2016 Annual Report

	Three Months Ended			Year-Ended December 31		
	December 31, 2016	September 30, 2016	Change %	2016	2015	Change %
FINANCIAL						
Petroleum and natural gas sales	**61,834**	48,550	27	**195,036**	286,161	(32)
Funds flow						
From operations [1]	**21,824**	16,078	36	**55,938**	109,346	(49)
Per share - diluted	**0.17**	0.13	36	**0.44**	0.87	(49)
Earnings						
Loss before tax	**(24,593)**	(25,460)	(3)	**(124,508)**	(177,002)	(30)
Per share - diluted	**(0.19)**	(0.20)	(4)	**(0.99)**	(1.40)	(30)
Loss after tax	**(18,116)**	(18,629)	(3)	**(93,401)**	(137,658)	(32)
Per share - diluted	**(0.14)**	(0.15)	(5)	**(0.74)**	(1.09)	(32)
Capital expenditures						
Exploration, development, land, and facility	**30,413**	20,293	50	**74,057**	80,928	(8)
Acquisitions (dispositions) and other - net	**(725)**	(80)	806	**(1,212)**	(160,181)	(99)
Net capital expenditures	**29,688**	20,213	47	**72,845**	(79,253)	(192)
Total assets	**1,224,714**	1,226,024	-	**1,224,714**	1,266,492	(3)
Net debt [1]	**588,618**	569,514	3	**588,618**	544,167	8
Shareholders' equity	**363,898**	381,229	(5)	**363,898**	447,742	(19)
Total shares outstanding (thousands)						
- As at end of period [2]	**126,101**	126,066		**126,101**	126,024	
OPERATING						
Production						
Natural gas (MMcf/d)	**93**	92	1	**91**	108	(16)
Oil (Bbl/d)	**5,251**	3,723	41	**4,290**	5,577	(23)
Natural gas liquids (Boe/d)	**1,881**	2,616	(28)	**2,349**	4,214	(44)
Total production (Boe/d @ 6:1)	**22,565**	21,632	4	**21,822**	27,775	(21)
Liquids Composition (percentage)	**32**	**29**		**30**	**35**	
Average prices before financial instruments						
Natural gas ($/Mcf)	**3.17**	2.47	28	**2.47**	3.14	(21)
Crude Oil ($/Bbl)	**56.16**	52.03	8	**49.53**	53.07	(7)
Natural gas liquids ($/Boe)	**44.59**	40.93	9	**40.68**	35.52	15
Average realized price	**29.79**	24.39	22	**24.42**	28.23	(13)
Drilling activity (gross)						
Gas	**2**	1	100	**7**	16	(56)
Oil	**7**	5	40	**16**	5	220
Total wells	**9**	6	50	**23**	21	10

(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.

MESSAGE TO SHAREHOLDERS

In 2016, Trilogy successfully navigated what was easily the most challenging year of its 12 year existence. However, we believe the worst of the downturn for energy commodity prices is behind us and are proud of the difficult decisions we have had to make over the past two years, which has allowed the Company to manage itself through this period without compromising the long-term value within its asset base. One such decision was cancelling Trilogy's dividend, others included selectively monetizing assets and significantly restricting capital spending, which resulted in declining production yet also led to a considerably improved position from which to resume growth. Trilogy used this time of lower activity levels to improve its operations, achieving lower per unit operating costs, G&A costs, and capital costs, while simultaneously improving performance in its operations. By the latter part of 2016, Trilogy recognized the improvement in commodity prices and quickly increased its capital spending to take advantage of lower pricing and better availability of services, resulting in the resumption of growth in production levels.

Annual 2016 production was 7.99 MMBoe (21,822 Boe/d) with funds flow from operations of $55.9 million ($7.00/Boe). Fourth quarter and annual 2016 funds flow from operations were reduced by $8.5 million as a result of the emulsion release at Kaybob which was discovered in early October and a third party prior period production allocation adjustment. The Company executed its 2016 capital expenditure program totalling $72.8 million. As mentioned above, Trilogy accelerated its capital expenditures in the fourth quarter in response to improving industry fundamentals, spending $29.7 million to grow its December 2016 production level back up to 23,800 Boe/d. Production growth has continued into 2017, with January production levels progressing above 24,500 Boe/d. Operating netbacks improved, with January 2017 funds flow from operations more than double the annual 2016 average, at $15.09/Boe. Trilogy exited 2016 with net debt of $588.6 million.

The Company's 2016 capital program included drilling 12 net wells into its Montney oil pool, 2.5 net wells into the Montney gas pool and 2 net wells into the Duvernay play, for a total of 16.5 net wells. Trilogy was able to materially lower costs for these wells, with average capital costs to drill and complete Montney wells decreasing by approximately 30%, while at the same time economically increasing proppant intensity for these wells. Trilogy has reduced drilling costs through greater specificity as to the equipment and products used in its operations, including drilling rigs, drilling fluid, mud motors and bit selections, among other things. Trilogy also experimented with increased fracture stage counts, increased proppant per fracture and completion fluids, and other technological changes as discussed in our Q4 2016 Operations Update, achieving improved results for these wells compared to prior wells while at the same time reducing completion costs. Trilogy was also able to reduce the costs for the 2 Duvernay wells drilled during the year to $10.2 million per well and anticipates that further efficiencies in multi-well pad developments can be achieved based on these learnings as the Company progresses toward commercial development of the play.

2016 year end reserves volumes, finding costs, and net present value were all improved when compared to the prior year as Trilogy replaced annual produced reserves by 180% and 344% for total proved and total proved plus probable reserves, respectively. Total proved reserves increased to 101.3 MMBoe and total proved plus probable reserves increased to 177.4 MMBoe, with finding and development costs of $12.66/Boe (as compared to the 3 year average of $20.76/Boe) for total proved reserves and $8.09/Boe (as compared to the 3 year average of $15.45/Boe) for total proved plus probable reserves. Net present value discounted at 10% was $939 million for total proved reserves and $1,696 million for total proved plus probable reserves. The future costs required to develop the total proved plus probable reserves are estimated at approximately $1,192 million.

Commodity prices are adjusting to compensate for an improving supply and demand balance as well as improved operating efficiencies worldwide. The recent OPEC agreement to limit crude oil production has accelerated the balancing of world oil markets and allowed prices to increase to over US$50.00/Bbl. This is a more sustainable price level that supports Trilogy resuming higher levels of capital investment into its assets. Trilogy expects that structural improvements in supply costs worldwide will limit the appreciation of prices materially above these levels in the near term, while the prolonged constraints on investment in the upstream industry will catch up with supply in the medium term, allowing prices to further improve. Natural gas pricing has structurally changed with technological advancements: initially, the adoption of horizontal drilling and multi-stage fracturing, and more recently, continued improvements in proppant intensity and decreases in the cost of these technologies. Just as these improvements have positively impacted Trilogy's capital program, so have they benefitted the capital programs for some of Trilogy's competitors in the unconventional oil and gas industry.

Trilogy looks forward to growing production in 2017 while continuing to spend within expected cash flow. The Company has issued 2017 guidance estimates, spending approximately $130 million in capital (which is currently forecast to be less than funds flow from operations, and generating 2017 average production of 24,000 Boe/d, which represents an approximate 10% increase over 2016 levels. Financial flexibility should continue to improve as forward market commodity prices increase modestly into the future. Trilogy will continue to develop its asset base, increase its financial flexibility by selectively monetizing assets and consider value enhancing opportunities to accelerate the development of its Duvernay asset. It is difficult to predict what form this may take but, given recent lower capital costs and better well results, the economics of the play have improved materially and are expected to make this opportunity very attractive to potential counterparties.

Through the significant change experienced in the industry over the past two years, your management consistently took the appropriate steps and made the right choices in the interests of enhancing value for all of our stakeholders, and we expect this to continue through 2017. I would like to thank our shareholders, employees, board of directors and service providers for your ongoing support of management during this challenging period and your many contributions to our business and our cost reduction initiatives. Your participation has been critical and will play an important role in positioning Trilogy for growth and success in the future.

James H.T. Riddell
Chief Executive Officer
March 7, 2017

2016 OPERATING AND FINANCIAL HIGHLIGHTS

- Trilogy's 2016 annual production averaged 21,822 Boe/d (7.99 MMBoe/year)
- Trilogy had net capital expenditures of $72.8 million for 2016, which includes $29.7 million in the fourth quarter 2016
- Drilled 16.5 net wells to evaluate the Duvernay and Montney formations.
- Added 14.3 MMBoe of total proved reserves and 27.4 MMBoe of total proved plus probable reserves
- Replaced 180 percent of 2016 produced reserves when compared to total proved reserve additions, and 344 percent when compared to total proved plus probable reserves.
- Finding and development costs were $12.65/Boe for total proved reserves and $8.09/Boe for total proved plus probable reserves.
- Annual operating costs were $8.67/Boe.
- Annual operating netback of $12.58/Boe.
- Annual funds flow from operations of $7.00/Boe
- Remaining capacity under Trilogy's revolving credit facility was approximately $6.1 million at year-end including Letters of Credit and working capital deficit.

2016 Operating Update

Trilogy's average production during the fourth quarter of 2016 was 22,565 Boe/d (32 percent liquids), resulting in annual 2016 average production of 21,822 Boe/d (30 percent liquids). Production was approximately 23,800 Boe/d (36 percent liquids) in December 2016, and increased to approximately 24,500 Boe/d (38 percent liquids) in January 2017. During the fourth quarter of 2016, Trilogy recorded a $6.0 million provision for the Kaybob emulsion release reported in October 2016 and $2.5 million (inclusive of $3.3 million revenues less royalty and operating expenses of $0.6 and $0.2, respectively) for a third party downward revenue adjustment relating to prior year production allocations. Third party revenue adjustments negatively impacted full year 2016 average production by an estimated 115 Boe/d.

Funds flows from operations were $21.8 million for the fourth quarter 2016 and $55.9 million for the year. Excluding the one-time adjustments for the emulsion release and revenue allocation noted above, flow from operations would have been approximately $30 million for the fourth quarter and $64 million for the year.

Montney Oil Update

Based on encouraging completion results from the first quarter 2016 Montney horizontal oil wells, the Company increased its 2016 Montney drilling activity from the 2 wells that were initially planned to a total of 12 wells for the year. Nine of these wells were completed prior to the end of 2016; the remaining 3 were completed in January 2017 and producing through the Montney oil battery in late February 2017.

Continued improvements to Trilogy's Montney oil well drilling and completion program resulted in year-over-year well costs declining by approximately 30 percent while productivity generally increased. Cost savings were achieved in the drilling operations through the utilization of multi-well pads and high performance drilling systems. The shift from hydrocarbon-based fracture to water-based fracture stimulations significantly reduced completion costs and allowed the Company to economically increase proppant volume and decrease stage spacing, thereby better distributing proppant along the length of the lateral wellbore.

Trilogy varied sand volumes from 10 tonnes per stage in the Company's original horizontal Montney oil wells to as much as 20 tonnes per stage in recent wells. At the same time, stage spacing was reduced from 75 meters per stage in the original wells to 50 to 65 meters in the fourth quarter wells. In addition, substantially higher completion pump rates have increased the size and complexity of Trilogy's fracture stimulations. All of these factors combined have contributed to higher initial well productivity as compared to the Company's first generation Montney oil wells.

Incorporating the efficiencies and learnings from its 2016 Montney drilling and completion program, Trilogy plans to drill 15 horizontal Montney oil wells and complete 18 wells in 2017. The capital investment Trilogy has made into the Montney oil gathering and processing infrastructure has resulted in Trilogy reducing its operating cost structure in this area to $6.60/Boe for 2016. For the month of January 2017, Trilogy realized a $33.89/Boe operating netback for its Montney oil operations, when WTI averaged USD $52.61/Bbl and natural gas averaged $3.32/GJ. Assuming $2.9 million capital costs to drill, complete and equip a Montney oil well, wells are expected to reach a capital payout after 85 MBoe of production (60 MBbl of crude oil and 150 MMcf of natural gas). Trilogy's 10 tonne type curve for the west side of the pool forecasts 60 MBbl of cumulative oil production after approximately 6 producing months, while new wells with higher fracture intensity and sand concentration may reach 60 MBbl in as little as 2 to 3 months of production.

The following table updates production results to February 28, 2017 for the 9 horizontal Montney oil wells that were drilled, completed and brought on production in 2016. The variable results reflect the evolution of completion techniques described above.

	Cum Oil MBbl	Cum Gas MMcf	Average Oil Rate Bbl/d	Average Gas Rate MMcf/d	Average Prod. Boe/d	Sand Tonnes per stage	Number of Stages	Lateral Length Meters	Total Prod. Days	On Prod. Date
5-6-64-18W5	107	292	405	1.1	591	20	22	1577	263	Mar 18
02/12-6-64-18W5	76	219	278	0.8	411	10	22	1566	274	May 12
10-31-64-18W5	26	75	200	0.6	486	20	28	2680	131	Sept 23
02/1-1-64-19W5	63	103	608	1.0	782	20	21	1498	102	Oct 16
02/2-1-64-19W5	68	78	735	0.9	877	20	21	1455	92	Oct 17
2-1-64-19W5	32	34	411	0.4	486	20	26	1525	77	Oct 20
02/4-6-64-18W5	59	79	791	1.1	970	20	32	1584	74	Nov 11
02/5-6-64-18W5	90	182	892	1.8	1192	13.5	33	1573	101	Nov 12
03/4-6-64-18W5	35	31	468	0.4	538	20	32	1581	74	Nov 14

Duvernay Update

Trilogy successfully drilled, completed and tied in 2 (2.0 net) horizontal Duvernay wells in 2016. Each well was drilled and completed on a single well pad at a cost of approximately $10.2 million per well. The significant reduction in costs relative to previous Duvernay wells reflects improvements in efficiencies and operational performance during the drilling and completion operations.

The 02/16-17-61-19W5 well was placed on production on November 10, 2016 and has produced for 3 months since that time, producing an aggregate of 24 MBbl of condensate and 304 MMcf of natural gas up to February 28, 2017. Production was initially restricted through a downhole choke, which was removed in January 2017. The condensate to gas ratio has averaged approximately 79 Bbl/MMcf in the initial 3 producing months.

The 12-21-63-17W5 well was drilled to manage a nine section block of acreage that was set to expire at the end of 2016. The well was brought on production on December 21, 2016 and has produced an aggregate of approximately 26 MBbls of crude oil/condensate (42 degree API, density of 814 kg/m3) and 39 MMcf of natural gas in the past 2 months. The condensate/oil to gas ratio has averaged 657 Bbl/MMcf in the initial 2 producing months.

	Cum Cond MBbl	Cum Gas MMcf	Average Oil/Cond Rate Bbl/d	Average Gas Rate MMcf/d	Average Prod. Boe/d	Condensate Gas Ratio Bbl/MMcf	Sand Conc. t/m	Total Prod. Days	On Prod. Date
2/16-17-61-19W5	24	304	237	3.0	736	79	2.2	102	Nov 10 2016
12-21-63-17W5	26	39	389	0.6	488	657	2.2	66	Dec 21 2016

Trilogy is very encouraged by its own Duvernay results as well as the progress that has been made by industry to begin the commercial development of the Duvernay. As Trilogy continues to develop its Duvernay shale assets, it may require additional sources of funding to accelerate the development of some or all of its acreage within the Duvernay play. This may offset Trilogy's working interest in, and the reserves and future net revenue attributable to these or other properties. Trilogy has processing capacity in place to produce volumes from its Duvernay development plan for the initial two to three year period; however, to deliver on the longer term Duvernay development plan, Trilogy will require access to additional operated and non-operated natural gas processing and NGL handling infrastructure.

2016 Year End Reserves Report Highlights

The following is a summary of Trilogy's 2016 year end reserves and reserves value, as evaluated and reported by the independent engineering firm McDaniel & Associates Consultants Ltd. (McDaniel"). The reserves report has been prepared in accordance with National Instrument 51-101 definitions, standards and procedures.

- Total proved reserves and total proved plus probable reserves at the end of 2016 were 101.3 MMBoe and 177.4 MMBoe respectively
- NPV10 for total proved reserves and for total proved plus probable reserves at the end of 2016 was valued at $936 million and $1,696 million respectively based on McDaniel's December 31, 2016 pricing forecast
- Finding and development costs including future development capital were $12.66/Boe for total proved reserves and $8.09/Boe for total proved plus probable reserves
- Reserves life index increased to 22.2 years for total proved plus probable reserves in 2016 as compared to 15.6 years in 2015
- Replaced 180 percent of 2016 produced reserves when compared to total proved reserves additions and 344 percent when compared to total proved plus probable reserves addition

Trilogy has dedicated substantial resources and capital to further its knowledge base for the Montney and Duvernay plays over the past number of years. Over the past year, industry has made significant progress in improving drilling and completion techniques and reducing the associated costs. These advancements have enabled Trilogy the opportunity to generate and refine several production type curves for its land base, as well as other estimates, including estimates for recoverable reserves, liquid ratios, infrastructure requirements and operating costs related to these plays. Accordingly, the continued advancements in Trilogy's Montney and Duvernay resource plays have contributed to further de-risking the plays and have afforded Trilogy the opportunity to book additional proved and probable undeveloped reserves in the Kaybob area.

The results of the 2016 year end reserves report are summarized in the table below:

	Oil	**Gas**	**NGLs**	**Boe (6:1)**	**Before tax NPV ($000)**		
Reserve Category	**MBbl**	**MMcf**	**MBoe**	**MBoe**	**0%**	**5%**	**10%**
Proved developed producing	8,338.4	241,735	6,780.3	55,408	853,651	692,823	581,487
Proved developed nonproducing	2,039.4	14,100	612.8	5,002	73,656	58,459	48,208
Proved undeveloped	5,621.3	131,182	13,362.1	40,847	705,833	463,416	306,371
Total Proved	15,999.1	387,017	20,755.2	101,257	1,633,139	1,214,698	936,066
Total Probable	9,813.5	268,839	21,492.1	76,112	1,843,253	1,137,868	760,080
Total P+P	**25,812.6**	**655,856**	**42,247.3**	**177,369**	**3,476,392**	**2,352,566**	**1,696,146**

Notes
(i) Reserve values were determined by McDaniel as of December 31, 2016, using the forward-pricing assumptions in effect by the firm as at that date.
(ii) McDaniel evaluated 100 percent of Trilogy's reserves.
(iii) No value has been assigned to tangible assets other than those associated with proved producing reserves.

While Trilogy plans to develop the proved undeveloped and the probable undeveloped reserves over the next five years, the fruition of such plans depends heavily upon numerous unforeseen factors, many of which are outside of the control of the Company. These factors include, but are not limited to, fluctuations in commodity prices which can affect the funding for these projects, causing them to be accelerated, deferred or cancelled. Changing technical and production factors can also affect the timely development of these projects.

The following table summarizes the future development capital Trilogy has included in its 2016 reserves evaluation for the next 5 years.

	Capital for Future Development ($ millions)	
Year	**Total Proved**	**Total Proved plus Probable**
2017	118.8	136.5
2018	268.3	330.5
2019	237.3	308.6
2020	49.3	277.5
2021	10.4	138.0
2022	-	0.5
	684.0	**1,191.6**

Reserves Reconciliation

For 2016, total proved reserves were revised upward by 8.6 MMBoe and total proved plus probable reserves were essentially flat year over year. The majority of the positive technical revisions were due to adjustments made to the Presley Montney gas wells, and positive reserve adjustments to the Duvernay shale gas wells and the associated natural gas liquids.

Lower commodity price forecasts at the end of 2016 resulted in negative adjustments of 0.99 MMBoe of total proved reserves and 1.38 MMBoe of total proved plus probable reserves due to economic factors.
The following table below summarizes the reserves reconciliation for 2016.

	Total Proved				**Total Proved + Probable**			
	Oil	**Gas**	**NGL**	**Boe**	**Oil**	**Gas**	**NGL**	**Boe**
	MBbl	**MMcf**	**MBoe**	**MBoe**	**MBbl**	**MMcf**	**MBbl**	**MBoe**
December 31, 2015	**14,902**	**366,239**	**18,959**	**94,901**	**20,408**	**589,351**	**39,282**	**157,915**
Extensions & Improved Recovery	3,201	17,782	515	6,679	8,097	64,018	1,437	20,204
Technical Revisions	-506	41,482	2,229	8,637	-1,030	42,662	2,511	8,592
Acquisitions	0	97	2	18	0	124	2	23
Dispositions	0	0	0	0	0	0	0	0
Economic Factors	-27	-5,240	-90	-990	-93	-6,956	-126	-1,378
Production	-1,570	-33,343	-860	-7,987	-1,570	-33,343	-860	-7,987
December 31, 2016	**15,999**	**387,017**	**20,755**	**101,257**	**25,813**	**655,856**	**42,247**	**177,369**

Notes

(i) Columns and rows may not add due to rounding

In the 2016 year end reserves, McDaniel used the following price forecast for the evaluation which was developed by them.

Year	WTI @ CUSHING $US/BBL	EDM REF PRICE $C/BBL	HENRY HUB US$/MMBTU	AECO C C$/MMBTU	EXCHANGE RATE CDN/US
2017	55.00	69.80	3.40	3.40	0.75
2018	58.70	72.70	3.20	3.15	0.78
2019	62.40	75.50	3.35	3.30	0.80
2020	69.00	81.10	3.65	3.60	0.83
2021	75.80	86.60	4.00	3.90	0.85
Next 5 years average	80.44	91.88	4.23	4.20	0.85

Finding and Development Costs

Since inception, Trilogy has successfully exploited many of the opportunities afforded by its land base. Its success rate reflects the high quality of the Company's prospect inventory, its undeveloped land base and its producing asset base as well as the technical expertise of Trilogy's staff. The reserve potential of these lands, both developed and undeveloped, is expected to continue to provide Trilogy with low cost reserve additions in the future.

In 2016, Trilogy spent approximately $74.2 million and booked approximately 5.6 MMBoe and 7.2 MMBoe for total proved and for total proved plus probable reserves respectively for this capital. Based on the capital spent during the year, Trilogy's finding and development costs for the total proved reserves is $13.07/Boe and for the total proved plus probable reserves is $10.31/Boe.

Finding and development costs including future development capital for 2016 are reported to be $12.65/Boe for total proved reserves and $8.09/Boe for total proved plus probable reserves.

Finding and development costs for the past 3 years are shown in the table below.

	Total Proved			Total Proved plus Probable		
	Capital	**Reserves**	**F&D**	**Capital**	**Reserves**	**F&D**
	$MM	MBoe	$/Boe	$MM	MBoe	$/Boe
2014	766.4	30,873	$ 24.82	984.4	47,379	$20.78
2015	294.2	14,612	$20.13	528.1	37,481	$14.09
2016	181.6	14,343	$12.65	222.1	27,441	$8.09
3 Year average	1,242.1	59,828	$20.76	1,734.6	112,300	$15.45

When calculated over the three-year period ended December 31, 2016, F&D costs were $20.76/Boe for total proved reserves and $15.45/Boe for total proved plus probable reserves. Calculating finding and development costs over a longer period reduces the effect of spending capital in one year and booking reserves in the following year and reduces the impact of technical revisions.

2017 Hedge Update

Trilogy has hedged approximately 17 percent of its forecast 2017 production to lock in expected returns from wells drilled in its 2017 capital spending program. Details of the hedges are as follows:

- hedged 2,000 Bbl/d of crude oil for calendar 2017 at NYMEX $71.17 CDN
- hedged 1,000 Bbl/d of crude oil for calendar 2017 at NYMEX $54.46 USD
- collared 500 Bbl/d of crude oil for calendar 2017 between $38.00 and $57.50 USD WTI
- collared 500 Bbl/d of crude oil for calendar 2017 between $42.00 and $52.90 USD WTI
- Throughout January and February 2017, Trilogy accelerated the realization and receipt of gains totaling $3.5 million USD ($4.6 million CDN) on 40,000 MMBTU/d of financial sales contracts, originally put in place for calendar 2017.

2017 Annual Guidance

- Trilogy's Board of Directors approved a 2017 capital budget of $130 million.
- For 2017, Trilogy is forecasting its capital expenditures to be less than its projected funds flow from operations while growing its production by approximately 10 percent over 2016 average production to approximately 24,000 Boe/d, based on current strip pricing and taking into account current Company hedges;
- The Company plans to invest approximately $60 million into the Kaybob Montney oil pool in 2017 to drill 15 horizontal net wells, complete 18 net wells and complete infrastructure projects that will reduce ongoing operating costs in this area;
- Trilogy also plans to invest approximately $25 million into the Presley Montney gas pool in 2017 to drill, complete and tie-in 5.25 net wells;
- The balance of the capital budget will be primarily allocated to developing Trilogy's Duvernay assets in the second half of the year, with lesser amounts allocated to infrastructure, workovers, tie-ins and projects designed to reduce operating costs;

Trilogy plans to execute a 2017 capital spending budget that is within anticipated 2017 funds flow based on Trilogy's 2017 production expectations and forecasted pricing. The level of capital to be allocated to Duvernay projects will be reflective of commodity prices and will be weighted to the second half of 2017.

Given the foregoing, Trilogy is reaffirming 2017 annual guidance as follows:

Average production	24,000 Boe/d (~ 35 percent oil and NGLs)
Average operating costs	$8.50 /Boe
Capital expenditures	$130 million

Certain statements included in this Operating Update constitute forward-looking statements under applicable securities legislation. Please refer to the Management's Discussion and Analysis ("MD&A") to which this Operating Update is attached for Advisories on forward-looking statements, the assumptions upon which such statements are made and the 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. Please also refer to the MD&A for applicable definitions of non-GAAP measures used including: funds flow from operations, operating netback, finding and development costs and recycle ratio.

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 year-ended December 31, 2016, and should be read in conjunction with the Company's annual consolidated financial statements (Annual Financial Statements). The Annual 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 March 7, 2017.

Financial and Operating Highlights

- Trilogy added 14.3 MMBoe of total proved reserves and 27.4 MMBoe of total proved plus probable reserves, including technical revisions;
- Trilogy replaced 180 percent of 2016 produced reserves when compared to total proved reserve additions, and 344 percent when compared to total proved plus probable reserves;
- Production decreased in 2016 to 21,822 Boe/d as compared to 27,775 Boe/d in 2015. The decrease in annual production was attributed primarily to the disposition of non-core production and the expiry of the Company's liquids recovery agreement with Aux Sable Canada LP occurring in the latter part of 2015. The shut-in of uneconomic production (for part of 2016), during lower natural gas prices and a reduced capital expenditure budget, further contributed to the decrease. Reported sales volumes for the fourth quarter of 2016 were higher at 22,565 Boe/d as compared to 21,632 Boe/d for the third quarter;
- Average realized pricing, before hedges, increased by 22 percent to $29.79/Boe in the fourth quarter from $24.39/Boe for the previous quarter. Average realized pricing, before hedges, decreased year over year by 13 percent from $28.23 to $24.42. Trilogy's 2016 realized price for its oil (after financial instrument gains) was $61.87/Bbl, an increase of $12.34/Bbl over its realized price (before financial instruments);
- Trilogy implemented significant capital cost efficiencies achieved mainly through improved drilling and completion practices and decreases in the cost of the related services. Trilogy drilled 6.0 net wells in the fourth quarter, for a total of 16.5 net wells to date in 2016 to evaluate Duvernay and Montney formations. Net capital expenditures totaled $29.7 million for the fourth quarter ($72.8 million year to date);
- Finding and development costs (1) in the year were $12.65/Boe (total proved reserves) and $8.09/Boe (total proved plus probable reserves);
- Net debt (1) increased to $588.6 million at the end of 2016 from $544.2 million for the previous year. Capacity under the credit facility at the end of the quarter was $6.1 million, inclusive of a working capital deficiency and outstanding letters of credit;
- Operating expenditures decreased to $69.2 million ($8.67/Boe) in 2016 from $93.1 million ($9.18/Boe) in 2015 on reduced production and operating cost efficiencies. During the fourth quarter operating expenditures were $19.1 million ($9.23/Boe) as compared to $17.8 million ($8.90/Boe) for the third quarter on the higher production and on increased field workover and maintenance projects;
- Funds flow from operations (1) decreased to $55.9 million for 2016 as compared to $109.3 million for 2015. $21.8 million was generated in the fourth quarter as compared to $16.1 million in the third quarter on higher realized pricing and production, offset, in part by a provision of $6 million for the Company's previously reported Kaybob Emulsion Release and approximately $2.5 million on third party downward revenue adjustment for prior year production allocations.

(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 has 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 continued 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. In the second through fourth quarters of 2016, world oil prices continued to strengthen beyond the low pricing experienced in the first quarter as market forces attempted to balance. OPEC and Russian production cuts announced in the fourth quarter of 2016 contributed significantly to an increase in the price for oil; however, significant uncertainty and price volatility exists on concerns of how long such supply reductions will be in place and on the impact of North American oil production coming on stream as prices strengthen.

Similarly, gas prices continued to weaken in the latter part of 2014 through to the first quarter of 2016 as moderate temperatures experienced throughout most of North America combined with strong supply from industry during this period failed to significantly draw on gas storage levels. Natural gas pricing began to strengthen in the middle of 2016. However moderate consumption, strong supply levels and concerns that natural gas demand will be tempered on the potential action by the U.S. to reverse initiatives to curtail coal fired heating and power generation.

In Canada, a number of additional challenges face the industry including competitiveness concerns on the implementation of a provincial carbon tax and uncertainty regarding the approval and ultimate construction of a number of proposed pipelines to export producer's oil and gas to new markets. In Alberta, a Provincial government royalty review that began in 2015 deterred investment in Alberta until the review was completed. Industry was generally pleased with the results and recommendations from the review in 2016. The government enacted its New Royalty Framework and implemented programs intended to replace expiring strategic incentive programs, provided royalty incentives to encourage increased production in certain parts of Alberta and enhanced recovery initiatives, including the Emerging Resources Program and the Enhanced Hydrocarbon Recovery Program.

The decrease and volatility in commodity prices and the uncertainties created over the past two and a half years continue to have a direct and profound impact on a large number of oil and gas producers in Canada. The significant market volatility in the price for oil, natural gas and natural gas liquids continues to reinforce the diversity and uncertainty in the market as to the timing and extent of a sustained recovery in oil, natural gas and natural gas liquids ("NGL") prices. 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.

In response to the 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 approximate 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 capital and operational 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, as evidenced partly in recent months, Trilogy expects to continue profitably exploiting its current land base, focusing on plays that meet its internal 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

- Trilogy's Board of Directors approved a 2017 capital budget of $130 million.
- For 2017, Trilogy is forecasting its capital expenditures to be less than its projected funds flow from operations while growing its production by approximately 10 percent over 2016 average production to approximately 24,000 Boe/d, based on current strip pricing and taking into account current Company hedges
- The Company plans to invest approximately $60 million into the Kaybob Montney oil pool in 2017 to drill 15 horizontal net wells, complete 18 net wells and complete infrastructure projects that will reduce ongoing operating costs in this area
- Trilogy also plans to invest approximately $25 million into the Presley Montney gas pool in 2017 to drill, complete and tie-in 5.25 net wells
- The balance of the capital budget will be primarily allocated to developing Trilogy's Duvernay assets in the second half of the year, with lesser amounts allocated to infrastructure, workovers, tie-ins and projects designed to reduce operating costs

Trilogy plans to execute a 2017 capital spending budget that is within anticipated 2017 funds flow based on Trilogy's 2017 production expectations and forecasted pricing. The level of capital to be allocated to Duvernay projects will be reflective of commodity prices and will be weighted to the second half of 2017.

Given the foregoing, Trilogy is reaffirming 2017 annual guidance as follows:

Average production	24,000 Boe/d (~ 35 percent oil and NGLs)
Average operating costs	$8.50 /Boe
Capital expenditures	$130 million

Operating Results Summary

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

	Q4 2016	Q3 2016	YTD 2016	YTD 2015
Crude Oil				
West Texas Intermediate monthly average (U.S.$/Bbl)	**49.29**	44.94	43.32	48.80
Canadian Light Sweet monthly average (Cdn$/Bbl)	**60.76**	54.19	52.79	57.44
Natural Gas				
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**3.18**	2.80	2.55	2.63
AECO monthly average (Cdn$/GJ)	**3.11**	2.36	2.18	2.70
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.34**	1.31	1.34	1.38

Key Performance Measures

(In thousand dollars except as otherwise indicated)	2016	2015	2014	2013	2012
FINANCIAL					
Total revenue and other income [1]	**187,869**	307,713	625,551	551,755	466,490
Operating income [2]	**91,158**	153,317	400,756	336,908	281,315
Per $boe	**11.41**	15.12	31.28	26.75	22.94
Funds flow from operations [2]	**55,938**	109,346	349,360	280,511	241,941
Per share, diluted [3]	**0.44**	0.87	2.75	2.32	2.03
Per $boe	**7.00**	10.79	27.26	22.27	19.73
Earnings (loss) before tax	**(124,508)**	(177,002)	44,258	459,409	(12,093)
Per share, diluted [3]	**(0.99)**	(1.40)	0.35	3.80	(0.10)
Net earnings (loss)	**(93,401)**	(137,658)	(61,011)	11,467	(12,133)
Per share [3]	**(0.74)**	(1.09)	(0.49)	0.10	(0.10)
Per share, diluted [3]	**(0.74)**	(1.09)	(0.49)	0.09	(0.10)
Dividends declared	**-**	-	48,417	50,188	48,956
Per voting and non-voting share [3]	**-**	-	0.39	0.42	0.42
Total assets	**1,224,714**	1,266,492	1,618,953	1,546,729	1,395,111
Long term debt	**561,880**	533,545	701,140	550,530	592,325
Net debt [2]	**588,618**	544,167	751,603	616,053	636,785
Weighted average shares outstanding, diluted	**126,396**	126,160	126,968	120,982	116,418
Shares outstanding, end of period	**126,101**	126,024	125,854	125,174	116,674
CAPITAL EXPENDITURES					
Geological and geophysical	**(156)**	(26)	1,515	235	2,119
Drilling, completions, & tie-ins	**65,168**	71,767	369,550	342,287	286,438
Plant and facilities	**8,426**	8,003	54,466	56,298	59,710
Land	**619**	1,184	238	611	1,027
Corporate and field office	**151**	152	900	338	3,424
Capital expenditures	**74,208**	81,080	426,669	399,769	352,718
Property acquisition (dispositions), net	**(1,363)**	(160,333)	13,332	(2,869)	(1,402)
Net capital expenditures	**72,845**	(79,253)	440,001	396,900	351,316

(In thousand dollars except as otherwise indicated)	2016	2015	2014	2013	2012
OPERATING					
Production					
Crude oil (bbl/d)	**4,290**	5,577	8,326	10,175	9,153
Natural gas (mmcf/d)	**91,102**	107,911	126,430	117,038	120,250
NGLs (bbl/d)	**2,349**	4,214	5,706	4,827	4,315
Total (boe/d)	**21,822**	27,775	35,104	34,509	33,510
Oil and natural gas liquids production	**30%**	35%	40%	43%	40%
Avg realized prices, before financial instruments					
Crude oil ($/bbl)	**49.53**	53.07	89.17	87.01	79.76
Natural gas ($/mcf)	**2.47**	3.14	4.98	3.55	2.57
NGLs ($/boe)	**40.68**	35.52	56.69	50.27	47.85
Oil equivalent ($/boe)	**24.42**	28.23	48.31	44.73	37.16
RESERVES (4)					
Proved plus probable reserves					
Crude oil (mbbl)	**25,813**	20,408	23,274	25,055	20,332
Natural gas (bcf)	**656**	589	524	385	369
NGLs (mbbl)	**42,247**	39,282	29,209	15,944	15,091
Total (mboe)	**177,369**	157,915	139,756	105,190	96,959
Finding and development cost (2) :					
Proved ($/boe)	**12.65**	20.13	24.82	21.45	17.60
Proved plus probable ($/boe)	**8.09**	14.09	20.78	19.60	16.63
Recycle Ratio (2)	**1.55**	1.11	1.49	1.33	1.36
TRADING STATISTICS ($, based on intra-day trading)					
High	**8.33**	10.05	32.30	33.14	37.90
Low	**1.99**	3.13	7.41	25.78	20.23
Close - year-end	**7.55**	3.66	7.91	27.60	29.11
Average daily volume TSX (thousands)	**283**	496	413	264	325

(1) Includes sales from petroleum and natural gas, financial instrument gains and losses and other income.

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

(3) Includes both Common and Non-voting shares. Refer to Shares, Options and Rights section of this MD&A

(4) Year-end reserves as evaluated and reported on by the independent engineering firm McDaniel & Associates Consultants Ltd (2016 data).

Funds Flow from Operations

(In thousand dollars except as otherwise indicated)	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016	Year-Ended December 31, 2016	Year-Ended December 31, 2015
Operating income[1]	**35,323**	23,448	**91,158**	153,317
Environmental remediation (expense)	**(6,000)**	-	**(6,000)**	-
Other income (loss) [2]	**61**	(530)	**(210)**	9,278
Realized financial instrument gain (loss) [3]	**4,199**	5,181	**18,297**	(1,669)
Actual decommissioning and restoration cost	**(951)**	(488)	**(2,746)**	(2,096)
Operating netback[1]	**32,632**	27,611	**100,499**	158,830
Interest and financing charges[4]	**(8,285)**	(8,494)	**(32,171)**	(34,969)
General and administrative expenses	**(2,523)**	(3,039)	**(12,390)**	(14,515)
Funds flow from operations[1]	**21,824**	16,078	**55,938**	109,346
Non-cash items:				
Depletion and depreciation	**(34,498)**	(36,407)	**(141,670)**	(189,827)
Unrealized financial instrument gain (loss)[3]	**(11,045)**	(4,113)	**(25,575)**	18,822
Share based compensation	**(612)**	(871)	**(9,373)**	(12,002)
Exploration expenditure[5]	**(150)**	79	**(978)**	(12,681)
Amortization of financing fees	**(370)**	(370)	**(1,723)**	(2,058)
Impairment charge (reversal)	**209**	-	**210**	(153,993)
Gain (loss) on disposal of assets	**432**	(12)	**919**	67,437
Accretion on decommissioning and restoration liability[6]	**(383)**	(521)	**(1,826)**	(2,854)
Deferred income tax recovery	**6,477**	6,831	**31,107**	39,344
Unrealized foreign exchange gain (loss)	**-**	677	**(430)**	807
Comprehensive loss	**(18,116)**	(18,629)	**(93,401)**	(137,658)

The following table reconciles cash flow from operating activities to funds flow from operations:

(In thousand dollars except as otherwise indicated)	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016	Year-Ended December 31, 2016	Year-Ended December 31, 2015
Cash flow from operating activities	**15,492**	27,496	**47,748**	117,295
Changes in non-cash working capital	**6,332**	(11,418)	**(8,190)**	7,949
Funds flow from operations[1]	**21,824**	16,078	**55,938**	109,346
Interest and financing charges	**8,656**	8,864	**33,894**	37,028
General and administrative expenses	**2,523**	3,039	**12,390**	14,515
Amortization of finance fees	**(370)**	(370)	**(1,723)**	(2,059)
Operating netback[1]	**32,632**	27,611	**100,499**	158,830

(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

Funds Flow from Operations per Boe

	Three Months Ended		Year-Ended	
Per Unit of Sales Volume (Dollar per Boe)	**December 31. 2016**	**September 30. 2016**	**December 31. 2016**	**December 31. 2015**
Sales	**29.79**	24.39	**24.42**	28.23
Transportation cost	**(2.03)**	(2.09)	**(2.76)**	(2.17)
Royalties	**(1.50)**	(1.63)	**(1.57)**	(1.75)
Operating cost	**(9.23)**	(8.90)	**(8.67)**	(9.18)
Operating income(1)	**17.02**	11.78	**11.41**	15.12
Environmental remediation	**(2.89)**	-	**(0.75)**	-
Other income (2)	**0.03**	(0.27)	**(0.03)**	0.92
Realized financial instruments gain (loss) (3)	**2.02**	2.60	**2.29**	(0.16)
Actual decommissioning and restoration cost	**(0.46)**	(0.25)	**(0.34)**	(0.21)
Operating netback(1)	**15.72**	13.87	**12.58**	15.67
Interest and financing charge(4)	**(3.99)**	(4.27)	**(4.03)**	(3.45)
General and administrative expense	**(1.22)**	(1.53)	**(1.55)**	(1.43)
Funds flow from operations(1)	**10.51**	8.08	**7.00**	10.79

(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

Operating Income Items

Fourth Quarter 2016 vs. Third Quarter 2016 (In thousand dollars except as otherwise indicated)	**Q4 2016**	**Q3 2016**	**Increase (Decrease) Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**92,594**	91,761	833	1
Oil (Bbl/d)	**5,251**	3,723	1,528	41
Natural gas liquids (Boe/d)	**1,881**	2,616	(735)	(28)
Total (Boe/d)	**22,565**	21,632	933	4
Liquids Composition (percentage)	**32**	29	1	-
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.17**	2.47	0.69	28
Oil ($/bbl)	**56.16**	52.03	4.13	8
Natural gas liquids ($/Boe)	**44.59**	40.93	3.67	9
Average realized price ($/Boe)	**29.79**	24.39	5.39	22
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**3.12**	2.55	0.57	22
Oil ($/bbl)	**66.24**	66.26	(0.01)	-
Natural gas liquids ($/Boe)	**44.59**	40.93	3.67	9
Average realized price ($/Boe)	**31.92**	27.16	4.76	18
Operating income(1)				
Natural gas	**26,982**	20,879	6,103	29
Oil	**27,133**	17,819	9,314	52
Natural gas liquids	**7,719**	9,851	(2,132)	(22)
Total petroleum and natural gas sales before financial instruments	**61,834**	48,549	13,285	27
Royalties	**(3,116)**	(3,235)	(119)	(4)
Operating costs	**(19,171)**	(17,710)	1,461	8
Transportation costs	**(4,224)**	(4,156)	68	2
Operating income(1)	**35,323**	23,448	11,875	51

(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 Fourth Quarter 2016 over Third Quarter 2016

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $9.3 million due to higher sales volumes ($7.9 million) and higher realized prices ($1.4 million). NGL sales decreased by $2.1 million due to lower sales volumes ($3.0 million) offset by higher realized prices ($0.9 million). Natural gas sales increased by $6.1 million due to higher realized prices ($5.9 million) and increased sales volumes ($0.2 million). The increase in production was primarily attributed to new well production on the Company's Montney oil and Duvernay shale gas plays and on resumed production on previously uneconomic gas wells (shut-in on lower gas pricing). NGL sales revenue and volumes were reduced in the quarter by approximately $3.1 million (560 Boe/d) on third party downward revenue adjustments for prior period production allocations.

Royalties – Royalties, on a total dollar basis and percentage of sales revenue, were lower over the prior quarter as increased royalties on higher production and commodity prices were more than offset on the recording of prior period gas cost allowance credits, reduced royalties of $0.6 million on the aforementioned prior period NGL production revenue allocation adjustment and on increased new well royalty benefits recorded on new well production in the quarter.

Operating and Transportation Costs – Operating costs were higher in total on the increased production. On a per unit of production basis, operating costs increased for the decrease in NGL volumes recorded on the aforementioned prior period NGL production revenue allocation adjustment. Transportation costs were relatively consistent on a per unit of production basis.

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)	**91,102**	107,911	(16,809)	(16)
Oil (Bbl/d)	**4,290**	5,577	(1,287)	(23)
Natural gas liquids (Boe/d)	**2,349**	4,214	(1,865)	(44)
Total (Boe/d)	**21,822**	27,775	(5,953)	(21)
Liquids Composition (percentage)	**30**	35	(5)	-
Average realized prices before financial instruments and before transportation:				
Natural gas ($/Mcf)	**2.47**	3.14	(0.67)	(21)
Oil ($/Bbl)	**49.53**	53.07	(3.55)	(7)
Natural gas liquids ($/Boe)	**40.68**	35.52	5.16	15
Average realized price ($/Boe)	**24.42**	28.23	(3.81)	(13)
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**2.47**	3.14	(0.66)	(21)
Oil ($/Bbl)	**61.87**	53.07	8.80	17
Natural gas liquids ($/Boe)	**40.68**	35.52	5.16	15
Average realized price ($/Boe)	**26.87**	28.23	(1.35)	(5)
Operating income(2)				
Natural gas	**82,305**	123,510	(41,205)	(33)
Oil	**77,756**	108,029	(30,273)	(28)
Natural gas liquids	**34,975**	54,623	(19,648)	(36)
Total petroleum and natural gas sales before financial instruments	**195,036**	286,161	(91,125)	(32)
Royalties	**(12,572)**	(17,703)	(5,131)	(29)
Operating costs	**(69,226)**	(93,106)	(23,880)	(26)
Transportation costs	**(22,080)**	(22,035)	45	-
Operating income(2)	**91,158**	153,317	(62,159)	(41)

(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 $30.3 million due to lower realized prices ($7.2 million) and on lower volumes ($23.1 million) . NGL sales decreased by $19.6 million due to lower sales volumes ($27.5 million) offset by higher realized NGL prices ($7.9 million). Natural gas sales decreased by $41.2 million due to lower realized prices ($26.3 million) and on lower volumes ($14.9 million). The lower production was attributed primarily to a reduced 2016 capital expenditure budget, the disposition of non-core production in 2015 and on the shut-in (for part of 2016) of uneconomic production in the lower natural gas price environment. Finally, 2015 NGL sales volumes were higher over 2016, in part, by approximately 900 Boe/d in conjunction with the Company’s liquids recovery agreement with Aux Sable Canada LP (expired after November 2015). The absence of these lower priced NGL volumes in 2016 increased the average NGL price recorded by the Company.

Royalties –Trilogy’s effective royalty rate remained consistent year over year at approximately 6 percent. A decrease in royalties on lower commodity prices and liquids composition were mostly offset by a reduction in the relative contribution of new well royalty benefits recorded by the Company in 2016 over the prior year.

Operating and Transportation Costs – Operating costs were lower in 2016 on the aforementioned decrease in production, the implementation of several cost reduction initiatives, and on reduced labor and supplier costs. Operating costs, on a unit of production basis, decreased in 2016 on the aforementioned property disposition in late 2015 and on the shut-in (for part of 2016) of properties having higher relative operating costs, partially offset by the absence of production volumes (in 2016) upon the expiry of Trilogy's NGL Recovery Agreement in the fourth quarter of 2015. Transportation costs were higher, on a unit of production basis, 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.

Capital Expenditures

	Three Months Ended		Year-Ended	
(In thousand dollars except where stated otherwise)	**December 31, 2016**	**September 30, 2016**	**December 31, 2016**	**December 31, 2015**
Land	34	397	**619**	1,184
Geological and geophysical	98	(264)	**(156)**	(26)
Drilling, completions, and tie-ins	26,872	18,551	**65,168**	71,767
Production equipment and facilities	3,409	1,609	**8,426**	8,003
	30,413	20,293	**74,057**	80,928
Disposition proceeds, net of acquisitions	(851)	(80)	**(1,363)**	(160,333)
Corporate assets	126	-	**151**	152
Net capital expenditures	29,688	20,213	**72,845**	(79,253)

In 2015, Trilogy disposed of certain assets in the Kaybob area for proceeds $160.5 million, resulting in a gain of $67.4 million. The gain was calculated as the excess of the proceeds received over the Company's cost of the net assets (including property, plant, equipment, exploration and evaluation assets, and any related goodwill net of any associated decommissioning liabilities). The dispositions were in support of the Company's debt reduction strategy and its continued focus on its mostly operated core Montney and Duvernay plays.

Wells Drilled

	Three Months Ended				Year-Ended			
(Number of wells)	**December 31, 2016**		**September 30, 2016**		**December 31, 2016**		**December 31, 2015**	
	Gross[1]	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**
Natural gas	**2.0**	**-**	1.0	1.0	**7.0**	**3.5**	16.0	6.0
Oil	**7.0**	**6.00**	5.0	4.0	**16.0**	**13.0**	5.0	3.1
Total	**9.0**	**6.00**	6.0	5.0	**23.0**	**16.5**	21.0	9.1

[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.

Significant improvements in drilling and fracture stimulation techniques and efficiencies has improved the Company's finding and development cost metrics, helping to support activity levels at lower commodity prices. Given the improved efficiencies and attractive economics of Trilogy's Kaybob Montney oil pool, the Company drilled six net horizontal wells in this play through the fourth quarter, with three of these wells on production before the end of the year. The remaining three wells were completed and on production in early 2017.

Depletion and Depreciation Expense

	Three Months Ended		Year-Ended	
(In thousand dollars except as otherwise indicated)	December 31, 2016	September 30, 2016	December 31, 2016	December 31, 2015
Reported amount	**34,499**	36,407	**141,670**	189,827
Expense per sales volume ($/Boe)	**16.62**	18.29	**17.74**	18.72

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 together with lower production year to date reduced depletion in 2016 over 2015. The decrease over the prior quarter can be attributed primarily to increased fourth quarter production and upward adjustments to the Company's proved developed producing reserves.

Exploration and Evaluation Expenditures

	Three Months Ended		Year-Ended	
(In thousand dollars except as otherwise indicated)	December 31, 2016	September 30, 2016	December 31, 2016	December 31, 2015
Expired mineral leases	**52**	185	**1,134**	3,975
Impairments	**-**	-	**-**	8,733
Geological and geophysical	**98**	(264)	**(156)**	(26)
Exploration and evaluation expenses	**150**	(79)	**978**	12,681
Expense per sales volume ($/Boe)	**0.07**	(0.04)	**0.12**	1.25

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 historical exploratory well costs in the Company's Kaybob West cash generating unit ("CGU") in the second quarter of 2015 and increased mineral lease expiries recorded in 2015 contributed primarily to the variance in exploration and evaluation expenditures recorded in the above periods. The Company also sold geological and geophysical surveying data for $0.2 million in 2016.

Impairments on Property, Plant, and Equipment

	Three Months Ended		Year-Ended	
(In thousand dollars except as otherwise indicated)	December 31, 2016	September 30, 2016	December 31, 2016	December 31, 2015
Property, plant, and equipment charge	**22,114**	-	**22,114**	153,991
Property, plant, and equipment (reversal)	**(22,324)**	-	**(22,324)**	-
	(210)	-	**(210)**	153,991
Expense (Reversal) per sales volume ($/Boe)	**(0.10)**	**-**	**(0.03)**	**15.19**

During 2016, the Company assessed, evaluated and concluded that the carrying values of its property, plant, and equipment of certain CGUs exceeded their respective fair value less costs of disposal, resulting in a current period impairment charge of $22.1 million. The Company also concluded and recorded a reversal of previously recognized impairments, net of depletion and depreciation, that would otherwise have been recorded, of $22.3 million. The impairments were primarily a function of reductions in estimated future commodity prices while the reversals recorded were primarily a function of reserve additions recorded in the year and improved economic assumptions regarding future operating and capital expenditure efficiencies. Refer to note 10 of the Annual Financial Statements for further disclosures on these impairments.

Environmental Remediation

	Three Months Ended		Year-Ended	
(In thousand dollars except as otherwise indicated)	**December 31, 2016**	**September 30, 2016**	**December 31, 2016**	**December 31, 2015**
Environmental remediation expense	**6,000**	-	**6,000**	-

During the fourth quarter of 2016, Trilogy discovered a leak in one of its emulsion pipelines within its Kaybob Montney Oil Development. Trilogy immediately isolated and purged the pipeline, containing the source of the leak, and redirected production. There were no injuries due to this incident. Response personnel and equipment were immediately deployed and Trilogy has worked closely with the Alberta Energy Regulator. As at the date hereof, a significant portion of the remediation work has been completed. The remediation expense recorded includes the work and associated costs incurred to date, in addition to an estimate for the future remediation costs anticipated. For further information, refer to Trilogy's website (http://www.trilogyenergy.com/kaybob-emulsion-release.html) for updates on the remediation process.

General and Administrative Expenses

	Three Months Ended		Year-Ended	
(In thousand dollars except as otherwise indicated)	**December 31, 2016**	**September 30, 2016**	**December 31, 2016**	**December 31, 2015**
Salaries and other benefits	**5,666**	5,100	**22,505**	26,106
Office and communications	**760**	1,213	**4,099**	4,523
Corporate and other	**615**	491	**2,154**	2,724
Overhead recoveries and reclassifications to operating costs	**(4,519)**	(3,765)	**(16,369)**	(18,838)
Reported amount	**2,522**	3,039	**12,389**	14,515
Expense per sales volume ($/Boe)	**1.22**	1.53	**1.55**	1.43

General and administrative expenses were lower in 2016 over 2015, primarily on the impact of salary and benefit reductions implemented. Negotiated reductions for consulting services reduced corporate and legal costs and a reduction in rental costs upon the renewal of the Company's head office lease in the fourth quarter of 2016 also contributed to the decrease. Fourth quarter expenses were lower over the prior quarter on higher overhead recoveries for increased capital expenditures and the aforementioned reduction in office rent offset, in part, by higher consulting costs.

Share Based Compensation

(In thousand dollars except as otherwise indicated)	Three Months Ended		Year-Ended	
	December 31, 2016	September 30, 2016	December 31, 2016	December 31, 2015
Share Incentive Plan	**-**	43	**159**	(157)
Share Option Plan	**612**	828	**9,214**	12,159
Reported Amount	**612**	871	**9,373**	12,002
Expense per sales volume ($/Boe)	**0.29**	0.44	**1.17**	1.18

Share based compensation expense decreased slightly quarter over quarter on the vesting and amortization of certain options early in the fourth quarter. Reduced Share Option Plan grants in 2016 over 2015, offset in part, by higher relative fair values per option granted in 2016 over 2015 contributed primarily to the reduced share based compensation expense year over year. The year over year decrease was partially offset by the cancellation of approximately 5.5 million stock option awards in 2016, which accelerated and expensed the related unamortized grant date fair value (of approximately $5.0 million). Refer to note 16 of the Annual Financial Statements for additional disclosures on share based compensation.

Interest, Financing, and Accretion Charges

(In thousand dollars except as otherwise indicated)	Three Months Ended		Year-Ended	
	December 31, 2016	September 30, 2016	December 31, 2016	December 31, 2015
Accretion on decommissioning and restoration liability	**1,334**	1,011	**4,572**	4,951
Interest and other finance costs[1]	**8,656**	8,864	**33,894**	37,028
Expense per sales volume ($/Boe)	**4.17**	4.45	**4.24**	3.65

[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 months ended December 31, 2016 was higher over the prior quarter on a revised discount rate (from 1.7 percent to 2.25), partially offset by revised inflation rate assumed (1.7 percent to 2 percent). Further contributing to the increase was an upward revision to certain estimated abandonment and reclamation costs on certain wells. Accretion for 2016 over 2015 was lower primarily on the aforementioned reduction in the provision's assumed discount and inflation rates for part of 2016.

Interest expense in the fourth quarter was lower relative to the third quarter primarily on reduced average debt levels on Trilogy's revolving credit facility. Year over year, lower average debt levels in 2016, offset, in part, by increased lender margins in 2016 on the revolving credit facility contributed to the lower interest expense. For additional information on Trilogy's long-term debt, refer below under the "Long-term Debt" section of this MD&A and to Note 14 of the Annual 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 2016 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		Year-Ended	
(In thousand dollars except as otherwise indicated)	**December 31, 2016**	**September 30, 2016**	**December 31, 2016**	**December 31, 2015**
Realized gain (loss) on financial instruments	**4,200**	5,181	**18,297**	(1,669)
Unrealized loss on financial instruments	**(11,045)**	(4,113)	**(25,575)**	18,822
Total gain (loss) on financial instruments	**(6,845)**	1,068	**(7,278)**	17,153
Realized gain (loss) on financial instruments ($/Boe)	**2.02**	2.60	**2.29**	(0.16)

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 22, and 23 of the Annual Financial Statements for more information on realized and unrealized financial instruments gains and losses.

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

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

Crude Oil

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

Natural Gas

Throughout January and February 2017, Trilogy accelerated the realization and receipt of gains totaling $3.5 million USD ($4.6 million CDN) on 40,000 Mmbtu/d of financial sales contracts, originally put in place for calendar 2017.

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		
1.2000	1.4150	NIL	Nil, receive weekly premium	$750 notional at upper range	$7.5	December 2017

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)	December 31, 2016	December 31, 2015
Current liabilities net of current assets - deficit	**26,738**	10,622
Long-term debt	**561,880**	533,545
Net debt[1]	**588,618**	544,167
Shareholders' equity	**363,898**	447,742
Total	**952,516**	991,909

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

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

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

	December 31, 2016	December 31, 2015
Committed amount that can be drawn from the credit facility (Note 14)	**300,000**	450,000
Outstanding letters of credit	**(2,776)**	(3,473)
Amount that can be drawn after letters of credit	**297,224**	446,527
Revolving credit facility	**(264,350)**	(236,850)
Current liabilities net of current assets - deficit	**(26,738)**	(10,622)
Capacity under revolving credit facility	**6,136**	199,055

Available capacity under the Company's revolving credit facility decreased to $6.1 million as at December 31, 2016 from $199.1 million at the December 31, 2015. The decrease was primarily attributed to a reduction in the Company's borrowing base of $150 million in the second quarter of 2016, cash flows used in investing activities in excess of cash flows from operating activities of $26.3 million plus a $17 million year over year increase in the Company's working capital deficit. Refer to Note 21 of the Annual Financial Statements for further disclosures on liquidity and capital management.

The $26.7 mllion working capital deficit includes a liability for financial instruments as at December 31, 2016 of $7.4 million. Fluctations in forward commodity prices can significantly influence the mark to mark value of the Company's financial instruments. Subsequent to the quarter, Trilogy terminated and collapsed certain natural gas derivative contracts for proceeds of $4.6 million Canadian equivalent. See note 22 and 27 in the Annual Financial Statements for further disclosures.

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 14, 21, and 22 of Trilogy's Annual 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.

	As at December 31 2016	**As at December 31 2015**
Revolving credit facility	**265,302**	237,485
Less prepaid interest and unamortized financing costs	**(952)**	(635)
Carrying value	**264,350**	236,850
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(2,470)**	(3,305)
Carrying value	**297,530**	296,695
Total carrying value of long term debt	**561,880**	533,545

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 December 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:

- 4.50 at 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; and
- 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 December 31, 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 2.81. The effective interest rate on Trilogy’s Revolving Credit Facility for the twelve month period (excluding other financing costs) was 3.73 percent. (December 31, 2015 – 2.84 percent). The Company has letters of credit totalling $2.8 million as at December 31, 2016 (December 31, 2015: $3.5 million) which reduce the amount available for draw.

Refer to Note 21 of the Annual 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. 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. (December 31, 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 December 31, 2016, the Company is in compliance with all debt covenants.

Contractual Obligations

In addition to the commodity contracts disclosed above, the Company has the following estimated contractual financial obligations (undiscounted) as at December 31, 2015:

(In thousand dollars except as otherwise indicated)	2017	2018 – 2019	2020 – 2021	2022 forward	Total
On or partially on balance sheet:					
Long-term debt[1]	-	564,350	-	-	564,350
Asset retirement obligations[2]	2,746	5,658	5,886	218,725	233,015
Off balance sheet:					
Estimated interest on long-term debt[1]	32,562	47,104	-	-	79,666
Fractionation and pipeline transportation commitments[3]	21,756	48,965	53,287	117,098	241,106
Office premises operating leases[4]	705	3,565	3,565	1,992	9,825
Vehicle and energy service commitments	1,328	247	60	-	1,635
Total	59,097	669,888	62,798	337,815	1,129,598

[1] Debt relating to the revolving credit facility has been assumed to be payable within 1.33 years based on the existing terms of the agreement. Interest on this debt was calculated based on an approximate interest rate of 4.09 percent per annum applied to the outstanding balance as at December 31, 2016. Interest on the unsecured senior notes is payable at 7.25 percent per annum on the principal balance with a maturity date of December 13, 2019.
[2] The contractual obligation relating to asset retirement obligation is undiscounted. The present value of such obligation is recorded on the Company's consolidated balance sheet.
[3] Some of the pipeline transportation commitments are covered by letters of credit issued by the Company totaling $2.8 million as at December 31, 2016.
[4] Net of committed rental reimbursements through sub-lease arrangements.

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**
Issued - Share Option Plan	**36,580**	**-**	**36,580**	**233**
Vesting of Share Incentive Plan awards	**40,834**	**-**	**40,834**	**1,098**
Shares as at December 31, 2016	**105,265,133**	**20,835,862**	**126,100,995**	**$ 1,105,115**

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

Outstanding share options issued under Trilogy's share option plan were 6,297,690 and 6,245,890 as at December 31, 2016 and as at the date hereof, of which 2,445,370 and 2,416,570 share options were exercisable, respectively. Refer to Note 16 of the Annual Financial Statements for additional disclosures.

Decommissioning and Restoration Liability

At December 31, 2016, Trilogy recorded decommissioning and restoration liabilities of $233.0 million ($229.0 million at December 31, 2015) for the future abandonment and reclamation of Trilogy's properties. The estimated decommissioning and restoration liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability as at December 31, 2016 and 2015 was discounted at an average risk-free interest rate of 2.25 and 2.2 percent, respectively. Actual spending under Trilogy's abandonment and reclamation program for the three and twelve months ended December 31, 2016 was $1.0 million and $2.7 million, respectively ($2.1 million – full year, 2015).

Environmental stewardship is a core value at Trilogy and abandonment and reclamation activities continue to be made in a prudent, responsible manner with the oversight of the Environment, Health, and Safety Committee of the Board. Ongoing abandonment expenditures for all of Trilogy's assets are funded entirely out of Trilogy's operating income (refer to the Non GAAP Measures).

Income Taxes

The Company recorded a future income tax recovery year to date in 2016 of $31.1 million ($39.3 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 25 percent as a result of the share based compensation expense of $9.4 million in Trilogy's consolidated statement of comprehensive loss which are not deductible for tax purposes. Refer to Note 11 of the Annual Financial Statements for additional income tax disclosures.

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)	61,838	48,045	29,404
Recovery (expense)	**(13,956)**	**6,905**	**1,075**	**37,082**	**31,107**
At December 31, 2016	**(89,519)**	**1,988**	**62,913**	**85,127**	**60,511**

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 $0.4 million for the twelve months ended December 31, 2016. The Company and Paramount also had transactions with each other arising from normal business activities. Refer to note 20 of the 2016 Annual Financial Statements.

Quarterly Financial Information

(In thousand dollars except per share amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue after financial instruments, royalties, foreign exchange, and other income	**51,936**	46,531	34,489	41,590
Loss before tax	**(24,593)**	(25,461)	(37,669)	(36,785)
Net loss	**(18,116)**	(18,629)	(29,112)	(27,544)
Loss per Share (in full amounts):				
Basic	**(0.14)**	(0.15)	(0.23)	(0.22)
Diluted	**(0.14)**	(0.15)	(0.23)	(0.22)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue after financial instruments, royalties and other income	62,487	74,874	77,652	80,686
Earnings (loss) before tax	(17,646)	(95,826)	(35,146)	(28,447)
Net earnings (loss)	(19,248)	(70,929)	(26,881)	(20,662)
Earnings (loss) per Share (in full amounts):				
Basic	(0.15)	(0.56)	(0.21)	(0.16)
Diluted	(0.15)	(0.56)	(0.21)	(0.16)

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. Total 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. Total probable reserves are based on geological and/or engineering data similar to that used in estimates of total proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves from being classified as total proved. Aggregate corporate total 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 8 of the Annual 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 15 of the Annual 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 16 of the Annual 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 11 of the Annual Financial Statements for further details.

Financial Instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity price, foreign currency, power, and interest rate exposures. The fair values of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty. Refer to Note 21, 22, and 23 of the Annual Financial Statements for further details.

New Accounting Pronouncements

The following standards and amendments have not been adopted as they apply to future periods that may result in future changes to existing accounting policies and disclosures.

I. *IFRS 9, Financial Instruments. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets and a substantially reformed approach to hedge accounting. Trilogy does not apply hedge accounting. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.*

II. *IFRS 15, Revenue from Contracts with Customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018, with early adoption permitted. The Company is currently assessing and evaluating the impact of the standard on the consolidated financial statements.*

III. *IFRS 16, Leases, which replaces IAS 17 Leases. The objective of the new standard requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating or finance leases, effectively treating substantially all leases as finance leases. Lessors will continue with a dual lease classification model. This standard is effective for years beginning on or after January 1, 2019. IFRS 16 will be applied on January 1, 2019 and the Company is currently evaluating the impact of the standard on the consolidated financial statements.*

Internal Control over Financial Reporting

Disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under the Canadian securities law. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of the design and operation of the Company's DC&P as defined in Section 1.1 of NI 52-109. Based on this evaluation, the CEO and CFO have concluded that Trilogy's DC&P were effective as at December 31, 2016.

The Company's CEO and CFO are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR"). They have, as at December 31, 2016, designed ICFR or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework the Company's officers used to design the ICFR is the Internal Control – Integrated Framework issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. As at December 31, 2016, the CEO and CFO also evaluated and concluded that the design and operation of the Company's ICFR were effective.

The Company's CEO and CFO are required to disclose any change in the ICFR that occurred during its most recent reporting period that has materially affected, or is reasonably likely to affect, the Company's ICFR. There were no changes in Trilogy's ICFR during the year-end December 31, 2016 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Advisories

Certain statements included in this document (including this MD&A and the Operations Update) 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 2017 and beyond;
- drilling, completion and infrastructure plans for the Company's Kaybob Montney oil and gas assets and Duvernay play, among others, and the timing, cost and anticipated benefits thereof;
- forecast 2017 annual production levels;
- planned 2017 capital expenditures, the allocation and timing thereof; and Trilogy's intention to execute its capital budget within annual funds flow from operations;
- operating, finding and development, decommissioning, asset retirement, restoration and other costs and the anticipated results of Trilogy's cost cutting measures;
- the capacity under and potential liabilities relating to long-term transportation, fractionation and other marketing, midstream and forward contracts;
- anticipated funds flow from operations and other measures of profit,
- expectations regarding future commodity prices for crude oil, natural gas, NGLs and related products and the potential impact to Trilogy of commodity price fluctuations;
- estimated reserves, the discounted present value of future net revenue therefrom and the Company's plans to develop same including the capital required, the timing thereof and the price forecasts used in calculating the foregoing;
- plans to accelerate development of some or all of the Company's Duvernay shale assets;
- the ability to profitably exploit Trilogy's assets, grow production and generate long-term shareholder value;
- 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;
- Management's current estimate of the financial impact of the recent Kaybob North Montney pipeline release and a third party prior year reallocation; 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 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;
- the extent of Trilogy’s liabilities; and
- assumptions used in calculating the provisions made for the cost of the Kaybob North Montney pipeline release and the third party prior year production reallocations.

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 commercially develop 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 pipelines or facilities (including third party operated pipelines and 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 Modernized Royalty Framework, the Emerging Resources Program and the Enhanced Hydrocarbon Recovery Program, among others;
- 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;
- risks relating to cybersecurity, vandalism, and terrorism;
- the ability of management to execute its business plan;
- the risk that the assumptions used by Management to estimate the provision for the costs resulting from the recent Kaybob North Montney pipeline release and the third party prior year production reallocation prove to be incorrect; 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 and the exclusion of revenues or losses of an extraordinary and non-recurring nature.

"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 total proved or total 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 total proved or total 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.

"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 total proved or total 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 Q4 2016, the ratio between Trilogy’s average realized oil price and the average realized natural gas price was approximately 18:1 (“Value Ratio”). The Value Ratio is obtained using the Q4 2016 average realized oil price of $56.16 (CAD$/Bbl) and the Q4 2016 average realized natural gas price of $3.17 (CAD$/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.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Trilogy Energy Corp. ("Trilogy") are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain estimates that reflect management's best judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Management has the overall responsibility for internal controls and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report Trilogy's operating and financial results and that Trilogy's assets are safeguarded.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board of Directors fulfills its responsibility regarding the consolidated financial statements through its Audit Committee, which is comprised entirely of independent directors. The Audit Committee meets at least quarterly with management and the external auditors to ensure that management's responsibilities are properly discharged and to review the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the annual consolidated financial statements for issuance to the stakeholders. The Audit Committee also considers, for review by the Board of Directors and approval by the Shareholders, the engagement or re-appointment of external auditors.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by a vote of shareholders at Trilogy's last annual meeting to audit the consolidated financial statements and provide an independent opinion. PricewaterhouseCoopers LLP have full and free access to the Audit Committee and management.

/s/J. H. T. Riddell
J. H. T. Riddell
Chief Executive Officer

/s/ M. G. Kohut
M. G. Kohut
Chief Financial Officer

March 7, 2017

March 7, 2017

Independent Auditor's Report

To the Shareholders of
Trilogy Energy Corporation

We have audited the accompanying consolidated financial statements of Trilogy Energy Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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T: +1 403 509 7500, F: +1 403 781 1825

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trilogy Energy Corporation and its subsidiaries as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Consolidated Balance Sheet
(in thousand Canadian dollars)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Trade and other receivables	*6, 21, 22*	**37,534**	25,225
Derivative financial instruments	*21, 22, 23*	**-**	19,073
Prepaids		**1,649**	1,252
		39,183	45,550
Non-current assets			
Property, plant and equipment	*7, 8, 10*	**997,471**	1,050,340
Exploration and evaluation assets	*7, 8*	**49,046**	62,695
Deferred tax asset	*11*	**60,511**	29,404
Goodwill	*9*	**78,503**	78,503
Total assets		**$ 1,224,714**	$ 1,266,492
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	*12, 13, 21, 22*	**$ 57,425**	$ 54,178
Interest payable	*14*	**1,132**	1,132
Derivative financial instruments	*21, 22, 23*	**7,364**	862
		65,921	56,172
Non-current liabilities			
Long-term debt	*14, 21, 22*	**561,880**	533,545
Decommissioning and restoration liability	*15*	**233,015**	229,033
Total liabilities		**860,816**	818,750
Shareholders' equity			
Shareholders' capital	*16, 17*	**1,105,115**	1,103,784
Contributed surplus	*16*	**68,024**	59,798
Accumulated deficit		**(809,241)**	(715,840)
		363,898	447,742
Total shareholders' equity and liabilities		**$ 1,224,714**	$ 1,266,492

See accompanying notes to the consolidated financial statements

Commitments (note 24)

Consolidated Statement of Comprehensive Loss

(in thousand Canadian dollars except per share amounts)

	Note	Year Ended December 31, 2016	2015
Revenue and other			
Petroleum and natural gas sales	*26*	**$ 195,036**	$ 286,161
Royalties		**(12,572)**	(17,703)
Revenue		**182,464**	268,458
Foreign exchange gain (loss)	21	**(751)**	5,687
Gain (loss) on derivative financial instruments	*21, 22, 23*	**(7,278)**	17,152
Other income		**111**	4,400
		174,546	295,697
Expenses			
Operating and production		**69,226**	93,106
Transportation		**22,080**	22,035
Depletion and depreciation	*7*	**141,670**	189,827
Environmental remediation	*13*	**6,000**	-
Impairment charge (reversal)	*10*	**(210)**	153,991
Exploration and evaluation	*8*	**978**	12,681
Gain on disposal of assets	*7*	**(919)**	(67,437)
General and administrative	*25*	**12,390**	14,515
Share-based compensation	*16*	**9,373**	12,002
Accretion on decommissioning and restoration liability	*15*	**4,572**	4,951
Interest and other finance costs	*14*	**33,894**	37,028
		299,054	472,699
Loss before income tax		**(124,508)**	(177,002)
Income tax recovery			
Deferred	*11*	**(31,107)**	(39,344)
Comprehensive loss		**$ (93,401)**	$ (137,658)
Loss per share	*18*		
- Basic		**$ (0.74)**	(1.09)
- Diluted		**$ (0.74)**	(1.09)

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Equity

(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	-		-		-		(137,658)		(137,658)
Share options exercised *(note 16, 17)*	203,740		2,287		(579)		-		1,708
Normal Course Issuer Bid (note 17)	(100,000)		(902)		457		-		(445)
Share Incentive Plan purchases, net of grants vested *(note 16, 17)*	66,317		1,783		(1,783)		-		-
Share-based compensation *(note 16)*	-		-		12,002		-		12,002
Balance at December 31, 2015	**126,023,581**	**$**	**1,103,784**	**$**	**59,798**	**$**	**(715,840)**	**$**	**447,742**
Net loss for the period	-		-		-		(93,401)		(93,401)
Share options exercised *(note 16, 17)*	36,580		233		(49)		-		184
Share Incentive Plan purchases, net of grants vested *(note 16, 17)*	40,834		1,098		(1,098)		-		-
Share-based compensation *(note 16)*	-		-		9,373		-		9,373
Balance at December 31, 2016	**126,100,995**	**$**	**1,105,115**	**$**	**68,024**	**$**	**(809,241)**	**$**	**363,898**

[1] Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan (refer to notes 16 and 17 for additional disclosures).

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

(in thousand Canadian dollars except as otherwise indicated)

	Note	Year Ended December 31, 2016	2015
Operating activities			
Net loss before income tax		**$ (124,508)**	$ (177,002)
Adjustments for non-cash and other items:			
Unrealized (gains) losses on derivative financial instruments	*23*	**25,575**	(18,822)
Unrealized foreign exchange (gains) losses		**430**	(807)
Depletion and depreciation	*7*	**141,670**	189,827
Exploration and evaluation	*8*	**978**	12,681
Impairment charge (reversal)	*10*	**(210)**	153,991
Gain on disposal of assets	*7*	**(919)**	(67,437)
Amortization of finance fees	*14*	**1,723**	2,058
Share based compensation	*16*	**9,373**	12,002
Accretion on decommissioning and restoration liability	*15*	**4,572**	4,951
Decommissioning and restoration costs in period	*15*	**(2,746)**	(2,096)
Change in non-cash working capital	*19*	**(8,190)**	7,949
Cash flow from operating activities		**47,748**	117,295
Investing activities			
Exploration and evaluation expenditures	*8*	**(23,320)**	(7,664)
Property, plant and equipment expenditures	*7*	**(50,891)**	(73,416)
Property acquisitions (net of prior period adjustments)	*7*	**(109)**	(189)
Proceeds from disposition of property, plant and equipment	*7*	**1,477**	160,522
Change in non-cash working capital	*19*	**(1,271)**	(28,967)
Cash flow used in investing activities		**(74,114)**	50,286
Financing activities			
(Repayments) Draws on revolving credit facility	*14*	**26,182**	(168,844)
Shares issued	*16, 17*	**184**	1,708
Normal Course Issuer Bid	*17*	**-**	(445)
Cash flow from financing activities		**26,366**	(167,581)
Change in cash		**-**	-
Cash balance, beginning of year		**-**	-
Cash balance, end of year		**-**	-
Cash interest paid	*14*	**$ 33,375**	$ 35,778

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 annual consolidated financial statements ("Annual Financial Statements") have been prepared in accordance with IFRS applicable to the preparation of Annual Financial Statements.

The policies applied in these Annual Financial Statements are based on IFRS issued and outstanding as of March 7, 2017, the date the Annual Financial Statements were approved by Trilogy's Board of Directors.

The Annual Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 22). All values are rounded to the nearest thousand except where otherwise indicated.

The Annual 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 following are the estimates and judgments applied by management that most significantly affect the Company's financial statements. These estimates and judgments have a significant risk of requiring a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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. Total 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. Total probable reserves are based on geological and/or engineering data similar to that used in estimates of total proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves from being classified as total proved. Aggregate corporate total 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 net recoverable amount are charged to net income. If commercial reserves are established, the relevant costs are transferred from exploration and evaluation to development and production assets which are classified as property, plant, and equipment. Assets are reviewed for impairment prior to any such transfer. Refer to note 8 for further details.

Impairment of Non-financial Assets

Impairment is evaluated at the cash-generating unit (“CGU”) level. The determination of CGUs 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. CGUs 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 for more details about methods and assumptions used in estimating net recoverable amounts.

Decommissioning and Restoration Costs

Decommissioning and restoration costs will be incurred by Trilogy at the end of the operating lives of Trilogy’s oil and gas properties. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including assumptions of inflation, present value discount rates on future liabilities, changes to relevant legal requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future results as disclosed in note 15.

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, dividend yield, if any, and making assumptions thereon. Refer to note 16 for more details about methods and assumptions used in estimating fair value.

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 judgments on uncertain tax positions of applicable tax laws. Such judgments 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 11 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 notes 21, 22 and 23 for further details.

4. Summary of Significant Accounting Policies

Jointly Controlled Operations

Certain exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's interest in such activities. A jointly controlled operation involves the use of assets and other resources of Trilogy and other venturers rather than through the establishment of a corporation, partnership or other entity. Trilogy has interests in jointly controlled operations, however not in jointly controlled entities.

Trilogy recognizes in its financial statements the interest in the assets that it owns, the liabilities and expenses that it incurs and its share of income earned by the joint operations through proportionate consolidation.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is Trilogy's functional, and presentation currency and the functional and presentation currency of all subsidiaries. Transactions in foreign currencies are initially recorded at the exchange rate in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars using the closing exchange rate at the balance sheet date. The resulting exchange rate differences are included in the consolidated statement of comprehensive income.

Goodwill

Goodwill is initially measured at cost, which is the excess of the cost of the business combination over Trilogy's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities incurred and assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Trilogy's cash generating units or groups of cash generating units that are expected to benefit from the acquisition. Existing goodwill is tested at the segment level. The segment level is the lowest level within the Company at which goodwill is monitored for internal management purposes. Any loss recognized is equal to the difference between the recoverable amount and the carrying value of the goodwill. Impairment losses are recognized, as identified, in the consolidated statement of comprehensive income and cannot be reversed. Where assets within a cash generating unit or a segment containing goodwill are disposed of management uses judgement to rationally allocate a portion of goodwill to the assets sold versus the assets retained taking into account factors such as relative fair value as compared to the assets or operations in the segment which support the continued recognition of goodwill.

Exploration and Evaluation Expenditures

Exploration and Evaluation Costs

Costs incurred prior to obtaining the right to explore for hydrocarbons are recognized in the statement of comprehensive income when incurred. Acquisition of undeveloped mineral leases are initially capitalized as intangible exploration and evaluation assets and charged to the statement of comprehensive income upon the expiration of the lease, impairment of the lease or management's determination that no further exploration or evaluation activities are planned on the lease, whichever comes first.

Mineral leases that are subsequently found to have proved reserves are transferred to property, plant and equipment and depleted on a unit of production basis.

Geological and geophysical costs are charged to the statement of comprehensive income when incurred. The costs directly associated with an exploration well are capitalized as an exploration and evaluation asset until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuels used, rig costs and other payments made to contractors.

Assets are classified as exploration and evaluation or property, plant and equipment according to the nature of the expenditures and whether or not technical feasibility and commercial viability of extracting oil and gas assets is demonstrable. Costs are retained in exploration and evaluation assets prior to the establishment of technical feasibility and commercial viability of the project. Such amounts are not subject to depletion or depreciation until they are reclassified to property, plant and equipment once proved developed producing reserves have been assigned to the asset. If such reserves have not been established through the completion of exploration and evaluation activities and there are no future plans for activity in that field, then the exploration and evaluation expenditures are determined to be impaired and the amounts are charged to the statement of comprehensive income.

Impairment

If no reserves are found upon evaluation, the exploration asset is tested for impairment and the amounts are charged to the consolidated statement of comprehensive income under exploration and evaluation expenditures. If extractable reserves are found and, subject to further appraisal activity which may include the drilling of additional wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient and continued progress is made in assessing the commerciality of the reserves. All such carried costs are subject to technical, commercial and management review as well as review for indicators of impairment at least annually to confirm the continued intent to develop or otherwise extract value from the discovery. Lack of intent to develop or otherwise extract value from such discovery would result in the relevant expenditures being charged to the statement of comprehensive income.

Exploration and evaluation assets are also tested for impairment when there are indicators that the carrying value may exceed the recoverable amount and prior to reclassification to property, plant, and equipment. To test for impairment, exploration and evaluation assets are allocated to related CGUs and the carrying value of each CGU is compared to its recoverable amount. Impairment losses are recognized, as identified, in the consolidated statement of comprehensive income.

Asset Exchanges

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value.

Property, Plant and Equipment

Development Costs

Expenditures incurred on the construction, installation or completion of infrastructure facilities such as processing and gathering facilities and pipelines, and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property, plant and equipment.

Carrying Value

Property, plant and equipment are stated at cost less accumulated depreciation and depletion and accumulated impairment losses. The initial cost of property, plant or equipment comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate and subsequent revisions of the decommissioning obligation, and, for qualifying assets, their borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given up to acquire the asset.

Asset Exchanges

Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on de-recognition of the asset given up is recognized in the consolidated statement of comprehensive income.

Depreciation and Depletion

Oil and gas producing properties, including certain tangible equipment, are depleted using the unit-of-production method. For purposes of these calculations, production and reserves of oil and natural gas are converted to barrels on an energy equivalent basis. The costs of producing properties are depleted over ‘proved developed producing’ reserves.

Selected tangible assets, relating to gas plants, are depreciated using the straight-line method over the asset’s respective estimated useful life of up to 25 years. Major gas plant turnarounds are depreciated using the straight-line method over the asset’s estimated useful life ranging from 3 to 5 years. Depreciation of corporate assets is provided on a straight-line basis over the assets’ estimated useful lives varying from 3 to 10 years.

To the extent assets have been identified as having a number of significant parts with differing depreciation patterns, such parts are depreciated as separate components. Methods of amortization are reviewed annually and adjusted if deemed appropriate.

Impairment

At the end of each reporting period, the Company reviews the property, plant and equipment for circumstances that indicate that the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing, which is the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU’s recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down.

For impairment losses identified based on a CGU, or a group of CGUs, the loss is allocated on a pro-rata basis to the assets within the CGU(s). The impairment loss is recognized as an expense in the consolidated statement of comprehensive income.

Impairment losses are reversed in subsequent periods when objective evidence exists to suggest that there has been an increase in the recoverable amount of a previously impaired asset or CGU that is expected to continue in the foreseeable future. The carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount not exceeding the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

Maintenance and Repairs

Major repairs and maintenance include replacing assets or parts of an asset and plant turnarounds. Where it is probable that future economic benefits associated with the replacement will flow to Trilogy, the expenditure is capitalized and the replaced asset or part of an asset that was separately depreciated is de-recognized. All other maintenance costs are expensed as incurred.

Borrowing Costs

Borrowing costs directly relating to the acquisition, construction or production of a capital project under construction for a substantial period of time (in excess of one year) are capitalized and added to the project cost during construction until such time that the assets are substantially ready for their intended use, for example, when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred less interest income earned. Where surplus funds are available for a short term out of borrowed money specifically to finance a project, the income generated from such short-term investments reduces the total capitalized borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using the weighted average of rates applicable to Trilogy's general borrowings during the period. All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period these are incurred.

Financial Instruments

Trilogy recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and liabilities within the scope of IAS 39, financial instruments: recognition and measurement, are classified as either financial assets or liabilities at fair value through profit and loss, loans and receivables, held to maturity investments, available for sale financial assets, or financial liabilities at amortized cost as appropriate. Trilogy does not designate derivative instruments as hedges and does not have available-for-sale financial assets or held-to-maturity investments. Transaction costs are included in the initial carrying amount of financial instruments except for fair value through profit and loss items, in which case they are expensed as incurred.

Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition at fair value through profit or loss. Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as financial assets and liabilities at fair value through profit of loss. Gains or losses on financial assets and liabilities are recognized at fair value in the consolidated statement of comprehensive income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial liabilities at amortized cost

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

Fair Value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the valuation date. For financial instruments that have no active market, fair value is determined using valuation techniques including the use of recent arm's length market transactions, reference to the current market value of equivalent financial instruments and discounted cash flow analysis.

Provisions

A provision is recognized in the financial statements when all of the following criteria are satisfied:

- the Company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made as to the amount of the obligation.

The amount recognized as a provision is the "best estimate" of the expenditure required to settle the present obligation at the end of the reporting period. The provision is risk adjusted to take into consideration risks and uncertainties involving the transaction. Where the effect of the time value of money is material, the amount of a provision is equal to the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that applied reflects the current market assessment of the time value of money and the risks specific to the liability, where those risks have not already been reflected as an adjustment to cash flows.

Decommissioning and Restoration

Decommissioning and restoration liability is recognized when Trilogy has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning and restoration, discounted to its present value. Changes in the estimated timing of decommissioning and restoration or related cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The accretion on the decommissioning and restoration provision is classified as a finance cost.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of income taxes are those that are enacted or substantively enacted at the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred Income Tax

Deferred income tax is provided, using the liability method, on the temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, and deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Trilogy to realize the deferred tax assets recorded at the balance sheet date could be impacted.

The Company recognizes the financial statement impact of a tax filing position when it is probable, based on the technical merits, that the position will be sustained upon audit. The company assesses possible outcomes and their associated probabilities. If the company determines payment is probable, it measures the tax position at the best estimate of the amount of tax payable.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Deferred income tax assets and liabilities are offset, if legally enforceable rights exist to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Revenue Recognition

Revenue from the sale of oil and natural gas is recognized when the significant risks and rewards of ownership is transferred, which is, generally, when title passes to the customer in accordance with the terms of the sales contract. Revenue from the production of oil and natural gas from properties in which Trilogy has an interest with other producers is recognized on a net working interest basis.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less.

Share-based Payments and Management Compensation

Certain employees (including senior officers and directors) of Trilogy receive remuneration that includes share-based payment transactions, whereby such individuals render services as consideration for equity instruments.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date. The fair value of share options is determined using a trinomial model (see note 16).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting periods have accrued and Trilogy's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized from the beginning to the end of that period.

Dividends

Dividends on shares are recognized in the Company's financial statements in the period in which the dividends are approved by the Board of Directors of the Company.

Share Capital

Common Shares and Non-Voting Shares are classified as equity. Incremental costs directly attributable to the issuance of Shares are recognized as a deduction from equity, net of any applicable tax benefits on such costs.

Repurchase of shares

Pursuant to any Normal Course Issuer Bid ("NCIB"), the cumulative average book value per share is used to reduce share capital with any excess or deficiency over the purchase cost charged to contributed surplus.

Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing the profit (loss) for the period attributable to equity owners of Trilogy by the weighted average number of Shares outstanding during the period. Diluted EPS amounts are calculated by dividing the net profit attributable to Shareholders (after adjusting for the effect of dilution, if any) by the weighted average number of Shares during the period plus the weighted average number of Shares that would be issued on the conversion of all the potential dilutive options into Shares (treasury stock method). Shares held in trust for the benefit of Trilogy's employees under the Company's Share Incentive Plan are deducted from the total outstanding shares in computing EPS. Trilogy's potentially dilutive shares are comprised of share options granted on Common Shares to employees and shares held in trust for the Share Incentive Plan. To the extent a loss arises for a period, no adjustment for dilution is made in computing Diluted EPS.

Business Combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. Transaction costs associated with business combinations are expensed as incurred.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

5. New Accounting Pronouncements

The following standards and amendments have not been adopted as they apply to future periods that may result in future changes to existing accounting policies and disclosures.

I. *IFRS 9, Financial Instruments. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets and a substantially reformed approach to hedge accounting. Trilogy does not apply hedge accounting. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.*

II. *IFRS 15, Revenue from Contracts with Customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018, with early adoption permitted. The Company is currently assessing and evaluating the impact of the standard on the consolidated financial statements.*

III. *IFRS 16, Leases, which replaces IAS 17 Leases. The objective of the new standard requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating or finance leases, effectively treating substantially all leases as finance leases. Lessors will continue with a dual lease classification model. This standard is effective for years beginning on or after January 1, 2019. IFRS 16 will be applied on January 1, 2019 and the Company is currently evaluating the impact of the standard on the consolidated financial statements.*

6. Trade and Other Receivable

Trade and other receivables are non-interest bearing and are generally collected on 25 to 60 day terms.

	As at December 31 2016	As at December 31 2015
Petroleum, natural gas sales and processing income	**28,534**	17,629
Joint operation receivables	**8,268**	7,380
Other	**732**	216
	37,534	25,225

In determining the recoverability of trade and other receivables, Trilogy considers the type and age of the outstanding receivables, the credit risk of the counterparties, and the recourse available to Trilogy.

	As at December 31 2016	As at December 31 2015
Current to 90 days	**34,806**	22,672
Greater than 90 days	**2,728**	2,553
Total trade receivables	**37,534**	25,225

As at December 31, 2016 and 2015 none of the receivables have been assessed as impaired.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

7. Property, Plant and Equipment

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at December 31, 2014	3,248,074	14,708	3,262,782
Additions to property, plant, and equipment	73,290	152	73,442
Additions/revisions to future estimated decommissioning and restoration costs (note 15)	1,045	-	1,045
Transfers from intangible exploration and evaluation assets (note 8)	18,182	-	18,182
Acquisitions	(93)	-	(93)
Disposals	(123,667)	-	(123,667)
Balance at December 31, 2015	3,216,831	14,860	3,231,691
Additions to property, plant, and equipment	**50,897**	**150**	**51,047**
Additions/revisions to future estimated decommissioning and restoration costs (note 15)	**2,185**	**-**	**2,185**
Transfers between exploration & evaluation assets and property, plant, and equipment (note 8)	**35,307**	**-**	**35,307**
Acquisitions	**109**	**-**	**109**
Disposals	**(313)**	**-**	**(313)**
Balance at December 31, 2016	**3,305,016**	**15,010**	**3,320,026**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2014	1,877,869	10,061	1,887,930
Depletion and depreciation charge	188,937	890	189,827
Impairment charge (note 10)	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	**140,837**	**833**	**141,670**
Impairment charge (note 10)	**22,114**	**-**	**22,114**
Impairment reversal (note 10)	**(22,324)**	**-**	**(22,324)**
Disposals	**(256)**	**-**	**(256)**
Balance at December 31, 2016	**2,310,771**	**11,784**	**2,322,555**
Net carrying value			
At December 31, 2015	1,046,431	3,909	1,050,340
At December 31, 2016	**994,245**	**3,226**	**997,471**

The cost of property, plant and equipment includes amounts in respect of the provision for decommissioning and restoration obligations of $193.6 million as at December 31, 2016 (December 31, 2015: $191.4). Property, plant and equipment with a carrying value of $32.6 million as at December 31, 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. The disposal of the Company's book value of these assets within property, plant, and equipment, exploration and evaluation, goodwill and decommissioning and restoration liabilities resulted in a gain of $67.4 million. At December 31, 2016, certain indicators of possible impairment or impairment reversal were identified for certain of the Company's CGUs. Please refer to Note 10 for further discussion.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

8. Exploration and Evaluation Assets

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
Balance at December 31, 2014	72,670	13,355	86,025
Additions	1,184	6,480	7,664
Expensed	(3,975)	(8,733)	(12,708)
Transfers to property, plant and equipment (note 7)	(7,079)	(11,103)	(18,182)
Acquisitions	282	-	282
Dispositions	(386)	-	(386)
Balance at December 31, 2015	62,695	-	62,695
Additions	**623**	**22,697**	**23,320**
Expensed	**(1,134)**	**-**	**(1,134)**
Transfers between exploration & evaluation assets and property, plant, and equipment (note 7)	**(14,114)**	**(21,193)**	**(35,307)**
Dispositions	**(528)**	**-**	**(528)**
Balance at December 31, 2016	**47,542**	**1,504**	**49,046**

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

	Year-ended December 31	
	2016	**2015**
Expired mineral leases	**1,134**	3,975
Impairment charge	**-**	8,733
	1,134	12,708
Geological and geophysical costs	**(156)**	(26)
	978	12,681

An impairment of $8.7 million was recorded in 2015 on certain exploration and evaluation assets in the Company's Kaybob West and Kaybob South CGUs. The impairment represents costs incurred in excess of the benefits the Company expects to obtain from the exploratory wells.

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

In 2016, the Company sold geological and geophysical surveying data for $0.2 million.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

9. Goodwill

	As at December 31 2016	As at December 31 2015
Cost	**78,503**	100,945
Disposals	**-**	(22,442)
	78,503	78,503

Goodwill was assessed for impairment as at December 31, 2016 and 2015. Goodwill is assessed at the segment level and is not allocated to specific CGUs. The recoverable amounts used to assess goodwill were determined using fair value less costs of disposal. Fair value less costs of disposal was estimated for cash-generating units using the after-tax future net cash flows of total proved and probable reserves based on forecast prices and costs, discounted using an after tax discount rate of 10 percent and the fair value of undeveloped land based on estimates provided by the Company's independent land evaluator as at December 31, 2016 and 2015. Forecast prices used to determine fair value in the assessment of goodwill were consistent with the forecast prices used to determine the fair value of Trilogy's property, plant and equipment. Refer to note 10 for further details.

A reduction to goodwill in 2015 was recorded in conjunction with the Company's disposition of certain oil and gas properties in the Kaybob area. Refer to note 7 for further details.

10. Impairment Loss (Reversal)

	Year-ended December 31	
	2016	**2015**
Property, plant, and equipment impairment charge (note 7)	**22,114**	153,991
Property, plant, and equipment reversal (note 7)	**(22,324)**	-
	(210)	153,991

During 2016, the Company assessed, evaluated and concluded that the carrying values of its property, plant, and equipment of certain CGUs exceeded their respective fair value less costs of disposal resulting in a current period impairment charge of $22.1 million. The Company also concluded and recorded a reversal of previously recognized impairments, net of depletion and depreciation; that would otherwise have been recorded, of $22.3 million. The impairments were primarily a function of reductions in estimated future commodity prices while the reversals recorded were primarily a function of reserve additions recorded in the year and improved economic assumptions regarding future operating and capital expenditure efficiencies. The following table summarizes Trilogy's carrying and impairment (reversal) amounts for certain of its CGUs as at December 31, 2016:

Cash Generating Unit	Recoverable Amount	Carrying Amount after Impairment (Reversal)	Impairment (Reversal)
Kaybob North	**1,223,121**	**801,662**	**(22,324)**
Kaybob South	**89,391**	**89,391**	**22,114**
Total	**1,312,512**	**891,053**	**(210)**

In 2015, the Company assessed and concluded that the carrying value of its property, plant, and equipment across all CGUs exceeded their fair value less costs of disposal resulting in an impairment of $154 million recorded throughout the year. The impairments recorded were primarily a function of significant reductions in estimated future commodity prices and downward technical revisions to reserves recorded, partially offset by reserve additions in the year.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

The following table summarizes Trilogy's carrying and impairment amounts for its CGUs as at December 31, 2015:

CGU	Recoverable Amount	Carrying Amount after Impairment	Impairment
Grande Prairie Liquids	**24,585**	**24,585**	**9,135**
Grande Prairie Gas	**24,181**	**24,181**	**10,890**
Kaybob North	**819,986**	**819,986**	**13,008**
Kaybob South	**98,048**	**98,048**	**65,543**
Kaybob West	**55,231**	**55,231**	**55,415**
Total	**1,022,031**	**1,022,031**	**153,991**

The Company determined the recoverable amounts for its CGUs using the fair value less costs of disposal method based on internally generated cash flow projections, extending approximately over the expected life of the assets. In determining fair value less costs of disposal, the Company considered recent transactions within the industry, external views of commodity prices, and externally evaluated reserve volumes. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating and capital cost efficiencies and commodity prices. The inputs used in the valuation methodology are considered fair value Level 3 inputs (refer to note 22) as certain key assumptions are not based on observable market data but, rather, management's best estimate. In computing the recoverable amount, future cash flows were adjusted for risks specific to the CGU and discounted using an after-tax discount rate of 10 percent (2015: 10 percent). The discount rate is considered to approximate the rate of return that a market participant would require for assets of similar characteristics and risk.

The recoverable amount to PP&E is highly sensitive to the discount rate and commodity prices. If the discount rate applied to the forecasted net cash flows increased by one percent, the Company would have recognized an additional impairment of approximately $6.2 million. Conversely, a one percent decrease in the applied discount rate would have resulted in a reduced impairment of $10.0 million. A five percent reduction in forecast commodity prices would result in an additional impairment of $13.5 million. While a five percent increase in forecast commodity prices would have had the equal and opposite impact to impairment charges. Selected key price forecasts and exchange rates used in the estimation of the value of commercial reserves as at December 31, 2016 and December 31, 2015 were as follows:

December 31, 2016

		2016	2017	2018	2019	2020	2021
AECO Gas	Cdn$/MMBtu	-	**3.40**	**3.15**	**3.30**	**3.60**	**3.90**
Edmonton Light Sweet Crude	Cdn$/Bbl	-	**69.80**	**72.70**	**75.50**	**81.10**	**86.60**
Edmonton Condensate	Cdn$/Bbl	-	**72.80**	**75.80**	**78.60**	**84.30**	**89.80**
West Texas Intermediate Crude	U.S.$/Bbl	-	**55.00**	**58.70**	**62.40**	**69.00**	**75.80**
Foreign Exchange	(U.S/Cdn)	-	**0.75**	**0.78**	**0.80**	**0.83**	**0.85**

December 31, 2015

		2016	2017	2018	2019	2020	2021
AECO Gas	Cdn$/MMBtu	2.70	3.20	3.55	3.85	3.95	4.20
Edmonton Light Sweet Crude	Cdn$/Bbl	56.60	66.40	72.80	80.90	83.20	88.20
Edmonton Condensate	Cdn$/Bbl	60.60	70.50	77.00	85.10	87.50	92.60
West Texas Intermediate Crude	U.S.$/Bbl	45.00	53.60	62.40	69.00	73.10	77.30
Foreign Exchange	(U.S/Cdn)	0.73	0.75	0.80	0.80	0.83	0.83

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

11. Income Tax

The following table reconciles the income tax expense (recovery) calculated using the statutory tax rates to the income tax expense (recovery) per the consolidated statement of comprehensive loss.

	December 31, 2016	December 31, 2015
Net loss before tax	**(124,508)**	(177,002)
Expected income tax rate	**27%**	26%
Expected income tax recovery	**(33,617)**	(46,021)
Goodwill reductions	**-**	5,835
Non-deductible share-based compensation expense (note 16)	**2,531**	2,994
Statutory rate change	**-**	(791)
Revisions to previous tax estimates	**-**	(887)
Other	**(21)**	(474)
Income tax expense (recovery)	**(31,107)**	(39,344)

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)	61,838	48,045	29,404
Recovery (expense)	**(13,956)**	**6,905**	**1,075**	**37,082**	**31,107**
At December 31, 2016	**(89,519)**	**1,988**	**62,913**	**85,127**	**60,511**

As at December 31, 2016, Trilogy recognized a deferred tax asset of $60.5 million. A $31.1 million deferred income tax recovery was recorded to the consolidated statement of comprehensive loss for the year-ended December 31, 2016 (December 31, 2015 – $39.3million 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 $375.2 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 $306.8 million, representing the Company's probable estimate of future taxable income that could be applied to the total losses.

	December 31, 2016	December 31, 2015
Deferred Income Tax Assets		
Deferred tax assets to be recovered within 12 months	**1,988**	233
Deferred tax assets to be recovered after more than 12 months	**148,041**	109,884
	150,029	110,117
Deferred Income Tax Liabilities		
Deferred tax liabilities to be settled within 12 months	**-**	(5,150)
Deferred tax liabilities to be settled after more than 12 months	**(89,518)**	(75,563)
	(89,518)	(80,713)
Net Deferred Income Tax Assets (Liabilities)	**60,511**	29,404

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

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

12. Trade and Other Payables

	As at December 31 2016	**As at December 31 2015**
Trade and general payables	**17,349**	4,164
Joint operation payables	**4,687**	12,040
Accrued liabilities and other	**35,389**	37,974
	57,425	54,178

Trade and other payables are non-interest bearing and are generally settled within 30 to 60 days.

13. Environmental Remediation

In October 2016, Trilogy discovered a leak in one of its emulsion pipelines within its Kaybob Montney Oil Development, approximately fifteen kilometers from the Town of Fox Creek, Alberta. The Company recorded a $6.0 million environmental remediation expense during the fourth quarter of 2016; which is the current best estimate of the costs of remediation. As of December 31, 2016, Trilogy has spent approximately $4.2 million since the leak was identified in October of 2016. The remaining remediation will occur primarily throughout the remainder of 2017.

The provision for the remediation contains significant estimates and judgements about the scope, timing, and related costs of the work that will be required. The assumptions and estimates used in the provision are based on current data and could change in the future as further information becomes available to the Company.

14. 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 December 31, 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:

- 4.50 at 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; and
- 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 and the exclusion of revenues or losses of an extraordinary and non-recurring nature.
- "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 December 31, 2016, the Company is in compliance with all debt covenants.

The effective interest rate on Trilogy's Revolving Credit Facility (excluding other financing costs) for the year-ended December 31, 2016 was 3.73 percent. (December 31, 2015 – 2.84 percent). The Company has issued letters of credit totalling $2.8 million as at December 31, 2016 (December 31, 2015: $3.5 million) which reduce the amount available for draw.

Senior Unsecured Notes

On December 13, 2012, the Company issued $300 million in Senior Unsecured Notes at par value. The notes bear interest semi-annually at 7.25 percent per annum and will mature on December 13, 2019. Interest payable was $1.1 million at December 31, 2016 and 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 prior to December 13, 2018. 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. (December 31, 2015 – 7.53 percent).

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

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

	As at December 31 2016	As at December 31 2015
Revolving credit facility	**265,302**	237,485
Less prepaid interest and unamortized financing costs	**(952)**	(635)
Carrying value	**264,350**	236,850
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(2,470)**	(3,305)
Carrying value	**297,530**	296,695
Total carrying value of long term debt	**561,880**	533,545

Interest expense for the twelve months ended December 31, 2016 and 2015 is comprised of the following:

	Year-ended December 31	
	2016	2015
Senior unsecured notes	**21,750**	21,750
Credit facility interest, charges, and other interest	**10,421**	13,220
Amortization of finance fees	**1,723**	2,058
Total interest and finance costs	**33,894**	37,028

15. Decommissioning and Restoration Liability

	As at December 31 2016	As at December 31 2015
Balance - beginning of period	**229,033**	228,145
Incurred	**4,274**	4,021
Disposed	**(29)**	(3,012)
Settled	**(2,746)**	(2,096)
Accretion	**4,572**	4,951
Revision to estimates	**(2,089)**	(2,976)
Balance – end of year	**233,015**	229,033

Settlement of the Company's Decommissioning and Restoration 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 December 31, 2016 have been discounted using an average risk free rate of 2.25 percent and inflation rate of 2.0 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 $241.1 million as at December 31, 2016 (December 31, 2015: $237.3 million).

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

16. Share-Based Payment Plans

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

	Year-ended December 31	
	2016	**2015**
Share Incentive Plan	**159**	(157)
Share Option Plan	**9,214**	12,159
	9,373	12,002

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:

	As at December 31 2016	**As at December 31 2015**
Beginning	**66,131**	132,448
Vested	**(40,834)**	(66,317)
Ending	**25,297**	66,131

The cost to the Company of the Common Shares held in trust was $0.7 million as at December 31, 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.

December 31, 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:

	Year-ended December 31, 2016		Year-ended December 31, 2015	
	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	**6.80**	**1,645,000**	5.51	3,012,300
Exercised	**5.02**	**(36,580)**	8.38	(203,740)
Cancelled	**27.00**	**(5,629,690)**	23.49	(305,100)
Expired	**26.89**	**(26,000)**	8.51	(395,000)
Outstanding at period end	**$ 7.23**	**6,297,690**	$ 18.10	10,344,960
Exercisable at period end	**$ 7.46**	**2,445,370**	$ 20.73	5,342,500

During the second quarter of 2016, 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 weighted average fair value of options granted during the twelve month period was $2.97 per option (December 31, 2015: $1.70). The significant inputs to the option value were as follows:

	December 31, 2016	**December 31, 2015**
Dividend yield (percent)	nil	nil
Expected volatility (percent)	58	51
Risk-free interest rate (percent)	0.65 to 1.07	0.55 to 0.88
Expected life of options (years)	5.6	2.3 - 5.6

The range of exercise prices of the outstanding options and exercisable options as at December 31, 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	4.3	3,544,280	$5.56	740,960	$4.49
$7.38 to $8.67	0.5	1,060,910	$7.41	1,024,910	$7.39
$8.68 to $26.87	3.3	1,692,500	$10.62	679,500	$10.81
Total	3.4	6,297,690	$7.23	2,445,370	$7.46

The average market share price at the date of exercise for share options exercised in 2016 was $7.15 (2015: $9.01).

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

17. 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**
Issued - Share Option Plan	**36,580**	**-**	**36,580**	**233**
Vesting of Share Incentive Plan awards	**40,834**	**-**	**40,834**	**1,098**
Shares as at December 31, 2016	**105,265,133**	**20,835,862**	**126,100,995**	**$ 1,105,115**

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

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 were permitted during the period beginning on December 29, 2015 and ending on December 28, 2016. No purchases were made under this NCIB during this period.

18. Loss per share

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

	Year-ended December 31	
	2016	**2015**
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**(93,401)**	(137,658)
Weighted average number of shares for the purposes of basic earnings per share	**126,070,071**	126,050,553
Effect of dilution	**NIL**	NIL
Weighted average number of shares	**126,070,071**	126,050,553
Earnings (loss) per share – Basic	**(0.74)**	(1.09)
Earnings (loss) per share – Diluted	**(0.74)**	(1.09)

As at December 31, 2016 and 2015, the Company had 325,935 and 109,137 respectively, of securities that were excluded from the calculation of diluted weighted average number of shares as they were non-dilutive.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

19. Reconciliation of Changes in Non-Cash Working Capital

	Year-ended December 31	
	2016	**2015**
Decrease (increase) in trade, other receivables and prepaids	**(12,707)**	30,002
Increase (decrease) in trade, other payables and interest payable	**3,246**	(51,020)
	(9,461)	(21,018)
Changes in non-cash operating working capital	**(8,190)**	7,949
Changes in non-cash investing working capital	**(1,271)**	(28,967)

20. 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 $0.4 million for the twelve months ended December 30, 2016 (Twelve months ended December 31, 2015 - $0.4 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 Company and Paramount also transact with each other in the normal course of any joint operations.

	Year-ended December 31	
	2016	**2015**
Joint operation activities billed by Trilogy to Paramount	**8,978**	5,195
Joint operation activities billed by Paramount to Trilogy	**1,192**	10,899

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

December 31, 2016		
Presented in the Balance Sheet as	**Normal Business**	**Services Agreement**
Trade and other receivables	**314**	**-**
Trade and other payables	**(135)**	**(60)**
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.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

21. Financial Risk Management and Objectives

Trilogy's principal financial instruments, other than financial derivatives, are its accounts receivable, accounts payable, accrued liabilities and its outstanding draw-downs from its Revolving Credit Facility and senior note debt, which arise directly from its business. The credit facility is the main source of Trilogy's finances after cash flow from operating activities. 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.

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.

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

	December 31, 2016	December 31, 2015
Trade and other receivables	**37,534**	25,225
Derivatives Financial Instruments[1]	**-**	19,073
	37,534	44,298

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

Liquidity Risk

Trilogy's principal sources of liquidity are its cash flow from operations and amounts available for draw under its Revolving Credit Facility. 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;
- 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

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

- 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 December 31, 2016 is as follows:

	Within 1 Year	**1 to 2 years**	**3 years**	**Total**
Accounts payable and accrued liabilities	57,425	-	-	57,425
Derivative financial instruments	7,364	-	-	7,364
Long-term debt and estimated interest(1)	32,562	311,454	300,000	644,016
Total	97,351	311,454	300,000	708,805

(1) Estimated interest related to the Revolving Credit Facility for future periods was calculated using the weighted average interest rate for the year to date December 31, 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.

Subsequent to the quarter, Trilogy terminated and collapsed certain natural gas derivative contracts for proceeds of $4.6 million Canadian equivalent. See note 22 and 27 for further details.

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.

Commodity Price Risk

Inherent to Trilogy's business of producing petroleum and natural gas is the commodity price risk, where fluctuations in the market price of crude oil, natural gas and natural gas liquids significantly impact the Company's cash flow from operations. Numerous items including the amount of dividends declared to Shareholders, capital expenditures and debt repayments or draws are dependent upon the level of cash flow generated from operations, the fluctuation in petroleum and natural gas prices (in addition to normal operational and external risks) impact Trilogy's liquidity.

To protect cash flow against commodity price volatility, Trilogy may use derivative commodity price contracts that require financial settlement with counterparties. Derivative contracts are generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production. (Refer to note 22 for details of outstanding derivative instruments as at December 31, 2016).

Sensitivity Analysis on derivative contracts outstanding at December 31, 2016

As at December 31, 2016, if the forward price of crude oil (WTI - CAD) had been $10 per barrel lower, with all other variables held constant, net earnings for the year would have increased $0.7 million, due to changes in the fair value of the derivative contracts. Had crude oil prices been $10 per barrel higher, with all other variables held constants, net earnings for the year would have decreased by $4.7 million.

Also, as at December 31, 2016, if the forward price of natural gas (NYMEX - CAD) had been $1 per MMBtu higher, with all other variables held constant, net earnings for the year would have decreased by $14.6 million, due to the changes in the fair value of the derivative contracts. An equal and opposite impact would have occurred to net earnings had natural gas forward pricing been $1 per MMBtu lower.

Interest Rate Risk

As described in note 14, Trilogy's credit facility is subject to floating interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The interest rate margin is determined based on a prescribed rate in the underlying agreement and is generally dependent upon Trilogy's debt to adjusted EBITDA as defined therein. Borrowings on Trilogy's credit facility is primarily in the form of bankers' acceptances with fixed terms ranging from 10 to 180 days which are then rolled-over if not repaid on their due dates. Trilogy may enter into interest rate derivative contracts to mitigate the impact of interest rate fluctuations.

Sensitivity Analysis as at December 31, 2016

Assuming all other variables remain constant, an increase or decrease of 1 percent in market interest rates on Trilogy's Revolving Credit Facility for the year ended December 31, 2016 would have increased or decreased net earnings before tax by $2.6 million.

Borrowing on Trilogy's senior unsecured notes is fixed at 7.25 percent on the $300 million par value of the debt.

Foreign Currency Risk

Foreign currency rate fluctuations may impact the Company primarily in conjunction with normal conversions of U.S. dollar denominated revenues into the Canadian dollar. Trilogy may enter into derivative currency contracts to mitigate the impact of foreign currency fluctuations.

Sensitivity Analysis on derivative contracts outstanding at December 31, 2016

A 100 basis point strengthening of the Canadian dollar against the US dollar, with all other variables held constant, would have decreased profit or loss by a nominal amount, due to changes in the fair value of the financial contracts. A 100 basis point weakening of the Canadian dollar against the US dollar would have had the equal and opposite impact to net earnings.

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.

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

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

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

	December 31, 2016	December 31, 2015
Committed amount that can be drawn from the credit facility (Note 14)	**300,000**	450,000
Outstanding letters of credit	**(2,776)**	(3,473)
Amount that can be drawn after letters of credit	**297,224**	446,527
Revolving credit facility	**(264,350)**	(236,850)
Current liabilities net of current assets - deficit	**(26,738)**	(10,622)
Capacity under revolving credit facility	**6,136**	199,055

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

	December 31, 2016	December 31, 2015
Revolving credit facility (Note 14)	**(264,350)**	(236,850)
Senior notes (Note 14)	**(297,530)**	(296,695)
Working capital deficiency	**(26,738)**	(10,622)
Net debt[1]	**(588,618)**	(544,167)

(1) Net debt is a Non-GAAP measure

Net debt increased to $588.6 million in 2016 from $544.2 million at the end of 2015 as the Company's annual capital expenditures program has exceeded cash flow from operating activities primarily on reduced commodity pricing and reduced production volumes in 2016 over 2015.

22. Financial Instruments

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

	December 31, 2016	December 31, 2015
Financial assets		
Receivables[1]	**37,534**	25,225
Financial instruments fair valued through profit and loss[2]	**-**	19,073
Financial liabilities		
Other liabilities - non-trading liabilities[1] [3]	**(57,425)**	(54,178)
Interest payable on Senior Unsecured Notes	**(1,132)**	(1,132)
Financial instruments fair valued through profit and loss[2]	**(7,364)**	(862)
Other liabilities - long-term debt[4]	**(561,880)**	(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

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

estimated, based on independent broker quotes, to be 101 percent of face value or $303 million (December 31, 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:

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

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**

At December 31, 2016 the Company had the following outstanding derivative contracts:

Crude Oil

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

Natural Gas

Term	**Volume**	**Average Price**
2017 - Sale	30,000 (MMBTU/d)	3.44 USD
2017 - Purchase & Sale Spread	10,000 (MMBTU/d)	Locked - in $1.3 million USD hedging gain

Subsequent to the quarter, Trilogy terminated and collapsed the above natural gas derivative contracts. See note 27 for further details.

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**		
1.2000	1.4150	NIL	Nil, receive weekly premium	$750 notional at upper range	$7.5	December 2017

To the extent the week ending foreign exchange rate is:

- above the upper range of 1.4150, the Company is committed to selling weekly $0.75 million USD at 1.4150 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.

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

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

	As at December 31 2016	**As at December 31 2015**
Derivative asset, beginning of year	**19,073**	-
Unrealized change in fair value	**(19,073)**	19,073
Derivative asset, end of year	**-**	19,073
Derivative liability, beginning of year	**(862)**	(611)
Unrealized change in fair value	**(6,502)**	(251)
Derivative liability, end of year	**(7,364)**	(862)
Unrealized increase (decrease) in fair value for the year	**(25,575)**	18,822

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

23. Gain (Loss) on Derivative Financial Instruments

	Year-ended December 31 2016	2015
Realized gains (losses)		
Crude oil & natural gas	**19,581**	-
Foreign exchange	**411**	(899)
Power	**(1,695)**	(771)
Sub-total	**18,297**	(1,670)
Unrealized gains (losses)		
Crude oil & natural gas	**(26,739)**	19,434
Foreign exchange	**302**	(251)
Power	**862**	(361)
Sub-total	**(25,575)**	18,822
Gain (losses) on derivative financial instruments	**(7,278)**	17,152

24. Commitments

In addition to items disclosed elsewhere in these financial statements, Trilogy had the following off balance sheet commitments as at December 31, 2016:

	2017	2018	2019	2020	2021	2022 and after	Total
Fractionation and pipeline transportation [(1)]	21,756	24,237	24,728	26,427	26,860	117,098	241,106
Office premises operating lease [(2)]	705	1,782	1,782	1,782	1,782	1,992	9,825
Vehicle and energy service commitments	1,328	199	48	30	30	-	1,635
Total	23,789	26,218	26,558	28,239	28,672	119,090	252,566

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

(2) Net of committed rental reimbursements through sub-lease arrangements

Off balance sheet commitments as at December 31, 2015 are as follows:

	2016	2017	2018	2019	2020	2021 and after	Total
Fractionation and pipeline transportation [(1)]	19,430	23,672	30,992	32,050	30,717	159,199	296,060
Office premises operating lease [(2)]	2,995	2,164	-	-	-	-	5,159
Vehicle and energy service commitments	75	59	47	36	36	-	253
Total	22,500	25,895	31,039	32,086	30,753	159,199	301,472

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

(2) Net of committed rental reimbursements through sub-lease arrangements

December 31, 2016 (in thousand Canadian dollars except as otherwise indicated)

25. General and Administrative Expenditures

	Year-ended December 31	
	2016	**2015**
Salaries and other benefits	**22,505**	26,106
Office and communications	**4,099**	4,523
Corporate and other	**2,154**	2,724
Overhead recoveries and re-allocations to operating costs	**(16,368)**	(18,838)
	12,390	14,515

Trilogy's wages and employee benefits within general and administrative expenses and share based compensation is shown below:

	Year-ended December 31	
	2016	**2015**
Salaries and other benefits	**22,505**	26,106
Salaries recoveries and reclassifications	**(10,554)**	(12,766)
	11,951	13,340
Amortization of share-based payment awards	**9,373**	12,002
	21,324	25,342

The above amounts include amortization of share based payment awards and are prior to additional overhead recoveries and reclassification amounts recorded in general and administrative expenses.

Key management includes Trilogy's directors and officers. The compensation expensed for key management within the above total is shown below:

	Year-ended December 31	
	2016	**2015**
Salaries and other benefits	**1,153**	919
Amortization of share-based payment awards	**4,958**	6,429
	6,111	7,348

26. 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.

	Year-ended December 31	
	2016	**2015**
Petroleum and natural gas sales:		
Natural gas	**82,305**	123,510
Oil	**77,756**	108,029
Natural gas liquids	**34,975**	54,622
Total petroleum and natural gas sales	**195,036**	286,161

27. Subsequent Events

Subsequent to the quarter, Trilogy accelerated the realization and receipt of natural gas derivative gains totaling $3.5 million USD ($4.6 million CDN) on 40,000 MMBTU/d of financial sales contracts, originally put in place for calendar 2017.

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

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Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Bankers

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

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”

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD AT:

Conference Centre (Mezzanine Level)
Centrium Place – 332 – 6th Avenue S.W.
Calgary, Alberta
Tuesday, May 9, 2017
3:00 PM (Calgary Time)