



2014 CONSOLIDATED FINANCIAL STATEMENTS

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

Signed *"Dan O'Byrne"*

Dan O'Byrne
President and Chief Executive Officer

Calgary, Alberta
March 10, 2015

Signed *"Mark Walker"*

Mark Walker
Senior VP Finance and Chief Financial Officer

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	Accu- mulated Other Compre- hensive 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 through profit and loss and was carried at fair value as a level 3 instrument. The determination of the fair value of the investment was a recurring measurement. As the investment was in a privately held oil and natural gas service company, the fair value was estimated using the most reliable data available at the time including earnings, 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:

	Fair value through profit and loss		Fair value through OCI		Loans and receivables		Financial liabilities		Total carrying value
December 31, 2014									
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
	Fair value through profit and loss		Fair value through OCI		Loans and receivables		Financial liabilities		Total carrying value
December 31, 2013									
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.