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**Second Quarter 2014 Financial Report**



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# Eagle Energy Trust

Interim Condensed Consolidated Financial Statements  
(in Canadian dollars) (unaudited)

For the three months and six months ended June 30, 2014 and June 30, 2013

# Eagle Energy Trust

## Condensed Consolidated Balance Sheets

(Thousands of Canadian dollars) (unaudited)

	Note	June 30, 2014	December 31, 2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ -	\$ 1,435
Trade and other receivables		8,205	7,826
Prepaid expenses		597	628
		<b>8,802</b>	<b>9,889</b>
<b>Non-current assets</b>			
Exploration and evaluation		525	508
Oil and gas properties	10	309,934	324,349
Property, plant and equipment		253	327
Other intangible assets		668	606
		<b>311,380</b>	<b>325,790</b>
<b>Total Assets</b>		<b>\$ 320,182</b>	<b>\$ 335,679</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		\$ 7,400	\$ 5,929
Distributions payable	11	2,952	2,813
Unit-based payments	6	6,494	9,630
Risk management liability	3	5,362	1,453
Current debt	12	10,670	10,636
		<b>32,878</b>	<b>30,461</b>
<b>Non-current liabilities</b>			
Risk management liability	3	924	-
Long-term debt	12	75,606	67,485
Decommissioning liability	13	3,596	3,036
		<b>80,126</b>	<b>70,521</b>
<b>Total Liabilities</b>		<b>\$ 113,004</b>	<b>\$ 100,982</b>
<b>UNITHOLDERS' EQUITY</b>			
Trust capital	14	\$ 308,019	\$ 297,447
Currency reserves		11,279	11,100
Accumulated earnings		(14,336)	6,604
Accumulated cash distributions		(97,784)	(80,454)
<b>Total Unitholders' Equity</b>		<b>\$ 207,178</b>	<b>\$ 234,697</b>
<b>Total Liabilities and Unitholders' Equity</b>		<b>\$ 320,182</b>	<b>\$ 335,679</b>

The notes are an integral part of these condensed financial statements.

See Note 16 "Commitments" and Note 17 "Subsequent event".

# Eagle Energy Trust

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

(Thousands of Canadian dollars, except per unit amounts) (unaudited)

	Note	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenue		\$ 29,247	\$ 23,833	\$ 55,800	\$ 47,173
Royalties		(7,884)	(6,671)	(14,980)	(13,207)
		<b>21,363</b>	<b>17,162</b>	<b>40,820</b>	<b>33,966</b>
Operating expenses		4,486	2,156	8,558	4,539
Transportation expenses		733	654	1,413	1,219
Administrative expenses		3,009	2,024	5,564	3,445
Impairment		20,126	-	20,126	-
Depreciation, depletion and amortization		10,776	7,324	19,512	14,573
<b>Operating profit</b>		<b>(17,767)</b>	<b>5,004</b>	<b>(14,353)</b>	<b>10,190</b>
Unit based compensation expense (recovery)	6	(900)	2,604	(2,774)	1,396
Finance expense	7	1,087	470	1,964	986
Risk management loss (gain)	3	5,192	(2,020)	7,342	(232)
Foreign exchange loss net		12	31	55	42
<b>Earnings (Loss) before taxes</b>		<b>(23,158)</b>	<b>3,919</b>	<b>(20,940)</b>	<b>7,998</b>
Income tax expense (recovery)	8	-	-	-	-
<b>Earnings (Loss)</b>		<b>\$ (23,158)</b>	<b>\$ 3,919</b>	<b>\$ (20,940)</b>	<b>\$ 7,998</b>
Other comprehensive income					
Items that may be reclassified subsequently to earnings					
Foreign currency translation gain (loss)		(9,565)	8,551	179	13,499
<b>Comprehensive income</b>		<b>\$ (32,723)</b>	<b>\$ 12,470</b>	<b>\$ (20,761)</b>	<b>\$ 21,497</b>
Earnings (Loss) per unit					
<b>Basic and diluted</b>	9	<b>\$ (0.70)</b>	<b>\$ 0.13</b>	<b>\$ (0.64)</b>	<b>\$ 0.27</b>

The notes are an integral part of these condensed financial statements.

# Eagle Energy Trust

## Condensed Consolidated Statements of Changes in Unitholders' Equity

For the six months ended June 30, 2014 and year ended December 31, 2013  
(Thousands of Canadian dollars) (unaudited)

	Note	Number of trust units	Trust capital	Currency reserve	Accumulated earnings/loss	Accumulated cash distributions	Deficit	Total Unitholders' equity
<b>Balance at December 31, 2012</b>		<b>29,269</b>	<b>276,526</b>	<b>(5,017)</b>	<b>1,690</b>	<b>(48,020)</b>	<b>(46,330)</b>	<b>\$ 225,179</b>
Earnings	9	-	-	-	7,998	-	7,998	7,998
Foreign currency translation loss		-	-	13,499	-	-	-	13,499
Total comprehensive income		-	-	13,499	7,998	-	7,998	21,497
Issuance of trust capital		1,438	9,943	-	-	-	-	9,943
Trust unit issuance costs		-	(22)	-	-	-	-	(22)
Unitholder distributions		-	-	-	-	(15,854)	(15,854)	(15,854)
		1,438	9,921	-	-	(15,854)	(15,854)	(5,933)
<b>Balance at June 30, 2013</b>		<b>30,707</b>	<b>286,447</b>	<b>8,482</b>	<b>9,688</b>	<b>(63,874)</b>	<b>(54,186)</b>	<b>\$ 240,743</b>
<b>Balance at December 31, 2013</b>		<b>32,149</b>	<b>297,447</b>	<b>11,100</b>	<b>6,604</b>	<b>(80,454)</b>	<b>(73,850)</b>	<b>234,697</b>
Earnings (Loss)	9	-	-	-	(20,940)	-	(20,940)	(20,940)
Foreign currency translation loss		-	-	179	-	-	-	179
Total comprehensive income		-	-	179	(20,940)	-	(20,940)	(20,761)
Issuance of trust capital	14	1,590	10,609	-	-	-	-	10,609
Trust unit issuance costs	14	-	(37)	-	-	-	-	(37)
Unitholder distributions	11	-	-	-	-	(17,330)	(17,330)	(17,330)
			10,572	-	-	(17,330)	(17,330)	(6,758)
<b>Balance at June 30, 2014</b>		<b>33,739</b>	<b>308,019</b>	<b>11,279</b>	<b>(14,336)</b>	<b>(97,784)</b>	<b>(112,120)</b>	<b>207,178</b>

The notes are an integral part of these condensed financial statements.

# Eagle Energy Trust

## Condensed Consolidated Cash Flow Statements

For the three months and six months ended June 30, 2014 and June 30, 2013  
(Thousands of Canadian dollars) (unaudited)

Note	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
<b>Cashflows from operating activities</b>				
Earnings	\$ (23,158)	\$ 3,919	\$ (20,940)	\$ 7,998
Adjustments for non-cash items:				
Impairment	20,126	-	20,126	-
Depreciation, depletion and amortization	10,776	7,324	19,512	14,573
Unit-based compensation – non-cash portion	(1,096)	2,493	(3,136)	1,171
Unrealized risk management loss	3,655	(1,835)	4,963	(22)
Finance expense	168	76	287	142
	10,471	11,977	20,812	23,862
Changes in working capital:				
Trade and other receivables	49	(17)	(362)	988
Prepaid expenses	(39)	125	33	146
Trade and other payables	24	4,986	736	586
	34	5,094	407	1,720
Cash generated from operations	<b>10,505</b>	17,071	<b>21,219</b>	25,582
Abandonment expenditures	-	-	-	(9)
Income taxes paid	-	-	-	-
<b>Net cash generated by operating activities</b>	<b>\$ 10,505</b>	<b>\$ 17,071</b>	<b>\$ 21,219</b>	<b>\$ 25,573</b>
<b>Cash flows from investing activities</b>				
Additions to exploration and evaluation	-	(37)	(16)	(56)
Additions to oil and gas properties	(6,410)	(13,356)	(17,910)	(17,455)
Additions to property, plant and equipment	(10)	(406)	(22)	(456)
Acquisition of oil and gas assets	4 (99)	(8,831)	(5,409)	(8,831)
Change in non-cash working capital	(1,635)	-	728	-
<b>Net cash used in investing activities</b>	<b>\$ (8,154)</b>	<b>\$ (22,630)</b>	<b>\$ (22,629)</b>	<b>\$ (26,798)</b>
<b>Cash flows from financing activities</b>				
Debt	944	8,774	6,579	5,606
Proceeds from issuance of units	5,368	5,065	10,609	9,943
Trust unit issuance costs	8	(22)	(37)	(22)
Cash distributions to unitholders	(8,696)	(7,960)	(17,191)	(15,728)
Deferred financing charges	(152)	(62)	(297)	(62)
<b>Net cash (used in)/generated by financing activities</b>	<b>\$ (2,528)</b>	<b>\$ 5,795</b>	<b>\$ (337)</b>	<b>\$ (263)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>				
	<b>(177)</b>	236	<b>(1,747)</b>	(1,488)
Effects of exchange rates on cash and cash equivalents	177	142	314	190
Cash at beginning of the period	-	2,331	1,435	4,007
<b>Cash at end of the period</b>	<b>\$ -</b>	<b>\$ 2,709</b>	<b>\$ -</b>	<b>\$ 2,709</b>

The notes are an integral part of these condensed financial statements.

# Eagle Energy Trust

## Notes to Condensed Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2014 and June 30, 2013  
(in Canadian dollars)

### 1. Reporting entity / Structure of the Trust

Eagle Energy Trust's activities are restricted to owning property (other than real property or interests in real property), and it does not carry on business. Eagle Energy Trust's subsidiaries are in the business of acquiring, developing and producing petroleum reserves in the United States. Eagle Energy Trust was formed as an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta on July 20, 2010. The beneficiaries of the Trust are the unitholders.

Throughout these notes to the condensed consolidated interim financial statements, Eagle Energy Trust and its subsidiaries are referred to collectively as the "Trust" or "Eagle" for purposes of convenience.

The strategy of the Trust is to invest in operating subsidiaries that will acquire on-shore petroleum reserves and production in certain regions of the United States. The Trust's subsidiaries do not intend to engage substantively in exploration activities. The Trust intends to make monthly distributions of a portion of its available cash to unitholders and use the remainder of its available cash to reinvest in its subsidiaries to fund growth through additional acquisitions and capital expenditures. Cash flow is provided to the Trust from properties owned and operated by an indirectly owned subsidiary of the Trust.

Operations officially commenced on November 24, 2010, concurrent with the closing of the Trust's initial public offering and the first acquisition by the Trust's indirect U.S. subsidiary, Eagle Energy Acquisitions LP.

Effective June 16, 2014, the Trust's subsidiaries completed an internal reorganization pursuant to which the Trust's new indirect U.S. subsidiary, Eagle Hydrocarbons Inc., acquired all of the assets and assumed all of the obligations of Eagle Energy Acquisitions LP and its general partner, Eagle Hydrocarbons LLC. Management and the directors of Eagle Hydrocarbons Inc. remain the same as management and the directors of Eagle Hydrocarbons LLC. In due course, Eagle Energy Acquisitions LP and Eagle Hydrocarbons LLC will be wound up. When it undertook the internal reorganization, the Trust was required to make minor amendments to its Trust Indenture, which amendments are not materially prejudicial to the rights of the unitholders and, as such, do not require unitholders' approval. The amended and restated Trust Indenture dated as of June 16, 2014 is available online under the Trust's issuer profile at [www.sedar.com](http://www.sedar.com).

The address of the Trust is: Suite 2710, 500 - 4<sup>th</sup> Avenue SW, Calgary, AB T2P 2V6.

### 2.1. Basis of preparation

#### Basis of accounting

The condensed consolidated interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors made on August 13, 2014.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and have been prepared following the same accounting policies as the annual audited IFRS Consolidated Financial Statements for the year ended December 31, 2013, except for income tax expense for an interim period which is based on an estimated average annual effective income tax rate. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

### 2.2. Changes in accounting policy and disclosures

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year.

### Accounting pronouncements

On January 1, 2014, the Trust adopted International Financial Reporting Interpretations Committee (“IFRIC”) Interpretation 21-Levies, which addresses payments to government bodies. There was no material impact to the Trust as a result of adopting the new standard.

A description of accounting policies and disclosures that were adopted by the Trust can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2013. Additional adjustments to the Trust’s accounting policies may be required upon completion of a separate IASB framework for extractive industries.

## 3. Financial risk management

The Trust’s activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as:

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

This note presents information about significant changes in the Trust’s exposure to each of the above risks since the year ended December 31, 2013.

### Credit risk

Credit risk is the risk of financial loss to the Trust if a customer, joint venture partner or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Trust’s receivables from its product marketer and joint venture partners. The Trust limits its exposure, in this regard, by investing only in liquid securities and only with counterparties with a strong credit rating.

At June 30, 2014, there was no material change in credit risk compared to the year-end.

### Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The approach to managing liquidity is to ensure, as far as possible, that the Trust will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust’s reputation.

At June 30, 2014, there was no material change in the contractual undiscounted cash outflow for financial liabilities compared to year-end.

### Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Trust’s income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

The Trust may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

#### *Commodity price risk*

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand.

The Trust enters into certain financial derivative instruments periodically to economically hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Trust does not apply hedge accounting for these contracts. The Trust’s production is either sold using “spot” or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price or by way of fixed term, fixed price marketing contracts.



## Summary of Unrealized Risk Management Positions as at June 30, 2014

### Commodity Contracts

As at June 30, 2014, the Trust has entered into the following financial contracts to mitigate the effects of fluctuating prices on a portion of its production:

	<i>Volume</i>	<i>Measure</i>	<i>Beginning</i>	<i>Term</i>	<i>Floor \$US</i>	<i>Ceiling \$US</i>	<i>Current net present value \$000's \$CA</i>	<i>Non-current net present value \$000's \$CA</i>
<b>Oil Fixed Price</b>								
NYMEX (i)	400	bbls/d	Jan-14	Dec-14	98.00	98.00	406	-
NYMEX (i)	500	bbls/d	Jan-14	Dec-14	91.15	91.15	1,180	-
NYMEX (i)	400	bbls/d	Jan-14	Dec-14	91.15	91.15	944	-
NYMEX (ii)	250	bbls/d	Jan-14	Dec-14	90.00	94.95	423	-
NYMEX (ii)	100	bbls/d	Jan-14	Dec-14	93.00	95.35	159	-
NYMEX (i)	190	bbls/d	Jan-15	Dec-15	85.40	85.40	483	361
NYMEX (ii)	1,000	bbls/d	Jan-15	Jun-15	90.10	92.00	1,356	-
NYMEX (i)	400	bbls/d	Jul-15	Dec-15	87.90	87.90	-	563
NYMEX (ii)	400	bbls/d	Jan-15	Jun-15	90.50	94.35	409	-
Commodity - unrealized risk management liability							5,360	924

- (i) Represents a fixed price financial swap transaction with a set forward sale price (WTI reference prices).  
(ii) Represents costless collar transaction created by buying puts and selling calls (WTI reference prices).

### Foreign Exchange Contracts

As at June 30, 2014, the Trust has entered into the following contracts to mitigate the effects of fluctuating foreign exchange rates:

<i>Foreign Exchange</i>	<i>Quantity (\$CA)</i>	<i>Term</i>	<i>Floor \$US</i>	<i>Ceiling \$US</i>	<i>Current net present value \$000's \$CA</i>	<i>Non-current net present value \$000's \$CA</i>
Collar	924	Jul-14	1.05	1.09	-	-
Collar	931	Aug-14	1.05	1.09	-	-
Collar	937	Sep-14	1.05	1.09	-	-
Collar	943	Oct-14	1.05	1.09	-	-
Collar	950	Nov-14	1.05	1.09	1	-
Collar	956	Dec-14	1.05	1.09	1	-
Foreign exchange - unrealized risk management liability					2	-

### Total Unrealized Risk Management Liability

	<i>Current net present value \$000's \$CA</i>	<i>Non-current net present value \$000's \$CA</i>
Commodity	(5,360)	(924)
Foreign exchange	(2)	-
<b>Total unrealized risk management liability</b>	<b>\$ (5,362)</b>	<b>(924)</b>

**Earnings Impact of Realized and Unrealized Risk Management Gain**

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)
\$000's						
Net effect - commodity	1,532	3,847	5,379	(185)	(1,835)	(2,020)
Net effect - foreign exchange	5	(192)	(187)	-	-	-
Net effect - risk management	<b>\$ 1,537</b>	<b>3,655</b>	<b>5,192</b>	<b>\$ (185)</b>	<b>\$ (1,835)</b>	<b>\$ (2,020)</b>

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)	Realized loss (gain)	Unrealized loss (gain)	Total net loss (gain)
\$000's						
Net effect - commodity	2,350	4,961	7,311	(210)	(22)	(232)
Net effect - foreign exchange	29	2	31	-	-	-
Net effect - risk management	<b>\$ 2,379</b>	<b>4,963</b>	<b>7,342</b>	<b>\$ (210)</b>	<b>(22)</b>	<b>(232)</b>

*Determination of fair values*

The net fair value of Eagle's unrealized risk management positions at June 30, 2014 is a liability of \$6,283,836 (December 31, 2013 - \$1,453,286 liability) for commodity contracts and a liability of \$2,363 (December 31, 2013 - \$nil) for foreign exchange contracts. The net fair value of Eagle's unrealized risk management positions have been calculated using both quoted prices in active markets and observable market-corroborated data consistent with a Level 2 valuation.

The fair values of cash, trade and other receivables, trade, distribution and other payables, and current debt approximate their carrying amount due to the short-term maturity of those instruments.

Debt is a financial liability with fixed or determinable payments that are not quoted in an active market. After initial measurement, these accounts are measured at amortized cost at the settlement date using the effective interest rate method. The carrying value of the Trust's debt is equal to the fair value and the determination of the fair value of the debt is consistent with a level 2 valuation.

**4. Acquisition**

On February 27, 2014, the U.S. subsidiary of the Trust acquired undeveloped acreage and an average 66% working interest in producing properties in Hardeman County, Texas and in Greer, Harmon and Jackson counties, Oklahoma for cash consideration of \$5,409,172. The acquisition had an effective date of December 1, 2013 and increased Eagle's recently established position in Hardeman County.

The acquisition has been accounted for as a business combination with the fair value of the net assets as follows:

## Identifiable assets acquired and liabilities assumed (\$CA):

Oil and gas properties	\$	5,497
Decommissioning liabilities		(88)
	<b>\$</b>	<b>5,409</b>

The amount of revenue, net of royalties included in the consolidated statement of comprehensive loss for the period ended June 30, 2014 from this acquisition was approximately \$0.8 million. It is impracticable to determine the effect of this transaction on net income in the current reporting period.

**5. Operating segments**

The operations of the Trust comprise one operating segment: oil and gas exploration, development and the sale of hydrocarbons and related activities. All of the Trust's assets and liabilities, income and expenses relate to this segment and the relevant disclosures have been made elsewhere in these financial statements.

## Geographical information

The Trust's operational activities are wholly focused in the continental United States and are supported by offices in Houston, Luling, and Midland, Texas. The Trust's head office is in Calgary, Alberta. All inter-segment and geographical transactions have been eliminated in consolidation.

## Revenue

All of the Trust's revenue from external customers is derived from its operations in the United States.

## Non-Current Assets

Substantially all of the Trust's non-current assets are within the United States.

## 6. Unit-based payments

The following table reconciles unit-based compensation expense (recovery).

\$ 000's	Note	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Units issued on performance option surrender	6(a)	\$ -	\$ 148	\$ -	\$ 119
Restricted unit rights	6(b)	(96)	69	(475)	(51)
Unit options	6(c)	(282)	1,927	(1,707)	933
Unit rights	6(d)	(522)	460	(592)	395
Total unit-based compensation expense (recovery)		\$ (900)	\$ 2,604	\$ (2,774)	\$ 1,396

The following table reconciles the unit-based payments liability.

\$ 000's	Note	June 30, 2014	December 31, 2013
Units issued on performance option surrender	6(a)	\$ -	\$ -
Restricted unit rights	6(b)	433	1,240
Unit options	6(c)	5,291	6,998
Unit rights	6(d)	770	1,392
Total unit-based payments liability		\$ 6,494	\$ 9,630

### Note (a)

#### Units issued upon surrender of performance options

At June 30, 2014, no escrowed units were outstanding. The following schedule shows the continuity of escrowed units issued upon surrender of performance options:

	Six Months Ended June 30, 2014	Year Ended December 31, 2013	Six Months Ended June 30, 2013
Balance, beginning of period	-	105,417	105,417
Issued	-	-	-
Transferred to the Trust capital account	-	(105,417)	-
Balance, end of period in escrow	-	-	105,417

### Note (b)

#### Cash settled Restricted Unit Rights (RURs) issued upon surrender of performance options

For the six months ended June 30, 2014, \$332,068 was paid to the RUR holders (year ended December 31, 2013 - \$1,110,734, six months ended June 30, 2013 - \$221,328).

The following schedule shows the continuity of cash settled RURs issued upon surrender of performance options:

	Six Months Ended June 30, 2014	Year Ended December 31, 2013	Six Months Ended June 30, 2013
Balance, beginning of period	632,500	632,500	632,500
Issued	-	-	-
Forfeited	-	-	-
Balance, end of period	632,500	632,500	632,500
Number of RURs vested	632,500	632,500	421,667

The fair value of the RURs was estimated using the Black-Scholes valuation model with the following inputs:

	June 30, 2014	December 31, 2013	June 30, 2013
Fair value at the balance sheet date	\$ 4.93	\$ 5.72	\$ 4.47
Volatility	28%	32%	32%
Life of RURs	6.5 years	7.0 years	7.5 years
Risk-free interest rate	2.31%	2.70%	2.34%

A forfeiture rate of 5% was used and this figure is an estimated expected rate. Effective January 1, 2014, the expected unit price volatility was calculated using the trading history of the Trust's units from November 24, 2010 to June 30, 2014. Prior to January 1, 2014, a representative sample of peer group entities was used in order to determine expected unit price volatility.

#### Note (c)

##### Unit option plan

The number and weighted average exercise prices of unit options are as follows:

	Six Months Ended June 30, 2014		Year Ended December 31, 2013		Six Months Ended June 30, 2013	
	Number of options	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	3,126,750	\$ 7.05	2,214,668	\$ 8.23	2,214,668	\$ 8.23
Forfeited	-	-	(249,918)	7.69	(244,750)	5.26
Exercised	-	-	-	-	-	-
Granted	50,000	8.04	1,162,000	6.72	702,000	6.62
Outstanding at end of period	<b>3,176,750</b>	<b>\$ 6.55</b>	3,126,750	\$ 7.05	2,671,918	\$ 7.64
Exercisable at end of period	<b>1,657,847</b>	<b>\$ 6.33</b>	1,411,010	\$ 7.00	770,755	\$ 7.61

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

	Weighted average exercise price	Weighted average contractual life (years)
\$5.40 - \$8.04	<b>\$ 6.55</b>	<b>7.9</b>

The fair value of the options was estimated using the Black-Scholes model with the following inputs:

	June 30, 2014	December 31, 2013	June 30, 2013
Fair value - at balance sheet date	\$ 2.36	\$ 3.76	\$ 3.22
Unit trading price - closing	\$ 6.48	\$ 8.07	\$ 7.60
Exercise price – weighted average	\$ 6.55	\$ 7.05	\$ 7.40
Volatility	28%	32%	32%
Option life – weighted average	7.9 years	8.4 years	8.6 years
Distributions – none estimated, due to declining strike price feature	0%	0%	0%
Risk-free interest rate	2.31%	2.70%	2.34%

A forfeiture rate of 5% was used and this figure is an estimated expected rate. Effective January 1, 2014, the expected unit price volatility was calculated using the trading history of the Trust's units from November 24, 2010 to June 30, 2014. Prior to January 1, 2014, a representative sample of peer group entities was used in order to determine expected unit price volatility.

#### Note (d)

##### Unit Rights (URs) plan

For the six months ended June 30, 2014, \$29,573 was paid to the UR holders (year ended December 31, 2013 - \$78,668, six months ended June 30, 2013 - \$3,590).

The following schedule shows the continuity of cash settled URs issued:

	Six Months Ended June 30, 2014	Year Ended December 31, 2013	Six Months Ended June 30, 2013
Balance, beginning of period	997,000	493,000	493,000
Issued	-	649,000	350,000
Forfeited	-	(145,000)	(40,000)
Balance, end of period	997,000	997,000	803,000
Number of unit rights vested	<b>289,339</b>	152,670	83,337

The Black-Scholes valuation model is used to determine the fair value of the URs issued by the Trust. The fair value of the URs was estimated using the following inputs:

	June 30, 2014	December 31, 2013	June 30, 2013
Fair value at the balance sheet date	\$ 2.10	\$ 3.62	\$ 3.58
Volatility	28%	32%	32%
Life of restricted URs	8.7 years	9.2 years	9.2 years
Risk-free interest rate	2.31%	2.70%	2.34%

A forfeiture rate of 5% was used and this figure is an estimated expected rate. Effective January 1, 2014, the expected unit price volatility was calculated using the trading history of the Trust's units from November 24, 2010 to June 30, 2014. Prior to January 1, 2014, a representative sample of peer group entities was used in order to determine expected unit price volatility.

## 7. Finance expense

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
\$ 000's				
Interest expense on debt	913	375	1,666	815
Amortization of deferred financing costs	144	60	240	116
Standby and bank fees	6	20	11	30
Accretion of decommissioning provision	24	15	47	25
Finance expense	\$ 1,087	\$ 470	\$ 1,964	\$ 986

## 8. Taxation

### Reconciliation of effective tax rate

The income tax provision differs from the expected amount calculated by applying the Trust's combined federal and state income tax rate of 35% as follows:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
\$ 000's				
Earnings (Loss) before taxation	\$ (23,158)	\$ 3,919	\$ (20,940)	\$ 7,998
Expected tax rate	35%	35%	35%	35%
Expected income tax provision	(8,105)	1,372	(7,329)	2,799
Decrease (Increase) resulting from:				
Non-deductible items – permanent differences				
Administrative expenses of the Trust	35% (74)	243	248	438
Unit-based compensation	35% (315)	911	(971)	488
Foreign exchange gain (loss), net	35% 383	-	169	-
Changes in temporary differences for which no amounts are recognized	35% 9,487	(1,106)	10,620	(893)
Items deductible at the subsidiary level:				
Interest on internal debt of subsidiary	35% (1,378)	(1,379)	(2,742)	(2,742)
Other	35% 2	(41)	5	(90)
Total income tax expense	35% \$ -	\$ -	\$ -	\$ -

### Deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following items:

	June 30, 2014	December 31, 2013
\$ 000's		
Deferred tax liabilities:		
Oil and gas properties in excess of tax value	\$ 12,637	\$ 21,440
Exploration and evaluation assets	-	-
	12,637	21,440
Less deferred tax assets:		
Non-capital losses – US based	(28,605)	(26,841)
Net deferred tax liability (asset)	(15,968)	(5,401)
Unrecognized deferred tax asset	15,968	5,401
Net deferred tax liability (asset)	\$ -	\$ -

## 9. Earnings (Loss) per unit

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
\$ 000's				
Earnings (Loss) attributable to unitholders - basic and diluted	\$ (23,158)	\$ 3,919	\$ (20,940)	\$ 7,998
Weighted average number of units outstanding - basic and diluted	33,019	30,341	32,815	29,917
<b>Earnings (Loss) per unit - basic and diluted</b>	<b>\$ (0.70)</b>	<b>\$ 0.13</b>	<b>\$ (0.64)</b>	<b>\$ 0.27</b>

Excluded from the period ended June 30, 2014 number of units outstanding is the effect of the units issuable under the unit option plan (3,176,750 units) as their effect is anti-dilutive.

## 10. Oil and gas properties

	Developed oil and gas assets	Production facilities and equipment	Capitalized future decom- missioning costs	Total
\$ 000's				
<b>Cost</b>				
At December 31, 2013	\$ 392,404	\$ 7,106	\$ 2,944	\$ 402,454
Additions	23,620	169	514	24,303
<b>At June 30, 2014</b>	<b>\$ 416,024</b>	<b>\$ 7,275</b>	<b>\$ 3,458</b>	<b>\$ 426,757</b>
<b>Accumulated depreciation and impairment</b>				
At December 31, 2013	\$ (73,818)	\$ (3,999)	\$ (288)	\$ (78,105)
Depreciation	(18,308)	(785)	(45)	(19,138)
Impairment	(19,580)	-	-	(19,580)
<b>At June 30, 2014</b>	<b>\$ (111,706)</b>	<b>\$ (4,784)</b>	<b>\$ (333)</b>	<b>\$ (116,823)</b>
<b>Net book value</b>				
At December 31, 2013	\$ 318,586	\$ 3,107	\$ 2,656	\$ 324,349
Net change for the period	(14,268)	(616)	469	(14,415)
<b>At June 30, 2014</b>	<b>\$ 304,318</b>	<b>\$ 2,491</b>	<b>\$ 3,125</b>	<b>\$ 309,934</b>

The Trust does not capitalize general and administrative costs. Future development costs related to proved plus probable reserves of \$US 83,868,209 (December 31, 2013 - \$101,436,200) were included in the depletion calculation.

### Impairment of oil and gas properties

At June 30, 2014 the Trust considered indications of impairment regarding its cash generating units ("CGUs") and due to the sale of its Permian Basin property (see Note 17 – "Subsequent event"), an impairment of \$19.6 million (\$US 18.3 million) was recognized on its oil and gas properties in relation to the Permian CGU. The recoverable amount of CGUs is calculated as the greater of its value in use and its fair value less costs to sell. In determining fair value less costs to sell, the Trust considered recent transactions within the industry, long-term views of commodity prices, externally evaluated reserve volumes and discount rates specific to the CGU. The impairment is specifically related to the sale of the Permian Basin property as the disposition proceeds are less than the book value of the assets.

## 11. Distributions payable

\$ 000's	June 30, 2014		December 31, 2013	
Beginning balance	\$	2,813	\$	2,570
Distributions declared		17,330		32,434
Less distributions paid		(17,191)		(32,191)
Outstanding distributions declared and payable	\$	<b>2,952</b>	\$	2,813

Distributions are declared and paid monthly. The outstanding balance at June 30, 2014 represents the distribution declared June 16, 2014 and paid July 23, 2014. The outstanding balance at December 31, 2013 represents the distributions declared December 16, 2013 and paid January 23, 2014.

## 12. Debt

As at June 30, 2014, the Trust had approximately \$9.8 million (\$US 10.5 million) of unused credit on its \$85.3 million (\$US 80 million) revolving credit facility and was fully drawn on its \$10.7 million (\$US 10 million) non-revolving term credit facility, both of which are held with a syndicate of Canadian chartered banks. The revolving credit facility has a maturity date of May 27, 2016 and the maturity date of the non-revolving term credit facility is November 25, 2014. The borrowing base of the credit facilities is subject to semi-annual redetermination by the Trust's lenders. The next redetermination date is October 1, 2014.

The Trust intends to use the net proceeds from the disposition of its Permian Basin properties to fully retire its outstanding advances under its existing credit facility (see Note 17 - "Subsequent event").

Total interest paid on debt for the six month period ended June 30, 2014 was \$1.7 million at an average interest rate of 4.1%. Concurrent with the internal reorganization, the Trust's credit facility was transferred from Eagle Energy Commercial Trust, as borrower, to Eagle Hydrocarbons Inc., as borrower. The Trust and its other subsidiaries and affiliates remained as guarantors under the credit agreement. See note 1 "Reporting entity/Structure of the Trust".

At June 30, 2014, there were no covenant violations. Details of the Trust's credit facility are as follows:

\$000's	\$US		\$CA	
Non-revolving	\$	10,000	\$	10,670
Revolving		80,000		85,360
Total authorized		90,000		96,030
Less: Current debt		10,000		10,670
Long-term debt		69,455		75,606
Available	\$	<b>10,545</b>	\$	<b>9,754</b>

The exchange rate in effect at June 30, 2014 was \$US 1 equal to \$CA 1.07.

At December 31, 2013, details of the Trust's credit facility were as follows:

\$000's	\$US		\$CA	
Non-revolving	\$	10,000	\$	10,636
Revolving		80,000		85,088
Total authorized		90,000		95,724
Less: Current debt		10,000		10,636
Long-term debt		63,450		67,485
Available	\$	<b>16,550</b>	\$	<b>17,603</b>

The exchange rate in effect at December 31, 2013 was \$US 1 equal to \$CA 1.06.



### 13. Decommissioning liability

\$000's	June 30, 2014		December 31, 2013	
Beginning Balance	\$	3,036	\$	1,744
Acquisition		88		672
Additions		261		191
Changes in estimates		156		315
Abandonment expenditures		-		(9)
Accretion (unwinding of discount)		47		61
Effects of exchange rate		8		62
Ending Balance	\$	<b>3,596</b>	\$	3,036

The decommissioning provision reflects the present value of internal estimates of future decommissioning costs of the Trust's net ownership position in oil and gas wells and related facilities at the relevant balance sheet date determined using local pricing conditions and requirements. These costs are expected to be incurred between 2017 and 2054. The timing of payments related to provisions is uncertain and is dependent on various items which are not always within Management's control.

The provision was estimated using existing technology, at current prices (adjusted for inflation assuming 2% inflation rate), and discounted using a risk-free discount rate of 2% at June 30, 2014 for the Salt Flat properties (June 30, 2013 - 2%), 3% for the Permian properties (June 30, 2013 - 3%) and 3% for the Hardeman properties (June 30, 2013 - n/a).

### 14. Trust capital

Trust units outstanding	Six Months Ended June 30, 2014		Year Ended December 31, 2013	
	Number of units	Amount	Number of units	Amount
\$000's				
<b>Beginning balance</b>	32,149	\$ 297,447	29,269	\$ 276,526
Issuance of Trust capital pursuant to DRIP	1,590	10,609	2,775	20,173
Units released from escrow	-	-	105	859
Trust Unit issuance costs	-	(37)	-	(111)
Ending balance	<b>33,739</b>	<b>\$ 308,019</b>	32,149	\$ 297,447

For the six months ended June 30, 2014, the Trust incurred \$37,099 (December 31, 2013 - \$111,434) of unit issuance costs.

### 15. Related party disclosures

The Trust has no party holding voting control.

#### Key management

Key management personnel includes the Trust's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Vice-President Business Development, Vice-President Finance, General Counsel/Corporate Secretary and the Directors.

#### Intercompany transactions

There are certain intercompany transactions among the subsidiaries comprising these consolidated interim financial statements of the Trust. These transactions have been eliminated in consolidation.

### 16. Commitments

#### Operating lease commitment – head office lease in Calgary, Alberta

On January 1, 2013, the Trust entered into a lease for office space in Calgary which has an approximate 61 month term from January 8, 2013 to February 7, 2018. Future minimum lease payments during the term of the lease approximate \$2.4 million and include a leasehold improvements allowance up to \$0.3 million, with 43 months and approximately \$1.7 million remaining at June 30, 2014.

**Operating lease commitment – office lease in Houston, Texas**

The Trust entered into a lease in Houston on April 1, 2011, and originally had an approximate 30 month term from April 7, 2011 through September 30, 2013. On November 21, 2012, the lease was extended for an additional 63 month period from October 1, 2013 to December 31, 2017 and the premise space was expanded to incorporate additional square footage. Future minimum lease payments during the term of the lease include a leasehold improvement allowance of \$US 111,293 and approximate \$US 1.5 million, with 42 months and approximately \$US 0.9 million remaining at June 30, 2014. In \$CA the remaining future minimum lease payments approximate \$1.0 million translated at the exchange rate in effect at the balance sheet date of \$US 1 equal to \$CA 1.07.

**17. Subsequent event****Disposition**

On August 13, 2014 the Trust announced that its US operating subsidiary has entered into a binding agreement to sell its entire working interest in its oil and natural gas properties in the Permian Basin, located near Midland, Texas to an undisclosed buyer for cash consideration of \$US 140.0 million, before closing adjustments. The disposition is expected to close on August 29, 2014, with an effective date of July 1, 2014. The Trust intends to use the net proceeds to fully retire its outstanding advances under its existing credit facility and redeploy the remaining capital. As a result of this disposition, the Trust has recognized an impairment of \$20.1 million (\$US 18.3 million) in its June 30, 2014 income statement (see Note 10 "Oil and gas properties").

# Corporate Information

## Board of Directors

David M. Fitzpatrick  
Chairman of the Board

Bruce K. Gibson <sup>(1)</sup>  
Director

Warren D. Steckley <sup>(2)</sup>  
Director

Joseph W. Blandford <sup>(3)</sup>  
Director

Richard W. Clark  
President, Chief Executive Officer and Director

(1) Audit Committee Chair

(2) Reserves & Governance Committee Chair

(3) Compensation Committee Chair

## Officers

Richard W. Clark  
President, Chief Executive Officer and Director

Kelly A. Tomy  
Chief Financial Officer

J. Wayne Wisniewski  
Chief Operating Officer

Robert J. Cunningham  
Vice President, Business Development

James D. Elliott  
Vice President, Finance

Jo-Anne M. Bund  
General Counsel/Corporate Secretary

## Auditors

PricewaterhouseCoopers LLC

## Trustee and Transfer Agent

Computershare Trust Company of Canada

## Engineering Consultants

Netherland Sewell and Associates, Inc.

## Bankers

Bank of Nova Scotia

## Legal Counsel

Bennett Jones LLP

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