Q1 / First quarter report 2014

	Three Months Ended		
	March 31, 2014	**December 31, 2013**	**Change %**
FINANCIAL			
Petroleum and natural gas sales	**157,436**	126,085	25
Funds flow			
From operations[1]	**81,243**	57,897	40
Per share - diluted	**0.64**	0.46	39
Earnings			
Earnings (loss) before tax	**24,396**	(10,532)	332
Per share - diluted	**0.19**	(0.09)	326
Earnings (loss) after tax	**17,386**	(8,739)	299
Per share - diluted	**0.14**	(0.07)	294
Dividends declared	**13,165**	13,152	-
Per share	**0.105**	0.105	-
Capital expenditures			
Exploration, development, land, and facility	**169,867**	73,185	132
Acquisitions (dispositions) and other - net	**4,438**	(2,866)	255
Net capital expenditures	**174,305**	70,319	148
Total assets	**1,676,448**	1,546,729	8
Net debt[1]	**728,054**	616,053	18
Shareholders' equity	**669,901**	665,849	1
Total shares outstanding (thousands)			
- As at end of period [2]	**125,160**	125,174	-
OPERATING			
Production			
Natural gas (MMcf/d)	**121**	117	3
Oil (Bbl/d)	**7,440**	8,932	(17)
Natural gas liquids (Boe/d)	**5,518**	5,068	9
Total production (Boe/d @ 6:1)	**33,135**	33,561	(1)
Average prices before financial instruments			
Natural gas ($/Mcf)	**6.19**	3.59	72
Crude Oil ($/Bbl)	**91.64**	78.97	16
Natural gas liquids ($/Boe)	**57.56**	48.20	19
Average realized price	**52.79**	40.84	29
Drilling activity (gross)			
Gas	**11**	9	22
Oil	**20**	6	233
Total wells	**31**	15	107

(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.

TRILOGY ENERGY CORP.

REVIEW OF OPERATIONS

Operations Update for the First Quarter 2014

- Average production of 33,135 Boe/d
- $174.3 million net capital expenditures
- Average operating costs $12.23/Boe
- Operating netback $30.81/Boe
- $81.2 million funds flow from operations ($0.64/share fully diluted)
- 31(24.1 net) wells drilled, all drilled horizontally with a 100 percent success rate
- Drilled 16 net horizontal oil wells in the Kaybob Montney Oil Pool
- Drilled 5 (4.5 net) horizontal Presley Montney gas wells
- Drilled 2 (1.33 net) horizontal Duvernay shale condensate/oil wells
- Drilled 1 (1.0 net) horizontal Gething oil well

Production

Trilogy's first quarter 2014 production was 33,135 Boe/d consisting of 121.1 MMcf/d of natural gas, 7,440 Bbl/d of crude oil and 5,518 Bbl/d of natural gas liquids, a decrease of 1 percent from fourth quarter 2013 production of 33,561 Boe/d and an 8 percent decrease from the first quarter 2013 production of 36,119 Boe/d. This decrease in daily production volumes was expected as the Company transitions more of its capital spending into Duvernay projects that have a longer time frame from spud to production and revenue generation, and also reflects a reduction in overall capital spending in the fourth quarter of 2013. The continued successful execution of Trilogy's growth strategy through the first quarter of 2014 added incremental production towards the end of the first quarter and significant production volumes in the second quarter. Monthly production has increased from 34,336 Boe/d in March to 36,000 Boe/d in April as new wells came on production late in the first quarter and early second quarter.

Given the successful drilling and completion results to date and assuming no further unplanned plant or pipeline outages in the Kaybob and Grande Prairie areas, Trilogy believes it is on track to reach its previously released annual production guidance of 36,000 Boe/d.

Capital

During the first quarter of 2014, Trilogy spent $174.3 million on drilling, completions, production facilities and land acquisitions, which compares closely to $169.6 million spent in the first quarter of 2013. Capital spending as of the end of the first quarter reflects approximately 46 percent of Trilogy's $375 million annual capital budget. This significant quarterly capital spending program was directed towards the continued development of Trilogy's Montney oil and gas pools and its Duvernay operations in the Kaybob area, as well as the Nikanassin oil pool in the Grande Prairie area. A large portion of the Company's capital spending occurs during the winter months in the Kaybob area, as much of the region is inaccessible at other times due to wet ground conditions. The Company's budgeted capital expenditures for the balance of the year will be allocated to projects Trilogy believes will generate the highest rate of return based on commodity prices and other market conditions throughout the year. At present, Trilogy has capital allocated to drilling an additional 14 (14.0 net) Montney oil wells, 3 (3.0 net) liquids–rich Montney gas wells and 6 (6.0 net) Duvernay wells over the balance of the year. A portion of Trilogy's capital will continue to be allocated to maintaining its land positions and participating in third-party joint venture operations.

In April, Trilogy's banking syndicate increased the Company's borrowing base from $650 million to $725 million based on the strength of Trilogy's positive 2013 reserve additions. This borrowing base increase provides added liquidity to enable Trilogy to execute on its strategy for continued growth into the future.

Operating Costs

Operating costs in the first quarter of 2014 were $12.23/Boe, up 12 percent from fourth quarter 2013 operating costs of $10.94/Boe and up 33 percent from $8.62/Boe as reported for the first quarter of 2013. Operating costs within the past quarter have increased due to workovers and maintenance on the increasing number of oil wells that the Company has been drilling over the past three years, as well as repairs to and maintenance of older pipelines in the Kaybob Beaverhill Lake oil pool which has been shut in due to a pipeline failure in July 2013. Trilogy expects production from this pool to resume in the fall of 2014.

A significant component of Trilogy's operating costs is fixed, and as Trilogy's production base increases, operating costs on a per Boe basis will decrease. Forecasted annual operating costs are expected to average $9.00/Boe.

Profitability

Trilogy's operating netback of $30.81/Boe in the first quarter of 2014, increased by 9 percent as compared to $28.29/Boe in the first quarter 2013 and 38 percent when compared to $22.33/Boe in the fourth quarter of 2013. This quarter-over-quarter increase in operating netback is attributed primarily to a significant increase in realized natural gas prices in the quarter.

Trilogy's funds flow from operations for the first quarter 2014 were $81.2 million, up 1 percent from $80.3 million in the first quarter 2013 and up 40 percent from $57.9 million in the fourth quarter 2013.

Drilling and Land Sale Activity

During the first quarter of 2014, Trilogy participated in the drilling of 31 (24.1 net) wells, of which 30 (23.1 net) were located in the Kaybob area and 1 (0.96 net) in the Grande Prairie area. The application and development of increasingly complex horizontal drilling and completion techniques continued to be an important factor in Trilogy's success in the first quarter as all 31 wells drilled during the quarter were drilled horizontally. Results from the drilling and completion programs to date have been very positive, resulting in 18.1 net oil wells and 6.0 net gas wells, for an overall success rate of 100 percent. Trilogy believes this high success rate reflects its expertise in the execution of its development and exploitation strategies and the high quality of its drilling inventory. Trilogy intends to continue to target crude oil and liquids-rich natural gas prospects in order to maximize investment returns. The majority of Trilogy's drilling operations in the quarter targeted Montney crude oil and liquids-rich gas prospects (20.5 net wells) and Duvernay oil/condensate locations (1.3 net wells). The remaining drilling operations targeted Nikanassin (0.96 net), Gething (1.0 net), Bluesky (0.16 net) and Dunvegan (0.17 net) oil projects in the Kaybob and Grande Prairie areas.

Trilogy acquired 640 net acres at Alberta Crown land sales during the first quarter. At December 31, 2013 Trilogy had approximately 627,000 net acres of developed and undeveloped land, in which a significant portion of the acreage has multi-zone development potential. Through ongoing evaluation and acquisition of high quality acreage, Trilogy intends to maintain its prospect inventory for future development and potential reserve additions.

Operating Area Updates

Kaybob

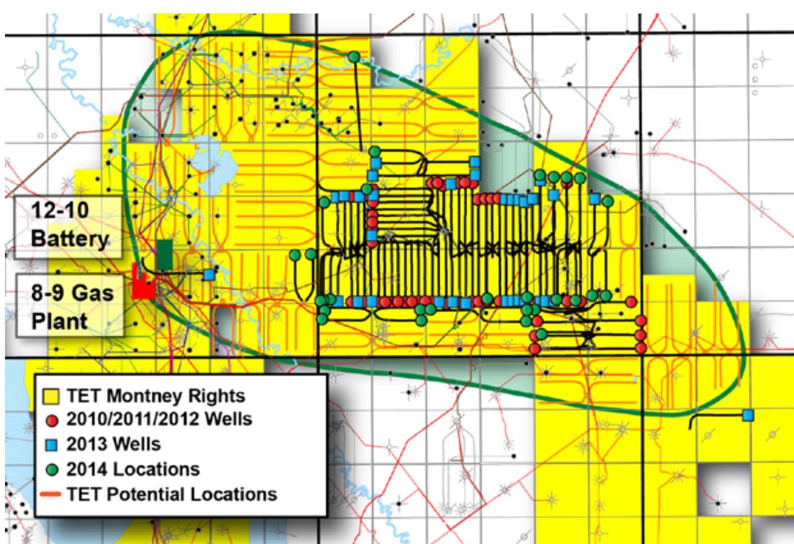
Trilogy's drilling operations during the first quarter of this year were primarily focused in the Kaybob area, where Trilogy participated in the drilling of 30 (23.2 net) wells. All of these wells were drilled horizontally into the Dunvegan, Bluesky, Gething, Montney and Duvernay formations to target oil, condensate and liquids-rich natural gas. Trilogy continues to evaluate the productivity, reserve potential and economics of all wells drilled in the region in order to maximize the development potential of its acreage.

Through the balance of the year, Trilogy plans to continue to focus capital spending on oil, condensate and liquids-rich gas plays in the Dunvegan, Gething, Montney and Duvernay formations where the Company has developed the expertise to find, develop and produce the reserves with very attractive economic returns. As well, Trilogy's land base also provides the optionality to pursue relatively low liquid content gas prospects as economics dictate, thereby providing Trilogy with the flexibility to generate better returns for its Shareholders. Trilogy believes its large land base together with its substantial producing infrastructure in the Kaybob area will afford development opportunities for the next decade.

Kaybob Montney Oil Development

During the first quarter, Trilogy drilled 16 wells to further develop the Kaybob Montney oil pool, bringing the total number of wells drilled into the pool to 96. Trilogy has completed drilling operations on 4 additional wells subsequent to the end of the first quarter and plans to drill approximately 10 additional wells into the pool following break-up, when surface conditions permit land access. During the second quarter, weather permitting, Trilogy will endeavor to fracture stimulate and tie-in wells that were drilled earlier in the year. These wells will provide for continued production growth through the second quarter. Production from the pool averaged 9,647 Boe/d for the first quarter (5,938 Bbl/d of crude oil and natural gas liquids and 22.2 MMcf/d of natural gas).

For the quarter, Trilogy's operating income for the Kaybob Montney oil pool was $46.33/Boe and accounted for approximately 29 percent of the Company's quarterly production and 39 percent of the Company's quarterly sales revenue. Production declined through most of the first quarter as a result of reduced capital spending in the fourth quarter of 2013, however many of the wells that were drilled in the first quarter started to come on production in March and will add to second quarter production growth.

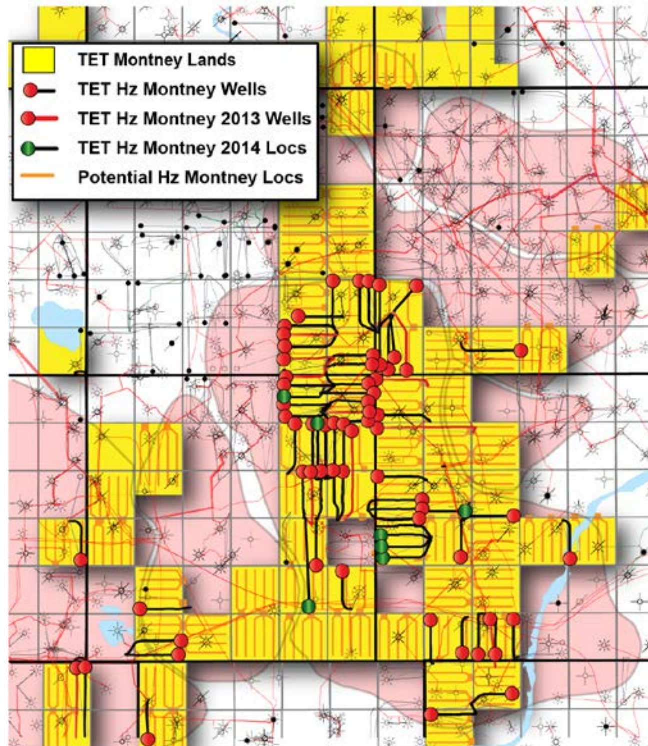


Through 2014 Trilogy will capitalize on the investments it has made in its producing oil infrastructure over the previous three years. Trilogy believes that these investments have provided an opportunity for the Company to grow crude oil production from this development to as much as 12,000 Bbl/d of crude oil and 30 MMcf/d of natural gas, with the production infrastructure that is in place.

Presley Montney Gas Development

Trilogy's capital budget for 2014 provided for 8 (7.5 net) horizontal Montney gas wells to be drilled through the year. However, with the increase in natural gas prices in the first quarter, Trilogy accelerated some of the third quarter drilling and completion operations into the first and second quarters. In total, Trilogy drilled 5 (4.5 net) wells during the first quarter and rig released an additional 3 (3.0 net) wells in the second quarter into the Presley Montney gas pool. This provides Trilogy with the opportunity to drill incremental wells into the Presley gas property in the second half of the year if commodity prices support capital reallocation or increased spending.

Trilogy drilled a 4 (4.0 net) well pad through the first quarter, rig releasing the fourth well in early April. The 4 wells were then completed in mid-April and brought on production on April 23, 2014. Trilogy anticipates that capital costs were reduced by approximately $0.5 million per well as a result of the efficiencies obtained through pad drilling and completion operations. It is anticipated that each well will be able to produce between 8-12 MMcf/d but given current pipeline bottlenecks and back-out issues, this multi-well pad will add approximately 15 – 20 MMcf/d through the second and third quarters. It is expected that all of the wells drilled to date will be on production in the second quarter, adding significant production volumes to the second and third quarters as compared to the first quarter of 2014. Trilogy is pleased with the continuing positive results the pool provides and is well positioned to accelerate production growth with the existing infrastructure in the area.



Trilogy's operating income for this property has improved from $15.05/Boe in 2012 to $20.82/Boe in 2013, and $33.35/Boe in the first quarter of 2014, reflecting the increase in natural gas prices in the quarter. Trilogy will continue to monitor gas prices to ensure that capital is being allocated to higher rate of return projects.

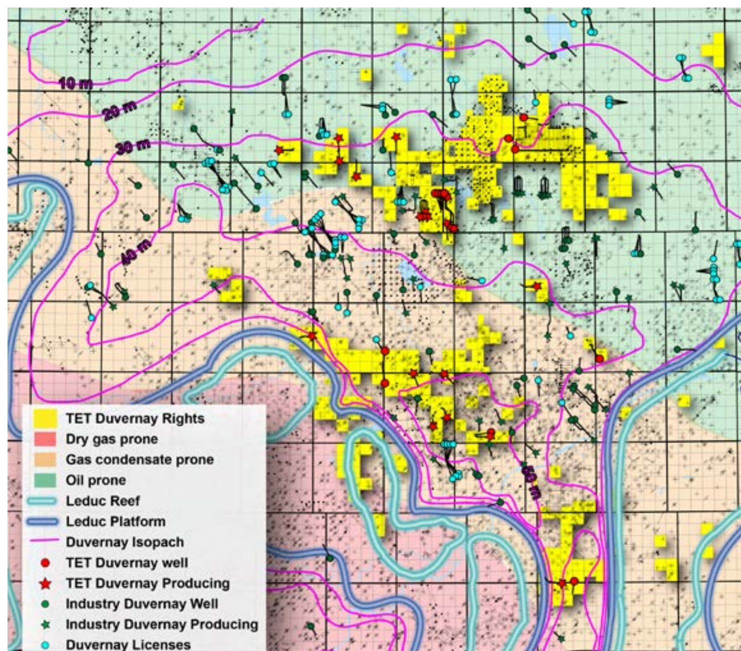
Duvernay Shale Development

Trilogy has budgeted $150 million towards Duvernay projects in 2014. Maintaining Duvernay acreage set to expire in 2014 will require approximately $100 million with the drilling of 6 to 7 net wells and approximately $50 million allocated to non-operated joint interest properties. During the first quarter of 2014, Trilogy participated in the drilling of 2 (1.33 net) horizontal Duvernay wells and the completion of two horizontal wells that were drilled in 2013. Duvernay drilling operations are continuing through the second quarter on 3 (3.0 net) operated wells. The balance of the Duvernay capital has been allocated to non-operated joint interest operations in the Kaybob area, where there is currently a 4 (1.2 net) well non-operated pad being drilled. Trilogy is currently evaluating its participation in these wells.

The wells at 1-24-61-22W5 (the "1-24" well) and 13-33-57-18W5 (the "13-33" well) were drilled in 2013 and completed and tied in during the first and second quarters of 2014 and as a result, 2013 year end reserves associated with these two wells were conservatively assigned to the proven undeveloped category. Both wells will be on production in the second quarter of 2014 and will be moved to the proved developed producing category in 2014. The 1-24 well has been producing to the Bigstone gas plant at restricted rates between 3-5 MMcf/d since March 31 2014. The 13-33 well has been shut in since its flow test and is expected to be on production once ground conditions permit safe access with minimal environmental impact.

	Cumulative Gas MMcf	Cumulative Condensate MBbl	Average Gas Rate MMcf/d	Average Condensate Rate Bbl/d	Tubing Pressure MPa	Flowing Time Hours	On Production Date
13-33-57-18W5	32	-	5.4	-	37.5	144	Flow Test data
1-24-61-22W5	100	1.9	4.0	76	16.7	600	April 7, 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. However, subsequent wells on the original single well pads should be lower in cost as they will benefit from the roads, surface leases and pipelines that were constructed for the first well. Trilogy anticipates drilling and completion costs for multi-well pads should be in the $10-$13 million range per well while single well pads would be in the $13 - $15 million range, depending on surface conditions, length of roads and pipelines, and length of lateral and number of fracture stimulations in the well bore, among other variables.



In the first quarter, Trilogy drilled a Duvernay horizontal well from a surface location at 2-2-64-21W5 to a bottomhole location at 15-26-63-21W5 ("15-26 well") to a total depth of 5,150 meters with a 1,944 meter horizontal lateral in the Duvernay shale. The well was fracture stimulated in 95 perforation intervals in 21 separate stages using approximately 201,000 barrels of water and 2,900 tonnes of proppant sand. The well was flow tested for 3 days and then shut in for 10 days. The well was then placed on production April 18 and produced a total of 35 MMcf of gas and 11.6 MBbls of 48 degree API condensate in 293 flowing hours up 2 7/8 inch production tubing at 27 MPa flowing tubing pressure.

	Cumulative Gas MMcf	Cumulative Condensate MBbl	Average Gas Rate MMcf/d	Average Condensate Rate Bbl/d	Condensate Gas Ratio Bbl/MMcf	Tubing Pressure MPa	Flowing Time Days
15-26-63-21W5	63	16.3	2.9	950	258	27	22

Given current land tenure regulations, Trilogy expects the capital allocation required to manage Duvernay land expiries will be approximately $100 million again in 2015. Capital allocations for expiries in 2014 and 2015 could change with continued success in the Duvernay and changes to applicable land tenure regulations.

Trilogy is encouraged with the progress that has been made by industry in the past two years with respect to the understanding and development of the Duvernay play. The evolution of drilling, completion and production techniques has led to some very positive results in recent wells. The continued advancements in Duvernay shale completion techniques have provided for improved initial production rates and what is expected to be greater ultimate recoverable reserves.

Gething Oil Development

Trilogy drilled 1 (1.0 net) horizontal oil well targeting the Gething formation during the first quarter of 2014. The well was drilled from an existing surface location at 13-18-63-19W5 to a bottom hole at 10-17-63-19W5 (the "10-17 well"). The 10-17 well was rig released on March 16, 2014 at a total depth of 4,521 meters, including the 2,440 meter horizontal lateral. The well was subsequently completed on March 29 and 30 with a 19 stage hydrocarbon based fracture stimulation. The well has been flowing up 7 inch casing since April 6 and has produced 32 MBbls as of April 30, 2014. During the second quarter, Trilogy has plans to drill a follow up location to the 10-17 well and given continued success could drill 2 additional wells in the second half of the year.

	Cumulative Gas MMcf	Cumulative Oil MBbl	Average Gas Rate MMcf/d	Average Oil Rate Bbl/d	Tubing Pressure MPa	Flowing Time Days	On Production Date
10-17-63-19W5	55	31.9	2.3	1,300	1.1	24	April 6

Dunvegan Oil Development

In 2014 Trilogy has plans to drill 5 (2.8 net) wells, with 1 (0.17 net) well having been drilled in the first quarter and the balance to be drilled in the second half of the year. Initial production results from Dunvegan wells 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, in an effort to maximize returns on the capital invested. However budget plans remain contingent on confirming that the Dunvegan play continues to generate rates of return that are similar to the other plays where capital is being allocated.

Grande Prairie

During the first quarter of 2014, Trilogy participated in 1 (0.96 net) horizontal drilling location in the Grande Prairie area, with a second well being drilled through the second quarter. Trilogy drilled its third horizontal Nikanassin oil well at Wembley 02/8-25-72-9W6 which was completed in March with first production reported on March 29, 2014. The new well has averaged approximately 270 Bbl/d of oil since production began, producing 6.6 MBbl in the first four weeks of production. Trilogy's fourth horizontal Nikanassin oil well into the pool was rig released on May 5 and will be completed and on production in the third quarter.

Trilogy closed a transaction during the quarter 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 proved plus probable reserves and includes royalty acreage whereby Trilogy was previously paying royalties to the vendor.

First Quarter production from the Company's Grande Prairie properties averaged 1,859 Boe/d, and is anticipated to increase as shut in production and the two new wells drilled during the first and second quarters are brought on production. With the anticipated production additions and barring any unforeseen plant outages or production restrictions, Trilogy has forecast that 2014 production from the Grande Prairie area should average approximately 2,500 Boe/d.

Risk Management

Trilogy's Management and Board of Directors believe that hedging a portion of production is prudent to support the Corporation's dividend policy and capital spending programs. Trilogy currently has 5,000 Bbl/d of crude oil hedged for the balance of the year at approximately $92.76 US/Bbl WTI and 20,000 GJ/d of natural gas at $4.45/GJ for the period April through October 2014. Trilogy will continue to evaluate opportunities to hedge oil and natural gas production, to help ensure the realization of sufficient cash flow to grow its assets. A summary of Trilogy's hedging contracts are available in notes 19 and 20 of the Interim Consolidated Financial Statements.

Outlook

Trilogy has continued to develop its land position and technical expertise in large, tight liquids-rich gas and oil resource plays in the Deep Basin. The Company believes the accumulation of a large inventory of high quality vertical and horizontal drilling prospects should provide the opportunity to grow annual production, replace produced reserves and maintain a meaningful dividend for its shareholders. Trilogy believes it is positioned at the end of the first quarter to meet its annual guidance for 2014 as follows:

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

Trilogy expects its net debt to peak in the second quarter of each year due to the fact that approximately 50 percent of its annual capital expenditures are incurred in the first quarter. Trilogy is well positioned with ample debt capacity from its revolving credit facility which recently increased to $725 million. Net debt is expected to be reduced through the balance of the year from increased operational cash flow from the Company's producing assets and through continued asset development.

In the current natural gas and crude oil commodity price environment, Trilogy expects to manage its balance sheet through production replacement, prudent asset management and the continued control over a significant portion of its operations. As a growth-oriented corporation, Trilogy must remain flexible in order to respond to changes in commodity prices. The remainder of 2014 may finally see some stability in natural gas prices as supply and demand forces in western Canada natural gas markets continue to balance. Trilogy believes it can manage its assets prudently through the year as its production base trends to a higher oil and natural gas liquids composition. Trilogy is confident in its strategy, its high quality assets and the proven expertise of its employees.

Certain statements in this Review of Operations constitute forward-looking statements under applicable securities legislation. Please refer to the attached Management's Discussion and Analysis for advisories on forward-looking statements and the assumptions, risk and uncertainties related to forward-looking information.

TRILOGY ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") for the three months ended March 31, 2014, and should be read in conjunction with the Company's interim consolidated financial statements and related notes for the same three months-ended, (the "Interim Financial Statements) and its annual consolidated financial statements and MD&A for the year-ended December 31, 2013. The Interim Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures 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 May 7, 2014.

Financial and Operating Highlights

- Reported sales volumes for the first quarter of 2014 were 33,135 Boe/d as compared to 33,561 Boe/d for the previous quarter.
- First quarter natural gas liquids sales volumes increased 9 percent to 5,518 Boe/d from 5,068 Boe/d in the previous quarter. Oil and natural gas liquids sales volumes represented 39 percent of total sales volumes in the quarter as compared to 42 percent in the prior quarter.
- Net capital expenditures totaled $174.3 million as compared to $169 million for the first quarter of 2013.
- Funds flow from operations [(1)] increased 40 percent to $81.2 million as compared to $57.9 million for the previous quarter (Q1 2013 - $80 million).
- Trilogy's realized natural gas price increased 73 percent from $3.59/Mcf to $6.19/Mcf quarter over quarter. In response to improving natural gas prices, Trilogy accelerated a portion of its third quarter drilling and completion operations into the first quarter, drilling 5 (4.5 net) wells into the Presley Montney gas pool.
- In total 31 (24.1 net) wells were drilled in the quarter as compared to 15 (8.5 net) wells drilled in the prior quarter and 35 (25.8 net) wells in the first quarter of 2013. Included in this total are 16 net oil wells drilled horizontally into the Kaybob Montney Oil Pool, 5 (4.5 net) Presley Montney gas wells, 2 (1.33 net) Duvernay shale condensate/oil wells and 1 (1.0 net) Gething oil well.
- Encouraging production results were experienced in the quarter on Trilogy's 15-26-63-21W5 Duvernay shale well, which yielded an average gas rate of 2.9 MMcf/d and an average condensate rate of 950 Bbl/d during its initial 3 weeks of production.
- During the quarter Trilogy executed various pipeline commitments to secure firm service pipeline capacity to accommodate future development of Trilogy's asset base.
- Dividends declared to Shareholders totaled $13.2 million or 17 percent of cash flow from operating activities (prior quarter – $13.2 million or 35 percent).
- Subsequent to the quarter Trilogy's revolving credit facility lenders increased their commitments by $75 million to $725 million.

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

Business Environment and Economic Conditions

Significant draws on gas storage levels during the quarter in the United States and Canada have left gas inventories below 5-year averages, the effect of which strengthened gas prices and Trilogy's gas revenue significantly for the quarter. The large storage draws were mostly a function of extreme and prolonged cold weather for this same period throughout much of North America. Gas prices in Canada softened slightly subsequent to the quarter and the forward market perceives this imbalance to be temporary in nature, forecasting a balancing of supply and demand forces and a further softening in the current price for natural gas in early 2015. Trilogy remains cautiously optimistic that gas prices will remain in-line with current prices through 2014.

Natural gas liquid prices increased for the quarter primarily on a temporary spike in the price of the propane component, while oil prices in Canada strengthened on lower differentials to world oil 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 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:

	Q1 2014	Q4 2013	Q1 2013
Crude Oil			
West Texas Intermediate monthly average (U.S.$/Bbl)	**98.68**	97.46	94.35
Edmonton Par monthly average (Cdn$/Bbl)	**100.18**	86.26	88.65
Natural Gas			
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**4.73**	3.86	3.34
AECO monthly average (Cdn$/GJ)	**5.63**	3.52	3.12
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.10**	1.06	1.02

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 high working interest properties that provide abundant low risk infill drilling opportunities and good access to infrastructure and processing facilities, many of which are operated and controlled by Trilogy. The Company continues to focus its exploitation efforts on play types with better economics, including those that contain oil and natural gas liquids and which utilize horizontal drilling and multi-stage fracture completion techniques.

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. Disclosure of these key performance measures can be found in this MD&A and/or previous interim or annual MD&A disclosures.

Results of Operations

Operating Results Summary

(In thousand dollars)	Three Months Ended March 31, 2014	December 31, 2013	March 31, 2013
Operating income[1]	**97,454**	72,089	92,034
Other income	**384**	97	211
Realized financial instrument gains (losses) [2]	**(2,775)**	(1,059)	594
Actual decommissioning and restoration costs	**(3,189)**	(2,181)	(867)
Operating netback[1]	**91,874**	68,946	91,972
Interest and financing charges[3]	**(8,647)**	(8,850)	(9,383)
General and administrative expenses	**(1,984)**	(2,199)	(2,299)
Funds flow from operations[1]	**81,243**	57,897	80,290
Non-cash items:			
Depletion, depreciation, and impairments	**(50,418)**	(65,379)	(54,604)
Unrealized financial instrument gains (losses)[2]	**(1,591)**	1,805	(5,788)
Share based compensation	**(3,842)**	(4,140)	(4,650)
Exploration expenditures[4]	**(2,284)**	(3,974)	(394)
Amortization of financing fees	**(373)**	(377)	(315)
Other gains (losses)	**(239)**	2,720	28
Accretion on decommissioning and restoration liability[5]	**1,699**	745	(426)
Deferred income tax recovery (expense)	**(7,010)**	1,791	(4,699)
Unrealized foreign exchange gains and other	**202**	172	202
Profit (loss) and comprehensive income	**17,386**	(8,739)	9,644

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

(2) See Risk Management section in this MD&A

(3) Excludes amortization of financing fees

(4) Includes costs associated with impairments, geological and geophysical and expired mineral lease costs

(5) Equals the accretion in excess of or below actual amounts paid on decommissioning and restoration activities in the period

Funds Flow from Operations

Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended March 31, 2014	 December 31, 2013	 March 31, 2013
Sales	**52.79**	40.84	43.89
Transportation costs	**(1.49)**	(1.33)	(1.25)
Royalties	**(6.40)**	(5.22)	(5.71)
Operating costs	**(12.23)**	(10.94)	(8.62)
Operating income[(1)]	**32.68**	23.35	28.31
Other income	**0.13**	0.03	0.06
Realized financial instruments losses [(2)]	**(0.93)**	(0.34)	0.18
Actual decommissioning and restoration costs	**(1.07)**	(0.71)	(0.27)
Operating netback[(1)]	**30.81**	22.33	28.29
Interest and financing charges[(3)]	**(2.90)**	(2.87)	(2.90)
General and administrative expenses	**(0.67)**	(0.71)	(0.71)
Funds flow from operations[(1)]	**27.24**	18.75	24.70

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

(2) See Risk Management section in this MD&A

(3) Excludes amortization of financing fees

Operating Income Items

First Quarter 2014 vs. Fourth Quarter 2013			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**Q1 2014**	**Q4 2013**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**121,062**	117,368	3,694	3
Oil (Bbl/d)	**7,440**	8,932	(1,492)	(17)
Natural gas liquids (Boe/d)	**5,518**	5,068	450	9
Total (Boe/d)	**33,135**	33,561	(426)	(1)
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**6.19**	3.59	2.61	73
Oil ($/bbl)	**91.64**	78.97	12.67	16
Natural gas liquids ($/Boe)	**57.56**	48.20	9.36	19
Average realized price	**52.79**	40.84	11.96	29
Average realized prices after financial instruments [(1)] and before transportation:				
Natural gas ($/Mcf)	**6.19**	3.59	2.61	73
Oil ($/bbl)	**87.31**	77.72	9.58	12
Natural gas liquids ($/Boe)	**57.56**	48.20	9.36	19
Average realized price	**51.82**	40.50	11.32	28
Operating income[(2)]				
Natural gas	**67,486**	38,720	28,766	74
Oil	**61,367**	64,891	(3,524)	(5)
Natural gas liquids	**28,584**	22,474	6,110	27
Total petroleum and natural gas sales before financial instruments	**157,436**	126,085	31,352	25
Royalties	**(19,074)**	(16,109)	2,965	18
Operating costs	**(36,476)**	(33,770)	2,706	8
Transportation costs	**(4,432)**	(4,117)	315	8
Operating income[(2)]	**97,454**	72,089	25,365	35

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

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

Comparison between First Quarter 2014 over Fourth Quarter 2013

Petroleum and Natural Gas Sales Before Financial Instruments and Transportation – Oil sales decreased by $3.5 million due to lower sales volumes ($13.9 million) offset by higher realized prices ($10.4 million). NGL sales increased by $6.1 million due to higher realized prices ($4.4 million) and by higher sales volumes ($1.7 million). Natural gas sales increased by $28.8 million due to higher sales volumes ($0.6 million) and by higher realized prices ($28.2 million). The decrease in oil sales volumes was reflective of production declines, primarily in Trilogy's Kaybob Montney oil play. It is expected that oil production will increase in the second quarter as a number of oil wells drilled in the first quarter of 2014 come on-stream. An increase in natural gas production and the related NGL stream arose, in part, on higher average production levels from Trilogy's Duvernay shale play.

Royalties – Trilogy's effective royalty rate as a percentage of sales was consistent at 12 percent as compared to 13 percent in the previous quarter. Higher royalties on increased NGL and gas prices and production volumes were mostly offset by lower royalties on the reduced oil production and increased royalty incentives on gas and NGL products.

Operating Costs – Operating costs increased in total and on a per unit of production basis. Higher third party processing and compression charges, workover and pipeline repairs and maintenance charges were incurred in the current quarter.

In addition, an increase in oil trucking, labor, chemicals, power, equipment rental and maintenance costs also contributed to the increase.

First Quarter 2014 vs. First Quarter 2013 (In thousand dollars except as otherwise indicated)	Q1 2014	Q1 2013	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**121,062**	117,029	4,033	3
Oil (Bbl/d)	**7,440**	11,543	(4,103)	(36)
Natural gas liquids (Boe/d)	**5,518**	5,072	446	9
Total (Boe/d)	**33,135**	36,119	(2,984)	(8)
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**6.19**	3.48	2.71	78
Oil ($/Bbl)	**91.64**	80.54	11.11	14
Natural gas liquids ($/Boe)	**57.56**	48.96	8.60	18
Average realized price	**52.79**	43.89	8.90	20
Average realized prices after financial instruments (1) and before transportation:				
Natural gas ($/Mcf)	**6.19**	3.48	2.71	78
Oil ($/Bbl)	**87.31**	80.56	6.74	8
Natural gas liquids ($/Boe)	**57.56**	48.96	8.60	18
Average realized price	**51.82**	43.90	7.92	18
Operating income(2)				
Natural gas	**67,486**	36,658	30,827	84
Oil	**61,367**	83,664	(22,297)	(27)
Natural gas liquids	**28,584**	22,348	6,236	28
Total petroleum and natural gas sales before financial instruments	**157,436**	142,671	14,765	10
Royalties	**(19,074)**	(18,548)	526	3
Operating costs	**(36,476)**	(28,010)	8,466	30
Transportation costs	**(4,432)**	(4,079)	353	9
Operating income(2)	**97,454**	92,034	5,420	6

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

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

Comparison between First Quarter 2014 over First Quarter 2013

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales decreased by $22.3 million due to lower volumes ($33.8 million) offset by higher realized prices ($11.5 million). NGL sales increased by $6.2 million due to higher realized NGL prices ($3.9 million) and by higher sales volumes ($2.3 million). Natural gas sales increased by $30.8 million due to higher realized prices ($28.6 million) and higher volumes ($2.2 million). The decrease in oil sales volumes was reflective of the reduced capital spending in the fourth quarter of 2013 and the transition in capital spending into Duvernay shale projects that have a longer time frame from spud to production and revenue. It is expected that oil production will increase in the second quarter as a number of new Kaybob Montney oil wells drilled in the first quarter of 2014 come on-stream. An increase in natural gas production and the related NGL stream arose, in part, on higher average production levels from Trilogy's Duvernay shale play.

Royalties – Trilogy's effective royalty rate as a percent of sales was consistent at 13 percent as compared to 13 percent in the previous year. Higher royalties on increased NGL and gas prices and production volumes were mostly offset by lower royalties on the reduced oil production.

Operating Costs – Operating costs increased in total and on a per unit of production basis as higher third party processing and compression charges, workovers and facility and pipeline repairs and maintenance charges were incurred

in the current quarter. An increase in water disposal, oil trucking, labor, equipment rental and instrumentation charges, power, and chemical costs also contributed to the increase in operating costs.

Depletion, Depreciation Expense, and Impairments

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2014	**December 31, 2013**	**March 31, 2013**
Depletion and depreciation	**50,418**	52,446	54,604
Impairments	**-**	12,933	-
Reported amount	**50,418**	65,379	54,604
Expense per sales volume ($/Boe)	**16.91**	21.17	16.80

Depletion and depreciation expense decreased in the first quarter of 2014 relative to the prior quarter primarily due to a $12.9 million impairment charge recorded in the fourth quarter of 2013. On a year-over-year basis, depletion and depreciation expense on a per Boe basis was consistent.

Exploration Expenditures

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2014	**December 31, 2013**	**March 31, 2013**
Expired mineral leases	**1,337**	2,323	318
Impairments	**-**	1,761	-
Geological and geophysical	**947**	(111)	76
Exploration and evaluation expenses	**2,284**	3,973	394

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 8 of the Interim Financial Statements for more information on exploration and evaluation activities.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2014	**December 31, 2013**	**March 31, 2013**
Salaries and other benefits	**7,109**	6,723	6,920
Office and communications	**1,013**	1,161	1,078
Corporate and other	**897**	837	477
Overhead recoveries and reclassifications to operating costs	**(7,034)**	(6,523)	(6,176)
Reported amount	**1,984**	2,198	2,299
Expense per sales volume ($/Boe)	**0.67**	0.71	0.71

General and administrative expenses were lower over the prior quarter, primarily as a result of higher overhead recoveries on relatively higher capital expenditures, partially offset by increased salary and benefit costs.

Share Based Compensation

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2014	**December 31, 2013**	**March 31, 2013**
Share Incentive Plan	**438**	1,311	1,113
Share Option Plan	**3,404**	2,829	3,537
Reported Amount	**3,842**	4,140	4,650
Expense per sales volume ($/Boe)	**1.29**	1.34	1.43

The decrease in share based compensation expense for the first quarter was attributed primarily to a reduction in the estimate fair value of the Company's 2013 Share Incentive Plan grant, partially offset by the amortization of higher fair values associated with options granted under Trilogy's Share Option 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		
	March 31, 2014	**December 31, 2013**	**March 31, 2013**
Accretion on decommissioning and restoration liability	**1,490**	1,437	1,293
Interest and other finance costs (1)	**9,020**	9,227	9,698
Expense per sales volume ($/Boe)	**3.02**	2.99	2.98

(1)Includes the amortization of financing fees

Accretion charges represent the increase in the decommissioning and restoration liability associated with the passage of time. Accretion on the Company's decommissioning and restoration liability for three months ended March 31, 2014 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 for the current quarter as compared to the prior quarters primarily as a result of lower average debt levels in conjunction with Trilogy's equity issuance in the fourth quarter of 2013 for gross proceeds of approximately $200 million. For additional information on Trilogy's long-term debt, refer below under the "Long-term Debt" section of this MD&A and to note 11 of the Interim 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:

(In thousand dollars except as otherwise indicated)	Three Months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Realized gain (loss) on financial instruments	**(2,775)**	(1,059)	595
Unrealized gain (loss) on financial instruments	**(1,591)**	1,805	(5,789)
Total gain (loss) on financial instruments	**(4,366)**	746	(5,194)
Realized gain (loss) on financial instruments ($/Boe)	**(0.93)**	(0.34)	0.18

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 19 and 20 of the Interim Financial Statements for more information on realized and unrealized financial instruments gains and losses.

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

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

Crude Oil

	Financial Forward Sale	
Term	**Volume (Bbl/d)**	**Average USD WTI Price/Bbl**
Q2 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	$4.45

Power

	Financial Forward Sale	
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)	March 31, 2014	December 31, 2013
Current liabilities net of current assets	**145,396**	65,523
Long-term debt	**582,658**	550,530
Net debt[1]	**728,054**	616,053
Shareholders' equity	**669,901**	665,849
Total	**1,397,955**	1,281,902

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

Working Capital

Trilogy's significant capital expenditure program undertaken in the first quarter of 2014 was primarily responsible for the increase in net debt from $616 million at December 31, 2013 to $728 million at March 31 2014. 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 Interim 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 $288.3 million (before unamortized interest discount and financing costs) as at March 31, 2014.

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 March 31, 2014, 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 3.54 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 18 of the Interim 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.

Subsequent to the quarter, Trilogy’s revolving credit facility lenders increased their commitments by $75 million to $725 million.

Senior Unsecured Notes

In December 2012 the Company issued $300 million principal amount of 7.25 percent Senior Unsecured Notes due December 13, 2019 (the “Notes”). Proceeds from the issuance were used to reduce existing indebtedness under Trilogy’s Revolving Credit Facility. Transaction costs of $5.8 million were capitalized and will be amortized into income over the life of the debt using the effective interest rate method. Refer to note 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 7.53 percent.

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

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

Contractual Obligations

An increase of approximately $29.4 million (undiscounted) in pipeline transportation commitments existed at March 31, 2014 in respect of Trilogy's contractual financial obligations from those as disclosed at December 31, 2013 (refer to note 22 of the Interim Financial Statements). For a detailed account of Trilogy's commitments as at December 31, 2013, refer to note 25 of the 2013 annual consolidated financial statements and the related management discussion and analysis.

Shares, Options and Rights

For a detailed account of Trilogy's share capital since December 31, 2013, refer to note 14 of the Interim Financial Statements.

Outstanding share options issued under Trilogy's share option plan were 7,003,500 as at March 31, 2014 and 6,615,500 share options as at the date hereof, of which 2,419,500 share options and 2,031,500 share options were exercisable as at those dates, respectively.

Dividends

(In thousand dollars except where stated otherwise)

	Three Months Ended		
	March 31, 2014	**December 31, 2013**	**March 31, 2013**
Funds flow from operations [1]	**81,243**	57,897	80,290
Net changes in operating working capital	**(4,579)**	(20,238)	963
Cash flow from operating activities	**76,664**	37,659	81,253
Net earnings (loss)	**17,386**	(8,740)	9,644
Dividends declared	**13,165**	13,152	12,287
Dividends declared per share (in full amount)	**0.105**	0.105	0.105
Payout Ratio [1]	**17%**	35%	15%
Excess of cash flow from operations over dividends declared	**63,499**	24,507	68,966
Excess (deficiency) of net earnings (loss) over dividends	**4,221**	(21,892)	(2,643)

(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.

Capital Expenditures

(In thousand dollars except where stated otherwise)

	Three Months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Land	6	-	308
Geological and geophysical	947	(111)	76
Drilling, completions, and tie-ins	150,036	62,349	150,240
Production equipment and facilities	18,878	10,947	18,832
	169,867	73,185	169,456
Proceeds from property dispositions	(21)	(3,080)	-
Property acquisitions	4,224	31	180
Corporate assets	234	183	1
Net capital expenditures	174,305	70,319	169,638

Capital expenditures increased quarter over quarter primarily on the execution of a significant portion of Trilogy's annual capital expenditure budget. Trilogy also closed a transaction in the first quarter in which it acquired the interests of a third party in the Valhalla area. This acquisition is expected to add 200 Boe/d of production and 700 MBoe of reserves and includes royalty acreage whereby Trilogy was paying royalties to the vendor. Capital expenditures remained consistent at year over year.

Wells Drilled

	Three Months Ended					
(Number of wells)	March 31, 2014		December 31, 2013		March 31, 2013	
	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
Natural gas	11	6.0	9	4.5	5	3.3
Oil	20	18.1	6	4.0	30	22.5
Total	31	24.1	15	8.5	35	25.8

(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 million for the year in the first quarter of 2014 ($1.8 million future income tax recovery in the fourth quarter of 2013). The Company's statutory tax rate of 25 percent was increased to an effective tax rate of 29 percent as a result of share based compensation amounts deducted in computing net income (loss) before tax which are not deductible for tax purposes. Refer to note 9 of the Interim 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 and Trilogy would be required to make a payment equal to 50 percent of the cash tax assessed, estimated to be $8 million plus applicable interest. This amount would be refundable 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 for the three months ended March 31, 2014. 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 has continued to develop its land position and technical expertise in large, tight liquids-rich gas and oil resource plays in the Deep Basin. The Company believes the accumulation of a large inventory of high quality vertical and horizontal drilling prospects should provide the opportunity to grow annual production, replace produced reserves and maintain a meaningful dividend for its shareholders. Trilogy believes it is positioned at the end of the first quarter to meet its annual guidance for 2014 as follows:

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

Trilogy expects its net debt to peak in the second quarter of each year due to the fact that approximately 50 percent of its annual capital expenditures are incurred in the first quarter. Trilogy is well positioned with ample debt capacity from its revolving credit facility which recently increased to $725 million. Net debt is expected to be reduced through the balance of the year from increased operational cash flow from the Company's producing assets and through continued asset development.

In the current natural gas and crude oil commodity price environment, Trilogy expects to manage its balance sheet through production replacement, prudent asset management and the continued control over a significant portion of its operations. As a growth-oriented corporation, Trilogy must remain flexible in order to respond to changes in commodity prices. The remainder of 2014 may finally see some stability in natural gas prices as supply and demand forces in western Canada natural gas markets continue to balance. Trilogy believes it can manage its assets prudently through the year as its production base trends to a higher oil and natural gas liquids composition. 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)	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenue after financial instruments, royalties and other income	**134,581**	110,992	103,555	144,222
Earnings (loss) before tax	**24,396**	(10,531)	(10,936)	25,826
Net earnings (loss)	**17,386**	(8,740)	(9,454)	20,017
Earnings (loss) per Share (in full amounts):				
Basic	**0.14**	(0.07)	(0.08)	0.17
Diluted	**0.14**	(0.07)	(0.08)	0.17

	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Revenue after financial instruments, royalties and other income	119,342	122,499	88,655	107,447
Earnings (loss) before tax	14,343	3,474	(13,413)	447
Net earnings (loss)	9,644	1,682	(11,094)	282
Earnings (loss) per Share (in full amounts):				
Basic	0.08	0.01	(0.10)	NIL
Diluted	0.08	0.01	(0.10)	NIL

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.

Exploration and Evaluation Expenditures

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. Exploration and evaluation assets include undeveloped land and costs related to exploratory wells. Exploration costs related to geophysical and geological activities are immediately charged to income as incurred. The Company is required to make estimates and judgments about future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. If an exploration and evaluation project is determined to be unsuccessful, all associated costs in excess of the expected future benefit are charged to net income. If commercial reserves are established, the relevant costs are transferred from exploration and evaluation to development and production assets which are classified as property, plant, and equipment. Assets are reviewed for impairment prior to any such transfer. Refer to note 8 of the Interim Financial Statements for further details.

Impairment of Non-financial Assets

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

The recoverable amounts of Trilogy's cash-generating units and individual assets have been determined based on fair values less costs of disposal. This calculation requires the use of estimates and assumptions. Oil and gas prices and other assumptions will change in the future, which may impact Trilogy's recoverable amount calculated and may therefore require a material adjustment to the carrying value of property, plant and equipment and goodwill. Trilogy monitors internal and external indicators of impairment relating to its exploration and evaluation assets, property, plant and equipment and goodwill. Refer to note 10 and 11 of the 2013 annual financial statements 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 12 of the Interim Financial Statements for further details.

Share-based Payments

Trilogy measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value requires the determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires the determination of the most appropriate inputs to the valuation model including the expected life of the option, risk free interest rates, volatility and dividend yield and making assumptions about them. Refer to note 13 of the Interim Financial Statements for further details.

Deferred Income Tax Assets

Trilogy recognizes a benefit related to deferred income tax assets. Assessing the recoverability of deferred income tax assets requires Trilogy to make significant estimates related to expectations of future taxable income based on forecasted cash flows from operations. Trilogy also makes interpretations and judgements on uncertain tax positions of applicable tax laws. Such judgements include determining the likelihood of Trilogy's tax positions being successfully challenged by tax authorities based on information from relevant tax interpretations and tax laws. To the extent such interpretations are

challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Trilogy to realize its deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 9 of the Interim Financial Statements and note 12 of the 2013 annual financial statements for further details.

Financial Instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity price, foreign currency, power, and interest rate exposures. The fair values of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty. Refer to note 18, 19 and 20 of the Interim Financial Statements for further details.

New Accounting Pronouncements

Effective January 1, 2014, the Company has adopted the following IFRS:

(i) 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. The applicability IFRIC 21 was not significant to Trilogy's Interim Financial Statements.

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 March 31, 2014 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, without limitation, the development of the Kaybob Montney oil and gas pools, the Duvernay shale play, and the Gething and Dunvegan oil plays);
- future commodity prices for crude oil, natural gas, NGLs and related products;
- forecast capital expenditures and the objectives, amount, timing and allocation thereof;
- estimates of future production and sales volumes, 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 therefrom (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 Gething and Dunvegan 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 (including in respect of anticipated production volumes, reserve additions, and NGL yields);
- 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
- 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

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;

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 Q1 2014, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 15:1 ("Value Ratio"). The Value Ratio is obtained using the Q1 2014 average realized oil price of $91.64 (CAD$/Bbl) and the Q1 2014 average realized natural gas price of $6.19 (CAD$/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.

The 13-33-57-18W5 well was flow tested in February 2014. It was cleaned up over the 5.5 day test period 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. Test results are not necessarily indicative of long-term performance or ultimate recoveries.

Recent wells do not have sufficient production history to allow Trilogy to accurately predict production declines or long-term performance.

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.

TRILOGY ENERGY CORP.

Consolidated Interim Balance Sheet (unaudited)

(in thousand Canadian dollars)

	Note	March 31, 2014	December 31, 2013
ASSETS			
Current assets			
Restricted cash	6	**$ -**	$ 5,898
Trade and other receivables	*17, 18, 19*	**80,417**	66,419
Derivative financial instruments	*18, 19, 20*	**50**	24
Prepaids		**412**	880
		80,879	73,221
Non-current assets			
Property, plant and equipment	*7, 8*	**1,248,349**	1,145,055
Exploration and evaluation assets	*7, 8*	**118,430**	92,653
Deferred tax asset	*9*	**88,319**	95,329
Goodwill		**140,471**	140,471
Total assets		**$ 1,676,448**	$ 1,546,729
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	*17, 18, 19*	**$ 208,549**	$ 128,004
Dividend payable	*10, 18, 19*	**4,390**	4,384
Interest payable	*11*	**6,495**	1,132
Derivative financial instruments	*18, 19, 20*	**6,841**	5,224
		226,275	138,744
Non-current liabilities			
Long-term debt	*11, 18, 19*	**582,658**	550,530
Decommissioning and restoration liability	*12*	**197,614**	191,606
Total liabilities		**1,006,547**	880,880
Shareholders' equity			
Shareholders' capital	*13, 14*	**1,089,493**	1,092,727
Contributed surplus		**44,940**	41,875
Accumulated deficit		**(464,532)**	(468,753)
		669,901	665,849
Total shareholders' equity and liabilities		**$ 1,676,448**	$ 1,546,729

See accompanying notes to the consolidated interim financial statements

Consolidated Interim Statement of Comprehensive Income (unaudited)

(in thousand Canadian dollars except per share amounts)

	Note	Three months ended March 31,	
		2014	**2013**
Revenue and other			
Petroleum and natural gas sales	*21*	**$ 157,436**	**$** 142,671
Royalties		**(19,074)**	(18,548)
Revenue		**138,362**	124,123
Other income		**585**	413
Loss on derivative financial instruments	*18, 19, 20*	**(4,366)**	(5,194)
		134,581	119,342
Expenses			
Operating and production		**36,476**	28,010
Transportation		**4,432**	4,079
Depletion, depreciation, and impairments	*7*	**50,418**	54,604
Exploration and evaluation	*8*	**2,284**	394
Gain (loss) on disposal of assets		**239**	(28)
General and administrative		**1,984**	2,299
Share-based compensation	*13*	**3,842**	4,650
Accretion on decommissioning and restoration liability	*12*	**1,490**	1,293
Interest and other finance costs	*11*	**9,020**	9,698
		110,185	104,999
Net income before income tax		**24,396**	14,343
Income tax expense			
Deferred	*9*	**7,010**	4,699
Comprehensive income		**$ 17,386**	$ 9,644
Earnings per share	*15*		
- Basic		**$ 0.14**	**$** 0.08
- Diluted		**$ 0.14**	**$** 0.08

See accompanying notes to the consolidated interim financial statements

Consolidated Interim Statement of Changes in Equity (unaudited)

(In thousand Canadian dollars except share information)

	Outstanding Common and Non-Voting Shares [1]		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2013	116,673,682	$	883,758	$	32,673	$	(430,032)	$	486,399
Net income for the period	-		-		-		9,644		9,644
Share options exercised *(note 13, 14)*	326,000		3,463		(969)		-		2,494
Dividends declared *(note 10)*	-		-		-		(12,287)		(12,287)
Share Incentive Plan purchases, net of grants vested *(note 13, 14)*	399		10		(10)		-		-
Share-based compensation *(note 13)*	-		-		4,650		-		4,650
Balance at March 31, 2013	117,000,081	$	887,231	$	36,344	$	(432,675)	$	490,900
Net income for the period	-		-		-		1,823		1,823
Share options exercised *(note 13, 14)*	1,147,400		12,192		(4,150)		-		8,042
Share issuance *(note 14)*	7,020,000		193,661		-		-		193,661
Dividends declared *(note 10)*	-		-		-		(37,901)		(37,901)
Share Incentive Plan purchases, net of grants vested *(note 13, 14)*	6,865		(357)		(4,959)		-		(5,316)
Share-based compensation *(note 13)*	-		-		14,640		-		14,640
Balance at December 31, 2013	125,174,346	$	1,092,727	$	41,875	$	(468,753)	$	665,849
Net income for the period	-		-		-		17,386		17,386
Share options exercised *(note 13, 14)*	174,000		1,813		(717)		-		1,096
Dividends declared *(note 10)*	-		-		-		(13,165)		(13,165)
Share Incentive Plan purchases, net of grants vested *(note 13, 14)*	(187,953)		(5,047)		(60)		-		(5,107)
Share-based compensation *(note 13)*	-		-		3,842		-		3,842
Balance at March 31, 2014	**125,160,393**	**$**	**1,089,493**	**$**	**44,940**	**$**	**(464,532)**	**$**	**669,901**

[1] Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan (refer to notes 13 and 14 for additional disclosures).

See accompanying notes to the consolidated interim financial statements

Consolidated Interim Statement of Cash Flows (unaudited)

(in thousand Canadian dollars except as otherwise indicated)

	Note	Three months ended March 31, 2014	2013
Operating activities			
Net income before income tax		**$ 24,396**	$ 14,343
Adjustments for non-cash and other items:			
Unrealized losses on derivative financial instruments	*18, 19, 20*	**1,591**	5,789
Unrealized foreign exchange gains		**(201)**	(202)
Depletion and depreciation	*7*	**50,418**	54,604
Exploration and evaluation	*8*	**2,284**	394
Gain (loss) on disposal of assets		**239**	(28)
Amortization of finance fees		**373**	314
Share based compensation	*13*	**3,842**	4,650
Accretion on decommissioning and restoration liability	*12*	**1,490**	1,293
Decommissioning and restoration costs in period	*12*	**(3,189)**	(867)
Change in non-cash working capital	*16*	**(4,579)**	963
Cash flow from operating activities		**76,664**	81,253
Investing activities			
Exploration and evaluation expenditures	*8*	**(27,193)**	(16,801)
Property, plant and equipment expenditures	*7*	**(142,908)**	(152,656)
Property acquisitions	*7*	**(4,224)**	(180)
Proceeds from disposition of property, plant and equipment	*7*	**21**	-
Restricted cash (increase) decrease	*6*	**5,898**	(613)
Change in non-cash working capital	*16*	**76,956**	71,806
Cash flow used in investing activities		**(91,450)**	(98,444)
Financing activities			
Draws on revolving credit facility	*11*	**31,956**	26,972
Dividends paid to Shareholders	*10*	**(13,159)**	(12,275)
Share incentive plan purchases	*13, 14*	**(5,107)**	-
Shares issued	*13, 14*	**1,096**	2,494
Cash flow from financing activities		**14,786**	17,191
Change in cash		**-**	-
Cash balance, beginning of period		**-**	-
Cash balance, end of period		**-**	-
Cash interest paid		**$ 2,926**	$ 3,823

See accompanying notes to the consolidated interim 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 condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34 – Interim financial reporting ("IAS 34").

The policies applied in these Interim Financial Statements are based on IFRS issued and outstanding as of May 7, 2014, the date the Interim Financial Statements were approved for release by Trilogy's Audit Committee on behalf of Trilogy's Board of Directors.

These Interim Financial Statements should be read in conjunction with the Company's "2013 Annual Consolidated Financial Statements".

The Interim Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 19 and 20).

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

3. Significant Accounting Judgments, Estimates and Assumptions

The Company makes estimates and assumptions concerning the future that may, by definition, differ from actual results. The estimates and judgments applied by management that most significantly affect the Company's financial statements include: reserve estimation, exploration and evaluation expenditures, impairment of non-financial assets, decommissioning and restoration costs, share-based payments, deferred income taxes, and financial instruments. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Additional information on these estimates and judgements are disclosed in note 3 of the 2013 Annual Consolidated Financial Statements.

4. Summary of Significant Accounting Policies

The Interim Financial Statements of the Company follow the same accounting policies and basis of presentation as described in note 4 of the 2013 Annual Consolidated Financial Statements. The Interim Financial Statements note disclosures do not include all of those required by IFRS for annual financial statements.

5. New Accounting Pronouncements

Effective January 1, 2014, the Company has adopted the following IFRS:

(i) 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. The applicability IFRIC 21 was not significant to Trilogy's Interim Financial Statements.

6. Restricted Cash

The Company has a subsidiary with a cash balance as at December 31, 2013 of $5.9 million that was restricted for settlement against an equivalent amount recorded within accounts payable and accrued liabilities. The entire cash balance was paid out in settlement of the related liability in the first quarter of 2014.

7. Property, Plant and Equipment

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
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 12)	(7,352)	-	(7,352)
Transfers from intangible exploration and evaluation assets (Note 8)	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
Additions to property, plant, and equipment	**141,728.29**	**234**	**141,962**
Additions/revisions to future estimated decommissioning and restoration costs (Note 12)	**6,315**	**-**	**6,315**
Transfers from intangible exploration and evaluation assets (Note 8)	**79**	**-**	**79**
Acquisitions	**5,616**	**-**	**5,616**
Disposals	**(260)**	**-**	**(260)**
Balance at March 31, 2014	**2,936,894**	**14,063**	**2,950,956**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
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
Depletion and depreciation charge	**50,234**	**184**	**50,418**
Impairment charge, net of reversals	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Balance at March 31, 2014	**1,693,126**	**9,482**	**1,702,608**
Net carrying value			
At December 31, 2013	1,140,524	4,531	1,145,055
At March 31, 2014	**1,243,768**	**4,581**	**1,248,349**

The cost of property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations of $163.6 million as at March 31, 2014 (December 31, 2013: $156.8). Property, plant and equipment with a carrying value of $112.6 million as at March 31, 2014 (December 31, 2013: $48.2 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.

During the quarter, Trilogy completed the acquisition of oil and gas properties in the Grande Prarie area for cash consideration of $4.2 million ($5.5 million gross proceeds net of $1.3 million for purchase price adjustments). $5.6 million was allocated to PP&E and $1.4 million to decommissioning liabilities.

8. Exploration and Evaluation Assets

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
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 7)	(134)	(48,484)	(48,618)
Acquisitions	180	-	180
Dispositions	-	-	-
Balance at December 31, 2013	68,685	23,968	92,653
Additions	**-**	**27,193**	**27,193**
Expensed	**(1,337)**	**-**	**(1,337)**
Transfers to property, plant and equipment (Note 7)	**(79)**	**-**	**(79)**
Acquisitions	**-**	**-**	**-**
Dispositions	**-**	**-**	**-**
Balance at March 31, 2014	**67,269**	**51,161**	**118,430**

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

	Three months ended March 31	
	2014	**2013**
Expired mineral leases	**1,337**	318
Geological and geophysical costs	**947**	76
Exploration and evaluation expenditures	**2,284**	394

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

9. Income Tax

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

Net Deferred Income Tax Asset/(Liability)	Property, Plant, & Equipment	Risk Management	Decommissioning Liabilities	Losses & Other	Total
At December 31, 2012	(116,650)	(724)	49,447	168,415	100,488
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
Expense to earnings	**(8,461)**	**398**	**1,502**	**(450)**	**(7,010)**
At March 31, 2014	**(136,232)**	**1,698**	**49,404**	**173,450**	**88,319**

A $7 million deferred income tax expense was charged to the consolidated statement of comprehensive income.

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.

In the first quarter of 2014, 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. 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. Should a notice of reassessment be issued, Trilogy would be required to make a payment equal to 50 percent of the cash tax assessed, estimated to be $8 million plus applicable interest. This amount would be refundable 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.

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.

10. Dividends Payable

Dividends declared were $0.105 per Share for the three months ended March 31, 2014 and March 31, 2013, respectively. The dividend payable was $4.4 million ($0.035 per Share) as at March 31, 2014 and $4.4 million ($0.035 per Share) as at December 31, 2013.

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.

11. 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).

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

As at March 31, 2014, the Company is in compliance with all debt covenants.

The effective interest rate on Trilogy’s revolving credit facility for the period (excluding other financing costs) was 3.54 percent.

The Company has letters of credit totalling $9.7 million as at March 31, 2014 (December 31, 2013: $9.4 million). These letters of credit reduce the amount available for draw.

Subsequent to the quarter, Trilogy’s revolving credit facility lenders increased their commitments by $75 million to $725 million.

Senior Unsecured Notes

On December 13, 2012, the Company issued $300 million in Senior Unsecured Notes at par value. The notes bear interest semi-annually at 7.25 percent per annum and will mature on December 13, 2019. Interest payable was $6.5 million at March 31, 2014 and $1.1 million at December 31, 2013. 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 7.53 percent.

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

	Three months-ended March 31, 2014	**Twelve months-ended December 31, 2013**
Revolving credit facility	**288,380**	256,984
Less prepaid interest and unamortized financing costs	**(962)**	(1,489)
Carrying value	**287,418**	255,495
Senior unsecured notes	**300,000**	300,000
Less unamortized financing costs	**(4,760)**	(4,965)
Carrying value	**295,240**	295,035
Total carrying value of long term debt	**582,658**	550,530

Interest expense for the three months ended March 31, 2014 and 2013 is comprised of the following:

	Three months-ended March 31	
	2014	**2013**
Senior unsecured notes	**5,363**	5,363
Credit facility interest, charges, and other interest	**3,284**	4,021
Amortization of finance fees	**373**	314
Total interest and finance costs	**9,020**	9,698

12. Decommissioning and Restoration Liability

	Three months-ended March 31, 2014	Twelve months-ended December 31, 2013
Balance - beginning of period	**191,606**	197,788
Liabilities incurred	**2,950**	10,506
Liabilities acquired	**1,392**	-
Liabilities settled	**(3,189)**	(4,202)
Accretion	**1,490**	5,372
Revision to estimates	**3,365**	(17,858)
Balance – end of period	**197,614**	191,606

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $249.1 million as at March 31, 2014 (December 31, 2013: $239.8 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 March 31, 2014 and December 31, 2013, respectively, have been discounted using an average risk free rate of approximately 3.1 percent and an inflation rate of 2.0 percent.

13. Share-Based Payment Plans

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

	Three months ended March 31	
	2014	**2013**
Expense arising from:		
Share Incentive Plan	**438**	1,113
Share Option Plan	**3,404**	3,537
Total expense arising from share-based payment transactions	**3,842**	4,650

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:

	Three months-ended March 31, 2014	Twelve months-ended December 31, 2013
Beginning	**94,126**	101,390
Purchases	**190,000**	180,000
Vested	**(2,047)**	(187,264)
Ending	**282,079**	94,126

The cost to the Company of the Common Shares held in trust was $7.8 million as at March 31, 2014 and $2.8 million at December 31, 2013 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:

	Three months-ended March 31, 2014		Twelve months-ended December 31, 2013	
	Weighted Average Exercise Price	**No. of Options**	**Weighted Average Exercise Price**	**No. of Options**
Outstanding at January 1	**$ 23.78**	**7,267,500**	$ 19.77	7,257,900
Granted	**26.95**	**40,000**	26.97	1,591,000
Exercised	**6.36**	**(174,000)**	7.13	(1,473,400)
Forfeited	**29.57**	**(130,000)**	26.43	(108,000)
Outstanding at period end	**$ 24.12**	**7,003,500**	$ 23.78	7,267,500
Exercisable at period end	**$ 18.95**	**2,419,500**	$ 18.26	2,606,500

The weighted average fair value of options granted during the period was $7.64 per option (2013: $8.07). The significant inputs into the model were as follows:

	March 31, 2014	December 31, 2013
Dividend yield (percent)	1.57	1.43 to 1.57
Expected volatility (percent)	38	38 to 47
Risk-free interest rate (percent)	1.73	1.38 to 2.08
Expected life of options (years)	4 - 5	4 - 5

The weighted average share price at the date of exercise for share options exercised in 2014 was $27.38 (2013: $30.12).

The range of exercise prices of the outstanding options and exercisable options as at March 31, 2014 were as follows:

Exercise Price Range	Weighted Average Contractual Life Remaining	Outstanding Options		Exercisable Options	
		Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$4.85 to $10.19	0.8	1,014,500	$7.34	842,500	$7.11
$10.20 to 26.86	2.1	1,284,000	$12.33	656,000	$12.15
$26.87 to $27.69	5.0	1,540,000	$26.91	5,000	$27.66
$27.70 to $28.27	4.1	1,708,000	$28.27	340,000	$28.27
$28.28 to $38.74	3.1	1,457,000	$38.38	576,000	$38.42
Total	3.2	7,003,500	$24.12	2,419,500	$18.95

14. 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

The following provides a continuity of outstanding share capital:

	Common Shares[1]	Non-Voting Shares	Total		Amount
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**	**$**	**1,092,727**
Issued - Share Option Plan	**174,000**	**-**	**174,000**		**1,812**
Share Incentive Plan purchases	**(190,000)**	**-**	**(190,000)**		**(5,107)**
Vesting of Share Incentive Plan awards	**2,047**	**-**	**2,047**		**60**
Shares as at March 31, 2014	**99,324,531**	**25,835,862**	**125,160,393**	**$**	**1,089,493**

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

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.

15.Earnings (Loss) per share

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

	Three months-ended March 31	
	2014	**2013**
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**17,386**	9,644
Weighted average number of shares for the purposes of basic earnings per share	**125,071,589**	116,879,993
Effect of dilution	**1,782,524**	2,824,257
Weighted average number of shares	**126,854,113**	119,704,251
Earnings (loss) per share – Basic	**0.14**	0.08
Earnings (loss) per share – diluted	**0.14**	0.08

16.Reconciliation of Changes in Non-Cash Working Capital

	Three months-ended March 31	
	2014	**2013**
Decrease (increase) in trade, other receivables and prepaids	**13,530**	(9,978)
Increase (decrease) in trade, other payables and interest payable	**(85,907)**	82,747
	(72,377)	72,769
Changes in non-cash operating working capital	**(4,579)**	963
Changes in non-cash investing working capital	**76,956**	71,806

17.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 $0.1 million for the three months ended March 31, 2014 (March 31, 2013 - $0.1 million). Costs associated with this agreement are included as part of the general and administrative expenses in the Company’s consolidated statement of comprehensive income.

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

March 31, 2014 **Presented in the Balance Sheet as**	**Normal Business**	**Services Agreement**	**Dividend**
Trade and other receivables	**457**	**-**	**-**
Trade and other payables	**(42)**	**(109)**	**-**
Dividends payable	**-**	**-**	**(671)**

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)

The receivables and payables are unsecured in nature and bear no interest. No provisions were held against receivables or payables from Paramount through 2014 and 2013.

18.Financial Risk Management and Objectives

The main risks arising from Trilogy's financial instruments are credit risk, liquidity risk, commodity price risk, interest rate risk and foreign currency risk. A detailed discussion of these risks as they apply to the Company are listed in note 22 of the 2013 Annual Consolidated Financial Statements.

Credit Risk

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 Company has not provided an allowance for any of its receivables as they are all considered collectible. The maximum exposure to credit risk at period-end is as follows:

	March 31, 2014	**December 31, 2013**
Trade and other receivables	**80,417**	66,419
Derivatives Financial Instruments[1]	**50**	24
	80,467	66,443

[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. The variability of commodity prices, among other things, 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 March 31, 2014 is as follows:

	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	208,549	-	-	208,549
Dividends payable	4,390	-	-	4,390
Interest payable	6,495			6,495
Derivative financial instruments	6,841	-	-	6,841
Long-term debt and estimated interest[1]	32,787	385,455	321,750	739,992
Total	259,062	385,455	321,750	966,267

[1] Estimated interest related to the revolving credit facility for future periods was calculated using the weighted average interest rate for the year ended March 31, 2014 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, 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 was 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.

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 March 31, 2014 and December 31, 2013 is detailed below:

	March 31, 2014	December 31, 2013
Committed amount that can be drawn from the credit facility (see note 11)	**650,000**	650,000
Outstanding letters of credit	**(9,676)**	(9,423)
Amount that can be drawn after letters of credit	**640,324**	640,577
Revolving credit facility	**(287,418)**	(255,495)
Current liabilities net of current assets	**(145,396)**	(65,523)
Capacity under revolving credit facility	**207,510**	319,559

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

	March 31, 2014	December 31, 2013
Revolving credit facility (see note 11)	**(287,418)**	(255,495)
Senior notes (see note 11)	**(295,240)**	(295,035)
Current liabilities, net of current assets	**(145,396)**	(65,523)
Net debt[(1)]	**(728,054)**	(616,053)

(1) Net debt is a Non-GAAP measure

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 above for further discussion on the management of Trilogy's capital structure.

The increase in net debt above can be attributed primarily to the execution of a significant portion of Trilogy's annual capital expenditure budget in the first quarter of 2014 and dividends paid in 2014, relative to its cashflow from operations.

Subsequent to the quarter, Trilogy's revolving credit facility lenders increased their commitments from $650 million to $725 million.

19. Financial Instruments

Carrying Values

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

	March 31, 2014	December 31, 2013
Financial assets		
Restricted cash	**-**	5,898
Receivables[1]	**80,417**	66,419
Financial instruments fair valued through profit and loss[2]	**50**	24
Financial liabilities		
Other liabilities - non-trading liabilities[1] [3]	**(219,434)**	(133,520)
Financial instruments fair valued through profit and loss[2]	**(6,841)**	(5,224)
Other liabilities - long-term debt[4]	**(582,658)**	(550,530)

(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 105 percent, based on independent broker quotes, of face value or $316.5 million (level 3 type – unobservable data inputs).

The three levels of the fair value hierarchy are:

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

Level 2 – Input other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – inputs that are not based on observable data

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

March 31, 2014

	Derivative financial assets (liabilities) – fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
Power derivative contract	**-**	**-**	**50**	**50**
Crude oil and natural gas derivative contracts	**-**	**(6,841)**	**-**	**(6,841)**
		(6,841)	**50**	**(6,791)**

December 31, 2013

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

Commodity Contracts

At March 31, 2014 the Company had the following outstanding crude oil derivative contracts:

Crude Oil

	Financial Forward Sale	
Term	**Volume (Bbl/d)**	**Average USD WTI Price/Bbl**
Q2 2014	5,000	$92.76
H2 2014	4,000	$92.88

Power

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

Natural Gas

	Financial Forward Sale	
Term	**Volume (GJ/d)**	**Average CAD Price/GJ**
April 2014 through October 2014	20,000	$4.45

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 interim statement of comprehensive income.

The following table summarizes the fair value as at March 31, 2014 and December 31, 2013, and the change in fair value for the three months ended March 31, 2014 and the twelve months ended December 31, 2013.

	Three months-ended March 31, 2014	**Twelve months-ended December 31, 2013**
Derivative asset, beginning of period	**24**	2,897
Unrealized change in fair value	**26**	(2,873)
Derivative asset, end of period	**50**	24
Derivative liability, beginning of period	**(5,224)**	-
Unrealized change in fair value	**(1,617)**	(5,224)
Derivative liability, end of period	**(6,841)**	(5,224)
Unrealized increase (decrease) in fair value for the period	**(1,591)**	(8,097)

20.Gain (Loss) on Derivative Financial Instruments

	Three months ended March 31	
	2014	**2013**
Realized gains (losses)		
Crude oil	**(2,904)**	**21**
Power	**129**	**174**
Foreign exchange	**-**	**270**
Interest swaps	**-**	**130**
Sub-total	**(2,775)**	**595**
Unrealized gains (losses)		
Crude oil & natural gas	**(1,617)**	**(5,375)**
Power	**26**	**48**
Foreign exchange	**-**	**(260)**
Interest swaps	**-**	**(202)**
Sub-total	**(1,591)**	**(5,789)**
Gain (losses) on derivative financial instruments	**(4,366)**	**(5,194)**

21.Segment Reporting

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

	Three months-ended March 31	
	2014	**2013**
Petroleum and natural gas sales:		
Natural gas	**67,486**	36,658
Oil	**61,367**	83,665
Natural gas liquids	**28,584**	22,348
Total petroleum and natural gas sales	**157,436**	142,671

22.Commitments

During the quarter, Trilogy incurred the following pipeline transportation commitments, in addition to those disclosed in the 2013 annual consolidated financial statements.

	2014	2015	2016	2017	2018	2019 and after	Total
Pipeline transportation [1]	-	2,537	3,860	3,679	3,687	15,670	29,446
Total	-	2,537	3,860	3,679	3,687	15,670	29,446

[1] Before Trilogy's letters of credit issued to cover certain pipeline transportation commitments

23. Subsequent Events

Subsequent to the quarter, Trilogy's revolving credit facility lenders increased their commitments by $75 million to $725 million.

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 Executive 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

PricewaterhouseCoopers LLP
Calgary, Alberta

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

Alberta Treasury Branches
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