



Q2 2017

Q2 / Second quarter report 2017

	Three Months Ended			Six Months Ended June 30		
	June 30, 2017	March 31, 2017	Change %	2017	2016	Change %
FINANCIAL						
Petroleum and natural gas sales	61,280	76,089	(19)	137,369	84,652	62
Funds flow						
From operations ⁽¹⁾	24,941	36,382	(31)	61,322	18,034	240
Per share - diluted	0.20	0.29	(31)	0.48	0.14	239
Earnings						
Income (loss) before tax	36,030	10,874	231	46,903	(74,455)	163
Per share - diluted	0.29	0.09	232	0.37	(0.59)	163
Income (loss) after tax	24,855	7,694	223	32,548	(56,657)	157
Per share - diluted	0.20	0.06	224	0.26	(0.45)	157
Capital expenditures						
Exploration, development, land, and facility	22,116	41,658	(47)	63,773	23,355	173
Acquisitions (dispositions) and other - net	(108,977)	(675)	16,045	(109,652)	(412)	26,515
Net capital expenditures	(86,861)	40,983	(312)	(45,879)	22,943	(300)
Total assets	1,133,387	1,230,978	(8)	1,133,387	1,237,887	(8)
Net debt ⁽¹⁾	466,875	583,777	(20)	466,875	561,585	(17)
Shareholders' equity	398,421	372,525	7	398,421	398,975	-
Total shares outstanding (thousands)						
- As at end of period ⁽²⁾	126,133	126,106	-	126,133	126,064	-
OPERATING						
Production						
Natural gas (MMcf/d)	84	93	(10)	88	90	(2)
Oil (Bbl/d)	5,221	6,305	(17)	5,760	4,090	41
Condensate (Boe/d)	1,474	2,059	(28)	1,765	1,590	11
Natural gas liquids (Boe/d)	1,043	1,207	(14)	1,125	860	31
Total production (Boe/d @ 6:1)	21,669	25,133	(14)	23,391	21,543	9
Liquids Composition (percentage)	36	38	(6)	37	30	22
Average prices after financial instruments						
Natural gas (\$/Mcf)	3.04	3.63	(16)	3.35	2.10	60
Crude Oil (\$/Bbl)	62.08	62.69	(1)	62.41	44.07	42
Condensate (\$/Boe)	61.86	63.25	(2)	62.67	49.64	26
Natural gas liquids (\$/Boe)	28.57	32.95	(13)	30.91	19.42	59
Average realized price (\$/Boe)	32.28	35.97	(10)	34.25	24.05	42
Drilling activity (gross)						
Gas	4	4	-	8	3	167
Oil	-	6	(100)	6	3	100
Total wells	4	10	(60)	14	6	133

(1) Funds flow from operations and net debt are non-GAAP terms. Please refer to the advisory on Non-GAAP measures below.

(2) Excluding shares held in trust for the benefit of Trilogy's officers and employees under the Company's Share Incentive Plan. Includes Common Shares and Non-voting Shares. Refer to the notes to the interim consolidated financial statements for additional information.

Notes to the Consolidated Interim Financial Statements (unaudited)

June 30, 2017 (in thousand Canadian dollars except as otherwise indicated)

A contractual maturity analysis for Trilogy's financial liabilities as at June 30, 2017 is as follows:

	Within 1 Year	1 to 2 years	3 years	Total
Accounts payable and accrued liabilities	52,562	-	-	52,562
Long-term debt and estimated interest ⁽¹⁾	27,109	182,898	310,875	520,882
Total	79,671	182,898	310,875	573,444

⁽¹⁾ Estimated interest related to the Revolving Credit Facility for future periods was calculated using the weighted average interest rate for the year to date June 30, 2017 applied to the principal balance outstanding as at that date with principal repayment assumed on April 30, 2018. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance with principal repayment assumed on December 13, 2019.

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2016 is as follows:

	Within 1 Year	1 to 2 years	3 years	Total
Accounts payable and accrued liabilities	57,425	-	-	57,425
Derivative financial instruments	7,364	-	-	7,364
Long-term debt and estimated interest(1)	32,562	289,704	321,750	644,016
Total	97,351	289,704	321,750	708,805

⁽¹⁾ Estimated interest related to the Revolving Credit Facility for future periods was calculated using the weighted average interest rate for the year ended December 31, 2016 applied to the principal balance outstanding as at that date with principal repayment assumed on April 30, 2017. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance with principal repayment assumed on December 13, 2019.

Capital Management

The Company's capital structure currently consists of borrowings under its senior notes, Revolving Credit Facility, letters of credit (issued as financial security to third parties) and shareholders' equity. The objectives in managing the capital structure are to:

- utilize an appropriate amount of leverage to maximize return on shareholder equity; and
- provide Trilogy with borrowing capacity and financial flexibility for its operating and capital requirements.

Management and the Board of Directors review and assess the Company's capital structure policy at each regularly scheduled board meeting and at other meetings called for that purpose. The financial strategy may be adjusted based on the current outlook of the underlying business, the capital required to fund the reserves program and the state of the debt and equity capital markets. In order to maintain or adjust the capital structure, the Company may, among other things, issue new shares; issue new debt securities; amend, revise, renew or extend the terms of the existing credit facility; enter into agreements establishing new credit facilities; adjust capital spending, and/or; dispose of assets.

The Company filed, on August 25, 2016, a Canadian base shelf prospectus under which it may raise up to \$300 million of securities within twenty five months from the filing date.

Notes to the Consolidated Interim Financial Statements (unaudited)

June 30, 2017 (in thousand Canadian dollars except as otherwise indicated)

A comparison of Trilogy's debt structure against the committed amount on its Revolving Credit Facility at June 30, 2017 and December 31, 2016 is detailed below:

	As at	
	June 30, 2017	December 31, 2016
Committed amount that can be drawn from the credit facility (Note 13)	285,000	300,000
Outstanding letters of credit	(5,276)	(2,776)
Amount that can be drawn after letters of credit	279,724	297,224
Revolving credit facility	(161,148)	(264,350)
Current liabilities net of current assets	(7,783)	(26,738)
Capacity under revolving credit facility	110,793	6,136

Trilogy's net debt, calculated as its long-term debt plus any net working capital surplus or deficiency, is as follows:

	As at	
	June 30, 2017	December 31, 2016
Revolving credit facility (Note 13)	(161,148)	(264,350)
Senior notes (Note 13)	(297,944)	(297,530)
Working capital deficiency	(7,783)	(26,738)
Net debt⁽¹⁾	(466,875)	(588,618)

⁽¹⁾ Net debt is a Non-GAAP measure

During the three month period ended June 30, 2017, the Company renewed its revolving credit facility agreement with its lenders whereby commitments under the facility remained at \$300 million with the maturity date extending to April 30, 2019. Also, during the same three month period ended June 30, 2017, Trilogy disposed of certain non-core oil and gas properties in the Grande Prairie and Kaybob areas for cash consideration of \$110 million (before customary adjustments). Lender commitments under Trilogy's revolving credit facility were reduced by \$15 million (total lender commitments of \$285 million from \$300 million) and the proceeds were used to repay amounts drawn.

21. Financial Instruments

Set out below are the carrying amounts, by category, of Trilogy's financial assets and liabilities as reflected in the financial statements.

	As at	
	June 30, 2017	December 31, 2016
Financial assets		
Receivables ⁽¹⁾	33,700	37,534
Financial instruments fair valued through profit and loss ⁽²⁾	7,842	-
Financial liabilities		
Other liabilities - non-trading liabilities ^{(1) (3)}	(52,562)	(57,425)
Interest payable on Senior Unsecured Notes	(1,073)	(1,132)
Financial instruments fair valued through profit and loss ⁽²⁾	-	(7,364)
Other liabilities - long-term debt ⁽⁴⁾	(459,092)	(561,880)

⁽¹⁾ Carried at cost which approximates the fair value of the assets and liabilities due to the short-term nature of the accounts.

⁽²⁾ Carried at the estimated fair value of the related financial instruments based on third party quotations.

⁽³⁾ Consists of accounts payable and accrued liabilities.

⁽⁴⁾ The Company's Revolving Credit Facility debt carries interest based on specified benchmark interest rates plus a spread for the Company's own credit risk. The fair value of the Revolving Credit Facility debt approximates its carrying amount due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk. The fair value of the Senior Unsecured Notes is

Notes to the Consolidated Interim Financial Statements (unaudited)

June 30, 2017 (in thousand Canadian dollars except as otherwise indicated)

estimated, based on independent broker quotes, to be 101 percent of face value or \$303 million (December 31, 2016 – 101 percent of face value or \$303 million) - level 3 type – unobservable data inputs.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Input other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – inputs that are not based on observable data.

The following provides a classification summary of Trilogy's financial instruments within the fair value hierarchy as at:

As at June 30, 2017	Derivative financial assets (liabilities) – fair value			
	Level 1	Level 2	Level 3	Total
Natural gas derivative contract	-	1,712	-	1,712
Crude oil derivative contracts	-	6,130	-	6,130
	-	7,842	-	7,842

As at December 31, 2016	Derivative financial assets (liabilities) – fair value			
	Level 1	Level 2	Level 3	Total
Foreign exchange derivative contract	-	-	(59)	(59)
Natural gas derivative contract	-	(1,158)	-	(1,158)
Crude oil derivative contracts	-	(6,147)	-	(6,147)
	-	(7,305)	(59)	(7,364)

At June 30, 2017 the Company had the following outstanding derivative contracts:

Crude Oil

Term	Volume (Bbl/d)	Average NYMEX Price/Bbl
2017 - WTI Collar	500	\$38.00 - \$57.50 USD
2017 - WTI Collar	500	\$42.00 - \$52.90 USD
2017- Sale	1,000	\$54.46 USD
2017- Sale	2,000	\$71.17 CAD

Natural Gas

Term	Volume	Average Price
May - December 2017 - Sale	30,000 (MMBTU/d)	3.39 USD

In the second quarter of 2017, Trilogy realized \$0.5 million in premium and termination settlement receipts on a foreign exchange derivative contract.

The Company classified these financial instruments as fair valued through profit and loss and therefore has recognized the fair value of these financial instruments on its balance sheet. The estimated fair values of these financial instruments are based on quoted prices or, in their absence, third-party market indicators and forecasts.

The changes in the fair value associated with the above financial contracts are recorded as an unrealized gain or loss on financial instruments in the consolidated statement of comprehensive income. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the Consolidated Statement of Comprehensive Income (Loss).

Notes to the Consolidated Interim Financial Statements (unaudited)

June 30, 2017 (in thousand Canadian dollars except as otherwise indicated)

The following table summarizes the fair value as at June 30, 2017 and December 31, 2016, and the change in fair value for the referenced periods:

	Six Months Ended June 30, 2017	Twelve Months Ended December 31, 2016
Derivative asset, beginning	-	19,073
Unrealized change in fair value	7,842	(19,073)
Derivative asset, ending	7,842	-
Derivative liability, beginning	(7,364)	(862)
Unrealized change in fair value	7,364	(6,502)
Derivative liability, ending	-	(7,364)
Unrealized increase (decrease) in fair value for the period	15,206	(25,575)

22. Gain (Loss) on Derivative Financial Instruments

	Three months-ended June 30		Six months-ended June 30	
	2017	2016	2017	2016
Realized gains (losses)				
Crude oil & natural gas	2,377	4,818	7,651	9,637
Foreign exchange	500	99	635	166
Power	-	(478)	-	(888)
Sub-total	2,877	4,439	8,286	8,915
Unrealized gains (losses)				
Crude oil & natural gas	5,764	(6,361)	15,148	(11,328)
Foreign exchange	(344)	41	58	506
Power	-	366	-	405
Sub-total	5,420	(5,954)	15,206	(10,417)
Gain (losses) on derivative financial instruments	8,297	(1,515)	23,492	(1,502)

23. Segment Reporting

The Company has only one segment for performance and evaluation purposes. The following schedule illustrates the types of products from which Trilogy earns its revenue.

	Three months-ended June 30		Six months-ended June 30	
	2017	2016	2017	2016
Petroleum and natural gas sales:				
Natural gas	22,647	10,819	48,616	34,443
Oil	27,621	18,786	62,440	32,804
Condensate	8,299	7,971	20,021	14,363
Other natural gas liquids	2,713	1,549	6,292	3,042
Total petroleum and natural gas sales	61,280	39,125	137,369	84,652

Notes to the Consolidated Interim Financial Statements (unaudited)

June 30, 2017 *(in thousand Canadian dollars except as otherwise indicated)*

24. Subsequent Events

Subsequent to the quarter, Trilogy has announced that it has entered into an agreement to merge with Paramount. Under the merger, Paramount would acquire all of the common shares and non-voting shares of Trilogy not already owned by Paramount in exchange for common shares of Paramount on the basis of one Paramount share for every 3.75 Trilogy shares. The merger is to be effected by way of an arrangement under the Business Corporations Act (Alberta) and is subject to shareholder and court approvals, including minority shareholder approval by the shareholders of each of Trilogy and Paramount, and the fulfilment of other conditions that are typical for transactions of this nature. The special meetings of shareholders are expected to be held in September 2017. If all approvals are received and other closing conditions satisfied, the merger is expected to be completed that month.

The senior unsecured notes of Trilogy will remain outstanding following completion of the merger as the merger will not trigger any change of control payments. Following the merger, the outstanding Trilogy options will entitle the option holders to acquire Paramount shares rather than Trilogy shares at an adjusted exercise price, based on the exchange ratio for the merger and in accordance with the options' original vesting schedules.

Corporate Information

Officers

J.H.T. Riddell

Chief Executive Officer

J.B. Williams

President and Chief Operating Officer

M.G. Kohut

Chief Financial Officer

G.L. Yester

General Counsel & Corporate Secretary

Directors

C.H. Riddell

Chairman of the Board

Calgary, Alberta

J.H.T. Riddell

Chief Executive Officer

Calgary, Alberta

R.K. MacLeod ^{(1)(2)(3)(6) (7)}

Independent Businessman and Corporate Director

Calgary, Alberta

W.A. Gobert ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁵⁾

Independent Businessman

Calgary, Alberta

R.M. MacDonald ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

Independent Businessman and Corporate Director

Calgary, Alberta

E.M. Shier ⁽⁴⁾⁽⁶⁾

General Counsel, Corporate Secretary & Manager, Land

Paramount Resources Ltd.

Calgary, Alberta

D.F. Textor ⁽¹⁾

Portfolio Manager

DFT Energy LP

Locust Valley, New York

Committees of the Board of Directors

- (1) Compensation Committee
- (2) Audit Committee
- (3) Reserves Committee
- (4) Corporate Governance Committee
- (5) Nominating Subcommittee
- (6) Environmental, Health & Safety Committee
- (7) Lead Director

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Auditors

PricewaterhouseCoopers LLP

Calgary, Alberta

Bankers

Bank of Montreal

Calgary, Alberta

The Bank of Nova Scotia

Calgary, Alberta

Royal Bank of Canada

Calgary, Alberta

Canadian Imperial Bank of Commerce

Calgary, Alberta

HSBC Bank Canada

Calgary, Alberta

Alberta Treasury Branches

Calgary, Alberta

The Toronto-Dominion Bank

Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada

Calgary, Alberta / Toronto, Ontario

Stock Exchange Listing

The Toronto Stock Exchange – “TET”