MANAGEMENT'S REPORT

The preparation of the accompanying consolidated financial statements is the responsibility of Management. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial information contained throughout all other financial and operating data is consistent with these consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Where necessary, the consolidated financial statements include estimates, which are based on Management's informed judgements.

Management has established systems of internal controls, which are designed to provide reasonable assurance those assets, are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, Management has conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has concluded that as of December 31, 2014, our internal controls over financial reporting were effective. Because of the inherent limitations, internal controls over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The Board of Directors is responsible for ensuring Management fulfils its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee, all of whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with Management and the auditors and has reported to the Board of Directors which have approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by NuVista's shareholders. The auditors have considered, for the purposes of determining the nature, timing and extent of their audit procedures, the Company's internal controls and have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the consolidated financial statements.

(signed) "Jonathan A. Wright"
President and Chief Executive Officer
March 6, 2015

(signed) "Ross L. Andreachuk"
Vice President, Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of NuVista Energy Ltd.

We have audited the accompanying consolidated financial statements of NuVista Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, the consolidated statements of earnings (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising 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.

Auditors' 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 audit 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 our 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, we consider 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 consolidated financial position of NuVista Energy Ltd. as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "KPMG LLP"
Chartered Accountants

March 6, 2015
Calgary, Canada

NUVISTA ENERGY LTD.

Consolidated Statements of Financial Position

($Cdn thousands) **As at December 31,**		**2014**		2013
Assets				
Current assets				
Cash and cash equivalents	**$**	**—**	$	2,488
Accounts receivable and prepaid expenses		**39,168**		29,428
Commodity derivative assets (note 15)		**31,237**		—
		70,405		31,916
Commodity derivative assets (note 15)		**15,974**		—
Note receivable		**5,014**		5,000
Exploration and evaluation assets (note 5)		**98,906**		85,754
Property, plant and equipment (note 6)		**825,115**		779,642
Deferred tax assets (note 10)		**8,666**		3,399
Total assets	**$**	**1,024,080**	$	905,711
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**50,969**	$	79,411
Commodity derivative liabilities (note 15)		**—**		2,516
		50,969		81,927
Long-term debt (note 8)		**171,969**		—
Other liabilities		**2,188**		5,409
Commodity derivative liabilities (note 15)		**—**		4,305
Asset retirement obligations (note 9)		**111,307**		106,275
		336,433		197,916
Shareholders' equity				
Share capital (note 11)		**1,029,017**		991,489
Contributed surplus		**40,812**		39,607
Deficit		**(382,182)**		(323,301)
		687,647		707,795
Total liabilities and shareholders' equity	**$**	**1,024,080**	$	905,711

Subsequent event (notes 15,17)
Commitments (note 17)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

(signed) "W. Peter Comber"
Director

(signed) "Pentti O. Karkkainen"
Director

NUVISTA ENERGY LTD.

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

($Cdn thousands, except per share amounts)		
Year ended December 31,	**2014**	2013
Revenues		
Oil and natural gas	**$ 259,107**	$ 213,469
Royalties	**(22,184)**	(20,949)
	236,923	192,520
Realized gain (loss) on commodity derivatives (note 15)	**(8,798)**	(7,013)
Unrealized gain (loss) on commodity derivatives (note 15)	**54,032**	(5,749)
	282,157	179,758
Expenses		
Operating	**75,313**	74,027
Transportation	**10,457**	6,920
General and administrative	**21,281**	20,462
Share-based compensation (note 13)	**8,924**	9,381
Depletion, depreciation, amortization and impairment (reversal) (note 6)	**148,170**	76,559
Exploration and evaluation (note 5)	**11,376**	5,599
Loss on property dispositions (note 7)	**68,683**	55,478
Financing costs (note 16)	**8,666**	7,792
	352,870	256,218
Loss before taxes	**(70,713)**	(76,460)
Deferred income tax benefit (note 10)	**(11,832)**	(15,316)
Net loss and comprehensive loss	**$ (58,881)**	$ (61,144)
Net loss per share (note 12)		
Basic	**$ (0.43)**	$ (0.51)
Diluted	**$ (0.43)**	$ (0.51)

See accompanying notes to the consolidated financial statements.

NUVISTA ENERGY LTD.

Consolidated Statements of Changes in Shareholders' Equity

($Cdn thousands) **Year ended December 31,**	**2014**	2013
Share capital (note 11)		
Balance, January 1	**$ 991,489**	$ 882,831
Issued for cash on offering of common shares	**—**	78,100
Issued for cash on offering of flow-through common shares	**25,731**	33,545
Issued for cash on exercise of stock options	**9,381**	688
Contributed surplus transferred on exercise of stock options	**2,620**	236
Conversion of restricted share awards	**703**	364
Cancellation of common shares	**(779)**	—
Share issue costs, net of deferred tax benefit of $0.04 million (2013 – $0.03 million)	**(128)**	(4,275)
Balance, December 31	**$ 1,029,017**	$ 991,489
Contributed surplus		
Balance, January 1	**$ 39,607**	$ 35,387
Share-based compensation (note 13)	**3,738**	4,820
Cancellation of common shares	**790**	—
Transfer to share capital on exercise of stock options	**(2,620)**	(236)
Conversion of restricted share awards	**(703)**	(364)
Balance, December 31	**$ 40,812**	$ 39,607
Deficit		
Balance, January 1	**$ (323,301)**	$ (262,157)
Net loss	**(58,881)**	(61,144)
Balance, December 31	**$ (382,182)**	$ (323,301)
Total shareholders' equity	**$ 687,647**	$ 707,795

See accompanying notes to the consolidated financial statements.

NUVISTA ENERGY LTD.

Consolidated Statements of Cash Flows

($Cdn thousands)		
Year ended December 31,	**2014**	2013
Cash provided by (used in)		
Operating activities		
Net loss	**$ (58,881)**	$ (61,144)
Items not requiring cash from operations:		
Depletion, depreciation, amortization and impairment (reversal)	**148,170**	76,559
Exploration and evaluation	**11,376**	5,599
Loss on property dispositions	**68,683**	55,478
Share-based compensation (note 13)	**3,497**	4,605
Unrealized (gain) loss on commodity derivatives	**(54,032)**	5,749
Deferred income tax benefit	**(11,832)**	(15,316)
Accretion	**2,994**	3,776
Asset retirement expenditures	**(8,579)**	(8,809)
Change in non-cash working capital	**(15,226)**	16,765
	86,170	83,262
Financing activities		
Issue of share capital, net of share issue costs	**38,588**	112,769
Increase (repayment) of long-term debt	**171,969**	(19,892)
	210,557	92,877
Investing activities		
Property, plant and equipment expenditures	**(296,561)**	(212,722)
Exploration and evaluation expenditures	**(15,647)**	(11,667)
Property acquisitions	**(45,237)**	(2,183)
Proceeds on property dispositions (note 7)	**81,550**	30,270
Change in non-cash working capital	**(23,320)**	22,651
	(299,215)	(173,651)
Change in cash and cash equivalents	**(2,488)**	2,488
Cash and cash equivalents, balance January 1	**2,488**	—
Cash and cash equivalents, balance December 31	**$ —**	$ 2,488
Cash interest paid	**$ 5,617**	$ 4,060

See accompanying notes to the consolidated financial statements.

Year ended December 31, 2014 with comparative figures for 2013. All tabular amounts are in thousands of Canadian dollars, except share and per share amounts, unless otherwise stated.

1. Corporate information

NuVista Energy Ltd. (“NuVista” or the “Company”) is a Canadian publicly traded company incorporated in the province of Alberta. The Company is an oil and natural gas company actively engaged in the exploration, development and production of oil and natural gas reserves in the Western Canadian Sedimentary Basin. NuVista’s primary focus is on the scalable and repeatable condensate-rich Montney formation in the Alberta Deep Basin.

The address of the Company’s head office is 3500, 700 – 2nd Street S.W., Calgary, Alberta, Canada, T2P 2W2.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These accounting policies have been applied consistently for all periods presented in these consolidated financial statements.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 6, 2015.

(b) Principles of consolidation

On September 30, 2014, the Company completed its corporate entity restructuring. Each of the partnerships were dissolved and corporations were amalgamated into a single entity which carries on business under the name "NuVista Energy Ltd".

Prior to the corporate restructuring, the consolidated financial statements included the financial statements of the Company and its wholly owned subsidiaries. Intercompany balances and transactions between the Company and its subsidiaries were eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries were included in the consolidated financial statements from the date that control commences until the date that control ceases.

(d) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value with the changes in fair value recorded in net earnings.

(e) Functional and presentation currency

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

(f) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the consolidated financial statements:

(i) Cash generating units

Cash generating units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or group of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations.

(ii) Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimate of reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

(iii) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments in determining whether it is likely that future economic benefits exist when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined.

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the consolidated financial statements:

(iv) Reserve estimates

Oil and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals. Reserve estimates are based on engineering data, estimated future prices and costs, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels and changes in commodity prices.

(v) Asset retirement obligations

Asset retirement obligations are recognized for the future decommissioning and restoration of property, plant and equipment. These obligations are based on estimated costs, which take into account the anticipated method and extent of restoration and technological advances. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience and prices. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

(vi) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. The deferred tax asset or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments that are highly liquid in nature and have an original maturity date of three months or less.

(b) Joint arrangements

A portion of exploration, development and production activities are conducted jointly with others and, accordingly, the Company only reflects its proportionate interest of the assets, liabilities, revenues, expenses and cash flows. The Company does not have any joint arrangements that are structured through a separate vehicle.

(c) Exploration and evaluation assets

Exploration and evaluation ("E&E") expenditures are initially capitalized within "Exploration and evaluation assets". E&E costs may include the costs of acquiring licenses, technical services and studies, seismic acquisition, exploration drilling and testing costs and directly attributable general and administrative costs. Costs incurred prior to having obtained the legal right to explore an area are charged to net earnings as exploration and evaluation expenditures in the period in which they are incurred.

E&E assets are not depreciated. These costs are accumulated and are carried forward until technical feasibility and commercial viability of the area is determined or the assets are determined to be impaired. Technical feasibility and commercial viability are met when the Company has determined that an E&E asset will be developed, as evidenced by the classification of proved or probable reserves and the appropriate internal and external approvals.

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is defined as the higher of fair value less costs to sell and value in use. E&E assets are tested for impairment at the operating segment level.

If proved and/or probable reserves have been discovered, E&E assets are first tested for impairment prior to the reclassification to property, plant and equipment. The carrying value, after any impairment loss, of the relevant E&E assets and associated undeveloped land is then reclassified as development and production assets within property, plant and equipment.

Any impairment loss on E&E assets, unsuccessful E&E costs and the cost of undeveloped land that has expired are charged to net earnings as exploration and evaluation expense.

(d) Development and production assets

Items of property, plant and equipment which include oil and gas development and production assets and corporate assets are measured at cost less accumulated depletion, depreciation, amortization and impairment. Development and production assets are accumulated on an area-by-area basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets as outlined above.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in net earnings as incurred. Such capitalized oil and natural gas asset generally represents costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings as incurred.

(e) Impairment

An impairment test is performed when events and circumstances arise, at each reporting date, that indicate that the carrying value of a development and production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, defined as the greater of fair value less costs to sell and its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined by using discounted future net cash flows of proved and probable reserves using forecast prices and costs including expansion prospects and its eventual disposal, using assumptions that an independent market participant may take into account. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset. If any indications of impairment exist, the Company performs an impairment test related to the assets. Individual assets or areas are grouped for impairment assessment purposes into CGU's, which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is recorded within depletion, depreciation, amortization and impairment expense in net earnings. Impairments are reversed when events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. An impairment loss is reversed only to the extent that the CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

(f) Depletion, depreciation, amortization

The costs of development and production assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated by taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Other property, plant and equipment are stated at cost less accumulated depletion, depreciation, amortization and any impairment in value. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) and depreciated over their useful lives. Costs associated with workovers are depreciated over two years and plant turnarounds and overhauls are depreciated over five years. Corporate assets are depreciated on a straight line basis over the useful life of the related assets. The assets' useful lives and residual values are assessed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

(g) Asset purchases and disposals

Transactions involving the purchase of an individual area, or a group of areas, that do not qualify as a business combination, are treated as asset purchases irrespective of whether the specific transactions involved the transfer of the areas directly or the transfer of an incorporated entity. Accordingly, no goodwill arises and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposition are compared to the carrying value of the specific exploration and evaluation assets, development and production assets and asset retirement obligations disposed and any surplus or shortfall is recorded as a gain or loss on disposal in net earnings.

(h) Asset exchange transactions

Asset exchange transactions for development and production assets are measured at the fair value of the asset acquired and the assets given up are measured at the carrying amount. Gains and losses are recorded in net earnings in the period incurred.

(i) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts 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 fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets held for sale are presented in current assets within the statement of financial position. Assets held for sale are not depleted or depreciated. When the criteria for classification as assets held for sale are no longer met, amounts are reclassified from current assets to property, plant and equipment and the current liabilities are reclassified to asset retirement obligations.

(j) Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. Business combinations are accounted for using the acquisition method. The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition, with limited exceptions. Any excess of the purchase price over the recognized amount (generally the fair value) of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the recognized amount of the net assets acquired is recorded as a bargain purchase gain in net earnings. Associated transactions costs are expensed when incurred.

(k) Asset retirement obligations

The Company recognizes a liability in the period in which it has a present and legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, the Company reviews these estimates and changes, if any, are applied prospectively. An obligation is recognized for the estimated cost of abandonment and site restoration, by discounting expected future cash flows required to settle the obligation using a risk free rate, with a corresponding amount capitalized as asset retirement costs in property, plant and equipment. These asset retirement costs are subsequently depleted on a unit-of-production basis over the life of the proved and probable reserves. The obligation is adjusted each reporting period to reflect the passage of time and changes to the estimated future cash flows underlying the obligation. The increase in the obligation due to the passage of time is recognized as accretion expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are charged against the liability.

(l) Revenue recognition

Revenue from the sale of crude oil, natural gas, condensate and natural gas liquids is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue is measured at the fair value of the consideration received or receivable.

(m) Transportation

Transportation expenses include costs incurred to transport crude oil, natural gas, condensate and natural gas liquids from the wellhead to the point of title transfer.

(n) Financial instruments

(i) Non-derivative financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “other financial liabilities” as defined by the accounting standard. Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through profit or loss” and are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as “loans and receivables”, “held-to-maturity”, and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income.

Financial assets, excluding derivative instruments, are classified as “loans and receivables”. Financial liabilities, excluding derivative instruments, are classified as “other financial liabilities”. All derivative instruments are classified as “fair value through profit or loss”.

(ii) Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in net earnings when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in net earnings.

The Company has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Realized gains or losses from natural gas and oil commodity physical sales contracts are recognized in oil and natural gas revenue as the contracts are settled.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in net earnings.

(o) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(p) Share-based compensation

The Company has three types of incentive plans: stock options, restricted stock units (“RSU”) and restricted share awards (“RSA”) that may be granted to directors, officers and employees.

The Company’s stock option plan provides the stock option holder with the right to purchase common shares. The Company uses the fair value method for valuing stock option grants using the Black-Scholes option pricing model. Under this method, the compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period to share-based compensation expense with a corresponding increase to contributed surplus. Upon the exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. A forfeiture rate is estimated on the grant date and is subsequently adjusted each period to reflect the actual number of options that are expected to vest.

The Company’s RSU plan entitles participants to receive cash based on the Company’s share price at the time of vesting. A liability for expected cash payments is accrued over the vesting period based on the market price of the Company’s common shares. Compensation expense is recorded in net earnings as share-based compensation expense.

The RSA incentive plan allows a holder of the RSA to receive common shares upon vesting. The Company uses the fair value method for valuing RSA grants using the Black-Scholes option pricing model. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant. Upon vesting of the RSAs, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

(q) Income taxes

Income tax expense represents the sum of the tax currently payable and the deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred income tax assets and liabilities are netted in certain circumstances.

Deferred income tax expense is recognized in the statement of earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(r) Flow-through shares

The Company finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory and development activities are renounced to investors in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as other liabilities termed ‘deferred premium on flow-through shares’. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

(s) Earnings per share

Basic earnings per share is calculated by dividing the net earnings or losses attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. The Company calculates the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money stock options and RSAs are used to purchase common shares at average market prices.

4. New accounting policies

Changes in accounting policies

IFRS Interpretations Committee (“IFRIC”) 21, “Levies” is effective January 1, 2014. It clarifies the recognition requirements concerning a liability to pay a levy imposed by a government, other than an income tax. The interpretation clarifies that the obligating event which gives rise to a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. The adoption of this standard does not have any impact on the Company’s consolidated financial statements.

IAS 32, “Financial Instruments: Presentation” was amended to provide further criteria on the legal right and intention to offset financial assets and financial liabilities. The Company has adopted the amended IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The adoption of this standard does not have any impact on the Company’s consolidated financial statements.

IAS 36, "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments impact the Company's disclosures in the notes to the consolidated financial statements in periods when an impairment loss or impairment reversal is recognized.

Future accounting changes

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which replaces IAS 18, "Revenue" and IAS 11, "Construction Contracts". The standard is required to be adopted retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017 with earlier adoption permitted. The Company will adopt this standard on January 1, 2017 and is currently evaluating the impact this standard may have on the consolidated financial statements.

In July 2014, the IASB issued IFRS 9, “Financial Instruments” to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value. As of January 1, 2018, the Company will be required to adopt the standard. The Company is evaluating the impact this standard may have on the consolidated financial statements.

5. Exploration and evaluation assets

		2014		2013
Balance, January 1	**$**	**85,754**	$	113,164
Additions		**15,647**		6,815
Acquisitions		**37,117**		4,852
Dispositions (note 7)		**(6,567)**		(16,250)
Capitalized share-based compensation		**342**		324
Transfers to property, plant and equipment (note 6)		**(22,011)**		(17,552)
Expiries (exploration and evaluation expense)		**(11,376)**		(5,599)
Balance, December 31	**$**	**98,906**	$	85,754

6. Property, plant and equipment

		2014		2013
Cost				
Balance, January 1	**$**	**1,320,834**	$	1,361,885
Additions [(1)]		**296,561**		212,722
Acquisitions		**8,120**		2,183
Dispositions (note 7)		**(318,335)**		(273,983)
Change in asset retirement obligations (note 9)		**26,215**		475
Transfers from exploration and evaluation assets (note 5)		**22,011**		17,552
Balance, December 31	**$**	**1,355,406**	$	1,320,834

(1) The Company spent $15.2 million (2013 - $10.8 million) constructing a compressor station which has been excluded from the depletable base for the depletion calculation.

		2014		2013
Accumulated depletion, depreciation, amortization and impairment				
Balance, January 1	**$**	**541,192**	$	632,706
Depletion and depreciation expense		**89,033**		82,995
Dispositions (note 7)		**(159,071)**		(168,073)
Impairments (reversals)		**59,137**		(6,436)
Balance, December 31	**$**	**530,291**	$	541,192

		2014		2013
Carrying value				
Balance, January 1	**$**	**779,642**	$	729,179
Balance, December 31	**$**	**825,115**	$	779,642

Impairment

At December 31, 2014, there were indicators of impairment in all of the Company's CGUs as a result of declining forward commodity prices for oil and natural gas. An impairment test was performed and resulted in an impairment totaling $43.4 million in the Shallow Gas Alberta and Deep Gas CGU which has been included in depletion, depreciation, amortization and impairment expense in net earnings. The impairment amount was estimated using a fair value less costs to sell calculation based on expected future cash flows generated from proved and probable reserves using pre-tax discount rates ranging from 10% to 15%, based on the independent external reserves report. The following benchmark reference prices were used:

2014 Benchmark reference price forecasts

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Thereafter
WTI (US$/Bbl)[1]	62.50	75.00	80.00	85.00	90.00	95.00	98.54	100.51	102.52	104.57	+2.0%/yr
AECO (Cdn$/MMbtu)	3.31	3.77	4.02	4.27	4.53	4.78	5.03	5.28	5.53	5.71	+2.0%/yr

(1) Price forecast effective January 1, 2015.

In June 2014, the Company recorded an impairment loss on the assets held for sale of $15.8 million as it intended to dispose of certain oil and natural gas properties in Northwest Alberta held within the Company's North Gas CGU and Oil CGU. A sale was determined to be highly probable due to the commitment to a plan to sell, the presence of an active market and the expectation that the sale would be completed within one year of the classification as held for sale. At December 31, 2014, the assets no longer met the above criteria and as a result the Company reclassified the carrying values from assets held for sale back to property, plant and equipment of $25.8 million and asset retirement obligations of $26.5 million respectively. On reclassification as held for use, the assets were remeasured at the lower of their recoverable amount and the carrying amount that would have been recognized had the asset not been classified as held for sale. As a result, an impairment test was performed on these CGUs, however, did not result in an additional impairment charge. The recoverable amount was estimated using a fair value less costs to sell calculation based on expected future cash flows generated from proved and probable reserves using a pre-tax discount rate ranging from 10% to 12%, based on internal reserves report.

At December 31, 2013, the Company reviewed and adjusted its CGUs as a result of changes to the Company's oil and gas property mix and focus areas. The Wapiti Montney play was separated into its own CGU. Certain natural gas CGUs remained unchanged and insignificant remaining oil CGUs were aggregated due to similarities in operations, management and monitoring, product composition and cash inflows.

At December 31, 2013, there were indicators of impairment reversals and impairment due to increases in reserve additions and downward technical reserve revisions. The calculation resulted in $6.0 million impairment reversal in the Wapiti Montney CGU, net of depletion, and has been included as depletion, depreciation, amortization and impairment expense (reversals) in net earnings. An impairment test was also performed on certain of the Company's CGUs but did not result in an impairment charge for those CGUs. The recoverable amount was estimated using a fair value less costs to sell calculation based on expected future cash flows generated from proved and probable reserves using a pre-tax discount rate of 10% to 12%, based on the independent external reserves report and management's estimate of additional fair value from asset development not included in the external reserve report.

2013 Benchmark reference price forecasts

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Thereafter
WTI (US$/Bbl)[1]	97.50	97.50	97.50	97.50	97.50	97.50	98.54	100.51	102.52	104.57	+2%/yr
AECO (Cdn$/MMbtu)	4.03	4.26	4.50	4.74	4.97	5.21	5.33	5.44	5.55	5.66	+2%/yr

(1) Price forecast effective January 1, 2014.

7. Dispositions

	2014	2013
Proceeds from dispositions	**$ 81,550**	$ 30,270
Note receivable	**—**	5,000
Goodwill disposed	**—**	(3,352)
Exploration and evaluation disposed	**(6,567)**	(16,250)
Property, plant and equipment after net accumulated DD&A disposed	**(159,264)**	(105,910)
Asset retirement obligations disposed	**15,598**	36,926
Assets held for sale	**—**	(2,162)
Loss on dispositions	**$ (68,683)**	$ (55,478)

During the fourth quarter of 2014, the Company disposed of oil and natural gas assets in various non-core areas in Northeast British Columbia and Fir and Wapiti Cardium, Alberta for total proceeds, including closing adjustments, of $69.4 million. A loss on sale of $64.6 million was recognized on these dispositions in net earnings.

In August 2014, the Company disposed of certain non-core oil and gas properties in Pembina, Alberta for net proceeds, after closing adjustments, of $3.6 million. A loss on disposal of $10.0 million was recorded in net earnings in the period.

In June 2014, the Company disposed of certain non-core oil and gas properties in Pine Creek, Alberta for net proceeds, after closing adjustments, of $8.6 million. A gain on disposal of $6.0 million was recorded in net earnings in the period.

In December 2013, the Company disposed of certain non-core oil and natural gas properties in the Saskatchewan and Provost areas for cash consideration of $25.2 million and a note receivable of $5.0 million. The note receivable is due in December 2016 with interest accrued at the effective rate of 8%. The loss on disposal of $55.5 million was recorded in net earnings during the period.

8. Long-term debt

At December 31, 2014 the Company had a $300 million extendible revolving term credit facility available from a syndicate of Canadian chartered banks. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. 2014 borrowing costs averaged 3.4% (December 31, 2013 – 3.7%). The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs semi-annually on or before October 31 and April 30. The Company completed the semi-annual review of its borrowing base in October 2014 with its lenders and the lenders approved a revolving extendible credit facility with a maximum borrowing base of $300 million. During the term period, no principal payments would be required until a year after the revolving period matures or April 29, 2016. As at December 31, 2014, the Company had drawn $172.0 million (December 31, 2013 – $nil). The Company is subject to various non-financial covenants under its credit facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2014, the Company was in compliance with all covenants.

9. Asset retirement obligations

The Company's asset retirement obligations are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2014, the estimated total undiscounted amount of cash flows required to settle the asset retirement obligations is $172.6 million after dispositions (December 31, 2013 – $179.1 million), which is estimated to be incurred over the next 51 years. A risk-free rate of 2.3% (December 31, 2013 – 3.2%) and an inflation rate of 2.0% (December 31, 2013 – 2.0%) were used to calculate the net present value of the asset retirement obligations. The increase in estimates of $23.9 million was primarily due to our annual update of costs estimates of $9.6 million and a decrease in the risk-free rate of $14.3 million. A reconciliation of the asset retirement obligations is provided below:

		2014		2013
Balance, January 1	**$**	**106,275**	$	147,759
Accretion expense (note 16)		**2,994**		3,776
Liabilities incurred		**2,324**		1,288
Liabilities disposed (note 7)		**(15,598)**		(36,926)
Change in estimates and discount rate		**23,891**		(813)
Liabilities settled		**(8,579)**		(8,809)
Balance, December 31	**$**	**111,307**	$	106,275

10. Deferred income taxes

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before deferred income tax expense (benefit) as follows:

		2014		2013
Loss before tax	**$**	**(70,713)**	$	(76,460)
Expected tax rate [(1)]		**25.04%**		25.15%
Expected income tax benefit		**(17,707)**		(19,230)
Effect of change in corporate tax rates		**(61)**		(6)
Non-deductible expenses		**1,003**		2,071
Flow-through share renunciations		**4,743**		2,669
Other		**190**		(820)
Total income tax benefit	**$**	**(11,832)**	$	(15,316)

(1) The statutory rate consists of the combined statutory rates for the Company for the years ended December 31, 2014 and 2013. The combined federal and provincial tax rates decreased to 25.04% in 2014 from 25.15% in 2013 primarily due to proportionately more operations being in Alberta in 2014 compared to 2013. In 2014, substantially all our operations are in the province of Alberta.

The significant components of the net deferred income tax asset are as follows:

		2014	2013
Deferred tax liabilities			
Oil and natural gas properties	**$**	**23,461**	$ 46,545
Commodity derivative contracts		**11,821**	—
		35,282	46,545
Deferred tax assets			
Asset retirement obligations		**(27,869)**	(26,730)
Share issue costs		**(1,144)**	(1,568)
Commodity derivative contracts		**—**	(1,716)
Non-capital losses		**(14,410)**	(18,858)
Other		**(525)**	(1,072)
		(43,948)	(49,944)
Net deferred tax (assets) / liabilities	**$**	**(8,666)**	$ (3,399)

A continuity of the net deferred tax liability is detailed in the following tables:

Assets (liabilities)	Balance January 1, 2013	Recognized in profit or loss	Other	Balance, December 31, 2013
Oil and natural gas properties	$ (88,044)	$ 41,499	$ —	$ (46,545)
Asset retirement obligations	37,191	(10,461)	—	26,730
Share issue costs	797	(666)	1,437	1,568
Commodity derivative contracts	644	1,072	—	1,716
Non-capital losses	39,923	(21,065)	—	18,858
Other	(1,220)	4,937	(2,645)	1,072
Total	$ (10,709)	$ 15,316	$ (1,208)	$ 3,399

Assets (liabilities)	Balance, January 1, 2013	Recognized in profit or loss	Other	**Balance, December 31, 2014**
Oil and natural gas properties	$ (46,545)	$ 23,084	$ —	**$ (23,461)**
Asset retirement obligations	26,730	1,139	—	**27,869**
Share issue costs	1,568	(467)	43	**1,144**
Commodity derivative contracts	1,716	(13,537)	—	**(11,821)**
Non-capital losses	18,858	(4,448)	—	**14,410**
Other	1,072	6,061	(6,608)	**525**
Total	$ 3,399	$ 11,832	$ (6,565)	**$ 8,666**

The Company has recognized a net deferred tax asset based on the independently evaluated reserves report as cash flows are expected to be sufficient to realize the deferred tax asset.

11. Share capital

At December 31, 2014, the Company was authorized to issue an unlimited number of voting Common Shares and 1,200,000 non-voting Class B Performance Shares (none of which have been issued).

Common shares

	2014		2013	
	Number	**Amount**	Number	Amount
Balance, January 1	**134,991,488**	**$ 991,489**	118,618,056	$ 882,831
Issued for cash on offering of common shares	**—**	**—**	11,000,000	78,100
Issued for cash on offering of flow-through common shares[1]	**2,360,655**	**25,731**	5,129,000	33,545
Issued for cash on exercise of stock options	**1,220,876**	**9,381**	135,328	688
Contributed surplus transferred on exercise of stock options	**—**	**2,620**	—	236
Conversion of restricted share awards	**164,227**	**703**	109,104	364
Cancellation of shares	**(60,338)**	**(779)**	—	—
Share issue costs, net of deferred tax benefit of $0.04 million (2013 – $1.4 million)	**—**	**(128)**	—	(4,275)
Balance, December 31	**138,676,908**	**$ 1,029,017**	134,991,488	$ 991,489

(1) Net of implied premium of $3.6 million in 2014 and $6.1 million in 2013 on flow-through share price compared to trading price at announcement of equity issuance.

In September 2014, 60,338 common shares were canceled as the sunset clause was reached for shares not deposited in connection with the Plan of Arrangement involving Rider Resources Ltd. which was completed in March 2008. Dividends associated with these common shares were refunded and recorded as a credit to contributed surplus.

In September 2014, pursuant to a private placement, the Company issued 2.4 million common shares on a flow-through basis in respect of Canadian exploration expenses (“CEE”) and Canadian Development expenses (“CDE”) at a price of $13.19 and $11.99 per share respectively for gross proceeds of $29.4 million. The implied premium on the flow-through common shares was determined to be $3.6 million on the date of issue and was recorded as other liabilities. Under the terms of the flow-through share agreements, the Company is committed to spend approximately $17.7 million on qualifying CDE prior to December 31, 2014 and $11.7 million on qualifying CEE prior to December 31, 2015. As at December 31, 2014, the Company had fully spent the qualifying CDE and spent $0.9 million leaving $10.8 million remaining to be spent on qualifying CEE prior to December 31, 2015.

In November 2013, pursuant to a public offering, the Company issued 11.0 million common shares at $7.10 per share for gross proceeds of $78.1 million.

In October 2013, pursuant to a public offering, the Company issued 3.2 million common shares on a flow-through basis in respect of CEE at a price of $8.00 per share for gross proceeds of $25.6 million. Concurrent with the public offering, the Company also completed a private offering of 0.254 million common shares on a flow-through basis in respect of CEE expenses at a price of $8.00 per share and 1.675 million common shares on a flow-through basis in respect of CDE at a price of $7.20 per share for gross proceeds of $14.1 million. The implied premium on the flow-through common shares was determined to be $6.1 million on the date of issue and was recorded as other liabilities. Under the terms of the flow-through share agreements, the Company was committed to spend approximately $12.1 million on qualifying CDE prior to December 31, 2013 and $27.6 million on qualifying CEE prior to December 31, 2014. As at December 31, 2014, the Company had fully spent the qualifying CDE and CEE amounts to fulfill this issuance.

12. Loss per share

The following table summarizes the weighted average common shares used in calculating earnings per share:

(thousands of shares)	**2014**	2013
Weighted average common shares outstanding		
Basic	**136,497**	120,430
Diluted	**136,497**	120,430

For the year ended December 31, 2014 and 2013 all stock options and restricted share awards outstanding were anti-dilutive and were not included in the diluted common share calculation.

13. Share-based compensation

Stock options

The Company has established a stock option plan whereby officers, directors and employees may be granted options to purchase common shares. Options granted vest at the rate of 1/3 per year and expire 2.5 years after the vesting date. The total stock options outstanding plus the Class B Performance Shares cannot exceed 10% of the outstanding common shares. The summary of stock option transactions is as follows:

	2014		2013	
	Number of options	**Weighted Average exercise price**	Number of options	Weighted Average exercise price
Balance, January 1	**7,113,345**	**$ 7.36**	6,917,504	$ 7.93
Granted	**1,627,995**	**10.04**	1,492,085	7.36
Exercised	**(1,220,876)**	**7.68**	(135,328)	5.09
Forfeited	**(583,077)**	**8.33**	(230,568)	6.80
Expired	**(558,834)**	**12.38**	(930,348)	12.09
Balance, December 31	**6,378,553**	**$ 7.45**	7,113,345	$ 7.36
Weighted average share price on date of exercise	**1,220,876**	**$ 10.18**	135,328	$ 7.43

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2014:

	Options outstanding			Options exercisable	
Range of exercise price	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$2.90 to $4.99	1,344,682	1.9	$ 4.48	870,715	$ 4.48
$5.00 to $9.99	4,096,934	2.7	7.64	2,120,080	7.20
$10.00 to $14.00	936,937	2.9	10.89	295,252	11.11
$2.90 to $14.00	**6,378,553**	**2.6**	**$ 7.45**	**3,286,047**	**$ 6.83**

The Company uses the fair value based method for the determination of the share-based compensation costs. The fair value of each option granted during the year was estimated on the date of grant using the Black-Scholes option pricing model.

The weighted average fair value and weighted average assumptions used to fair value the options are as follows:

	2014	2013
Risk-free interest rate (%)	**1.43**	1.5
Expected volatility (%)	**40**	40
Expected life (years)	**4.5**	4.5
Forfeiture rate (%)	**10**	10
Fair value at grant date ($ per option)	**3.50**	2.57

Restricted stock units

The Company has an RSU Incentive Plan for employees and officers. Each RSU entitles participants to receive cash equal to the trading price of the equivalent number of shares of the Company. All RSUs granted vest and become payable within three years after the date the RSUs are issued.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting year. The following table summarizes the change in the number of RSUs:

	2014	2013
Balance, January 1	**1,206,327**	1,178,401
Settled	**(788,089)**	(296,689)
Granted	**168,898**	353,036
Forfeited	**(86,026)**	(28,421)
Balance, December 31	**501,110**	1,206,327

The following table summarizes the change in compensation liability relating to the RSUs:

		2014		2013
Balance, January 1	**$**	**4,172**	$	1,488
Change in accrued compensation liabilities		**(2,115)**		2,684
Balance, December 31	**$**	**2,057**	$	4,172
Compensation liabilities – current (included in accounts payable and accrued liabilities)	**$**	**1,743**	$	3,610
Compensation liabilities – non-current (included in other liabilities)	**$**	**314**	$	562

Restricted share awards

The Company has an RSA Incentive Plan for employees and officers which entitle the employee to receive one common share for each RSA granted upon vesting. The RSAs will vest within three years from the date of grant.

The fair value of RSAs is determined based on the weighted average trading price of the five days preceding the grant date. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant and updated each period. Upon vesting of the RSAs and settlement in common shares, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

The following table summarizes the change in the number of RSAs:

	2014	2013
Balance, January 1	**181,048**	291,230
Settled	**(164,227)**	(109,104)
Granted[1]	**127,221**	—
Forfeited	**(5,861)**	(1,078)
Balance, December 31	**138,181**	181,048

[1] 68,490 of RSAs granted in 2014 are subject to shareholder approval at the 2015 annual general meeting.

The following table summarizes the transactions relating to options, RSUs and RSAs:

	2014				2013			
	Options	**RSU**	**RSA**	**Total**	Options	RSU	RSA	Total
Share-based compensation	**$ 3,286**	**$ (2,215)**	**$ 211**	**$ 1,282**	$ 3,975	$ 2,576	$ 630	$ 7,181
RSU cash paid	**—**	**7,642**	**—**	**7,642**	—	2,200	—	2,200
Total	**$ 3,286**	**$ 5,427**	**$ 211**	**$ 8,924**	$ 3,975	$ 4,776	$ 630	$ 9,381
Capitalized share-based compensation	**$ 237**	**$ 740**	**$ 4**	**$ 981**	$ 205	$ 177	$ 12	$ 394

14. Capital risk management

The Company's objectives when managing capital are: (i) deploy capital to provide an appropriate return on investment to its shareholders; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations; and (iii) maintain a capital structure that provides financial flexibility to execute on strategic opportunities throughout the business cycle.

The Company's strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, long-term debt and working capital. In order to maintain or adjust its capital structure, the Company may issue new shares, raise debt, refinance existing debt and adjust capital spending.

A key measure the Company utilizes in evaluating its capital structure is the ratio of net debt to annualized current quarter funds from operations. The ratio is calculated as net debt, defined as outstanding long-term debt, add accounts payable and accrued liabilities less cash and cash equivalents less accounts receivable and prepaids before current commodity derivative assets and liabilities divided by annualized current quarter funds from operations. Annualized current quarter funds from operations is calculated as current quarter cash flow from operations before asset retirement expenditures and changes in non-cash working capital, annualized for the year. The Company's strategy is to maintain a net debt to annualized current quarter funds from operations ratio of less than 1.5:1. However, in periods of volatile and lower commodity prices, the Company is willing to target a net debt to annualized current quarter funds from operations ratio of less than 2:1. At December 31, 2014, the Company had a ratio of net debt to annualized current quarter funds from operations of 1.3:1 (2013 – 0.6:1). The actual ratio may fluctuate on a quarterly basis above or below our target due to a number of factors including timing of acquisitions, dispositions and commodity prices.

		2014		2013
Long-term debt	$	**171,969**	$	—
Accounts payable and accrued liabilities		**50,969**		79,411
Add (deduct):				
Cash and cash equivalents		**—**		(2,488)
Accounts receivable and prepaids		**(39,168)**		(29,428)
Net debt [1]	$	**183,770**	$	47,495
Annualized current quarter funds from operations [1]		**146,812**		86,132
Net debt to annualized current quarter funds from operations		**1.3**		0.6

(1) Net debt and annualized current quarter funds from operations are considered additional GAAP measures. The Company's calculation of net debt includes long-term debt, add accounts payable and accrued liabilities less cash and cash equivalents less accounts receivable and prepaids before current commodity derivative assets and liabilities. Annualized current quarter funds from operations is calculated as current quarter cash flow from operations before asset retirement expenditures and changes in non-cash working capital, annualized for the year.

In order to maintain a flexible capital structure, during the year the Company completed various property dispositions for proceeds of $81.6 million, issued 2.4 million in flow-through common shares for gross proceeds of $29.4 million which was used to initially pay down its long-term debt and focused its capital program to ensure that capital expenditures were aligned to generate the most value.

The Company's share capital is not subject to external restrictions; however the credit facility borrowing commitment is based on the lender's semi-annual review of the Company's oil and natural gas reserves. The Company is subject to various non-financial covenants under its credit facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2014, the Company was in compliance with all covenants.

15. Risk management activities

(a) Financial instruments

The Company's financial instruments recognized on the statement of financial position consists of cash and cash equivalents, accounts receivable and prepaids, note receivable, commodity derivative contracts, accounts payable and accrued liabilities, compensation liability and long-term debt. The carrying value of the long-term debt approximates its fair value as it bears interest at market rates. Except for the commodity derivative contracts and compensation liability, which are recorded at fair value, carrying values reflect the current fair value of the Company's financial instruments due to their short-term maturities. The estimated fair values of recognized financial instruments have been determined based on quoted market prices when available, or third-party models and valuation methodologies that use observable market data.

The Company classifies fair value measurements according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's cash and cash equivalents are classified as Level 1 and commodity derivative contracts as Level 2. The Company uses third party models and valuation methodologies to determine the fair value of commodity derivative contracts. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

(b) Financial assets and financial liabilities subject to offsetting

The following is a summary of the Company's financial assets and financial liabilities that are subject to offsetting:

	2014			2013		
	Gross financial assets	**Gross financial liabilities**	**Net financial assets**	Gross financial assets	Gross financial liabilities	Net financial liabilities
Current assets (liabilities)	**$ 31,237**	**$ —**	**$ 31,237**	$ 555	$ (3,071)	$ (2,516)
Long-term assets (liabilities)	**15,974**	**—**	**15,974**	—	(4,305)	(4,305)
Net position	**$ 47,211**	**$ —**	**$ 47,211**	$ 555	$ (7,376)	$ (6,821)

(c) Risk management contracts

The following is a summary of financial instruments outstanding as at December 31, 2014:

	Volume (Bbls/d)	**Pricing (Cdn$/Bbl)**	**Premium (Cdn$/Bbl)**	**Remaining term**
WTI crude oil contracts				
Fixed price swap	3,550	$95.10		Jan 1, 2015 - Mar 31, 2015
Fixed price swap	3,217	$96.20		Apr 1, 2015 - Jun 30, 2015
Fixed price swap	3,253	$96.11		Jul 1, 2015 - Sep 30, 2015
Fixed price swap	2,901	$94.98		Oct 1, 2015 - Dec 31, 2015
Fixed price swap	1,250	$96.62		Jan 1, 2016 - Mar 31, 2016
Fixed price swap	1,250	$96.62		Apr 1, 2016 - Jun 30, 2016
Fixed price swap	950	$95.41		Jul 1, 2016 - Sep 30, 2016
Fixed price swap	950	$95.41		Oct 1, 2016 - Dec 31, 2016
Put option	300	$104.52	$4.82	Jan 1, 2015 - Jun 30, 2015
Put option	200	$103.50	$4.90	Jul 1, 2015 - Sep 30, 2015

	Volume (MMbtu/d)	**Pricing (US$/MMbtu)**	**Remaining term**
Nymex natural gas contracts			
NYMEX-AECO basis	5,000	$(0.44)	Jan 1, 2015 - Dec 31, 2015
NYMEX-AECO basis	5,000	$(0.61)	Jan 1, 2016 - Dec 31, 2016
NYMEX-AECO basis	5,000	$(0.70)	Jan 1, 2017 - Dec 31, 2017

Subsequent to December 31, 2014 the following financial instruments have been entered into:

	Volume (Bbls/d)	Pricing (Cdn$/Bbl)	Remaining term
WTI crude oil contracts			
Fixed price swap	250	$76.82	Jan 1, 2016 - Dec 31, 2016

The following is a reconciliation of movement in the fair value of unrealized commodity risk management contracts:

		2014		2013
Fair value of contracts, January 1	**$**	**(6,821)**	$	(1,072)
Change in the fair value of contracts in the year		**45,234**		(12,762)
Fair value of contracts realized in the year		**8,798**		7,013
Fair value of contracts, December 31	**$**	**47,211**	$	(6,821)
Commodity derivative assets – current	**$**	**31,237**	$	(2,516)
Commodity derivative assets – long term	**$**	**15,974**	$	(4,305)

(d) Physical purchase and sale contracts

The following is a summary of physical purchase and sale contracts outstanding as at December 31, 2014:

	Volume (GJ/d)	Pricing (Cdn$/GJ)	Remaining term
AECO natural gas contracts			
Costless collar	3,722	$3.27 - $3.86	Jan 1, 2015 - Mar 31, 2015
Costless collar	2,000	$3.50 - $4.15	Apr 1, 2015 - Jun 30, 2015
Costless collar	12,000	$3.46 - $3.93	Jul 1, 2015 - Sep 30, 2015
Costless collar	12,000	$3.46 - $3.93	Oct 1, 2015 - Dec 31, 2015
Costless collar	10,000	$3.45 - $3.89	Jan 1, 2016 - Mar 31, 2016
Costless collar	5,000	$3.40 - $3.85	Apr 1, 2016 - Jun 30, 2016
Costless collar	5,000	$3.40 - $3.85	Jul 1, 2016 - Sept 30, 2016
Costless collar	5,000	$3.40 - $3.85	Oct 1, 2016 - Dec 31, 2016
Fixed price swap	57,178	$3.73	Jan 1, 2015 - Mar 31, 2015
Fixed price swap	53,308	$3.71	Apr 1, 2015 - Jun 30, 2015
Fixed price swap	53,022	$3.71	Jul 1, 2015 - Sep 30, 2015
Fixed price swap	52,342	$3.69	Oct 1, 2015 - Dec 31, 2015
Fixed price swap	53,000	$3.59	Jan 1, 2016 - Mar 31, 2016
Fixed price swap	38,000	$3.58	Apr 1, 2016 - Jun 30, 2016
Fixed price swap	43,000	$3.58	Jul 1, 2016 - Sep 30, 2016
Fixed price swap	43,000	$3.58	Oct 1, 2016 - Dec 31, 2016
Fixed price swap	25,000	$3.60	Jan 1, 2017 - Mar 31, 2017
Fixed price swap	15,000	$3.58	Apr 1, 2017 - Jun 30, 2017
Fixed price swap	10,000	$3.56	Jul 1, 2017 - Sep 30, 2017
Fixed price swap	8,315	$3.57	Oct 1, 2017 - Dec 31, 2017

Subsequent to December 31, 2014 the following physical purchase and sale contracts have been entered into:

	Volume (GJ/d)	Pricing (Cdn$/GJ)	Remaining term
Natural gas contracts			
Fixed price swap	5,000	$3.12	Apr 1, 2016 - Mar 31, 2017
Fixed price swap	5,000	$3.39	Jan 1, 2017 - Dec 31, 2017

(e) Financial risk management

In the normal course of business, the Company is exposed to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its accounts receivables. Most of the Company's accounts receivable arises from transactions with joint interest partners and oil and natural gas sales with oil and natural gas marketers. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

The carrying amount of note receivable and accounts receivable represents the maximum credit exposure risk to the Company. As at December 31, 2014, the note receivable balance was $5.0 million; the principle amount is due on December 18, 2016 and collection is assessed based on an annual review of the financial condition of the counterparty. The accounts receivable balance was $39.2 million of which $0.1 million of accounts receivable were past due. The Company considers all amounts greater than 90 days past due. These past due accounts receivable are considered to be collectible. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. The Company did not have accounts receivable balances owing from counterparties that constituted more than 10% of the total revenue during the year ended December 31, 2014.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of the actual capital expenditure program, managing maturity profiles of financial assets and financial liabilities, maintaining a revolving credit facility with sufficient capacity, and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meet its financial obligations when due.

The timing of cash flows relating to financial liabilities as at December 31, 2014 is as follows:

	Total	1 year	2 to 3 years	4 to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	**$ 50,969**	$ 50,969	$ —	$ —	$ —
Other liabilities	**2,188**	2,188	—	—	—
Long-term debt	**171,969**	—	171,969	—	—
Total financial liabilities	**$ 225,126**	$ 53,157	$ 171,969	$ —	$ —

(1) Long-term debt is based on a revolving term which is reviewed semi-annually and converts to a 365 day non-revolving facility if not renewed.

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity price risk, currency risk, and interest rate risk. The Company is engaged in oil and gas exploration, development and production activities in Canada and as a result has significant exposure to commodity price risk. The Company has adopted a disciplined commodity price risk management program as part of its overall financial management strategy. The Company considers all of these transactions to be economic hedges but does not designate them as hedges for accounting purposes.

(a) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in commodity prices. The Company manages the risks associated with changes in commodity prices through the use of various financial derivative and physical delivery sales contracts. The financial derivative contracts are considered financial instruments but the physical delivery sales contracts are excluded from the definition of financial instruments. The Company uses financial instruments and physical delivery sales contracts to manage oil and natural gas commodity price risk.

(b) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rate between the Canadian and United States dollars.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2014.

If interest rates increase or decreased by 1% it is estimated that net earnings would increase and or decrease by $1.4 million. This is based on the assumption that the interest rate increase or decrease was in effect at the beginning of the year.

(d) Financial instrument sensitivities

The following table summarizes the effects of movement in commodity prices on net earnings due to changes in the fair value of commodity derivative contracts in place at December 31, 2014. Changes in the fair value generally cannot be extrapolated because the relationship of a change in an assumption to the change in fair value may not be linear.

		2014		2013
Commodity price risk				
Increase in $ WTI – oil $10/Bbl	**$**	**(17,472)**	$	(11,353)
Decrease in $ WTI – oil $10/Bbl		**17,500**		12,454
Increase in $ AECO – gas $0.50/GJ		**(21,976)**		(678)
Decrease in $ AECO – gas $0.50/GJ	**$**	**23,016**	$	678

16. Financing charges

		2014		2013
Interest expense	**$**	**5,672**	$	4,016
Accretion of asset retirement obligations		**2,994**		3,776
Total	**$**	**8,666**	$	7,792

17. Commitments

The following is a summary of the Company's commitments as at December 31, 2014:

		Total		2015		2016		2017		2018		2019		Thereafter
Transportation and processing	**$**	**467,542**	$	29,514	$	49,959	$	53,984	$	52,780	$	49,031	$	232,274
Office lease		**10,537**		3,688		3,702		3,147		—		—		—
Purchase contracts		**7,911**		5,143		2,768		—		—		—		—
Flow-through common shares		**10,794**		10,794		—		—		—		—		—
Total commitments	**$**	**496,784**	$	49,139	$	56,429	$	57,131	$	52,780	$	49,031	$	232,274

Subsequent to December 31, 2014, the Company entered into a take or pay agreement for the transportation of condensate for a period of 10 years. The Company also entered into a take or pay agreement for the transportation of natural gas for a period of 3 years. The additional transportation commitments amounted to $65.7 million.

18. Personnel expenses

Key management personnel include the Board of Directors and executive officers of the Company. The compensation included in general and administrative expenses relating to key management personnel for the year was comprised of the following:

		2014		2013
Salaries, wages and short-term benefits	**$**	**4,154**	$	4,290
Termination and post-employment benefits		**435**		461
Share-based payments [1]		**5,676**		1,350
Total	**$**	**10,265**	$	6,101

(1) Represents the amortization of share-based compensation expense as recorded in the consolidated financial statements.

19. Presentation of expenses

The Company's statement of earnings (loss) and comprehensive income (loss) is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both operating and general and administrative expenses.

The following table details the amount of total employee compensation costs included in the operating, general and administrative expenses and share-based compensation in the statement of earnings (loss) and comprehensive income (loss):

		2014		2013
Operating	**$**	**2,611**	$	3,448
General and administrative		**15,319**		16,240
Share-based compensation		**8,924**		9,381
Total employee compensation costs	**$**	**26,854**	$	29,069