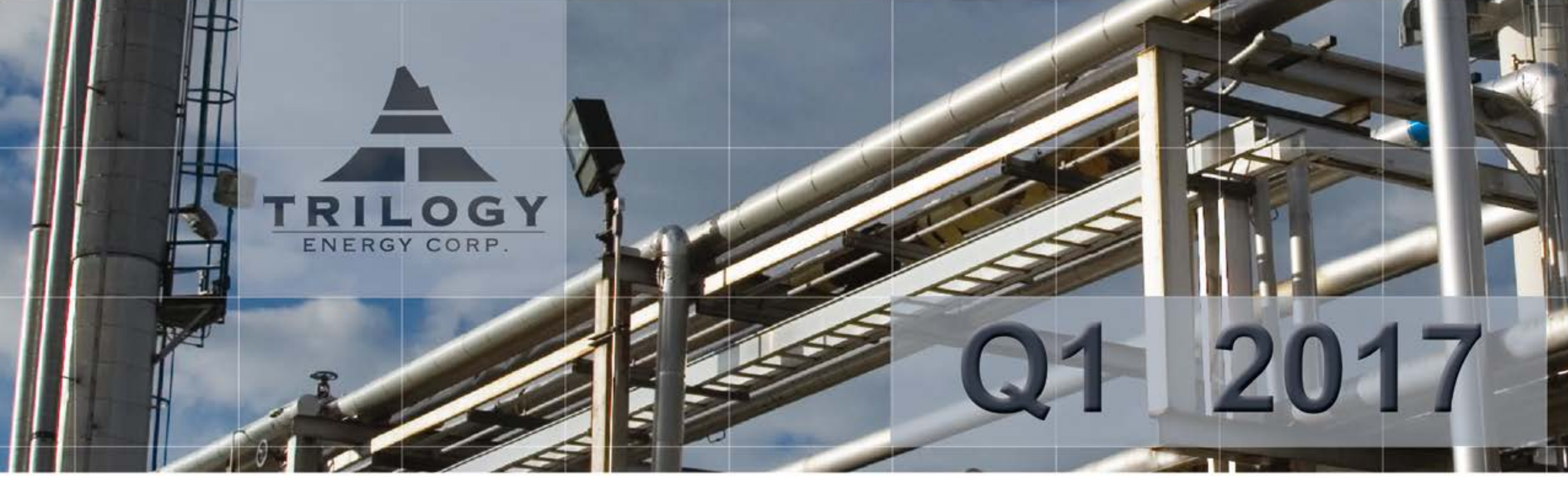

Q1 / First quarter report 2017

	Three Months Ended		
	March 31, 2017	**December 31, 2016**	**Change %**
FINANCIAL			
Petroleum and natural gas sales	**76,089**	61,834	23
Funds flow			
From operations[1]	**36,382**	21,824	67
Per share - diluted	**0.29**	0.17	67
Earnings			
Income (loss) before tax	**10,874**	(24,593)	(144)
Per share - diluted	**0.09**	(0.19)	(144)
Income (loss) after tax	**7,694**	(18,116)	(142)
Per share - diluted	**0.06**	(0.14)	(143)
Capital expenditures			
Exploration, development, land, and facility	**41,658**	30,413	37
Acquisitions (dispositions) and other - net	**(675)**	(725)	(7)
Net capital expenditures	**40,983**	29,688	38
Total assets	**1,230,978**	1,224,714	1
Net debt[1]	**583,777**	588,618	(1)
Shareholders' equity	**372,525**	363,898	2
Total shares outstanding (thousands)			
- As at end of period [2]	**126,106**	126,101	-
OPERATING			
Production			
Natural gas (MMcf/d)	**93**	93	-
Oil (Bbl/d)	**6,305**	5,251	20
Condensate (Boe/d)	**2,059**	1,200	72
Natural gas liquids (Boe/d)	**1,207**	682	77
Total production (Boe/d @ 6:1)	**25,133**	22,565	11
Liquids Composition (percentage)	**38**	**32**	
Average prices after financial instruments			
Natural gas ($/Mcf)	**3.63**	3.12	16
Crude Oil ($/Bbl)	**62.69**	66.24	(5)
Condensate ($/Boe)	**63.25**	59.84	6
Natural gas liquids ($/Boe)	**32.95**	17.75	86
Average realized price ($/Boe)	**35.97**	31.92	13
Drilling activity (gross)			
Gas	**4**	2	100
Oil	**6**	7	(14)
Total wells	**10**	9	11

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") for the three months ended March 31, 2017, and should be read in conjunction with the Company's interim consolidated financial statements and related notes for the same three months ended, (the "Interim Financial Statements") and its December 31, 2016 annual consolidated financial statements ("Annual Financial Statements") and related MD&A. The Interim Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures, numerical references and Oil and Gas advisories which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of May 8, 2017.

Financial and Operating Highlights

- Reported sales volumes for the first quarter of 2017 increased 11 percent to 25,133 Boe/d (38 percent liquids) as compared to 22,565 Boe/d (32 percent liquids) for the fourth quarter of 2016. The increase was attributed primarily to new well production coming on stream in the quarter;
- Average realized pricing, after hedges, increased by 13 percent to $35.97/Boe in the first quarter of 2017 from $31.92/Boe for the previous quarter. Year over year, average realized pricing, after hedges, also increased 48 percent from the first quarter of 2016;
- Funds flow from operations [(1)] increased 67 percent to $36.4 million for the first quarter of 2017 as compared to $21.8 million for the previous quarter. Year over year, funds flow from operations increased by 338 percent from $8.3 million in the first quarter of 2016.
- Trilogy drilled 9.0 net wells in the first quarter. Net capital expenditures totaled $41.0 million for the first quarter compared to $29.7 million for the fourth quarter of 2016;
- Net debt [(1)] decreased to $583.8 million as at March 31, 2017 from $588.6 million as at December 31, 2016;
- During the quarter, Trilogy accelerated the realization and receipt of natural gas derivative contract gains totaling $3.5 million USD ($4.6 million CDN).
- Subsequent to the quarter, Trilogy:
    - Renewed its revolving credit facility agreement with its lenders whereby commitments under this facility were set at $300 million. The maturity date was extended to April 30, 2019;
    - Announced that it had agreed to sell certain oil and gas properties in the Grande Prairie area for cash consideration of $50 million (before customary adjustments). The disposition is expected to close before the end of May 2017. Proceeds are expected to be used to repay amounts drawn under Trilogy's revolving credit facility. Pro-forma capacity under Trilogy's revolving credit facility as at March 31, 2017, after giving effect to the disposition, is expected to approximate $49 million;
    - Entered into forward sales contracts for 30,000 MMBTU/d from May 2017 through to December 2017 at an average price of $3.39 USD/MMBTU.

(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. Beginning in the second quarter of 2016, through to the current quarter, world oil prices continued to strengthen beyond the low pricing experienced in the first quarter of 2016 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, these gains may be offset by moderate consumption, strong supply levels and concerns that natural gas demand will be tempered due to 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, implemented programs intended to replace expiring strategic incentive programs, provided royalty incentives to encourage 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 of 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 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 and fluctuations in commodity prices, Trilogy has 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, 2016 and 2017 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 more recently in 2017, the expected disposition of assets for approximately $50 million.
- 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 over the last six 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 plans to execute a 2017 capital spending budget that is within anticipated 2017 funds flow from operations based on Trilogy's 2017 production expectations and forecasted pricing for the year. The level of capital spending in the second half of the year will depend on commodity prices and will primarily impact the Duvernay projects later in 2017.

Given the encouraging production results to date, which is expected to offset the impact of the aforementioned Grande Prairie disposition, Trilogy continues to reaffirm its 2017 annual guidance as follows:

- Average production: 24,000 Boe/d (~35% 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:

	Q1 2017	Q4 2016	Q1 2016
Crude Oil			
West Texas Intermediate monthly average (U.S.$/Bbl)	**51.90**	49.29	33.45
Canadian Light Sweet monthly average (Cdn$/Bbl)	**64.74**	60.76	41.22
Natural Gas			
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**3.06**	3.18	1.99
AECO monthly average (Cdn$/GJ)	**2.69**	3.11	1.83
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.32**	1.34	1.30

Funds Flow from Operations

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	December 31, 2016	March 31, 2016
Operating income[1]	**44,152**	**35,323**	15,688
Environmental remediation expense	**(1,000)**	**(6,000)**	-
Other income [2]	**53**	**61**	217
Realized financial instrument gains [3]	**5,409**	**4,199**	4,477
Actual decommissioning and restoration cost	**(1,609)**	**(951)**	(763)
Operating netback[1]	**47,005**	**32,632**	19,619
Interest and financing charges[4]	**(8,148)**	**(8,285)**	(7,566)
General and administrative expenses	**(2,475)**	**(2,523)**	(3,741)
Funds flow from operations[1]	**36,382**	**21,824**	8,312
Non-cash items:			
Depletion and depreciation	**(41,725)**	**(34,498)**	(35,579)
Unrealized financial instrument gain (loss)[3]	**9,786**	**(11,045)**	(4,463)
Share based compensation	**(915)**	**(612)**	(1,988)
Exploration expenditure[5]	**(358)**	**(150)**	(772)
Amortization of financing fees	**(366)**	**(370)**	(686)
Impairment reversal	**7,659**	**209**	-
Gain (loss) on disposal of assets	**82**	**432**	(70)
Accretion on decommissioning and restoration liability[6]	**324**	**(383)**	(492)
Deferred income tax (expense) recovery	**(3,180)**	**6,477**	9,241
Unrealized foreign exchange gain (loss)	**5**	**-**	(1,046)
Comprehensive (loss) income	**7,694**	**(18,116)**	(27,544)

(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 on exploratory wells, geological and geophysical and expired mineral lease costs
(6) Equals the accretion in excess, or below, of actual amounts paid on decommissioning and restoration activities in the period

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

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	December 31, 2016	March 31, 2016
Cash flow from operating activities	**46,847**	**15,492**	13,446
Changes in non-cash working capital	**(10,465)**	**6,332**	(5,134)
Funds flow from operations[1]	**36,382**	**21,824**	8,312
Interest and financing charges	**8,514**	**8,656**	8,252
Amortization of finance fees therein	**(366)**	**(370)**	(686)
General and administrative expenses	**2,475**	**2,523**	3,741
Operating netback[1]	**47,005**	**32,632**	19,619

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

Funds Flow from Operations per Boe

Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended March 31, 2017	 December 31, 2016	 March 31, 2016
Sales	**33.64**	29.79	21.96
Transportation cost	**(1.58)**	(2.03)	(4.72)
Royalties	**(2.86)**	(1.50)	(1.51)
Operating cost	**(9.68)**	(9.23)	(8.17)
Operating income[1]	**19.52**	17.02	7.57
Environmental remediation expense	**(0.44)**	(2.89)	-
Other income [2]	**0.02**	0.03	0.10
Realized financial instruments gain (loss) [3]	**2.39**	2.02	2.16
Actual decommissioning and restoration cost	**(0.71)**	(0.46)	(0.37)
Operating netback[1]	**20.78**	15.72	9.46
Interest and financing charge[4]	**(3.60)**	(3.99)	(3.65)
General and administrative expense	**(1.09)**	(1.22)	(1.80)
Funds flow from operations[1]	**16.08**	10.51	4.01

(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

First Quarter 2017 vs. Fourth Quarter 2016 (In thousand dollars except as otherwise indicated)	Q1 2017	Q4 2016	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**93,365**	92,594	771	1
Oil (Bbl/d)	**6,305**	5,251	1,054	20
Condensate (Boe/d)	**2,059**	1,200	859	72
Natural gas liquids (Boe/d)	**1,207**	682	525	77
Total (Boe/d)	**25,133**	22,565	2,568	11
Liquids Composition (percentage)	**38**	32	6	-
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.09**	3.17	(0.08)	(2)
Oil ($/Bbl)	**61.36**	56.16	5.20	9
Condensate ($/Boe)	**63.25**	59.84	3.41	6
Natural gas liquids ($/Boe)	**32.95**	17.75	15.19	86
Average realized price ($/Boe)	**33.64**	29.79	3.85	13
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**3.63**	3.12	0.51	16
Oil ($/Bbl)	**62.69**	66.24	(3.55)	(5)
Condensate ($/Boe)	**63.25**	59.84	3.41	6
Natural gas liquids ($/Boe)	**32.95**	17.75	15.19	86
Average realized price ($/Boe)	**35.97**	31.92	4.05	13
Operating income(1)				
Natural gas	**25,968**	26,982	(1,014)	(4)
Oil	**34,819**	27,133	7,686	28
Condensate	**11,722**	6,605	5,117	77
Natural gas liquids	**3,580**	1,113	2,467	222
Total petroleum and natural gas sales before financial instruments	**76,089**	61,834	14,255	23
Royalties	**(6,465)**	(3,116)	3,349	107
Operating costs	**(21,905)**	(19,171)	2,734	14
Transportation costs	**(3,567)**	(4,224)	(657)	(16)
Operating income(1)	**44,152**	35,323	8,829	25

(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 First Quarter 2017 over Fourth Quarter 2016

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $7.7 million due to higher sales volumes ($5.2 million) and higher realized prices ($2.5 million). Condensate sales increased by $5.1 million on higher realized prices ($0.4 million) and higher sales volumes ($4.7 million). NGL sales increased by $7.6 million due to higher sales volumes ($6.3 million) and higher realized prices ($1.3 million). Natural gas sales decreased by $1.0 million due to lower sales volumes ($0.4 million) and lower realized prices ($0.6 million). Oil production increased primarily on new Montney oil well production brought on late in the fourth quarter of 2016 and in the current quarter while condensate and other natural gas liquids increased on new liquids-rich Duvernay gas production brought on in the quarter. Condensate and other NGL volumes were also higher in the current quarter when compared to the prior quarter as volumes in the fourth quarter of 2016 were reduced by 320 and 240 Boe/d, respectively, on third party downward revenue adjustments for prior period production allocations.

Royalties – Royalties, on a total dollar basis and percentage of sales revenue, were higher over the prior quarter on the increase in production, liquids composition and commodity prices, offset in part by new well royalty incentives.

Operating and Transportation Costs – Operating costs were higher in total, primarily on the increased production. Higher costs for winter conditions and a sustained level of field projects contributed to the generally higher operating costs over these quarters Transportation costs were reduced in the current quarter for a 2016 annual aggregated adjustment, which refunded approximately $0.7 million of transportation and take or pay charges paid in 2016.

First Quarter 2017 vs. First Quarter 2016 (In thousand dollars except as otherwise indicated)	Q1 2017	Q1 2016	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**93,365**	96,299	(2,934)	(3)
Oil (Bbl/d)	**6,305**	4,136	2,169	52
Condensate (Boe/d)	**2,059**	1,548	511	33
Natural gas liquids (Boe/d)	**1,207**	1,053	154	15
Total (Boe/d)	**25,133**	22,786	2,347	10
Liquids Composition (percentage)	**38**	30	8	-
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.09**	2.70	0.39	15
Oil ($/Bbl)	**61.36**	37.25	24.11	65
Condensate ($/Boe)	**63.25**	45.37	17.88	39
Natural gas liquids ($/Boe)	**32.95**	15.58	17.36	111
Average realized price ($/Boe)	**33.64**	21.96	11.68	53
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**3.63**	2.70	0.93	35
Oil ($/Bbl)	**62.69**	50.05	12.64	25
Condensate ($/Boe)	**63.25**	45.37	17.87	39
Natural gas liquids ($/Boe)	**32.95**	15.58	17.36	111
Average realized price ($/Boe)	**35.97**	24.28	11.69	48
Operating income(2)				
Natural gas	**25,968**	23,624	2,344	10
Oil	**34,819**	14,018	20,802	148
Condensate	**11,722**	6,393	5,330	83
Natural gas liquids	**3,580**	1,493	2,087	140
Total petroleum and natural gas sales before financial instruments	**76,089**	45,527	30,562	67
Royalties	**(6,465)**	(3,122)	3,343	107
Operating costs	**(21,905)**	(16,931)	4,974	29
Transportation costs	**(3,567)**	(9,786)	(6,219)	(64)
Operating income(2)	**44,152**	15,688	28,464	181

(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 First Quarter 2017 over First Quarter 2016

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $20.8 million due to higher realized prices ($9.1 million) and on higher volumes ($11.7 million) . Condensate sales increased by $5.3 million on higher realized prices ($2.5 million) and higher sales volumes ($2.8 million). NGL sales increased by $2.1 million due to higher sales volumes ($0.4 million) and higher realized NGL prices ($1.7 million). Natural gas sales increased by $2.3 million due to higher realized prices ($3.5 million) offset by lower volumes ($1.1 million). Liquids production and composition increased in the current quarter on relatively higher capital spending through the 2016/2017 winter drilling season that brought new well production at Trilogy's Montney oil and liquids-rich Duvernay plays.

Royalties – Royalties and the related effective rate increased in 2017 on higher commodity prices and production offset, in part, by relatively higher new well royalty incentives received.

Operating and Transportation Costs – Operating costs were higher in the first quarter of 2017 as compared to the first quarter of 2016 in conjunction with the increased production. Increased well and facility workover activity in the 2017 current quarter in conjunction with the higher commodity price environment also contributed to the increase in operating costs. Finally, operating expenditures were lower in the first quarter of 2016 on the shut-in of uneconomic properties having higher relative operating costs in the low commodity price environment. Transportation costs were higher in the first quarter of 2016, as the Company utilized short-term, firm service (more expensive) contracts which were replaced, in the second quarter of 2016, with long-term, firm service (less expensive) contracts. Finally, transportation was reduced in the first quarter of 2017 for the receipt of on an annual aggregated adjustment which refunded approximately $0.7 million of transportation and take or pay charges paid in 2016.

Capital Expenditures

	Three Months Ended		
(In thousand dollars except where stated otherwise)	**March 31, 2017**	**December 31, 2016**	**March 31, 2016**
Land	-	34	15
Geological and geophysical	3	98	3
Drilling, completions, and tie-ins	35,353	26,872	19,920
Production equipment and facilities	6,302	3,409	2,325
	41,658	30,413	22,264
Disposition proceeds, net of acquisitions	(675)	(851)	62
Corporate assets	-	126	11
Net capital expenditures	40,983	29,688	22,337

Wells Drilled

	Three Months Ended					
(Number of wells)	**March 31, 2017**		**December 31, 2016**		**March 31, 2016**	
	Gross[1]	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**
Natural gas	**4.0**	**3.0**	2.0	-	4.0	2.5
Oil	**6.0**	**6.0**	7.0	6.0	4.0	3.0
Total	**10.0**	**9.0**	9.0	6.0	8.0	5.5

(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.

Depletion and Depreciation Expense

	Three Months Ended		
(In thousand dollars except as otherwise indicated)	**March 31, 2017**	**December 31, 2016**	**March 31, 2016**
Reported amount	**41,725**	34,499	35,579
Expense per sales volume ($/Boe)	**18.45**	16.62	17.16

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. The increase over the prior quarter can be attributed primarily to increased first quarter production.

Exploration and Evaluation Expenditures

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	December 31, 2016	March 31, 2016
Expired mineral leases	**355**	52	769
Geological and geophysical	**3**	98	3
Exploration and evaluation expenses	**358**	150	772
Expense per sales volume ($/Boe)	**0.16**	0.07	0.37

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 (Reversals) on Property, Plant, and Equipment

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	December 31, 2016	March 31, 2016
Property, plant, and equipment charge	**-**	22,114	-
Property, plant, and equipment (reversal)	**(7,659)**	(22,324)	-
	(7,659)	(210)	-
Expense (Reversal) per sales volume ($/Boe)	**(3.39)**	**(0.10)**	**-**

The Company initiated a disposition process of certain non-core assets in the first quarter of 2017 and, as such, classified these assets as held for sale at the end of the period. Refer to note 7 of the Interim Financial Statements for additional details. The assets consist of a portion of the Company's interests within the Grande Prairie Gas Cash Generating Unit ("CGU"). The resulting disposition is expected to be completed before the end of May, 2017, for cash proceeds of $50 million (before customary adjustments). The Company recorded a reversal of a previously recognized impairment in the Grande Prairie Gas CGU, net of depletion and depreciation that would otherwise have been recorded, of $7.7 million. The reversal was a function of the purchase price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In the fourth quarter of 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 an 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 and reversals.

Environmental Remediation

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	 December 31, 2016	 March 31, 2016
Environmental remediation expense	**1,000**	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, in the above periods, includes the work and associated costs incurred to date, in addition to an estimate for the future remediation costs anticipated. The additional provision recorded in the first quarter of 2017 represents amounts in excess of the original provision of $6.0 million as estimated at December 31, 2016. 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

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	 December 31, 2016	 March 31, 2016
Salaries and other benefits	**6,141**	5,666	6,236
Office and communications	**407**	760	1,113
Corporate and other	**499**	615	514
Overhead recoveries and reclassifications to operating costs	**(4,572)**	(4,519)	(4,122)
Reported amount	**2,475**	2,522	3,741
Expense per sales volume ($/Boe)	**1.09**	1.22	1.80

General and administrative expenses were lower in the first quarter of 2017 as compared to previous quarters. Higher overhead recoveries for increased capital expenditures and project maintenance costs and a reduction in rental costs upon the renewal of the Company's head office lease beginning in the fourth quarter of 2016, were offset in part, by higher employer related costs (CPP/EI), incurred in the first quarter of each year.

Share Based Compensation

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	 December 31, 2016	 March 31, 2016
Share Incentive Plan	**-**	-	90
Share Option Plan	**915**	612	1,898
Reported Amount	**915**	612	1,988
Expense per sales volume ($/Boe)	**0.40**	0.29	0.96

Share based compensation expense increased quarter over quarter on a full quarter of amortization of the Company's December 2016 option grant. Year over year, share based compensation decreased on relatively lower average option grant date fair values to which the amortization is based upon.

Interest, Financing, and Accretion Charges

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	 December 31, 2016	 March 31, 2016
Accretion on decommissioning and restoration liability	**1,285**	1,334	1,256
Interest and other finance costs[(1)]	**8,514**	8,656	8,252
Expense per sales volume ($/Boe)	**3.76**	4.17	3.98

[(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 March 31, 2017 was consistent over the prior quarter. Accretion for the first quarter of 2017 over the same period of 2016 was also relatively consistent.

Interest expense in the first quarter of 2017 was lower relative to the fourth quarter of 2016 primarily on reduced average debt levels on Trilogy's revolving credit facility. Year over year, higher average debt levels and increased lender margins on the revolving credit facility in 2017 contributed to the higher 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 13 of the Interim Financial Statements.

Risk Management

Financial Risks

Trilogy's main financial risks include, but are not limited to, credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, and are discussed in detail in the notes to Trilogy's 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.

(In thousand dollars except as otherwise indicated)	Three Months Ended March 31, 2017	 December 31, 2016	 March 31, 2016
Realized gain on financial instruments	**5,409**	4,200	4,477
Unrealized gain (loss) on financial instruments	**9,786**	(11,045)	(4,463)
Total gain (loss) on financial instruments	**15,195**	(6,845)	14
Realized gain on financial instruments ($/Boe)	**2.39**	2.02	2.16

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

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

Crude Oil

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

Natural Gas

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

In the first quarter of 2017, Trilogy accelerated the realization and receipt of gains totaling $3.5 million USD ($4.6 million CDN) on 40,000 Mmbtu/d of offsetting financial purchase and sale 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		
1.3070	1.3825	Trade collapses - payout equals weekly premium receipt multiplied by the remaining contractual weeks	Receive weekly premium, no USD sales	$1.0 million USD sale at upper range fx rate, no premium received.	$10	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

	As at	
(In thousand dollars except as otherwise indicated)	**March 31, 2017**	**December 31, 2016**
Current liabilities net of current assets - excluding assets and liabilities held for sale	**32,348**	26,738
Long-term debt	**551,429**	561,880
Net debt[(1)]	**583,777**	588,618
Shareholders' equity	**372,525**	363,898
Total	**956,302**	952,516

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

Refer to note 20 of the Interim Financial Statements for further disclosures on liquidity and capital management.

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

	As at	
(In thousand dollars except as otherwise indicated)	**March 31, 2017**	**December 31, 2016**
Committed amount that can be drawn from the credit facility	**300,000**	300,000
Outstanding letters of credit	**(5,276)**	(2,776)
Amount that can be drawn after letters of credit	**294,724**	297,224
Revolving credit facility	**(253,693)**	(264,350)
Current liabilities net of current assets - excluding assets and liabilities held for sale	**(32,348)**	(26,738)
Capacity under revolving credit facility	**8,683**	6,136

Available capacity under the Company’s revolving credit facility increased to $8.7 million as at March 31, 2017 from $6.1 million at December 31, 2016. The increase was primarily attributed to cash flows from operating activities in excess of cash flows used in investing activities of $10.8 million less a $5.5 million and $2.7 quarter over quarter increase in the Company’s working capital deficit and outstanding letters of credit. Refer to note 20 of the Interim Financial Statements for further disclosures on liquidity and capital management.

Subsequent to the quarter, the Company renewed its revolving credit facility agreement with its lenders whereby commitments under the facility remained at $300 million with the maturity date extending to April 30, 2019. Also, subsequent to the quarter, Trilogy announced that it had agreed to sell certain oil and gas properties in the Grande Prairie area for cash consideration of $50 million (before customary adjustments). The sale is expected to be completed before the end of May, 2017. Lender commitments under Trilogy’s revolving credit facility are expected to be reduced by $10 million (total lender commitments of $290 million from $300 million) and the proceeds are expected to be used to repay amounts drawn. Pro-forma capacity under the revolving credit facility as at March 31, 2016, after giving effect to the disposition, is expected to approximate $48.7 million.

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 13, 20, and 21 of the Interim Financial Statements. Timing differences between capital expenditures made and any related operational benefit thereon will create substantial volatility in Trilogy’s debt levels. Asset dispositions and acquisitions will also significantly impact debt levels at any given time.

(In thousand dollars except as otherwise indicated)	As at March 31, 2017	December 31, 2016
Revolving credit facility	**253,887**	265,302
Less prepaid interest and unamortized financing costs	**(194)**	(952)
Carrying value	**253,693**	264,350
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(2,264)**	(2,470)
Carrying value	**297,736**	297,530
Total carrying value of long term debt	**551,429**	561,880

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 March 31, 2017, 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 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 March 31, 2017, 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 2.07. The effective interest rate on Trilogy's Revolving Credit Facility for the three month period (excluding other financing costs) was 4.08 percent. (March 31, 2016 – 3.01 percent). The Company has letters of credit totalling $5.3 million as at March 31, 2017 (December 31, 2016: $2.8 million) which reduce the amount available for draw.

Refer to note 20 of the Interim Financial Statements for further disclosures on liquidity and capital management.

Senior Unsecured Notes

In December 2012 the Company issued $300 million principal amount of 7.25 percent Senior Unsecured Notes due December 13, 2019 (the "Notes"). Proceeds from the issuance were used to reduce existing indebtedness under Trilogy's Revolving Credit Facility. Transaction costs of $5.8 million were capitalized and will be amortized into income over the life of the debt using the effective interest rate method. 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 current price of 102.417 percent, 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. (March 31, 2016 – 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 March 31, 2017, the Company is in compliance with all debt covenants.

Shares, Options and Rights

The following provides a continuity of outstanding share capital:

	Common Shares[1]	Non-Voting Shares	Total	Amount [2]
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**
Issued - Share Option Plan	**4,000**	**-**	**4,000**	**23**
Vesting of Share Incentive Plan awards	**547**	**-**	**547**	**15**
Shares as at March 31, 2017	**105,269,680**	**20,835,862**	**126,105,542**	**$ 1,105,153**

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

[2] In thousand dollars.

Outstanding share options issued under Trilogy's share option plan were 6,245,890 as at March 31, 2017 and as at the date hereof, of which 2,416,750 share options were exercisable, respectively. Refer to note 15 of the Interim Financial Statements for additional disclosures.

Decommissioning and Restoration Liability

At March 31, 2017, Trilogy recorded decommissioning and restoration liabilities of $226.6 million ($233.0 million at December 31, 2016) 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 March 31, 2017 and December 31, 2016 was discounted at an average risk-free interest rate of 2.25. Actual spending under Trilogy's abandonment and reclamation program for the three and twelve months ended March 31, 2017 and December 31, 2016 was $1.6 million and $2.7 million, respectively.
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 expense of $3.2 million for the quarter ($31.1 million future income tax recovery for the twelve months ended 2016 period). The Company's statutory tax rate of 27 percent was increased to an effective annual tax rate of 29 percent as a result of the share based compensation expense of $0.9 million in Trilogy's Consolidated Interim Statement of Comprehensive Income (Loss) which is not deductible for tax purposes. Refer to note 11 of the Interim 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, 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
Recovery (expense)	**(880)**	**(2,642)**	**220**	**123**	**(3,180)**
At March 31, 2017	**(90,399)**	**(654)**	**63,133**	**85,252**	**57,331**

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 $0.1 million for the three months ended March 31, 2017 (March 31, 2016 - $0.1 million).

Quarterly Financial Information

(In thousand dollars except per share amounts)	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Revenue after financial instruments, royalties, foreign exchange, and other income	**84,877**	51,936	46,531	34,489
Income (loss) before tax	**10,874**	(24,593)	(25,461)	(37,669)
Net income (loss)	**7,694**	(18,116)	(18,629)	(29,112)
Income (loss) per Share (in full amounts):				
Basic	**0.06**	(0.14)	(0.15)	(0.23)
Diluted	**0.06**	(0.14)	(0.15)	(0.23)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Revenue after financial instruments, royalties, foreign exchange, and other income	41,590	62,487	74,874	77,652
Loss before tax	(36,785)	(17,646)	(95,826)	(35,146)
Net loss	(27,544)	(19,248)	(70,929)	(26,881)
Loss per Share (in full amounts):				
Basic	(0.22)	(0.15)	(0.56)	(0.21)
Diluted	(0.22)	(0.15)	(0.56)	(0.21)

The fluctuations in Trilogy's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact on royalties, realized and unrealized gains/losses on financial instruments. Gains (losses) on dispositions, impairments or reversals 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 9 of the Interim Financial Statements for further details.

Impairment of Non-financial Assets

Impairment is evaluated at the cash-generating unit ("CGU") level. The determination of CGU's requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU's have been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type and similar exposures to market risks. The recoverable amounts of Trilogy's cash-generating units and individual assets have been determined based on fair values less costs of disposal. This calculation requires the use of estimates and assumptions. Oil and gas prices and other assumptions will change in the future, which may impact Trilogy's recoverable amount calculated and may therefore require a material adjustment to the carrying value of property, plant and equipment and goodwill. Trilogy monitors internal and external indicators of impairment relating to its exploration and evaluation assets, property, plant and equipment and goodwill. Refer to note 10 of the Annual Financial Statements for further details about methods and assumptions used in estimating net recoverable amounts.

Decommissioning and Restoration Costs

Decommissioning and restoration costs will be incurred by Trilogy at the end of the operating lives of Trilogy's oil and gas properties. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including assumptions of inflation, present value discount rates on future liabilities, changes to relevant legal requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Refer to note 14 of the Interim Financial Statements for further details.

Share-based Payments

Trilogy measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value requires the determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires the determination of the most appropriate inputs to the valuation model including the expected life of the option, risk free interest rates, volatility and dividend yield and making assumptions about them. Refer to note 15 of the Interim Financial Statements for further details.

Deferred Income Tax Assets

Trilogy recognizes a benefit related to deferred income tax assets. Assessing the recoverability of deferred income tax assets requires Trilogy to make significant estimates related to expectations of future taxable income based on forecasted cash flows from operations. Trilogy also makes interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of Trilogy's tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Trilogy to realize its deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 11 of the Interim Financial Statements for further details.

Financial Instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity price, foreign currency, power, and interest rate exposures. The fair values of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty. Refer to note 20, 21, and 22 of the Interim Financial Statements for further details.

New Accounting Pronouncements

There were no new accounting standards that were effective January 1, 2017. Future accounting pronouncements that impact on the Company are summarized in note 5 of the 2016 Annual Consolidated Financial Statements. The Company continues to assess and evaluate the impact of the standards on the consolidated financial statements.

Internal Control over Financial Reporting

As at December 31, 2016, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") evaluated and concluded that the design and operation of the Company's Internal Controls over Financial Reporting ("ICFR") were effective. There were no changes that occurred during the period covered by this MD&A that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Advisories

Certain statements included in this document (including this MD&A and the 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:

- the anticipated closing of the previously announced transaction to sell certain assets in the Grande Prairie area, the timing thereof, the intended use of proceeds therefrom and the anticipated impact of the disposition on the Company's capacity under its revolving credit facility as well as its production levels;
- business strategy and objectives for 2017 and beyond;
- forecast 2017 annual production levels and the relative content of natural gas liquids therein;
- planned 2017 capital expenditures 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;
- 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:

- the likelihood that the previously announced Grande Prairie asset disposition will close as planned;
- 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:

- the risk that the purchaser of the Company's Grande Prairie assets will not obtain the required approvals from the Alberta Energy Regulator in order to close the transaction by the end of May or at all;
- 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 NGL 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", "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, restoration, and remediation 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 excluding assets and liabilities held for sale therein 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 Q1 2017, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 20:1 ("Value Ratio"). The Value Ratio is obtained using the Q1 2017 average realized oil price of $61.36 (CAD$/Bbl) and the Q1 2017 average realized natural gas price of $3.09 (CAD$/Mcf). This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

Additional Information

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

Consolidated Interim Balance Sheet (unaudited)

(in thousand Canadian dollars)

	Note	March 31, 2017	December 31, 2016
ASSETS			
Current assets			
Trade and other receivables	*20, 21*	**36,716**	37,534
Derivative financial instruments	*20, 21, 22*	**2,959**	-
Prepaids		**1,175**	1,649
Assets held for sale	*7*	**41,084**	-
		81,934	39,183
Non-current assets			
Property, plant and equipment	*6, 7, 8, 9*	**972,316**	997,471
Exploration and evaluation assets	*7, 9*	**44,702**	49,046
Deferred tax asset	*11*	**57,331**	60,511
Goodwill	*10*	**74,695**	78,503
Total assets		**$ 1,230,978**	$ 1,224,714
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	*12, 20, 21*	**$ 66,166**	$ 57,425
Interest payable	*13*	**6,495**	1,132
Derivative financial instruments	*20, 21, 22*	**537**	7,364
Liabilities on assets held for sale	*7*	**6,940**	-
		80,138	65,921
Non-current liabilities			
Long-term debt	*13, 20, 21*	**551,429**	561,880
Decommissioning and restoration liability	*14*	**226,886**	233,015
Total liabilities		**858,453**	860,816
Shareholders' equity			
Shareholders' capital	*15, 16*	**1,105,153**	1,105,115
Contributed surplus	*15*	**68,919**	68,024
Accumulated deficit		**(801,547)**	(809,241)
		372,525	363,898
Total shareholders' equity and liabilities		**$ 1,230,978**	$ 1,224,714

See accompanying notes to the consolidated financial statements

Consolidated Interim Statement of Comprehensive Income (loss) (unaudited)

(in thousand Canadian dollars except per share amounts)

	Note	Three months ended March 31, 2017	2016
Revenue and other			
Petroleum and natural gas sales	*23*	**$ 76,089**	$ 45,527
Royalties		**(6,465)**	(3,122)
Revenue		**69,624**	42,405
Gain on derivative financial instruments	*21, 22*	**15,195**	14
Other income		**58**	(829)
		84,877	41,590
Expenses			
Operating and production		**21,905**	16,931
Transportation		**3,567**	9,786
Depletion and depreciation	*6*	**41,725**	35,579
Environmental remediation	*12*	**1,000**	-
Impairment reversal	*8*	**(7,659)**	-
Exploration and evaluation	*9*	**358**	772
Loss (gain) on disposal of assets		**(82)**	70
General and administrative		**2,475**	3,741
Share-based compensation	*15*	**915**	1,988
Accretion on decommissioning and restoration liability	*14*	**1,285**	1,256
Interest and other finance costs	*13*	**8,514**	8,252
		74,003	78,375
Income (loss) before income tax		**10,874**	(36,785)
Income tax expense (recovery)			
Deferred	*11*	**3,180**	(9,241)
Comprehensive Income (loss)		**$ 7,694**	$ (27,544)
Income (loss) per share	*17*		
- Basic		**$ 0.06**	(0.22)
- Diluted		**$ 0.06**	(0.22)

See accompanying notes to the consolidated financial statements

Consolidated Interim Statement of Changes in Equity (unaudited)

(In thousand Canadian dollars except share information)

	Outstanding Common and Non-Voting Shares [1]		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2016	126,023,581	$	1,103,784	$	59,798	$	(715,840)	$	447,742
Net loss for the period	-		-		-		(27,544)		(27,544)
Share options exercised *(note 15, 16)*	-		-		1,988		-		1,988
Balance at March 31, 2016	**126,023,581**		**1,103,784**		**61,786**		**(743,384)**		**422,186**
Net loss for the period	-		-		-		(65,857)		(65,857)
Share options exercised *(note 15, 16)*	36,580		233		(49)		-		184
Share Incentive Plan purchases, net of grants vested *(note 15, 16)*	40,834		1,098		(3,086)		-		(1,988)
Share-based compensation *(note 15)*	-		-		9,373		-		9,373
Balance at December 31, 2016	**126,100,995**		**1,105,115**		**68,024**		**(809,241)**		**363,898**
Net income for the period	-		-		-		7,694		7,694
Share options exercised *(note 15, 16)*	4,000		23		(5)		-		18
Share Incentive Plan purchases, net of grants vested *(note 15, 16)*	547		15		(15)		-		-
Share-based compensation *(note 15)*	-		-		915		-		915
Balance at March 31, 2017	**126,105,542**	**$**	**1,105,153**	**$**	**68,919**	**$**	**(801,547)**	**$**	**372,525**

[1] Net of Common Shares held in trust for the benefit of employees under Trilogy's Share Incentive Plan (refer to notes 15 and 16 for additional disclosures).

See accompanying notes to the consolidated financial statements

Consolidated Interim Statement of Cash Flows (unaudited)

(in thousand Canadian dollars except as otherwise indicated)

	Note	Three months ended March 31, 2017	2016
Operating activities			
Net income (loss) before income tax		**$ 10,874**	$ (36,785)
Adjustments for non-cash and other items:			
Unrealized (gains) losses on derivative financial instruments	*22*	**(9,786)**	4,463
Unrealized foreign exchange (gains) losses		**(5)**	1,046
Depletion and depreciation	*6*	**41,725**	35,579
Exploration and evaluation	*9*	**358**	772
Impairment reversal	*8*	**(7,659)**	-
Loss (gain) on disposal of assets		**(82)**	70
Amortization of finance fees	*13*	**366**	686
Share based compensation	*15*	**915**	1,988
Accretion on decommissioning and restoration liability	*14*	**1,285**	1,256
Decommissioning and restoration costs in period	*14*	**(1,609)**	(763)
Change in non-cash working capital	*18*	**10,465**	5,134
Cash flow from operating activities		**46,847**	13,446
Investing activities			
Exploration and evaluation expenditures	*9*	**81**	(6,202)
Property, plant and equipment expenditures	*6*	**(41,739)**	(16,072)
Proceeds from disposition of property, plant and equipment	*6*	**675**	(62)
Change in non-cash working capital	*18*	**4,930**	(600)
Cash flow used in investing activities		**(36,053)**	(22,936)
Financing activities			
(Repayments) Draws on revolving credit facility	*13*	**(10,812)**	9,490
Shares issued	*15, 16*	**18**	-
Cash flow from financing activities		**(10,794)**	9,490
Change in cash		**-**	-
Cash balance, beginning of year		**-**	-
Cash balance, end of year		**-**	-
Cash interest paid	*13*	**$ 2,187**	$ 2,149

See accompanying notes to the consolidated financial statements

1. General

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

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

2. Basis of Preparation

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These condensed consolidated financial statements ("Interim Financial Statements") have been prepared in accordance with IFRS applicable to the preparation of Interim Financial Statements, IAS 34 – Interim financial reporting ("IAS 34").

The policies applied in these Interim Financial Statements are based on IFRS issued and outstanding as of May 8, 2017, the date the Interim Financial Statements were approved for release by Trilogy's Audit Committee on behalf of Trilogy's Board of Directors.

The Interim Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 21). All values are rounded to the nearest thousand except where otherwise indicated. The Interim Financial Statements include the accounts of the Company and its wholly-owned subsidiaries as the Company obtains all of the economic benefits of the operations of its operating subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries include those entities (including special purpose entities), which Trilogy controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control over another entity. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases.

3. Significant Accounting Judgments, Estimates and Assumptions

The Company makes estimates and assumptions concerning the future that may, by definition, differ from actual results. The estimates and judgments applied by management that most significantly affect the Company's financial statements include: reserve estimation, exploration and evaluation expenditures, impairment of non-financial assets, decommissioning and restoration costs, share-based payments, deferred income taxes, and financial instruments. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within reporting periods. Additional information on these estimates and judgements are disclosed in note 3 of the 2016 Annual Consolidated Financial Statements.

4. Summary of Significant Accounting Policies

The Interim Financial Statements of the Company follow the same accounting policies and basis of presentation as described in note 4 of the 2016 Annual Consolidated Financial Statements.

5. New Accounting Pronouncements

There were no new accounting standards that were effective January 1, 2017. Future accounting pronouncements that impact on the Company are summarized in note 5 of the 2016 Annual Consolidated Financial Statements. The Company continues to assess and evaluate the impact of the standards on the consolidated financial statements.

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

6. Property, Plant and Equipment

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
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 14)	2,185	-	2,185
Transfers from intangible exploration and evaluation assets (note 9)	35,307	-	35,307
Acquisitions	109	-	109
Disposals	(313)	-	(313)
Balance at December 31, 2016	3,305,016	15,010	3,320,026
Additions to property, plant, and equipment	**41,735**	**-**	**41,735**
Additions/revisions to future estimated decommissioning and restoration costs (note 14)	**1,227**	**-**	**1,227**
Transfers between exploration & evaluation assets and property, plant, and equipment (note 9)	**1,943**	**-**	**1,943**
Transfer to assets held for sale (note 7)	**(111,321)**	**-**	**(111,321)**
Disposals	**(1,071)**	**(308)**	**(1,379)**
Balance as at March 31, 2017	**3,237,530**	**14,702**	**3,252,231**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
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 8)	22,114	-	22,114
Impairment reversal (note 8)	(22,324)	-	(22,324)
Disposals	(256)	-	(256)
Balance at December 31, 2016	2,310,771	11,784	2,322,555
Depletion and depreciation charge	**41,586**	**139**	**41,725**
Impairment reversal (note 8)	**(7,659)**	**-**	**(7,659)**
Transfer to assets held for sale (note 7)	**(75,853)**	**-**	**(75,853)**
Disposals	**(844)**	**(8)**	**(852)**
Balance as at March 31, 2017	**2,268,001**	**11,915**	**2,279,916**
Net carrying value			
At December 31, 2016	994,245	3,226	997,471
At March 31, 2017	**969,529**	**2,787**	**972,316**

The cost of property, plant and equipment includes amounts in respect of the provision for decommissioning and restoration obligations of $187.3 million (excluding those decommissioning and restoration obligations associated with assets held for sale of $6.9 million) as at March 31, 2017 (December 31, 2016: $193.6). Property, plant and equipment with a carrying value of $40.9 million as at March 31, 2017 (December 31, 2016: $32.6 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. Other than the assets held for sale, there were no indicators of impairments or impairment reversals.

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

7. Assets Held for Sale

During the three months ended March 31, 2017, the Company initiated a process for the disposition of certain non-core assets and any related liabilities. These amounts are classified in current assets and current liabilities held for sale at the end of the period. The assets consist of a portion of the Company's interests within the Grande Prairie Gas Cash Generating Unit ("CGU"). The resulting disposition is expected to be completed before the end of May, 2017, for cash proceeds of $50 million (before customary adjustments). The respective values herein are reported at the lesser of their recoverable amount (fair value less costs of disposal) or carrying amount.

	As at	
	March 31, 2017	**December 31, 2016**
Petroleum & natrual gas properties	**35,468**	-
Exploration & evaluation assets	**1,808**	-
Goodwill	**3,808**	-
	41,084	-
Decommissioning & restoration obligation	**(6,940)**	

8. Impairment Reversal

The Company recorded a reversal of a previously recognized impairment in the Grande Prairie Gas CGU, net of depletion and depreciation that would otherwise have been recorded, of $7.7 million. The reversal was a function of the purchase price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table summarizes Trilogy's carrying and impairment reversal amounts for its Grande Prairie Gas CGU as at March 31, 2017:

Cash Generating Unit	**Recoverable Amount**	**Carrying Amount after Reversal**	**Impairment Reversal**
Grande Prairie Gas	**50,000**	**35,468**	**(7,659)**

9. Exploration and Evaluation Assets

	Undeveloped Land	**Exploratory Wells**	**Total Exploration and Evaluation Expenditures**
Cost			
Balance at December 31, 2015	62,695	-	62,695
Additions	623	22,697	23,320
Expensed	(1,134)	-	(1,134)
Transfers to property, plant and equipment (note 6)	(14,114)	(21,193)	(35,307)
Dispositions	(528)	-	(528)
Balance at December 31, 2016	47,542	1,504	49,046
Additions	**-**	**(81)**	**(81)**
Expensed	**(355)**	**-**	**(355)**
Transfers between exploration & evaluation assets and property, plant, and equipment (note 6)	**(520)**	**(1,423)**	**(1,943)**
Transfer to assets held for sale (note 7)	**(1,808)**	**-**	**(1,808)**
Dispositions	**(157)**	**-**	**(157)**
Balance at March 31, 2017	**44,702**	**-**	**44,702**

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

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

	Three months-ended March 31	
	2017	**2016**
Expired mineral leases	**355**	769
Geological and geophysical costs	**3**	3
	358	772

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

10. Goodwill

	As at	
	March 31, 2017	**December 31, 2016**
Cost	**78,503**	78,503
Transfer to assets held for sale	**(3,808)**	-
	74,695	78,503

11. Income Tax

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

Net Deferred Income Tax Asset/(Liability)	**Property, Plant, & Equipment**	**Risk Management**	**Decommissioning Liabilities**	**Losses & Other**	**Total**
At December 31, 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
Recovery (expense)	**(880)**	**(2,642)**	**220**	**123**	**(3,180)**
At March 31, 2017	**(90,399)**	**(654)**	**63,133**	**85,252**	**57,331**

As at March 31, 2017, Trilogy recognized a deferred tax asset of $57.3 million. A $3.2 million deferred income tax expense was recorded to the consolidated statement of comprehensive income (loss) for the three month period ended March 31, 2017 (Twelve months-ended December 31, 2016 – $31.1 million deferred income tax recovery).

The amount and timing of reversals of temporary differences will be dependent upon, among other things, the Company's future operating results, and acquisitions and dispositions of assets and liabilities. Legislative changes in tax rates or successful challenges by tax authorities of Trilogy's interpretation of tax legislation could materially affect the Company's estimate of current and deferred income taxes. Trilogy has tax losses of $376.6 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 $308.3 million, representing the Company's probable estimate of future taxable income that could be applied to the total losses.

12. 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 was the estimated cost of remediation at that time. As of March 31, 2017, Trilogy increased this estimate by a further $1.0 million, for a total of $7.0 million. The Company has spent approximately $6.7 million since the release was identified in October of 2016.

Trilogy expects the remaining remediation costs to be approximately $0.3 million, which costs will be incurred 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.

13. 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 March 31, 2017, 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 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.

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

- "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 March 31, 2017, 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 three months ended March 31, 2017 was 4.08 percent. (March 31, 2016 – 3.01 percent). The Company has issued letters of credit totalling $5.3 million as at March 31, 2017 (December 31, 2016: $2.8 million) which reduce the amount available for draw.

Subsequent to the quarter, the Company renewed its revolving credit facility agreement with its lenders whereby commitments under the facility remained at $300 million with the maturity date extending to April 30, 2019. Also, subsequent to the quarter, Trilogy announced that it had agreed to sell certain oil and gas properties in the Grande Prairie area for cash consideration of $50 million (before customary adjustments). The sale is expected to be completed before the end of May, 2017. Lender commitments under Trilogy's revolving credit facility are expected to be reduced by $10 million (total lender commitments of $290 million from $300 million) and the proceeds are expected to be used to repay amounts drawn.

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 $6.5 million at March 31, 2017 and $1.1 million at December 31, 2016. 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 transaction costs and are subsequently measured at their amortized cost using an effective interest rate of 7.53 percent. (March 31, 2016 – 7.53 percent).

Long-term debt as at March 31, 2017 and December 31, 2016 is comprised of the following:

	As at	
	March 31, 2017	**December 31, 2016**
Revolving credit facility	**253,887**	265,302
Less prepaid interest and unamortized financing costs	**(194)**	(952)
Carrying value	**253,693**	264,350
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(2,264)**	(2,470)
Carrying value	**297,736**	297,530
Total carrying value of long term debt	**551,429**	561,880

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

Interest expense for the three months ended March 31, 2017 and 2016 is comprised of the following:

	Three months-ended March 31	
	2017	**2016**
Senior unsecured notes	**5,423**	5,423
Credit facility interest, charges, and other interest	**2,725**	2,143
Amortization of finance fees	**366**	686
Total interest and finance costs	**8,514**	8,252

14. Decommissioning and Restoration Liability

	Three Months Ended March 31, 2017	**Twelve Months Ended December 31, 2016**
Balance - January 1,	**233,015**	229,033
Incurred	**1,208**	4,274
Transfer to assets held for sale	**(6,940)**	-
Disposed	**(92)**	(29)
Settled	**(1,609)**	(2,746)
Accretion	**1,285**	4,572
Revision to estimates	**19**	(2,089)
Balance – end of period	**226,886**	233,015

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 March 31, 2017 have been discounted using an average risk free rate of 2.25 percent and inflation rate of 2.0 percent. (December 31, 2016 - 2.25 and 2.0 percent, respectively). The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $233.4 million (excluding undiscounted amounts related to decommissioning and restoration obligations associated with assets held for sale of $7.4 million) as at March 31, 2017 (December 31, 2016: $241.1 million).

15. Share-Based Payment Plans

The share-based payment expense recognized for employee services received for the three months ended March 31, 2017 and 2016 are as follows:

	Three months-ended March 31	
	2017	**2016**
Share Incentive Plan	**-**	90
Share Option Plan	**915**	1,898
	915	1,988

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.

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

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

	Three Months Ended March 31, 2017	Twelve Months Ended December 31, 2016
Beginning	**25,297**	66,131
Vested	**(547)**	(40,834)
Ending	**24,750**	25,297

The cost to the Company of the Common Shares held in trust was $0.7 million as at March 31, 2017 (December 31, 2016 - $0.7 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 over the five trading days prior to the grant. The contractual life of each option granted ranged from 2 to 5 years.

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

	Three Months Ended March 31, 2017			Twelve Months Ended December 31, 2016		
	Weighted Average Exercise Price		No. of Options	Weighted Average Exercise Price		No. of Options
Outstanding at January 1	**$**	**7.23**	**6,297,690**	$	18.10	10,344,960
Granted		**-**	**-**		6.80	1,645,000
Exercised		**4.49**	**(4,000)**		5.02	(36,580)
Cancelled		**17.20**	**(47,800)**		27.00	(5,629,690)
Expired		**-**	**-**		26.89	(26,000)
Outstanding at period end	**$**	**7.16**	**6,245,890**	$	7.23	6,297,690
Exercisable at period end	**$**	**7.33**	**2,416,750**	$	7.46	2,445,370

During the second quarter of 2016, the Company cancelled approximately 5.6 million stock options which required the acceleration of any unamortized option grant fair value ($5.0 million) to be charged to share based compensation.

The range of exercise prices of the outstanding options and exercisable options as at March 31, 2017 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	4.0	3,529,280	$5.56	736,960	$4.49
$7.38 to $8.67	0.3	1,056,610	$7.41	1,020,610	$7.39
$8.68 to $26.87	3.1	1,660,000	$10.39	659,000	$10.39
Total	3.1	6,245,890	$7.16	2,416,570	$7.33

The average market share price at the date of exercise for share options exercised in 2017 was $6.84 (2016: $7.15).

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

16. 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, 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**
Issued - Share Option Plan	**4,000**	**-**	**4,000**		**23**
Vesting of Share Incentive Plan awards	**547**	**-**	**547**		**15**
Shares as at March 31, 2017	**105,269,680**	**20,835,862**	**126,105,542**	**$**	**1,105,153**

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

17. Loss per share

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

	Three months-ended March 31	
	2017	**2016**
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**7,694**	(27,544)
Weighted average number of shares for the purposes of basic earnings per share	**126,104,120**	126,023,581
Effect of dilution	**502,304**	NIL
Weighted average number of shares	**126,606,424**	126,023,581
Earnings (loss) per share – Basic	**0.06**	(0.22)
Earnings (loss) per share – Diluted	**0.06**	(0.22)

As at March 31, 2016, the Company had 66,131 of securities that were excluded from the calculation of diluted weighted average number of shares as they were non-dilutive.

18. Reconciliation of Changes in Non-Cash Working Capital

	Three months-ended March 31	
	2017	**2016**
Decrease in trade, other receivables and prepaids	**1,291**	321
Increase in trade, other payables and interest payable	**14,104**	4,213
	15,395	4,534
Changes in non-cash operating working capital	**10,465**	5,134
Changes in non-cash investing working capital	**4,930**	(600)

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

19. 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 $0.1 million for the three months ended March 31, 2017 (Three months ended March 31, 2016 - $0.1 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.

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

As at March 31, 2017		
Presented in the Balance Sheet as	**Normal Business**	**Services Agreement**
Trade and other receivables	**107**	**-**
Trade and other payables	**(424)**	**(120)**
As at December 31, 2016		
Presented in the Balance Sheet as	Normal Business	Services Agreement
Trade and other receivables	314	-
Trade and other payables	(135)	(60)

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.

20. 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.

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

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

	As at	
	March 31, 2017	**December 31, 2016**
Trade and other receivables	**36,716**	37,534
Derivatives Financial Instruments[1]	**2,959**	-
	39,675	37,534

[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 and fluctuations throughout 2014 to the date hereof, Trilogy has adopted several meaningful measures aimed at sustaining its financial health to preserve shareholder value including:

- discontinuing its monthly dividend for periods subsequent to November 2014;
- reducing capital expenditure levels throughout 2015, 2016 and 2017 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 operational and cost efficiencies;
- shutting in production volumes deemed uneconomic at depressed commodity price levels;
- continuously negotiating with third party contractors and service providers to reduce Trilogy's cost of goods and services;
- implementing reductions to salary and other benefits for its officers, directors and employees;
- disposing of certain assets in 2015 for proceeds of approximately $160.5 million, and more recently in 2017, the expected disposition of assets for approximately $50 million.
- exploring opportunities to dispose of non-core assets within the Company's portfolio; and
- extending the maturity date and negotiating the relaxation of certain financial covenants on its revolving credit facility.

A contractual maturity analysis for Trilogy's financial liabilities as at March 31, 2017 is as follows:

	Within 1 Year	1 to 2 years	3 years	Total
Accounts payable and accrued liabilities	66,166	-	-	66,166
Derivative financial instruments	537	-	-	537
Long-term debt and estimated interest[1]	32,112	276,307	316,313	624,731
Total	98,815	276,307	316,313	691,434

[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 March 31, 2017 applied to the principal balance outstanding as at that date with principal repayment assumed on April 30, 2018. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance with principal repayment assumed on December 13, 2019.

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

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

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

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

Capital Management

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

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

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

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

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

	As at	
	March 31, 2017	**December 31, 2016**
Committed amount that can be drawn from the credit facility (Note 13)	**300,000**	300,000
Outstanding letters of credit	**(5,276)**	(2,776)
Amount that can be drawn after letters of credit	**294,724**	297,224
Revolving credit facility	**(253,693)**	(264,350)
Current liabilities net of current assets - excluding assets and liabilities held for sale	**(32,348)**	(26,738)
Capacity under revolving credit facility	**8,683**	6,136

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

Trilogy's net debt, calculated as its long-term debt plus any net working capital surplus or deficiency (excluding assets and liabilities held for sale therein), is as follows:

	As at	
	March 31, 2017	**December 31, 2016**
Revolving credit facility (Note 13)	**(253,693)**	(264,350)
Senior notes (Note 13)	**(297,736)**	(297,530)
Working capital deficiency - excluding assets and liabilities held for sale	**(32,348)**	(26,738)
Net debt[1]	**(583,777)**	(588,618)

[1] Net debt is a Non-GAAP measure

Net debt decreased to $583.8 million as at March 31, 2017 from $588.6 million at the end of 2016 as the Company repaid amounts drawn on its Revolving Credit Facility on cash flow from operating activities exceeding cash flow used in investing activities as a result of increased commodity pricing and production volumes in 2017 over 2016.

Subsequent to the quarter, the Company renewed its revolving credit facility agreement with its lenders whereby commitments under the facility remained at $300 million with the maturity date extending to April 30, 2019. Also, subsequent to the quarter, Trilogy announced that it had agreed to sell certain oil and gas properties in the Grande Prairie area for cash consideration of $50 million (before customary adjustments). The sale is expected to be completed before the end of May, 2017. Lender commitments under Trilogy's revolving credit facility are expected to be reduced by $10 million (total lender commitments of $290 million from $300 million) and the proceeds are expected to be used to repay amounts drawn. Pro-forma capacity under the revolving credit facility as at March 31, 2016, after giving effect to the disposition, is expected to approximate $48.7 million.

21. Financial Instruments

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

	As at	
	March 31, 2017	**December 31, 2016**
Financial assets		
Receivables[1]	**36,716**	37,534
Financial instruments fair valued through profit and loss[2]	**2,959**	-
Financial liabilities		
Other liabilities - non-trading liabilities[1] [3]	**(66,166)**	(57,425)
Interest payable on Senior Unsecured Notes	**(6,495)**	(1,132)
Financial instruments fair valued through profit and loss[2]	**(537)**	(7,364)
Other liabilities - long-term debt[4]	**(551,429)**	(561,880)

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

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

[3] Consists of accounts payable and accrued liabilities.

[4] The Company's Revolving Credit Facility debt carries interest based on specified benchmark interest rates plus a spread for the Company's own credit risk. The fair value of the Revolving Credit Facility debt approximates its carrying amount due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk. The fair value of the Senior Unsecured Notes is estimated, based on independent broker quotes, to be 101.4 percent of face value or $304.1 million (December 31, 2016 – 101 percent of face value or $303 million) - level 3 type – unobservable data inputs.

The three levels of the fair value hierarchy are:

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

Level 2 – Input other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – inputs that are not based on observable data.

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

As at March 31, 2017	**Derivative financial assets (liabilities) – fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Foreign exchange derivative contract	**-**	**-**	**344**	**344**
Natrual gas derivative contract	**-**	**-**	**-**	**-**
Crude oil derivative contracts	**-**	**2,078**	**-**	**2,078**
	-	**2,078**	**344**	**2,422**

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)**

At March 31, 2017 the Company had the following outstanding derivative contracts:

Crude Oil

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

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**		
1.3070	1.3825	Trade collapses - payout equals weekly premium receipt multiplied by the remaining contractual weeks	Receive weekly premium, no USD sales	$1.0 million USD sale at upper range fx rate, no premium received.	$10	December 2017

To the extent the week ending foreign exchange rate is:

- above the upper range of 1.3825, the Company is committed to selling weekly $1.0 million USD at 1.3825 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 trade collapses with a payout equal to the weekly premium receipt multiplied by the remaining contractual weeks.

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

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

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

	Three Months Ended March 31, 2017	**Twelve Months Ended December 31, 2016**
Derivative asset, beginning	**-**	19,073
Unrealized change in fair value	**2,959**	(19,073)
Derivative asset, ending	**2,959**	-
Derivative liability, beginning	**(7,364)**	(862)
Unrealized change in fair value	**6,827**	(6,502)
Derivative liability, ending	**(537)**	(7,364)
Unrealized increase (decrease) in fair value for the period	**9,786**	(25,575)

22. Gain (Loss) on Derivative Financial Instruments

	Three months-ended March 31	
	2017	**2016**
Realized gains (losses)		
Crude oil & natural gas	**5,272**	**4,818**
Foreign exchange	**137**	**69**
Power	**-**	**(410)**
Sub-total	**5,409**	**4,477**
Unrealized gains (losses)		
Crude oil & natural gas	**9,384**	**(4,967)**
Foreign exchange	**402**	**465**
Power	**-**	**39**
Sub-total	**9,786**	**(4,463)**
Gain (losses) on derivative financial instruments	**15,195**	**14**

March 31, 2017 (in thousand Canadian dollars except as otherwise indicated)

23. Segment Reporting

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

	Three months-ended March 31	
	2017	**2016**
Petroleum and natural gas sales:		
Natural gas	**25,968**	23,624
Oil	**34,819**	14,018
Condensate	**11,722**	6,393
Other natural gas liquids	**3,580**	1,493
Total petroleum and natural gas sales	**76,089**	45,527

24. Subsequent Events

Subsequent to the quarter, Trilogy:

- Renewed its revolving credit facility agreement with its lenders whereby commitments under this facility were set at $300 million. The maturity date was extended to April 30, 2019;
- Announced that it had agreed to sell certain oil and gas properties in the Grande Prairie area for cash consideration of $50 million (before customary adjustments). Lender commitments under Trilogy's revolving credit facility are expected to be reduced by $10 million (total lender commitments of $290 million from $300 million) and the proceeds are expected to be used to repay amounts drawn. Pro-forma capacity under Trilogy's revolving credit facility as at March 31, 2017, after giving effect to the disposition, is expected to approximate $48.7 million;
- Entered into forward sales contracts for 30,000 MMBTU/d from May 2017 through to December 2017 at an average price of $3.39 USD/MMBTU.

Corporate Information

Officers

J.H.T. Riddell
Chief Executive Officer

J.B. Williams
President and Chief Operating Officer

M.G. Kohut
Chief Financial Officer

G.L. Yester
General Counsel & Corporate Secretary

Directors

C.H. Riddell
Chairman of the Board
Calgary, Alberta

J.H.T. Riddell
Chief Executive Officer
Calgary, Alberta

M.H. Dilger (2)(3)(6)
President and Chief Executive Officer
Pembina Pipeline Corporation
Calgary, Alberta

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

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

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

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

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

Committees of the Board of Directors

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

Head office

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

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

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Bankers

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

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)