TRILOGY
ENERGY CORP.

2013
Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

(In thousand Canadian dollars except per share amounts and where stated otherwise)

	Three Months Ended			Year Ended December 31		
	December 31, 2013	September 30, 2013	Change %	2013	2012	Change %
FINANCIAL						
Petroleum and natural gas sales	**126,085**	135,342	(7)	**563,463**	455,697	24
Funds flow						
From operations[(1)]	**57,897**	54,165	7	**280,511**	241,941	16
Per share - diluted	**0.46**	0.45	2	**2.32**	2.03	14
Earnings						
Earnings (loss) before tax	**(10,532)**	(10,936)	(4)	**18,702**	(12,093)	255
Per share - diluted	**(0.09)**	(0.09)	(4)	**0.15**	(0.10)	249
Earnings (loss) after tax	**(8,739)**	(9,454)	(8)	**11,467**	(12,133)	195
Per share - diluted	**(0.07)**	(0.08)	(8)	**0.09**	(0.10)	191
Dividends declared	**13,152**	12,398	6	**50,188**	48,956	3
Per share	**0.105**	0.105	-	**0.420**	0.420	-
Capital expenditures						
Exploration, development, land, and facility	**73,185**	99,754	(27)	**399,431**	349,294	14
Acquisitions (dispositions) and other - net	**(2,866)**	135	(2,223)	**(2,531)**	2,022	(225)
Net capital expenditures	**70,319**	99,889	(30)	**396,900**	351,316	13
Total assets	**1,546,729**	1,543,399	-	**1,546,729**	1,395,111	11
Net debt[(1)]	**616,053**	784,606	(21)	**616,053**	636,785	(3)
Shareholders' equity	**665,849**	488,999	36	**665,849**	486,399	37
Total shares outstanding (thousands)						
- As at end of period [(2)]	**125,174**	118,053	6	**125,174**	116,674	7
OPERATING						
Production						
Natural gas (MMcf/d)	**117**	109	7	**117**	120	(3)
Oil (Bbl/d)	**8,932**	8,592	4	**10,175**	9,153	11
Natural gas liquids (Boe/d)	**5,068**	4,530	12	**4,827**	4,315	12
Total production (Boe/d @ 6:1)	**33,561**	31,211	8	**34,509**	33,510	3
Average prices before financial instruments						
Natural gas ($/Mcf)	**3.59**	3.14	14	**3.55**	2.57	38
Crude Oil ($/Bbl)	**78.97**	102.30	(23)	**87.01**	79.76	9
Natural gas liquids ($/Boe)	**48.20**	55.58	(13)	**50.27**	47.85	5
Average realized price	**40.84**	47.13	(13)	**44.73**	37.16	20
Drilling activity (gross)						
Gas	**9**	10	(10)	**28**	28	-
Oil	**6**	11	(45)	**53**	47	13
Total wells	**15**	21	(29)	**81**	75	8

(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.

2013 REVIEW OF OPERATIONS

First Quarter Review

- Average production of 36,119 Boe/d
- $169.6 Million net capital expenditures
- Average operating costs $8.62/Boe
- Operating netback $28.29/Boe
- $80.3 Million funds flow from operations ($0.69/share)
- 35(25.8 net) wells drilled, all drilled horizontally with a 100 percent success rate
- Drilled 15 net horizontal oil wells in the Kaybob Montney Oil Pool
- Drilled 2 net horizontal Duvernay shale condensate/oil wells

Second Quarter Review

- Average production of 37,209 Boe/d
- $57 million net capital expenditures
- Average operating costs $9.71/Boe
- Operating netback $29.81/Boe
- $88.2 million funds flow from operations ($0.73/share fully diluted)
- 10(8.1 net) wells drilled, all drilled horizontally with a 100 percent success rate
- Drilled 6 net horizontal oil wells in the Kaybob Montney Oil Pool

Third Quarter Review

- Average production of 31,211 Boe/d
- $100.0 million net capital expenditures
- Average operating costs of $14.50/Boe
- Operating netback $23.24/Boe
- $54.2 million funds flow from operations ($0.45/share fully diluted)
- 21(14.8 net) wells drilled, all drilled horizontally with a 100 percent success rate
- Drilled 7 net horizontal oil wells in the Kaybob Montney Oil Pool
- Drilled 5 (2.2 net) Duvernay wells in the Kaybob area

Fourth Quarter Review

- Average production of 33,561 Boe/d
- $70.3 million net capital expenditures
- Average operating costs of $10.94/Boe
- Operating netback $22.33/Boe
- $57.9 million funds flow from operations ($0.46/share fully diluted)
- 15(8.5 net) wells drilled
- Drilled 4 net horizontal oil wells in the Kaybob Montney Oil Pool
- Drilled 4 (1.2 net) Duvernay wells in the Kaybob area

Certain statements included in this Review of Operations constitute forward-looking statements under applicable securities legislation. Please refer to the Management Discussion and Analysis (“MD&A”) to which this Review of Operations is attached for Advisories on forward-looking statements, the assumptions upon which such statements are made and the risks and uncertainties which could cause actual results to differ materially from those anticipated by Trilogy and described in the forward-looking statements or information. Please also refer to the MD&A for

applicable definitions of non-GAAP measures used including: funds flow from operations, operating income, operating netback, net debt, finding and development costs and recycle ratio.

2013 Annual Highlights

- Production averaged 34,509 Boe/d (12.6 MMBoe) for the year, an increase of 3 percent from 2012 annual production of 33,510 Boe/d.
- Oil and natural gas liquids production increased from 40 percent of 2012 annual production to 43 percent of 2013 annual production.
- Trilogy's production from the Montney oil pool averaged 11,653 Boe/d in 2013, which is up 19 percent when compared to 9,829 Boe/d in 2012. Through the year, Trilogy drilled 32 horizontal Montney oil wells into the pool to increase pool production and expand the pool boundary further west.
- Net capital expenditures totaled $396.9 million for the year.
- Added 19.5 MMBoe of proved reserves (50 percent oil and NGLs) and 20.8 MMBoe of proved plus probable reserves (53 percent oil and natural gas liquids), including technical revisions.
- Replaced 154 percent of 2013 produced reserves when compared to proved reserve additions, and 165 percent when compared to proved plus probable reserves.
- Finding and development costs were $21.44/Boe for total proved reserves and $19.60/Boe for proved plus probable reserves on net capital expenditures of $396.9 million.
- Annual operating costs were $10.82/Boe.
- Annual operating netback of $26.09/Boe.
- Drilled 81 (57.2 net) wells drilled, evaluating the Duvernay, Montney, Nikanassin, Notikewin, Dunvegan and Cardium formations.
- Capacity under Trilogy's revolving credit facility was $320 million at year-end.

The year proved to be successful as the Company continued to focus its capital spending on oil and liquids-rich natural gas plays that provided the best rate of return with a lower risk profile. Trilogy's high quality prospect inventory of crude oil and liquids-rich natural gas locations provide the opportunity to grow production, reserves, cash flow and net asset value, while advances in drilling and completion technology have accelerated the Company's ability to unlock hydrocarbons on its land base. In 2014, Trilogy will continue to exploit the plays that are anticipated to have the highest rate of return on capital invested, provide low cost reserve additions and the opportunity to grow production while providing the highest netback on a per Boe basis.

Production

Trilogy's production averaged 34,509 Boe/d (117.0 MMcf/d of natural gas, 10,175 Bbl/d of crude oil and 4,827 Boe/d of natural gas liquids) in 2013. This represents a 3 percent increase over the annual production volume for the prior year and reflects Trilogy's continued focus on profitable production and reserve growth in the Kaybob Montney oil and gas pools and the transition into developing the emerging Duvernay shale play in the Kaybob area. **Through the prudent allocation of capital towards oil and liquids-rich plays during the year, Trilogy has been able to increase its oil and natural gas liquids mix from 20 percent in 2010 to 43 percent in 2013.** In 2014, Trilogy expects oil and natural gas liquids production to rise to 45 percent of total production. Trilogy estimates that its existing oil and liquids-rich gas drilling prospects inventory, excluding the Duvernay prospects, will yield more than 900 drilling locations, or approximately a 15 year inventory at the current drilling rate. The pace of development of these locations has historically and is expected to provide profitable growth per share beyond 2014.

The following table summarizes the average daily production by product for the past four years as well as the Company's production guidance for 2014. **Since converting from an income trust structure in February 2010, Trilogy has increased production by over 50 percent since its first year as a dividend paying corporation,** while at the same time increasing its oil and natural liquids composition from 20 percent to 43 percent of annual production. Continued development of the Kaybob Montney oil pool, Presley liquids–rich Montney gas pool and the Duvernay shale play should provide the basis for up to 10 percent annual production growth over the next few years. In addition, Trilogy's extensive land base of approximately 626,755 net acres is expected to continue to produce new plays into the future.

	2014 Forecast	**2013**	2012	2011	2010
Natural Gas Production (MMcf/d)	120.0	**117.0**	120.3	119.8	108.9
NGL Production (Boe/d)	5,500	**4,827**	4,315	4,287	2,707
Crude Oil Production (Bbl/d)	10,500	**10,175**	9,153	3,759	1,935
Total Production (Boe/d)	36,000	**34,509**	33,510	28,012	22,788

Annual production in 2013 was less than originally forecast due to unscheduled down time in the producing infrastructure in the Kaybob and Grande Prairie areas throughout the year and well performance being less than originally forecast. Production guidance was reduced to 35,000 Boe/d in November 2013 to account for the longer than expected down time at Trilogy's operated Kaybob North Gas Plant located at 8-9-64-19W5, unexpected plant downtime at other natural gas processing plants in the Kaybob and Grande Prairie areas and other well related issues.

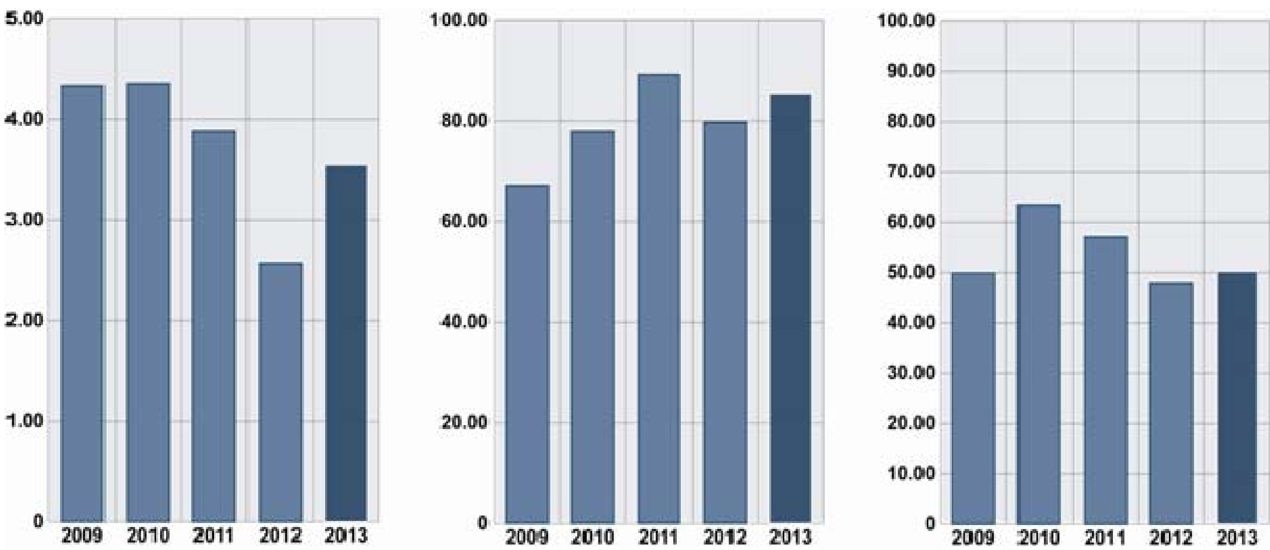
Based on Trilogy's current portfolio of producing assets and its proposed $375 million capital expenditure budget in 2014, Trilogy expects to increase 2014 annual production to 36,000 Boe/d. Production growth is relatively flat when compared to 2013, as the Company continues the transition from drilling Montney oil and gas projects to its Duvernay drilling prospects. Trilogy will focus approximately 35 percent of its capital spending plans in 2014 on Montney oil plays in the North Kaybob area, 10 percent on liquids-rich Montney gas in south Kaybob and approximately 40 percent of the capital budget will be allocated to the Company's Duvernay projects. Duvernay drilling, completion and tie-in operations have a significantly longer cycle time as compared to the Montney oil drilling projects. Additional production and reserve growth in 2014 is also expected to come from the Dunvegan oil in the Kaybob area and the Nikanassin oil play in the Grande Prairie area. The nature and location of Trilogy's assets provides the opportunity to pursue emerging play types, thereby better managing the risk of exposure to a single play type or a single geographic area. Recent developments in horizontal drilling, multi-stage fracture stimulation completion techniques and Trilogy's significant infrastructure investments are expected to continue to provide Trilogy with the opportunity to adjust its drilling and completion programs to economically exploit tight oil and gas reservoirs on its acreage at attractive finding and development costs. Trilogy believes its core assets should provide economic drilling opportunities with an attractive rate of return even in the current commodity price environment.

Operating Costs

Operating costs increased 30 percent in 2013, to $10.82/Boe as compared to $8.33/Boe in 2012. Costs were significantly higher in the year due to the costs associated with the turnaround at the Kaybob North Gas Plant and the additional costs associated with workovers on wells at the

Kaybob Montney oil pool. Operating costs were forecast to be $8.00/Boe in 2013, however, given that production volumes in the year were lower than predicted and costs related to power, gathering, disposal costs, compression, labour and field projects were higher than forecast, the resulting operating costs for the year came in significantly higher than anticipated. Operating costs for the fourth quarter were $10.94/Boe, compared to $14.50/Boe in the third quarter, reflecting the reduction in costs and increased production quarter over quarter. Trilogy anticipates that operating costs will trend higher as its oil and natural gas liquids production increases as a percentage of total production due to the added costs associated with handling the liquids. **Based on the forecasted annual production and the anticipated project work planned for Trilogy's assets, Trilogy is forecasting 2014 operating costs to be approximately $9.00/Boe for the year**.

Natural Gas Price ($/Mcf) **Oil Price ($/Bbl)** **NGL Price ($/Boe)**



Profitability

Trilogy's average natural gas sales price (before transportation) is up 38 percent year over year to $3.55/Mcf in 2013 as compared to $2.57/Mcf in 2012. Approximately 58 percent of Trilogy's 2013 production on a per barrel of oil equivalent basis (6 Mcf: 1 Boe) is natural gas. Trilogy's realized oil price (after financial instruments) increased 9 percent, to $85.22/Bbl from $78.32/Bbl in the prior year, while natural gas liquids prices were up 5 percent, to $50.27/Boe from $47.85 over the same period. In total, Trilogy's realized price increased 20 percent, to $44.21/Boe in 2013 compared to $36.76/Boe in the prior year. **Operating netback in 2013, including realized financial instruments, increased 16 percent, to $26.09/Boe as compared to $22.56/Boe in 2012.** This increase is attributed to higher natural gas, crude oil and natural gas liquids commodity prices and greater oil and natural gas liquid production volumes, which were partially offset by increased royalties and operating costs in 2013.

Realized oil prices in Alberta during the year, relative to world oil prices, were impacted by bottle necks in the oil producing infrastructure across North America. The differential in the price Trilogy received for its Montney oil relative to WTI (West Texas Intermediate) pricing has increased from approximately $8/Bbl in 2011 to approximately $16/Bbl in 2012 and 2013. Trilogy's current budget assumes a realized price differential for oil of $13/Bbl in 2014.

- **On a funds flow from operations per Boe basis, Trilogy realized a 13 percent increase, from $19.73/Boe in 2012 to $22.27/Boe in 2013.**

- **Funds flow from operations per diluted share was up 14 percent, from $2.03/share in 2012 to $2.32/share in 2013.**
- **Annual operating netback was $26.09/Boe, resulting in a recycle ratio of 1.3 times for proved plus probable reserves.**

Funds Flow Reconciliation	**2013**		**2012**	
Production (Boe/d)	**34,509**		**33,510**	
	$ million	**$/Boe**	**$ million**	**$/Boe**
Revenue including other income and realized financial instruments	559.3	44.40	453.9	36.99
Royalties	(73.6)	(5.85)	(56.6)	(4.61)
Operating	(136.3)	(10.82)	(102.2)	(8.33)
Transportation	(16.6)	(1.32)	(15.6)	(1.27)
Decommissioning and restoration	(4.2)	(0.33)	(2.8)	(0.22)
Operating Netback	**328.6**	**26.09**	**276.7**	**22.56**
General and administrative	(10.0)	(0.79)	(11.5)	(0.94)
Interest and financing	(38.1)	(3.03)	(23.3)	(1.90)
Funds flow	**280.5**	**22.27**	**241.9**	**19.73**
Weighted average shares (in thousands)outstanding for the year (fully diluted)	120,982		119,340	
Funds flow per Share ($/share)	**2.32**		**2.03**	

Capital Expenditures

Annual capital expenditures for 2013 were originally budgeted to be $350 million. Based on the continued success of the Montney oil development program and additional joint venture opportunities, primarily for the Duvernay operations, Trilogy increased the net capital spending plan to $397 million for the year. This expanded capital program allowed Trilogy the opportunity to keep drilling and completion rigs operating through the fourth quarter and to prepare for operations to be executed in the first quarter of 2014. These continuous operations should increase the Company's ability to efficiently execute an aggressive drilling and completion program in the first quarter of 2014. Trilogy has budgeted for a $375 million capital spending program for 2014, with approximately $175 million to be spent in the first quarter of the year.

Each year Trilogy participates in a number of joint venture operations on its lands when the operations are supported by Trilogy's internal technical and economic evaluations. Participation in these additional projects ensures that Trilogy does not forego an investment opportunity or the realization of immediate financial returns. Continued development by other operators in the Kaybob area will serve to reduce the risk on new emerging plays and, assuming success, will provide Trilogy with additional drilling opportunities in the future. It is challenging to predict the level of activity that may be proposed by third party operators on the joint interest lands, requiring Trilogy to leave a portion of its capital budget unallocated for these projects while at the same time Trilogy must be prepared to increase its spending plans given success on the joint acreage.

Capital Expenditures (millions of dollars)	2014 i)	2013	2012
Land	2.0	0.6	1.0
Geological and geophysical	2.0	0.2	2.1
Drilling and completion	325.0	342.3	265.9
Production equipment, facilities and inventory	46.0	56.3	80.3
Exploration and development expenditures	375.0	399.4	349.3
Corporate and Field office		0.3	3.4
Net property dispositions		(2.9)	(1.4)
Net capital expenditures	375.0	396.9	351.3

Note
i) 2014 Annual Budget

Relative strength in crude oil and condensate pricing through 2012, 2013 and into 2014 has afforded Trilogy the opportunity to allocate a significant portion of its cash flow back into very attractive plays which we believe target higher returns. Continued emphasis on capital allocation, accountability to control costs and achieving successful drilling results should facilitate a strong balance sheet and ensure that we remain operationally competitive.

- Trilogy's staff continues to develop higher levels of expertise in drilling and completing horizontal wells, providing additional certainty in budgeting, allocating capital and analyzing risk for the various play types Trilogy pursues.

- Participating in joint venture operations affords Trilogy additional opportunities to monitor results on emerging plays and to possibly improve on the execution of Trilogy-operated projects.

- Monitoring forecast commodity price trends ensure capital allocation is made to projects with higher rates of return.

- By drilling directional and horizontal wells, Trilogy is able to utilize existing roads, surface leases and pipelines, reducing both costs and the environmental footprint while expediting the time to bring new production on-stream.

In the third and fourth quarters of 2013, Trilogy allocated approximately $30 million in additional capital to the Duvernay as production information became available on Duvernay wells that had been completed with a higher fracture stimulation density. Based on this early information, Trilogy was in a good position to allocate additional capital to new Duvernay projects that could be drilled and completed with similar techniques. Trilogy will continue to focus its 2014 capital expenditures on the most profitable plays. **At the same time, evaluation and development of Trilogy's Duvernay shale lands will continue to be a focus in 2014, with a view to bringing long term value to shareholders while managing lease continuations on these lands.**

Drilling Activity

Trilogy participated in the drilling of 81 (57.2 net) wells during 2013, as compared to 75 (47.9 net) wells in 2012. The high drilling success rate in the Kaybob and Grande Prairie areas reflects Trilogy's drilling strategy, expertise in focusing on the exploitation of large, lower risk resource plays on its lands, as well as the application of horizontal drilling and multi-stage fracture completions.

Drilling Results	Development		Exploration	
	Gross	**Net**	**Gross**	**Net**
Gas	16	10.8	12	6.4
Oil	53	40.0		
D&A				
Total All Wells	**69**	**50.8**	**12**	**6.4**
Success (%)	**100**	**100**	**100**	**100**

In 2014, Trilogy will build on its 2013 drilling successes, as it continues to develop and expand its proved producing asset base. **Trilogy expects to drill up to 53.2 net wells in 2014, with all of the wells targeting crude oil or liquids-rich gas prospects.** During the year, Trilogy plans to continue to develop and exploit play types that are similar to those drilled in past three years. In addition to its own technological advancements, Trilogy continues to closely monitor industry activity, with a view to capitalizing on best practices and risk mitigation techniques with regards to these technologies, particularly as they relate to the emerging Duvernay shale play. Trilogy plans to continue acquiring land in core areas to maintain an ongoing prospect inventory of high quality, lower risk development wells capable of growing the Company's existing assets beyond current production levels, while replacing produced reserves on an annual basis.

Land

In 2013, Trilogy spent $0.6 million to acquire 14,880 net acres of land at Alberta Crown land sales. This brings Trilogy's total acreage count to 855,312 gross acres (626,755 net acres) of land as of December 31, 2013, of which 60 percent (378,579 net acres) of this acreage is considered undeveloped (no reserves assigned).

Trilogy has demonstrated that multiple wells per section can be drilled to adequately develop its land base and more fully exploit the underlying reserves. Trilogy intends to continue to acquire acreage that it believes has future development potential and maintain a competitive advantage in its core operating areas.

Land Area (acres)	Gross	Net
Land assigned reserves	374,996	248,176
Undeveloped land	480,316	378,579
Total	**855,312**	**626,755**

OPERATING AREAS

Since converting from an income trust to a growth oriented exploration and development company, Trilogy's annual production has grown organically by more than 74 percent from 19,780 Boe/d in 2009 to 34,509 Boe/d in 2013. Trilogy's management believes that investing a higher portion of its annual cash flow to exploit its developed and undeveloped land base using horizontal drilling and multi-stage fracturing technology will continue to add value for its Shareholders for many years to come. Trilogy continues to evaluate new plays on its acreage in the Kaybob area. By targeting different formations and geographic areas, Trilogy has been able to identify additional drilling prospects that will be added to the Company's growing inventory of high quality crude oil and liquids-rich gas drilling locations.

Kaybob

The Kaybob area accounted for approximately 94 percent of Trilogy's production and 97 percent of its capital expenditures in 2013 and will continue to be the focus of its 2014 spending plans and forecasted growth. Trilogy's large portfolio of tight oil and gas assets in Kaybob lend themselves to continued exploitation and development using horizontal drilling and multi-stage completion technology. Activity in this area provides Trilogy with the opportunity to grow annual production and replace produced reserves on economic plays that have a low risk profile. Given the Company's success in applying drilling and completion technologies to new areas and formations, Trilogy has a large prospect inventory that will be further exploited when natural gas prices improve. Trilogy also expects that it will be able to leverage off of its substantial investment in infrastructure to minimize production disruptions and reduce costs.

Trilogy produced 32,384 Boe/d in the Kaybob area in 2013 as compared to 31,743 Boe/d in 2012. Field operations have been faced with variable operating conditions from these high productivity oil and gas wells and at the same time, the producing infrastructure has been challenged with processing the gas from these wells that are producing large volumes of natural gas liquids from the Duvernay and Montney formations. It is expected that the capability of the natural gas plants in this area will be adjusted to better process liquids-rich natural gas over the next two years, commensurate with construction of natural gas liquids pipeline capacity out of Kaybob.

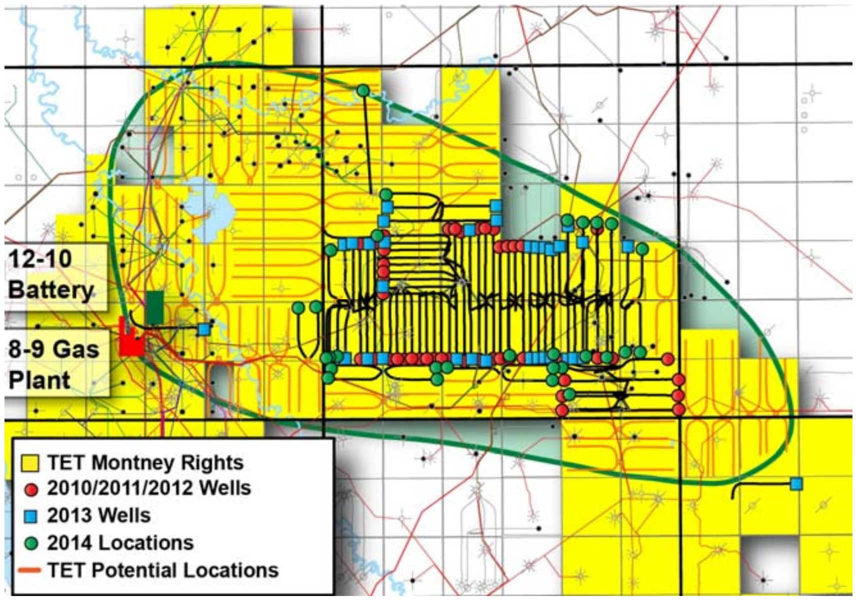
In Kaybob, Trilogy's 2013 capital expenditures totaled approximately $388 million. Trilogy drilled 78 (54.7 net) wells in the area during the year, of which 77 (53.7 net) wells were drilled horizontally. The single well that was drilled vertically was used to validate an expiring Duvernay license and was left suspended so that it could be re-entered in the future and drilled horizontally into the Duvernay formation. The increase in the number, depth and length of horizontal sections and the number of fracture stimulations in these wells resulted in a significant increase in capital expenditures as compared to previous years. Offsetting these additional costs were reductions in tie-in costs, reduced drilling times and, more importantly, a substantial increase in Trilogy's production levels and reserve assignment.

Much of the horizontal drilling in the Kaybob area has been focused on the Montney formation. However, horizontal wells are now being used to develop the Duvernay, Bluesky, Notikewin, Wilrich, Dunvegan and Cardium formations. In 2014, Trilogy will continue to evaluate prospective formations and regions to ensure that capital is allocated to drilling opportunities which are expected to provide the best economic rate of return and the largest development potential for the Company.

Kaybob Montney Oil Pool Development

Through 2013 Trilogy built on the success it achieved in the previous two years with the continued development drilling of the Kaybob Montney oil pool. In 2010 through 2012, Trilogy drilled a total of 47 wells into the pool, followed by an additional 31 wells in 2013, with plans to drill and complete an additional 30 wells within the existing pool boundary in 2014. The success of the pool development is based on the application of horizontal drilling and multi-stage fracture completion techniques in a pool that had been partially delineated over the previous 10 to 15 years using vertical drilling and completion technology.

In 2013, Trilogy spent approximately $141.5 million to drill, complete and tie-in 31 wells to find 8.1 MMBoe of proved reserves and 10.0 MMBoe of proved plus probable reserves. On average, the year's drilling and completion program added 269 MBoe of proved reserves per well (68 percent oil reserves) and 334 MBoe per well of proved plus probable reserves (67 percent oil reserves). **This represents a finding and development cost of $17.47/Boe for proved reserves and $14.15/Boe for proved plus probable reserves. Over the past three years, Trilogy has only booked reserves to the 77 wells that have been drilled and competed within the Kaybob Montney oil pool, with average proved reserves per well of 310 MBoe (66 percent oil reserves) and average proved plus probable reserves per well of 388 MBoe (65 percent oil reserves).**



In 2013, production from the pool averaged 11,653 Boe/d (69 percent oil and natural gas liquids production), with operating costs of $7.12/Boe and operating netback of $46.86/Boe. As of year end 2013, the pool has produced approximately 6.3 MMBbls of oil from the horizontal oil wells drilled into the pool. Under the current royalty regime, each well qualifies for royalty relief, where Crown royalties are reduced to 5 percent on the initial 80 to 90 MBoe of production. Historically, the costs of approximately $4 million to drill, complete and tie-in are usually paid out in less than one year of production.

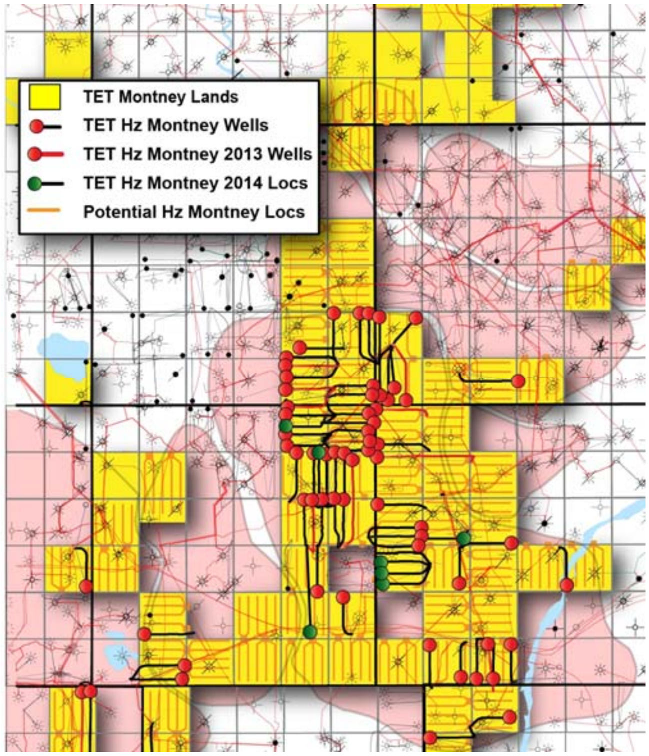
Production in 2013 was less than expected due to infrastructure issues at the Kaybob North Gas Plant and some issues related to the completion technique used in the wells drilled in the first half of the year. As the pool gets further developed, Trilogy anticipates that wells towards the pool boundary will have lower productivity and reserves than the initial wells drilled in the center of the pool; however such wells are expected to have rates of return in excess of 100 percent.

Trilogy has endeavoured to remove operating bottle necks and reduce downtime in the pool to ensure that production flows more consistently for 2014 and beyond. Trilogy is becoming increasingly more confident in its ability to forecast production and reduce operational issues as the base pool production grows and stabilizes with time. **Trilogy has budgeted $135 million to be spent on the pool in 2014 to drill 30 additional wells and grow production to an estimated 12,000 Boe/d for the year.**

Presley Montney Gas Development

The 2013 budget provided for 9 net wells to be drilled into Trilogy's Presley Montney liquids-rich gas pool, of which 8.75 net wells were drilled during the year. Production from the property averaged

7,846 Boe/d in 2013 as compared to 9,011 Boe/d in 2012. Low gas prices for most of the year resulted in some of the drilling operations being deferred until later in the year's drilling program. Processing outages at third party operated Kaybob South #3 Plant and the Trilogy operated Kaybob North Gas Plant were responsible for a significant amount of the production shortfall from this area. Trilogy will continue to monitor the gas processing options to minimize future downtime.

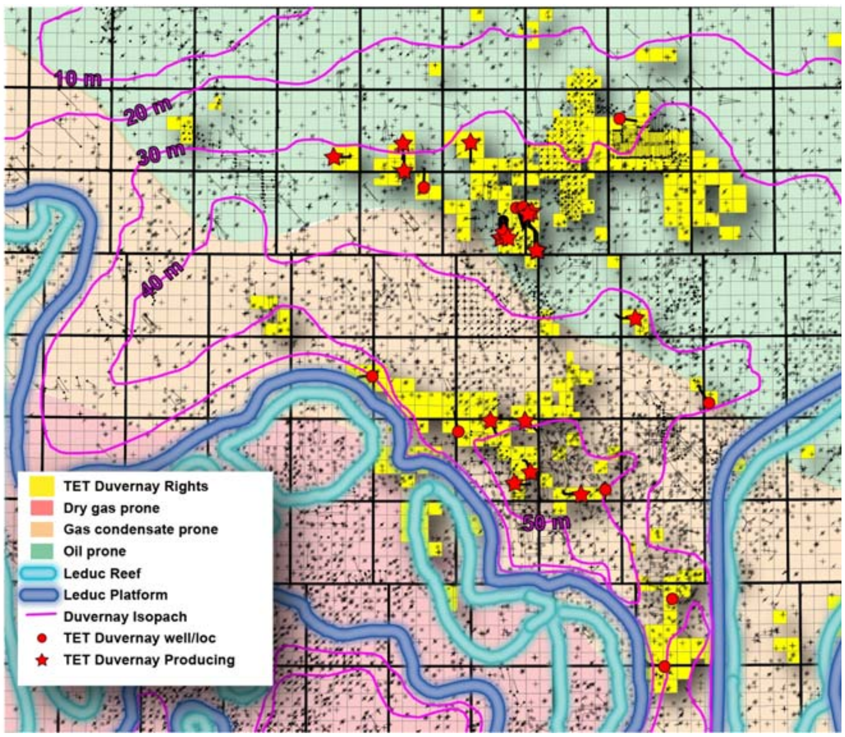


In 2014, Trilogy currently plans to drill an additional 9 (7.5 net) net wells to maintain production at current levels. However, with rising gas prices Trilogy will be prepared to allocate additional capital to this pool if the economic rates of returns continue to increase along with natural gas and natural gas liquids pricing.

Duvernay Shale Oil/Gas Development

Trilogy has been active in the emerging Duvernay shale play for approximately three years. Since its initial involvement in the play, Trilogy has participated in the drilling of approximately 30 Duvernay wells in the Kaybob area. **In 2013, the Company spent approximately $100 million to drill complete and tie-in 13 (7.4 net) wells targeting the Duvernay and plans to spend approximately $150 million in 2014 to drill, complete and tie-in an additional 9.3 net wells and complete and tie-in 2 additional wells that were drilled in the prior year.** Trilogy has accumulated approximately 200 net sections of land on the play and will be managing the land base as the play develops. Trilogy estimates that approximately 125 net sections are in the volatile oil window of the play and approximately 75 net sections are in the gas condensate window of the Duvernay play.

Results on the play have been encouraging to date. As industry drills more wells, it continues to evaluate various drilling, completion and production processing options to determine the best practices to maximize recovery and economic returns. In 2013, Trilogy drilled 5 wells in the Kaybob area that were at 100 percent working interest and participated in another 8 wells for a 30 percent working interest. As the year progressed, drilling risks were reduced and completion techniques were improved. Each well will be evaluated relative to the adjacent wells to determine which variables are the most important to maximize recovery and control spending. By adjusting Duvernay lateral length, fracture spacing, number of fracture intervals per stage, fluid volume pumped, sand tonnage injected, pumping pressures and soak time, we can determine which variables have the most impact in each area. However, further delineation and evaluation is required to understand the ultimate economic potential of the play and to determine well productivity and ultimate liquids yield. Once drilling, completion and production best practices have been established for maximum recovery of reserves per well, industry will be in a better position to drive down costs to further increase rate of returns.



In the first quarter, Trilogy drilled two horizontal Duvernay wells in the Tony Creek area of Kaybob, in an area where the Duvernay is approximately 30 meters thick. These two wells, drilled at 4-11-64-22W5 and 4-15-64-21W5, were drilled in the same area as an earlier Duvernay well at 4-3-64-21W5, which was poorly stimulated using a ball drop system. With advancements in Duvernay completion techniques the two follow-up wells were stimulated using a plug and perf technique, with 63 and 59 successful fractures respectively. **The wells were brought on stream by the second quarter 2013 and have produced 54 MBbls and 55 MBbls of approximately 55 degree API condensate, respectively, as of the end of February 2014. Gas volumes have been 212 MMcf and 196 MMcf respectively in the same period, yielding gas to condensate ratios of 255 Bbl/MMcf and 280 Bbl/MMcf.** In the first quarter of 2014, Trilogy is drilling a well at 15-26-63-21W5, which is expected to be completed and on production in the second quarter of 2014. Production from these wells flow through Trilogy's Smoky River Gas Plant.

In the third quarter of 2013, Trilogy drilled one 100 percent working interest horizontal Duvernay well at 1-24-61-22W5 (the "1-24 well"). The 1-24 well spud in March and was then suspended in April at the intermediate casing point with the onset of spring break up. The well was drilled and cased to a total depth of 4,941 meters and rig released in September 2013. In January 2014, Trilogy completed the well using 50 fracture intervals in 13 stages along the 1,166 meter lateral. In total, Trilogy pumped 109 MBbls of water and 1,405 tonnes of sand into the Duvernay horizontal wellbore. The well was flow tested in February over a 7 day period, where it produced 28 MMcf of natural gas in 167 hours of flowing. **The well was cleaning up through this period and had a final flowing rate of 5 MMcf/d and 680 Bbl/d of water and condensate up 2 3/8 inch tubing at 17 MPa flowing tubing pressure over the last 48 hours of the flow test. Condensate yields at this point are unreliable as flowing and flaring conditions do not allow for all of the hydrocarbon liquids to be recovered; however, wells in this area have typically yielded approximately 100-200 Bbl of condensate to each MMcf of gas.** With respect to the production test results for the 1-24 Well, and the Duvernay wells discussed below, because neither a pressure transient analysis nor well-test interpretation has yet been completed, these production test results should be considered preliminary until further analysis or interpretation has been done. These results are not necessarily indicative of long-term performance or of ultimate recovery. Initial production rates from these wells may differ from the production tests and will be a function of processing and compression capacity, liquids handling capabilities, and the flowing pressure required to optimize liquid recovery. The well will be tied in during the first quarter to the third party operated Bigstone Gas Plant and is expected to be on stream in March.

	Cumulative Gas	**Cumulative Condensate**	**Last Gas Rate**	**Last Condensate Rate**	**Condensate Gas Ratio**	**Tubing Pressure**	**Flowing time**
	MMcf	Bbl	MMcf/d	Bbl/d	Bbl/MMcf	MPa	Hours
1-24-61-22W5	28.0		5.0			18.0	167

Also in the third quarter, Trilogy participated for its 30 percent working interest in a four well pad operated by a third party targeting the Duvernay formation. The four lateral legs were each approximately 2,000 metres in length and were completed in approximately 100 fracture intervals in 17 stages. **The four wells were production tested in August at an average rate of 1,940 Boe/d per well, (3.4 MMcf/d of natural gas and 1,366 Bbl/d of condensate), yielding an average condensate gas ratio of approximately 400 Bbl/MMcf.** Each well was flow tested for approximately 53 hours with average flowing pressures between 13 and 24 MPa up 5 inch tubing. This four well pad was placed on production in the first week of November 2013. **On average, each well has produced approximately 41 MBbls of condensate and 133 MMcf of natural gas from November until the end of February 2014.** Further production data for these wells will be provided through 2014.

The following table summarizes cumulative condensate and natural gas production measured at the wellsite from November 2013 through February 2014. Condensate production will be reduced by approximately 20 percent due to flashing of gas as the pressure drops from the wellsite separator to the atmospheric storage tanks at the battery. Conversely, gas volumes are expected to be approximately 20 percent higher due to the flash gas volumes received.

Pad 1	**Cumulative Gas**	**Cumulative Condensate**	**Last Gas Rate**	**Last Condensate Rate**	**Condensate Gas Ratio**	**Tubing Pressure**	**Flowing time**
	MMcf	Bbl	MMcf/d	Bbl/d	Bbl/MMcf	MPa	Hours
Well #1	122	36,607	0.8	267	300	5.4	2,487
Well #2	132	39,652	1.0	292	300	10.9	2,516
Well #3	140	41,617	1.0	327	296	8.2	2,521
Well #4	139	47,947	1.1	453	346	20.3	2,566
Pad Total	533	165,823	3.9	1,339	311	N/A	10,092

In the fourth quarter, Trilogy participated in a second four well pad for its 30 percent working interest in the same area and operated by the same partner as the four well pad mentioned above. **These four wells were drilled and completed with essentially the same drilling and completion programs as the first four well pad drilled two miles to the east. These four wells were brought on production in January 2014 through the Simonette gas plant. It is expected that these wells will have similar production, condensate gas ratios, and shrinkages as the first pad.** The following table summarizes estimated cumulative production by well from Trilogy's field data capture system to the end of February. More production information from these wells will be available through the coming year.

Pad 2	**Cumulative Gas**	**Cumulative Condensate**	**Last Gas Rate**	**Last Condensate Rate**	**Condensate Gas Ratio**	**Tubing Pressure**	**Flowing time**
	MMcf	Bbl	MMcf/d	Bbl/d	Bbl/MMcf	MPa	Hours
Well #1	48	18,037	0.9	288	376	19.0	1,281
Well #2	41	15,727	1.0	363	384	22.0	1,194
Well #3	53	18,811	1.1	353	355	23.5	1,154
Well #4	44	15,124	1.0	250	344	21.0	1,081
Pad Total	186	67,699	4.0	1,254	364	N/A	4,710

Also in the fourth quarter, Trilogy drilled a 100 percent working interest Duvernay horizontal well to a bottom hole location at 13-33-57-18W5 (the "13-33 well"). The well was spud on September 10 and rig released on November 9, 2013. The total measured depth of the well was 5,703 meters in length, including the 2,081 meter horizontal lateral in the Duvernay formation. Operations were suspended until early January when the well was fracture stimulated in 85 fracture intervals in 19 separate stages using the plug and perf completion technique. In total the well was fracture stimulated with 204 MBbls of water and 3,141 tonnes of sand along the horizontal length of the well bore. The plugs were subsequently drilled out and the well was flow tested in early February. **The 13-33 well was cleaning up over the 5.5 day test and was flowing at 7.2 MMcf/d and 970 Bbl/d of completion water and condensate at a flowing tubing pressure of approximately 27 Mpa up 2 7/8 inch production tubing over the final 36 hours of the test.** As with the 1-24 well, the surface production testing equipment is not suitable to separate out the hydrocarbon liquid from the completion fluids, and as a result the hydrocarbon liquids are typically flared. The well will be tied into the Beaverhill Lake Unit #3 gathering system in April and the natural gas will be processed at the Kaybob South #3 Gas Plant. Well test data will need to be interpreted to get a better indication of productivity and reserves. According to public data, the closest producing

Duvernay well to the 13-33 well is producing at a condensate to gas ratio of approximately 50-60 Bbls/MMcf.

	Cumulative Gas	Cumulative Condensate	Last Gas Rate	Last Condensate Rate	Condensate Gas Ratio	Tubing Pressure	Flowing time
	MMcf	Bbl	MMcf/d	Bbl/d	Bbl/MMcf	MPa	Hours
13-33-57-18W5	32		7.2			27.0	141

The 1-24 and 13-33 wells were drilled in 2013 and completed in 2014, and as a result the reserves associated with these two wells were conservatively assigned to the proven undeveloped category. However, we anticipate that both wells will be tied in and on production by the end of the first quarter or early second quarter of 2014 and will be moved to proved developed producing in 2014.

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

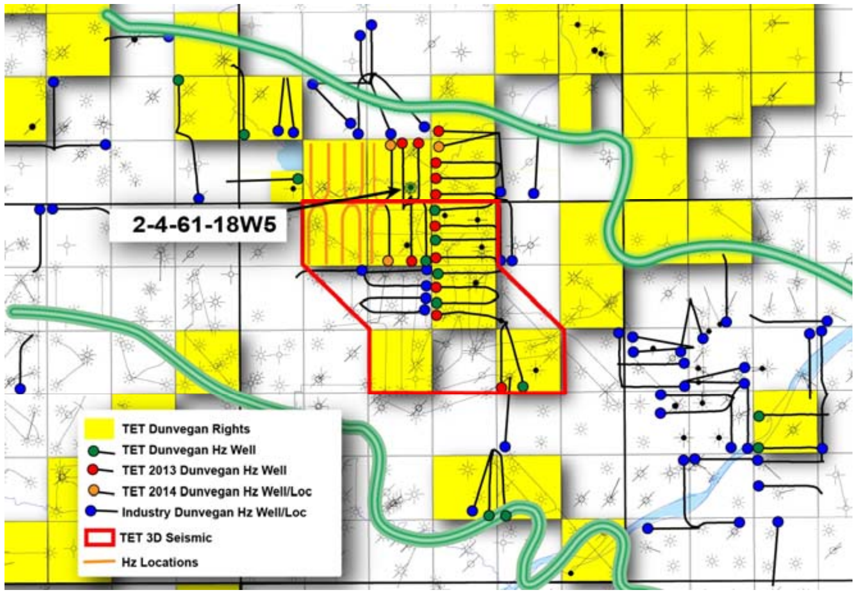
Subsequent to the end of the year, Trilogy's partner has spud the first well on the third four well pad on the joint interest block. We anticipate this pad will be drilled through the first and second quarters with completion and tie in operations planned for the third quarter of this year.

Based on the success of its Duvernay drilling to date, Trilogy will continue to monitor advances in drilling and completion techniques to maximize recovery, reduce costs and increase the rate of return.

Dunvegan Oil Play

In 2013 Trilogy had an interest in 13 (4.0 net) wells that were drilled for Dunvegan oil potential in the Kaybob area, of which 3 (3.0 net) wells were operated by Trilogy. Overall results have been encouraging to date, although individual well results have varied considerably. Initial production results appear to vary with reservoir quality, reservoir thickness, the areal extent of the reservoir and horizontal wellbore length, as well as formation pressure gradients and reservoir fluid properties. Trilogy will continue to be selective on which non-operated wells it participates in an effort to maximize returns on the capital invested.

In 2014, Trilogy expects to invest approximately $16 million to drill 4 (2.8 net) Dunvegan oil wells and additional oil handling infrastructure in the Kaybob area.



Natural Gas Liquids Recovery Agreement

In January 2011, Trilogy announced that it had entered into a commercial arrangement with Aux Sable Canada LP ("Aux Sable") pursuant to which Trilogy will receive additional economic value for the natural gas liquids in its liquids-rich natural gas stream originating from the Trilogy-operated gas plants in the Kaybob area. The initial term of the agreement is five years. While the agreement entered into with Aux Sable (the "NGL Recovery Agreement") does not preclude Trilogy from proceeding with its own plans to construct a deep-cut facility at the Kaybob North Gas Plant, Trilogy indefinitely deferred those plans, as the NGL Recovery Agreement is projected to provide natural gas liquids recovery values that are at least equivalent to the value Trilogy would have received at that time had the deep-cut facility project were to have proceeded after factoring in the capital, operating and other costs and risks associated with a liquids extraction facility.

In 2013 Trilogy received approximately 2,128 Boe/d of natural gas liquid production and $12.8 million under the NGL Recovery Agreement, which compares to 2,146 Boe/d and $14.2 million in 2012. The benefits of the agreement are expected to improve as natural gas production increases and when ethane and propane margins increase.

Grande Prairie

Production from the Grande Prairie area increased from 1,767 Boe/d in 2012 to 2,086 Boe/d in 2013. The Grande Prairie area accounted for approximately 6 percent of Trilogy's production and 3 percent of total capital expenditures in 2013 and is forecast to be allocated 6 percent of the 2014 capital budget. Trilogy has approximately 3 MMcf/d (500 Boe/d) production shut in due to transportation or processing issues related to third party infrastructure. In 2014, Trilogy will continue to be challenged in this area by limited access to non-operated gas production facilities as well as oil trucking and shipping constraints. Trilogy's 2013 capital spending in the Grande Prairie area totaled approximately $12 million, to drill, complete and tie in 3 (2.5 net) oil wells drilled in the year and to expand the Nikanassin oil battery.

In the first quarter 2013, Trilogy drilled and completed the second horizontal Nikanassin oil well in the Wembley area of Grande Prairie, which has produced approximately 84 MBbl of oil to date. The first horizontal Nikanassin oil well which was drilled in 2012 has produced approximately 101.0 MBbl to date. Trilogy is in the process of drilling a third horizontal well into the Nikanassin oil pool, with plans to drill 2 more in the balance of 2014. In 2013, Trilogy also drilled a Doe Creek horizontal oil well which has produced 16 MBbl to date; further Doe Creek delineation will continue after the more prolific Nikanassin pool is developed.

Trilogy remains optimistic regarding the future development of the Grande Prairie area and believes it has a growing prospect inventory and land base that will provide significant opportunity for future development using horizontal drilling and completion techniques on tight oil and gas reservoirs. Trilogy has budgeted $25 million in 2014 capital to participate in the drilling of horizontal wells in this area to further develop oil plays and expand the Nikanassin oil battery. Drilling of natural gas projects are being deferred until additional gathering and facility infrastructure is in place.

Subsequent to the end of the year, Trilogy closed a transaction in which it acquired the interests of a third party in the Valhalla area. This acquisition is expected to add approximately 200 Boe/d of production and 700 MBoe of reserves and includes royalty acreage where by Trilogy was paying royalties to the vendor.

2013 Year End Reserves Report Highlights

The following is a summary of Trilogy's 2013 year end reserves and reserves value, as evaluated and reported on by the independent engineering firm InSite Petroleum Consultants Ltd. ("InSite"). The reserves report has been prepared in accordance with National Instrument 51-101 definitions, standards and procedures.

- **Added 19.5 MMBoe of proved reserves (50 percent oil and NGLs) and 20.8 MMBoe of proved plus probable reserves (53 percent oil and NGLs)**
- **Replaced 154 percent of 2013 produced reserves when compared to proved reserve additions and 165 percent when compared to proved plus probable reserve additions**
- **Proved plus probable reserve value at NPV 10 increased 10 percent from $1,373 million at the end of 2012 to $1,513 million at the end of 2013**
- **Finding and development costs were $21.44/Boe for total proved reserves and $19.60/Boe for proved plus probable reserves on capital expenditures $396.6 million**
- **Reserve life index increased to 8.4 years for proved plus probable reserves in 2013 as compared to 7.9 years in 2012,**

The before-tax net present value of Trilogy's proved plus probable reserves discounted at 10 percent increased 10 percent from $1,373 million at the end of 2012 to $1,513 million at the end of 2013. Proved plus probable crude oil reserves have increased 23 percent from 20,332 MBbl at the end of 2012 to 25,055 MBbl at the end of 2013. Natural gas liquids increased 6 percent from 15,091 MBbl at the end of 2012 to 15,944 MBbl at the end of 2013. Trilogy's proved plus probable natural gas reserves have increased 4 percent, from 369.2 Bcf at the end of 2012 to 385.1 Bcf at the end of 2013.

The Company considers its reserves base to be very strong, with solid proven reserve additions and probable reserves moving to the proven category. As in the past, Trilogy was able to replace produced reserves at a very attractive cost without adding significant reserves in the undeveloped category. **Proved undeveloped reserves were assigned to two Duvernay wells that were drilled in 2013 and completed in 2014, and which represent approximately 1.5 percent of the total proved reserves.** Trilogy's proved producing reserves represent 92 percent of total proved reserves, while probable reserves are 26 percent of total proved plus probable reserves.

The following table summarizes Trilogy's gross reserves (before royalties and tax) and reserves value for the year ended December 31, 2013 using forecast prices and costs.

Reserve Category	**Natural Gas**	**Crude Oil**	**Natural Gas Liquids**	**Boe (6:1)**	**Before tax Net Present Value ($millions)**		
	BCF	**MBbl**	**MBbl**	**MBoe**	**0%**	**5%**	**10%**
Proved							
Developed producing	255.6	17,393	11,179	71,175.4	1,958.3	1,474.3	1,194.1
Developed non-producing	21.8	709	807	5,148.6	103.6	73.8	56.6
Undeveloped	5.2	0	299	1,173.7	22.5	13.2	7.7
Total Proved	282.7	18,102	12,285	77,497.7	2,084.4	1,,561.3	1,258.4
Probable	102.5	6952	3659	27,692.1	834.6	417.6	254.6
Total Proved plus Probable	**385.1**	**25,055**	**15,944**	**105,189.8**	**2,919.0**	**1,978.9**	**1,513.0**

Notes
i) Reserve values were determined by InSite as of December 31, 2013, using the forward-pricing assumptions in effect by the firm for that date.
ii) InSite evaluated 100 percent of Trilogy's reserves.
iii) No value has been assigned to tangible assets other than those associated with proved producing reserves.
iv) Reserve values have been evaluated under a blow-down scenario.
v) Trilogy's financial instruments, which extend past January 1, 2014, have not been valued by InSite.

The disclosure contained herein includes those natural gas liquids within Trilogy's natural gas stream that are delivered, quantified and for which Trilogy is paid based on market rates pursuant to the NGL Recovery Agreement with Aux Sable Canada LP, as reported in Trilogy's reserves report as at December 31, 2013 prepared by Insite. See Trilogy's 2013 annual information form for more information regarding the NGL reserves associated with the NGL Recovery Agreement.

2013 Year End Reserve Reconciliation

Trilogy's total proved reserves were 77,498 MBoe and proved plus probable reserves were 105,190 MBoe as of December 31, 2013, which reflect increases of 10 percent and 8.5 percent respectively as compared to Trilogy's reserves at the 2012 year end.

The following table sets forth the reconciliation of Trilogy's gross reserves for the year ended December 31, 2013 using forecast prices and costs.

	Total Proved Reserves				**Probable Reserves**				**Total P+P Reserves**			
	Oil	**Gas**	**NGL**	**BOE**	**Oil**	**Gas**	**NGL**	**BOE**	**Oil**	**Gas**	**NGL**	**BOE**
	MBbl	**Bcf**	**MBbl**	**MBoe**	**MBbl**	**Bcf**	**MBbl**	**MBoe**	**MBbl**	**Bcf**	**MBbl**	**MBoe**
Dec 31, 2012	14,851	267.2	11,247	70,633	5,481	102.0	3,844	26,326	20,332	369.2	15,091	96,959
2013 Production	-3,714	-42.7	-1,762	-12,596	0	0	0	0	-3,714	-42.7	-1,762	-12,596
Technical Revisions	-1,150	9.7	1,814	2,282	-495	-9.7	-420	-2,532	-1,645	0.0	1,395	-250
Reserve Additions	8,111	48.4	985	17,169	1,964	10.2	234	3,896	10,075	58.6	1,219	21,065

Acquisition	0	0	0	0	0	0	0	0	0	0	0	0
Other	5	0.0	1	8	2	6	0	3	6	0.0	1	11
Dec 31, 2013	18,102	282.7	12,285	77,498	6,952	102.5	3,659	27,692	25,055	385.1	15,944	105,190

Note

i) Columns and rows may not add due to rounding

Reserve Replacement

Trilogy produced 12,596 MBoe of reserves in 2013 (34,509 Boe/d) and through a successful drilling, completion and workover program, added 19,460 MBoe of proved reserves and 20,827 MBoe of proved plus probable reserves from new additions as a result of capital investment and technical revisions. B**ased on total proved reserve additions in 2013, Trilogy replaced 154 percent of its produced reserves and 165 percent of its proved plus probable reserve additions.**

Since inception in 2005, Trilogy has produced 84,248 MBoe and sold 3,100 MBoe, while at the same time increased its total proved plus probable reserve base by 64 percent from 64,254 MBoe at the beginning of 2005 to 105,190 MBoe at the end of 2013. In the same time period total proved reserves have increased 73 percent, from 44,722 MBoe to 77,498 MBoe.

Historically, Trilogy's undeveloped reserves category has contributed a very small portion to the overall reserve base. Trilogy's proved undeveloped reserve component is 1,173 MBoe, or 1.5 percent of its 77,498 MBoe total proved reserves. The year end reserves are prepared under a blow down scenario and do not account for the additional development potential of Trilogy's land base.

Reserve Category	Natural Gas MMCF	Crude Oil MBbl	Natural Gas Liquid MBbl	Boe (6:1) MBoe
Proved Developed Producing	255,618	17,393.1	11,179.3	71,175.4
Proved Developed Non-Producing	21,793	709.3	807.1	5,148.6
Proved Undeveloped	5,249	0.0	298.9	1,173.7
Total Proved	282,660	18,102.4	12,285.3	77,497.7
Probable Developed Producing	76,713	6,704.6	3,263.0	22,753.2
Probable Developed Non-Producing	20,020	247.8	256.2	3,840.7
Probable Undeveloped	5,753	0.0	139.3	1,098.2
Total Probable	102,487	6,952.4	3,658.5	27,692.1
Total Proved plus Probable	**385,147**	**25,054.8**	**15,943.8**	**105,189.8**

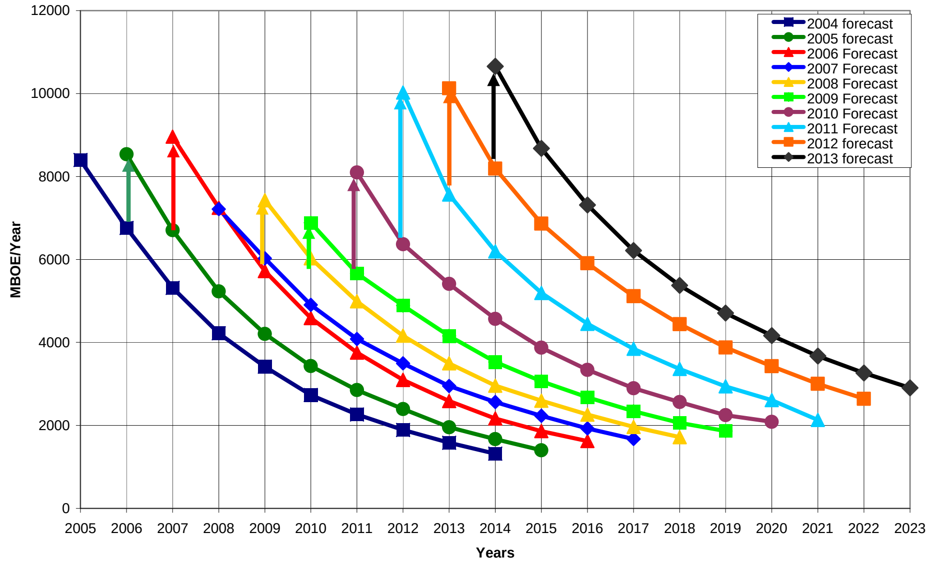
Technical Revisions

For 2013, technical revisions for total proved reserves are 2,282 MBoe or 3 percent of the total proved reserves, while proved plus probable reserves have negative revisions of 250 MBoe or 0.2 percent of the total proved plus probable reserves. With time and production history, probable reserves become proved reserves as confidence increases, resulting in less risk and higher probability reserves.

Proved Reserve Forecast

The graph below illustrates Trilogy's annual production forecast for Total Proved Reserves from the Reserve Reports for the past nine years. Trilogy's annual production forecast increased from inception until 2007 when the annual production forecast declined due to the asset sales in Marten Creek and Southern Alberta. The reserve forecast increased again in 2010 through 2013 as Trilogy converted from an energy trust to a growth oriented energy corporation. Trilogy's annual production forecast has continued to increase as the Company directs its capital spending towards high productivity horizontal drilling opportunities in the Montney, Dunvegan and Duvernay formations.

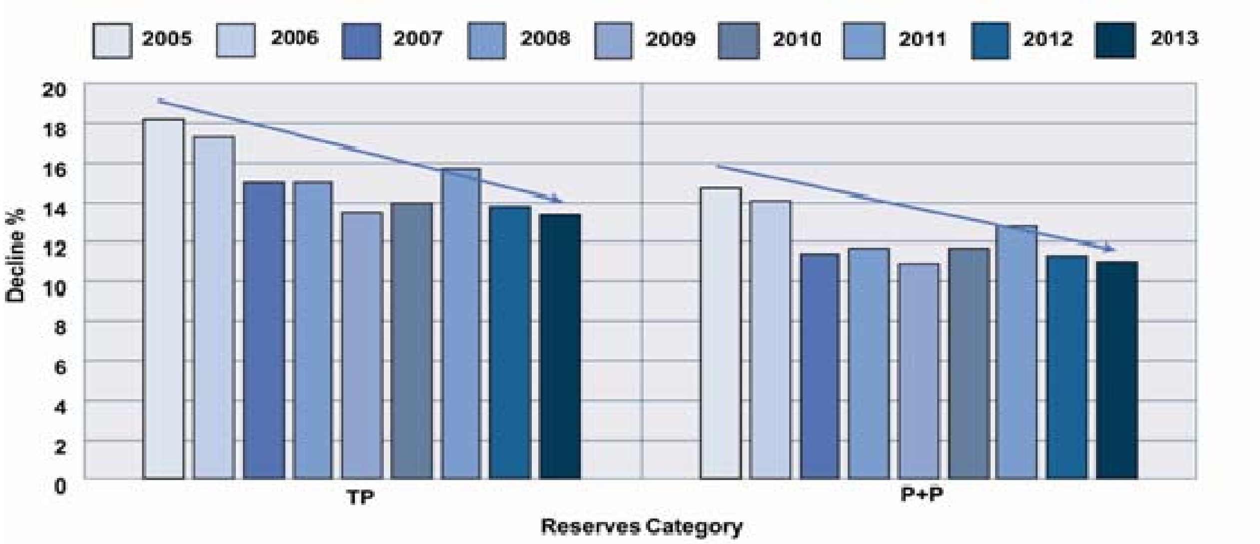
Annual Production Forecasts (Total Proved Reserves, MBoe/year)



Production Decline Rate

Trilogy's production decline rate has improved over the past seven years since the sale of the Marten Creek property and Southern Alberta assets. These properties had higher production declines relative to Trilogy's remaining producing properties; the dispositions resulted in an improvement in the average quality of Trilogy's reserve base, a lower production decline rate and a higher RLI. Trilogy's base production decline rate continues to decrease as a larger portion of the base production is attributed to horizontal wells which have a lower annual decline rate later in the production life of its reserves as compared to the initial production.

Trilogy's base production forecast assumes a decline rate of 18.6 percent for 2014 and 15.7 percent for 2015 for total proved reserves. For proved plus probable reserves the 2014 decline rate is 13.1 percent while 2015 production will decline rate is 13 percent.



Finding and Development Costs

Since inception, Trilogy has successfully exploited many of the opportunities afforded by its land base. Its success rate reflects the high quality of the Company's prospect inventory, its undeveloped land base and producing asset base as well as the technical expertise of Trilogy's staff. The reserve potential of these lands, both developed and undeveloped, is expected to continue to provide Trilogy with low cost reserve additions. One of Trilogy's key objectives is to continue to acquire what it considers high quality land in its core areas to maintain its prospect inventory and to ensure the Company has exposure to multiple play types and developing technology.

2013 Working Interest Capital Expenditures (millions of dollars)		Change in FDC Proved	Change in FDC Proved plus Probable	Total Capital Proved	Total Capital Proved plus Probable
Land	0.6				
Geological and geophysical	0.2				
Drilling and completion	342.3	20.6	11.3		
Production equipment, facilities and inventory	56.3				
2013 Dispositions net of acquisitions and corporate assets	-2.5				
Total capital expenditures	**396.9**	**20.6**	**11.3**	**417.5**	**408.2**

Reserve additions of 19.46 MMBoe of proved reserves and 20.83 MMBoe proved plus probable reserves during 2013 generate a finding and development ("F&D") cost of $21.44/Boe for proved reserves and $19.60/Boe for proved plus probable reserves.

2013 F&D Cost including FDC	Proved Capital $million	Proved Reserves MBoe	Proved F&D $/Boe	Proved + Probable Capital $million	Proved + Probable Reserves MBoe	Proved + Probable F&D $/Boe
Extensions, discoveries and revisions	**417.5**	**19,460**	**21.45**	**408.2**	**20,827**	**19.60**

When calculated over the three-year period ended December 31, 2013, F&D costs were $19.20/Boe for proven reserves and $17.82/Boe for proven plus probable reserves. These numbers illustrate consistency in the cost of finding and developing the reserves on Trilogy's land base. Calculating F&D costs over a longer period reduces the effect of spending capital in one year and booking reserves in the following year and reduces the impact of technical revisions.

	Year	Proved Capital $million	Proved Reserves MBoe	Proved F&D $/Boe	Proved + Probable Capital $million	Proved + Probable Reserves MBoe	Proved + Probable F&D $/Boe
Extensions, discoveries and revisions including FDC	2011	359.0	19,387	18.52	355.0	20,606	17.23
	2012	338.4	19,233	17.60	343.3	20,646	16.63
	2013	417.5	19,460	21.45	408.2	20,827	19.60
3 Year Average F&D Cost		**1,114.9**	**58,080**	**19.20**	**1,106.5**	**62,079**	**17.82**

Commodity Price Forecast

InSite Petroleum Consultants Ltd. December 31, 2013 Price Forecast

Year	WTI @ Cushing $US/Bbl	Edm. Ref. Price $C/Bbl	Henry HUB US$/MMBTU	AECO C C$/MMBTU	US/CDN Exchange Rate
2014	96.00	96.05	4.25	3.99	0.950
2015	95.00	97.50	4.40	4.14	0.950
2016	95.00	97.45	4.75	4.50	0.950
2017	95.00	97.40	5.00	4.75	0.950
2018	96.00	98.40	5.25	5.01	0.950
Next 5 years avg.	100.96	103.46	5.72	5.48	0.950

Note
i) All prices escalated at 2% per year after 2031

ENVIRONMENT, HEALTH AND SAFETY ("EH&S")

Trilogy's ability to fulfill its responsibilities in the areas of environment, health and safety has become an increasingly significant focus of the Company. We are committed to fostering a culture that respects the people involved in our work and the communities and environment in which we operate. We strive to ingrain high EH&S standards at all levels of our operations, focusing on education, training and compliance with established policies and procedures. Trilogy closely monitors its performance in these areas, reinforcing accountability among every individual working on Trilogy sites.

Working in a highly regulated industry, Trilogy places a great deal of importance on keeping abreast of current regulatory requirements and, under the oversight of the EH&S Committee of the Board of Directors, directing the activities of its business in a manner that complies with these requirements.

The activities conducted by Trilogy in these areas in 2013 included, among other things, promoting road safety by conducting a "Road Safety Day", completing emergency response training exercises, holding monthly Safety Meetings and participating in annual Safety Stand Down Meetings with employees, consultants and contractors in the field.

Health and Safety

Trilogy's first priority is the health and safety of its employees, contractors and the public. This is promoted by the Company's "safetyfirst" logo. The policies, practices and procedures associated with Trilogy's Health and Safety Management System are an integral part of its daily operations; Trilogy endeavors to make safety a guiding factor in all of its decisions with safety awareness, training and accountability being well established fundamentals of Trilogy's corporate culture. Hazard and risk assessment, incident/accident reporting and investigation, and site inspections and audits, internally as well as by insurance companies and regulatory agencies, provide a means of measuring our performance. Trilogy strives for continual improvement in its Health and Safety Management System to ensure it is meeting or exceeding applicable occupational health and safety legislation obligations, and maintaining its Certificate of Recognition (COR), which is issued by Alberta Human Services and awarded to employers who develop health and safety programs that meet established standards.

Environment

Commitment to environmental protection and stewardship is a critical aspect of our operations and a significant component of Trilogy's decision making process. Environmental pre-site assessments are conducted on cultivated lands to determine baseline criteria to which the reclamation assessment can be compared and to aid in the development of site specific construction practices. New technology implementation and continued regulatory changes aid in reducing the footprint on the land. Impacted material from spills are cleaned up and remediated, and other generated wastes, as a result of our business activities, are identified, processed and tracked in accordance with regulatory requirements and guidelines. This is to ensure that the land is restored to a productive state at the time of surface reclamation. An asset retirement inventory to assess future abandonment and reclamation liabilities has been developed and is maintained.

Trilogy reports air emissions and greenhouse gases (GHG) to federal and provincial regulatory agencies. Trilogy's commitment to reducing greenhouse gas emissions makes implementing economically-viable GHG emission reduction projects an important part of our operations. As part of Trilogy's continuing commitment to reduce greenhouse gas emissions from its operations, several emission reduction practices have been implemented at Trilogy operated facilities including:

- electrifying pump jack drivers;
- upgrading facilities to include gas conservation and hydrocarbon vapour recovery;
- scavenging H_2S from solution gas to allow gas conservation into sweet infrastructure;
- installing floating roof oil storage tanks to minimize fuel gas makeup and hydrocarbon vapour recovery requirements;
- working with our power distributors to extend the electrical grid to new development areas;
- adopting a pad drill philosophy wherever possible to aggregate wells onto a single well pad to reduce the number of flare stacks, roads and pipelines required, and to reduce the volume of purge/pilot fuel gas required, thereby lessening the overall environmental footprint of our operations;
- utilizing waste flash gas volumes to replace fuel gas in flare pilot supply and thereby reducing our total flare volume requirements.

Trilogy also works with industry and government to ensure our water resources, including rivers, streams, lakes and wetlands, as well as the groundwater systems that are linked to them are being used in a safe and sustainable manner.

For the benefit of all our stakeholders, Trilogy continues to monitor, review and implement new operational processes to demonstrate its commitment to improving environmental performance.

safetyfirst
TRILOGY ENERGY

TRILOGY CARES

Community Involvement

Trilogy continues to assist the communities that we live in by way of corporate donations, but also by way of volunteering. As the June floods impacted Calgary and the outlaying areas, employees were urged to assist in the midst of the June flooding and many volunteered where they could. The flood also prompted another fundraising effort with the Canadian Red Cross in need of aid. Trilogy matched financial contributions made by employees 100 percent.

Our Days of Caring commitment were well attended by Trilogy volunteers. This year's efforts included Ronald McDonald House, Soup Sisters, Habitat For Humanity, The Calgary Inter-Faith

Food Bank, The Veteran's Food Bank, The Scotia Bank Charity Challenge Marathon, Fox Creek Santa's Anonymous, and The Scouts.

Our 2013 United Way of Calgary campaign realized the largest employee donation amount compared to previous years. We kicked off the campaign with a presentation of the "All In for Youth" initiative, which works to ensure more youth successfully complete high school and transition to further education, work and adult life. Trilogy was pleased to once again, match 100 percent of employee contributions.

In 2013, in recognition of our commitment to our field operations, Trilogy partnered with Athabasca, Chevron, Encana and Shell to form the Fox Creek Operators Group. The group will work together to support the responsible development of the area and year-round industry activities, by identifying efficiencies and delivering long-term value in the area. Our goals are to: positively influence the social and economic viability of the region; build the capacity of communities to manage growth in a sustainable, positive way; sustain our accountability, ensure our transparency and follow through on our commitments to operational excellence.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of March 4, 2014.

FINANCIAL AND OPERATING HIGHLIGHTS

- Trilogy added 19.5 MMBoe of proved reserves (50 percent oil and NGLs) and 20.8 MMBoe of proved plus probable reserves (53 percent oil and natural gas liquids), including positive technical revisions.
- Trilogy replaced 154 percent of 2013 produced reserves when compared to proved reserve additions, and 165 percent when compared to proved plus probable reserves.
- 2013 reported sales volumes averaged 34,509 Boe/d as compared to 33,510 Boe/d in 2012, representing a 3 percent increase in production. Reported sales volumes for the fourth quarter of 2013 averaged 33,561 Boe/d as compared to 31,211 for the previous quarter, representing an 8 percent increase in production.
- 2013 oil sales volumes increased 11 percent to 10,175 Bbl/d from 9,153 Bbl/d in 2012. Oil sales volumes increased 4 percent in the fourth quarter over the third quarter of 2013. Combined oil and natural gas liquids sales volumes represented 43 percent of total sales volumes for the year (40 percent in 2012).
- Trilogy's production from the Montney oil pool averaged 11,653 Boe/d in 2013, which is up 19 percent when compared to 9,829 Boe/d in 2012.
- 2013 net capital expenditures totaled $396.9 million as compared to $351.3 million in 2012. $70.3 million was spent in the fourth quarter of 2013 as compared to $100 million in the prior quarter.
- Finding and development costs (1) were $21.45/Boe for total proved reserves and $19.60/Boe for proved plus probable reserves.
- 81 (57.2 net) wells were drilled in 2013, as compared to 75 (47.9 net) wells in 2012. 15 (8.5 net) wells were drilled in the fourth quarter, as compared to 21 (14.8 net) wells in the prior quarter. During the year, Trilogy spent approximately $100 million to drill, complete and tie-in 13 (7.4 net) wells targeting the Duvernay formation.
- 2013 funds flow from operations (1) totaled $280.5 million as compared to $241.9 million in 2012, representing a 16 percent increase year-over-year. Funds flow from operations (1) increased to $57.9 million for the fourth quarter as compared to $54.2 million in the previous quarter.
- Dividends declared to Shareholders in 2013 totaled $50.2 million or 17 percent of cash flow from operating activities (2012 – $49.0 million or 21 percent). Dividends for the fourth quarter of 2013 were $13.2 million or 35 percent of cash flow from operations (prior quarter – $12.4 million or 13 percent).
- Capacity under Trilogy's revolving credit facility was $320 million at year-end.

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

BUSINESS ENVIRONMENT AND ECONOMIC CONDITIONS

A reduction in natural gas drilling activity throughout 2012 and into 2013, together with increased consumer demand, reduced gas storage levels to a point in-line with 5-year historical averages through much of the 2013. Significant volatility in consumer demand, driven primarily by temperature fluctuations in the United States through the fourth quarter of 2013 into 2014, resulted in significant draws on gas storage levels and a meaningful increase in Trilogy's realized gas price. Trilogy remains cautiously optimistic that gas prices will remain in-line with current prices through 2014.

Volatility in the discount differential between the Edmonton par price to WTI (West Texas Intermediate) and general volatility in the world oil price continue to impact the realized price in Canada. Factors contributing to this volatility include continued European, North American and Asian economic concerns; geo-political tensions in the Middle East; increasing domestic oil supplies in the United States and the availability of pipeline capacity in Canada to export oil to consuming markets. As a result, oil producers in Canada have experienced lower prices for their oil through the fourth quarter of 2013 through to the date hereof.

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

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

	Q4 2013	Q3 2013	YTD 2013	YTD 2012
Crude Oil				
West Texas Intermediate monthly average (U.S.$/Bbl)	**97.46**	105.82	**97.98**	94.19
Edmonton Par monthly average (Cdn$/Bbl)	**86.26**	105.17	**93.24**	86.53
Natural Gas				
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**3.86**	3.56	**3.68**	2.79
AECO monthly average (Cdn$/GJ)	**3.52**	2.43	**3.13**	2.32
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.06**	1.03	**1.06**	0.99

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

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

Trilogy's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, the effectiveness of the Company's approach to managing commodity price volatility, capital spending allocations, its ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to control costs.

The Company's key measures of performance with respect to these drivers include, but are not limited to, average production per day, average realized prices, average operating costs per unit of production and average annual finding and development cost per unit of reserve additions. Trilogy's performance during the last three years with respect to these and other measures is set out below.

(In thousand dollars except as otherwise indicated)	2013	2012	2011
Average production (Boe/d)	**34,509**	**33,510**	28,012
Oil and natural gas liquids production	**43%**	**40%**	29%
Average realized prices - $/Boe (before financial instruments)	**44.73**	**37.16**	37.26
Natural gas ($/Mcf)	**3.55**	**2.57**	3.88
Oil ($/bbl)	**87.01**	**79.76**	89.21
Natural gas liquids ($/Boe)	**50.27**	**47.85**	56.99
Average realized prices - $/Boe (after financial instruments)	**44.21**	**36.76**	37.48
Natural gas ($/Mcf)	**3.55**	**2.57**	3.88
Oil ($/bbl)	**85.22**	**78.32**	90.84
Natural gas liquids ($/Boe)	**50.27**	**47.85**	56.99
Total assets	**1,546,729**	**1,395,111**	1,260,364
Long-term debt	**550,530**	**592,325**	413,249
Total revenues and other income (1)	**551,755**	**466,490**	376,474
Average operating cost ($/Boe)	**10.82**	**8.33**	8.29
Earnings (loss) before income tax	**18,702**	**(12,093)**	25,042
Per diluted Share ($/Share)	**0.15**	**(0.10)**	0.21
Net earnings (loss)	**11,467**	**(12,133)**	17,415
Per Share– Basic ($/Share) (2)	**0.10**	**(0.10)**	0.15
Per Share – Diluted ($/Share) (2)	**0.09**	**(0.10)**	0.15
Cash flow from operating activities	**291,750**	**235,351**	215,753
Per diluted Share ($/Share) (2)	**2.41**	**1.97**	1.82
Funds flow from operations (3)	**280,511**	**241,941**	218,502
Per diluted Share ($/Share) (2)	**2.32**	**2.03**	1.84
Dividends declared	**50,188**	**48,956**	48,656
Per Voting and Non-Voting Share ($/Share) (2)	**0.420**	**0.420**	0.420
Net exploration and development expenditures	**396,900**	**351,316**	349,879
Finding and development cost (3):			
Proved ($/Boe)	**21.45**	**17.60**	18.52
Proved plus probable ($/Boe)	**19.60**	**16.63**	17.23

(1) Includes sales from petroleum and natural gas, financial instrument gains and losses and other income
(2) Includes both Common and Non-voting shares. Refer to Shares, Options and Rights section of this MD&A
(3) Refer to the advisory on Non-GAAP measures at the end of this MD&A

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	**Three Months Ended**		**Twelve Months Ended**	
	December 31, 2013	**September 30, 2013**	**December 31, 2013**	**December 31, 2012**
Operating income[1]	**72,089**	71,994	**336,908**	281,315
Other income	**97**	91	**558**	882
Realized financial instrument losses [2]	**(1,059)**	(5,272)	**(4,689)**	(2,773)
Actual decommissioning and restoration costs	**(2,181)**	(90)	**(4,202)**	(2,754)
Operating netback[1]	**68,946**	66,723	**328,575**	276,670
Interest and financing charges[5]	**(8,850)**	(9,722)	**(38,113)**	(23,260)
General and administrative expenses	**(2,199)**	(2,836)	**(9,951)**	(11,469)
Funds flow from operations[1]	**57,897**	54,165	**280,511**	241,941
Non-cash items:				
Depletion, depreciation, and impairments	**(65,379)**	(49,199)	**(228,405)**	(224,295)
Unrealized financial instrument gains (losses)[2]	**1,805**	(8,617)	**(8,097)**	12,724
Share based compensation	**(4,140)**	(4,974)	**(19,290)**	(16,227)
Exploration expenditures[3]	**(3,974)**	(673)	**(5,900)**	(24,900)
Amortization of financing fees	**(377)**	(379)	**(1,922)**	(511)
Other gains	**2,720**	8	**2,455**	1,310
Accretion on decommissioning and restoration liability[4]	**745**	(1,236)	**(1,170)**	(2,095)
Deferred income tax recovery (expense)	**1,791**	1,482	**(7,235)**	(40)
Unrealized foreign exchange gains (losses) and other	**172**	(31)	**520**	(40)
Profit (loss) and comprehensive income	**(8,739)**	(9,454)	**11,467**	(12,133)

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

[2] See Risk Management section below

[3] Includes costs associated with impairments, geological and geophysical and expired mineral lease costs

[4] Equals the accretion in excess of actual amounts paid on decommissioning and restoration activities in the period

[5] Excludes amorization of financing fees

FUNDS FLOW FROM OPERATIONS

Funds Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	**Three Months Ended** December 31, 2013	**Three Months Ended** September 30, 2013	**Twelve Months Ended** December 31, 2013	**Twelve Months Ended** December 31, 2012
Sales	**40.84**	47.13	**44.73**	37.16
Transportation costs	**(1.33)**	(1.31)	**(1.32)**	(1.27)
Royalties	**(5.22)**	(6.25)	**(5.85)**	(4.61)
Operating costs	**(10.94)**	(14.50)	**(10.82)**	(8.33)
Operating income[1]	**23.35**	25.07	**26.75**	22.94
Other income	**0.03**	0.03	**0.04**	0.07
Realized financial instruments losses [2]	**(0.34)**	(1.84)	**(0.37)**	(0.23)
Actual decommissioning and restoration costs	**(0.71)**	(0.03)	**(0.33)**	(0.22)
Operating netback[1]	**22.33**	23.24	**26.09**	22.56
Interest and financing charges[3]	**(2.87)**	(3.39)	**(3.03)**	(1.90)
General and administrative expenses	**(0.71)**	(0.99)	**(0.79)**	(0.94)
Funds flow from operations[1]	**18.75**	18.86	**22.27**	19.73

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

(2) See Risk Management section below

(5) Excludes amortization of financing fees

Operating Income Items

Fourth Quarter 2013 vs. Third Quarter 2013			Increase (Decrease)	
(In thousand dollars except as otherwise indicated)	**Q4 2013**	**Q3 2013**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**117,368**	108,538	8,830	8
Oil (Bbl/d)	**8,932**	8,592	340	4
Natural gas liquids (Boe/d)	**5,068**	4,530	538	12
Total (Boe/d)	**33,561**	31,211	2,350	8
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.59**	3.14	0.45	14
Oil ($/bbl)	**78.97**	102.30	(23.33)	(23)
Natural gas liquids ($/Boe)	**48.20**	55.58	(7.38)	(13)
Average realized price	**40.84**	47.13	(6.30)	(13)
Average realized prices after financial instruments [1] and before transportation:				
Natural gas ($/Mcf)	**3.59**	3.14	0.45	14
Oil ($/bbl)	**77.72**	95.07	(17.35)	(18)
Natural gas liquids ($/Boe)	**48.20**	55.58	(7.38)	(13)
Average realized price	**40.50**	45.14	(4.64)	(10)
Operating income[2]				
Natural gas	**38,720**	31,317	7,403	24
Oil	**64,891**	80,861	(15,970)	(20)
Natural gas liquids	**22,474**	23,164	(690)	(3)
Total petroleum and natural gas sales before financial instruments	**126,085**	135,342	(9,257)	(7)
Royalties	**(16,109)**	(17,958)	(1,849)	(10)
Operating costs	**(33,770)**	(41,630)	(7,860)	(19)
Transportation costs	**(4,117)**	(3,760)	357	9
Operating income[2]	**72,089**	71,994	95	-

[1] Includes only realized financial instrument gains and losses on oil

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

Comparison between Fourth Quarter 2013 over Third Quarter 2013

Petroleum and Natural Gas Sales Before Financial Instruments and Transportation – Oil sales decreased by $15.9 million due to lower realized prices ($18.4 million) offset by higher sales volumes ($2.5 million). Natural gas sales increased by $7.4 million due to higher realized prices ($4.5 million) and by higher sales volumes ($2.9 million). NGL sales decreased by $0.7 million due to higher sales volumes ($2.4 million) which were more than offset by lower realized prices ($3.1 million). The increase in production in the fourth quarter was attributed to the absence of production disruptions that occurred in the third quarter for major scheduled maintenance at the Trilogy operated North Kaybob 8-9 plant and work performed at several non-operated facilities. New well production from Trilogy's liquids rich Duvernay shale gas play and higher recoveries under Trilogy's NGL Recovery Agreement with Aux Sable Canada LP also contributed to the increase.

Royalties – Trilogy's effective royalty rate as a percent of sales was 12.8 percent as compared to 13 percent in the previous quarter. The decrease was primarily attributable to decreased rates on lower oil and NGL prices.

Operating Costs – Operating costs decreased in total and on a per unit of production basis, as significant scheduled maintenance work was incurred in the previous quarter at Trilogy's North Kaybob 8-9 plant and at other facilities.

Year-to-date 2013 vs Year-to-date 2012			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**YTD 2013**	**YTD 2012**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**117,038**	120,250	(3,212)	(3)
Oil (Bbl/d)	**10,175**	9,153	1,022	11
Natural gas liquids (Boe/d)	**4,827**	4,315	512	12
Total (Boe/d)	**34,509**	33,510	999	3
Average realized prices before financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**3.55**	2.57	0.99	38
Oil ($/Bbl)	**87.01**	79.76	7.25	9
Natural gas liquids ($/Boe)	**50.27**	47.85	2.42	5
Average realized price	**44.73**	37.16	7.58	20
Average realized prices after financial instruments [(1)] and before transportation:				
Natural gas ($/Mcf)	**3.55**	2.57	0.99	38
Oil ($/Bbl)	**85.22**	78.32	6.90	9
Natural gas liquids ($/Boe)	**50.27**	47.85	2.42	5
Average realized price	**44.21**	36.76	7.46	20
Operating income[(2)]				
Natural gas	**151,724**	112,924	38,800	34
Oil	**323,162**	267,199	55,963	21
Natural gas liquids	**88,577**	75,574	13,003	17
Total petroleum and natural gas sales before financial instruments	**563,463**	455,697	107,766	24
Royalties	**(73,644)**	(56,599)	17,045	30
Operating costs	**(136,296)**	(102,203)	34,093	33
Transportation costs	**(16,615)**	(15,580)	1,035	7
Operating income[(2)]	**336,908**	281,315	55,593	20

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

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

Comparison between Year-to-date 2013 over Year-to-date 2012

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $55.9 million due to higher volumes ($31.7 million) and higher realized prices ($24.2 million). The continued development of Trilogy's Kaybob Montney oil pool contributed to the increase in production. Natural gas sales increased by $38.8 million due to higher realized natural gas prices ($43.4 million) offset, in part, by lower sales volumes ($4.5 million). Natural gas volumes declined in conjunction with the increased allocation of capital to Trilogy's Montney oil pool and related development and oil production. NGL sales increased by $13.0 million on higher realized NGL prices ($3.8 million) and on higher sales volumes ($9.2 million). The increase in NGL sales volumes was attributed primarily to the increased development of Trilogy's liquids rich Duvernay shale gas play.

Royalties – Trilogy's effective royalty rate as a percent of sales was 13 percent as compared to 12 percent in the previous year. Royalties were higher, primarily as a result of the relative increase in liquids production attracting higher royalty rates. The increase was also attributed to higher royalty rates on increased gas prices, partially offset by incentives realized in the year under the Alberta royalty regime, including the Natural Gas Deep Drilling Royalty Program, and the New Well Royalty Reduction Incentive Program.

Operating Costs – Operating costs increased on higher gathering and disposal costs associated with the increase in liquids production and on significant maintenance work performed at the Trilogy operated North Kaybob 8-9 plant and other facilities and oil well workovers. Increased workovers, compression charges and a general increase in the cost for power, labor and other services were also experienced in 2013 over 2012.

OTHER INCOME STATEMENT ITEMS

Depletion, Depreciation Expense, and Impairments

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	**September 30, 2013**	**December 31, 2013**	**December 31, 2012**
Reported amount	**65,379**	49,199	**228,405**	224,295
Expense per sales volume ($/Boe)	**21.17**	17.13	**18.13**	18.29

Depletion and depreciation expense increased in the fourth quarter of 2013 relative to the prior quarter primarily due to the recording of $12.9 million of impairments in the Grande Prairie and Kaybob areas and on the increased production. The impairment in Grande Prairie ($0.7 million) was a function of reduced commodity price estimates relative to prior year while the Kaybob ($12.2 million) impairment was pursuant to the aforementioned future commodity price reduction and higher costs incurred in conjunction with progressing Trilogy's emerging Duvernay shale play. On a year-over-year basis, depletion and depreciation expense on a per Boe basis was lower in part due to an increase in reserve base on Trilogy's Montney oil and Duvernay shale plays relative to the annual production contributing to the lower depletion rate, offset in part by the aforementioned impairment in 2013. Refer to note 8 and 11 of the Annual Financial Statements for additional information on property, plant and equipment and impairments thereon.

Exploration Expenditures

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	September 30, 2013	December 31, 2013	December 31, 2012
Expired mineral leases	**2,323**	437	**3,903**	5,043
Impairments	**1,761**	-	**1,761**	17,738
Geological and geophysical	**(111)**	236	**236**	2,119
Exploration and evaluation expenses	**3,973**	673	**5,900**	24,900

Exploration expenditures consist of the costs of expired leases, impairments on exploratory wells and geological and geophysical amounts. The change in exploration and evaluation expenditures between the above periods is due mainly to fluctuations in impairments and the costs of expired mineral leases. Exploratory wells, by their nature, have increased risks and uncertainties that could translate into cost over-runs and reduced production and reserve additions. 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 are a reflection of these challenges and represent costs incurred in excess of the benefit Trilogy expects to obtain from the well. Refer to notes 9 and 11 of the Annual Financial Statements for more information on exploration and evaluation activities and the related impairments.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	September 30, 2013	December 31, 2013	December 31, 2012
Salaries and other benefits	**6,723**	6,495	**26,424**	24,277
Office and communications	**1,161**	1,180	**4,515**	4,229
Corporate and other	**837**	705	**2,770**	2,578
Overhead recoveries and reclassifications to operating costs	**(6,523)**	(5,544)	**(23,758)**	(19,614)
Reported amount	**2,198**	2,836	**9,951**	11,469
Expense per sales volume ($/Boe)	**0.71**	0.99	0.79	0.94

General and administrative expenses were lower in 2013, primarily as a result of higher overhead recoveries on relatively higher capital expenditures, partially offset by increased salary and benefit costs. Increased sales volumes in 2013 relative to staffing levels at Trilogy further reduced general and administrative expenses on a per unit of production basis.

Share Based Compensation

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	**September 30, 2013**	**December 31, 2013**	**December 31, 2012**
Share Incentive Plan	**1,311**	1,311	**5,646**	4,595
Share Option Plan	**2,829**	3,663	**13,644**	11,632
Reported Amount	**4,140**	4,974	**19,290**	16,227
Expense per sales volume ($/Boe)	**1.34**	1.73	**1.53**	1.32

The increase in share based compensation expense for 2013 was attributed primarily to the amortization of higher fair values associated with options granted under Trilogy's Share Option Plan and Share Incentive Plan. Changes to risk free interest rates, volatility assumptions, dividend yields, and expected lives of the options granted will impact the fair value attributed to any given share option grant.

Interest, Financing, and Accretion Charges

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	**September 30, 2013**	**December 31, 2013**	**December 31, 2012**
Accretion on decommissioning and restoration liability	**1,437**	1,326	**5,372**	4,849
Interest and other finance costs(1)	**9,227**	10,101	**40,035**	23,771
Expense per sales volume ($/Boe)	**2.99**	3.52	**3.18**	1.94

(1) Includes the amortization of financing fees therein

Accretion charges represent the increase in the decommissioning and restoration liability associated with the passage of time. Accretion on the Company's decommissioning and restoration liability for three months ended December 31, 2013 was relatively consistent with the prior quarter. Compared to the same period last year, accretion was higher as a result of increased drilling activities and the associated estimated costs for decommissioning and restoration thereon.

Interest expense decreased during the current quarter as compared to the prior quarter primarily as a result of the Company's proceeds from its equity issuance being applied to reduce borrowings under Trilogy's revolving credit facility. Interest expense increased during 2013 as compared to 2012 as a result of higher average debt levels, and the impact on the Company's effective interest rate of the 7.5 percent senior unsecured notes, issued in December of 2012, being outstanding for all of 2013. For additional information on Trilogy's long-term debt, refer below under the "Long-term Debt" section of this MD&A and to note 15 of the Annual Financial Statements.

RISK MANAGEMENT

Financial Risks

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

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

	Three Months Ended		Twelve Months Ended	
(In thousand dollars except as indicated)	**December 31, 2013**	**September 30, 2013**	**December 31, 2013**	**December 31, 2012**
Realized gain (loss) on financial instruments	**(1,059)**	(5,272)	**(4,689)**	(2,773)
Unrealized gain (loss) on financial instruments	**1,805**	(8,617)	**(8,097)**	12,724
Total gain (loss) on financial instruments	**746**	(13,889)	**(12,786)**	9,951
Realized gain (loss) on financial instruments ($/Boe)	**(0.34)**	(1.84)	**(0.37)**	(0.23)

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

Realized losses on derivative financial instruments for the current quarter occurred primarily as a result of an increase in the market price of oil as compared to Trilogy's hedged average price. Refer to notes 23 and 24 of the Annual Financial Statements for more information on realized and unrealized financial instruments gains and losses.

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

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

Crude Oil

Term	Volume (Bbl/d)	Average USD WTI Price/Bbl
H1 2014	5,000	$92.76
H2 2014	4,000	$92.88

Natural Gas

	Financial Forward Sale	
Term	Volume (GJ/d)	Average CAD Price/GJ
April 2014 through October 2014	20,000	$4.33

Power

Term	MW/h	Average CAD Price/MW/h
2014 through 2016	6	$50.44

Operational and Other Risks

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

LIQUIDITY AND CAPITAL RESOURCES

(In thousand dollars)	December 31, 2013	December 31, 2012
Current liabilities net of current assets	**65,523**	44,460
Long-term debt	**550,530**	592,325
Net debt[(1)]	**616,053**	636,785
Shareholders' equity	**665,849**	486,399
Total	**1,281,902**	1,123,184

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

Working Capital

Increased cash flow from operating activities and the proceeds from equity issued in 2013 more than offset cash outflows from investing activities and dividends paid in the year. The aforementioned factors were primarily responsible for the decrease in net debt from $636.8 million at December 31, 2012 to $616 million at December 31 2013. The working capital deficiency is funded by cash flow from operations and draw-downs from the Company's revolving credit facility. Refer to Capital Management and Liquidity section in the Annual Financial Statements.

Long-term Debt

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

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

Revolving Credit Facility

Trilogy's bank debt outstanding under its revolving credit facility was $256.9 million (before unamortized interest discount and financing costs) as at December 31, 2013.

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

- total commitments of $650 million, consisting of a $35 million working capital tranche and a $615 million revolving tranche;
- a maturity date of April 30, 2016;
- the working capital and revolving tranches are subject to semi-annual borrowing base reviews; and,
- advances drawn on the credit facility are secured by a fixed and floating charge debenture over the assets of the Company.
- In the event the credit facility is not extended or renewed, amounts drawn down under the facility would be due and payable on the above maturity date.

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

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

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

"Adjusted EBITDA" refers to "Funds flow from operations" (see Non-GAAP disclosures) in addition to cash interest and tax expenses and certain other items that do not appear individually in the line items of the Company's financial statements.

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

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

As at December 31, 2013, the Company is in compliance with all debt covenants.

The effective interest rate on Trilogy's revolving credit facility for the year (excluding other financing costs) was 3.9 percent.

The size of the committed credit facilities is based primarily on the value of Trilogy's producing petroleum and natural gas assets as determined by the lenders. Note 22 of the Annual Financial Statements provides a comparison of Trilogy's debt structure against the committed amount on existing credit facilities at the listed balance sheet dates therein.

<u>Senior Unsecured Notes</u>

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

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

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

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

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

To the extent the Company experiences a change of control, each holder of the Notes will have the right to require the Company to repurchase, at 101 percent, all or part of such holder's Notes. The notes were initially recognized at fair value net of transactions costs and are subsequently measured at amortized cost using an effective interest rate of 7.5 percent.

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

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

Contractual Obligations

In addition to the commodity contracts disclosed above, the Company has the following estimated contractual financial obligations (undiscounted) as at December 31, 2013:

	Payable in				
(In thousand dollars)	**2014**	**2015 – 2016**	**2017 – 2018**	**beyond 2018**	**Total**
On or partially on balance sheet:					
Long-term debt(1)	-	255,495	-	300,000	555,495
Asset retirement obligations(2)	4,286	8,831	9,188	217,516	239,821
Off balance sheet:					
Estimated interest on long-term debt(1)	32,174	56,530	43,500	21,750	153,954
Fractionation and pipeline transportation commitments(3)	12,375	22,083	20,591	73,276	128,326
Office premises operating leases(4)	2,759	6,524	2,296	-	11,579
Vehicle and energy service commitments	3,247	893	66	-	4,206
Total	54,841	350,356	75,641	612,542	1,093,381

(1) Debt relating to the revolving credit facility has been assumed to be payable within 2.33 years based on the existing terms of the agreement. Interest on this debt was calculated based on an approximate interest rate of 4.08 percent per annum applied to the outstanding balance as at December 31, 2013. Interest on the unsecured senior notes is payable at 7.25 percent per annum on the principal balance with a maturity date of December 13, 2019.

(2) The contractual obligation relating to asset retirement obligation is undiscounted. The present value of such obligation is recorded on the Company's consolidated balance sheet.

(3) Some of the pipeline transportation commitments are covered by letters of credit issued by the Company totaling $9.4 million as at December 31, 2013.

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

During the year, Trilogy executed on various pipeline transportation commitments to firmly secure additional pipeline capacity and fractionation service primarily to accommodate future production from its Duvernay shale play.

Shares, Options and Rights

Trilogy had 125,268,472 Shares outstanding as at December 31, 2013, consisting of 99,432,610 Common Shares and 25,835,862 Non-Voting Shares. For a detailed continuity of Trilogy's share capital in 2012 and 2013, refer to note 18 of the Annual Financial Statements.

During the year 1,473,400 share options were exercised for proceeds of $10.5 million.

Outstanding share options issued under Trilogy's share option plan were 7,267,500 as at December 31, 2013 and 7,082,500 share options as at the date hereof, of which 2,606,500 share options and 2,508,500 share options were exercisable as at those dates, respectively.

Dividends

(In thousand dollars except where stated otherwise)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	September 30, 2013	December 31, 2013	December 31, 2012
Funds flow from operations[1]	57,897	54,165	280,511	241,941
Net changes in operating working capital	(20,238)	38,172	11,239	(6,590)
Cash flow from operating activities	37,659	92,337	291,750	235,351
Net earnings (loss)	(8,740)	(9,454)	11,467	(12,133)
Dividends declared	13,152	12,398	50,188	48,956
Dividends declared per share (in full amount)	0.105	0.105	0.420	0.420
Excess of cash flow from operations over dividends declared	24,507	79,939	241,562	186,395
Excess (deficiency) of net earnings (loss) over dividends	(21,892)	(21,852)	(38,721)	(61,089)

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

Trilogy's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and where applicable, the repayment of debt. To the extent that the excess of cash flow from operations over dividends is not sufficient to cover capital spending, the shortfall is generally funded by drawdowns from Trilogy's credit facilities. Trilogy intends to provide dividends to Shareholders that are sustainable to the Company considering its liquidity (*refer to the discussion on long-term debt above*) and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Trilogy's payout ratio, calculated as the percentage of dividends declared over cash flow from operating activities, was 17 percent for the twelve months ended December 31, 2013 (21 percent for the twelve months ended December 31, 2012).

Dividends declared to Shareholders may exceed net earnings generated during a given period. Net earnings may not be an accurate indicator of Trilogy's liquidity, as it may be comprised of significant charges not involving cash including future income tax, depletion and depreciation related expenses, accretion on decommissioning liabilities and unrealized mark-to-market gains or losses. In addition, dry hole costs and depletion and depreciation expense is not an appropriate measure of the cost of productive capacity maintenance *(see next paragraph)*. In instances where dividends exceed net earnings, a portion of the cash dividend to Shareholders may represent an economic return of capital.

Trilogy's productive capacity represents its ability to exploit its petroleum and natural gas reserves, and it is measured in terms of the average barrels of oil equivalent it produces and sells in any given period *(refer to the discussions on actual sales volumes under the Results of Operations section above and the Oil and Gas Advisory at the end of this MD&A)*. Maintenance of Trilogy's productive capacity involves the efficient operation and maintenance of its production and processing facilities to enable a steady flow of oil and natural gas, its ability to access third party processing and transportation, and the effective management of its petroleum and natural gas reserves base, including the replacement of produced reserves at attractive finding and development costs. Trilogy's productive capacity may be affected by external factors beyond its control including, but not limited to, weather conditions, general economic conditions, government laws and regulations and access to non-operated facilities. See the Advisories section of this MD&A and Trilogy's Annual Information Form for other risks and uncertainties impacting Trilogy's operations.

Trilogy's disclosures on dividends comply, in all material respects, with applicable existing guidance on MD&A preparation and disclosure relating to dividends.

Capital Expenditures

(In thousand dollars except where stated otherwise)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	**September 30, 2013**	**December 31, 2013**	**December 31, 2012**
Land	**-**	-	**611**	1,027
Geological and geophysical	**(111)**	237	**235**	2,119
Drilling, completions, and tie-ins	**62,349**	86,972	**342,287**	286,438
Production equipment and facilities	**10,947**	12,546	**56,298**	59,710
	73,185	99,754	**399,431**	349,294
Proceeds from property dispositions	**(3,080)**	(2)	**(3,081)**	(1,896)
Property acquisitions	**31**	-	**212**	494
Corporate assets	**183**	137	**338**	3,424
Net capital expenditures	**70,319**	99,889	**396,900**	351,316

Capital expenditures increased in 2013 over 2012. Increased drilling and completion work was performed at the Kaybob Montney oil pool, Montney gas, Dunvegan and Nikanassin oil and Duvernay shale plays during 2013. Production and facility expenditures year over year were lower as Trilogy built and expanded its Kaybob Montney oil and Presley gas plays infrastructure in 2012. Contributing to the production and facilities expenditures in 2013 was the oil infrastructure work completed at Trilogy's Wembley area in Grande Prairie, and significant well pad construction undertaken primarily in Trilogy's Kaybob Montney oil play. Corporate assets decreased year over year as a result of the 2012 acquisition and renovation of a field office at Kaybob.

Decommissioning and Restoration Liability

At December 31, 2013, Trilogy has recorded decommissioning and restoration liabilities of $191.6 million ($197.8 million at December 31, 2012) 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 has been discounted at an average risk-free interest rate of 3.1 and 2.6 percent as at December 31, 2013 and 2012, respectively.

Actual spending under Trilogy's abandonment and reclamation program for the three and twelve months ended December 31, 2013 was $2.2 million and $4.2 million respectively ($2.8 million – full year, 2012).

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).

Wells Drilled

	Three Months Ended				Twelve Months Ended			
(Number of wells)	December 31, 2013		September 30, 2013		December 31, 2013		December 31, 2012	
	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
Natural gas	**9**	**4.5**	10	5.5	**28**	**17.2**	28	17.0
Oil	**6**	**4.0**	11	9.3	**53**	**40.0**	47	30.9
Total	**15**	**8.5**	21	14.8	**81**	**57.2**	75	47.9

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

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

INCOME TAXES

The Company recorded a future income tax expense of $7.2 million for the year and a future income tax recovery of $1.8 million in the fourth quarter. The Company's statutory tax rate of 25 percent was increased to an effective tax rate of 39 percent as a result of share based compensation amounts deducted in computing net income (loss) before tax which are not deductible for tax purposes, offset in part by incentive tax credits recorded under Canada's Scientific Research and Experimental Development ("SR&ED") program. Refer to note 12 of the Annual Financial Statements for additional income tax disclosures.

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

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

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

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

If the proposed reassessments are issued, Trilogy's management will vigorously defend Trilogy's tax filing position. Any amounts paid to the CRA in connection with the defence of such reassessments (being 50% of the cash taxes assessed to be owing, estimated to be approximately $8 million at the most, plus applicable interest) would be refunded on a successful appeal of the reassessments. If the proposed reassessments are issued and defended against, Trilogy's management currently estimates that the ultimate resolution of the matter would take between two to four years.

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

RELATED PARTY TRANSACTIONS

Trilogy had certain transactions with Paramount Resources (“Paramount”), a wholly-owned subsidiary of Paramount Resources Ltd. which owns approximately 15.3 percent of the equity in the Company. The amount of expenses billed and accrued in respect of services provided by Paramount to the Company under a services agreement was $0.1 million and $0.4 million respectively for the three and twelve months ended December 31, 2013. The Company and Paramount also had transactions with each other arising from normal business activities. These transactions were recorded at the fair value of the transacted amount.

OUTLOOK INFORMATION

Trilogy is forecasting modest production growth in 2014 as a large portion of the Company’s capital spending will be allocated to the Duvernay play, which is not expected to add significant production or cash flow until late 2014 at the earliest. Notwithstanding the short term production impact in 2014, Management believes the allocation of capital to the Duvernay will facilitate Trilogy’s long term growth objectives and is a prudent investment of capital at this time. Trilogy is planning a 2014 capital budget of $375 million, of which approximately $150 million will be allocated to the Duvernay to drill approximately 11 net wells, $135 million will be directed towards drilling 30 Montney oil wells and related facilities and the remaining $90 million will be earmarked for the Dunvegan oil, Nikanassin oil and Montney gas plays. Trilogy is providing the following annual estimated guidance for 2014:

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

In the current commodity price environment, Trilogy expects to manage its balance sheet through production replacement, prudent asset management and the continued control over most of its operations. As a growth-oriented corporation, Trilogy must remain flexible in order to respond to volatility in commodity prices. Trilogy is confident in its strategy, its high quality assets and the proven expertise of its employees.

QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per share amounts)	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenue after financial instruments, royalties and other income	**110,992**	103,555	144,222	119,342
Earnings (loss) before tax	**(10,531)**	(10,936)	25,826	14,343
Net earnings (loss)	**(8,740)**	(9,454)	20,017	9,644
Earnings (loss) per Share (in full amounts):				
Basic	**(0.07)**	(0.08)	0.17	0.08
Diluted	**(0.07)**	(0.08)	0.17	0.08

	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenue after financial instruments, royalties and other income	122,499	88,655	107,447	91,290
Earnings (loss) before tax	3,474	(13,413)	447	(2,601)
Net earnings (loss)	1,682	(11,094)	282	(3,003)
Earnings (loss) per Share (in full amounts):				
Basic	0.01	(0.10)	NIL	(0.03)
Diluted	0.01	(0.10)	NIL	(0.03)

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

CRITICAL ACCOUNTING ESTIMATES

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

Reserves Estimation

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

Proved reserves are those reserves that have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Probable reserves are based on geological and/or engineering data similar to that used in estimates of proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves from being classified as proved. Probable reserves are attributed to known accumulations that have a greater or equal to 50% confidence level of recovery. Refer to note 8 and 9 of the Annual Financial Statements for further details.

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 for further details.

Impairment of Non-financial Assets

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

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

Decommissioning and Restoration Costs

Decommissioning and restoration costs will be incurred by Trilogy at the end of the operating lives of Trilogy's oil and gas properties. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including assumptions of inflation, present value discount rates on future liabilities, changes to relevant legal requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Refer to note 16 of the Annual Financial Statements for further details.

Share-based Payments

Trilogy measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value requires the determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires the determination of the most appropriate inputs to the valuation model including the expected life of the option, risk free interest rates, volatility and dividend yield and making assumptions about them. Refer to note 17 of the Annual Financial Statements for further details.

Deferred Income Tax Assets

Trilogy recognizes a benefit related to deferred income tax assets. Assessing the recoverability of deferred income tax assets requires Trilogy to make significant estimates related to expectations of future taxable income based on forecasted cash flows from operations. Trilogy also makes interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of Trilogy's tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Trilogy to realize its deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 12 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 22, 23 and 24 for further details.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2013, the Company adopted the following IFRS:

(i) *IFRS 7 Financial Instruments: Disclosures* - IFRS 7 was amended to provide more extensive quantitative disclosures for financial instruments that are offset in the balance sheet or that are subject to enforceable master netting or similar agreements. The additional disclosures can be found in Note 23. The application of the amendment had no impact on the consolidated statement of comprehensive income or the consolidated balance sheet.

(ii) *IFRS 10 Consolidated Financial Statements* - IFRS 10 provides guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The Company reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change to the consolidation status of its subsidiaries.

(iii) *IFRS 11 Joint Arrangements* - IFRS 11 presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The Company reviewed its joint arrangements and determined that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements. The Company's share of the assets, liabilities, revenues and expenses are recognized in the Annual Financial Statements.

(iv) *IFRS 12 Disclosure of Interests in Other Entities* - IFRS 12 aggregates and amends disclosure requirements included within other standards. The standard requires an entity to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The application of IFRS 12 had no impact on the consolidated statement of comprehensive income or the consolidated balance sheet.

(v) IFRS 13 Fair Value Measurement - IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. The adoption of IFRS 13 resulted in expanded disclosure for financial instruments which are included in note 23.

(vi) In the fourth quarter of 2013, the Company early adopted amendments to IAS 36 Impairment of Assets. The amendments clarified that the recoverable amount is disclosed only when an asset or cash generating unit is impaired. The adoption of this amended standard also resulted in expanded disclosure for recoverable amounts of impaired assets that are calculated based on fair value less costs of disposal methodology, including the disclosure of the fair value measurement level input.

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

(vii) *IAS 32, Financial instruments: Presentation, on asset and liability offsetting.* These amendments are to the application guidance in IAS 32, Financial instruments: Presentation, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

(viii) *IAS 39, Financial Instruments: Recognition and Measurement 'Novation of derivatives'.* This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

(ix) *IFRS 9, Financial Instruments.* IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

(x) *IFRIC 21, Levies.* This is an interpretation of IAS 37: Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (know as an "obligating event". The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management has assessed the effectiveness of Trilogy's internal controls over financial reporting and disclosures controls and procedures as at December 31, 2013 and has concluded that there were no material changes to Trilogy's internal controls over financial reporting since the most recent period.

ADVISORIES

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

- business strategy and objectives for 2014 and beyond (including the development of the Kaybob Montney oil and gas pools and the Duvernay shale play);
- future commodity prices for crude oil, natural gas, NGLs and related products;
- forecast capital expenditures and the amount, timing and allocation thereof;
- estimates of future production, sales volumes and growth, the sources and timing thereof and the relative content of crude oil, natural gas and NGLs therein;
- estimated reserves, reserve life, and the undiscounted and discounted present value of future net revenues there from (including the forecasted prices and costs and timing of expected production volumes and future development capital);
- exploration and development plans and associated operational plans and strategies (including plans for drilling and completion programs, well tie-ins and potential future facility expansions and additions and other construction plans) and the anticipated timing, cost, sources of funding, expected payout and expected benefits thereof;
- the location, extent, geology and potential for development of Trilogy's assets (including the Kaybob Montney oil and gas pools, the Duvernay shale gas development, the Dunvegan and Nikanassin plays, among others); estimates of drilling inventories; tenure, value and prospectivity of Trilogy's current and future land holdings; and the nature and timing of Trilogy's plans to further maintain, delineate and exploit these and other assets;
- projected capacity availability at Trilogy-operated and third party facilities and infrastructure, run-times, expected facility downtime and timing and extent of associated impact on production;
- operating, finding and development, decommissioning, restoration and other costs;
- royalty rates and applicability of government incentive and royalty programs affecting Trilogy;
- approach to and amount of dividends;

- future expenditures and future allowances relating to environmental matters and Trilogy's ability to comply with same;
- expectations of management regarding the timing and benefits of the NGL Recovery Agreement with Aux Sable Canada LP;
- Trilogy's expectations regarding the size and term of its bank credit facility and the cost of borrowing;
- projections as to cash flow, funds flow from operations, future earnings and other measures of profit;
- pro-forma debt levels and reduction of net debt;
- projected results of hedging contracts and other financial instruments;
- income taxation of Trilogy; applicability of income tax legislation; estimates of future tax amounts, tax assets and tax pools; the proposed reassessments by the CRA and potential taxes owing; Trilogy's future taxability; the correct filing of Trilogy's prior tax returns; Trilogy's intention to defend the proposed reassessments by the CRA if issued; the effect of the proposed reassessments by the CRA on Trilogy's business strategy and monthly dividend;
- the expected impact of new accounting pronouncements; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, and results of operations or performance.

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

- future crude oil, natural gas and NGLs and other commodity pricing and supply;
- foreign currency, exchange and interest rates;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- general business, economic, industry and market conditions;
- geology applicable to Trilogy's land holdings;
- current production forecasts and the relative content of crude oil, natural gas and NGLs therein;
- the ability of Trilogy and its industry partners to obtain drilling and operational results, improvements and efficiencies consistent with expectations;
- well economics;
- projected capital investment levels and the successful and timely implementation of capital projects;
- anticipated timelines and budgets being met in respect of drilling programs and other operations;
- the ability of Trilogy to obtain on acceptable terms the required capital to finance its exploration, development and other operations;
- credit facility availability and increases consistent with expectations;
- the ability of Trilogy to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its evaluations and activities;
- the timing and costs of plant turnarounds and pipeline and storage facility construction and expansion and the ability to secure adequate product processing and transportation;
- the ability of Trilogy to market its oil, natural gas, NGLs and other products successfully to current and new customers;
- cash flow consistent with expectations;
- continuity of government royalty and regulatory regimes, including drilling and royalty incentive programs and their application to Trilogy's operations;
- the timely receipt of required regulatory approvals;
- continuity of the mutually beneficial agreement with Aux Sable Canada LP and pricing thereunder;
- the continuation of assumed tax regimes, estimates of deferred tax amounts, tax assets and tax pools;
- the extent of Trilogy's liabilities; and

- other assumptions inherent in current guidance.

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

- fluctuations in crude oil, natural gas, NGLs and other commodity prices;
- fluctuations in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, NGLs yields, taxes, costs and expenses;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil, natural gas and related products, and market demand;
- risks and uncertainties involving the geology of oil and gas;
- the uncertainty of reserves and resource estimates;
- Trilogy's ability to secure adequate product processing, transmission and transportation on a timely basis or at all;
- potential disruptions or unexpected technical difficulties in designing, developing, or operating new, expanded, or existing facilities (including third party operated facilities);
- risks inherent in Trilogy's marketing operations, including credit and other financing risks;
- the ability to generate sufficient cash flow from operations and obtain financing on acceptable terms to fund planned exploration, development, construction and operational activities and to meet current and future obligations, including costs of anticipated projects and repayment of debt;
- volatile business, economic and market conditions;
- general risks related to strategic and capital allocation decisions, including potential delays or changes in plans with respect to exploration or development projects or capital expenditures and Trilogy's ability to react to same;
- availability of equipment, goods, services and personnel in a timely manner and at an acceptable cost;
- health, safety, security and environmental risks;
- The timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- environmental, regulatory and compliance risks including those potentially associated with greenhouse gases and hydraulic fracturing;
- uncertainties as to the availability and cost of financing, including Trilogy's ability to extend its credit facility on an ongoing basis;
- weather conditions;
- the possibility that government policies, regulations or laws may change, including risks related to the imposition of moratoriums;
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- uncertainty in amounts and timing of royalty payments and applicability of and change to royalty regimes and incentive programs including, without limitation, the Natural Gas Deep Drilling Program and the Drilling Royalty Credit Program;
- imprecision in estimates of product sales, tax pools, tax shelter, tax deductions available to Trilogy, changes to and the

interpretation of tax legislation and regulations;
- uncertainty regarding results of objections to Trilogy's exploration and development plans by third party industry participants, aboriginal and local populations and other stakeholders;
- risks associated with existing and potential lawsuits, regulatory actions, audits and assessments;
- changes in land values paid by industry;
- risks associated with Trilogy's mitigation strategies including insurance and hedging activities;
- risks related to the actions and financial circumstances of Trilogy agents and contractors, counterparties and joint venture partners, including renegotiation of contracts;
- the ability of management to execute its business plan; and
- other risks and uncertainties described elsewhere in this document and in Trilogy's other filings with Canadian securities authorities, including its Annual Information Form.

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

Non-GAAP Measures

Certain measures used in this document, including "finding and development costs" , "funds flow from operations", "operating income", "net debt", "operating netback", "payout ratio" and "recycle ratio" 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.

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

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

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

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

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

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

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 fiscal 2013, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 24:1 ("Value Ratio"). The Value Ratio is obtained using the 2013 average realized oil price of $87.01 (CAD$/Bbl) and the 2013 average realized natural gas price of $3.55 (CAD$/mcf). This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

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

ADDITIONAL INFORMATION

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

MANAGEMENT'S REPORT

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

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

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

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

/s/J. H. T. Riddell	*/s/ M. G. Kohut*	
J. H. T. Riddell	**M. G. Kohut**	
Chief Executive Officer	Chief Financial Officer	March 4, 2014

Independent Auditor's Report

To the Shareholders of
Trilogy Energy Corp.

We have audited the accompanying consolidated financial statements of Trilogy Energy Corp., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F:+1 403 781 1825, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trilogy Energy Corp. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 4, 2014

TRILOGY ENERGY CORP.
Consolidated Balance Sheet
(in thousand Canadian dollars)

	Note	December 31, 2013	December 31, 2012
ASSETS			
Current assets			
Restricted cash	6	$ **5,898**	$ 5,369
Trade and other receivables	7, 21, 22, 23	**66,419**	64,978
Derivative financial instruments	22, 23, 24	**24**	2,897
Prepaids		**880**	895
		73,221	74,139
Non-current assets			
Property, plant and equipment	8, 9, 11	**1,145,055**	1,004,660
Exploration and evaluation assets	8, 9, 11	**92,653**	75,353
Deferred tax asset	12	**95,329**	100,488
Goodwill	10	**140,471**	140,471
Total assets		$ **1,546,729**	$ 1,395,111
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	13, 21, 22, 23	$ **128,004**	$ 113,380
Dividend payable	14, 22, 23	**4,384**	4,087
Interest payable	15	**1,132**	1,132
Derivative financial instruments	22, 23, 24	**5,224**	-
		138,744	118,599
Non-current liabilities			
Long-term debt	15, 22, 23	**550,530**	592,325
Decommissioning and restoration liability	16	**191,606**	197,788
Total liabilities		**880,880**	908,712
Shareholders' equity			
Shareholders' capital	17, 18	**1,092,727**	883,758
Contributed surplus	17	**41,875**	32,673
Accumulated deficit		**(468,753)**	(430,032)
		665,849	486,399
Total shareholders' equity and liabilities		$ **1,546,729**	$ 1,395,111

Commitments (Note 25)

See accompanying notes to the consolidated financial statements

On behalf of the Board:

/s/R. M. MacDonald	*/s/ M.H. Dilger*
R. M. MacDonald	**M. H. Dilger**
Director	Director

TRILOGY ENERGY CORP.
Consolidated Statement of Comprehensive Income (Loss)
(in thousand Canadian dollars except per share amounts)

	Note	Year Ended December 31, 2013	2012
Revenue and other			
Petroleum and natural gas sales	27	$ 563,463	$ 455,697
Royalties		(73,644)	(56,599)
Revenue		489,819	399,098
Other income		1,078	842
Gain (loss) on derivative financial instruments	22, 23, 24	(12,786)	9,951
		478,111	409,891
Expenses			
Operating and production		136,296	102,203
Transportation		16,615	15,580
Depletion, depreciation, and impairments	8, 11	228,405	224,295
Exploration and evaluation	9, 11	5,900	24,900
Gain on disposal of assets		(2,455)	(1,310)
General and administrative	26	9,951	11,469
Share-based compensation	17	19,290	16,227
Accretion on decommissioning and restoration liability	16	5,372	4,849
Interest and other finance costs	15	40,035	23,771
		459,409	421,984
Net income (loss) before income tax		18,702	(12,093)
Income tax expense			
Deferred	12	7,235	40
Comprehensive income (loss)		$ 11,467	$ (12,133)
Earnings (loss) per share	19		
- Basic		$ 0.10	(0.10)
- Diluted		$ 0.09	(0.10)

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.

Consolidated Statement of Changes in Equity

(In thousand Canadian dollars except share information)

	Outstanding Common and Non-Voting Shares (1)		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2012	**116,118,158**		**877,682**		**21,706**		**(368,943)**	**$**	**530,445**
Net loss for the period	-		-		-		(12,133)		(12,133)
Share options exercised *(note 17, 18)*	488,100		6,045		(1,240)		-		4,805
Dividends declared *(note 14)*	-		-		-		(48,956)		(48,956)
Share Incentive Plan purchases, net of grants vested *(note 17, 18)*	67,424		31		(4,020)		-		(3,989)
Share-based compensation *(note 17)*	-		-		16,227		-		16,227
Balance at December 31, 2012	**116,673,682**	**$**	**883,758**	**$**	**32,673**	**$**	**(430,032)**	**$**	**486,399**
Net income for the period	-		-		-		11,467		11,467
Share options exercised *(note 17, 18)*	1,473,400		15,655		(5,119)		-		10,536
Share issuance *(note 18)*	7,020,000		193,661		-		-		193,661
Dividends declared *(note 14)*	-		-		-		(50,188)		(50,188)
Share Incentive Plan purchases, net of grants vested *(note 17, 18)*	7,264		(347)		(4,969)		-		(5,316)
Share-based compensation *(note 17)*	-		-		19,290		-		19,290
Balance at December 31, 2013	**125,174,346**	**$**	**1,092,727**	**$**	**41,875**	**$**	**(468,753)**	**$**	**665,849**

(1) Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan (refer to notes 17 and 18 for additional disclosures).

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.

Consolidated Statement of Cash Flows

(in thousand Canadian dollars except as otherwise indicated)

	Note	Year Ended December 31, 2013	2012
Operating activities			
Net income (loss) before income tax		$ 18,703	(12,093)
Adjustments for non-cash and other items:			
Unrealized (gains) losses on derivative financial instruments	22, 23, 24	8,097	(12,724)
Unrealized foreign exchange (gains) losses		(520)	40
Depletion and depreciation	8	228,405	224,295
Exploration and evaluation	9	5,900	24,900
Gain on disposal of assets		(2,455)	(1,310)
Amortization of finance fees		1,922	511
Share based compensation	17	19,290	16,227
Accretion on decommissioning and restoration liability	16	5,372	4,849
Decommissioning and restoration costs in period	16	(4,202)	(2,754)
Change in non-cash working capital	20	11,239	(6,590)
Cash flow from operating activities		291,750	235,351
Investing activities			
Exploration and evaluation expenditures	9	(71,402)	(30,961)
Property, plant and equipment expenditures	8	(328,365)	(321,756)
Property acquisitions	8	(213)	(994)
Proceeds from disposition of property, plant and equipment	8	3,082	1,898
Restricted cash (increase) decrease	6	(529)	(5,369)
Change in non-cash working capital	20	1,960	(8,571)
Cash flow used in investing activities		(395,467)	(365,753)
Financing activities			
Repayments on revolving credit facility	15	(43,214)	(115,625)
Proceeds from senior notes, net of issue costs	15	17	294,148
Dividends paid to Shareholders	14	(49,891)	(48,937)
Share incentive plan purchases	17, 18	(5,316)	(3,989)
Shares issued	17, 18	202,121	4,805
Cash flow from financing activities		103,717	130,402
Change in cash		-	-
Cash balance, beginning of period		-	-
Cash balance, end of period		-	-
Cash interest paid		$ 39,804	$ 23,336

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

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

The policies applied in these Annual Financial Statements are based on IFRS issued and outstanding as of March 4, 2014, the date the Annual Financial Statements were approved for release by Trilogy's Board of Directors.

The Annual Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 23). All values are rounded to the nearest thousand except where otherwise indicated.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions concerning the future that may, by definition, differ from actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements. These estimates and judgments have a significant risk of requiring a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Reserves Estimation

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

Proved reserves are those reserves that have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Probable reserves are based on geological and/or engineering data similar to that used in estimates of proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves from being classified as proved. Proved plus probable reserves are attributed to known accumulations, that have a greater or equal to 50% confidence level of recovery. Refer to note 8 and 9 for further details.

Exploration and Evaluation Expenditures

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. Exploration and evaluation assets include undeveloped land and costs related to exploratory wells. Exploration costs related to geophysical and geological activities are immediately charged to income as incurred. The Company is required to make estimates and judgments about future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. If an exploration and evaluation project is determined to be unsuccessful, all associated costs in excess of the expected net recoverable amount are charged to net income. If commercial reserves are established, the relevant costs are transferred from exploration and evaluation to development and production assets which are classified as property, plant, and equipment. Assets are reviewed for impairment prior to any such transfer. Refer to note 9 for further details.

Impairment of Non-financial Assets

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

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

Decommissioning and Restoration Costs

Decommissioning and restoration costs will be incurred by Trilogy at the end of the operating lives of Trilogy's oil and gas properties. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including assumptions of inflation, present value discount rates on future liabilities, changes to relevant legal requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future results as disclosed in note 16.

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 17 for more details about methods and assumptions used in estimating fair value.

Deferred Income Tax Assets

Trilogy recognizes a benefit related to deferred income tax assets. Assessing the recoverability of deferred income tax assets requires Trilogy to make significant estimates related to expectations of future taxable income based on forecasted cash flows from operations. Trilogy also makes interpretations and 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 12 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 22, 23 and 24 for further details.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jointly Controlled Operations

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

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

Foreign Currency Translation

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

Goodwill

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

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Trilogy's cash generating units or groups of cash generating units that are expected to benefit from the acquisition. Any loss recognized is equal to the difference between the recoverable amount and the carrying value of the goodwill. Impairment losses are recognized, as identified, in the consolidated statement of comprehensive income and cannot be reversed.

Oil and Natural Gas Exploration and Development Expenditures

Exploration and Evaluation Costs

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

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

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

Assets are classified as exploration and evaluation or property, plant and equipment according to the nature of the expenditures and whether or not technical feasibility and commercial viability of extracting oil and gas assets is demonstrable. Costs are retained in exploration and evaluation assets prior to the establishment of technical feasibility and commercial viability of the project.

Such amounts are not subject to depletion or depreciation until they are reclassified to property, plant and equipment once proved developed producing reserves have been assigned to the asset. If such reserves have not been established through the completion of exploration and evaluation activities and there are no future plans for activity in that field, then the exploration and evaluation expenditures are determined to be impaired and the amounts are charged to income.

Impairment

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

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

Development Costs

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

Asset Exchanges

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value. Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on de-recognition of the asset given up is recognized in profit and loss.

Property, Plant and Equipment

Carrying Value

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

Depreciation and Depletion

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

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

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

Impairment

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

For impairment losses identified based on a CGU, or a group of CGUs, the loss is allocated on a pro-rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill specifically allocated to the CGU, or group of CGUs and then by reducing the carrying amount of other assets in the CGU, or group of CGUs, on a pro rata basis. The impairment loss is recognized as an expense in the consolidated statement of comprehensive income.

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

Maintenance and Repairs

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

Borrowing Costs

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

Financial Instruments

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

Financial Assets and Liabilities at Fair Value through Profit or Loss

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

Loans and Receivables

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

Financial liabilities at amortized cost

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

Fair Value

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

Provisions

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

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

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

Decommissioning and Restoration

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

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

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

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

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

Revenue Recognition

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

Cash and Cash Equivalents

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

Share-based Payments and Management Compensation

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date. The fair value of share options is determined using a trinomial model (see note 17).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting periods have accrued and Trilogy's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized from the beginning to the end of that period. Trilogy accrues a cash bonus calculated with reference to dividends declared in conjunction with unexercised stock options outstanding. Upon vesting of those options, such amounts accrued are paid by the Company.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 19).

Dividends

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

Share Capital

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

Earnings per Share

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

5. NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2013, the Company adopted the following IFRS:

(i) *IFRS 7 Financial Instruments: Disclosures* - IFRS 7 was amended to provide more extensive quantitative disclosures for financial instruments that are offset in the balance sheet or that are subject to enforceable master netting or similar agreements. The additional disclosures can be found in Note 23. The application of the amendment had no impact on the consolidated statement of comprehensive income or the consolidated balance sheet.

(ii) *IFRS 10 Consolidated Financial Statements* - IFRS 10 provides guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The Company reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change to the consolidation status of its subsidiaries.

(iii) *IFRS 11 Joint Arrangements* - IFRS 11 presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The Company reviewed its joint arrangements and determined that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements. The Company's share of the assets, liabilities, revenues and expenses are recognized in the Annual Financial Statements.

(iv) *IFRS 12 Disclosure of Interests in Other Entities* - IFRS 12 aggregates and amends disclosure requirements included within other standards. The standard requires an entity to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The application of IFRS 12 had no impact on the consolidated statement of comprehensive income or the consolidated balance sheet.

(v) IFRS 13 Fair Value Measurement - IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. The adoption of IFRS 13 resulted in expanded disclosure for financial instruments which are included in note 23.

(vi) In the fourth quarter of 2013, the Company early adopted amendments to IAS 36 Impairment of Assets. The amendments clarified that the recoverable amount is disclosed only when an asset or cash generating unit is impaired. The adoption of this amended standard also resulted in expanded disclosure for recoverable amounts of impaired assets that are calculated based on fair value less costs of disposal methodology, including the disclosure of the fair value measurement level input.

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

(i) *IAS 32, Financial instruments: Presentation, on asset and liability offsetting.* These amendments are to the application guidance in IAS 32, Financial instruments: Presentation, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

(in thousand Canadian dollars except as otherwise indicated)

(ii) *IAS 39, Financial Instruments: Recognition and Measurement 'Novation of derivatives'.* This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

(iii) *IFRS 9, Financial Instruments.* IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

(iv) *IFRIC 21, Levies.* This is an interpretation of IAS 37: Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (know as an "obligating event". The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

6. RESTRICTED CASH

The Company has a subsidiary with a cash balance of $5.9 million that is restricted for settlement against an equivalent amount recorded within accounts payable and accrued liabilities. Subsequent to year-end, the entire cash balance was paid out in settlement of the related liability.

7. TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-interest bearing and are generally collected on 25 to 60 day terms. As at December 31, 2013 and 2012 none of the receivables have been assessed as impaired.

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

	December 31, 2013	December 31, 2012
Petroleum and natural gas sales and processing income	**43,741**	45,907
Joint venture receivables	**21,632**	18,578
Advances and other	**1,046**	493
	66,419	64,978

	December 31, 2013	December 31, 2012
Current to 90 days	**63,823**	62,481
Greater than 90 days	**2,596**	2,497
Total trade receivables	**66,419**	64,978

(in thousand Canadian dollars except as otherwise indicated)

8. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at December 31, 2011	2,045,386	10,066	2,055,452
Additions to property, plant, and equipment	316,214	3,424	319,638
Additions/revisions to future estimated decommissioning and restoration costs (Note 16)	12,028	-	12,028
Transfers from intangible exploration and evaluation assets (Note 9)	42,232	-	42,232
Disposals	(124)	-	(124)
Balance at December 31, 2012	2,415,736	13,490	2,429,226
Additions to property, plant, and equipment	**327,790**	**339**	**328,129**
Additions/revisions to future estimated decommissioning and restoration costs (Note 16)	**(7,352)**	**-**	**(7,352)**
Transfers from intangible exploration and evaluation assets (Note 9)	**48,618**	**-**	**48,618**
Acquisitions	**33**	**-**	**33**
Disposals	**(1,409)**	**-**	**(1,409)**
Balance at December 31, 2013	**2,783,416**	**13,829**	**2,797,244**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2011	1,192,675	7,594	1,200,269
Depletion and depreciation charge	222,473	1,107	223,580
Impairment charge, net of reversals	715	-	715
Disposals	2	-	2
Balance at December 31, 2012	1,415,865	8,701	1,424,566
Depletion and depreciation charge	**214,875**	**597**	**215,472**
Impairment charge, net of reversals	**12,933**	**-**	**12,933**
Disposals	**(781)**	**-**	**(781)**
Balance at December 31, 2013	**1,642,892**	**9,298**	**1,652,190**
Net carrying value			
At December 31, 2012	999,871	4,789	1,004,660
At December 31, 2013	**1,140,524**	**4,531**	**1,145,055**

The cost of property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations of $156.8 million as at December 31, 2013 (December 31, 2012: $164.2). Property, plant and equipment with a carrying value of $48.2 million as at December 31, 2013 (December 31, 2012: $47.3 million) include development assets under construction that are not being depreciated. No borrowing costs were capitalized to property, plant and equipment in respect of the referenced periods.

(in thousand Canadian dollars except as otherwise indicated)

9. EXPLORATION AND EVALUATION ASSETS

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
Balance at December 31, 2011	88,334	21,039	109,373
Additions	1,027	29,934	30,961
Expensed	(5,043)	(17,738)	(22,781)
Transfers to property, plant and equipment (Note 8)	(12,417)	(29,815)	(42,232)
Acquisitions	494	-	494
Dispositions	(462)	-	(462)
Balance at December 31, 2012	71,933	3,420	75,353
Additions	**609**	**70,793**	**71,402**
Expensed	**(3,903)**	**(1,761)**	**(5,664)**
Transfers to property, plant and equipment (Note 8)	**(134)**	**(48,484)**	**(48,618)**
Acquisitions	**180**	**-**	**180**
Dispositions	**-**	**-**	**-**
Balance at Decembe 31, 2013	**68,685**	**23,968**	**92,653**

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

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Expired mineral leases	**3,903**	5,043
Impairment charge, net of reversals	**1,761**	17,738
	5,664	22,781
Geological and geophysical costs	**236**	2,119
Exploration and evaluation expenditures	**5,900**	24,900

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

(in thousand Canadian dollars except as otherwise indicated)

10. Goodwill

	2013	2012
Cost	**140,471**	140,471
Accumulated impairment losses	**-**	-
Net Book Value at December 31	**140,471**	140,471

Goodwill was assessed for impairment as at December 31, 2013. The recoverable amounts used to assess goodwill were determined using fair value less costs of disposal. Fair value less costs of disposal was estimated for cash-generating units using the after-tax future net cash flows of proved and probable reserves based on forecast prices and costs, discounted at 10 percent. Forecast prices used to determine fair value in the assessment of goodwill were consistent with the forecast prices used to determine the fair value of Trilogy's property, plant and equipment. Refer to note 11 for furher details. The discount rate of 10 percent is reassessed at each reporting date and has remained consistent for goodwill impairment assessments completed as at December 31, 2013 and 2012.

As at December 31, 2013 and December 31, 2012, the recoverable amounts exceeded the aggregated carrying values of the cash-generating units. Accordingly, no impairments to goodwill were recorded.

11. IMPAIRMENT LOSS/ (RECOVERY)

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Impairment Losses recorded within:		
Exploration and evaluation	**1,761**	17,738
Property, plant and equipment	**12,933**	715
	14,694	18,453
Reversal of Previously Booked Impairments		
Exploration and evaluation	**-**	-
Property, plant and equipment	**-**	-
Total impairment losses (recovery)	**14,694**	18,453

An impairment of $1.7 million was recorded on certain of the Company's exploration and evaluations assets immediately prior to their transfer to property, plant and equipment. The impairment represents costs incurred in excess of the benefit Trilogy expects to obtain from the exploratory wells.

At December 31, 2013, the Company also determined that the carrying value of two CGUs exceeded their fair value less costs of disposal. The full amount of the impairment of $12.9 million was recorded on property, plant, and equipment in respect of a CGU in each of the Grande Prairie ($0.7 million) and Kaybob ($12.2 million) areas of Alberta. The amount was recorded as a component of depletion, depreciation, and impairment expense.

The impairment in Grande Prairie was a function of reduced commodity price estimates relative to prior year. A 1 percent change in the discount rate would impact earnings by approximately $0.1

(in thousand Canadian dollars except as otherwise indicated)

million. The recoverable amount of the CGU in the Grande Prairie area is approximately $3.6 million.

The Kaybob impairment was pursuant to the aforementioned future commodity price reduction and higher costs incurred in conjunction with progressing Trilogy's emerging Duvernay shale play. A 1 percent change in the discount rate would impact earnings by approximately $1.4 million. The recoverable amount of the CGU in the Kaybob area is approximately $28.8 million.

The Company determined the recoverable amounts for its CGU's using the fair value less costs of disposal method based on internally generated cash flow projections. In determining fair value less costs of disposal, the Company considered recent transactions within the industry, long-term views of commodity prices, and externally evaluated reserve volumes. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating costs structures and commodity prices. The inputs used in the valuation methodology are considered fair value Level 3 inputs as certain key assumptions are not based on observable market data but, rather, management's best estimate. In computing the recoverable amount, future cash flows were adjusted for risks specific to the CGU and discounted using an after-tax discount rate of 10 percent (2012: 10 percent). The discount rate is considered to approximate the rate of return that a market participant would require for assets of similar characteristics and risk.

Selected key price forecasts used in the estimation of the value of commercial reserves as at December 31, 2013 and December 31, 2012 are as follows:

December 31, 2013

		2014	2015	2016	2017	2018
AECO Gas	Cdn$/MMBtu	**3.99**	**4.14**	**4.50**	**4.75**	**5.01**
Edmonton Light Sweet Crude	Cdn$/Bbl	**96.05**	**97.50**	**97.45**	**97.40**	**98.40**
Edmonton Condensate	Cdn$/Bbl	**103.74**	**103.35**	**103.30**	**103.24**	**104.30**
West Texas Intermediate Crude	U.S.$/Bbl	**96.00**	**95.00**	**95.00**	**95.00**	**96.00**

December 31, 2012

		2013	2014	2015	2016	2017
AECO Gas	Cdn$/MMBtu	3.34	3.83	4.33	4.77	5.11
Edmonton Light Sweet Crude	Cdn$/Bbl	90.00	91.96	93.92	95.88	99.79
Edmonton Condensate	Cdn$/Bbl	97.20	97.48	99.55	101.63	103.71
West Texas Intermediate Crude	U.S.$/Bbl	92.00	94.00	96.00	98.00	100.00

(in thousand Canadian dollars except as otherwise indicated)

12. INCOME TAX

The following table reconciles the income tax expense calculated using the statutory tax rates to the income tax expense per the statements of earnings:

	December 31, 2013	December 31, 2012
Profit (loss) before tax	**18,702**	(12,093)
Expected income tax rate	**25.0%**	25.0%
Expected income tax	**4,676**	(3,024)
Non-deductible share-based compensation expense	**3,502**	3,060
Scientific Research and Experimental Development tax credits	**(829)**	-
Other	**(114)**	4
Income tax expense (recovery)	**7,235**	40

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, 2011	(117,056)	1,476	45,916	169,692	100,028
Recovery (expense) to earnings	406	(2,200)	3,531	(1,777)	(40)
Acquisition of subsidiary	-	-	-	500	500
At December 31, 2012	(116,650)	(724)	49,447	168,415	100,488
Recovery (expense) to earnings	**(11,122)**	**2,024**	**(1,546)**	**3,408**	**(7,235)**
Tax asset recorded on share issue costs in shareholders' capital	**-**	**-**	**-**	**2,076**	**2,076**
At December 31, 2013	**(127,772)**	**1,300**	**47,901**	**173,900**	**95,329**

The $7.2 million deferred income tax expense was charged to the consolidated statement of comprehensive income. A tax benefit on share issue costs of $2.1 million was recorded directly to equity.

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

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

Subsequent to the 2013 year-end, the Company received a letter from the Canada Revenue Agency advising the Company that, subject to submissions by Trilogy, it is proposing to reassess the Company's income tax filings related to its conversion from an income trust to a corporation in early 2010.

(in thousand Canadian dollars except as otherwise indicated)

The proposed reassessments seek to disallow certain tax pools at this time in the amount of $728 million. If these tax pools were to be disallowed it is expected to result in taxable income to prior taxation years of up to $65 million in the aggregate with maximum estimated taxes owing (before applicable interest and penalties) for such years of approximately $16 million and a reduction of $663 million of losses which could have otherwise been carried forward into subsequent taxation years. Amounts paid to the CRA in connection with the defence of the proposed reassessments (being 50% of the cash taxes assessed, estimated to be approximately $8 million, plus applicable interest) would be refunded on a successful appeal of the reassessments.

Trilogy's management remains of the opinion that, after careful consideration and consultation at the time of the Conversion and at this time, Trilogy's tax returns were correct as filed. If the proposed reassessments are issued, Trilogy's management will vigorously defend Trilogy's tax filing position. Accordingly, no reduction to the Company’s tax pools or accrual for the proposed current income tax liability has been incorporated in these financial statements.

The expected reversal of deferred income tax liabilities and deferred income tax assets is as follows:

	December 31, 2013	December 31, 2012
Deferred Income Tax Assets		
Deferred tax assets to be recovered within 12 months	**(6)**	-
Deferred tax assets to be recovered after more than 12 months	**221,801**	217,862
	221,795	217,862
Deferred Income Tax Liabilities		
Deferred tax liabilities to be settled within 12 months	**1,306**	(724)
Deferred tax liabilities to be settled after more than 12 months	**(127,772)**	(116,650)
	(126,466)	(117,374)
Net Deferred Income Tax Assets	**95,329**	100,488

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

13. TRADE AND OTHER PAYABLES

	December 31, 2013	December 31, 2012
Trade and general payables	**18,338**	17,313
Joint venture payables	**13,129**	4,871
Accrued liabilities and other	**96,537**	91,196
	128,004	113,380

Trade and other payables are non-interest bearing and are generally settled within 30 to 60 days. The Company has financial risk management policies in place to facilitate the timely settlement of its liabilities.

14. DIVIDENDS PAYABLE

Dividends declared were $0.42 per Share for the twelve months ended December 31, 2013 and December 31, 2012, respectively. The dividend payable was $4.3 million ($0.035 per Share) as at December 31, 2013 and $4.1 million ($0.035 per Share) as at December 31, 2012.

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

15. LONG-TERM DEBT

Revolving Credit Facility

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

- total commitments of $650 million, consisting of a $35 million working capital tranche and a $615 million revolving tranche.
- a maturity date of April 30, 2016.
- the working capital and revolving tranches are subject to semi-annual borrowing base reviews.
- advances drawn on the credit facility are secured by a fixed and floating debenture charge over the assets of the Company.

Quarterly financial covenants on the Revolving Credit Facility include:

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

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

The following four measures are considered Non-GAAP measures:

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

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

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

(in thousand Canadian dollars except as otherwise indicated)

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

As at December 31, 2013, the Company is in compliance with all debt covenants.

The effective interest rate on Trilogy's revolving credit facility for the year (excluding other financing costs) was 3.85 percent.

The Company has letters of credit totalling $9.4 million as at December 31, 2013 (December 31, 2012: $14.3 million). These letters of credit reduce the amount available for draw under the Company's working capital tranche.

Senior Unsecured Notes

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

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

Long-term debt as at December 31, 2013 and 2012 is comprised of the following:

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Revolving credit facility	**256,984**	299,004
Less prepaid interest and unamortized financing costs	**(1,489)**	(870)
Carrying value	**255,495**	298,134
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(4,965)**	(5,809)
Carrying value	**295,035**	294,191
Total carrying value of long term debt	**550,530**	592,325

Interest expense for the year-ended December 31, 2013 and 2012 is comprised of the following:

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Senior unsecured notes	**21,747**	1,132
Credit facility	**13,258**	21,547
Amortization of finance fees	**1,922**	511
Financing charges and other interest	**3,108**	581
Total interest and other finance costs	**40,035**	23,771

(in thousand Canadian dollars except as otherwise indicated)

16. DECOMMISSIONING AND RESTORATION LIABILITY

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Balance - beginning of period	**197,788**	183,665
Liabilities incurred	**10,506**	9,825
Liabilities settled	**(4,202)**	(2,754)
Accretion	**5,372**	4,849
Revision to estimates [1]	**(17,858)**	2,203
Balance – end of period	**191,606**	197,788

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $239.8 million as at December 31, 2013 (December 31, 2012: $224.4 million).

Settlement of this obligation is expected to be paid from 10 to 30 years and will be funded from the general resources of the Company. The estimated future cash out flows as at December 31, 2013 have been discounted using an average risk free rate of approximately 3.1 percent and an inflation rate of 2.0 percent (2012 – 2.6 percent and 2.0, respectively).

17. SHARE-BASED PAYMENT PLANS

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

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Expense arising from:		
Share Incentive Plan	**5,646**	4,595
Share Option Plan	**13,644**	11,632
Total expense arising from share-based payment transactions	**19,290**	16,227

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

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Beginning	**101,390**	168,814
Purchases	**180,000**	166,200
Vested	**(187,264)**	(233,624)
Ending	**94,126**	101,390

(in thousand Canadian dollars except as otherwise indicated)

The cost to the Company of the Common Shares held in trust was $2.8 million as at December 31, 2013 and $2.4 million at December 31, 2012 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, respectively.

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

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

	Twelve months-ended December 31, 2013		Twelve months-ended December 31, 2012	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at January 1	**$ 19.77**	**7,257,900**	$ 16.39	5,984,000
Granted	**26.97**	**1,591,000**	28.26	1,790,000
Exercised	**7.13**	**(1,473,400)**	9.81	(488,100)
Forfeited	**26.43**	**(108,000)**	20.06	(28,000)
Outstanding at period end	**$ 23.78**	**7,267,500**	$ 19.77	7,257,900
Exercisable at period end	**$ 18.26**	**2,606,500**	$ 11.08	2,740,900

The weighted average fair value of options granted during the period was $8.07 per option (2012: $9.86). The significant inputs into the model were as follows:

	December 31, 2013	December 31, 2012
Dividend yield (percent)	1.43 to 1.57	1.51 to 1.54
Expected volatility (percent)	38 to 47	47 to 48
Risk-free interest rate (percent)	1.38 to 2.08	1.32 to 1.38
Expected life of options (years)	4 - 5	4 - 5

The weighted average share price at the date of exercise for share options exercised in 2013 was $30.12 (2012: $27.36).

(in thousand Canadian dollars except as otherwise indicated)

The range of exercise prices of the outstanding options and exercisable options as at December 31, 2013 were as follows:

		Outstanding Options		Exercisable Options	
Exercise Price Range	Weighted Average Contractual Life Remaining	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$4.85 to $10.19	0.9	1,159,500	$7.07	979,500	$6.81
$10.20 to 26.86	2.4	1,328,000	$12.33	688,000	$12.15
$26.87 to $27.69	5.3	1,535,000	$26.91	5,000	$27.66
$27.70 to $28.27	4.3	1,743,000	$28.27	347,000	$28.27
$28.28 to $38.74	3.3	1,502,000	$38.39	587,000	$38.52
Total	3.4	7,267,500	$23.78	2,606,500	$18.26

18. ISSUED CAPITAL

Authorized

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

Issued and Outstanding and Fully Paid

The following provides a continuity of outstanding share capital:

	Common Shares(1)	Non-Voting Shares	Total		Amount
Shares as at December 31, 2011	85,282,296	30,835,862	116,118,158	$	877,682
Issued - Share Option Plan	488,100	-	488,100		6,045
Cancellation and issuance	5,000,000	(5,000,000)	-		-
Share Incentive Plan purchases	(166,200)	-	(166,200)		(3,989)
Vesting of Share Incentive Plan awards	233,624	-	233,624		4,020
Shares as at December 31, 2012	**90,837,820**	**25,835,862**	**116,673,682**	**$**	**883,758**
Issued - Share Option Plan	**1,473,400**	**-**	**1,473,400**		**15,655**
Share Issuance	**7,020,000**	**-**	**7,020,000**		**193,661**
Share Incentive Plan purchases	**(180,000)**	**-**	**(180,000)**		**(5,316)**
Vesting of Share Incentive Plan awards	**187,264**	**-**	**187,264**		**4,969**
Shares as at December 31, 2013	**99,338,484**	**25,835,862**	**125,174,346**	**$**	**1,092,727**

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

In 2012, Paramount Resources Ltd. completed the sale of 5,000,000 Trilogy Non-Voting Shares that it owned. Upon completion of the sale, the Non-Voting Shares were cancelled and Trilogy issued 5,000,000 Common Shares to a syndicate of underwriters. Trilogy did not receive any proceeds from the secondary market sale.

(in thousand Canadian dollars except as otherwise indicated)

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

19. EARNINGS (LOSS) PER SHARE

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

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**11,467**	(12,133)
Weighted average number of shares for the purposes of basic earnings per share	**118,962,980**	116,418,403
Effect of dilution	**2,018,746**	NIL
Weighted average number of shares	**120,981,726**	116,418,403
Earnings (loss) per share – Basic	**0.10**	(0.10)
Earnings (loss) per share – diluted	**0.09**	(0.10)

At December 31, 2012, the Company had 2,921,104 of potentially dilutive share options for a total weighted average number of shares of 119,339,507.

20. RECONCILIATION OF CHANGES IN NON-CASH WORKING CAPITAL

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Decrease (increase) in trade, other receivables and prepaids	**(1,426)**	(10,698)
Increase (decrease) in trade, other payables and interest payable	**14,625**	(4,463)
	13,199	(15,161)
Changes in non-cash operating working capital	**11,239**	(6,590)
Changes in non-cash investing working capital	**1,960**	(8,571)

21. RELATED PARTY TRANSACTIONS

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

- Pursuant to a services agreement, a Paramount subsidiary provides limited administrative services to the Company. The agreement may be terminated by either party with at least six months written notice. The amount of expenses billed and accrued under this agreement was $0.4 million for the twelve months ended December 31, 2013 (December 31, 2012 - $0.3 million). Costs associated with this agreement are included as part of the general and administrative expenses in the Company’s consolidated statement of comprehensive income.

(in thousand Canadian dollars except as otherwise indicated)

- The Company and Paramount also had transactions with each other arising from the normal course of business. These transactions were as follows:

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Joint venture activities billed by Trilogy to Paramount	**1,036**	7,316
Joint venture activities billed by Paramount to Trilogy	**3,702**	13,436

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

December 31, 2013 Presented in the Balance Sheet as	Normal Business	Services Agreement	Dividend
Trade and other receivables	**507**	**-**	**-**
Trade and other payables	**(83)**	**(73)**	**-**
Dividends payable	**-**	**-**	**(670)**
December 31, 2012 Presented in the Balance Sheet as	**Normal Business**	**Services Agreement**	**Dividend**
Trade and other receivables	348	-	-
Trade and other payables	(30)	(90)	-
Dividends payable	-	-	(670)

The receivables and payables are unsecured in nature and bear no interest. No provisions were held against receivables or payables from Paramount through 2013 and 2012.

22. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

The main risks arising from Trilogy's financial instruments are 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 maybe 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.

(in thousand Canadian dollars except as otherwise indicated)

Trilogy's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivable are from customers and joint venture partners in the Canadian petroleum and natural gas industry are subject to normal industry specific credit risk. The maximum exposure to credit risk at period-end is as follows:

	December 31, 2013	December 31, 2012
Trade and other receivables	**66,419**	64,978
Derivatives Financial Instruments(1)	**24**	2,897
	66,443	67,875

(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 December of 2012, the Company issued $300 million of unsecured senior notes of which proceeds were used to repay its revolving line of credit facility; thereby increasing the amount available for future draws – refer to the capital management section below. The variability of market benchmarks as noted below provides uncertainty as to the level of Trilogy's cash flow from operations. As a result, Trilogy may eliminate or adjust the levels of dividends declared to Shareholders and/or adjust operational and capital spending to maintain its liquidity.

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

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

(1) Estimated interest related to the revolving credit facility for future periods was calculated using the weighted average interest rate for the year ended December 31, 2013 applied to the debt principal balance outstanding as at that date. Principal repayment on the Company's Revolving Credit Facility is assumed on April 30, 2016. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance and principal repayment is assumed on December 13, 2019.

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2012 is as follows:

	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	113,380	-	-	113,380
Dividends payable	4,087	-	-	4,087
Interest payable	1,132			1,132
Long-term debt and estimated interest(1)	34,356	389,336	343,500	767,192
Total	152,955	389,336	343,500	885,791

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, 2012 applied to the debt principal balance outstanding as at that date. Principal repayment on the Company's Revolving Credit Facility was assumed on April 30, 2014. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance and principal repayment is assumed on December 13, 2019.

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

Commodity Price Risk

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

To protect cash flow against commodity price volatility, Trilogy may use derivative commodity price contracts that require financial settlement with counterparties. Derivative contracts are generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production (see note 23 for details of outstanding financial instruments as at December 31, 2013).

Sensitivity Analysis on derivative contracts outstanding at December 31, 2013

As at December 31, 2013, if the forward price of oil had been $10 per barrel lower, with all other variables held constant, net earnings for the year would have increased $17.5 million, due to changes in the fair value of the financial contracts. An equal and opposite impact would have occurred to net earnings had oil prices been $10 per barrel higher.

As at December 31, 2013, if the forward price of power had been $10 per megawatt hour lower, with all other variables held constant, net earnings for the year would have increased $1.6 million, due to changes in the fair value of the financial contracts. An equal and opposite impact would have occurred to net earnings had oil prices been $10 per barrel higher.

Interest Rate Risk

As described in Note 15, Trilogy's credit facility is subject to floating interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The interest rate margin is determined based on a prescribed rate in the underlying agreement and is generally dependent upon Trilogy's debt to adjusted EBITDA as defined therein**.**

Borrowings on Trilogy's credit facility is primarily in the form of bankers' acceptances with fixed terms ranging from 10 to 180 days which are then rolled-over if not repaid on their due dates. Trilogy may enter into interest rate derivative contracts to mitigate the impact of interest rate fluctuations. Assuming all other variables remain constant, an increase or decrease of 1 percent in market interest rates for the year ened December 31, 2013 would have increased or decreased net earnings by $3.2 (2012 - $5.1 million).

(in thousand Canadian dollars except as otherwise indicated)

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

Foreign Currency Risk

Foreign currency rate fluctuations may impact the Company primarily in conjunction with normal conversions of U.S. dollar denominated revenues into the Canadian dollar. Approximately 7 percent of Trilogy's petroleum and natural gas sales for the twelve months ended December 31, 2013 were denominated in the U.S. dollars. Trilogy may enter into derivative currency contracts to mitigate the impact of foreign currency fluctuations.

Capital Management

The Company's capital structure currently consists of borrowings under its senior notes, revolving credit facility, letters of credit issued as financial security to third parties and shareholders' equity.

The objectives in managing the capital structure are to:

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

Management and the Board of Directors review and assess the Company's capital structure and dividend declaration policy at each regularly scheduled board meeting and at other meetings called for that purpose. The financial strategy may be adjusted based on the current outlook of the underlying business, the capital required to fund the reserves program and the state of the debt and equity capital markets. In order to maintain or adjust the capital structure, the Company may (1) issue new shares, (2) issue new debt securities, (3) amend, revise, renew or extend the terms of the existing credit facility (4) enter into agreements establishing new credit facilities, (5) adjust the amount of dividends declared to shareholders, (6) adjust capital spending, and/or (7) sell non-core and/or non-strategic assets.

A comparison of Trilogy's debt structure against the committed amount on its revolving credit facility at December 31 is detailed below:

	December 31, 2013	December 31, 2012
Committed amount that can be drawn from the credit facility (see note 15)	**650,000**	610,000
Outstanding letters of credit	**(9,423)**	(14,253)
Amount that can be drawn after letters of credit	**640,577**	595,747
Revolving credit facility	**(255,495)**	(298,134)
Current liabilities net of current assets	**(65,523)**	(44,460)
Capacity under revolving credit facility	**319,559**	253,153

(in thousand Canadian dollars except as otherwise indicated)

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

	December 31, 2013	December 31, 2012
Revolving credit facility (see note 15)	**(255,495)**	(298,134)
Senior notes (see note 15)	**(295,035)**	(294,191)
Current liabilities, net of current assets	**(65,523)**	(44,460)
Net debt[(1)]	**(616,053)**	(636,785)

(1) Net debt is a Non-GAAP measure

The decrease in net debt above can be attributed primarily to the application of the proceeds from Trilogy's issuance of Common Shares and the incremental operating income received to date, relative capital expenditures incurred and dividends paid in 2013.

23. FINANCIAL INSTRUMENTS

Carrying Values

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

	December 31, 2013	December 31, 2012
Financial assets		
Restricted cash	**5,898**	5,369
Receivables[(1)]	**66,419**	64,978
Financial instruments fair valued through profit and loss[(2)]	**24**	2,897
Financial liabilities		
Other liabilities - non-trading liabilities[(1) (3)]	**(133,520)**	(118,599)
Financial instruments fair valued through profit and loss[(2)]	**(5,224)**	-
Other liabilities - long-term debt[(4)]	**(550,530)**	(592,325)

(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, accrued liabilities, and dividend payable.
(4) The Company's revolving credit facility debt carries interest based on specified benchmark interest rates plus a spread for the Company's own credit risk. The fair values of the revolving credit facility debt approximates its carrying amount due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk. The fair value of the senior unsecured notes is estimated to be 1.04 percent, based on independent broker quotes, of face value or $313 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

(in thousand Canadian dollars except as otherwise indicated)

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

December 31, 2013

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

December 31, 2012

	Derivative financial assets (liabilities) – fair value			
	Level 1	Level 2	Level 3	Total
Foreign exchange derivative contract	-	261	-	261
Interest derivative contract	-	532	-	532
Crude oil derivative contract	-	2,104	-	2,104
		2,897		2,897

The following provides a summary of Trilogy's derivative financial instruments and the effect of netting arrangements on Trilogy's financial position:

December 31, 2013

	Derivative financial assets (liabilities)	
Gross amounts subject to agreements	**24**	**(5,224)**
Amounts set off in accordance with paragraph 42 of IAS 32	**-**	**-**
Net amounts presented in balance sheet	**24**	**(5,224)**
	(5,200)	

December 31, 2012

	Derivative financial assets (liabilities)	
Gross amounts subject to agreements	4,070	(1,173)
Amounts set off in accordance with paragraph 42 of IAS 32	(1,173)	1,173
Net amounts presented in balance sheet	2,897	-
	2,897	

Commodity Contracts

At December 31, 2013 the Company had the following outstanding crude oil derivative contracts:

Crude Oil

Term	**Financial Forward Sale Volume (Bbl/d)**	**Average USD WTI Price/Bbl**
H1 2014	5,000	$92.76
H2 2014	4,000	$92.88

(in thousand Canadian dollars except as otherwise indicated)

Power

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

The Company classified these financial instruments as fair valued through profit and loss and therefore has recognized the fair value of these financial instruments on the balance sheet. The estimated fair values of these financial instruments are based on quoted prices or, in their absence, third-party market indicators and forecasts.

The changes in the fair value associated with the above financial contracts are recorded as an unrealized gain or loss on financial instruments in the consolidated statement of comprehensive income. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the consolidated statement of comprehensive income.

The following table summarizes the fair value as at December 31, 2013 and December 31, 2012, and the change in fair value for the twelve months ended December 31, 2013 and December 31, 2012.

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Derivative asset, beginning of period	**2,897**	134
Unrealized change in fair value	**(2,873)**	2,763
Derivative asset, end of period	**24**	2,897
Derivative liability, beginning of period	**-**	(9,961)
Unrealized change in fair value	**(5,224)**	9,961
Derivative liability, end of period	**(5,224)**	-
Unrealized increase (decrease) in fair value for the period	**(8,097)**	12,724

(in thousand Canadian dollars except as otherwise indicated)

24. GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Realized gains (losses)		
Crude oil	**(6,656)**	(4,849)
Power	**1,188**	-
Foreign exchange	**270**	1,552
Interest swaps	**509**	524
Sub-total	**(4,689)**	(2,773)
Unrealized gains (losses)		
Crude oil	**(7,327)**	12,094
Power	**24**	-
Foreign exchange	**(262)**	232
Interest swaps	**(532)**	398
Sub-total	**(8,097)**	12,724
Gain (losses) on derivative financial instruments	**(12,786)**	9,951

25. COMMITMENTS

In addition to items disclosed elsewhere in these financial statements, Trilogy had the following off balance sheet commitments as at December 31, 2013:

	2014	2015	2016	2017	2018	2019 and after	Total
Fractionation and pipeline transportation (1)	12,375	11,497	10,586	10,468	10,122	73,276	128,326
Office premises operating lease (2)	2,759	3,207	3,317	2,296	-	-	11,579
Vehicle and energy service commitments	3,247	846	47	34	32	-	4,206
Total	18,382	15,550	13,950	12,798	10,154	73,276	144,111

(1) Before Trilogy's letters of credit issued to cover certain pipeline transportation commitments
(2) Net of committed rental reimbursements through sub-lease arrangements

(in thousand Canadian dollars except as otherwise indicated)

26. GENERAL AND ADMINISTRATIVE EXPENDITURES

	December 31, 2013	December 31, 2012
Salaries and other benefits	**26,424**	24,277
Office and communications	**4,515**	4,229
Corporate and other	**2,771**	2,578
Overhead recoveries and re-allocations to operating costs	**(23,759)**	(19,614)
	9,951	11,469

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

	December 31, 2013	December 31, 2012
Salaries and other short-term benefits	**23,542**	21,336
Other long-term benefits	**2,882**	2,941
Salaries recoveries and reclassifications	**(11,678)**	(9,900)
Sub-total	**14,746**	14,378
Amortization of share-based payment awards	**19,290**	16,227
	34,036	30,604

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

Key management includes Trilogy's directors and officers. The compensation expensed for key management within the above total and excluding any allocation of salary recovery amounts is shown below:

	December 31, 2013	December 31, 2012
Salaries and other short-term benefits	**1,241**	1,201
Other long-term benefits	**1,554**	1,680
Sub-total	**2,795**	2,881
Amortization of share-based payment awards	**11,054**	8,901
	13,849	11,782

(in thousand Canadian dollars except as otherwise indicated)

27. 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.

	Twelve months-ended December 31, 2013	Twelve months-ended December 31, 2012
Petroleum and natural gas sales:		
Natural gas	**151,724**	112,923
Oil	**323,162**	267,199
Natural gas liquids	**88,577**	75,575
Total petroleum and natural gas sales	**563,463**	455,697

28. SUBSEQUENT EVENTS

Subsequent events include:

- Trilogy received a letter from the Canada Revenue Agency proposing to reassess the Company's tax filings related to its conversion from an income trust to a corporation in early 2010. Refer to note 12 for additional disclosures.
- Trilogy executed a forward sales contract for 20,000 GJ/Day from April, 2014 through October, 2014 at $4.33 CAD/GJ.

CORPORATE INFORMATION

OFFICERS

J.H.T. Riddell
Chief Executive Officer

J.B. Williams
President and Chief Operating Officer

M.G. Kohut
Chief Financial Officer

G.L. Yester
General Counsel & Corporate Secretary

DIRECTORS

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

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

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

D.A. Garner (1)(2)(5)
Independent Businessman
Calgary, Alberta

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

R.M. MacDonald (2)(3)(4)(6)
Independent Businessman and Corporate Director
Calgary, Alberta

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

D.F. Textor (1)
Portfolio Manager,
Dorset Energy Fund
Locust Valley, New York

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AUDITORS

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BANKERS

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

ATB Financial
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

JPMorgan Chase Bank
Toronto, Ontario

CONSULTING ENGINEERS

InSite Petroleum Consultants Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

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

STOCK EXCHANGE LISTING

The Toronto Stock Exchange - "TET"

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD AT:

Conference Centre (Mezzanine Level)
Centrium Place – 332 – 6th Avenue S.W.
Calgary, Alberta
Friday, May 9, 2014
2:00 PM (Calgary Time)

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