control of Spyglass. The reserves information contained in the McDaniel Report and set forth herein, including information respecting the net present value of future net revenue from reserves, represents an estimate only. This estimate is based on a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the McDaniel Report was prepared and many of these assumptions are subject to change and are beyond the control of Spyglass. Ultimately, the actual reserves attributable to Spyglass' properties will vary from the estimates contained in the McDaniel Report and those variations may be material and affect the market price of the Common Shares. See "Notes on Reserves Data and Other Oil and Gas Information" and "Additional Information Relating to Reserves Data – Significant Factors or Uncertainties Affecting Reserves Data" in the Company's 2014 Annual Information Form.

Insurance

Spyglass' involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although Spyglass maintains insurance consistent with prudent industry practice, it is not fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time (as opposed to sudden and catastrophic damages) is not available on economically reasonable terms. Accordingly, Spyglass' properties may be subject to liability due to hazards that cannot be insured against, or that have not been insured against due to prohibitive premium costs or for other reasons. It is also possible that changing regulatory requirements or emerging jurisprudence could render such insurance of less benefit to Spyglass. The payment of any uninsured liabilities would reduce the funds available to Spyglass. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Competition

There is strong competition relating to all aspects of the oil and natural gas industry. Spyglass will actively compete for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than Spyglass. Some of those organizations not only explore for, develop and produce oil and natural gas but also carry on refining operations and market petroleum and other products on a world-wide basis and as such have greater and more diverse resources on which to draw. Spyglass' ability to increase reserves and production in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling.

Possible Failure to Realize Anticipated Benefits of Future Acquisitions and Dispositions

Spyglass may complete acquisitions to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Spyglass' ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Spyglass' ability to achieve the anticipated benefits of these and future acquisitions.

Net Asset Value

Spyglass' net asset value will vary depending upon a number of factors beyond the control of Spyglass' management, including oil and natural gas prices. The trading price of the Common Shares is also determined by a number of factors which are beyond the control of management and such trading price may be greater than or less than the net asset value of Spyglass.

Reliance on Management

Shareholders will be dependent on the management of Spyglass in respect of the administration and management of all matters relating to Spyglass and its properties and operations. Investors who are not willing to rely on the management of Spyglass should not invest in Common Shares.

iii) Risks Associated with Government Regulation

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing, transportation and royalty rates) are subject to extensive controls and regulations imposed by various levels of government, including those described above under the heading "Industry Conditions", which may be amended from time to time. Spyglass' oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Company's costs, any of which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, Spyglass will require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Changes to the regulation of the oil and gas industry in jurisdictions in which Spyglass operates may adversely impact Spyglass' ability to economically develop existing reserves and add new reserves.

Environmental Concerns

Many aspects of the oil and natural gas business present environmental risks and hazards, including the risk that Spyglass may be in noncompliance with an environmental law, regulation, permit, licence, or other regulatory approval, possibly unintentionally or without knowledge. Such risks may expose Spyglass to fines or penalties, third party liabilities or to the requirement to remediate, which could be material.

The operational hazards associated with possible blowouts, accidents, oil spills, gas leaks, fires, or other damage to a well or a pipeline may require Spyglass to incur costs and delays to undertake corrective actions, could result in environmental damage or contamination or could result in serious injury or death to employees, consultants, contractors or members of the public, creating the potential for significant liability to Spyglass. Also, the occurrence of any such incident could damage Spyglass' reputation in the surrounding communities and make it more difficult for Spyglass to pursue its operations in those areas.

Compliance with environmental laws and regulations could materially increase Spyglass' costs. Spyglass may incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. In particular, Spyglass may be required to incur significant costs to comply with future federal or provincial greenhouse gas emissions reduction requirements or other regulations, if enacted.

Climate Change

Spyglass' exploration and production facilities and other operations and activities emit greenhouse gases and require it to comply with Alberta's greenhouse gas emissions legislation contained in the Climate Change and Emissions Management Act and the Specified Gas Emitters Regulation. Spyglass will also be required to comply with any regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government. The direct or indirect costs of these regulations may have a material adverse effect on Spyglass' business, financial condition, results of operations and prospects. The future implementation or modification of greenhouse gases regulations could have a material impact on the nature of oil and natural gas operations, including those of Spyglass. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on Spyglass and its operations and financial condition.

Abandonment and Reclamation Costs

Spyglass will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

Permits and Licenses

The operations of Spyglass may require licenses and permits from various governmental authorities. There can be no assurance that Spyglass will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects. Further, if the Company or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Company's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of Spyglass which could result in a reduction of the revenue received by Spyglass.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to resources and various properties in western Canada. Such claims, in relation to any of Spyglass' lands, if successful, could have an adverse effect on its operations.

Selected Annual Information

Set out below is select annual information for the company for the last three years:

Financial			
(000s, except per share amounts)	**2014**	2013 [1]	2012 [1]
Petroleum and natural gas sales	**$ 264,858**	$ 273,014	$ 212,353
Royalties	**47,074**	56,711	46,921
Operating Expenses	**99,811**	104,901	78,170
Transportation	**10,354**	12,208	10,096
Netback	**$ 107,619**	$ 99,194	$ 77,166
Realized gain / (loss) on financial instruments	**(18,400)**	(9,831)	7,295
G&A - cash charge	**16,219**	16,737	17,873
Interest	**15,787**	13,448	8,196
Other income	**1,634**	1,406	457
Funds from operations	**$ 58,854**	$ 60,584	$ 58,849
Per share- Basic	**0.46**	0.54	0.96
Per share- Diluted	**0.46**	0.54	0.96
Net income (loss)	**$ (155,823)**	$ 43,331	$ (152,991)
Per share- Basic	**(1.22)**	0.39	(2.50)
Per share- Diluted	**(1.22)**	0.39	(2.50)
Capital expenditures	**$ 77,532**	$ 59,654	$ 83,217
Acquisitions	**2,458**	282,093	-
Dispositions	**(166,381)**	(22,714)	-
Net debt	**193,819**	300,508	215,817
Total assets	**$ 561,545**	$ 892,328	$ 581,521
Dividends Declared	**$ 27,857**	25,934	-
Per share- Basic	**$ 0.2175**	0.2025	-
Weighted Average Shares outstanding (000s)			
Basic	**128,073**	112,086	61,157
Diluted	**128,073**	112,086	61,157
Operations			
Average daily production			
Oil (bbls/d)	**5,839**	7,000	6,050
NGLs (bbls/d)	**404**	450	324
Natural gas (mcf/d)	**45,332**	46,588	41,093
Combined (boe/d)	**13,798**	15,215	13,223
Average prices received			
Oil ($/bbl)	**$ 85.33**	$ 82.09	$ 76.28
NGLs ($/bbl)	**60.23**	50.96	58.36
Natural gas ($/mcf)	**4.48**	3.23	2.43
Combined ($/boe)	**$ 52.59**	$ 49.16	$ 43.88
Royalties	**9.35**	10.21	9.70
Operating expense	**19.82**	18.89	16.15
Transportation expense	**2.06**	2.20	2.09
Operating netback ($/boe)	**$ 21.36**	$ 17.86	$ 15.94

[1] On March 28, 2013, Pace, AvenEx and Charger completed a plan of arrangement whereby Pace acquired AvenEx and Charger and was then renamed Spyglass Resources Corp. The selected information presented includes only the results of Pace up until the date of the plan of arrangement on March 28, 2013.

Selected Quarterly Information

Financial	2014				2013			
(000s, except per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas sales	**$ 48,884**	$ 61,731	$ 76,326	$ 77,917	$ 65,909	$ 80,859	$ 76,405	$ 49,841
Cash flow from (used in) operations	**8,938**	8,398	27,470	10,342	9,360	14,046	1,329	(3,174)
Funds from operations	**11,883**	11,902	19,043	16,026	11,426	21,547	20,558	7,053
Per share- Basic	**0.09**	0.09	0.15	0.13	0.09	0.17	0.16	0.11
Per share- Diluted	**0.09**	0.09	0.15	0.13	0.09	0.17	0.16	0.11
Net income (loss)	**$ (140,753)**	$ (4,188)	$ 815	$ (11,697)	$ (16,866)	$ (1,402)	$ 246	$ 61,353
Per share- Basic	**(1.10)**	(0.03)	0.01	(0.09)	(0.13)	(0.01)	0.00	0.97
Per share- Diluted	**(1.10)**	(0.03)	0.01	(0.09)	(0.13)	(0.01)	0.00	0.97
Capital expenditures	**$ 15,205**	$ 29,078	$ 15,402	$ 17,847	$ 14,991	$ 24,559	$ 8,284	$ 11,820
Corporate acquisitions	**-**	-	-	-	-	-	-	150,271
Property acquistions	**-**	-	2,458	-	-	-	-	-
Dispositions	**(110,935)**	(42,836)	(7,344)	(5,328)	(12,515)	(10,199)	-	-
Total capital expenditures and acquisitions net of dispositions	**(95,730)**	(13,758)	10,516	12,519	2,476	14,360	8,284	162,091
Long term debt	**174,700**	267,400	290,900	294,900	287,000	277,000	280,400	271,700
Net debt	**193,819**	293,762	270,828	307,150	300,508	291,997	296,853	300,253
Total assets	**561,545**	833,942	881,033	897,155	892,328	921,752	930,843	944,625
Dividends Declared	**3,843**	6,724	8,645	8,645	8,645	8,645	8,644	-
Per share- Basic	**0.0300**	0.0525	0.0675	0.0675	0.0675	0.0675	0.0675	-
Shares outstanding (000s)								
Basic	**127,805**	128,077	128,077	128,077	128,077	128,077	128,077	128,077
Diluted	**127,805**	128,077	128,077	128,077	128,077	128,077	128,077	128,077
Weighted Average Shares outstanding (000s)								
Basic	**128,062**	128,077	128,077	128,077	128,077	128,077	128,077	63,227
Diluted	**128,062**	128,077	128,077	128,077	128,077	128,077	128,077	63,227
Operations								
Average daily production								
Oil (bbls/d)	**5,389**	5,045	6,164	6,784	7,198	7,473	7,434	5,876
NGLs (bbls/d)	**280**	410	535	391	647	383	490	279
Natural gas (Mcf/d)	**41,981**	48,379	46,647	44,312	48,164	51,533	50,626	35,840
Combined (boe/d)	**12,666**	13,518	14,474	14,560	15,873	16,445	16,362	12,128

In 2014, the Company drilled 21 gross (17.3 net) wells compared to 16 gross (12.9 net) wells drilled in 2013. 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.

Production averaged 13,798 boe/d in 2014, lower than 2013 production of 15,215 boe/d due largely to property dispositions which closed in the third and fourth quarters of 2014 as well as shut-ins in Dixonville during 2014. Commodity prices have been volatile over the previous eight trailing quarters which led to an impairment loss in Q4 2014, which contributed to a net loss of $140.8 million in the quarter.

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.

SPYGLASS
RESOURCES CORP.

2014 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

Signed *"Dan O'Byrne"*

Dan O'Byrne
President and Chief Executive Officer

Signed "*Mark Walker"*

Mark Walker
Senior VP Finance and Chief Financial Officer

Calgary, Alberta
March 10, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Spyglass Resources Corp.

We have audited the accompanying consolidated financial statements of Spyglass Resources Corp. which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Spyglass Resources Corp. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed *"PricewaterhouseCoopers LLP"*
Chartered Accountants

Calgary, Canada
March 10, 2015

Consolidated Balance Sheets

As at

(000s of Canadian dollars)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Accounts receivable (note 16)	**$ 30,793**	$ 39,952
Prepaid expenses and deposits	**2,476**	2,185
Financial derivative instruments (note 16)	**18,434**	30
Assets held for sale (note 6)	**-**	3,214
	51,703	45,381
Investment (note 16)	**-**	326
Financial derivative instruments (note 16)	**7**	-
Exploration and evaluation assets (note 7)	**34,392**	58,410
Property, plant and equipment (note 8)	**412,961**	708,723
Deferred tax assets (note 12)	**62,482**	79,488
	$ 561,545	$ 892,328
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 16)	**$ 48,888**	$ 52,729
Dividends payable (note 11)	**-**	2,882
Other liabilities (note 17)	**3,500**	3,248
Financial derivative instruments (note 16)	**739**	11,278
Liabilities associated with assets held for sale (note 6)	**-**	269
	53,127	70,406
Long-term debt (note 9)	**174,700**	287,000
Long-term incentive plan liability (note 11)	**347**	808
Financial derivative instruments (note 16)	**-**	68
Decommissioning liabilities (note 10)	**66,855**	83,752
Shareholders' equity:		
Share capital (note 11)	**493,241**	494,292
Contributed surplus (note 11)	**953**	-
Deficit	**(227,678)**	(43,998)
	266,516	450,294
	$ 561,545	$ 892,328

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

Signed "*Dennis Balderston*"
Dennis Balderston
Director

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

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

Years ended December 31,

(000s of Canadian dollars except per share amounts)

	2014	2013
Petroleum and natural gas sales (note 18)	**$ 264,858**	$ 273,014
Royalties	**(47,074)**	(56,711)
Revenues	**217,784**	216,303
Other income (loss) (note 14)	**(11,693)**	90,750
Gain (loss) on financial derivative instruments (note 16)	**10,618**	(19,876)
Expenses		
Operating	**99,811**	104,901
Transportation	**10,354**	12,208
Finance	**21,511**	18,718
Depletion, depreciation and impairments (note 7 & 8)	**207,403**	77,912
General and administration (note 13)	**16,219**	16,590
Long-term incentive plan (note 11 & 19)	**228**	2,151
Transaction costs (note 1)	**-**	13,451
	355,526	245,931
Income (loss) before taxes	**(138,817)**	41,246
Deferred taxes (recovery) (note 12)	**17,006**	(2,085)
Net income (loss) and comprehensive income (loss)	**$ (155,823)**	$ 43,331
Net income (loss) per share: (note 11)		
Basic and diluted	**$ (1.22)**	$ 0.39

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2014 and 2013

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

	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total Equity
Balance, December 31, 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 year	-	-	-	-	43,331	43,331
Dividends declared	-	-	-	-	(25,934)	(25,934)
Reduction of stated capital (note 1)	-	(86,020)	(12,787)	730	98,077	-
Balance, December 31, 2013	**128,076,720**	**$ 494,292**	**$ -**	**$ -**	**$ (43,998)**	**$ 450,294**
Normal course issuer bid	(272,000)	(1,051)	953	-	-	(98)
Net income (loss) and comprehensive income (loss) during the year	-	-	-	-	(155,823)	(155,823)
Dividends declared	-	-	-	-	(27,857)	(27,857)
Balance, December 31, 2014	127,804,720	$ 493,241	$ 953	$ -	$ (227,678)	$ 266,516

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,

(000s of Canadian dollars)

	2014	2013
Cash provided by		
Operations		
Net income (loss)	$ (155,823)	$ 43,331
Items not involving cash:		
Depletion, depreciation and impairments (notes 7 & 8)	207,403	77,912
Accretion of decommissioning liabilities (note 10)	5,724	5,270
Long-term incentive (note 11)	228	2,004
Other non-cash items	(208)	-
Gain on business combinations (note 1)	-	(84,181)
Loss (gain) on property dispositions (note 6)	13,542	(5,163)
Unrealized loss (gain) on financial derivative instruments (note 16)	(29,018)	10,045
Deferred taxes (recovery) (note 12)	17,006	(2,085)
Decommissioning expenditures (note 10)	(6,762)	(3,574)
Change in non-cash working capital (note 18)	3,056	(21,998)
Cash flow from operating activities	55,148	21,561
Financing		
Increase (decrease) in long-term debt	(112,300)	24,540
Dividends declared (note 11)	(27,857)	(25,934)
Purchase of common shares under normal course issuer bid (note 11)	(98)	-
Change in non-cash working capital (note 18)	(2,882)	2,882
Cash flow from (used in) financing activities	(143,137)	1,488
Investing		
Capital expenditures	(77,532)	(59,654)
Cash acquired on business combination (note 1)	-	11,890
Property dispositions net of acquisitions (note 6)	163,923	22,714
Change in non-cash working capital (note 18)	1,598	1,966
Cash flow from (used in) investing activities	87,989	(23,084)
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 consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Tabular amounts are stated in thousands of dollars except share and per share amounts)

1. Background and general information

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

On March 28, 2013, Pace Oil & Gas Ltd. ("Pace"), Charger Energy Corp. ("Charger") and AvenEx Energy Corp ("AvenEx") completed a Plan of Arrangement (the "Arrangement") whereby Spyglass Resources Corp. was formed through the amalgamation of Pace, Charger and AvenEx. Pace subdivided its shares on a basis of 1.3 post-subdivided Pace shares for each 1.0 pre-subdivided Pace share. Pace shares were issued in exchange for the outstanding Charger shares on a basis of 0.18 Pace share for each Charger share and Pace shares were then issued in exchange for the outstanding AvenEx shares on a basis of 1.0 Pace share for each AvenEx share. Pace was then renamed to Spyglass Resources Corp. The Arrangement 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 consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 10, 2015.

2. Basis of Presentation

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

(a) Basis of measurement

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

(b) Functional and presentation currency

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

3. Significant accounting policies

(a) Principles of consolidation

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

(b) Financial instruments

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

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

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

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

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

The Company early adopted IFRS 9 – *Financial Instruments: Classification and Measurement* effective January 1, 2010 and early adopted IAS 36 – *Impairment of Assets* effective January 1, 2013. Relevant accounting policies have been included above as well as relevant disclosure to Note 16.

(c) Exploration and evaluation assets

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

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

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

(d) Property, plant & equipment

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

(e) Depletion and depreciation

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

(f) Impairment

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

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

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

(g) Assets held for sale

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

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

(h) Business combinations and goodwill

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

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

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

(i) Joint arrangements

The Company conducts some of its activities through interests in joint operations where it has a direct ownership interest in the assets and liabilities of the joint arrangement and jointly controls the operations. The Company recognizes its proportionate share of the income, expenses, assets, and liabilities of these jointly controlled operations in the consolidated financial statements. The Company does not have joint arrangements that would be classified as joint ventures. In 2014 the Company entered into a joint operation with an unrelated third party oil and gas exploration and production company whereby each entity owns a 50% working interest in producing properties and undeveloped land in the Dixonville area. All other joint operations are individually immaterial to the Company.

(j) Leases

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

(k) Decommissioning liabilities

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

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

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

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

(l) Long-term incentive plans

The Company issues different share base awards under its Long Term Incentive Plan ("LTIP") including Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), and Director Restricted Share Units ("DRSUs").

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

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

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

(n) Earnings per share

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

(o) Deferred taxes

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

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

(p) Revenue recognition

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

(q) Borrowing costs

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

4. Significant accounting judgments, estimates and assumptions

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

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

(a) Depletion, depreciation and reserves

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

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

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

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property, plant and equipment for impairment calculations (see note 8).

(b) CGU definition

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

(c) Impairment and business combinations (note 1, 6, 7 & 8)

Judgments include determining whether indicators of impairment exist, as well as the discount rate used in discounted cash flow models. Estimates and assumptions include those used in the determination of the recoverable amounts of CGUs and individual assets which are based on the higher of their value-in-use and fair values less costs of disposal. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs of disposal. For PP&E, including PP&E acquired through business combinations, the Company generally estimates fair value less costs of disposal using a discounted cash flow model which has a significant number of assumptions including proved and probable reserves, forecasted commodity prices, future costs required to develop and produce reserves, discount rates and other relevant assumptions. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets. Further assumptions are discussed in Note 8.

For E&E, including E&E acquired through business combinations, estimates and assumptions include those used in the calculation of recoverable amounts for E&E CGUs and individual assets, which are based on the higher of value-in-use and fair value less costs of disposal, and are discussed further in note 7.

(d) Exploration and evaluation assets (note 7)

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

(e) Decommissioning and restoration costs (note 10)

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

(f) Deferred taxes (note 12)

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

(g) Long-term incentive plans (note 11)

The Company uses the fair value method of valuing its LTIP. Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine fair value. For RSUs, PSUs and DRSUs the fair value model is based on the Company's trading value at each reporting period. PSUs are subject to a performance multiplier that is subject to management estimation, the relative share performance of the Company compared to a set peer group and the absolute shareholder return during the period the awards are outstanding. The multiplier may change based on the future performance of the Company relative to its peers and absolute share performance which would result in changes to the estimates.

(h) Financial Derivatives (note 16)

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

5. Recent accounting pronouncements and amendments

Recent accounting pronouncement and amendments adopted effective January 1, 2014 including IFRIC 21 – *Levies* had no impact on the consolidated financial statements other than disclosure requirements which have been incorporated. The Company early adopted IFRS 9 – *Financial Instruments: Classification and Measurement* effective January 1, 2010 and early adopted IAS 36 – *Impairment of Assets* effective January 1, 2013. Relevant accounting policies have been included in Note 3 and relevant disclosures have been incorporated into the notes of the consolidated financial statements.

The following pronouncements and amendments have been issued. Adopting these standards is expected to have minimal or no impact on the consolidated financial statements.

(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. The Company is currently evaluating the impact of adoption on the 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 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*.

6. Assets acquired, sold and held for sale

(a) Property acquisitions

i) On June 27, 2014 the Company completed the acquisition of assets in the province of Alberta for cash consideration of $2.5 million. The amounts recognized on the date of acquisition were as follows:

Net assets acquired		
Property, plant and equipment	$	3,526
Decommissioning liabilities		(1,068)
	$	2,458
Consideration		
Cash	$	2,458

ii) On December 3, 2014 the Company completed a non-monetary transaction whereby it acquired assets in the province of Alberta in exchange for producing property and undeveloped land owned by Spyglass. The transaction has commercial substance as the exchange of assets results in a change in the risk, timing and amount of future cash flows. In accordance with IAS 16, the assets acquired were recorded at the fair value of the assets disposed. The amounts recognized on the date of acquisition were as follows:

Net assets acquired		
Property, plant and equipment	$	1,113
Decommissioning liabilities		(269)
	$	844
Consideration		
Fair value of asset disposed	$	844

(b) Property dispositions

i) On December 18, 2014, Spyglass closed the disposition of a 50% working interest in its producing properties and undeveloped land in the Dixonville area to an unrelated third party oil and gas exploration and production company. The assets disposed of had a net carrying amount of $111.7 million and were sold for net proceeds of $98.8 million resulting in losses of $12.9 million which were recognized as other income (loss) in the Consolidated Statement of Income (Loss). The transaction resulted in the formation of a joint operation, whereby each entity owns a 50% working interest and has a direct ownership in the assets and liabilities and joint control over the operations. The transaction has an effective date of January 1, 2015. The proportionate share of Spyglass' income, expenses, assets and liabilities of the jointly controlled operation will be recognized in the consolidated financial statements from the effective date on.

ii) In 2014, Spyglass disposed of various 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, June 30, 2014 and September 30, 2014. The assets disposed of had a net carrying value of $69.0 million and were sold for net proceeds of $68.4 million. The transactions resulted in losses of $0.6 million which were recognized as other income in the Consolidated Statement of Income (Loss).

(c) Assets held for sale

A continuity of assets and liabilities that were classified as held for sale for the years ended December 31, 2014 and December 31, 2013 is provided below:

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 reclassified to assets held for sale	$	4,159
Property, plant and equipment reclassified as assets held for sale		43,387
Disposals		(50,760)
Assets held for sale at December 31, 2014	**$**	**-**

Liabilities associated with assets held for sale		
Decommissioning liabilities at December 31, 2013	$	269
Decommissioning liabilities reclassified to liabilities associated with assets held for sale	$	2,323
Disposals		(2,592)
Liabilities associated with assets held for sale at December 31, 2014	**$**	**-**

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 the fair value less costs of disposal of $4.2 million, resulting in a loss of $2.3 million recognized in the year ended December 31, 2014 under depletion, depreciation and impairments (note 8). These assets were sold in Q2 2014 for $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 at September 30, 2014 and associated liabilities were reported at the carrying amount and were sold in Q4 2014 for proceeds of $1.3 million.

7. Exploration and evaluation assets

		December 31, 2014		December 31, 2013
Balance, beginning of period	$	**58,410**	$	30,775
Cash additions		**2,209**		3,090
Capitalized long-term incentive		**(2)**		14
Acquisitions		**-**		47,473
Dispositions		**(1,201)**		(3,027)
Transfers to property, plant and equipment		**(889)**		(13,604)
Transfers to assets held for sale		**(4,159)**		(550)
Expiries		**(8,824)**		(5,761)
Impairment		**(11,152)**		-
Balance, end of period	**$**	**34,392**	$	58,410

In Q3 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 cash 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 16 for information on the fair value hierarchy).

8. 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		**75,323**		**-**		
Non cash additions		**271**				
Capitalized long-term incentive		**139**		**-**		
Acquisitions (note 6)		**4,639**		**-**		
Disposals		**(182,446)**		**45,433**		
Transfers from exploration and evaluation assets		**889**		**-**		
Transfers to assets held for sale		**(64,866)**		**21,479**		
Decommissioning provision		**(9,196)**		**-**		
Depletion and depreciation		**-**		**(72,017)**		
Impairment loss		**-**		**(115,410)**		
Balance, December 31, 2014	**$**	**964,275**	**$**	**(551,314)**	**$**	**412,961**

Future development costs of the Company's proved plus probable reserves of $211.3 million (2013 – $364.0 million) were included in the depletion calculation.

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 6). 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.

During Q4 2014, a decline in forecasted oil and natural gas prices caused the Company to record a total of $113.1 million ($84.8 million net of tax) of impairments. This comprised of impairments of $42.7 million ($32.0 million net of tax) in the North Gas CGU, $33.4 million ($25.0 million net of tax) in the Central CGU, $21.2 million ($15.9 million net of tax) in the North Oil CGU and $15.8 million ($11.9 million net of tax) in the Dixonville CGU. These CGUs were written down to their recoverable amounts of $45.2 million for the North Gas CGU, $71.2 million for the Central CGU, $18.8 million for the North Oil CGU and $102.6 million for the Dixonville CGU based on the fair value less costs of disposal of the CGUs. The estimated fair value less costs of disposal was determined using future cash flows adjusted for risks specific to the assets and discounted using after tax discount rates of 10 to 12 percent, based on consideration of risk of the individual CGU's. Discount rates were derived from the post-tax weighted average cost of capital for Spyglass' peer group. This fair value measurement is non-recurring and is classified as level 3 in the fair value hierarchy (see note 16 for information on the fair value hierarchy).

The following forward commodity price estimates were used in the Company's impairment calculation at December 31, 2014:

Year	WTI Oil ($US/bbl)	AECO Gas (CDN $/mmbtu)	US$/Cdn $ Exchange rates
2015	65.00	3.50	0.860
2016	75.00	4.00	0.860
2017	80.00	4.25	0.860
2018	84.90	4.50	0.860
2019	89.30	4.70	0.860
2020	93.80	5.00	0.860
2021	95.70	5.30	0.860
2022	97.60	5.50	0.860
2023	99.60	5.70	0.860
2024	101.60	5.90	0.860
2025	103.60	6.00	0.860
2026	105.70	6.10	0.860
2027	107.80	6.25	0.860
2028	110.00	6.35	0.860
2029	112.20	6.50	0.860
Thereafter (1)	2%	2%	0.860

(1) Approximate percentage change in each year after 2029 to the end of the reserve life.

An increase of 1% in the discount rate would have resulted in an increase of $40.2 million in impairments. A 5% decrease in forward commodity prices would have resulted in an increase of $80.5 million in impairments.

9. 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 and December 18, 2014 the credit facility was further amended as a result of property dispositions that occurred in the third and fourth quarters to reduce the borrowing base. Under the renewed and amended agreement, Spyglass has a $200 million revolving credit facility. 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 December 31, 2014, $174.7 million was drawn on this facility (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 December 31, 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 $1.1 million in letters of credit outstanding at December 31, 2014 (2013 - $0.9 million).

For 2014, the effective interest rate on the average balance drawn was 5.1% (2013 – 4.9%).

10. 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 $348.9 million (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 December 31, 2014 and 2013. The Company's credit-adjusted risk-free rate of 8% was used to calculate the fair value of the decommissioning liabilities at December 31, 2014 (2013 – 7%). Changes in estimates in 2014 resulted in a decrease in decommissioning liabilities of $10.0 million, of which a decrease of $13.7 million relates to the change in the discount rate offset by an increase of $3.7 million related to other changes in estimates.

A reconciliation of the decommissioning liability is provided below:

		December 31, 2014		December 31, 2013
Balance, beginning of period	**$**	**83,752**	$	49,541
Acquired (note 6)		**1,337**		35,966
Change in estimate		**(9,955)**		389
Liabilities incurred		**759**		540
Liabilities settled		**(6,762)**		(3,574)
Liabilities transferred on sale of assets		**(5,677)**		(4,111)
Transferred to liabilities associated with assets held for sale		**(2,323)**		(269)
Accretion expense		**5,724**		5,270
Balance, end of period	**$**	**66,855**	$	83,752

11. Share capital

(a) Authorized:

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

(b) Issued and outstanding:

	Number of Shares [(1)]		**Amount**
Common shares:			
Balance, December 31, 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
Normal course issuer bid	(272,000)		(1,051)
Balance, December 31, 2014	**127,804,720**	**$**	**493,241**

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

On December 18, 2014, the TSX accepted the Company's notice to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX authorized the Company to purchase up to 12,460,689 common shares during the period from December 22, 2014 to December 21, 2015. Shares purchased under bid will be cancelled. There were 272,000 shares purchased at a weighted average cost of $0.36 during 2014. As the carrying value of the purchased shares was greater than $3.86 per share the $1.0 million difference between the carrying amount and the purchased amount was recorded as contributed surplus.

(c) Dividends:

Dividends declared during the year ended December 31, 2014 totaled $27.9 million (2013 – $25.9 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
October	October 16, 2014	October 31, 2014	November 17, 2014		0.0150
November	November 13, 2014	November 28, 2014	December 15, 2014		0.0150

On December 16, 2014 Spyglass announced the suspension of its monthly dividend in order to manage cash flow and capital resources in response to changes in commodity prices.

(d) Earnings per share:

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

		2014		2013
Net income (loss) for the period	**$**	**(155,823)**	$	43,331
Weighted average number of common shares - basic & diluted		**128,072,945**		112,086,499
Basic & diluted net income (loss) per share	**$**	**(1.22)**	$	0.39

As of December 31, 2014 and 2013 there were no dilutive instruments outstanding.

(e) Long-term incentive plans

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

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

	Number of RSUs	Number of PSUs	Number of DRSUs
Balance, December 31, 2012	-	-	-
Granted	1,647,706	1,043,398	157,702
Reinvested through notional dividends	144,215	99,001	14,545
Forfeited	(208,258)	(31,356)	-
Settled	(67,169)	-	-
Balance, December 31, 2013	1,516,494	1,111,043	172,247
Granted	**1,700,915**	**854,366**	**218,618**
Reinvested through notional dividends	**304,819**	**258,462**	**46,930**
Forfeited	**(470,942)**	**(260,367)**	**-**
Settled	**(641,584)**	**-**	**(21,092)**
Balance, December 31, 2014	**2,409,702**	**1,963,504**	**416,703**

At December 31, 2014, the PSUs were subject to a multiplier of 1.

(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.

12. Deferred taxes

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

		Year ended December 31, 2014		Year ended December 31, 2013
Income (loss) before taxes	**$**	**(138,817)**	$	41,246
Combined federal and provincial tax rate		**25.0%**		25.0%
Computed "expected" tax expense (recovery)		**(34,704)**		10,312
Increase (decrease) in taxes resulting from:				
Permanent items		**149**		(20,909)
Derecognition of previously recognized deferred tax asset		**49,328**		9,088
Change in rates		**49**		595
Other		**2,184**		(1,171)
Deferred tax expense (recovery)	**$**	**17,006**	$	(2,085)

The following is a continuity of the associated temporary differences of the Company's deferred tax asset (liability) for 2014 and 2013:

	Balance December 31, 2013	Deferred tax recovery (expense)	**Balance December 31, 2014**
Petroleum and natural gas assets	$ (4,301)	$ 49,087	$ **44,786**
Decommissioning liabilities	20,938	(4,224)	**16,714**
Financial derivative instruments	2,829	(7,255)	**(4,426)**
Share issue costs	554	1,490	**2,044**
Other	321	(148)	**173**
Non-capital losses	68,235	(6,628)	**61,607**
Subtotal	88,576	32,322	**120,898**
Unrecognized deferred tax asset	(9,088)	(49,328)	**(58,416)**
Total deferred tax asset (liability)	**$ 79,488**	**$ (17,006)**	**$ 62,482**

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

Deferred income tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable income will be available in the future against which the unused tax losses and credits can be utilized. In 2014, it was determined that it is not probable that additional deferred tax assets related to certain successored tax pools from predecessor companies will be utilized in the carry-forward period. Income projections show sufficient taxable income to utilize the benefit of remaining unused tax losses and credits within the carry-forward period. As at December 31, 2014, the Company has tax pools totaling approximately $881 million, including approximately $246 million of non-capital losses expiring within 20 years. The Company has $234 million of tax pools for which no deferred tax asset has been recognized.

Temporary differences of $4.4 million for financial derivative instruments and $2.0 million for share issue costs are expected to reverse in the next 12 months. The Company also has temporary differences in respect of its investments in Canadian subsidiaries for which no deferred taxes have been recorded as no taxes are expected to be paid in respect of the temporary differences related to its Canadian subsidiaries.

13. Salary, benefits and other compensation expenses

(a) Employee compensation expenses

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

		Year ended December 31, 2014		Year ended December 31, 2013
Employee costs				
Operating expense	$	**4,063**	$	4,259
General and administrative expense		**14,317**		17,323
Total employee costs	$	**18,380**	$	21,582

(b) Key management compensation

Key management includes the Company's currently active directors, officers and other members of senior management, as well as their equivalents from Pace prior to the Arrangement. Compensation awarded to key management includes salaries and benefits including director's fees, short term incentive, and awards granted under the Company's long-term incentive plan. At December 31, 2014 key management personnel included 12 individuals (2013 – 12 individuals). Balances outstanding and payable as at December 31, 2014 were $0.9 million (2013 – $0.8 million). The following table summarizes total compensation attributed to key management for 2014 and 2013:

		Year ended December 31, 2014		Year ended December 31, 2013
Key management compensation				
Salaries, benefits and other short-term employee compensation	$	**2,387**	$	2,469
Long-term incentive plan		**(27)**		885
Total key management compensation	$	**2,360**	$	3,354

14. Other income

Other income (loss) includes $13.5 million of losses on dispositions for producing properties and undeveloped land, $0.2 million of gains on sale of investments, $2.1 million of seismic data sales, as well as marketing revenue and other minor items.

Other income for 2013 includes $84.2 million in gains recognized as a result of an excess of the fair value of net assets acquired in the Arrangement (note 1) over consideration transferred, $5.2 million of gains on dispositions of non-core producing properties and undeveloped land as well as marketing revenue and seismic data sales.

15. Contractual Obligations

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

As at December 31, 2014		**Total**		< 1 year		1-3 years		4-5 years		After 5 years
Operating leases	$	**27,337**	$	3,525	$	7,220	$	7,253	$	9,339
Long-term debt (1)		**185,835**		8,908		176,927		-		-
Firm transportation charges		**5,432**		1,749		2,349		596		738
Total contractual obligations	$	**218,604**	$	14,182	$	186,496	$	7,849	$	10,077

(1) Includes related interest.

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

As at December 31, 2014, the following contracts were outstanding with respect to the purchase of power:

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

16. Financial instruments and capital management

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

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

(a) Fair value of financial instruments:

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

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

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

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

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

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

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

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities 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.

During the year ended December 31, 2014, the Company disposed of its investment in a private company not quoted in an active market for $0.5 million in services and equipment. This investment was classified as fair value though 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, cash flows and equity offerings. Spyglass had recorded the investment at its estimated fair value of $0.3 million as at December 31, 2013.

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

The following table summarizes Spyglass' financial instruments as at December 31, 2014 and 2013:

December 31, 2014	Fair value through profit and loss	Fair value through OCI	Loans and receivables	Financial liabilities	**Total carrying value**
Assets					
Cash and cash equivalents	$ -	$ -	$ -	$ -	**$ -**
Accounts receivable	-	-	30,793	-	**30,793**
Derivatives - Interest Rate Swap	34	-	-	-	**34**
Derivatives - Commodity contracts	18,407	-	-	-	**18,407**
	$ 18,441	**$ -**	**$ 30,793**	**$ -**	**$ 49,234**
Liabilities					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 48,888	**$ 48,888**
Derivatives - Commodity contracts	739	-	-	-	**739**
Long-term compensation liability	-	-	-	347	**347**
Long-term debt	-	-	-	174,700	**174,700**
	$ **739**	**$ -**	**$ -**	**$ 223,935**	**$ 224,674**

December 31, 2013	Fair value through profit and loss	Fair value through OCI	Loans and receivables	Financial liabilities	Total carrying value
Assets					
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -
Accounts receivable	$ -	$ -	$ 39,952	$ -	$ 39,952
Derivatives - Interest Rate Swap	22	-	-	-	22
Derivatives - Commodity contracts	8	-	-	-	8
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 liabilities are only offset if Spyglass has the current legal right to offset and intends to settle on a net basis. Financial derivative instruments are subject to master netting agreements that create a legally enforceable right to offset financial assets and financial liabilities by counterparty when the commodity, currency and timing of settlement are the same. No financial assets and liabilities were offset in the consolidated balance sheet as at December 31, 2014 and December 31, 2013.

(b) Credit risk:

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

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Spyglass' policy to mitigate credit risk associated with these balances is to maintain marketing relationships with large, established and reputable purchasers that are considered to be creditworthy. Spyglass has not experienced any collection issues with its petroleum and natural gas marketers. In 2014, 84% of the Company's revenue was sold to four marketers. At year end, Spyglass has received letters of credit and parental guarantees totaling $41.1 million from its marketers. Joint operation receivables are typically collected within two to three months of the joint operation bill being issued to the partner. Spyglass attempts to mitigate collection risk from joint operation receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint operation partners. Joint operation receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Spyglass does not request letters of credit in its favor from joint operation partners; however the Company does have the ability to withhold production from joint operation partners in the event of non-payment or may be able to register security on the assets of joint operation partners.

The following table is a summary of the Company's accounts receivable balances as at December 31, 2014 and 2013:

		December 31, 2014		December 31, 2013
Revenue receivable	**$**	**13,378**	$	20,191
Joint operation related receivables		**9,648**		15,434
Other accounts receivable [(1)]		**9,592**		6,236
Allowance for doubtful accounts		**(1,825)**		(1,909)
Accounts receivable	**$**	**30,793**	$	39,952

[(1)] Included in other accounts receivable at December 31, 2014 were insurance receivables related to Environmental Liabilities of $7.3 million (2013 - $4.4 million) (see note 17) and receivables for realized gains on derivative financial instruments of $2.2 million (2013 - $0.2 million).

At December 31, 2014, the Company had $4.8 million (2013 – $9.1 million) of receivables that were considered past due. The majority of these amounts are due from large, well established joint operation partners. Other than the amounts allowed for in the allowance for doubtful accounts discussed below, management believes the balances will be collected.

Spyglass establishes an allowance for doubtful accounts as determined by management based on their assessment of collection; therefore, the carrying amount of accounts receivable represents the maximum credit exposure. During 2014, Spyglass reduced the allowance for doubtful accounts by writing off $0.5 million (2013 – $0.1 million) of accounts receivable that were deemed uncollectible and set up a new allowance of $0.4 million (2013 – $0.2 million). Although an allowance has been provided, Spyglass will continue to pursue collection of outstanding accounts receivables. The allowance may be adjusted if circumstances or events change.

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

		December 31, 2014		December 31, 2013
Balance, beginning of the period	**$**	**(1,909)**	$	(1,302)
New allowance for doubtful account provision		**(427)**		(173)
Allowance for doubtful accounts provision acquired (note 6)		**-**		(518)
Account write-offs		**511**		84
Balance, end of period	**$**	**(1,825)**	$	(1,909)

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

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. Spyglass prepares an annual budget and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. Spyglass' financial liabilities consist of its long-term debt (note 9), long-term incentive plan liability and its accounts payable and accrued liabilities.

The Company recognizes the difficulties of operating in the current commodity price environment and has taken steps to manage its leverage. In the fourth quarter of 2014, Spyglass realized $110.9 million of net cash proceeds on property dispositions and in December 2014 suspended dividend payments with a $23 million annual obligation. Further, in February 2015 Spyglass announced a reduction to its 2015 capital expenditure budget from $26 million down to $8 million with the objective of holding debt near 2014 year end levels. The Company anticipates adequate liquidity to fund future working capital and forecasted capital expenditures for 2015 through a combination of cash flow, property dispositions and use of its bank facility. With continued property dispositions, the Company would expect to have a borrowing base reduction under its current bank facility, however, proceeds from property dispositions would normally be expected to be in excess of any reduction that would occur. 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.

The following table summarizes the contractual maturities of financial liabilities as at December 31, 2014 and 2013:

December 31, 2014				
Financial Liability	**Total**	**Less Than 1 year**	**1-3 Years**	**3-5 Years**
Account payable and accrued liabilities	**$ 48,888**	**$ 48,888**	**$ -**	**$ -**
Financial derivative instruments	**739**	**739**	**-**	**-**
Long-term incentive plan liability	**347**	**-**	**347**	**-**
Long-term debt [(1)]	**185,835**	**8,908**	**176,927**	**-**
Total	**$ 235,809**	**$ 58,535**	**$ 177,274**	**$ -**

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

[(1)] Includes related interest.

The following table summarizes the Company's accounts payable and accrued liabilities as at December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Accrued liabilities	**$ 33,516**	$ 30,132
Trade payables	**9,313**	11,793
Joint operation related payables	**5,284**	10,779
Other accounts payables	**775**	25
Accounts payable and accrued liabilities	**$ 48,888**	$ 52,729

(d) Market risk:

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

i) Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. A strengthening Canadian dollar compared to the United States dollar negatively impacts Spyglass. The Company had no forward exchange rate contracts in place as at December 31, 2014 and December 31, 2013.

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

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

Commodity risk management contracts					**Fair Value as at**	
Instrument	Period	Price	Reference	Quantity	**December 31, 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	**-**	(320)
Swap	Jan 1, 2014 - Dec 31, 2014	$92.20	CDN$ WTI	1,000 bbl/d	**-**	(3,547)
Swap	Jan 1, 2014 - Dec 31, 2014	$93.25	CDN$ WTI	500 bbl/d	**-**	(1,583)
Swap	Apr 1, 2014 - Jun 30, 2014	$95.27	CDN$ WTI	1,000 bbl/d	**-**	(745)
Swap	Apr 1, 2014 - Dec 31, 2014	$98.13	CDN$ WTI	600 bbl/d	**-**	(508)
Swap	Apr 1, 2014 - Dec 31, 2014	$96.90	CDN$ WTI	600 bbl/d	**-**	(688)
Swap	Jul 1, 2014 - Sep 30, 2014	$94.43	CDN$ WTI	500 bbl/d	**-**	(305)
Swap	Oct 1, 2014 - Dec 31, 2014	$93.75	CDN$ WTI	250 bbl/d	**-**	(121)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.20	CDN$ WTI	500 bbl/d	**1,504**	(32)
Swap	Jan 1, 2015 - Mar 31, 2015	$96.50	CDN$ WTI	500 bbl/d	**1,517**	(19)
Swap	Jan 1, 2015 - Jun 30, 2015	$98.40	CDN$ WTI	500 bbl/d	**3,112**	-
Swap	Jan 1, 2015 - Dec 31, 2015	-$22.80	CDN$ WCS [1]	500 bbl/d	**(739)**	-
Swap	Jan 1, 2015 - Dec 31, 2015	$101.15	CDN$ WTI	500 bbl/d	**6,328**	-
Swap	Apr 1, 2015 - Dec 31, 2015	$99.10	CDN$ WTI	500 bbl/d	**4,342**	-
					$ 16,064	$ (10,338)
Natural Gas Contracts						
Swap	Jan 1, 2014 - Dec 31, 2014	$3.55	CDN$ GJ	1,500 GJ/d	**$ -**	$ (86)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.555	CDN$ GJ	5,000 GJ/d	**-**	(264)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.575	CDN$ GJ	6,250 GJ/d	**-**	(284)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.59	CDN$ GJ	5,000 GJ/d	**-**	(177)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.6075	CDN$ GJ	3,000 GJ/d	**-**	(87)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.64	CDN$ GJ	2,000 GJ/d	**-**	(34)
Swap	Jan 1, 2014 - Dec 31, 2014	$3.71	CDN$ GJ	2,000 GJ/d	**-**	7
Swap	Jan 1, 2015 - Mar 31, 2015	$3.7625	CDN$ GJ	2,000 GJ/d	**174**	(17)
Swap	Jan 1, 2015 - Mar 31, 2015	$4.10	CDN$ GJ	3,000 GJ/d	**352**	-
Swap	Jan 1, 2015 - Mar 31, 2015	$4.14	CDN$ GJ	2,000 GJ/d	**242**	-
Swap	Jan 1, 2015 - Jun 30, 2015	$4.2025	CDN$ GJ	3,000 GJ/d	**836**	-
Put	Jan 1, 2014 - Dec 31, 2014	$3.40	CDN$ GJ	2,000 GJ/d	**-**	(58)
					$ 1,604	$ (1,000)
Total					**$ 17,668**	$ (11,338)

[1] Fixed $ WCS versus WTI

Subsequent to December 31, 2014 Spyglass entered into the following commodity risk management contracts:

- An AECO natural gas swap contract for 3,000 GJ/d for the period April 1, 2015 to December 31, 2015 with a fixed price of $2.94/GJ

For the year ended December 31, 2014, Spyglass recorded a realized loss of $18.4 million (2013 – $10.0 million) and an unrealized gain of $29.0 million (2013 – $9.9 million loss) related to its commodity risk management contracts.

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

An increase in CDN$ WTI by $5/bbl from the expected forward prices at December 31, 2014 would result in a decrease in Spyglass' gain (loss) on derivative instruments of $3.0 million. A decrease in CDN$ WTI by $5/bbl from the expected forward prices at December 31, 2014 would have an equal and opposite impact on the gain (loss) on derivative instruments.

An increase in CDN AECO by $0.25/Mcf from the expected forward prices at December 31, 2014 would result in a decrease in Spyglass' gain (loss) on derivative instruments of $0.3 million. A decrease in CDN AECO by $0.25/Mcf from the expected forward prices at December 31, 2014 would have an equal and opposite impact on the gain (loss) on derivative instruments.

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

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

Interest rate risk management contract					**Fair Value as at**	
Instrument	Period	Notional Amount	Reference	Fixed Interest Rate	**December 31, 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	$75,000,000	CAD-BA-CDOR	1.281%	**34**	-
Total					**$ 34**	$ 22

For the year ended December 31, 2014, Spyglass recorded a realized gain of $12 thousand (2013 – $0.1 million) and an unrealized gain of $11 thousand (2013 – $0.1 million loss) related to its interest rate risk management contract.

An increase in interest rates of 0.25 percent from the expected forward prices at December 31, 2014 would result in an increase in Spyglass' gain (loss) on derivative instruments $0.2 million. A decrease in interest rates of 0.25 percent from the expected forward prices at December 31, 2014 would have an equal and opposite impact on the gain (loss) on derivative instruments.

Based on debt levels and removing the notional amount on the interest rate risk management contracts in place as at December 31, 2014, a reduction to interest rates of 25 basis points would result in an increase to annual net income of $0.2 million and an increase to cash flow from operating activities of $0.3 million. An equal and opposite impact would occur to net income and cash flow from operating activities if interest rates increase by 25 basis points.

(e) Capital management:

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

The management of capital includes share capital of $493.2 million (2013- $494.3 million) and long-term debt of $174.7 million (2013- $287.0 million). The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the forecasted commodity prices and resulting cash flows and debt levels. The Company monitors non-GAAP metrics including a calculation of its long-term debt to its trailing four quarters EBITDA as defined by its credit facility. EBITDA is equal to cash flow from operating activities plus interest expense, before site restoration expenditures and changes in non-cash working capital activities from operations adjusted on a pro forma basis for acquisitions and dispositions. At December 31, 2014, this ratio was 3.4 (December 31, 2013 - 3.6). In order to maintain or adjust the capital structure, the Company may from time to time issue shares, if available on reasonable terms, sell assets, farm out properties and adjust its capital spending to manage current and projected debt levels. The Company may also review its level of bank credit obtainable based on the change of its oil and natural gas reserves.

17. 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 sustained 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 December 31, 2014, $3.5 million has been spent on cleanup costs with a further $0.3 million recorded in accrued liabilities for work performed to December 31, 2014 and $1.2 million accrued in other liabilities for future costs expected to be incurred. Subsequent to December 31, 2014, $2.0 million of insurance proceeds were received.

(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 $23.9 million and falls within the Company's insurance coverage. $20.5 million of insurance proceeds were received to December 31, 2014 and an additional $0.6 million was received subsequent to December 31, 2014. Spyglass has paid $21.9 million of clean-up and remediation costs as of December 31, 2014 with a further $0.1 million recorded in accrued liabilities for work performed to December 31, 2014 and $1.9 million accrued in other liabilities for future costs expected to be incurred.

(C) Insurance receivable

Spyglass has recorded $7.3 million in accounts receivable for insurance receivable as at December 31, 2014 (2013 - $4.4 million), of which $2.6 million were received subsequent to December 31, 2014. Spyglass has evaluated the credit worthiness of its insurance providers and has concluded it to be adequate.

18. Supplemental Information

(a) Revenue by product:

For the years ended December 31, 2014 and 2013, petroleum and natural gas sales can be broken down into the following products:

December 31, 2014		Oil		Liquids		Natural gas		Total
Petroleum and natural gas sales	**$**	**181,868**	**$**	**8,880**	**$**	**74,110**	**$**	**264,858**

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

(b) Cash flow information:

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

		Year ended December 31, 2014		2013
Change in non-cash working capital:				
Accounts receivable	**$**	**9,159**	$	(8,628)
Prepaid expenses and deposits		**(291)**		138
Accounts payable and accrued liabilities		**(3,841)**		7,240
Dividends payable		**(2,882)**		2,882
Other liabilities		**252**		(952)
Change in incentive plan liability		**(826)**		(1,367)
Non-cash portion of prepaid expenses		**201**		-
Working capital acquired on acquisition (note 1)		**-**		(16,463)
Change in working capital	**$**	**1,772**	$	(17,150)
Relating to:				
Operating activities		**3,056**		(21,998)
Financing activities		**(2,882)**		2,882
Investing activities		**1,598**		1,966
Change in non-cash working capital	**$**	**1,772**	$	(17,150)

The following represents the cash interest paid in each period:

		Year ended December 31, 2014		2013
Cash interest paid	**$**	**15,441**	$	14,118

19. 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 administrative expenses in the consolidated income statement. Comparative figures have been reclassified to conform with the presentation adopted in the current period.