TRILOGY
ENERGY CORP.

Q2 / Second quarter report 2014

	Three Months Ended			Six Months Ended June 30		
	June 30, 2014	**March 31, 2014**	**Change %**	**2014**	**2013**	**Change %**
FINANCIAL						
Petroleum and natural gas sales	**178,097**	157,436	13	**335,533**	302,037	11
Funds flow						
From operations (1)	**102,172**	81,243	26	**183,412**	168,449	9
Per share - diluted	**0.80**	0.64	25	**1.44**	1.41	3
Earnings						
Earnings (loss) before tax	**37,612**	24,396	54	**62,007**	40,169	54
Per share - diluted	**0.30**	0.19	54	**0.49**	0.34	46
Earnings (loss) after tax	**28,234**	17,386	62	**45,619**	29,661	54
Per share - diluted	**0.22**	0.14	62	**0.36**	0.25	45
Dividends declared	**13,211**	13,165	0	**26,377**	24,638	7
Per share	**0.105**	0.105	-	**0.210**	0.210	-
Capital expenditures						
Exploration, development, land, and facility	**111,666**	169,867	(34)	**281,531**	226,492	24
Acquisitions (dispositions) and other - net	**285**	4,438	(94)	**4,724**	198	2,286
Net capital expenditures	**111,951**	174,305	(36)	**286,255**	226,690	26
Total assets	**1,726,495**	1,676,448	3	**1,726,495**	1,509,213	14
Net debt (1)	**750,109**	728,054	3	**750,109**	719,171	4
Shareholders' equity	**692,726**	669,901	3	**692,726**	504,165	37
Total shares outstanding (thousands)						
- As at end of period (2)	**125,755**	125,160	0	**125,755**	117,841	7
OPERATING						
Production						
Natural gas (MMcf/d)	**127**	121	5	**124**	121	2
Oil (Bbl/d)	**9,557**	7,440	28	**8,504**	11,612	(27)
Natural gas liquids (Boe/d)	**5,448**	5,518	(1)	**5,483**	4,857	13
Total production (Boe/d @ 6:1)	**36,187**	33,135	9	**34,670**	36,667	(5)
Average prices before financial instruments						
Natural gas ($/Mcf)	**5.25**	6.19	(15)	**5.71**	3.72	53
Crude Oil ($/Bbl)	**99.78**	91.64	9	**96.24**	84.41	14
Natural gas liquids ($/Boe)	**61.69**	57.56	7	**59.62**	48.85	22
Average realized price	**54.08**	52.79	2	**53.47**	45.51	17
Drilling activity (gross)						
Gas	**12**	11	9	**23**	7	229
Oil	**4**	20	(80)	**24**	38	(37)
Total wells	**16**	31	(48)	**47**	45	4

(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.

REVIEW OF OPERATIONS

Operations Update for the Second Quarter 2014

- Average production of 36,187 Boe/d
- $111.9 million net capital expenditures
- Average operating costs $8.89/Boe
- Operating netback $34.93/Boe
- $102.2 million funds flow from operations ($0.80/share fully diluted)
- 16 (12.2 net) wells drilled, all drilled horizontally with a 100 percent success rate
- Drilled 3 (3.0 net) horizontal oil wells in the Kaybob Montney Oil Pool
- Drilled 3 (3.0 net) horizontal Presley Montney gas wells
- Drilled 8 (5.2 net) horizontal Duvernay shale condensate/oil wells

Production

Trilogy's second quarter 2014 production was 36,187 Boe/d, consisting of 127.1 MMcf/d of natural gas, 9,557 Bbl/d of crude oil and 5,448 Bbl/d of natural gas liquids (41 percent oil and natural gas liquids). This represents a production increase of 9 percent from first quarter 2014 production of 33,135 Boe/d. The increase in daily production volumes reflects the Company's successful drilling and completion program in the first and second quarters of 2014. The successful execution of Trilogy's Montney and Duvernay growth strategy through the second half of 2014 is expected to continue to add to the Company's production base through the balance of the year.

Trilogy's production was impacted throughout the second quarter due to the suspension of the natural gas liquids pipeline that services the southern part of the Kaybob area. This outage prevented Trilogy from bringing on additional liquids-rich gas production through the SemCAMSK3 gas plant. The pipeline is anticipated to be operational in August, at which time Trilogy expects to be able to bring on approximately 15 MMcf/d of natural gas and 1,000 Bbl/d of natural gas liquids from wells that are currently shut in.

Given the successful drilling and completion results to date and assuming no further unplanned plant or pipeline outages in the Kaybob and Grande Prairie areas, Trilogy believes it is on track to reach its previously released annual production guidance of 36,000 Boe/d.

Capital

During the second quarter of 2014, Trilogy spent $111.9 million on drilling, completions, production facilities, corporate and land acquisitions, as compared to $174.3 million spent in the first quarter of 2014 and $57.0 million in the second quarter of 2013. Capital spending as of the end of the second quarter reflects approximately 76 percent of Trilogy's $375 million annual capital budget. This significant increase in second quarter capital spending was directed towards Trilogy's Montney oil and gas pools and its Duvernay operations in areas where the Company has made significant investments in upgrading the roads to become more accessible through break up. This provided the Company with the opportunity to accelerate some of its Duvernay and Montney gas expenditures in order to deliver production results earlier in the year, which should prove beneficial when developing the 2015 capital budget. Budgeted capital expenditures for the balance of the year will be allocated to drilling approximately 10 (10.0 net) Montney oil wells, 2 (1.0 net) Montney liquid-rich gas wells in Presley, 4 (2.0 net) Dunvegan oil wells, 2 (2.0 net) Gething oil wells and 2 (1.3 net) Duvernay wells. A portion of Trilogy's remaining capital will be allocated to maintaining its current land position and participating in those third-party joint venture operations which Trilogy believes are prudent uses of its capital.

In April, Trilogy's banking syndicate increased the Company's borrowing base from $650 million to $725 million based on the strength of Trilogy's positive 2013 reserve additions. This borrowing base increase provides added liquidity to enable Trilogy to execute on its strategy for continued growth into the future. Remaining debt capacity under Trilogy's revolving credit facility as at June 30, 2014 was $261.1 million.

Operating Costs

Operating costs in the second quarter of 2014 were $8.89/Boe, down 27 percent from first quarter 2014 operating costs of $12.23/Boe and down 8 percent from $9.71/Boe as reported for the second quarter of 2013. Operating costs within the second quarter have decreased due to reduced maintenance activity during break up and improved operational efficiencies.

A significant component of Trilogy's operating costs are fixed, and as Trilogy's production base increases, operating costs on a per Boe basis are expected to decrease. Forecasted annual operating costs are expected to average approximately $9.00/Boe.

Profitability

Trilogy's operating netback was $34.93/Boe in the second quarter of 2014, an increase of 13 percent when compared to $30.81/Boe in the first quarter of 2014 and up 17 percent when compared to $29.81/Boe in the second quarter 2013. This quarter-over-quarter increase in operating netback is attributed primarily to a significant increase in oil production and higher realized crude oil prices.

Trilogy's funds flow from operations for the second quarter 2014 were $102.2 million, up 26 percent from $81.2 million in the first quarter 2014 and up 16 percent from $88.2 million in the second quarter 2013.

Drilling Activity

During the second quarter of 2014, Trilogy participated in the drilling of 16 (12.2 net) wells, of which 15 (11.2 net) were located in the Kaybob area and 1 (0.96 net) was in the Grande Prairie area. The application of horizontal drilling and completion technology continued to be an important factor in Trilogy's success in the second quarter, as all 16 wells drilled during the quarter were drilled horizontally. Results from the drilling and completion programs to date have been very positive, resulting in 4 (3.96 net) oil wells and 12 (8.2 net) liquid-rich natural gas wells, for an overall success rate of 100 percent. Trilogy believes this high success rate reflects its expertise in the execution of its development and exploitation strategies and the high quality of its drilling inventory. Trilogy intends to continue to target crude oil and liquids-rich natural gas prospects in order to maximize investment returns. The majority of Trilogy's drilling operations in the second quarter targeted Montney crude oil and liquids-rich gas prospects (6.0 net wells) and Duvernay oil/condensate locations (5.2 net wells).

Operating Area Updates

Kaybob

Trilogy's drilling operations during the second quarter of this year were primarily focused in the Kaybob area, where Trilogy participated in the drilling of 15 (11.2 net) wells. All of these wells were drilled horizontally into the Montney and Duvernay formations to target oil, condensate and liquids-rich natural gas. Trilogy continues to evaluate the productivity, reserve potential and economics of all wells drilled in the region in order to maximize the development potential of its acreage. Additional formations that are currently being evaluated and developed by industry partners in the area include the Cardium, Dunvegan, Notikewin, Falher and Bluesky formations.

Throughout the balance of the year, Trilogy plans to continue to focus capital spending on oil, condensate and liquids-rich gas plays in the Gething, Montney and Duvernay formations where the Company has developed the expertise to find, develop and produce the reserves with very attractive economic returns. Trilogy's land base also provides the option to pursue relatively low liquid content gas prospects should economics so dictate, thereby providing Trilogy with flexibility to generate better potential returns for its shareholders. Trilogy believes its large land base together with its substantial producing infrastructure in the Kaybob area should afford development opportunities for the next decade.

Kaybob Montney Oil Development

During the second quarter, Trilogy drilled 3 wells to further develop the Kaybob Montney oil pool prior to spring break up, bringing the total number of wells drilled into the pool to 99. Trilogy has begun its summer drilling operations and plans to drill approximately 10 additional wells into the pool in the second half of the year. Production from the pool averaged approximately 11,550 Boe/d for the second quarter (7,290 Bbl/d of crude oil and natural gas liquids and 25.6 MMcf/d of natural gas).

For the second quarter of 2014, Trilogy's operating income for the Kaybob Montney oil pool was $55.53/Boe and accounted for approximately 32 percent of the Company's quarterly production and 49 percent of the Company's quarterly sales revenue. Production declined through most of the first quarter as a result of reduced capital spending in the fourth quarter of 2013; however, many of the wells that were drilled in the first quarter started to come on production in March and added to second quarter production growth.

Throughout 2014, Trilogy will capitalize on the investments it has made in its producing oil infrastructure over the previous three years. Trilogy believes that these investments provide an opportunity for the Company to grow Montney crude oil production from this development to as much as 12,000 Bbl/d of crude oil and 30 MMcf/d of natural gas, with the production infrastructure that is currently in place.

Presley Montney Gas Development

Trilogy's capital budget for 2014 provided for 8 (7.5 net) horizontal Montney gas wells to be drilled throughout the year. However, with the increase in natural gas prices in the first quarter, Trilogy accelerated some of the third and fourth quarter drilling and completion operations into the first and second quarters. In total, Trilogy drilled 5 (4.5 net) wells during the first quarter and 3 (3.0 net) wells in the second quarter into the Presley Montney gas pool. This provides Trilogy with the opportunity to drill additional wells into the Presley gas property in the second half of the year if commodity prices support capital reallocation or increased capital spending.

Trilogy drilled a 4 (4.0 net) well pad through the first quarter, rig releasing the fourth well in early April. The 4 wells were then completed in mid-April and brought on production on April 23, 2014. Trilogy estimates that capital costs were reduced by approximately $0.5 million per well as a result of the efficiencies obtained through pad drilling and completion operations. This four well pad has averaged 18 MMcf/d through 63 producing days in the second quarter. Trilogy is pleased with the continuing positive results from the pool and is well positioned to accelerate production growth with the existing infrastructure in the area.

Production from the southern Kaybob area was curtailed as the natural gas liquids pipeline from the SemCAMS K3 gas plant was partially exposed during spring run-off and was subsequently suspended on April 25, 2014. The pipeline will remain suspended until surface conditions are dry enough for the operator to replace the pipeline to resume safe operating conditions. The pipeline is anticipated to be operational in August at which time Trilogy expects to be in a position to increase its natural gas and natural gas liquids production that flows through the SemCAMS K3 gas plant. Trilogy has approximately 20 MMcf/d and 1,400 Boe/d of natural gas liquids from the Montney and Duvernay that will remain shut in until this natural gas liquids transportation capacity is restored.

Trilogy's operating income for this property improved from $20.82/Boe in 2013 to $33.35/Boe in the first quarter of 2014, and then decreased to $27.27 /Boe in the second quarter, reflecting the decrease in natural gas prices during that quarter. Trilogy will continue to monitor commodity prices to ensure that capital is being allocated to higher rate of return projects.

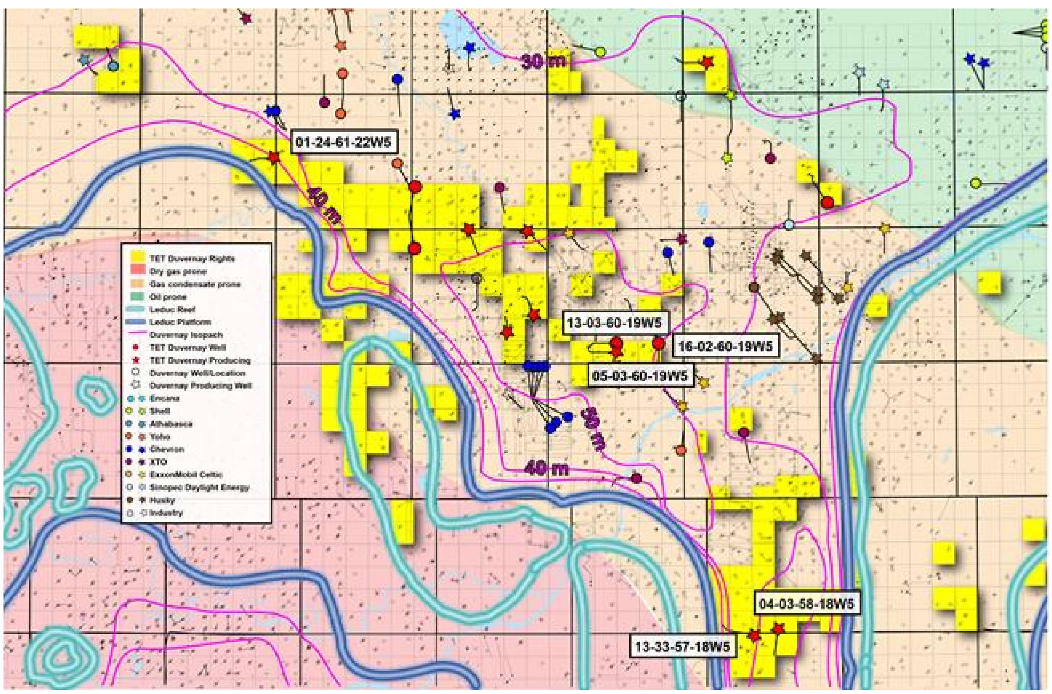
Duvernay Shale Development

Trilogy has budgeted $150 million towards Duvernay projects in 2014. Maintaining Duvernay acreage set to expire in 2014 will require approximately $100 million with the drilling of 6 to 7 net wells and approximately $50 million allocated to non-operated joint interest properties. During the first quarter of 2014, Trilogy participated in the drilling of 2 (1.33 net) horizontal Duvernay wells and the completion of two horizontal wells that were drilled in 2013. Duvernay drilling operations continued through the second quarter with the drilling of 8 (5.2 net) horizontal wells, of which 4 (4.0 net) wells were operated by Trilogy and the remaining 4 (1.2 net) wells were operated by a third party.

The wells at 1-24-61-22W5 (the "1-24 well") and 13-33-57-18W5 (the "13-33 well") were drilled in 2013, then completed and tied in during the first and second quarters of 2014. The 1-24 well has been producing to the Bigstone gas plant at restricted rates between 3 to 5 MMcf/d since March 31, 2014. The 13-33 well has been shut in since its flow test, as it is tied into the SemCAMS K3 gas plant which currently cannot process any additional liquids-rich gas production due to the suspension of the natural gas liquids pipeline leaving the plant. Over its 5.5 day production test, the 13-33 well flowed at rates of up to 7.2 MMcf/d of natural gas and970 Bbl/d of primarily load water. at a flowing tubing pressure of approximately 27 Mpa up a 2 7/8 inch production tubing over the final 36 hours of the test. The 13-33 well is expected to be on production in August of this year, once ground conditions permit access to the area to enable the operator to replace the pipeline with minimal environmental impact.

	Cumulative Gas MMcf	Cumulative Condensate MBbl	Average Gas Rate MMcf/d	Average Condensate Rate Bbl/d	Tubing Pressure MPa	Flowing Time Days	On Production Date
13-33-57-18W5	32	-	5.4	-	27	6	Test data*
1-24-61-22W5	178	4.3	2.7	65	2.8	65	April 7, 2014

*See "Well Test Data" within the Oil and Gas Advisory Section of Trilogy's Q2 2014 MD&A

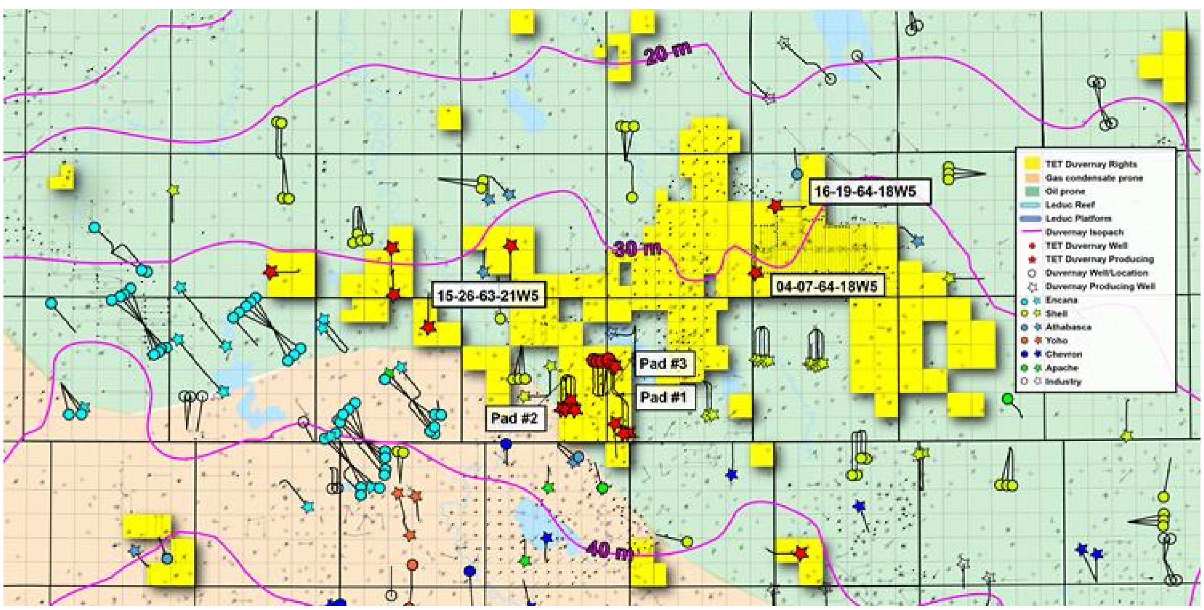


Also in the first quarter, Trilogy drilled the 15-26-63-21W5 ("15-26 well") to a total depth of 5,150 meters with a 1,944 meter horizontal lateral in the Duvernay shale. The well was fracture stimulated in 96 perforation intervals in 21 separate stages using approximately 182,100 barrels of water and 2,900 tonnes of proppant sand. The well was placed on production April 18 and has produced a total of 169 MMcf of gas and 59.5 MBbls of 48 degree API condensate in 103 producing days up 2 7/8 inch production tubing at approximately 20 MPa flowing tubing pressure. Trilogy will continue to monitor the production from this well and offsetting wells to formulate a Duvernay development plan for the area.

	Cumulative Gas MMcf	Cumulative Condensate MBbl	Average Gas Rate MMcf/d	Average Condensate Rate Bbl/d	Condensate Gas Ratio Bbl/MMcf	Tubing Pressure MPa	Flowing Time Days
15-26-63-21W5	169	59.5	1.7	580	352	20.2	103

In the first quarter, Trilogy participated for its 33.33 percent working interest in a non-operated well drilled to a bottom hole location at 16-2-60-19W5 (“16-2 well”). The well was drilled to a total depth of 4,710 meters, with a horizontal lateral in the Duvernay of approximately 1,300 meters. The horizontal lateral was fracture stimulated in 60 perforated intervals in 12 separate stages. During the flow test, the well flowed at rates of up to 3.2 MMcf/d of natural gas and approximately 80 Bbl/MMcf of condensate and recovering 9,300 barrels of load fluid, at a flowing tubing pressure of approximately 5.8 Mpa up 2 3/8 inch production tubing. The well was brought on production July 21, 2014 and over a 6 day producing period the well has averaged 2.6 MMcf/d and approximately 250 Bbl/d of condensate (approximate yield of 100 Bbl/MMcf) at a flowing tubing pressure of 3.4 MPa through the SemCAMS Kaybob Amalgamated gas plant.

	Cumulative Gas MMcf	Cumulative Condensate MBbl	Average Gas Rate MMcf/d	Average Condensate Rate Bbl/d	Condensate Gas Ratio Bbl/MMcf	Tubing Pressure MPa	Flowing Time Days
16-2-60-19W5	16	1.5	2.6	250	100	3.4	6



Trilogy drilled 2 (2.0 net) horizontal Duvernay wells beneath its Kaybob Montney oil pool in the second quarter. The first well was drilled to a bottom hole location at 16-19-64-18W5 (“16-19 well”) and was rig released on April 7, 2014. The second well was drilled to a bottom hole location at 4-7-64-18W5 (“4-7 well”) and was rig released on May 20, 2014. The 16-19 well was perforated in 90 intervals along the 1,780 meter lateral and then fracture stimulated in 19 separate stages. After the bridge plugs were drilled out, the well was flow tested and placed on production May 26, 2014 and has produced 19.3 MBbl of 45 degree API oil in 62 producing days. The 4-7 well was perforated in 84 intervals (18 stages) along its 1,664 meter lateral and subsequent to the bridge plugs being drilled out, it was flow tested and placed on production June 23, 2014 The 4-7 well has produced 10.4 MBbl of 46 degree API oil in 36 producing days. Both wells benefitted from being drilled from surface leases that were constructed for the Kaybob Montney oil pool and will produce into the oil and natural gas gathering systems that were constructed for the Montney oil pool. Trilogy expects that the production from these wells will stabilize over the next few months and that the oil to gas ratios will stabilize in the 300-500 Bbl/MMcf range. The Company will continue to evaluate well economics, well spacing, completion optimization and estimated ultimate recoverable reserves per well to determine a development strategy for the area.

	Cumulative Oil MBbl	Cumulative Gas MMcf	Average Oil Rate Bbl/d	Average Gas Rate Mcf/d	Tubing Pressure MPa	Flowing Time Days	On Production Date
16-19-64-18W5	19.3	42.3	309	678	4.5	62	May 26, 2014
4-7-64-18W5	10.4	34.0	286	936	6.7	36	June 23, 2014

Trilogy drilled its third Duvernay well of the second quarter to a bottom hole location at 13-3-60-19W5 ("13-3 well"). The 13-3 well was horizontally drilled 650 meters north and parallel to the 5-3-60-19W5 horizontal Duvernay well ("5-3 well"), which was rig released in April, 2012 and has produced 1.1 Bcf of natural gas and 89 MBbls of condensate in approximately 20 months of production. The 13-3 well was drilled to evaluate the change in productivity and ultimate recoverable reserves given an increase from 31 perforated intervals over 16 separate stages in the 5-3 well versus 98 perforated intervals in 20 separate stages in the 13-3 well, while maintaining other variables, such as pay thickness, reservoir pressure and condensate to gas ratio, constant. It is expected that with 6 to 12 months of production history, Trilogy should be in a position to determine the relative change in production and reserve potential given the increase in fracture stimulation intensity. The 13-3 well is approximately 2 miles west and perpendicular to the 16-2 well that Trilogy participated in during the first quarter and which came on stream in June 2014.

The 13-3 well was fracture stimulated in July 2014 and was flow tested over a 7 day period, flowing at rates of up to 4.0 MMcf/d of natural gas and 40 Bbl/d of 53 degree API condensate, at 25 MPa flowing pressure up a 2 7/8 inch production tubing, while producing 2,000 Bbl/d of load water. Duvernay wells typically recover approximately 15 to 20 percent of the load water used to stimulate the well. With time, flow-back of load water declines, allowing the well to flow at higher gas rates and pressure and typically higher condensate yield. The well was brought back on production on July 29, 2014, and it is expected that load water flow rates will decline over the next month while at the same time the condensate rate will increase.

	Cumulative Gas MMcf	Cumulative Condensate MBbl	Average Gas Rate MMcf/d	Average Condensate Rate Bbl/d	Condensate Gas Ratio Bbl/MMcf	Tubing Pressure MPa	Flowing Time Days
13-3-60-19W5	7.5	-	1.2	-	-	25.7	7*

*See "Test Data" within the Oil and Gas Advisory Section of Trilogy's Q2 2014 MD&A

The fourth Trilogy-operated well drilled during the second quarter was at 4-3-58-18W5 (the "4-3 well"), which is approximately one mile east of the 13-33 well Trilogy completed in the first quarter. Trilogy expects to bring the 4-3 well on production in August 2014 when the natural gas liquids pipeline to the SemCAMS K3 Plant is replaced. Based on the flow test data from the 13-33 well, Trilogy elected to drill the 4-3 well to preserve the remaining expiring acreage offsetting the 13-33 and 4-3 wells. The 4-3 well is expected to be completed in the third quarter of 2014 if weather conditions permit access into the area. Trilogy will continue to evaluate completion techniques to ensure that the well is completed to maximize production, recoverable reserves and condensate recovery.

Trilogy also participated for its 30 percent working interest in a non-operated 4 (1.2 net) well Duvernay pad in the Kaybob area. This will be the third multi-well Duvernay pad in which Trilogy has participated for its 30 percent working interest. The pad is located between the two previous four well pads drilled in 2013 and, as a result, completion and production results are not expected to vary materially when compared to the two offsetting pads. The wells are being completed early in the third quarter with production to be added later in the third quarter of 2014. The first two multi-well Duvernay pads that Trilogy participated in are as follows:

	Cumulative Oil MBbl	Cumulative Gas MMcf	Average Oil Rate Bbl/d	Average Gas Rate MMcf/d	Oil to Gas ratio Bbl /MMcf	Flowing Time months	On Production Date
Pad #1 (4 wells)	262	1,018	318	1.23	257	9	September 2013
Pad #2 (4 wells)	157	643	301	1.23	245	7	January 2014

Individual wells will typically have higher drilling and completion costs when compared to wells drilled from multi-well pads, where fixed costs can be spread over more wells and operational efficiencies can be achieved. However, subsequent wells on the original single well pads should be lower in cost as they will benefit from the roads, surface leases and pipelines that were constructed for the first well. Trilogy anticipates drilling and completion costs for multi-well pads should be in the range of $10-$13 million per well, while single well pads would be in the $13 to $15 million range, depending on surface conditions, length of new roads and pipelines, and length of lateral and number of fracture stimulations in the well bore, among other variables.

Given current land tenure regulations, Trilogy expects the capital allocation required to manage Duvernay land expiries will be approximately $100 million again in 2015. Capital allocations for expiries in 2014 and 2015 could change with continued success in the Duvernay and changes to applicable land tenure regulations.

Trilogy is encouraged with the continued progress that has been made by industry over the past three years with respect to the understanding and development of the Duvernay play. The evolution of drilling, completion and production techniques has led to increasingly positive results in recent wells. The continued advancements in Duvernay shale completion techniques have provided for improved initial production rates and what is expected to be greater ultimate recoverable reserves.

Gething Oil Development

As a follow up to the horizontal Gething oil well Trilogy drilled at 10-17-63-19W5 (the “10-17 well”) in the first quarter, Trilogy has drilled an offsetting well to a bottom hole location at 7-17-63-19W5 (the “7-17 well”). The 7-17well was rig released on July 17, 2014 and is expected to be completed and tested during the third quarter. As of the end of July, the 10-17 well has produced approximately 69 MBbls of oil and 130 MMcf of natural gas since coming on production April 7, 2014. Given positive completion results on the 7-17 well, Trilogy plans to drill a third horizontal well into the pool to test the production potential of the Gething formation one mile to the north.

	Cumulative Oil MBbl	Cumulative Gas MMcf	Average Oil Rate Bbl/d	Average Gas Rate MMcf/d	Tubing Pressure MPa	Flowing Time Days	On Production Date
10-17-63-19W5	68.5	130	698	1.3	1.2	98	April 7,2014

Dunvegan Oil Development

In 2014, Trilogy plans to drill 5 (2.8 net) wells, with 1 (0.17 net) well having been drilled in the first quarter and the balance to be drilled in the third and fourth quarters of the year. Trilogy is participating in 1 (0.56 net) well that was spud subsequent to the end of the second quarter, with completion results to follow in August. Initial production results from Dunvegan wells appear to vary with reservoir quality, reservoir thickness, the areal extent of the reservoir and horizontal wellbore length, as well as formation pressure gradients and reservoir fluid properties. Trilogy will continue to be selective on which non-operated wells it participates in, in an effort to maximize returns on the capital invested. However budget plans remain contingent on confirming that the Dunvegan play continues to generate rates of return that are similar to the other plays where capital is being allocated.

Grande Prairie

During the first quarter of 2014, Trilogy drilled 1 (0.96 net) horizontal Nikanassin oil well at 8-25-72-9W6, followed by another successful horizontal Nikanassin oil well being drilled through the second quarter at 7-25-72-9W6 (“7-25 well”), for a total of 4 horizontal Nikanassin oil wells drilled into the pool to date. Production from the pool was delayed as the Wembley oil battery at 9-24-72-9W6 was expanded from 1,000 Bbl/d of processing capacity to 2,000 Bbl/d of capacity. Construction was completed in March and the facility was commissioned on March 14, 2014. However, turnaround at the Sexsmith and Wembley gas plants, which processes the solution gas from the oil pool, caused additional down time in April through June.

The 7-25 well averaged approximately 400 Bbl/d of oil since production began on June 7, 2014, producing 8.4 MBbl of oil in 3 weeks of production. After being shut in to run a bottom hole pump and rods and for the installation of the pump jack, the well was brought back on production July 29, 2014.

	Cumulative Oil MBbl	Cumulative Gas MMcf	Average Oil Rate Bbl/d	Average Gas Rate Mcf/d	Tubing Pressure MPa	Flowing Time Days	On Production Date
8-25-72-9W6	26	86	290	925	1.7	87	Mar. 30, 2014
7-25-72-9W6	10	14	370	500	1.0	27	June 7, 2014

Production from the Company’s Grande Prairie properties during the second quarter averaged 1,967 Boe/d, and is anticipated to increase as shut in production and production from the two new wells drilled during the first and second quarters continue to add to daily production rates. With the recent production additions and barring any unforeseen plant outages or production restrictions, Trilogy has forecast that 2014 production from the Grande Prairie area should average approximately 2,500 Boe/d.

Risk Management

Trilogy’s Management and Board of Directors believe that hedging a portion of production is prudent to support the Corporation’s dividend policy and capital spending programs. Trilogy currently has 4,000 Bbl/d of crude oil hedged for the balance of the year at $92.88 US/Bbl WTI and 20,000 GJ/d of natural gas at $4.45/GJ for the period July through October 2014. Trilogy will continue to evaluate opportunities to hedge oil and natural gas production, to help ensure the realization of sufficient cash flow to grow its assets. A summary of Trilogy’s hedging contracts are available in notes 19 and 20 of the Interim Consolidated Financial Statements.

Outlook

Trilogy has continued to develop its land position and expand on its technical expertise in large, tight, liquids-rich gas and oil resource plays in the Deep Basin. The Company believes that it has accumulated a large inventory of high quality horizontal drilling prospects that should provide the opportunity to grow annual production, replace produced reserves and maintain a meaningful dividend for its shareholders. Trilogy believes it is positioned at the end of the second quarter to meet its annual guidance for 2014 as follows:

- Average production 36,000 Boe/d (~45% oil and NGLs)

- Average operating costs $9.00 /Boe
- Capital expenditures $375 million

Trilogy's net debt typically peaks in the second quarter of each year due to the fact that over 75 percent of its annual capital expenditures are incurred during the first half of the year. Trilogy is well positioned with ample debt capacity from its revolving credit facility which recently increased to $725 million. Net debt is expected to be reduced through the balance of the year from increased operational cash flow from the Company's producing assets and through continued asset development.

In the current natural gas and crude oil commodity price environment, Trilogy expects to manage its balance sheet through production replacement, prudent asset management and the continued control over a significant portion of its operations. As a growth-oriented corporation, Trilogy must remain flexible in order to respond to changes in commodity prices. The remainder of 2014 may finally see some stability in natural gas prices as supply and demand forces in western Canada natural gas markets continue to balance. Trilogy believes it can manage its assets prudently through the year as its production base trends to a higher oil and natural gas liquids composition. Trilogy is confident in its strategy, its high quality assets and the proven expertise of its employees.

Certain statements in this Review of Operations constitute forward-looking statements under applicable securities legislation. Please refer to the attached Management's Discussion and Analysis for advisories on forward-looking statements and the assumptions, risk and uncertainties related to forward-looking information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") for the three and six months ended June 30, 2014, and should be read in conjunction with the Company's interim consolidated financial statements and related notes for the same three and six months ended, (the "Interim Financial Statements) and its annual consolidated financial statements and MD&A for the year-ended December 31, 2013. The Interim Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of July 30, 2014.

Financial and Operating Highlights

- Reported sales volumes for the second quarter of 2014 were 9 percent higher at 36,187 Boe/d as compared to 33,135 Boe/d for the previous quarter.
- Second quarter oil sales volumes increased 28 percent to 9,557 Bbl/d from 7,440 Bbl/d in the previous quarter. Oil and natural gas liquids sales volumes represented 41 percent of total sales volumes in the quarter as compared to 39 percent in the prior quarter.
- Operating expenditures decreased 20 percent quarter over quarter from $36.5 million in the first quarter to $29.3 in the second quarter. On a per unit of production basis, operating costs decreased from $12.23/Boe in the first quarter to $8.89/Boe in the second quarter.
- Net capital expenditures totaled $111.9 million as compared to $174.3 million for the prior quarter and $57 million for the second quarter of 2013.
- Funds flow from operations [(1)] increased 26 percent to $102.2 million as compared to $81.2 million for the previous quarter (Q2 2013 -$88.1 million).
- In total 16 (8.2 net) wells were drilled in the quarter as compared to 31 (24.1 net) wells drilled in the prior quarter and 10 (8.1 net) wells in the second quarter of 2013.
- Positive Duvernay drilling and completion results for the 8 (5.2 net) horizontal wells drilled in the Kaybob area.
- Remaining debt capacity under Trilogy's revolving credit facility as at June 30, 2014 was $261.1 million.
- Dividends declared to Shareholders totaled $13.2 million or 15 percent of cash flow from operating activities (prior quarter – $13.2 million or 17 percent).

(1) Refer to Non-GAAP measures in the MD&A

Business Environment and Economic Conditions

Significant draws on gas storage levels during the first quarter of 2014 in the United States and Canada left gas inventories below 5-year averages, the effect of which strengthened gas prices and Trilogy's gas revenue significantly for the first quarter. The large storage draws were mostly a function of extreme and prolonged cold weather for this same period throughout much of North America. Gas prices in Canada softened in the second quarter as the market perceived the imbalance to be temporary in nature. Trilogy remains cautiously optimistic that gas prices will remain in-line with current prices through 2014.

Oil and natural gas liquid prices strengthened throughout the second quarter; however, they have since weakened in July.

Trilogy expects to continue profitably exploiting its current land base, focusing on plays that meet its investment return criteria at current commodity prices, growing production, and paying a meaningful dividend to Shareholders. Trilogy is confident in the success of its business model and its ability to generate long-term Shareholder value.

The following table summarizes the key commodity price benchmarks for the following periods:

	Q2 2014	Q1 2014	Q2 2013	YTD 2014	YTD 2013
Crude Oil					
West Texas Intermediate monthly average (U.S.$/Bbl)	**102.96**	**98.68**	**94.29**	**100.82**	94.32
Edmonton Par monthly average (Cdn$/Bbl)	**106.67**	**100.18**	**92.94**	**103.42**	90.80
Natural Gas					
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**4.59**	**4.73**	**3.98**	**4.66**	3.66
AECO monthly average (Cdn$/GJ)	**4.71**	**5.63**	**3.49**	**5.17**	3.28
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.07**	**1.10**	**1.05**	**1.07**	1.05

Business Overview, Strategy and Key Performance Drivers

Trilogy is a growing petroleum and natural gas-focused Canadian energy corporation that actively develops, produces and sells natural gas, crude oil and natural gas liquids. Trilogy's geographically concentrated assets are primarily high working interest properties that provide abundant low risk infill drilling opportunities and good access to infrastructure and processing facilities, many of which are operated and controlled by Trilogy. The Company continues to focus its exploitation efforts on play types with better economics, including those that contain oil and natural gas liquids and which utilize horizontal drilling and multi-stage fracture completion techniques.

Trilogy's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, the effectiveness of the Company's approach to managing commodity price volatility, capital spending allocations, Trilogy's ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to, average production per day, average realized prices, average operating costs per unit of production and average annual finding and development cost per unit of reserve additions. Disclosure of these key performance measures can be found in this MD&A and/or previous interim or annual MD&A disclosures.

Results of Operations

Operating Results Summary

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2014	Three Months Ended March 31, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Operating income[1]	**120,336**	97,454	100,792	**217,788**	192,826
Other income	**80**	384	160	**464**	371
Realized financial instrument gains (losses) [2]	**(5,091)**	(2,775)	1,047	**(7,866)**	1,641
Actual decommissioning and restoration costs	**(315)**	(3,189)	(1,064)	**(3,504)**	(1,931)
Operating netback[1]	**115,010**	91,874	100,935	**206,882**	192,907
Interest and financing charges[3]	**(9,432)**	(8,647)	(10,158)	**(18,080)**	(19,542)
General and administrative expenses	**(3,406)**	(1,984)	(2,617)	**(5,390)**	(4,916)
Funds flow from operations[1]	**102,172**	81,243	88,160	**183,412**	168,449
Non-cash items:					
Depletion, depreciation, and impairments	**(55,905)**	(50,418)	(59,223)	**(106,323)**	(113,827)
Unrealized financial instrument gains (losses)[2]	**(1,345)**	(1,591)	4,503	**(2,936)**	(1,285)
Share based compensation	**(4,542)**	(3,842)	(5,526)	**(8,384)**	(10,176)
Exploration expenditures[4]	**(482)**	(2,284)	(859)	**(2,766)**	(1,253)
Amortization of financing fees	**(419)**	(373)	(851)	**(792)**	(1,165)
Other gains (losses)	**(72)**	(239)	(301)	**(311)**	(273)
Accretion on decommissioning and restoration liability[5]	**(1,235)**	1,699	(252)	**464**	(678)
Deferred income tax recovery (expense)	**(9,378)**	(7,010)	(5,809)	**(16,388)**	(10,508)
Unrealized foreign exchange gains and other	**(560)**	202	175	**(357)**	377
Profit (loss) and comprehensive income	**28,234**	17,386	20,017	**45,619**	29,661

(1) Refer to the advisory on Non-GAAP measures at the end of this MD&A

(2) See Risk Management section in this MD&A

(3) Excludes amortization of financing fees

(4) Includes costs associated with impairments, geological and geophysical and expired mineral lease costs

(5) Equals the accretion in excess of or below actual amounts paid on decommissioning and restoration activities in the period

Funds Flow from Operations

Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended June 30, 2014	March 31, 2014	June 30, 2013	Six Months Ended June 30, 2014	June 30, 2013
Sales	**54.08**	52.79	47.07	**53.47**	45.51
Transportation costs	**(1.52)**	(1.49)	(1.38)	**(1.50)**	(1.32)
Royalties	**(7.13)**	(6.40)	(6.21)	**(6.78)**	(5.96)
Operating costs	**(8.89)**	(12.23)	(9.71)	**(10.48)**	(9.18)
Operating income[1]	**36.54**	32.68	29.77	**34.71**	29.05
Other income	**0.02**	0.13	0.05	**0.07**	0.06
Realized financial instruments losses [2]	**(1.55)**	(0.93)	0.31	**(1.25)**	0.25
Actual decommissioning and restoration costs	**(0.10)**	(1.07)	(0.31)	**(0.56)**	(0.29)
Operating netback[1]	**34.93**	30.81	29.81	**32.97**	29.07
Interest and financing charges[3]	**(2.86)**	(2.90)	(3.00)	**(2.88)**	(2.94)
General and administrative expenses	**(1.03)**	(0.67)	(0.77)	**(0.86)**	(0.74)
Funds flow from operations[1]	**31.03**	27.24	26.04	**29.23**	25.38

(1) Refer to the advisory on Non-GAAP measures at the end of this MD&A

(2) See Risk Management section in this MD&A

(3) Excludes amortization of financing fees

Operating Income Items

Second Quarter 2014 vs. First Quarter 2014			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**Q2 2014**	**Q1 2014**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**127,097**	121,062	6,035	5
Oil (Bbl/d)	**9,557**	7,440	2,117	28
Natural gas liquids (Boe/d)	**5,448**	5,518	(70)	(1)
Total (Boe/d)	**36,187**	33,135	3,052	9
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**5.25**	6.19	(0.94)	(15)
Oil ($/bbl)	**99.78**	91.64	8.14	9
Natural gas liquids ($/Boe)	**61.69**	57.56	4.13	7
Average realized price	**54.08**	52.79	1.29	2
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**5.25**	6.19	(0.94)	(15)
Oil ($/bbl)	**94.02**	87.31	6.71	8
Natural gas liquids ($/Boe)	**61.69**	57.56	4.13	7
Average realized price	**52.57**	51.82	0.75	1
Operating income(2)				
Natural gas	**60,738**	67,486	(6,748)	(10)
Oil	**86,776**	61,367	25,409	41
Natural gas liquids	**30,583**	28,584	1,999	7
Total petroleum and natural gas sales before financial instruments	**178,097**	157,436	20,660	13
Royalties	**(23,491)**	(19,074)	4,417	23
Operating costs	**(29,269)**	(36,476)	(7,207)	(20)
Transportation costs	**(5,001)**	(4,432)	569	13
Operating income(2)	**120,336**	97,454	22,882	23

(1) Includes only realized financial instrument gains and losses on oil and gas commodity hedges

(2) Refer to the advisories on non-GAAP measures at the end of this MD&A.

Comparison of Second Quarter 2014 over First Quarter 2014

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $25.4 million due to higher sales volumes ($20 million) and higher realized prices ($5.4 million). NGL sales increased by $2 million due to higher realized prices. Natural gas sales decreased by $6.8 million due to lower realized prices ($10.3 million) offset by higher sales volumes ($3.5 million). The increase in oil sales volumes was reflective of production from a significant number of oil wells drilled in the first quarter and brought on production in the second quarter. The increase in natural gas production was attributed primarily to solution gas produced from Montney oil wells. Increases in gas and natural gas liquids production from other new wells on stream in the quarter were hampered due to the suspension of a natural gas liquids pipeline that services the southern part of the Kaybob area, in addition to turnaround work performed in the Grande Prairie area.

Royalties – Trilogy's effective royalty rate as a percentage of sales was consistent at 13 percent as compared to 12 percent in the previous quarter. Higher royalties were experienced in the quarter on increased NGL and oil prices and production volumes which were offset by royalty incentive programs and reduced royalties on lower gas prices.

Operating Costs – Operating costs decreased in total and on a per unit of production basis. The decrease was attributed to less maintenance and workover projects conducted in the quarter, improved operational efficiencies, and reduced chemical usage on warmer weather.

Second Quarter 2014 vs. Second Quarter 2013 (In thousand dollars except as otherwise indicated)	**Q2 2014**	**Q2 2013**	**Increase (Decrease)** **Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**127,097**	125,308	1,789	1
Oil (Bbl/d)	**9,557**	11,680	(2,123)	(18)
Natural gas liquids (Boe/d)	**5,448**	4,644	804	17
Total (Boe/d)	**36,187**	37,209	(1,022)	(3)
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**5.25**	3.95	1.30	33
Oil ($/Bbl)	**99.78**	88.20	11.59	13
Natural gas liquids ($/Boe)	**61.69**	48.73	12.96	27
Average realized price	**54.08**	47.07	7.02	15
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**5.25**	3.95	1.31	33
Oil ($/Bbl)	**94.02**	88.25	5.76	7
Natural gas liquids ($/Boe)	**61.69**	48.73	12.96	27
Average realized price	**52.57**	47.08	5.49	12
Operating income(2)				
Natural gas	**60,738**	45,029	15,710	35
Oil	**86,776**	93,746	(6,969)	(7)
Natural gas liquids	**30,583**	20,591	9,992	49
Total petroleum and natural gas sales before financial instruments	**178,097**	159,366	18,731	12
Royalties	**(23,491)**	(21,029)	2,462	12
Operating costs	**(29,269)**	(32,886)	(3,617)	(11)
Transportation costs	**(5,001)**	(4,659)	342	7
Operating income(2)	**120,336**	100,792	19,544	19

(1) Includes only realized financial instrument gains and losses on oil and gas commodity hedges

(2) Refer to the advisories on non-GAAP measures at the end of this MD&A.

Comparison of Second Quarter 2014 over Second Quarter 2013

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales decreased by $7 million due to lower volumes ($19.2 million) offset by higher realized prices ($12.2 million). NGL sales increased by $10 million due to higher realized NGL prices ($5.5 million) and by higher sales volumes ($4.5 million). Natural gas sales increased by $15.7 million due to higher realized prices ($14.8 million) and higher volumes ($0.9 million). The lower oil production for the quarter in 2014 over 2013 was reflective of reduced capital spending on Montney oil wells leading up to the period, relative to natural production declines. The decrease in oil production was offset, in part, by an increase in natural gas liquids production from Trilogy's Duvernay shale play.

Royalties – Trilogy's effective royalty rate as a percent of sales was consistent at 13 percent quarter over quarter. Increased royalties on higher prices for all commodities were mostly offset by a reduction in liquids composition attracting a premium rate, in addition to significant royalty incentive credits recorded on new wells.

Operating Costs – Operating costs decreased in total and on a per unit of production basis in conjunction with reduced fees on lower production levels at third party plants, and improving operational efficiencies. The decreases were offset in part by higher costs in 2014 associated with water disposal, oil trucking, labor and chemicals.

Year-to-date 2014 vs Year-to-date 2013 (In thousand dollars except as otherwise indicated)	YTD 2014	YTD 2013	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**124,096**	121,191	2,905	2
Oil (Bbl/d)	**8,504**	11,612	(3,108)	(27)
Natural gas liquids (Boe/d)	**5,483**	4,857	626	13
Total (Boe/d)	**34,670**	36,667	(1,997)	(5)
Average realized prices before financial instruments and before transportation:				
Natural gas ($/Mcf)	**5.71**	3.72	1.98	53
Oil ($/Bbl)	**96.24**	84.41	11.83	14
Natural gas liquids ($/Boe)	**59.62**	48.85	10.77	22
Average realized price	**53.47**	45.51	7.96	17
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**5.71**	3.72	1.99	53
Oil ($/Bbl)	**91.10**	84.45	6.65	8
Natural gas liquids ($/Boe)	**59.62**	48.85	10.77	22
Average realized price	**52.21**	45.52	6.70	15
Operating income(2)				
Natural gas	**128,224**	81,687	46,537	57
Oil	**148,143**	177,411	(29,268)	(16)
Natural gas liquids	**59,166**	42,939	16,227	38
Total petroleum and natural gas sales before financial instruments	**335,533**	302,037	33,496	11
Royalties	**(42,566)**	(39,577)	2,989	8
Operating costs	**(65,746)**	(60,896)	4,850	8
Transportation costs	**(9,433)**	(8,738)	695	8
Operating income(2)	**217,788**	192,826	24,962	13

(1) Includes only realized financial instrument gains and losses on oil and gas commodity hedges

(2) Refer to the advisories on non-GAAP measures at the end of this MD&A.

Comparison of Year-to-date 2014 over Year-to-date 2013

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales decreased by $29.3 million due to lower volumes ($54.1 million) offset by higher realized prices ($24.8 million). NGL sales increased by $16.2 million due to higher realized NGL prices ($9.5 million) and on higher sales volumes ($6.7 million). Natural gas sales increased by $46.5 million due to higher realized prices ($43.5 million) and on higher volumes ($3 million). The lower oil production to date in 2014 over 2013 was reflective of reduced capital spending on Montney oil wells leading up to the period, relative to natural production declines. The decrease in oil production was offset, in part, by an increase in natural gas liquids production from Trilogy's Duvernay shale play. Increases in gas and natural gas liquids production from other new wells on stream in the second quarter of 2014 were hampered due to the suspension of a natural gas liquids pipeline that services the southern part of the Kaybob area, in addition to turnaround work performed in the Grande Prairie area.

Royalties – Trilogy's effective royalty rate as a percent of sales was consistent at 13 percent year over year. Increased royalties on higher prices for all commodities were mostly offset by a reduction in liquids composition attracting a premium rate, in addition to significant royalty incentive credits recorded on new wells.

Operating Costs – Operating costs increased in total and on a per unit of production basis. The change was primarily attributed to higher third party processing, compression and gathering charges and increased workover, pipeline and facility maintenance costs incurred in 2014 over 2013. Higher costs associated with water disposal, oil trucking, labor, chemicals and power also contributed to the increase year over year.

Depletion, Depreciation Expense, and Impairments

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2014	Three Months Ended March 31, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Depletion and depreciation	**55,905**	50,418	59,223	**106,323**	113,827
Reported amount	**55,905**	50,418	59,223	**106,323**	113,827
Expense per sales volume ($/Boe)	**16.98**	16.91	17.49	**16.94**	17.15

The change in depletion and depreciation expense over the above periods were primarily a function of the associated production levels in the respective periods, as the expense per unit of production was relatively consistent over the above periods.

Exploration Expenditures

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2014	Three Months Ended March 31, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Expired mineral leases	**463**	1,337	825	**1,800**	1,143
Geological and geophysical	**19**	947	34	**967**	110
Exploration and evaluation expenses	**482**	2,284	859	**2,766**	1,253

Exploration expenditures consist of the costs of expired leases, impairments on exploratory wells and geological and geophysical amounts. The change in exploration and evaluation expenditures between the above periods is due mainly to fluctuations in impairments and the costs of expired mineral leases. Exploratory wells, by their nature, have increased risks and uncertainties that could translate into cost over-runs and reduced production and reserve additions. Impairments are a reflection of these challenges and represent costs incurred in excess of the benefit Trilogy expects to obtain from the well. Early-stage exploration activities and their associated costs progress Trilogy's knowledge base in the play, with an ultimate goal of extracting, developing and producing oil and gas reserves at attractive returns. Refer to note 8 of the Interim Financial Statements for more information on exploration and evaluation activities.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2014	Three Months Ended March 31, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Salaries and other benefits	**6,928**	7,109	6,287	**14,036**	13,207
Office and communications	**1,222**	1,013	1,095	**2,234**	2,173
Corporate and other	**1,012**	897	750	**1,909**	1,227
Overhead recoveries and reclassifications to operating costs	**(5,756)**	(7,034)	(5,516)	**(12,789)**	(11,691)
Reported amount	**3,406**	1,984	2,617	**5,390**	4,916
Expense per sales volume ($/Boe)	**1.03**	0.67	0.77	**0.86**	0.74

General and administrative expenses were higher over the prior quarter, primarily as a result of lower overhead recoveries on reduced capital expenditures. Year over year, the increase was attributed to higher employee remuneration and corporate and other costs offset, in part, by increased overhead recoveries on capital spent year over year.

Share Based Compensation

(In thousand dollars except as otherwise indicated)	Three Months Ended			Six Months Ended	
	June 30, 2014	**March 31, 2014**	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Share Incentive Plan	**1,068**	438	1,911	**1,506**	3,024
Share Option Plan	**3,474**	3,404	3,615	**6,878**	7,152
Reported Amount	**4,542**	3,842	5,526	**8,384**	10,176
Expense per sales volume ($/Boe)	**1.38**	1.29	1.63	**1.34**	1.53

The increase in share based compensation expense in the second quarter over the first quarter was attributed to a reduction in the first quarter of 2014 to the Company's estimated 2013 Share Incentive Plan grant. Regarding the Company's Share Option Plan, changes to risk free interest rates, volatility assumptions, dividend yields, and expected lives of the options granted will impact the fair value attributed to any given share option grant, in addition to volatility in the number of share options granted in a particular year. Refer to Note 13 of the Interim Financial Statements for more information on share based compensation expense.

Interest, Financing, and Accretion Charges

(In thousand dollars except as otherwise indicated)	Three Months Ended			Six Months Ended	
	June 30, 2014	**March 31, 2014**	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Accretion on decommissioning and restoration liability	**1,549**	1,490	1,316	**3,039**	2,609
Interest and other finance costs (1)	**9,852**	9,020	11,009	**18,872**	20,707
Expense per sales volume ($/Boe)	**2.99**	3.02	3.25	**3.01**	3.12

(1) Includes the amortization of financing fees

Accretion charges represent the increase in the decommissioning and restoration liability associated with the passage of time. Accretion on the Company's decommissioning and restoration liability for three months ended June 30, 2014 was relatively consistent with the prior quarter. Compared to the same period last year, accretion was higher as a result of increased drilling activities and the associated estimated costs for decommissioning and restoration thereon.

Interest expense decreased for the current quarter as compared to the prior quarters primarily as a result of lower average debt levels in conjunction with Trilogy's equity issuance in the fourth quarter of 2013 for gross proceeds of approximately $200 million. For additional information on Trilogy's long-term debt, refer below under the "Long-term Debt" section of this MD&A and to note 11 of the Interim Financial Statements.

Risk Management

Financial Risks

Trilogy's main financial risks include credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, and are discussed in detail in the notes to Trilogy's 2013 annual financial statements, the advisories and other sections of this MD&A as well as the Company's Annual Information Form.

The financial instruments outstanding on the applicable balance sheet dates are recognized at fair value on Trilogy's balance sheet. The change in the fair value of outstanding financial instruments, which are classified as financial assets and liabilities at fair value through profit or loss, is presented as an 'unrealized gain (loss) on financial instruments' in the Consolidated Statement of comprehensive income (loss). Gains or losses arising from monthly settlement with counterparties are presented as a 'realized gain (loss) on financial instruments'. The amounts of unrealized and realized gain (loss) on financial instruments during the periods are as follows:

(In thousand dollars except as otherwise indicated)	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Realized gain (loss) on financial instruments	**(5,091)**	(2,775)	1,048	**(7,866)**	1,641
Unrealized gain (loss) on financial instruments	**(1,345)**	(1,591)	4,502	**(2,936)**	(1,285)
Total gain (loss) on financial instruments	**(6,436)**	(4,366)	5,550	**(10,802)**	356
Realized gain (loss) on financial instruments ($/Boe)	**(1.55)**	(0.93)	0.31	**(1.25)**	0.25

Trilogy enters into oil, gas, power, interest, and foreign exchange contracts to manage its exposure to fluctuations in the price of oil, gas, electricity, interest, and foreign exchange rates. Trilogy also enters into drilling and other service contracts to secure access to these services and to manage exposure to pricing fluctuations thereon.

Realized losses on derivative financial instruments for the current quarter occurred primarily as a result of an increase in the market price of oil as compared to Trilogy's average hedged price. Refer to notes 19 and 20 of the Interim Financial Statements for more information on realized and unrealized financial instruments gains and losses.

The fair value accounting of financial instruments causes significant fluctuations in the unrealized gain (loss) on financial instruments due to the volatility of energy commodity prices, interest and foreign exchange rates during the period. The fair value of financial instruments as at the balance sheet date will change in the future as a result of changes in these economic benchmarks upon which the fair value is primarily based, and therefore, the amount actually realized from financial instruments will vary from such fair value.

The following is a summary of the derivative contracts in place as at the date of this report:

Crude Oil

	Financial Forward Sale	
Term	**Volume (Bbl/d)**	**Average USD WTI Price/Bbl**
H2 2014	4,000	$92.88

Power

	Financial Forward Sale	
Term	**MW/h**	**Average CAD Price/MW/h**
2014 through 2016	6	$50.44

Natural Gas

	Financial Forward Sale	
Term	**Volume (GJ/d)**	**Average CAD Price/GJ**
July 2014 through October 2014	20,000	$4.45

Operational and Other Risks

Trilogy is subject to various risks and uncertainties including those relating to its operations, environment, and other risks as discussed in the Advisories and other sections of this MD&A as well as the Company's Annual Information Form.

Liquidity and Capital Resources

(In thousand dollars except as otherwise indicated)	**June 30, 2014**	**December 31, 2013**
Current liabilities net of current assets	**92,585**	65,523
Long-term debt	**657,524**	550,530
Net debt(1)	**750,109**	616,053
Shareholders' equity	**692,726**	665,849
Total	**1,442,835**	1,281,902

(1) Refer to the advisories on non-GAAP measures at the end of this MD&A.

Working Capital

Trilogy's significant capital expenditure program undertaken in the first half of the 2014 year was primarily responsible for the increase in net debt from $616 million at December 31, 2013 to $750.1 million at June 30, 2014. The working capital deficiency is funded by cash flow from operations and draw-downs from the Company's revolving credit facility. Refer to Capital Management and Liquidity section in the annual financial statements.

Long-term Debt

Long-term debt represents the outstanding draws from Trilogy's revolving credit facility in addition to borrowings under its Senior Unsecured Notes as described below and in the notes to Trilogy's Interim Financial Statements.

Trilogy's exploration and development activities are conducted primarily during colder weather, as ground conditions provide improved access to leases and more efficient execution of its capital expenditure activities. Significant expenditures are made during these periods and the related benefit may be realized in future periods. These timing differences can temporarily increase Trilogy's debt levels, the repayment of which may occur over future periods. Refer to note 22 of the annual financial statements for further disclosures on liquidity and capital management.

Revolving Credit Facility

Trilogy's bank debt outstanding under its revolving credit facility was $363.1 million (before unamortized interest discount and financing costs) as at June 30, 2014.

The credit facility is with a syndicate of Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The credit facility has the following significant terms:

- total commitments of $725 million, consisting of a $35 million working capital tranche and a $690 million revolving tranche;
- a maturity date of April 30, 2016;
- the working capital and revolving tranches are subject to semi-annual borrowing base reviews; and,
- advances drawn on the credit facility are secured by a fixed and floating charge debenture over the assets of the Company.

In conjunction with the Senior Unsecured Notes issued in 2012 (see below), quarterly financial covenants were established in respect of the Revolving Credit Facility, namely:

- a ratio of "Consolidated Debt" to "Adjusted EBITDA" for the twelve month period then ended of not greater than 4.0.
- a ratio of "Senior Debt" to "Adjusted EBITDA" for the twelve month period then ended of not greater than 3.0.;

See Non-GAAP disclosures.

As at June 30, 2014, the Company is in compliance with all debt covenants.

The effective interest rate on Trilogy's revolving credit facility for the year (excluding other financing costs) was 4.10 percent. (June 30, 2013 – 4.40 percent).

The size of the committed credit facilities is based primarily on the value of Trilogy's producing petroleum and natural gas assets as determined by the lenders. Note 18 of the Interim Financial Statements provides a comparison of Trilogy's debt structure against the committed amount on existing credit facilities at the listed balance sheet dates therein.

Senior Unsecured Notes

In December 2012 the Company issued $300 million principal amount of 7.25 percent Senior Unsecured Notes due December 13, 2019 (the "Notes"). Proceeds from the issuance were used to reduce existing indebtedness under Trilogy's Revolving Credit Facility. Transaction costs of $5.8 million were capitalized and will be amortized into income over the life of the debt using the effective interest rate method. Refer to note 15 of the Annual Financial Statements.

Interest is payable semi-annually in arrears on June 13 and December 13 of each year. The Notes rank pari passu with all of Trilogy's senior indebtedness and are subordinated to all secured indebtedness, which includes Trilogy's Revolving Credit Facility indebtedness.

The Company has the option, prior to December 13, 2015, to redeem the Notes as follows:

- up to an aggregate of 35 percent of the principal amount may be redeemed at 107.25 percent, plus applicable interest with the net cash proceeds of any equity offerings.
- some or the entire principal amount may be redeemed, generally, at a make-whole price to the holders of the Notes, plus applicable interest, subject to certain conditions.

The Company also has the option to redeem the Notes at a price of 103.625 percent, beginning December 13, 2015, decreasing down to 100 percent after December 13, 2018.

To the extent the Company experiences a change of control, each holder of the Notes will have the right to require the Company to repurchase, at 101 percent, all or part of such holder's Notes. The notes were initially recognized at fair value net of transactions costs and are subsequently measured at amortized cost using an effective interest rate of 7.52 percent. (June 30, 2013 – 7.52 percent).

The Note indenture contains covenants that, among other things, limit the ability of the Company to:

- incur additional indebtedness;
- make restricted payments, including certain investments and the payment of dividends;
- grant certain liens;
- enter into certain transactions with affiliates; and
- effect asset sales, mergers and consolidations.

Contractual Obligations

An increase of approximately $29.4 million (undiscounted) in pipeline transportation commitments existed at June 30, 2014 in respect of Trilogy's contractual financial obligations from those as disclosed at December 31, 2013 (refer to note 22 of the Interim Financial Statements). For a detailed account of Trilogy's commitments as at December 31, 2013, refer to note 25 of the 2013 annual consolidated financial statements and the related management discussion and analysis.

Shares, Options and Rights

The following provides a continuity of outstanding share capital:

	Common Shares[1]	Non-Voting Shares	Total		Amount
Shares as at December 31, 2012	90,837,820	25,835,862	116,673,682	$	883,758
Issued - Share Option Plan	1,473,400	-	1,473,400		15,655
Share issuance	7,020,000	-	7,020,000		193,661
Share Incentive Plan purchases	(180,000)	-	(180,000)		(5,316)
Vesting of Share Incentive Plan awards	187,264	-	187,264		4,969
Shares as at December 31, 2013	**99,338,484**	**25,835,862**	**125,174,346**	**$**	**1,092,727**
Issued - Share Option Plan	**619,500**	**-**	**619,500**		**6,970**
Share Incentive Plan purchases	**(190,000)**	**-**	**(190,000)**		**(5,107)**
Vesting of Share Incentive Plan awards	**151,411**	**-**	**151,411**		**4,320**
Shares as at June 30, 2014	**99,919,395**	**25,835,862**	**125,755,257**	**$**	**1,098,910**

[1] Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan

Outstanding share options issued under Trilogy's share option plan were 6,584,500 as at June 30, 2014 and 6,550,500 share options as at the date hereof, of which 2,039,500 share options and 2,015,500 share options were exercisable as at those dates, respectively.

Dividends

	Three Months Ended			Six Months Ended	
(In thousand dollars except where stated otherwise)	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Funds flow from operations[1]	**102,172**	81,243	88,160	**183,412**	168,449
Net changes in operating working capital	**(13,558)**	(4,579)	(7,658)	**(18,136)**	(6,695)
Cash flow from operating activities	**88,614**	76,664	80,502	**165,276**	161,754
Net earnings (loss)	**28,234**	17,386	20,017	**45,618**	29,661
Dividends declared	**13,211**	13,165	12,351	**26,377**	24,638
Dividends declared per share (in full amount)	**0.105**	0.105	0.105	**0.210**	0.210
Payout Ratio [1]	**15%**	17%	15%	**16%**	15%
Excess of cash flow from operations over dividends declared	**75,403**	63,499	68,151	**138,899**	137,116
Excess (deficiency) of net earnings (loss) over dividends	**15,023**	4,221	7,666	**19,241**	5,023

(1) Refer to the advisories on non-GAAP measures at the end of this MD&A.

Trilogy's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess of cash flow from operations over dividends is not sufficient to cover capital spending, the shortfall is generally funded by drawdowns from Trilogy's credit facilities. Trilogy intends to provide dividends to Shareholders that are sustainable to the Company considering its liquidity (*refer to the discussion on long-term debt above*) and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured.

Capital Expenditures

(In thousand dollars except where stated otherwise)	Three Months Ended June 30, 2014	March 31, 2014	June 30, 2013	Six Months Ended June 30, 2014	June 30, 2013
Land	215	6	303	**220**	611
Geological and geophysical	19	947	34	**966**	110
Drilling, completions, and tie-ins	96,554	150,036	42,726	**246,589**	192,966
Production equipment and facilities	14,878	18,878	13,972	**33,756**	32,805
	111,666	169,867	57,035	**281,531**	226,492
Proceeds from property dispositions	-	(21)	-	**(21)**	(1)
Property acquisitions	13	4,224	1	**4,238**	181
Corporate assets	272	234	17	**507**	18
Net capital expenditures	111,951	174,305	57,053	**286,255**	226,690

Capital expenditures decreased in the quarter as compared to the previous quarter as Trilogy executed a significant portion of Trilogy's annual capital expenditure budget in the first quarter. Trilogy also closed a transaction in the first quarter in which it acquired the interests of a third party in the Valhalla area. This acquisition is expected to add 200 Boe/d of production and 700 MBoe of reserves and includes royalty acreage whereby Trilogy was paying royalties to the vendor. Capital expenditures increased year over year as a result of increased drilling, completion, and tie-in activities related to Trilogy's Duvernay and Montney plays.

Wells Drilled

(Number of wells)	Three Months Ended June 30, 2014		March 31, 2014		June 30, 2013		Six Months Ended June 30, 2014		June 30, 2013	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
Natural gas	12.0	8.2	11	6.0	2	2.0	23	14.2	7	5.3
Oil	4.0	4.0	20	18.1	8	6.1	24	22.1	38	28.6
Total	16.0	12.2	31	24.1	10	8.1	47	36.3	45	33.9

(1) "Gross" wells means the number of wells in which Trilogy has a working interest or a royalty interest.

(2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Trilogy's percentage of working interest.

Income Taxes

The Company recorded a future income tax expense of 9.4 million in the second quarter of 2014 ($7 million future income tax expense in the first quarter of 2014). The Company's statutory tax rate of 25 percent was increased, year-to-date, to an effective tax rate of 27 percent as a result of share based compensation amounts deducted in computing net income (loss) before tax which are not deductible for tax purposes. Refer to note 9 of the Interim Financial Statements for additional income tax disclosures.

In January 2014, the Company received a letter from the Canada Revenue Agency advising Company that, subject to submissions by Trilogy, it is proposing to reassess Company's income tax filings related to its conversion from an income trust to a corporation in early 2010.

The proposed reassessments seek to disallow certain tax pools in the amount of $728 million. If these tax pools were to be disallowed it is expected to result in *(1)* taxable income for Trilogy's 2010 and 2011 taxation years of up to $65 million in the aggregate with maximum estimated taxes owing for such years of approximately $16 million and *(2)* a reduction of $663 million of losses which could have otherwise been carried forward into subsequent taxation years. Trilogy will review its tax filings for these taxation years to ensure all available deductions are claimed to reduce the amount of taxes owing as much as possible. Trilogy provided its submission in response to CRA's letter and is awaiting further communication.

Even if the losses are ultimately disallowed, Trilogy's management expects that Trilogy would not be cash taxable in years subsequent to 2011 for the foreseeable future given the significant amount of capital expenditures that were incurred previously and that are expected to be incurred in 2014 and beyond.

In the view of Trilogy's management, the proposed reassessment with respect to the use of tax pools is part of a current overall tax audit initiative by the CRA. Trilogy's management remains of the opinion that, after careful consideration and consultation at the time of the Conversion and at this time, Trilogy's tax returns were correct as filed.

If the proposed reassessments are issued, Trilogy's management will vigorously defend Trilogy's tax filing position and Trilogy would be required to make a payment equal to 50 percent of the cash tax assessed, estimated to be $8 million plus applicable interest. This amount would be refundable on a successful appeal of the reassessments. If the proposed reassessments are issued and defended against, Trilogy's management currently estimates that the ultimate resolution of the matter would take between two to four years.

Trilogy's management confirms that the proposed reassessments are not expected to affect Trilogy's long term business strategy or its monthly dividend.

Related Party Transactions

Trilogy had certain transactions with Paramount Resources ("Paramount"), a wholly-owned subsidiary of Paramount Resources Ltd. which owns approximately 15.2 percent of the equity in the Company. The amount of expenses billed and accrued in respect of services provided by Paramount to the Company under a services agreement was $0.1 million and $0.2 million for the three and six months ended June 30, 2014. The Company and Paramount also had transactions with each other arising from normal business activities. These transactions were recorded at the fair value of the transacted amount.

Outlook information

Trilogy has continued to develop its land position and expand on its technical expertise in large, tight, liquids-rich gas and oil resource plays in the Deep Basin. The Company believes that it has accumulated a large inventory of high quality horizontal drilling prospects that should provide the opportunity to grow annual production, replace produced reserves and maintain a meaningful dividend for its shareholders. Trilogy believes it is positioned at the end of the second quarter to meet its annual guidance for 2014 as follows:

- Average production 36,000 Boe/d (~45% oil and NGLs)
- Average operating costs $9.00 /Boe
- Capital expenditures $375 million

Trilogy's net debt typically peaks in the second quarter of each year due to the fact that over 75 percent of its annual capital expenditures are incurred during the first half of the year. Trilogy is well positioned with ample debt capacity from its revolving credit facility which recently increased to $725 million. Net debt is expected to be reduced through the balance of the year from increased operational cash flow from the Company's producing assets and through continued asset development.

In the current natural gas and crude oil commodity price environment, Trilogy expects to manage its balance sheet through production replacement, prudent asset management and the continued control over a significant portion of its operations. As a growth-oriented corporation, Trilogy must remain flexible in order to respond to changes in commodity prices. The remainder of 2014 may finally see some stability in natural gas prices as supply and demand forces in western Canada natural gas markets continue to balance. Trilogy believes it can manage its assets prudently through the year as its production base trends to a higher oil and natural gas liquids composition. Trilogy is confident in its strategy, its high quality assets and the proven expertise of its employees.

Quarterly Financial Information

(In thousand dollars except per share amounts)	**Q2 2014**	Q1 2014	Q4 2013	Q3 2013
Revenue after financial instruments, royalties and other income	**147,690**	134,581	110,992	103,555
Earnings (loss) before tax	**37,612**	24,396	(10,531)	(10,936)
Net earnings (loss)	**28,234**	17,386	(8,740)	(9,454)
Earnings (loss) per Share (in full amounts):				
Basic	**0.22**	0.14	(0.07)	(0.08)
Diluted	**0.22**	0.14	(0.07)	(0.08)

	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Revenue after financial instruments, royalties and other income	144,222	119,342	122,499	88,655
Earnings (loss) before tax	25,826	14,343	3,474	(13,413)
Net earnings (loss)	20,017	9,644	1,682	(11,094)
Earnings (loss) per Share (in full amounts):				
Basic	0.17	0.08	0.01	(0.10)
Diluted	0.17	0.08	0.01	(0.10)

The fluctuations in Trilogy's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact on royalties, realized and unrealized gains/losses on financial instruments, and impairments to exploratory and evaluation assets and property, plant, and equipment, and upon the expiry of mineral land leases. Please refer to the Results of Operations and other sections of this MD&A for detailed financial and operational variances between reporting periods and to Trilogy's previously issued annual MD&A for changes in prior periods.

Critical Accounting Estimates

The historical information in this MD&A is based primarily on the Company's consolidated financial statements, which have been prepared in Canadian Dollars in accordance with IFRS. The application of IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Trilogy bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements:

Reserves Estimation

The capitalized costs of oil and gas properties are amortized to expense on a unit-of-production basis at a rate calculated by reference to proved developed reserves determined in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook. Commercial reserves are determined using best estimates of oil and gas in place, recovery factors, future development and extraction costs and future oil and gas prices.

Proved reserves are those reserves that have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Probable reserves are based on geological and/or engineering data similar to that used in estimates of proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves from being classified as proved. Probable reserves are attributed to known accumulations that have a greater or equal to 50% confidence level of recovery.

Exploration and Evaluation Expenditures

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. Exploration and evaluation assets include undeveloped land and costs related to exploratory wells. Exploration costs related to geophysical and geological activities are immediately charged to income as incurred. The Company is required to make estimates and judgments about future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. If an exploration and evaluation project is determined to be unsuccessful, all associated costs in excess of the expected future benefit are charged to net income. If commercial reserves are established, the relevant costs are transferred from exploration and evaluation to development and production assets which are classified as property, plant, and equipment. Assets are reviewed for impairment prior to any such transfer. Refer to note 8 of the Interim Financial Statements for further details.

Impairment of Non-financial Assets

Impairment is evaluated at the cash-generating unit ("CGU") level. The determination of CGU's requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU's have been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type and similar exposures to market risks.

The recoverable amounts of Trilogy's cash-generating units and individual assets have been determined based on fair values less costs of disposal. This calculation requires the use of estimates and assumptions. Oil and gas prices and other assumptions will change in the future, which may impact Trilogy's recoverable amount calculated and may therefore require a material adjustment to the carrying value of property, plant and equipment and goodwill. Trilogy monitors internal and external indicators of impairment relating to its exploration and evaluation assets, property, plant and equipment and goodwill. Refer to note 10 and 11 of the 2013 annual financial statements for more details about methods and assumptions used in estimating net recoverable amounts.

Decommissioning and Restoration Costs

Decommissioning and restoration costs will be incurred by Trilogy at the end of the operating lives of Trilogy's oil and gas properties. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including assumptions of inflation, present value discount rates on future liabilities, changes to relevant legal requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Refer to note 12 of the Interim Financial Statements for further details.

Share-based Payments

Trilogy measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value requires the determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires the determination of the most appropriate inputs to the valuation model including the expected life of the option, risk free interest rates, volatility and dividend yield and making assumptions about them. Refer to note 13 of the Interim Financial Statements for further details.

Deferred Income Tax Assets

Trilogy recognizes a benefit related to deferred income tax assets. Assessing the recoverability of deferred income tax assets requires Trilogy to make significant estimates related to expectations of future taxable income based on forecasted cash flows from operations. Trilogy also makes interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of Trilogy's tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of

Trilogy to realize its deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 9 of the Interim Financial Statements and note 12 of the 2013 annual financial statements for further details.

Financial Instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity price, foreign currency, power, and interest rate exposures. The fair values of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty. Refer to note 18, 19 and 20 of the Interim Financial Statements for further details.

New Accounting Pronouncements

Effective January 1, 2014, the Company has adopted the following IFRS:

(i) IFRIC 21, Levies. This is an interpretation of IAS 37: Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an "obligating event"). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The applicability IFRIC 21 was not significant to Trilogy's Interim Financial Statements.

The following standards and amendments have not been adopted as they apply to future periods that may result in future changes to our existing accounting policies and disclosures. Trilogy is currently evaluating the impact that these standards will have on the Company's results of operations and financial position, however these standards are not expected to have a significant impact on Trilogy's financial reporting disclosures:

(i) IFRS 15, Revenue from Contracts with Customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2017 onwards.

Internal Control over Financial Reporting

There was no change in Trilogy's internal control over financial reporting that occurred during the period covered by this MD&A that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Advisories

Certain statements included in this document (including this MD&A and the Review of Operations) constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "goal", "objective", "possible", "probable", "projected", "scheduled", or state that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to statements regarding:

- business strategy and objectives for 2014 and beyond (including the development of the Kaybob Montney oil and gas pools, the Duvernay shale play, and the Gething oil pool);
- future commodity prices for crude oil, natural gas, NGLs and related products;
- forecast capital expenditures and the amount, timing and allocation thereof (including budgeted expenditures for the Duvernay shale play and the Montney oil and gas pools);

- estimates of future production volumes and growth, the sources and timing thereof and the relative content of crude oil, natural gas and NGLs therein;
- estimated reserves, reserve replacement, and the undiscounted and discounted present value of future net revenues therefrom (including the forecasted prices and costs and timing of expected production volumes and future development capital);
- development plans and operational plans and strategies (including plans for drilling and completion programs in the Kaybob and Grande Prairie areas) and the anticipated timing, cost, sources of funding, and expected benefits thereof;
- the potential for development of Trilogy's assets (including the Kaybob Montney oil and gas pools, the Duvernay shale gas development, the Gething and Dunvegan oil pools, among others); estimates of drilling inventories; tenure, value and prospectivity of Trilogy's current and future land holdings; and the nature and timing of Trilogy's plans to further maintain, delineate and exploit these and other assets;
- the timing of the resumption of service of the NGL pipeline to the SemCAMS K3 Plant;
- projected capacity availability at Trilogy-operated and third party facilities and infrastructure, run-times, expected facility downtime and timing and extent of associated impact on production;
- operating, finding and development, decommissioning, restoration and other costs;
- royalty rates and applicability of government incentive and royalty programs affecting Trilogy;
- approach to and amount of dividends;
- future expenditures and future allowances relating to environmental matters and Trilogy's ability to comply with same;
- projections as to cash flow, funds flow from operations, future earnings and other measures of profit;
- Trilogy's expectations regarding the size and term of its bank credit facility and the cost of borrowing;
- pro-forma debt levels and reduction of net debt;
- projected results of hedging contracts and other financial instruments;
- income taxation of Trilogy; applicability of income tax legislation; estimates of future tax amounts, tax assets and tax pools; the proposed reassessments by the CRA and potential taxes owing; Trilogy's future taxability; the correct filing of Trilogy's prior tax returns; Trilogy's intention to defend the proposed reassessments by the CRA if issued; the effect of the proposed reassessments by the CRA on Trilogy's business strategy and monthly dividend;
- the expected impact of new accounting pronouncements; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, and results of operations or performance.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified in this document, assumptions have been made regarding, among other things:

- future crude oil, natural gas and NGLs and other commodity pricing and supply;
- foreign currency, exchange and interest rates;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- general business, economic, industry and market conditions;
- geology applicable to Trilogy's land holdings;
- current production forecasts and the relative content of crude oil, natural gas and NGLs therein;
- the ability of Trilogy and its industry partners to obtain drilling and operational results, improvements and efficiencies consistent with expectations;
- well economics;
- decline rates;
- projected capital investment levels and the successful and timely implementation of capital projects;
- anticipated timelines and budgets being met in respect of drilling programs and other operations;
- the ability of Trilogy to obtain on acceptable terms the required capital to finance its exploration, development and other operations;
- credit facility availability and increases consistent with expectations;
- the ability of Trilogy to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its evaluations and activities;
- the timely resumption of the NGL pipeline to the SemCAMS K3 Plant and the timing and costs of plant turnarounds and pipeline and storage facility construction and expansion and the ability to secure adequate product processing and transportation;
- the ability of Trilogy to market its oil, natural gas, NGLs and other products successfully to current

and new customers;

- cash flow consistent with expectations;
- continuity of government royalty and regulatory regimes, including drilling and royalty incentive programs and their application to Trilogy's operations;
- the timely receipt of required regulatory approvals;
- continuity of the mutually beneficial NGL Recovery Agreement with Aux Sable Canada LP and pricing thereunder;
- the continuation of assumed tax regimes, estimates of deferred tax amounts, tax assets and tax pools;
- the extent of Trilogy's liabilities; and
- other assumptions inherent in current guidance

Although Trilogy believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Trilogy can give no assurance that such expectations will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Trilogy and described in the forward-looking statements or information. These risks and uncertainties include but are not limited to:

- fluctuations in crude oil, natural gas, NGLs and other commodity prices;
- fluctuations in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, NGLs yields, taxes, costs and expenses;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil, natural gas and related products, and market demand;
- risks and uncertainties involving the geology of oil and gas;
- the uncertainty of reserves and resource estimates;
- Trilogy's ability to secure adequate product processing, transmission and transportation on a timely basis or at all;
- potential disruptions or unexpected technical difficulties in designing, developing, or operating new, expanded, or existing facilities (including third party operated facilities);
- risks inherent in Trilogy's marketing operations, including credit and other financing risks;
- the ability to generate sufficient cash flow from operations and obtain financing on acceptable terms to fund planned exploration, development, construction and operational activities and to meet current and future obligations, including costs of anticipated projects and repayment of debt;
- volatile business, economic and market conditions;
- general risks related to strategic and capital allocation decisions, including potential delays or
- uncertainty regarding results of objections to Trilogy's exploration and development plans by third party industry participants, aboriginal and local populations and other stakeholders;
- risks associated with existing and potential lawsuits,

changes in plans with respect to exploration or development projects or capital expenditures and Trilogy's ability to react to same;

- availability of equipment, goods, services and personnel in a timely manner and at an acceptable cost;
- health, safety, security and environmental risks;
- The timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- environmental, regulatory and compliance risks including those potentially associated with greenhouse gases and hydraulic fracturing;
- uncertainties as to the availability and cost of financing, including Trilogy's ability to extend its credit facility on an ongoing basis;
- weather conditions;
- the possibility that government policies, regulations or laws may change, including risks related to the imposition of moratoriums;
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- uncertainty in amounts and timing of royalty payments and applicability of and change to royalty regimes and incentive programs including, without limitation, the Natural Gas Deep Drilling Program and the Drilling Royalty Credit Program;
- imprecision in estimates of product sales, tax pools, tax shelter, tax deductions available to Trilogy, changes to and the interpretation of tax legislation and regulations;

regulatory actions, audits and assessments;

- changes in land values paid by industry;
- risks associated with Trilogy's mitigation strategies including insurance and hedging activities;
- risks related to the actions and financial

circumstances of Trilogy agents and contractors, counterparties and joint venture partners, including renegotiation of contracts;
- the ability of management to execute its business plan; and
- other risks and uncertainties described elsewhere in this document and in Trilogy's other filings with Canadian securities authorities, including its Annual Information Form.

The foregoing lists are not exhaustive. Additional information on these and other factors which could affect the Company’s operations or financial results are included in the Company’s most recent Annual Information Form and in other documents on file with the Canadian Securities regulatory authorities. The forward-looking statements or information contained in this document are made as of the date hereof and Trilogy undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Non-GAAP Measures

Certain measures used in this document, including “adjusted EBITDA”, “consolidated debt”, “finding and development costs” , “funds flow from operations”, “operating income”, “net debt”, “operating netback”, “payout ratio”, “recycle ratio” and “senior debt" collectively the “Non-GAAP measures” do not have any standardized meaning as prescribed by IFRS and previous GAAP and, therefore, are considered Non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Trilogy to provide Shareholders and potential investors with additional information regarding the Company’s liquidity and its ability to generate funds to finance its operations. However, given their lack of standardized meaning, such measurements are unlikely to be comparable to similar measures presented by other issuers.

“Adjusted EBITDA” refers to “Funds flow from operations” in addition to cash interest and tax expenses and certain other items that do not appear individually in the line items of the Company’s financial statements.

“Consolidated debt” generally includes all long-term debt plus the arithmetic mean of the net working capital balance for the last two quarters (excluding financial instrument assets and liabilities therein and as adjusted for certain additional items that do not appear individually in the line items of the Company’s financial statements).

“Finding and development costs” refers to all current year net capital expenditures, excluding property acquisitions and dispositions with associated reserves, and including changes in future development capital on a proved or proved plus probable basis. “Finding and development costs per Barrel of oil equivalent” (“F&D $/Boe”) is calculated by dividing finding and development costs by the current year’s reserve extensions, discoveries and revisions on a proved or proved plus probable reserve basis. Management uses finding and development costs as a measure to assess the performance of the Company’s resources required to locate and extract new hydrocarbon reservoirs.

“Funds flow from operations” refers to the cash flow from operating activities before net changes in operating working capital as shown in the consolidated statements of cash flows. Management utilizes funds flow from operations as a key measure to assess the ability of the Company to finance dividends, operating activities, capital expenditures and debt repayments.

“Operating income” is equal to petroleum and natural gas sales before financial instruments and bad debt expenses minus royalties, operating costs, and transportation costs. “Operating netback” refers to Operating income plus realized financial instrument gains and losses and other income minus actual decommissioning and restoration costs incurred. Operating income and operating netback are used by management to measure operating results of discrete oil and gas properties’ performance without reference to capital and organizational structure and corporate and general administrative costs.

“Net debt” is calculated as current liabilities minus current assets plus long-term debt. Management utilizes net debt as a key measure to assess the liquidity of the Company.

“Payout ratio” refers to dividends divided by cash flow from operations. This measure assists in providing a more complete understanding of the Company’s ability to fund future dividends to Shareholders from cash flow from operations.

“Recycle ratio” is equal to “Operating netback” on a production barrel of oil equivalent for the year divided by “F&D $/Boe” (computed on a proved or proved plus probable reserve basis as applicable). Management uses this metric to measure the profitability of the Company in turning a barrel of reserves into a barrel of production.

"Senior debt" is generally defined as "Consolidated debt" but excluding any indebtedness under the Senior Unsecured Notes.

Investors are cautioned that the Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with IFRS, as set forth above, or other measures of financial performance calculated in accordance with IFRS.

Numerical References

All references in this document and Trilogy's functional currency are in Canadian Dollars unless otherwise indicated. The columns on some tables in this document may not add due to rounding.

Oil and Gas Advisory

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil (6:1). Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For Q2 2014, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 19:1 ("Value Ratio"). The Value Ratio is obtained using the Q2 2014 average realized oil price of $99.78 (CAD$/Bbl) and the Q2 2014 average realized natural gas price of $5.25 (CAD$/mcf). This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

The disclosure contained herein includes those NGLs within Trilogy's natural gas stream that are delivered, quantified and for which Trilogy is paid based on market rates pursuant to the NGL Volumes Recovery Agreement with Aux Sable Canada LP (the "NGL Agreement"), and which Trilogy books as NGL reserve volumes. As at December 31, 2013, these NGLs represented approximately 6.3% of Trilogy's total proved plus probable reserve volumes. For the year ended December 31, 2013, these NGLs represented approximately 6.1% of Trilogy's production and approximately 2.3% of Trilogy's oil, gas and NGL revenues. If these NGLs were instead reported as part of Trilogy's natural gas reserves, it would both increase Trilogy's natural gas reserves (since these are notionally reduced for shrinkage attributable to the extraction of these NGLs) and the pricing Trilogy receives for its natural gas, and decrease Trilogy's NGL reserves and production accordingly, but would have no effect on Trilogy's revenues.

Well Test Data: Well flow test data is not necessarily indicative of long-term performance or of ultimate recovery of reserves.

Additional Information

Trilogy's common shares are listed on the Toronto Stock Exchange under the symbol "TET". Additional information about Trilogy, including Trilogy's Annual Information Form, is available at www.sedar.com or at Trilogy's website www.trilogyenergy.com.

Consolidated Interim Balance Sheet (unaudited)

(in thousand Canadian dollars)

	Note	June 30, 2014	December 31, 2013
ASSETS			
Current assets			
Restricted cash	6	**$ -**	$ 5,898
Trade and other receivables	*17, 18, 19*	**79,024**	66,419
Derivative financial instruments	*18, 19, 20*	**170**	24
Prepaids		**3,979**	880
		83,173	73,221
Non-current assets			
Property, plant and equipment	*7, 8*	**1,314,256**	1,145,055
Exploration and evaluation assets	*7, 8*	**109,654**	92,653
Deferred tax asset	*9*	**78,941**	95,329
Goodwill		**140,471**	140,471
Total assets		**$ 1,726,495**	$ 1,546,729
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	*17, 18, 19*	**$ 161,973**	$ 128,004
Dividend payable	*10, 18, 19*	**4,406**	4,384
Interest payable	*11*	**1,073**	1,132
Derivative financial instruments	*18, 19, 20*	**8,306**	5,224
		175,758	138,744
Non-current liabilities			
Long-term debt	*11, 18, 19*	**657,524**	550,530
Decommissioning and restoration liability	*12*	**200,487**	191,606
Total liabilities		**1,033,769**	880,880
Shareholders' equity			
Shareholders' capital	*13, 14*	**1,098,910**	1,092,727
Contributed surplus		**43,327**	41,875
Accumulated deficit		**(449,511)**	(468,753)
		692,726	665,849
Total shareholders' equity and liabilities		**$ 1,726,495**	$ 1,546,729

See accompanying notes to the consolidated interim financial statements

Consolidated Interim Statement of Comprehensive Income (unaudited)

(in thousand Canadian dollars except per share amounts)

	Note	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue and other					
Petroleum and natural gas sales	*21*	**$ 178,097**	$ 159,366	**$ 335,533**	$ 302,037
Royalties		**(23,491)**	(21,029)	**(42,566)**	(39,577)
Revenue		**154,606**	138,337	**292,967**	262,460
Other income (loss)		**(480)**	335	**106**	748
Gain (loss) on derivative financial instruments	*18, 19, 20*	**(6,436)**	5,550	**(10,802)**	356
		147,690	144,222	**282,271**	263,564
Expenses					
Operating and production		**29,269**	32,886	**65,746**	60,896
Transportation		**5,001**	4,659	**9,433**	8,738
Depletion, depreciation, and impairments	*7*	**55,905**	59,223	**106,323**	113,827
Exploration and evaluation	*8*	**482**	859	**2,766**	1,253
Loss on disposal of assets		**72**	301	**311**	273
General and administrative		**3,406**	2,617	**5,390**	4,916
Share-based compensation	*13*	**4,542**	5,526	**8,384**	10,176
Accretion on decommissioning and restoration liability	*12*	**1,549**	1,316	**3,039**	2,609
Interest and other finance costs	*11*	**9,852**	11,009	**18,872**	20,707
		110,078	118,396	**220,264**	223,395
Net income before income tax		**37,612**	25,826	**62,007**	40,169
Income tax expense					
Deferred	*9*	**9,378**	5,809	**16,388**	10,508
Comprehensive income		**$ 28,234**	$ 20,017	**$ 45,619**	$ 29,661
Earnings per share	*15*				
- Basic		**$ 0.22**	$ 0.17	**$ 0.36**	0.25
- Diluted		**$ 0.22**	$ 0.17	**$ 0.36**	0.25

See accompanying notes to the consolidated interim financial statements

Consolidated Interim Statement of Changes in Equity (unaudited)

(In thousand Canadian dollars except share information)

	Outstanding Common and Non-Voting Shares [1]		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2013	116,673,682	$	883,758	$	32,673	$	(430,032)	$	486,399
Net income for the period	-		-		-		29,661		29,661
Share options exercised *(note 13, 14)*	1,159,783		11,695		(3,812)		-		7,883
Dividends declared *(note 10)*	-		-		-		(24,638)		(24,638)
Share Incentive Plan purchases, net of grants vested *(note 13, 14)*	7,264		(347)		(4,969)		-		(5,316)
Share-based compensation *(note 13)*	-		-		10,176		-		10,176
Balance at June 30, 2013	117,840,729	$	895,106	$	34,068	$	(425,009)	$	504,165
Net income for the period	-		-		-		(18,194)		(18,194)
Share options exercised *(note 13, 14)*	313,617		3,960		(1,307)		-		2,653
Share issuance *(note 14)*	7,020,000		193,661		-		-		193,661
Dividends declared	-		-		-		(25,550)		(25,550)
Share Incentive Plan purchases, net of grants vested *(note 13, 14)*	-		-		-		-		-
Share-based compensation *(note 13)*	-		-		9,114		-		9,114
Balance at December 31, 2013	125,174,346	$	1,092,727	$	41,875	$	(468,753)	$	665,849
Net income for the period	-		-		-		45,619		45,619
Share options exercised *(note 13, 14)*	619,500		6,971		(2,612)		-		4,360
Dividends declared *(note 10)*	-		-		-		(26,377)		(26,377)
Share Incentive Plan purchases, net of grants vested *(note 13, 14)*	(38,589)		(788)		(4,320)		-		(5,109)
Share-based compensation *(note 13)*	-		-		8,384		-		8,384
Balance at June 30, 2014	**125,755,257**	**$**	**1,098,910**	**$**	**43,327**	**$**	**(449,511)**	**$**	**692,726**

[1] Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan (refer to notes 13 and 14 for additional disclosures).

See accompanying notes to the consolidated interim financial statements

Consolidated Interim Statement of Cash Flows (unaudited)

(in thousand Canadian dollars except as otherwise indicated)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2014**	**2013**	**2014**	**2013**
Operating activities					
Net income before income tax		**$ 37,612**	$ 25,826	**$ 62,007**	40,169
Adjustments for non-cash and other items:					
Unrealized losses (gains) on derivative financial instruments	*18, 19, 20*	**1,345**	(4,502)	**2,936**	1,285
Unrealized foreign exchange losses (gains)		**560**	(176)	**357**	(377)
Depletion and depreciation	*7*	**55,905**	59,223	**106,323**	113,827
Exploration and evaluation	*8*	**482**	859	**2,766**	1,253
Loss on disposal of assets		**72**	301	**311**	273
Amortization of finance fees		**419**	851	**792**	1,165
Share based compensation	*13*	**4,542**	5,526	**8,384**	10,176
Accretion on decommissioning and restoration liability	*12*	**1,549**	1,316	**3,039**	2,609
Decommissioning and restoration costs in period	*12*	**(315)**	(1,064)	**(3,504)**	(1,931)
Change in non-cash working capital	*16*	**(13,558)**	(7,658)	**(18,136)**	(6,695)
Cash flow from operating activities		**88,614**	80,502	**165,276**	161,754
Investing activities					
Exploration and evaluation expenditures	*8*	**(21,869)**	(1,706)	**(49,062)**	(18,508)
Property, plant and equipment expenditures	*7*	**(90,069)**	(55,345)	**(232,976)**	(208,001)
Property acquisitions	*7*	**(13)**	(1)	**(4,238)**	(180)
Proceeds from disposition of property, plant and equipment	*7*	**-**	-	**21**	-
Restricted cash (increase) decrease	*6*	**-**	51	**5,898**	(562)
Change in non-cash working capital	*16*	**(40,616)**	(85,960)	**36,340**	(14,154)
Cash flow used in investing activities		**(152,567)**	(142,961)	**(244,017)**	(241,405)
Financing activities					
Draws on revolving credit facility	*11*	**73,888**	74,709	**105,845**	101,681
Dividends paid to Shareholders	*10*	**(13,198)**	(12,322)	**(26,356)**	(24,597)
Share incentive plan purchases	*13, 14*	**-**	(5,316)	**(5,107)**	(5,316)
Shares issued	*13, 14*	**3,263**	5,388	**4,359**	7,883
Cash flow from financing activities		**63,953**	62,459	**78,741**	79,651
Change in cash		**-**	-	**-**	-
Cash balance, beginning of period		**-**	-	**-**	-
Cash balance, end of period		**-**	-	**-**	-
Cash interest paid		**$ 15,161**	$ 17,387	**$ 18,086**	$ 21,432

See accompanying notes to the consolidated interim financial statements

1. General

Trilogy Energy Corp. ("Trilogy" or the "Company") is a petroleum and natural gas-focused Canadian energy corporation that actively acquires, develops, produces and sells natural gas, crude oil and natural gas liquids. Trilogy's registered office is located at 1400, 332 – 6th Avenue SW, Calgary, Alberta and its petroleum and natural gas extractive operations are situated primarily in the Province of Alberta.

References are made to ("Shares"), consisting of common shares ("Common Shares") and non-voting shares ("Non-Voting Shares").

2. Basis of Preparation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in section I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") which requires publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34 – Interim financial reporting ("IAS 34").

The policies applied in these Interim Financial Statements are based on IFRS issued and outstanding as of July 30, 2014, the date the Interim Financial Statements were approved for release by Trilogy's Audit Committee on behalf of Trilogy's Board of Directors.

The Interim Financial Statements note disclosures do not include all of those required by IFRS for annual financial statements. These Interim Financial Statements should be read in conjunction with the Company's "2013 Annual Consolidated Financial Statements".

The Interim Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 19 and 20).

The Interim Financial Statements include the accounts of the Company and its wholly-owned subsidiaries as the Company obtains all of the economic benefits of the operations of its operating subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries include those entities (including special purpose entities), which Trilogy controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control over another entity. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases.

3. Significant Accounting Judgments, Estimates and Assumptions

The Company makes estimates and assumptions concerning the future that may, by definition, differ from actual results. The estimates and judgments applied by management that most significantly affect the Company's financial statements include: reserve estimation, exploration and evaluation expenditures, impairment of non-financial assets, decommissioning and restoration costs, share-based payments, deferred income taxes, and financial instruments. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within reporting periods.. Additional information on these estimates and judgements are disclosed in note 3 of the 2013 Annual Consolidated Financial Statements.

4. Summary of Significant Accounting Policies

The Interim Financial Statements of the Company follow the same accounting policies and basis of presentation as described in note 4 of the 2013 Annual Consolidated Financial Statements.

5. New Accounting Pronouncements

Effective January 1, 2014, the Company has adopted the following IFRS:

(i) IFRIC 21, Levies. This is an interpretation of IAS 37: Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an “obligating event”). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The applicability IFRIC 21 was not significant to Trilogy’s Interim Financial Statements.

The following standards and amendments have not been adopted as they apply to future periods that may result in future changes to our existing accounting policies and disclosures. Trilogy is currently evaluating the impact that these standards will have on the Company’s results of operations and financial position, however these standards are not expected to have a significant impact on Trilogy’s financial reporting disclosures:

(i) IFRS 15, Revenue from Contracts with Customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2017 onwards.

6. Restricted Cash

The Company has a subsidiary with a cash balance as at December 31, 2013 of $5.9 million that was restricted for settlement against an equivalent amount recorded within accounts payable and accrued liabilities. The entire cash balance was paid out in settlement of the related liability in the first quarter of 2014.

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

7. Property, Plant and Equipment

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at December 31, 2012	2,415,736	13,490	2,429,226
Additions to property, plant, and equipment	327,790	339	328,129
Additions/revisions to future estimated decommissioning and restoration costs (Note 12)	(7,352)	-	(7,352)
Transfers from intangible exploration and evaluation assets (Note 8)	48,618	-	48,618
Acquisitions	33		33
Disposals	(1,409)	-	(1,409)
Balance at December 31, 2013	2,783,416	13,829	2,797,244
Additions to property, plant, and equipment	**231,503**	**507**	**232,010**
Additions/revisions to future estimated decommissioning and restoration costs (Note 12)	**7,954**	**-**	**7,954**
Transfers from intangible exploration and evaluation assets (Note 8)	**30,261**	**-**	**30,261**
Acquisitions	**5,630**	**-**	**5,630**
Disposals	**(331)**	**-**	**(331)**
Balance at June 30, 2014	**3,058,433**	**14,336**	**3,072,768**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2012	1,415,865	8,701	1,424,566
Depletion and depreciation charge	214,875	597	215,472
Impairment charge, net of reversals	12,933	-	12,933
Disposals	(781)	-	(781)
Balance at December 31, 2013	1,642,892	9,298	1,652,190
Depletion and depreciation charge	**105,948**	**375**	**106,323**
Balance at June 30, 2014	**1,748,840**	**9,673**	**1,758,513**
Net carrying value			
At December 31, 2013	1,140,524	4,531	1,145,055
At June 30, 2014	**1,309,593**	**4,663**	**1,314,256**

The cost of property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations of $166.2 million as at June 30, 2014 (December 31, 2013: $156.8). Property, plant and equipment with a carrying value of $48.7 million as at June 30, 2014 (December 31, 2013: $48.2 million) include development assets under construction that are not being depreciated. No borrowing costs were capitalized to property, plant and equipment in respect of the referenced periods.

During the first quarter of 2014, Trilogy completed the acquisition of oil and gas properties in the Grande Prairie area for cash consideration of $4.2 million ($5.5 million gross cost net of $1.3 million for purchase price adjustments). $5.6 million was allocated to PP&E and $1.4 million to decommissioning liabilities.

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

8. Exploration and Evaluation Assets

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
Balance at December 31, 2012	71,933	3,420	75,353
Additions	609	70,793	71,402
Expensed	(3,903)	(1,761)	(5,664)
Transfers to property, plant and equipment (Note 7)	(134)	(48,484)	(48,618)
Acquisitions	180	-	180
Balance at December 31, 2013	68,685	23,968	92,653
Additions	**220**	**48,841**	**49,062**
Expensed	**(1,800)**	**-**	**(1,800)**
Transfers to property, plant and equipment (Note 7)	**(223)**	**(30,038)**	**(30,261)**
Balance at June 30, 2014	**66,882**	**42,771**	**109,654**

The following table reflects exploration and evaluation expenditures that were charged to income:

	Three months-ended June 30		Six months-ended June 30	
	2014	2013	**2014**	2013
Expired mineral leases	**463**	825	**1,800**	1,143
Geological and geophysical costs	**19**	34	**966**	110
Exploration and evaluation expenditures	**482**	859	**2,766**	1,253

Exploration and evaluation expenditures include costs associated with geological and geophysical costs which are immediately expensed to the consolidated statement of comprehensive income.

9. Income Tax

The movement in deferred income tax assets and (liabilities) is as follows:

Net Deferred Income Tax Asset/(Liability)	Property, Plant, & Equipment	Risk Management	Decommissioning Liabilities	Losses & Other	Total
At December 31, 2012	(116,650)	(724)	49,447	168,415	100,488
Expense to earnings	(11,122)	2,024	(1,546)	3,408	(7,235)
Tax asset recorded on share issue costs in shareholders' capital	-	-	-	2,076	2,076
At December 31, 2013	(127,772)	1,300	47,901	173,900	95,329
Expense to earnings	**(18,207)**	**734**	**2,220**	**(1,136)**	**(16,388)**
At June 30, 2014	**(145,978)**	**2,034**	**50,122**	**172,763**	**78,941**

A $16.4 million deferred income tax expense was charged to the consolidated statement of comprehensive income (Six months ended June 30, 2013 - $10.5 million deferred income tax expense). No income tax amounts were recorded directly to equity.

The amount and timing of reversals of temporary differences will be dependent upon, among other things, the Company's future operating results, and acquisitions and dispositions of assets and liabilities. Legislative changes in tax rates or successful challenges by tax authorities of Trilogy's interpretation of tax legislation could materially affect the Company's estimate of current and deferred income taxes.

Trilogy has tax losses of $748 million that are available for carry forward against future taxable income of the entities in which the losses arose. Of this amount, a deferred tax asset has been recognized for $679 million of the losses, representing the Company's probable estimate of future taxable income that could be applied to the total losses.

In 2014, the Company received a letter from the Canada Revenue Agency ("CRA") advising the Company that, subject to submissions by Trilogy, it is proposing to reassess the Company's income tax filings related to its conversion from an income trust to a corporation in early 2010. The proposed reassessments seek to disallow certain tax pools at this time in the amount of $728 million. If these tax pools were to be disallowed it is expected to result in taxable income to prior taxation years of up to $65 million in the aggregate with maximum estimated taxes owing (before applicable interest and penalties) for such years of approximately $16 million and a reduction of $663 million of losses which could have otherwise been carried forward into subsequent taxation years. Should a notice of reassessment be issued, Trilogy would be required to make a payment equal to 50 percent of the cash tax assessed, estimated to be $8 million plus applicable interest. This amount would be refundable on a successful appeal of the reassessments.

Trilogy's management remains of the opinion that, after careful consideration and consultation at the time of the Conversion and at this time, Trilogy's tax returns were correct as filed. If the proposed reassessments are issued, Trilogy's management will vigorously defend Trilogy's tax filing position. Trilogy provided its submission in response to CRA's letter and is awaiting further communication.

The Company has temporary differences in respect of its investments in Canadian subsidiaries for which no deferred taxes have been recorded. As no taxes are expected to be paid in respect of the temporary differences related to its investment in Canadian subsidiaries, the Company has not determined the amount of those temporary differences.

10. Dividends Payable

Dividends declared were $0.105 and $0.21 per Share for the three and six months ended June 30, 2014 and June 30, 2013, respectively. The dividend payable was $4.4 million ($0.035 per Share) as at June 30, 2014 and $4.4 million ($0.035 per Share) as at December 31, 2013.

Trilogy intends to make cash dividends to Shareholders at a level that supports the sustainability of the Company. Such dividends are at the sole discretion of the Company and its Board of Directors and are subject to numerous factors including, but not limited to, the financial performance of the Company, debt covenants and obligations including credit availability, and the current and future capital requirements of the Company.

11. Long-Term Debt

Revolving Credit Facility

Trilogy has a revolving senior secured credit facility with a syndicate of Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The credit facility has the following significant terms:

- total commitments of $725 million, consisting of a $35 million working capital tranche and a $690 million revolving tranche.
- a maturity date of April 30, 2016.
- the working capital and revolving tranches are subject to semi-annual borrowing base reviews.
- advances drawn on the credit facility are secured by a fixed and floating debenture charge over the assets of the Company.

Quarterly financial covenants on the Revolving Credit Facility include:

- a ratio of "Consolidated Debt" to "Adjusted EBITDA" for the twelve month period then ended of not greater than 4.0.
- a ratio of "Senior Debt" to "Adjusted EBITDA" for the twelve month period then ended of not greater than 3.0.;

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

The following four measures are considered Non-GAAP measures:

“Adjusted EBITDA” refers to “Funds flow from operations” in addition to cash interest and tax expenses and certain other items that do not appear individually in the line items of the Company’s financial statements.

“Funds flow from operations” refers to the cash flow from operating activities before net changes in operating working capital as shown in the consolidated statements of cash flows.

“Consolidated debt” generally includes all long-term debt and the arithmetic mean of the net working capital balance for the last two quarters (excluding financial instrument assets and liabilities therein and as adjusted for certain additional items that do not appear individually in the line items of the Company’s financial statements).

“Senior debt” is generally defined as “Consolidated debt” but excluding any indebtedness under the Senior Unsecured Notes.

As at June 30, 2014, the Company is in compliance with all debt covenants.

The effective interest rate on Trilogy’s revolving credit facility for the period (excluding other financing costs) was 4.10 percent. (June 30, 2013 – 4.40 percent).

The Company has letters of credit totalling $9.3 million as at June 30, 2014 (December 31, 2013: $9.4 million). These letters of credit reduce the amount available for draw.

Senior Unsecured Notes

On December 13, 2012, the Company issued $300 million in Senior Unsecured Notes at par value. The notes bear interest semi-annually at 7.25 percent per annum and will mature on December 13, 2019. Interest payable was $1.1 million at June 30, 2014 and $1.1 million at December 31, 2013. The notes rank pari passu with all of Trilogy’s existing indebtedness and are subordinated to all secured indebtedness which includes debt under Trilogy’s revolving credit facility.

The Company, may at its own option, prior to December 13, 2015, redeem the notes at various premiums. To the extent the Company experiences a change in control, each note holder will have the right to require the Company to re-purchase, at 101 percent, all or part of each holders’ notes. The notes were initially recognized at fair value net of transactions costs and are subsequently measured at amortized cost using an effective interest rate of 7.52 percent. (June 30, 2013 – 7.52 percent).

Long-term debt as at June 30, 2014 and December 31, 2013 is comprised of the following:

	Six months-ended June 30, 2014	**Twelve months-ended December 31, 2013**
Revolving credit facility	**363,133**	256,984
Less prepaid interest and unamortized financing costs	**(1,055)**	(1,489)
Carrying value	**362,078**	255,495
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(4,554)**	(4,965)
Carrying value	**295,446**	295,035
Total carrying value of long term debt	**657,524**	550,530

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

Interest expense for the three and six months ended June 30, 2014 and 2013 is comprised of the following:

	Three months-ended June 30		Six months-ended June 30	
	2014	**2013**	**2014**	**2013**
Senior unsecured notes	**5,422**	5,420	**10,786**	10,783
Credit facility interest, charges, and other interest	**4,011**	4,738	**7,294**	8,758
Amortization of finance fees	**419**	851	**792**	1,165
Total interest and finance costs	**9,852**	11,009	**18,872**	20,707

12. Decommissioning and Restoration Liability

	Six months-ended June 30, 2014	Twelve months-ended December 31, 2013
Balance - beginning of period	**191,606**	197,788
Liabilities incurred	**4,588**	10,506
Liabilities acquired	**1,392**	-
Liabilities settled	**(3,504)**	(4,202)
Accretion	**3,039**	5,372
Revision to estimates	**3,366**	(17,858)
Balance – end of period	**200,487**	191,606

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $225.8 million as at June 30, 2014 (December 31, 2013: $218 million).

Settlement of this obligation is expected to be paid from 10 to 30 years and will be funded from the general resources of the Company. The estimated future cash out flows as at June 30, 2014 and December 31, 2013, respectively, have been discounted using an average risk free rate of approximately 3.1 percent and an inflation rate of 2.0 percent.

13. Share-Based Payment Plans

The share-based payment expense recognized for employee services received for the three months ended are as follows:

	Three months-ended June 30		Six months-ended June 30	
	2014	**2013**	**2014**	**2013**
Expense arising from:				
Share Incentive Plan	**1,068**	1,911	**1,506**	3,024
Share Option Plan	**3,474**	3,615	**6,878**	7,152
Total expense arising from share-based payment transactions	**4,542**	5,526	**8,384**	10,176

The Company has a share incentive plan (“SIP”) for employees and officers that annually awards rights to receive Common Shares. Common Shares are purchased in the open market and held by an independent trustee until completion of the vesting period. The fair value of the Common Shares awarded is recognized in share-based compensation over the vesting period, with a corresponding charge to equity. The Common Shares, while held in trust, are recorded as a reduction of share capital.

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

The following table provides a continuity of the SIP Common Shares held in trust at the beginning and end of the following periods:

	Six months-ended June 30, 2014	Twelve months-ended December 31, 2013
Beginning	**94,126**	101,390
Purchases	**190,000**	180,000
Vested	**(151,411)**	(187,264)
Ending	**132,715**	94,126

The cost to the Company of the Common Shares held in trust was $3.6 million as at June 30, 2014 and $2.8 million at December 31, 2013 and was recorded as a reduction to Common Shares outstanding and shareholder capital. Conversely, the vesting of Share Incentive Plan awards increases Common Shares outstanding and shareholder capital.

The Company also has a long-term incentive plan that awards share options to eligible directors, officers and employees (the “Share Option Plan”). Under this plan, holders of vested share options are able to subscribe for the equivalent number of Common Shares at the exercise price within the contractual period prescribed in the governing option agreement. The exercise price of the options is equal to the average trading price five days prior to the grant. The contractual life of each option granted is 4.5 to 5.5 years.

The following table provides a continuity of the share options outstanding at the beginning and end of the following periods:

	Six months-ended June 30, 2014		Twelve months-ended December 31, 2013	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at January 1	**$ 23.78**	**7,267,500**	$ 19.77	7,257,900
Granted	**28.58**	**120,000**	26.97	1,591,000
Exercised	**7.04**	**(619,500)**	7.13	(1,473,400)
Forfeited	**29.03**	**(183,500)**	26.43	(108,000)
Outstanding at period end	**$ 25.31**	**6,584,500**	$ 23.78	7,267,500
Exercisable at period end	**$ 21.76**	**2,039,500**	$ 18.26	2,606,500

The weighted average fair value of options granted during the period was $8.07 per option (2013: $9.76). The significant inputs into the model were as follows:

	June 30, 2014	December 31, 2013
Dividend yield (percent)	1.44 to 1.58	1.43 to 1.57
Expected volatility (percent)	38	38 to 47
Risk-free interest rate (percent)	1.56 to 1.73	1.38 to 2.08
Expected life of options (years)	4 - 5	4 - 5

The weighted average share price at the date of exercise for share options exercised in 2014 was $29.33 (2013: $30.12).

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

The range of exercise prices of the outstanding options and exercisable options as at June 30, 2014 were as follows:

		Outstanding Options		Exercisable Options	
Exercise Price Range	**Weighted Average Contractual Life Remaining**	**Number of Options**	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
$4.85 to $10.19	0.8	644,500	$8.48	475,500	$8.49
$10.20 to 26.86	1.9	1,219,000	$12.34	605,000	$12.15
$26.87 to $27.69	4.8	1,515,000	$26.91	15,000	$27.14
$27.70 to $28.27	3.8	1,679,000	$28.27	343,000	$28.27
$28.28 to $38.74	2.9	1,527,000	$37.91	601,000	$38.09
Total	3.2	6,584,500	$25.31	2,039,500	$21.76

14. Issued Capital

Authorized

Trilogy is authorized to issue an unlimited number of Common Shares and an unlimited number of Non-Voting Shares. The Non-Voting Shares are the same as the Common Shares except they do not carry any voting rights.

Issued and Outstanding

The following provides a continuity of outstanding share capital:

	Common Shares[1]	**Non-Voting Shares**	**Total**	**Amount**
Shares as at December 31, 2012	90,837,820	25,835,862	116,673,682	$ 883,758
Issued - Share Option Plan	1,473,400	-	1,473,400	15,655
Share issuance	7,020,000	-	7,020,000	193,661
Share Incentive Plan purchases	(180,000)	-	(180,000)	(5,316)
Vesting of Share Incentive Plan awards	187,264	-	187,264	4,969
Shares as at December 31, 2013	**99,338,484**	**25,835,862**	**125,174,346**	**$ 1,092,727**
Issued - Share Option Plan	**619,500**	**-**	**619,500**	**6,970**
Share Incentive Plan purchases	**(190,000)**	**-**	**(190,000)**	**(5,107)**
Vesting of Share Incentive Plan awards	**151,411**	**-**	**151,411**	**4,320**
Shares as at June 30, 2014	**99,919,395**	**25,835,862**	**125,755,257**	**$ 1,098,910**

(1) Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan

In 2013, the Company entered into an agreement with a syndicate of underwriters, on a bought deal basis, to sell 7,020,000 Common Shares, at a price of $28.50 per Common Share for gross proceeds of approximately $200 million. The Company incurred approximately $8.4 million of transaction costs in respect of this equity offering, net of tax of $2.1 million.

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

15.Earnings (Loss) per share

The following table reflects the income (loss) and share data used in the basic and diluted earnings per share calculations:

	Three months-ended June 30		Six months-ended June 30	
	2014	**2013**	**2014**	**2013**
Net earnings used in the calculation of total basic and diluted earnings per share	**28,234**	20,017	**45,618**	29,661
Weighted average number of shares for the purposes of basic earnings per share	**125,633,528**	117,428,594	**125,428,380**	117,159,223
Effect of dilution	**1,564,831**	2,610,009	**1,572,361**	2,717,648
Weighted average number of shares	**127,198,359**	120,038,603	**127,000,741**	**119,876,871**
Earnings (loss) per share – Basic	**0.22**	0.17	**0.36**	0.25
Earnings (loss) per share – diluted	**0.22**	0.17	**0.36**	0.25

16.Reconciliation of Changes in Non-Cash Working Capital

	Three months-ended June 30		Six months-ended June 30	
	2014	**2013**	**2014**	**2013**
Decrease (increase) in trade, other receivables and prepaids	**(2,175)**	(1,704)	**(15,705)**	(8,276)
Increase (decrease) in trade, other payables and interest payable	**(51,998)**	(91,914)	**33,909**	(12,573)
	(54,173)	(93,618)	**18,204**	(20,849)
Changes in non-cash operating working capital	**(13,558)**	(7,658)	**(18,136)**	(6,695)
Changes in non-cash investing working capital	**(40,616)**	(85,960)	**36,340**	(14,154)

17.Related Party Transactions

Trilogy had the following transactions with Paramount Resources Ltd. ("Paramount"):

- Pursuant to a services agreement, a Paramount subsidiary provides limited administrative services to the Company. The agreement may be terminated by either party with at least six months written notice. The amount of expenses billed and accrued under this agreement was $0.1 and $0.2 million for the three and six months ended June 30, 2014 (June 30, 2013 - $0.1 and $0.2 million, respectively). Costs associated with this agreement are included as part of the general and administrative expenses in the Company's consolidated statement of comprehensive income.

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

The amounts due from (to) Paramount as at the balance sheet dates are as follows:

June 30, 2014			
Presented in the Balance Sheet as	**Normal Business**	**Services Agreement**	**Dividend**
Trade and other receivables	**203**	**-**	**-**
Trade and other payables	**(121)**	**(74)**	**-**
Dividends payable	**-**	**-**	**(673)**

December 31, 2013			
Presented in the Balance Sheet as	Normal Business	Services Agreement	Dividend
Trade and other receivables	507	-	-
Trade and other payables	(83)	(73)	-
Dividends payable	-	-	(670)

The receivables and payables are unsecured in nature and bear no interest. No provisions were held against receivables or payables from Paramount through 2014 and 2013.

18. Financial Risk Management and Objectives

The main risks arising from Trilogy's financial instruments are credit risk, liquidity risk, commodity price risk, interest rate risk and foreign currency risk. A detailed discussion of these risks as they apply to the Company are listed in note 22 of the 2013 Annual Consolidated Financial Statements.

Credit Risk

Accounts receivable are from customers and joint venture partners in the Canadian petroleum and natural gas industry are subject to normal industry specific credit risk. The Company has not provided an allowance for any of its receivables as they are all considered collectible. The maximum exposure to credit risk at period-end is as follows:

	June 30, 2014	**December 31, 2013**
Trade and other receivables	**79,024**	66,419
Derivatives Financial Instruments[1]	**170**	24
	79,194	66,443

[1] Carried at the estimated fair value of the related financial instruments based on third party quotations.

Liquidity Risk

Trilogy's principal sources of liquidity are its cash flow from operations and amounts available for draw under its revolving credit facility. The variability of commodity prices, among other things, provides uncertainty as to the level of Trilogy's cash flow from operations. As a result, Trilogy may eliminate or adjust the levels of dividends declared to Shareholders and/or adjust operational and capital spending to maintain its liquidity.

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

A contractual maturity analysis for Trilogy's financial liabilities as at June 30, 2014 is as follows:

	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	161,973	-	-	161,973
Dividends payable	4,406	-	-	4,406
Interest payable	1,073			1,073
Derivative financial instruments	8,306	-	-	8,306
Long-term debt and estimated interest[1]	26,795	463,054	321,750	811,599
Total	202,553	463,054	321,750	987,357

[1] Estimated interest related to the revolving credit facility for future periods was calculated using the weighted average interest rate for the year ended June 30, 2014 applied to the debt principal balance outstanding as at that date. Principal repayment on the Company's Revolving Credit Facility is assumed on April 30, 2016. 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 and principal repayment is assumed on December 13, 2019.

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2013 is as follows:

	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	128,004	-	-	128,004
Dividends payable	4,384	-	-	4,384
Interest payable	1,132			1,132
Derivative financial instruments	5,224			5,224
Long-term debt and estimated interest[1]	32,174	355,525	321,750	709,449
Total	170,918	355,525	321,750	848,193

[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, 2013 applied to the debt principal balance outstanding as at that date. Principal repayment on the Company's Revolving Credit Facility was assumed on April 30, 2016. 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 and principal repayment is 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 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 and dividend declaration 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 (1) issue new shares, (2) issue new debt securities, (3) amend, revise, renew or extend the terms of the existing credit facility (4) enter into agreements establishing new credit facilities, (5) adjust the amount of dividends declared to shareholders, (6) adjust capital spending, and/or (7) sell non-core and/or non-strategic assets.

June 30, 2014 (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, 2014 and December 31, 2013 is detailed below:

	June 30, 2014	December 31, 2013
Committed amount that can be drawn from the credit facility (see note 11)	**725,000**	650,000
Outstanding letters of credit	**(9,263)**	(9,423)
Amount that can be drawn after letters of credit	**715,737**	640,577
Revolving credit facility	**(362,078)**	(255,495)
Current liabilities net of current assets	**(92,585)**	(65,523)
Capacity under revolving credit facility	**261,074**	319,559

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

	June 30, 2014	December 31, 2013
Revolving credit facility (see note 11)	**(362,078)**	(255,495)
Senior notes (see note 11)	**(295,446)**	(295,035)
Current liabilities, net of current assets	**(92,585)**	(65,523)
Net debt(1)	**(750,109)**	(616,053)

(1) Net debt is a Non-GAAP measure

Trilogy's exploration and development activities are conducted primarily during colder weather, as ground conditions provide improved access to leases and more efficient execution of its capital expenditure activities. Significant expenditures are made during these periods and the related benefit is realized in future periods. These timing differences can increase Trilogy's debt levels, the repayment of which may occur over future periods. Refer to the Capital Management section above for further discussion on the management of Trilogy's capital structure.

The increase in net debt above can be attributed primarily to the execution of a significant portion of Trilogy's annual capital expenditure budget in the first half of 2014 and dividends paid in 2014, relative to its cashflow from operations.

19. Financial Instruments

Carrying Values

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

	June 30, 2014	December 31, 2013
Financial assets		
Restricted cash	**-**	5,898
Receivables(1)	**79,024**	66,419
Financial instruments fair valued through profit and loss(2)	**170**	24
Financial liabilities		
Other liabilities - non-trading liabilities(1) (3)	**(167,452)**	(133,520)
Financial instruments fair valued through profit and loss(2)	**(8,306)**	(5,224)
Other liabilities - long-term debt(4)	**(657,524)**	(550,530)

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

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

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

(3) Consists of accounts payable, accrued liabilities, and dividend payable.

(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 values 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 estimated to be 106 percent, based on independent broker quotes, of face value or $318 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:

June 30, 2014

	Derivative financial assets (liabilities) – fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
Power derivative contract	**-**	**-**	**105**	**105**
Crude oil and natural gas derivative contracts	**-**	**(8,242)**	**-**	**(8,242)**
		(8,242)	**105**	**(8,137)**

December 31, 2013

	Derivative financial assets (liabilities) – fair value			
	Level 1	Level 2	Level 3	Total
Power derivative contract	-	-	24	24
Crude oil derivative contract	-	(5,224)	-	(5,224)
		(5,224)	24	(5,200)

Commodity Contracts

At June 30, 2014 the Company had the following outstanding crude oil derivative contracts:

Crude Oil

	Financial Forward Sale	
Term	**Volume (Bbl/d)**	**Average USD WTI Price/Bbl**
H2 2014	4,000	$92.88

Power

	Financial Forward Sale	
Term	**MW/h**	**Average CAD Price/MW/h**
2014 through 2016	6	$50.44

Natural Gas

	Financial Forward Sale	
Term	**Volume (GJ/d)**	**Average CAD Price/GJ**
July 2014 through October 2014	20,000	$4.45

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

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 the 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 interim statement of comprehensive income.

The following table summarizes the fair value as at June 30, 2014 and December 31, 2013, and the change in fair value for the six months ended June 30, 2014 and the twelve months ended December 31, 2013.

	Six months-ended June 30, 2014	**Twelve months-ended December 31, 2013**
Derivative asset, beginning of period	**24**	2,897
Unrealized change in fair value	**146**	(2,873)
Derivative asset, end of period	**170**	24
Derivative liability, beginning of period	**(5,224)**	-
Unrealized change in fair value	**(3,082)**	(5,224)
Derivative liability, end of period	**(8,306)**	(5,224)
Unrealized increase (decrease) in fair value for the period	**(2,936)**	(8,097)

20.Gain (Loss) on Derivative Financial Instruments

	Three months-ended June 30		**Six months-ended June 30**	
	2014	**2013**	**2014**	**2013**
Realized gains (losses)				
Crude oil & natural gas	**(4,986)**	**59**	**(7,890)**	80
Power	**(105)**	**853**	**24**	1,025
Foreign exchange	**-**	**-**	**-**	270
Interest swaps	**-**	**136**	**-**	266
Sub-total	**(5,091)**	**1,048**	**(7,866)**	1,641
Unrealized gains (losses)				
Crude oil & natural gas	**(1,401)**	**4,078**	**(3,018)**	**(1,296)**
Power	**56**	**502**	**82**	**549**
Foreign exchange	**-**	**-**	**-**	**(260)**
Interest swaps	**-**	**(78)**	**-**	**(278)**
Sub-total	**(1,345)**	**4,502**	**(2,936)**	(1,285)
Gain (losses) on derivative financial instruments	**(6,436)**	**5,550**	**(10,802)**	356

June 30, 2014 (in thousand Canadian dollars except as otherwise indicated)

21. 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	
	2014	**2013**	**2014**	**2013**
Petroleum and natural gas sales:				
Natural gas	**60,738**	45,029	**128,224**	81,687
Oil	**86,776**	93,746	**148,143**	177,411
Natural gas liquids	**30,583**	20,591	**59,166**	42,939
Total petroleum and natural gas sales	**178,097**	159,366	**335,533**	302,037

22. Commitments

During the first quarter of 2014, Trilogy incurred the following pipeline transportation commitments, in addition to those disclosed in the 2013 annual consolidated financial statements.

	2014	2015	2016	2017	2018	2019 and after	Total
Pipeline transportation [(1)]	-	2,537	3,860	3,679	3,687	15,670	29,446
Total	-	2,537	3,860	3,679	3,687	15,670	29,446

[(1)] Before Trilogy's letters of credit issued to cover certain pipeline transportation commitments

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

M.H. Dilger (2)(5)
President and Chief Executive Officer
Pembina Pipeline Corporation
Calgary, Alberta

R.K. MacLeod (1)(2)(5)
Corporate Director
Calgary, Alberta

W.A. Gobert (1)(3)(4)
Independent Businessman
Calgary, Alberta

R.M. MacDonald (2)(3)(4)
Independent Businessman and Corporate Director
Calgary, Alberta

E.M. Shier (3)(5)
General Counsel, Corporate Secretary & Manager, Land
Paramount Resources Ltd.
Calgary, Alberta

D.F. Textor (1)(6)
Portfolio Manager
Dorset Energy Fund
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Auditors

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Bankers

Bank of Montreal
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The Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

JPMorgan Chase Bank
Toronto, Ontario

Consulting Engineers

InSite Petroleum Consultants Ltd.
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta / Toronto, Ontario

Stock Exchange Listing

The Toronto Stock Exchange – “TET”

Committees of the Board of Directors

(1) Member of the Compensation Committee
(2) Member of the Audit Committee
(3) Member of the Corporate Governance Committee
(4) Nominating Subcommittee
(5) Member of the Environmental, Health & Safety Committee
(6) Lead Director