TRILOGY ENERGY CORP.

Q2 / Second quarter report 2016

	Three Months Ended			Six Months Ended June 30		
	June 30, 2016	**March 31, 2016**	**Change %**	**2016**	**2015**	**Change %**
FINANCIAL						
Petroleum and natural gas sales	**39,125**	45,527	(14)	**84,652**	163,698	(48)
Funds flow						
From operations [1]	**9,722**	8,312	17	**18,034**	67,702	(73)
Per share - diluted	**0.08**	0.07	17	**0.14**	0.54	(73)
Earnings						
Loss before tax	**(37,669)**	(36,785)	2	**(74,455)**	(63,592)	17
Per share - diluted	**(0.30)**	(0.29)	2	**(0.59)**	(0.50)	17
Loss after tax	**(29,112)**	(27,544)	6	**(56,657)**	(47,543)	19
Per share - diluted	**(0.23)**	(0.22)	5	**(0.45)**	(0.38)	19
Capital expenditures						
Exploration, development, land, and facility	**1,090**	22,264	(95)	**23,355**	58,226	(60)
Acquisitions (dispositions) and other - net	**(484)**	73	(763)	**(412)**	(3,853)	(89)
Net capital expenditures	**606**	22,337	(97)	**22,943**	54,373	(58)
Total assets	**1,237,887**	1,257,752	(2)	**1,237,887**	1,542,040	(20)
Net debt [1]	**561,585**	564,389	-	**561,585**	737,018	(24)
Shareholders' equity	**398,975**	422,185	(5)	**398,975**	532,915	(25)
Total shares outstanding (thousands)						
- As at end of period [2]	**126,064**	126,024	-	**126,064**	126,123	-
OPERATING						
Production						
Natural gas (MMcf/d)	**84**	96	(13)	**90**	119	(24)
Oil (Bbl/d)	**4,045**	4,136	(2)	**4,090**	6,213	(34)
Natural gas liquids (Boe/d)	**2,300**	2,601	(12)	**2,450**	4,962	(51)
Total production (Boe/d @ 6:1)	**20,299**	22,786	(11)	**21,543**	30,972	(30)
Liquids Composition (percentage)	**31**	**30**		**30**	**35**	
Average prices before financial instruments						
Natural gas ($/Mcf)	**1.42**	2.70	(47)	**2.10**	3.16	(34)
Crude Oil ($/Bbl)	**51.04**	37.25	37	**44.07**	55.29	(20)
Natural gas liquids ($/Boe)	**45.49**	33.32	37	**39.03**	37.39	4
Average realized price	**21.18**	21.96	(4)	**21.59**	29.20	(26)
Drilling activity (gross)						
Gas	**-**	3	(100)	**3**	8	(63)
Oil	**-**	3	(100)	**3**	5	(40)
Total wells	**-**	6	(100)	**6**	13	(54)

(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.

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, 2016, 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 December 31, 2015 annual consolidated financial statements (" Annual Financial Statements") and related MD&A. 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, numerical references and Oil and Gas advisories which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of August 4, 2016.

Financial and Operating Highlights

- Reported sales volumes for the second quarter of 2016 were lower at 20,299 Boe/d as compared to 22,786 Boe/d in the previous quarter. The decrease in production was attributed to the impact of shut-in production due to low natural gas prices (~ 1,200 Boe/d), forest fires in the Fox Creek area (~ 700 Boe/d), and facility downtime and restrictions (~ 1,000 Boe/d). Natural declines were offset, mostly, by resumed and new well production brought on in the quarter;
- Combined liquids pricing increased quarter over quarter by 37 percent to $49.09/Bbl in the second quarter from $35.73/Bbl in the previous quarter, offset by a reduction in the price for natural gas of 47 percent from $2.70/mcf to $1.42/mcf resulting in the shut-in of natural gas production in the quarter. The decrease in natural gas prices were offset, in part, by significantly lower transportation costs on the commencement of long-term firm service contracts in the second quarter;
- Total operating expenditures decreased to $15.4 million ($8.34/Boe) in the second quarter from $16.9 million ($8.17/Boe) in the previous quarter on the lower production;
- Funds flow from operations [(1)] in the second quarter increased to $9.7 million as compared to $8.3 million in the previous quarter, primarily on lower operating, transportation and general and administrative costs, partially offset by lower sales revenue and higher interest costs;
- Trilogy has experienced significant capital cost efficiencies achieved mainly through improved drilling and completion practices and general decreases in the cost of the related services in the low commodity price environment;
- During the quarter, Trilogy's revolving credit facility agreement was amended. The amendments included:
    - an extension to the maturity date by one year (to April 30, 2018);
    - a reduction in the borrowing base to $300 million (previously $450 million);
    - an increase in pricing for all borrowings in excess of $250 million;
    - the suspension of its Consolidated debt to EBITDA financial covenant ratio until June 30, 2017; and
    - increased limits to its Senior Debt to EBITDA financial covenant ratio;
- Net debt [(1)] decreased to $561.6 million at the end of the second quarter of 2016 from $564.4 at the end of the prior quarter. Capacity under the credit facility at the end of the quarter was $33.3 million, inclusive of its working capital surplus and outstanding letters of credit.

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

Business Overview and Strategy

Trilogy is a 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.

The success of Trilogy's operations is 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 manage costs.

Business Environment and Economic Conditions

World oil over-supply concerns surfacing in the latter half of 2014 through to the date hereof continue to weigh on the realized oil and liquids prices received in Canada. In the United States ("U.S."), crude oil stocks reached record inventories and domestic oil production remained strong throughout this period. These factors, combined with continued strong supply from both Organization of the Petroleum Exporting Countries ("OPEC") and Non OPEC producers continue to reinforce over-supply concerns. Financial instability in Europe and China further contributed to a reduction in the demand and related price for oil and liquids. Strength in the U.S. dollar, relative to the Canadian dollar, provided a partial offset to the reduction in oil prices, increasing the price realized in Canada. Oil prices saw a notable increase in the second quarter of 2016; however significant market volatility in the price for oil continues to reinforce the diversity and uncertainty in the market as to the timing and extent of a sustained recovery in oil and liquids prices. Similarly, gas prices continued to weaken in the latter part of 2014 through to the date hereof as moderate temperatures experienced throughout most of North America during this period failed to significantly draw on gas storage levels. This factor, combined with strong supply from industry continued to place downward pressure on the price of natural gas to the historical low pricing that was experienced in the second quarter of 2016. Lastly, uncertainty created for industry and investors related to the implementation of an elevated provincial carbon tax, changes proposed pursuant to the Alberta government's royalty review and uncertainty regarding approval and construction of a number of proposed pipelines to export producer's oil and gas to new markets deterred investment in Alberta and negatively impacted the prices producers received for their products throughout this period. In 2016, the Alberta government provided some clarity to industry on its New Royalty Framework and on replacement programs for expiring strategic incentive programs, including the Emerging Resources Program and the Enhanced Hydrocarbon Recovery Program, intended to provide royalty incentives to encourage increased production in certain parts of Alberta and enhanced recovery initiatives.

The aforementioned softness in commodity prices and uncertainties continue to have a direct and profound impact on a large number of oil and gas producers in Canada. Producers have had to quickly respond to the depressed commodity price environment in an effort to preserve shareholder value and to continue their existence as a going concern. Financing initiatives, decreases in distribution levels, asset rationalization programs, capital allocation decisions, labour reductions and other cost reduction strategies have been crucial measures that industry has had to adopt in an effort to mitigate the low commodity price environment and successfully compete as an industry in Canada. As at the date hereof, significant uncertainty exists as to the extent and timing of any meaningful and sustained increase in the realized price for oil, gas and natural gas liquids in North America.

In response to the aforementioned decrease in commodity prices, Trilogy quickly adopted several meaningful measures aimed at sustaining its financial health and preserving shareholder value, including:

- discontinuing its monthly dividend for periods subsequent to November 2014;
- reducing capital expenditure levels throughout 2015 and 2016 to be equal to or less than funds flow from operations and targeting only those projects that are strategic and/or meet Trilogy's return on investment requirements;

- continuously evaluating its asset base, identifying and implementing several operational and cost efficiencies;
- shutting in production volumes deemed uneconomic at depressed commodity price levels;
- continuously negotiating with third party contractors and service providers to reduce Trilogy's cost of goods and services;
- implementing reductions to salary and other benefits for its officers, directors and employees;
- disposing of certain assets in 2015 for proceeds of approximately $160.5 million and exploring opportunities to dispose of non-core assets within the Company's portfolio; and
- extending the maturity date and negotiating the relaxation of certain financial covenants in its revolving credit facility.

As commodity prices regain strength, Trilogy expects to continue profitably exploiting its current land base, focusing on plays that meet its investment return criteria and growing production over the long-term. Trilogy is confident in the success of its business model, asset base, and its ability to generate long-term shareholder value.

Outlook Information

In the current natural gas and crude oil commodity price environment, Trilogy expects to manage its business through continued production of profitable wells, asset rationalization and disciplined capital spending. As a growth-oriented corporation, Trilogy must remain flexible in order to respond to changes in commodity prices and royalty structures and believes it can manage its asset base prudently.

Trilogy is strategically positioned in that its Montney oil and gas, Duvernay and Gething oil pools are all economic at current oil and gas prices, mainly due to capital and operating efficiencies realized by Trilogy's staff over the past twelve to eighteen months. Management believes these pools and Trilogy's collective asset base will produce significant profitable growth into the future, and that the past eighteen months have been very important in helping Trilogy solidify its three to five year growth plan. Trilogy will continue to allocate capital and manage its resources to provide the best return to its shareholders. Accordingly, annual guidance for 2016 is estimated as follows:

Average production	22,000 Boe/d
Average operating costs	$8.50 /Boe
Capital expenditures	Equal to or less than funds flow from operations
Funds flow from operation	$55 million – based on average second half 2016 strip pricing of $2.42 (AECO $CDN/GJ) and $44.24 (WTI $US/Bbl)

Operating Results Summary

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

	Q2 2016	Q1 2016	Q2 2015	YTD 2016	YTD 2015
Crude Oil					
West Texas Intermediate monthly average (U.S.$/Bbl)	**45.59**	33.45	57.94	39.52	53.29
Canadian Light Sweet monthly average (Cdn$/Bbl)	**55.01**	41.22	68.88	48.11	61.05
Natural Gas					
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**2.24**	1.99	2.74	2.12	2.77
AECO monthly average (Cdn$/GJ)	**1.42**	1.83	2.67	1.62	2.71
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.29**	1.30	1.25	1.29	1.25

Funds Flow from Operations

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2016	Three Months Ended March 31, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating income[1]	**16,698**	15,688	45,969	**32,386**	89,130
Other income [2]	**43**	217	692	**258**	4,967
Realized financial instrument gains (losses) [3]	**4,438**	4,477	89	**8,915**	(188)
Actual decommissioning and restoration costs	**(544)**	(763)	(529)	**(1,307)**	(1,272)
Operating netback[1]	**20,635**	19,619	46,221	**40,252**	92,637
Interest and financing charges[4]	**(7,825)**	(7,566)	(8,864)	**(15,390)**	(17,456)
General and administrative expenses	**(3,088)**	(3,741)	(3,554)	**(6,828)**	(7,479)
Funds flow from operations[1]	**9,722**	8,312	33,803	**18,034**	67,702
Non-cash items:					
Depletion and depreciation	**(35,186)**	(35,579)	(49,547)	**(70,765)**	(107,054)
Unrealized financial instrument gains (losses)[3]	**(5,954)**	(4,463)	544	**(10,417)**	(183)
Share based compensation	**(5,902)**	(1,988)	(3,370)	**(7,890)**	(6,616)
Exploration expenditures[5]	**(134)**	(772)	(4,052)	**(906)**	(5,519)
Amortization of financing fees	**(297)**	(686)	(340)	**(982)**	(682)
Impairments	**(6)**	(14)	(13,549)	**(20)**	(13,549)
Gain (loss) on disposal of assets	**577**	(56)	3,117	**521**	3,082
Accretion on decommissioning and restoration liability[6]	**(426)**	(492)	(706)	**(920)**	(1,187)
Deferred income tax recovery	**8,557**	9,241	8,265	**17,798**	16,049
Unrealized foreign exchange gains (losses)	**(63)**	(1,046)	(1,046)	**(1,109)**	414
Comprehensive loss	**(29,112)**	(27,544)	(26,881)	**(56,657)**	(47,543)

(1) Refer to the advisory on Non-GAAP measures at the end of this MD&A
(2) Includes realized foreign exchange gains (losses) and other income
(3) See Risk Management section in this MD&A
(4) Excludes amortization of financing fees
(5) Includes costs associated with impairments, geological and geophysical and expired mineral lease costs
(6) Equals the accretion in excess of, or below, actual amounts paid on decommissioning and restoration activities in the period

Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended June 30, 2016	Three Months Ended March 31, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Sales	**21.18**	21.96	31.10	**21.59**	29.20
Transportation costs	**(2.12)**	(4.72)	(2.08)	**(3.49)**	(1.88)
Royalties	**(1.68)**	(1.51)	(1.70)	**(1.59)**	(1.85)
Operating costs	**(8.34)**	(8.17)	(9.86)	**(8.25)**	(9.57)
Operating income[1]	**9.04**	7.57	17.46	**8.26**	15.90
Other income	**0.02**	0.10	0.26	**0.07**	0.89
Realized financial instruments gains (losses) [2]	**2.40**	2.16	0.03	**2.27**	(0.03)
Actual decommissioning and restoration costs	**(0.29)**	(0.37)	(0.20)	**(0.33)**	(0.23)
Operating netback[1]	**11.17**	9.46	17.56	**10.27**	16.52
Interest and financing charges[3]	**(4.24)**	(3.65)	(3.37)	**(3.93)**	(3.11)
General and administrative expenses	**(1.67)**	(1.80)	(1.35)	**(1.74)**	(1.33)
Funds flow from operations[1]	**5.26**	4.01	12.84	**4.60**	12.08

(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 2016 vs. First Quarter 2016 (In thousand dollars except as otherwise indicated)	**Q2 2016**	**Q1 2016**	**Increase (Decrease) Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**83,730**	96,299	(12,569)	(13)
Oil (Bbl/d)	**4,045**	4,136	(91)	(2)
Natural gas liquids (Boe/d)	**2,300**	2,601	(301)	(12)
Total (Boe/d)	**20,299**	22,786	(2,487)	(11)
Liquids Composition (percentage)	**31**	30	1	-
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**1.42**	2.70	(1.28)	(47)
Oil ($/bbl)	**51.04**	37.25	13.80	37
Natural gas liquids ($/Boe)	**45.49**	33.32	12.17	37
Average realized price ($/Boe)	**21.18**	21.96	(0.78)	(4)
Average realized prices after financial instruments [(1)] and before transportation:				
Natural gas ($/Mcf)	**1.42**	2.70	(1.28)	(47)
Oil ($/bbl)	**64.13**	50.05	14.08	28
Natural gas liquids ($/Boe)	**45.49**	33.32	12.17	37
Average realized price ($/Boe)	**23.79**	24.28	(0.49)	(2)
Operating income[(1)]				
Natural gas	**10,819**	23,624	(12,805)	(54)
Oil	**18,786**	14,018	4,769	34
Natural gas liquids	**9,520**	7,885	1,635	21
Total petroleum and natural gas sales before financial instruments	**39,125**	45,527	(6,401)	(14)
Royalties	**(3,100)**	(3,122)	(22)	(1)
Operating costs	**(15,414)**	(16,931)	(1,517)	(9)
Transportation costs	**(3,913)**	(9,786)	(5,873)	(60)
Operating income[(1)]	**16,698**	15,688	1,010	6

(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 2016 over First Quarter 2016

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $4.8 million due to higher realized prices ($5.2 million) offset by lower sales volumes ($0.4 million). NGL sales increased by $1.6 million due to higher realized prices ($2.9 million) offset by reduced sales volumes ($1.3 million). Natural gas sales decreased by $12.8 million due to lower realized prices ($11.2 million) and reduced sales volumes ($1.6 million). The decrease in production was attributed to: natural production declines; the shut-in of uneconomic production; a plant turnaround in the Grande Prairie area (one month); an unscheduled third party plant shutdown in the Kaybob area (one month); and a shut-down and evacuation for approximately five days at Trilogy's operated Kaybob North plant as wildfires came in close proximity to the plant. The decreases were partially offset by new well production from two Montney oil wells that came on-stream in the second quarter.

Royalties – Royalties were lower over the prior quarter on the reduced production, a decrease in the price of natural gas and on the application of new well royalty benefits. These decreases were offset, in part, by higher royalties on an increase in liquids pricing and on the incremental reduction of annual gas cost allowance credits over estimates previously carried.

Operating and Transportation Costs – Operating costs were lower in total and higher on a per unit of production basis in the quarter primarily on the lower production. Transportation decreased primarily on the expiry of short-term, firm service (more expensive) contracts which were replaced with long-term, firm service (less expensive) contracts during the quarter.

Second Quarter 2016 vs. Second Quarter 2015 (In thousand dollars except as otherwise indicated)	**Q2 2016**	**Q2 2015**	**Increase (Decrease)** **Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**83,730**	112,999	(29,269)	(26)
Oil (Bbl/d)	**4,045**	5,559	(1,514)	(27)
Natural gas liquids (Boe/d)	**2,300**	4,533	(2,233)	(49)
Total (Boe/d)	**20,299**	28,926	(8,627)	(30)
Liquids Composition (percentage)	**31**	35	(4)	-
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**1.42**	3.12	(1.70)	(54)
Oil ($/Bbl)	**51.04**	63.51	(12.47)	(20)
Natural gas liquids ($/Boe)	**45.49**	42.83	2.66	6
Average realized price ($/Boe)	**21.18**	31.10	(9.92)	(32)
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**1.42**	3.12	(1.70)	(54)
Oil ($/Bbl)	**64.13**	63.51	0.62	1
Natural gas liquids ($/Boe)	**45.49**	42.83	2.66	6
Average realized price ($/Boe)	**23.79**	31.10	(7.31)	(23)
Operating income (2)				
Natural gas	**10,819**	32,054	(21,235)	(66)
Oil	**18,786**	32,128	(13,341)	(42)
Natural gas liquids	**9,520**	17,670	(8,150)	(46)
Total petroleum and natural gas sales before financial instruments	**39,125**	81,852	(42,727)	(52)
Royalties	**(3,100)**	(4,479)	(1,379)	(31)
Operating costs	**(15,414)**	(25,942)	(10,528)	(41)
Transportation costs	**(3,913)**	(5,462)	(1,549)	(28)
Operating income (2)	**16,698**	45,969	(29,271)	(64)

(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 2016 over Second Quarter 2015

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales decreased by $13.3 million due to lower realized prices ($6.3 million) and on lower volumes ($7.0 million). NGL sales decreased by $8.1 million due to reduced sales volumes ($9.2 million), offset by higher realized prices ($1.1 million). Natural gas sales decreased by $21.2 million due to lower realized prices ($17.5 million) and lower volumes ($3.7 million). The lower production was primarily a result of natural declines in combination with a reduced capital expenditure program, dispositions of producing assets in the second half of 2015 and reduced natural gas liquids volumes and revenues upon the expiry of Trilogy's "NGL Recovery Agreement" with Aux Sable Canada LP in the fourth quarter of 2015. Finally, the shut-in of uneconomic gas production and the deferral of certain workover activities on the drop in commodity prices also contributed to the lower production.

Royalties – The increase in Trilogy's effective royalty rate was attributed primarily to a reduction in the contribution of new well royalty benefits in 2016 over in 2015. In addition, royalty-free revenue in 2015 under Trilogy's previous NGL Recovery Agreement and dispositions of lower royalty (shale gas) production in the second half of 2015 also contributed to the increase in the effective royalty rate for 2016. These increases were partially offset by lower royalties on reduced gas and liquids prices.

Operating and Transportation Costs – Operating costs decreased as a result of the aforementioned lower production and liquids composition. Costs also decreased on the implementation of several cost reduction initiatives and on reduced labor and supplier costs. Transportation costs decreased primarily on the lower production and liquids composition.

Year-to-date 2016 vs Year-to-date 2015 (In thousand dollars except as otherwise indicated)	**YTD 2016**	**YTD 2015**	**Increase (Decrease)** **Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**90,014**	118,781	(28,767)	(24)
Oil (Bbl/d)	**4,090**	6,213	(2,123)	(34)
Natural gas liquids (Boe/d)	**2,450**	4,962	(2,512)	(51)
Total (Boe/d)	**21,543**	30,972	(9,429)	(30)
Liquids Composition (percentage)	**30**	36	(6)	-
Average realized prices before financial instruments and before transportation:				
Natural gas ($/Mcf)	**2.10**	3.16	(1.06)	(33)
Oil ($/Bbl)	**44.07**	55.29	(11.23)	(20)
Natural gas liquids ($/Boe)	**39.03**	37.39	1.64	4
Average realized price ($/Boe)	**21.59**	29.20	(7.61)	(26)
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**2.10**	3.16	(1.06)	(33)
Oil ($/Bbl)	**57.01**	55.29	1.72	3
Natural gas liquids ($/Boe)	**39.03**	37.39	1.64	4
Average realized price ($/Boe)	**24.05**	29.20	(5.14)	(18)
Operating income(2)				
Natural gas	**34,443**	67,935	(33,492)	(49)
Oil	**32,804**	62,181	(29,377)	(47)
Natural gas liquids	**17,405**	33,582	(16,177)	(48)
Total petroleum and natural gas sales before financial instruments	**84,652**	163,698	(79,046)	(48)
Royalties	**(6,222)**	(10,372)	(4,150)	(40)
Operating costs	**(32,345)**	(53,649)	(21,304)	(40)
Transportation costs	**(13,699)**	(10,547)	3,152	30
Operating income(2)	**32,386**	89,130	(56,744)	(64)

(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 2016 over Year-to-date 2015

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales decreased by $29.4 million due to lower realized prices ($12.6 million) and on lower volumes ($16.8 million) . NGL sales decreased by $16.2 million due to lower sales volumes ($17.6 million) offset by higher realized NGL prices ($1.4 million). Natural gas sales decreased by $33.5 million due to lower realized prices ($22.7 million) and on lower volumes ($10.8 million). The lower production was attributed to significantly lower capital spending through the 2015/2016 winter drilling season which reduced the contribution of new well production in 2016 that normally replaces natural production declines. Dispositions of producing assets in the second half of 2015, reduced natural gas liquids volumes and revenues following the expiry of Trilogy's "NGL Recovery Agreement" with Aux Sable Canada LP in the fourth quarter of 2015 and the shut-in of uneconomic gas production in the quarter due to the significant decrease in gas prices in 2016 also contributed to the lower production.

Royalties – The increase in Trilogy's effective royalty rate was attributed primarily to a reduction in the contribution of new well royalty benefits in 2016 versus 2015. In addition, royalty-free revenue in 2015 under Trilogy's previous NGL Recovery Agreement and dispositions of lower royalty (shale gas) production in the second half of 2015 also contributed to the increase in the effective royalty rate for 2016. These increases were partially offset by lower royalties on reduced gas and liquids prices.

Operating and Transportation Costs – Operating costs decreased as a result of the aforementioned lower production and liquids composition and on reduced well and facility workover projects. Costs also decreased on the implementation of several cost reduction initiatives and on reduced labor and supplier costs. Transportation increased primarily on the presence, in the first quarter of 2016, of short-term, firm service (more expensive) contracts which were replaced, in the second quarter of 2016, with long-term, firm service (less expensive) contracts. The lower production and liquids composition in 2016 offset, in part, the aforementioned increase.

Capital Expenditures

	Three Months Ended			Six Months Ended	
(In thousand dollars except where stated otherwise)	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Land	173	15	5	**188**	58
Geological and geophysical	6	3	-	**10**	(16)
Drilling, completions, and tie-ins	(175)	19,920	9,320	**19,745**	52,530
Production equipment and facilities	1,086	2,325	1,609	**3,412**	5,654
	1,090	22,264	10,933	**23,355**	58,226
Disposition proceeds, net of acquisitions	(498)	62	(4,287)	**(436)**	(3,893)
Corporate assets	14	11	(2)	**24**	40
Net capital expenditures	606	22,337	6,644	**22,943**	54,373

Wells Drilled

	Three Months Ended						Six Months Ended			
(Number of wells)	June 30, 2016		March 31, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Natural gas	-	-	3	2.5	-	-	**3**	**2.5**	8	4.2
Oil	-	-	3	3.0	-	-	**3**	**3.0**	5	3.1
Total	-	-	6	5.5	-	-	**6**	**5.5**	13	7.2

(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.

Trilogy executed on a strategic portion of its 2016 spending plans in the first quarter of 2016 given favorable winter access conditions. Capital expenditures in 2016 will be restricted to be within operational cash flow in an effort to preserve shareholder value and promote financial sustainability until commodity prices improve. Current prices do not justify the allocation of capital to many projects, particularly since high initial production rates from horizontal wells make single well economics very sensitive to commodity prices in the first year of production. At the same time, drilling and completion costs have continued to decline over the past year, helping to support activity levels at generally lower commodity prices. As a result, Trilogy will operate with the expectation that commodity prices will be close to current strip pricing forecast and will adjust its capital spending accordingly until there is a clear trend to improving commodity prices.

Depletion and Depreciation Expense

	Three Months Ended			Six Months Ended	
(In thousand dollars except as otherwise indicated)	**June 30, 2016**	**March 31, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Reported amount	**35,186**	35,579	49,547	**70,765**	107,054
Expense per sales volume ($/Boe)	**19.05**	17.16	18.82	**18.05**	19.10

The change in depletion and depreciation expense over the above periods was primarily a function of production levels in the respective periods relative to the Company's estimated oil and gas reserves on a proved developed producing basis. Impairments recorded primarily in the latter half of 2015 reduced the depletable asset base which reduced depletion in 2016. The increase over the prior quarter can be attributed to new well production brought on-stream in the second quarter and on resumed production and the related depletion at Smokey (Duvernay properties) in the Kaybob area

Exploration and Evaluation Expenditures

	Three Months Ended			Six Months Ended	
(In thousand dollars except as otherwise indicated)	**June 30, 2016**	**March 31, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Expired mineral leases	**128**	769	634	**897**	2,117
Impairments	**-**	-	3,417	**-**	3,417
Geological and geophysical	**6**	3	1	**9**	(16)
Exploration and evaluation expenses	**134**	772	4,052	**906**	5,519
Expense per sales volume ($/Boe)	**0.07**	0.37	1.54	**0.23**	0.98

Exploration and evaluation expenditures consist of the costs of expired leases, impairments on exploratory wells and geological and geophysical costs. 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 a well, particularly in a lower commodity price environment. 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. Impairments recorded to the Company's Kaybob West cash generating unit ("CGU") in the second quarter of 2015 and mineral lease expiries in the first quarter of 2015 contributed primarily to the variance in exploration and evaluation expenditures recorded in the above periods.

Impairments on Property, Plant, and Equipment

	Three Months Ended			Six Months Ended	
(In thousand dollars except as otherwise indicated)	**June 30, 2016**	**March 31, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Property, plant, and equipment	**-**	-	13,549	**-**	13,549
Expense per sales volume ($/Boe)	**-**	-	5.15	**-**	2.42

In conjunction with the aforementioned impairments recorded within Exploration and Evaluation assets, Trilogy also recorded impairment to its property, plant, and equipment. The impairments arose primarily from a significant reduction year over year to the forecast prices and related future value of the reserves to Trilogy's CGUs in the Grande Prairie area.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2016	Three Months Ended March 31, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Salaries and other benefits	**5,503**	6,236	6,479	**11,739**	13,850
Office and communications	**1,013**	1,113	1,141	**2,126**	2,291
Corporate and other	**534**	514	824	**1,047**	1,619
Overhead recoveries and reclassifications to operating costs	**(3,962)**	(4,122)	(4,891)	**(8,085)**	(10,282)
Reported amount	**3,088**	3,741	3,554	**6,828**	7,479
Expense per sales volume ($/Boe)	**1.67**	1.80	1.35	**1.74**	1.33

General and administrative expenses were lower in the second quarter over the prior quarter; primarily on reduced employer related costs incurred (CPP/EI) and on salary and benefit reductions implemented in the quarter. Year over year, general and administrative expenses were lower mainly on salary and benefit reduction measures implemented in the fourth quarter of 2015 and further measures implemented in the second quarter of 2016. Negotiated reductions for consulting services and reduced corporate and legal costs, partially offset by lower overhead recoveries on reduced Company operated capital expenditures, also contributed to lower general and administrative costs in 2016 over 2015.

Share Based Compensation

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2016	Three Months Ended March 31, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Share Incentive Plan	**26**	90	(619)	**116**	(86)
Share Option Plan	**5,876**	1,898	3,989	**7,774**	6,702
Reported Amount	**5,902**	1,988	3,370	**7,890**	6,616
Expense per sales volume ($/Boe)	**3.20**	0.96	1.28	**2.01**	1.18

Share based compensation expense in the second quarter of 2016 was higher than in prior quarters pursuant to the cancellation of approximately 5.5 million stock option awards (prior to their expiry date) which required the acceleration of any unamortized option grant fair value (of approximately $5.0 million) to be charged to share based compensation. Refer to note 12 of Interim Financial Statements for more information on share based compensation. Prospectively, share based compensation expense will be reduced for this accelerated amortization.

Interest, Financing, and Accretion Charges

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2016	Three Months Ended March 31, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Accretion on decommissioning and restoration liability	**971**	1,256	1,235	**2,227**	2,459
Interest and other finance costs[1]	**8,121**	8,252	9,204	**16,373**	18,138
Expense per sales volume ($/Boe)	**4.40**	3.98	3.50	**4.18**	3.24

[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 the three and six months ended June 30, 2016 was lower compared to the prior quarters and years on the reduced discount rate from 2.2 to 1.7 percent.

Interest expense in the second quarter was lower relative to the first quarter of 2016 primarily on reduced financing fee amortization and standby charges on a reduced borrowing base, offset, in part, by higher interest charges on increased lender margins and average debt levels on Trilogy's revolving credit facility. Year over year, lower average debt levels in 2016 (on the application of significant asset dispositions proceeds in the second half of 2015) and reduced standby charges were offset, in part, by increased lender margins on the revolving credit facility. For additional information on Trilogy's long-term debt, refer below under the "Long-term Debt" section of this MD&A and to Note 10 of the Interim Financial Statements.

Risk Management

Financial Risks

Trilogy's main financial risks include, but are not limited to, 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 2015 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, are 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.

	Three Months Ended			Six Months Ended	
(In thousand dollars except as otherwise indicated)	**June 30, 2016**	**March 31, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Realized gain (loss) on financial instruments	**4,439**	4,477	89	**8,915**	(188)
Unrealized loss on financial instruments	**(5,954)**	(4,463)	544	**(10,417)**	(183)
Total gain (loss) on financial instruments	**(1,515)**	14	633	**(1,502)**	(371)
Realized gain (loss) on financial instruments ($/Boe)	**2.40**	2.16	0.03	**2.27**	(0.03)

Trilogy may enter 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. Refer to Note 17, 18, and 19 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:

Power

Term	MW/h	Average CAD Price/MW/h
2016	6	$50.44

Crude Oil

Term	Volume (Bbl/d)	Average WTI Price/Bbl
2016 - Sales	3,000	$77.18 CAD
2016 - Purchases	3,000	$59.53 CAD
2017 - WTI Collar	500	$38.00 -- $57.50 USD
2017 - WTI Collar	500	$42.00 -- $52.90 USD

Natural Gas

Term	Volume (GJ/d)	Average CAD Price/GJ
July 2016 - December 2016	20,000	$2.43

Foreign Exchange

Weekly ending FX rate trading range: (CAD per USD)		USD sell per week on trading range: (In thousand dollars except as otherwise indicated)			Weekly premium receipt within trading range:	Expiry
Lower	Upper	Below lower	Between range	Above upper		
1.1950	1.4275	NIL	Nil, receive weekly premium	$750 notional at upper range	$7.5	December 2016

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, 2016	December 31, 2015
Current liabilities net of current assets - deficit (surplus)	**(4,653)**	10,622
Long-term debt	**566,238**	533,545
Net debt[1]	**561,585**	544,167
Shareholders' equity	**398,975**	447,742
Total	**960,560**	991,909

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

Refer to Note 17 of the Interim Financial Statements for further disclosures on liquidity and capital management.

Working Capital

The working capital deficiency is funded by cash flow from operations and draw-downs from the Company's Revolving Credit Facility. Fluctuations in Trilogy's working capital deficit arises primarily on production levels, commodity price changes, capital expenditure levels and valuation changes in its derivative financial instruments.

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 Note 10 and 17 of Trilogy's Interim Financial Statements. Timing differences between capital expenditures made and any related operational benefit thereon will create substantial volatility in Trilogy's debt levels. Asset dispositions and acquisitions will also significantly impact debt levels at any given time.

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 London Interbank Offered Rate, plus an applicable margin. Amounts borrowed in excess of $250 million attract a further premium over the applicable margin. Trilogy's total commitments of $300 million, as of June 30, 2016, consist of:

- A working capital and revolving tranche of $35 million and $265 million, respectively.

Amounts drawn on the working capital and revolving tranches facility are due upon their maturity on April 30, 2018. The Company's quarterly financial covenants are as follows:

A covenant ratio of "Senior Debt" to "Adjusted EBITDA" for the preceding twelve month period for all fiscal quarters ended of not greater than:

- 3.50 at June 30, 2016;
- 4.50 at September 30, 2016, December 31, 2016, and March 31, 2017;
- 3.75 at June 2017, September 2017, and December 2017; and
- 3.25 at March 31, 2018 and thereafter.

The covenant ratio of "Consolidated Debt" to "Adjusted EBITDA" has been suspended until June 30, 2017, at which time the ratio for the preceding twelve month period for all fiscal quarters ended will be not greater than:

- 6.75 at June 30, 2017;
- 5.75 at September 30, 2017;
- 5.00 at December 31, 2017;
- 4.75 at March 31, 2018;
- 4.50 at June 30, 2018;
- 4.25 at September 30, 2018;
- 4.00 at December 31, 2018 and thereafter.

The Revolving Credit Facility is subject to semi-annual borrowing base reviews. The size of the committed credit facility is based primarily on the value of Trilogy's producing petroleum and natural gas assets as determined by the lenders. Dispositions and acquisitions of assets may also decrease or increase the borrowing base respectively. In the event that the lending syndicate reduces the borrowing base below the amount drawn at the time of the redetermination, Trilogy has 60 days to eliminate any shortfall by providing additional security or guarantees satisfactory to the lenders or by repaying amounts in excess of the redetermined borrowing base. Advances drawn on the credit facility are secured by a fixed and floating debenture charge over the assets of the Company.

As at June 30, 2016, the Company is in compliance with all debt covenants. Trilogy's Senior Debt to Adjusted EBITDA financial ratio for the preceding twelve month period was 3.04. The effective interest rate on Trilogy's Revolving Credit Facility for the six month period (excluding other financing costs) was 3.22 percent. (June 30, 2015 – 2.80 percent). The Company has letters of credit totalling $2.3 million as at June 30, 2016 (December 31, 2015: $3.5 million) which reduce the amount available for draw. As at June 30, 2016, the Company netted against its credit facility balance U.S. cash holdings having a Canadian equivalent of $12.8 million as it periodically converts its U.S. cash holdings to Canadian dollars to repay the credit facility.

Refer to Note 17 of the Interim Financial Statements for further disclosures on liquidity and capital management.

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 13 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 may redeem the Notes at a price of 103.625 percent, beginning December 13, 2015, decreasing down to 100 percent after December 13, 2018, plus applicable interest, subject to certain conditions.

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 transaction costs and are subsequently measured at amortized cost using an effective interest rate of 7.53 percent. (June 30, 2015 – 7.53 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.

As at June 30, 2016, the Company is in compliance with all debt covenants.

Contractual Obligations

For a detailed account of Trilogy's commitments, refer to note 23 of the 2015 Annual Consolidated Financial Statements and related Management Discussion and Analysis. No material change occurred as at June 30, 2016 in respect of Trilogy's estimated contractual obligations from those disclosed at December 31, 2015.

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, 2014	105,017,662	20,835,862	125,853,524	$	1,100,616
Issued - Share Option Plan	203,740	-	203,740		2,287
Normal Course Issuer Bid	(100,000)	-	(100,000)		(902)
Vesting of Share Incentive Plan awards	66,317	-	66,317		1,783
Shares as at December 31, 2015	**105,187,719**	**20,835,862**	**126,023,581**	**$**	**1,103,784**
Vesting of Share Incentive Plan awards	**39,924**	**-**	**39,924**		**1,073**
Shares as at June 30, 2016	**105,227,643**	**20,835,862**	**126,063,505**	**$**	**1,104,857**

[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 4,737,460 as at June 30, 2016 and as at the date hereof, of which 1,559,500 and 1,561,500 share options were exercisable, respectively. Refer to Note 12 of the Interim Financial Statements for additional disclosures.

Income Taxes

The Company recorded a future income tax recovery year to date in 2016 of $17.8 million ($16.0 million future income tax recovery over the same period in 2015). The Company's statutory tax rate of 27 percent was decreased to an effective annual tax rate of 24 percent as a result of the share based compensation expense of $7.9 million in Trilogy's consolidated interim statement of comprehensive loss which are not deductible for tax purposes. Refer to Note 9 of the Interim Financial Statements for additional income tax disclosures.

Trilogy's management estimates that it will not incur current income taxes in the foreseeable future given its significant tax pool balances and expectations of, among other things, future capital expenditure levels and funds flow from operations.

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 $0.2 million for the six months ended June 30, 2016. The Company and Paramount also had transactions with each other arising from normal business activities.

Quarterly Financial Information

(In thousand dollars except per share amounts)	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**
Revenue after financial instruments, royalties and other income	**34,489**	41,590	62,487	74,874
Loss before tax	**(37,669)**	(36,785)	(17,646)	(95,826)
Net loss	**(29,112)**	(27,544)	(19,248)	(70,929)
Loss per Share (in full amounts):				
Basic	**(0.23)**	(0.22)	(0.15)	(0.56)
Diluted	**(0.23)**	(0.22)	(0.15)	(0.56)

	Q2 2015	**Q1 2015**	**Q4 2014**	**Q3 2014**
Revenue after financial instruments, royalties and other income	77,652	80,686	125,683	147,685
Earnings (loss) before tax	(35,146)	(28,447)	(54,464)	36,714
Net earnings (loss)	(26,881)	(20,662)	(133,331)	26,700
Earnings (loss) per Share (in full amounts):				
Basic	(0.21)	(0.16)	(1.06)	0.21
Diluted	(0.21)	(0.16)	(1.06)	0.21

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. Gains and (losses) on dispositions, impairments and other charges to deferred tax assets, exploratory and evaluation assets, property, plant, and equipment, goodwill and expiry of mineral land leases can also create significant volatility in Trilogy's net earnings. 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 producing 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 high degree of certainty (at least 90% confidence at the aggregate corporate level) 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. Aggregate corporate proved plus probable reserves are attributed to known accumulations and it is equally likely that the actual remaining quantities to be recovered will be greater or less than the reserves estimated.

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 7 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 of the Annual Financial Statements for further 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 11 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 12 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 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 17, 18, and 19 of the Interim Financial Statements for further details.

New Accounting Pronouncements

There were no new accounting standards that were effective January 1, 2016. Future accounting pronouncements with a potential impact on the Company are summarized in Note 5 of the 2015 Annual Consolidated Financial Statements.

Internal Control over Financial Reporting

As at December 31, 2015, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") evaluated and concluded that the design and operation of its Disclosure Controls and Procedures ("DC&P") as defined in Section 1.1 of NI 52-109 were effective. As at December 31, 2015, the CEO and CFO also evaluated and concluded that the design and operation of the Company's Internal Controls over Financial Reporting ("ICFR") were effective.

There were no changes that occurred during the period covered by this MD&A that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

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 2016 and beyond;
- forecast 2016 annual production levels, funds flow from operations and other measures of profit, capital expenditures, spending levels and operating costs;
- Trilogy's intention to maintain financial sustainability in the current depressed commodity price environment by, without limitation, rationalizing assets, reducing costs, controlling capital spending and operating within expected annual funds flow from operations, along with Management's beliefs regarding the impact of such measures on Trilogy's operations and financial position;
- expectations regarding future commodity prices for crude oil, natural gas, NGLs and related products and the potential impact to Trilogy of commodity price fluctuations;
- the quality and profitability of Trilogy's land base and its ability to provide Trilogy with the opportunity to grow annual production and create long-term shareholder value;
- operating, finding and development, decommissioning, asset retirement, restoration and other costs and the anticipated results of Trilogy's cost cutting measures;
- the anticipated impact of government royalty regimes and incentive programs affecting Trilogy including, without limitation, the Alberta Government's Modernized Royalty Framework, Emerging Resources Program and Enhanced Hydrocarbon Recovery Program;
- future expenditures and future allowances relating to environmental matters and abandonment and reclamation obligations and Trilogy's ability to comply with and fund same;
- the term of and borrowing capacity under Trilogy's credit facility and projections regarding the liquidity of Trilogy to enable it to pursue its growth objectives in the future;
- pro-forma debt levels and reduction of net debt;
- projected results of hedging contracts and other financial instruments;
- income taxation of Trilogy; estimates of tax assets, tax pools and Trilogy's future taxability and deferred tax assets; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, and results of operations or performance.

Statements regarding “reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future.

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, condensate, NGLs and other commodity pricing and supply;
- funds flow from operations and cash flow consistent with expectations;
- current reserves estimates;
- credit facility availability and access to sources of funding for Trilogy's planned operations and expenditures;
- the ability of Trilogy to service and repay its debt when due;
- current production forecasts and the relative mix of crude oil, natural gas and NGLs therein;
- geology applicable to Trilogy's land holdings;
- the extent and development potential of Trilogy's assets (including, without limitation, Trilogy's Kaybob area Montney oil and gas assets, the Duvernay Shale play and Gething assets, among others);
- the ability of Trilogy and its industry partners to obtain drilling and operational results, improvements and efficiencies consistent with expectations (including in respect of anticipated

production volumes, reserves additions and NGL yields);
- well economics;
- decline rates;
- foreign currency, exchange and interest rates;
- royalty rates, taxes and capital, operating, general & administrative and other costs and expenses;
- assumptions regarding royalties and expenses and the applicability and continuity of royalty regimes and government incentive programs to Trilogy's operations;
- general business, economic, industry and market conditions;
- 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 equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its evaluations and activities;
- the ability of Trilogy to secure adequate product processing, transportation, fractionation and storage capacity on acceptable terms or at all and assumptions regarding the timing and costs of run-times, outages and turnarounds;
- the ability of Trilogy to market its oil, natural gas, condensate, other NGLs and other products successfully to current and new customers;
- expectation that counterparties will fulfill their obligations under operating, processing, marketing and midstream agreements;
- the timely receipt of required regulatory approvals;
- the continuation of assumed tax regimes, estimates and projections in respect of the application of tax laws and estimates of deferred tax amounts, tax assets and tax pools; and
- the extent of Trilogy's liabilities.

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, condensate and other natural gas liquids and commodity prices;
- the ability to generate sufficient funds 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 ;
- the possibility that Trilogy will not r complete a process to evaluate opportunities to advance its Duvernay shale assets in the near future or at all;
- uncertainties as to the availability and cost of financing;
- Trilogy's ability to satisfy maintenance covenants within its credit and debt arrangements;
- the risk and effect of a downgrade in Trilogy's credit rating;
- fluctuations in foreign currency, exchange rates and interest rates;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil, natural gas, condensate and other natural gas liquids, and market demand;
- risks and uncertainties involving the geology of oil and gas;
- the uncertainty of reserves estimates reserves life;
- the uncertainty of estimates and projections relating to future production and NG yields as well as costs and expenses;
- the ability of Trilogy to add production and reserves through development and exploration activities and acquisitions;
- Trilogy's ability to secure adequate product processing, transmission, transportation, fractionation and storage capacity on acceptable terms and 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 and the risk that Trilogy may not be able to enter into arrangements for the sale of its sales volumes;
- volatile business, economic and market conditions;
- general risks related to strategic and capital allocation decisions, including potential delays or 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;
- risks and costs associated with environmental, regulatory and compliance, including those potentially associated with hydraulic fracturing, greenhouse gases and "climate change" and the cost to Trilogy in order to comply with same;
- weather conditions;
- the possibility that government policies, regulations or laws may change, including risks related to the imposition of moratoriums;
- the possibility that regulatory approvals may be delayed or withheld;
- risks associated with Trilogy's ability to enter into and maintain leases and licenses;
- uncertainty with regard to royalty payments and the applicability of and changes to royalty regimes and incentive programs including, without limitation, applicable royalty incentive regimes and the Natural Gas Deep Drilling Program, the Alberta Government's recently announced Modernized Royalty Framework and the Emerging Resources Program;
- imprecision in estimates of product sales, commodity prices, capital expenditures, tax pools, tax deductions available to Trilogy, changes to and the interpretation of tax legislation and regulations;
- 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, 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" plus cash interest, tax expenses, certain other items (accrued cash remuneration costs for its employees – deducted from EBITDA when paid) that do not appear individually in the line items of the Company's financial statements in addition to pro-forma adjustments for properties acquired or disposed of in the period.

"Consolidated debt" generally includes all long-term debt plus any issued and undrawn letters of credit, less any cash held.

"Finding and development costs" refers to all capital expenditures and costs of acquisitions, excluding expenditures where the related assets were disposed of by the end of the year, 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 charges, and transportation costs. Management uses this metric to measure the discrete operating results of its oil and gas properties.

“Operating netback” refers to operating income plus realized financial instrument gains and losses and other income minus actual decommissioning and restoration costs incurred. Operating netback provides management with a more fulsome metric on its oil and gas properties considering strategic decisions (for example, hedging programs) and associated full life cycle charges.

“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 2016, the ratio between Trilogy’s average realized oil price and the average realized natural gas price was approximately 36:1 (“Value Ratio”). The Value Ratio is obtained using the Q2 2016 average realized oil price of $51.04 (CAD$/Bbl) and the Q2 2016 average realized natural gas price of $1.42 (CAD$/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.

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, 2016		December 31, 2015
ASSETS					
Current assets					
Trade and other receivables	*16, 17, 18*		**23,085**		25,225
Derivative financial instruments	*17, 18, 19*		**9,861**		19,073
Prepaids			**4,548**		1,252
			37,494		45,550
Non-current assets					
Property, plant and equipment	*6, 7*		**1,006,450**		1,050,340
Exploration and evaluation assets	*6, 7*		**68,238**		62,695
Deferred tax asset	*9*		**47,202**		29,404
Goodwill			**78,503**		78,503
Total assets		**$**	**1,237,887**	$	1,266,492
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	*16, 17, 18*	**$**	**29,701**	$	54,178
Interest payable	*10*		**1,073**		1,132
Derivative financial instruments	*17, 18, 19*		**2,067**		862
			32,841		56,172
Non-current liabilities					
Long-term debt	*10, 17, 18*		**566,238**		533,545
Decommissioning and restoration liability	*11*		**239,833**		229,033
Total liabilities			**838,912**		818,750
Shareholders' equity					
Shareholders' capital	*12, 13*		**1,104,857**		1,103,784
Contributed surplus			**66,615**		59,798
Accumulated deficit			**(772,497)**		(715,840)
			398,975		447,742
Total shareholders' equity and liabilities		**$**	**1,237,887**	$	1,266,492

See accompanying notes to the consolidated financial statements

Consolidated Interim Statement of Comprehensive Loss (unaudited)

(in thousand Canadian dollars except per share amounts)

	Note	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue and other					
Petroleum and natural gas sales	*20*	**$ 39,125**	$ 81,852	**$ 84,652**	$ 163,698
Royalties		**(3,100)**	(4,479)	**(6,222)**	(10,372)
Revenue		**36,025**	77,373	**78,430**	153,326
Foreign exchange gain (loss)		**(67)**	(463)	**(959)**	1,005
Gain (loss) on derivative financial instruments	*17, 18, 19*	**(1,515)**	633	**(1,502)**	(371)
Other income		**46**	109	**108**	4,377
		34,489	77,652	**76,077**	158,337
Expenses					
Operating and production		**15,414**	25,942	**32,345**	53,649
Transportation		**3,913**	5,462	**13,699**	10,547
Depletion and depreciation	*6*	**35,186**	49,547	**70,765**	107,054
Impairment	*8*	**-**	13,549	**-**	13,549
Exploration and evaluation	*7*	**134**	4,052	**906**	5,519
Gain on disposal of assets		**(571)**	(3,117)	**(501)**	(3,082)
General and administrative		**3,088**	3,554	**6,828**	7,479
Share-based compensation	*12*	**5,902**	3,370	**7,890**	6,616
Accretion on decommissioning and restoration liability	*11*	**971**	1,235	**2,227**	2,459
Interest and other finance costs	*10*	**8,121**	9,204	**16,373**	18,138
		72,158	112,798	**150,532**	221,929
Loss before income tax		**(37,669)**	(35,146)	**(74,455)**	(63,592)
Income tax recovery					
Deferred	*9*	**(8,557)**	(8,265)	**(17,798)**	(16,049)
Comprehensive loss		**$ (29,112)**	$ (26,881)	**$ (56,657)**	$ (47,543)
Loss per share	*14*				
- Basic		**$ (0.23)**	(0.21)	**$ (0.45)**	(0.38)
- Diluted		**$ (0.23)**	(0.21)	**$ (0.45)**	(0.38)

See accompanying notes to the consolidated 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, 2015	125,853,524	$	1,100,616	$	49,701	$	(578,182)	$	572,135
Net loss for the period	-		-		-		(47,543)		(47,543)
Share options exercised *(note 12, 13)*	203,740		2,288		(579)		-		1,708
Share Incentive Plan purchases, net of grants vested *(note 12, 13)*	65,902		1,771		(1,771)		-		-
Share-based compensation *(note 12)*	-		-		6,616		-		6,616
Balance at June 30, 2015	126,123,166	$	1,104,675	$	53,966	$	(625,726)	$	532,915
Net loss for the period	-		-		-		(90,114)		(90,114)
Normal Course Issuer Bid (note 13)	(100,000)		(902)		457		-		(445)
Share Incentive Plan purchases, net of grants vested *(note 12, 13)*	415		12		(12)		-		-
Share-based compensation *(note 12)*	-		-		5,386		-		5,386
Balance at December 31, 2015	**126,023,581**	**$**	**1,103,784**	**$**	**59,798**	**$**	**(715,840)**	**$**	**447,742**
Net loss for the period	-		-		-		(56,657)		(56,657)
Share Incentive Plan purchases, net of grants vested *(note 12, 13)*	39,924		1,073		(1,073)		-		-
Share-based compensation *(note 12)*	-		-		7,890		-		7,890
Balance at June 30, 2016	**126,063,505**	**$**	**1,104,857**	**$**	**66,615**	**$**	**(772,497)**	**$**	**398,975**

[1] Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan (refer to notes 12 and 13 for additional disclosures).

See accompanying notes to the consolidated financial statements

Consolidated Interim Statement of Cash Flows (unaudited)

(in thousand Canadian dollars except as otherwise indicated)

	Note	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Operating activities					
Net loss before income tax		**$ (37,669)**	$ (35,146)	**$ (74,455)**	$ (63,592)
Adjustments for non-cash and other items:					
Unrealized (gains) losses on derivative financial instruments	*17, 18, 19*	**5,954**	(544)	**10,417**	183
Unrealized foreign exchange (gains) losses		**63**	1,046	**1,109**	(414)
Depletion and depreciation	*6*	**35,186**	49,547	**70,765**	107,054
Exploration and evaluation	*7*	**134**	4,052	**906**	5,519
Impairments	*8*	**-**	13,549	**-**	13,549
Gain on disposal of assets		**(571)**	(3,117)	**(501)**	(3,082)
Amortization of finance fees		**297**	340	**982**	682
Share based compensation	*12*	**5,902**	3,370	**7,890**	6,616
Accretion on decommissioning and restoration liability	*11*	**971**	1,235	**2,227**	2,459
Decommissioning and restoration costs in period	*11*	**(544)**	(529)	**(1,307)**	(1,272)
Change in non-cash working capital	*15*	**(18,407)**	(13,415)	**(13,272)**	(25)
Cash flow from operating activities		**(8,684)**	20,388	**4,762**	67,678
Investing activities					
Exploration and evaluation expenditures	*7*	**(237)**	(473)	**(6,439)**	(6,513)
Property, plant and equipment	*6*	**(867)**	(10,458)	**(16,939)**	(51,755)
Proceeds from disposition of property, plant and equipment	*6*	**498**	4,287	**436**	3,893
Change in non-cash working capital	*15*	**(11,821)**	(14,817)	**(12,420)**	(17,414)
Cash flow used in investing activities		**(12,427)**	(21,461)	**(35,362)**	(71,789)
Financing activities					
(Repayments) Draws on revolving credit facility	*10*	**21,111**	(635)	**30,600**	2,403
Shares issued	*12, 13*	**-**	1,708	**-**	1,708
Cash flow from financing activities		**21,111**	1,073	**30,600**	4,111
Change in cash		**-**	-	**-**	-
Cash balance, beginning of period		**-**	-	**-**	-
Cash balance, end of period		**-**	-	**-**	-
Cash interest paid		**$ 13,971**	$ 15,146	**$ 16,120**	$ 18,688

See accompanying notes to the consolidated 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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 August 4, 2016, 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 have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 18 and 19). All values are rounded to the nearest thousand except where otherwise indicated.

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 2015 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 2015 Annual Consolidated Financial Statements.

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

5. New Accounting Pronouncements

There were no new accounting standards that were effective January 1, 2016. Future accounting pronouncements that impact on the Company are summarized in Note 5 of the 2015 Annual Consolidated Financial Statements.

6. Property, Plant and Equipment

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at December 31, 2014	3,248,074	14,708	3,262,781
Additions to property, plant, and equipment	73,290	152	73,442
Additions/revisions to future estimated decommissioning and restoration costs (Note 11)	1,045	-	1,045
Transfers from intangible exploration and evaluation assets (Note 7)	18,182	-	18,182
Acquisitions	(93)	-	(93)
Disposals	(123,667)	-	(123,667)
Balance at December 31, 2015	3,216,831	14,860	3,231,690
Additions to property, plant, and equipment	**16,906**	**24**	**16,930**
Additions/revisions to future estimated decommissioning and restoration costs (Note 11)	**9,879**	**-**	**9,879**
Disposals	**(101)**	**-**	**(101)**
Balance at June 30, 2016	**3,243,515**	**14,884**	**3,258,398**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2014	1,877,868	10,061	1,887,930
Depletion and depreciation charge	188,937	890	189,827
Impairment charge	153,991	-	153,991
Disposals	(50,397)	-	(50,397)
Balance at December 31, 2015	2,170,400	10,951	2,181,351
Depletion and depreciation charge	**70,305**	**460**	**70,765**
Disposals	**(168)**	**-**	**(168)**
Balance at June 30, 2016	**2,240,537**	**11,411**	**2,251,948**
Net carrying value			
At December 31, 2015	1,046,431	3,909	1,050,340
At June 30, 2016	**1,002,978**	**3,473**	**1,006,450**

The cost of property, plant and equipment includes amounts in respect of the provision for decommissioning and restoration obligations of $201.3 million as at June 30, 2016 (December 31, 2015: $191.4). Property, plant and equipment with a carrying value of $30.7 million as at June 30, 2016 (December 31, 2015: $31.8 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. In 2015, the Company completed several dispositions of certain properties in the Kaybob area for cash consideration of $160.5 million.

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

7. Exploration and Evaluation Assets

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
Balance at December 31, 2014	72,669	13,356	86,025
Additions	1,184	6,481	7,664
Expensed	(3,975)	(8,733)	(12,708)
Transfers to property, plant and equipment (Note 6)	(7,079)	(11,103)	(18,182)
Acquisitions	282	-	282
Dispositions	(386)	-	(386)
Balance at December 31, 2015	62,695	-	62,695
Additions	**192**	**6,247**	**6,439**
Expensed	**(897)**	**-**	**(896)**
Balance at June 30, 2016	**61,990**	**6,247**	**68,238**

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

	Three months-ended June 30		Six months-ended June 30	
	2016	**2015**	**2016**	**2015**
Expired mineral leases	**128**	634	**896**	2,117
Impairment charge	**-**	3,417	**-**	3,417
Geological and geophysical costs	**6**	1	**10**	(16)
Exploration and evaluation expenditures	**134**	4,052	**906**	5,519

An impairment charge of $3.4 million was recorded in the second quarter of 2015 on certain exploration and evaluation assets in the Company's Kaybob West cash generating unit ("CGU").

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

8. Impairment Loss

	Three months-ended		Six months-ended	
	2016	**2015**	**2016**	**2015**
Property, plant, and equipment	**-**	13,549	**-**	13,549
	-	13,549	**-**	13,549

In the second quarter of 2015, the Company assessed and concluded that the carrying value of its Grande Prairie CGUs exceeded their fair value less costs of disposal resulting in an impairment of $13.5 million.

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

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, 2014	(71,735)	153	57,036	4,606	(9,940)
Recovery (expense)	(3,828)	(5,070)	4,802	43,439	39,344
At December 31, 2015	(75,563)	(4,917)	61,839	48,045	29,404
Recovery (expense)	**(12,118)**	**2,813**	**6,985**	**20,119**	**17,798**
At June 30, 2016	**(87,681)**	**(2,104)**	**68,824**	**68,164**	**47,202**

As at June 30, 2016, Trilogy recognized a deferred tax asset of $47.2 million. A $17.8 million deferred income tax recovery was recorded to the consolidated interim statement of comprehensive loss for the six months ended June 30, 2016 (June 30, 2015 – $16.4 million deferred income tax recovery). 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 $311.9 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 $243.5 million, representing the Company's probable estimate of future taxable income that could be applied to the total losses.

10. 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 London Inter-bank Offered Rate, plus an applicable margin. Amounts borrowed in excess of $250 million attract a further premium over the applicable margin. Trilogy's total commitments of $300 million, as of June 30, 2016, consist of:

- A working capital and revolving tranche of $35 million and $265 million, respectively.

Amounts drawn on the working capital and revolving tranches facility are due upon their maturity on April 30, 2018. The Company's quarterly financial covenants are as follows:

A covenant ratio of "Senior Debt" to "Adjusted EBITDA" for the preceding twelve month period for all fiscal quarters ended of not greater than:

- 3.50 at June 30, 2016;
- 4.50 at September 30, 2016, December 31, 2016, and March 31, 2017;
- 3.75 at June 2017, September 2017, and December 2017; and
- 3.25 at March 31, 2018 and thereafter.

The covenant ratio of "Consolidated Debt" to "Adjusted EBITDA" has been suspended until June 30, 2017, at which time the ratio for the preceding twelve month period for all fiscal quarters ended shall be not greater than:

- 6.75 at June 30, 2017;
- 5.75 at September 30, 2017;
- 5.00 at December 31, 2017;

- 4.75 at March 31, 2018;
- 4.50 at June 30, 2018;
- 4.25 at September 30, 2018;
- 4.00 at December 31, 2018 and thereafter.

The Revolving Credit Facility is subject to semi-annual borrowing base reviews. The size of the committed credit facility is based primarily on the value of Trilogy's producing petroleum and natural gas assets as determined by the lenders. Dispositions and acquisitions of assets may also decrease or increase the borrowing base respectively. In the event that the lending syndicate reduces the borrowing base below the amount drawn at the time of the redetermination, Trilogy has 60 days to eliminate any shortfall by providing additional security or guarantees satisfactory to the lenders or by repaying amounts in excess of the redetermined borrowing base. Advances drawn on the credit facility are secured by a fixed and floating debenture charge over the assets of the Company.

The following four measures are considered Non-GAAP measures:

- "Adjusted EBITDA" refers to "Funds flow from operations" plus cash interest, tax expenses, certain other items (accrued cash remuneration costs for its employees – deducted from EBITDA when paid) that do not appear individually in the line items of the Company's financial statements in addition to proforma adjustments for properties acquired or disposed of in the period.
- "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 plus any issued and undrawn letters of credit, less any cash held.
- "Senior debt" is generally defined as "Consolidated debt" but excluding any indebtedness under the Senior Unsecured Notes.

As at June 30, 2016, the Company is in compliance with all debt covenants. For additional discussion, refer to the liquidity section in Note 17.

The effective interest rate on Trilogy's Revolving Credit Facility (excluding other financing costs) for the six month period ended June 30, 2016 was 3.22 percent. (June 30, 2015 – 2.80 percent). The Company has issued letters of credit totalling $2.3 million as at June 30, 2016 (December 31, 2015: $3.5 million) which reduce the amount available for draw. As at June 30, 2016, the Company netted against its credit facility balance U.S. cash holdings having a Canadian equivalent of $12.8 million as it periodically converts its U.S. cash holdings to Canadian dollars to repay the credit facility.

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, 2016 and $1.1 million at December 31, 2015. 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 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 their amortized cost using an effective interest rate of 7.53 percent. (June 30, 2015 – 7.53 percent).

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

Long-term debt as at June 30, 2016 and December 31, 2015 is comprised of the following:

	June 30, 2016	December 31, 2015
Revolving credit facility	**269,864**	237,485
Less prepaid interest and unamortized financing costs	**(738)**	(635)
Carrying value	**269,126**	236,850
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(2,888)**	(3,305)
Carrying value	**297,112**	296,695
Total carrying value of long term debt	**566,238**	533,545

Interest expense for the three and six months ended June 30, 2016 and 2015 is comprised of the following:

	Three months-ended June 30		Six months-ended June 30	
	2016	2015	2016	2015
Senior unsecured notes	**5,396**	5,422	**10,819**	10,786
Credit facility interest, charges, and other interest	**2,428**	3,442	**4,572**	6,670
Amortization of finance fees	**297**	340	**982**	682
Total interest and finance costs	**8,121**	9,204	**16,373**	18,138

11. Decommissioning and Restoration Liability

	Six months-ended June 30, 2016	Twelve months-ended December 31, 2015
Balance - beginning of period	**229,033**	228,145
Incurred	**712**	4,021
Disposed	**-**	(3,012)
Settled	**(1,307)**	(2,096)
Accretion	**2,227**	4,951
Revision to estimates	**9,168**	(2,976)
Balance – end of period	**239,833**	229,033

Settlement of this obligation is expected to be paid over the next 30 years and will be funded from the general resources of the Company. The estimated future cash outflows as at June 30, 2016 have been discounted using an average risk free rate and inflation rate of approximately 1.7 percent. (December 31, 2015 - 2.2 and 2.0 percent, respectively). The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $239.8 million as at June 30, 2016 (December 31, 2015: $237.3 million).

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

12. Share-Based Payment Plans

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

	Three months-ended June 30		Six months-ended June 30	
	2016	**2015**	**2016**	**2015**
Share Incentive Plan	**26**	(619)	**116**	(86)
Share Option Plan	**5,876**	3,989	**7,774**	6,702
	5,902	3,370	**7,890**	6,616

The Company has a Share Incentive Plan ("SIP") for employees and officers that, if and to the extent approved by the Compensation Committee, 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.

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, 2016	**Twelve months-ended December 31, 2015**
Beginning	**66,131**	132,448
Vested	**(39,924)**	(66,317)
Ending	**26,207**	66,131

The cost to the Company of the Common Shares held in trust was $0.7 million as at June 30, 2016 (December 31, 2015 - $1.8 million) 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, if and to the extent approved by the Compensation Committee, 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 ranged from 2 to 5 years.

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

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, 2016			Twelve months-ended 31-Dec-15		
		Weighted Average Exercise Price	No. of Options		Weighted Average Exercise Price	No. of Options
Outstanding at January 1	**$**	**18.10**	**10,344,960**	$	22.20	8,236,500
Granted		**-**	**-**		5.51	3,012,300
Exercised		**-**	**-**		8.38	(203,740)
Cancelled		**27.15**	**(5,583,500)**		23.49	(305,100)
Expired		**28.43**	**(24,000)**		8.51	(395,000)
Outstanding at period end	**$**	**7.37**	**4,737,460**	$	18.10	10,344,960
Exercisable at period end	**$**	**7.47**	**1,559,500**	$	20.73	5,342,500

During the second quarter, the Company cancelled approximately 5.5 million stock options which required the acceleration of any unamortized option grant fair value ($5.0 million) to be charged to share based compensation.

The range of exercise prices of the outstanding options and exercisable options as at June 30, 2016 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**
$4.49 to $7.37	3.8	1,948,700	$4.49	389,740	$4.49
$7.38 to $8.67	1.0	1,071,260	$7.42	820,760	$7.39
$8.68 to $26.87	3.8	1,717,500	$10.62	349,000	$10.99
Total	3.2	4,737,460	$7.37	1,559,500	$7.47

13. Issued Capital

Trilogy is authorized to issue an unlimited number of Common Shares and an unlimited number of Non-Voting Shares all without par value. The Non-Voting Shares are the same as the Common Shares except they do not carry any voting rights. The following provides a continuity of outstanding share capital:

	Common Shares(1)	Non-Voting Shares	Total		Amount
Shares as at December 31, 2014	105,017,662	20,835,862	125,853,524	$	1,100,616
Issued - Share Option Plan	203,740	-	203,740		2,287
Normal Course Issuer Bid	(100,000)	-	(100,000)		(902)
Vesting of Share Incentive Plan awards	66,317	-	66,317		1,783
Shares as at December 31, 2015	**105,187,719**	**20,835,862**	**126,023,581**	**$**	**1,103,784**
Vesting of Share Incentive Plan awards	**39,924**	**-**	**39,924**		**1,073**
Shares as at June 30, 2016	**105,227,643**	**20,835,862**	**126,063,505**	**$**	**1,104,857**

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

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

Under Trilogy's NCIB for the period December 16, 2014 to December 15, 2015, Trilogy purchased 100,000 Common Shares at an average price of $4.45 per Common Share resulting in a $0.9 million reduction to shareholders' capital and a charge of $0.46 million to contributed surplus.

In December of 2015, the Company applied for and received the necessary approvals to implement a Normal Course Issuer Bid ("NCIB") through the facilities of the Toronto Stock Exchange. Trilogy may purchase up to 5,262,693 of its Common Shares. Purchases under the NCIB may be made during the period beginning on December 29, 2015 and ending on December 28, 2016, or on such earlier date as Trilogy may complete its purchases under the bid. No purchases have been made under the current NCIB as at June 30, 2016.

14. Loss per share

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

	Three months-ended June 30		Six months-ended June 30	
	2016	**2015**	**2016**	**2015**
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**(29,112)**	(26,881)	**(56,657)**	(47,543)
Weighted average number of shares for the purposes of basic earnings per share	**126,063,505**	126,055,929	**126,063,505**	125,988,054
Effect of dilution	**NIL**	NIL	**NIL**	NIL
Weighted average number of shares	**126,063,505**	126,055,929	**126,063,505**	125,988,054
Earnings (loss) per share – Basic	**(0.23)**	(0.21)	**(0.45)**	(0.38)
Earnings (loss) per share – Diluted	**(0.23)**	(0.21)	**(0.45)**	(0.38)

As at June 30, 2016 and June 30, 2015, the Company had 26,207 and 66,546 respectively, of securities that were excluded from the calculation of diluted weighted average number of shares as they were non-dilutive.

15. Reconciliation of Changes in Non-Cash Working Capital

	Three months-ended June 30		Six months-ended June 30	
	2016	**2015**	**2016**	**2015**
Decrease (increase) in trade, other receivables and prepaids	**(1,479)**	(1,255)	**(1,157)**	14,597
Increase (decrease) in trade, other payables and interest payable	**(28,749)**	(26,977)	**(24,537)**	(32,036)
	(30,228)	(28,232)	**(25,692)**	(17,439)
Changes in non-cash operating working capital	**(18,407)**	(13,415)	**(13,272)**	(25)
Changes in non-cash investing working capital	**(11,821)**	(14,817)	**(12,420)**	(17,414)

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

16. Related Party Transactions

Trilogy had the following transactions with Paramount Resources Ltd. ("Paramount"), which owns approximately 15.2 percent of the equity in the Company:

- Pursuant to a services agreement, a Paramount subsidiary provides commodity marketing 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 $0.2 million for the six months ended June 30, 2016 (Six months ended June 30, 2015 - $0.2 million). Costs associated with this agreement are included as part of the general and administrative expenses in the Company's consolidated statement of comprehensive loss.

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

June 30, 2016		
Presented in the Balance Sheet as	**Normal Business**	**Services Agreement**
Trade and other receivables	**77**	**-**
Trade and other payables	**(39)**	**(72)**

December 31, 2015		
Presented in the Balance Sheet as	Normal Business	Services Agreement
Trade and other receivables	42	-
Trade and other payables	(318)	(72)

The receivables and payables are unsecured in nature and bear no interest. No provisions were held against receivables or payables from Paramount through 2016 and 2015.

17. Financial Risk Management and Objectives

Trilogy's principal financial instruments, other than financial derivatives, are its accounts receivable, accounts payable, and its outstanding draw-downs from its Revolving Credit Facility and senior note debt. The credit facility is the main source of Trilogy's finances after cash flow from operations. Trilogy has other financial assets and liabilities such as accounts receivable, accounts payable and accrued liabilities, which arise directly from its business. Trilogy also enters into financial derivative transactions, the purpose of which is to mitigate the impact of market volatility as it may apply to oil and gas commodity prices, interest rates and foreign exchanges rates.

The main risks arising from Trilogy's financial instruments include, but are not limited to, credit risk, liquidity risk, commodity price risk, interest rate risk and foreign currency risk. Refer to Note 20 of the 2015 Annual Financial Statements for further details.

Credit Risk

The Company is exposed to credit risk from financial instruments to the extent of non-performance by third parties. Credit risks associated with the possible non-performance by financial instrument counterparties may be minimized by entering into contracts with counterparties having high credit ratings, conducting initial credit due diligence procedures, obtaining letters of credit from the counterparty, continuously assessing limits on exposures to any one counterparty and ongoing credit monitoring procedures.

Trilogy's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivable are from customers and joint operating partners in the Canadian petroleum and natural gas industry and are subject to normal industry specific credit risk.

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

The maximum exposure to credit risk at period-end is as follows:

	June 30, 2015	December 31, 2015
Trade and other receivables	**23,085**	25,225
Derivatives Financial Instruments(1)	**9,861**	19,073
	32,946	44,298

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

As at June 30, 2016 and December 31, 2015, Trilogy's trade and other receivables greater than 90 days was $1.4 and $2.6 million, respectively and none of the balances have been assessed as impaired.

Liquidity Risk

Trilogy's principal sources of liquidity are its cash flow from operations and amounts available for draw under its Revolving Credit Facility. In response to commodity price decreases throughout 2014 to the date hereof, Trilogy has adopted several meaningful measures aimed at sustaining its financial health to preserve shareholder value including:

- discontinuing its monthly dividend for periods subsequent to November 2014;
- reducing capital expenditure levels to be equal to or less than cash flow from operations and targeting only those projects that are strategic and/or meet Trilogy's return requirements;
- continuously evaluating its asset base, identifying and implementing several operational and cost efficiencies;
- shutting in production volumes deemed uneconomic at depressed commodity price levels;
- continuously negotiating with third party contractors and service providers to reduce Trilogy's cost of goods and services;
- implementing reductions to salary and other benefits for its officers, directors and employee base;
- disposing of certain assets in 2015 for proceeds of approximately $160.5 million and exploring opportunities to dispose of non-core assets within the Company's portfolio; and
- extending the maturity date and negotiating the relaxation of certain financial covenants on its revolving credit facility.

Despite these measures, and in conjunction with the current commodity price environment, a heightened risk exists that Trilogy may exceed the financial covenant limits on its revolving credit facility.

A contractual maturity analysis for Trilogy's financial liabilities as at June 30, 2016 is as follows:

	Within 1 Year	1 to 3 years	More than 3 years	Total
Accounts payable and accrued liabilities	29,701	-	-	29,701
Derivative financial instruments	2,067	-	-	2,067
Long-term debt and estimated interest(1)	15,099	324,627	316,313	656,038
Total	46,867	324,627	316,313	687,806

(1) Estimated interest related to the Revolving Credit Facility for future periods was calculated using the weighted average interest rate for the year to date June 30, 2016 applied to the principal balance outstanding as at that date with principal repayment assumed on April 30, 2018. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance with principal repayment assumed on December 13, 2019.

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2015 is as follows:

	Within 1 Year	1 to 3 years	More than 3 years	Total
Accounts payable and accrued liabilities	54,178	-	-	54,178
Derivative financial instruments	862	-	-	862
Long-term debt and estimated interest[1]	28,447	283,217	321,750	633,414
Total	83,487	283,217	321,750	688,454

[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, 2015 applied to the principal balance outstanding as at that date with principal repayment assumed on April 30, 2017. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance with principal repayment 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, among other things, issue new shares; issue new debt securities; amend, revise, renew or extend the terms of the existing credit facility; enter into agreements establishing new credit facilities; adjust the amount of dividends, if any, declared to shareholders; adjust capital spending, and/or; dispose of assets.

A comparison of Trilogy's debt structure against the committed amount on its Revolving Credit Facility at June 30, 2016 and December 31, 2015 is detailed below:

	June 30, 2016	December 31, 2015
Committed amount that can be drawn from the credit facility (Note 10)	**300,000**	450,000
Outstanding letters of credit	**(2,276)**	(3,473)
Amount that can be drawn after letters of credit	**297,724**	446,527
Revolving credit facility	**(269,126)**	(236,850)
Current liabilities net of current assets - surplus (deficit)	**4,653**	(10,622)
Capacity under revolving credit facility	**33,251**	199,055

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

	June 30, 2016	December 31, 2015
Revolving credit facility (Note 10)	**(269,126)**	(236,850)
Senior notes (Note 10)	**(297,112)**	(296,695)
Working capital surplus (deficiency)	**4,653**	(10,622)
Net debt[1]	**(561,585)**	(544,167)

[1] Net debt is a Non-GAAP measure

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

Net debt increased to $561.2 million for the second quarter of 2016 from $544.2 million at the end of 2015 as the Company executed a significant portion of its annual capital expenditure budget during favourable winter access conditions and on reduced commodity pricing and production volumes which reduced cash flow from operations applied against the credit facility.

18. Financial Instruments

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

	June 30, 2016	December 31, 2015
Financial assets		
Receivables[1]	**23,085**	25,225
Financial instruments fair valued through profit and loss[2]	**9,861**	19,073
Financial liabilities		
Other liabilities - non-trading liabilities[1] [3]	**(29,701)**	(54,178)
Interest payable on Senior Unsecured Notes	**(1,073)**	(1,132)
Financial instruments fair valued through profit and loss[2]	**(2,067)**	(862)
Other liabilities - long-term debt[4]	**(566,238)**	(533,545)

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

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

(3) Consists of accounts payable and accrued liabilities.

(4) The Company's Revolving Credit Facility debt carries interest based on specified benchmark interest rates plus a spread for the Company's own credit risk. The fair value of the Revolving Credit Facility debt approximates its carrying amount due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk. The fair value of the Senior Unsecured Notes is estimated, based on independent broker quotes, to be 88.75 percent of face value or $266.2 million (December 31, 2015 – 84 percent of face value or $252 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, 2016	**Derivative financial assets (liabilities) – fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Foreign exchange derivative contract	**-**	**-**	**146**	**146**
Power derivative contract	**-**	**-**	**(457)**	**(457)**
Natrual gas derivative contract		**(80)**		**(80)**
Crude oil derivative contracts	**-**	**8,185**	**-**	**8,185**
	-	**8,105**	**(311)**	**7,794**

December 31, 2015	**Derivative financial assets (liabilities) – fair value**			
	Level 1	Level 2	Level 3	Total
Foreign exchange derivative contract	**-**	**-**	**(361)**	**(361)**
Power derivative contract	**-**	**-**	**(862)**	**(862)**
Crude oil derivative contracts	**-**	**19,434**	**-**	**19,434**
	-	**19,434**	**(1,223)**	**18,211**

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

Commodity Contracts

At June 30, 2016 the Company had the following outstanding crude oil derivative contracts:

Crude Oil

Term	Volume (Bbl/d)	Average WTI Price/Bbl
2016 - Sales	3,000	$77.18 CAD
2016 - Purchases	3,000	$59.53 CAD
2017 - WTI Collar	500	$38.00 -- $57.50 USD
2017 - WTI Collar	500	$42.00 -- $52.90 USD

Natural Gas

Term	Volume (GJ/d)	Average CAD Price/GJ
July 2016 - December 2016	20,000	$2.43

Foreign Exchange

Weekly ending FX rate trading range: (CAD per USD)		USD sell per week on trading range:			Weekly premium receipt within trading range:	Expiry
Lower	Upper	Below lower	Between range	Above upper		
1.1950	1.4275	NIL	Nil, receive weekly premium	$750 notional at upper range	$7.5	December 2016

To the extent the week ending foreign exchange rate is:

- above the upper range of 1.4275, the Company is committed to selling weekly $0.75 million USD at 1.4275 CAD;
- between the payout range, the Company receives the referenced weekly premium with no commitment to sell USD; and
- less than the lower range, the Company will not receive the referenced weekly premium with no commitment to sell USD.

Power

Term	MW/h	Average CAD Price/MW/h
2016	6	$50.44

The Company classified these financial instruments as fair valued through profit and loss and therefore has recognized the fair value of these financial instruments on its balance sheet. The estimated fair values of these financial instruments are based on quoted prices or, in their absence, third-party market indicators and forecasts.
The changes in the fair value associated with the above financial contracts are recorded as an unrealized gain or loss on financial instruments in the consolidated statement of comprehensive income. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the consolidated interim statement of comprehensive income.

June 30, 2016 (in thousand Canadian dollars except as otherwise indicated)

The following table summarizes the fair value as at June 30, 2016 and December 31, 2015, and the change in fair value for the referenced periods:

	Six months-ended June 30, 2016	Twelve months-ended December 31, 2015
Derivative asset, beginning of period	**19,073**	-
Unrealized change in fair value	**(9,212)**	19,073
Derivative asset, end of period	**9,861**	19,073
Derivative liability, beginning of period	**(862)**	(611)
Unrealized change in fair value	**(1,205)**	(251)
Derivative liability, end of period	**(2,067)**	(862)
Unrealized increase (decrease) in fair value for the period	**(10,417)**	18,822

19. Gain (Loss) on Derivative Financial Instruments

	Three months-ended June 30		Six months-ended June 30	
	2016	**2015**	**2016**	**2015**
Realized gains (losses)				
Crude oil & natural gas	**4,818**	-	**9,637**	-
Foreign exchange	**99**	-	**166**	-
Power	**(478)**	89	**(888)**	(188)
Sub-total	**4,439**	89	**8,915**	(188)
Unrealized gains (losses)				
Crude oil & natural gas	**(6,361)**	(570)	**(11,328)**	(570)
Foreign exchange	**41**	-	**506**	-
Power	**366**	1,114	**405**	387
Sub-total	**(5,954)**	544	**(10,417)**	(183)
Gain (losses) on derivative financial instruments	**(1,515)**	633	**(1,502)**	(371)

20. 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	
	2016	**2015**	**2016**	**2015**
Petroleum and natural gas sales:				
Natural gas	**10,819**	32,054	**34,443**	67,935
Oil	**18,786**	32,128	**32,804**	62,181
Natural gas liquids	**9,520**	17,670	**17,405**	33,582
Total petroleum and natural gas sales	**39,125**	81,852	**84,652**	163,698

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)(3)(6)
President and Chief Executive Officer
Pembina Pipeline Corporation
Calgary, Alberta

R.K. MacLeod (1)(2)(3)(6)
Independent Businessman and Corporate Director
Calgary, Alberta

W.A. Gobert (1)(4)(5)
Independent Businessman
Calgary, Alberta

R.M. MacDonald (2)(3)(4)(5)
Independent Businessman and Corporate Director
Calgary, Alberta

E.M. Shier (4)(6)
General Counsel, Corporate Secretary & Manager, Land
Paramount Resources Ltd.
Calgary, Alberta

D.F. Textor (1)(7)
Portfolio Manager
DFT Energy LP
Locust Valley, New York

Committees of the Board of Directors

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

Head office

1400, 332 6th Avenue SW
Calgary, Alberta, Canada T2P 0B2

Telephone: (403) 290-2900
Facsimile: (403) 263-8915
www.trilogyenergy.com

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Bankers

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

JPMorgan Chase Bank
Toronto, Ontario

Registrar and Transfer Agent

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

Stock Exchange Listing

The Toronto Stock Exchange – “TET”