



## **TRILOGY ENERGY CORP.**

Calgary, Alberta

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### **NEWS RELEASE: TRILOGY ENERGY CORP. PROVIDES UPDATE ON Q4 2016 OPERATIONS, 2017 HEDGING PROGRAM AND 2017 GUIDANCE**

**Trilogy Energy Corp. (“Trilogy” or the “Company”)** (TSX – TET) is pleased to provide an update on its fourth quarter 2016 Montney and Duvernay operations, report on its current hedging program and provide annual guidance for 2017.

#### **Highlights**

- Trilogy’s 2016 annual production averaged approximately 21,800 Boe/d, with an exit rate in December 2016 of approximately 23,800 Boe/d
- Trilogy is estimating net capital expenditures of approximately \$72.8 million for 2016, which includes \$29.7 million in the fourth quarter 2016
- Trilogy’s Board of Directors approved a 2017 capital budget of \$130 million. Management expects the capital program to be funded entirely out of funds flow from operations
- For 2017, Trilogy is forecasting its capital expenditures to be less than its projected funds flow from operations while growing its production approximately 10 percent over 2016 average production to approximately 24,000 Boe/d, based on current strip pricing and taking into account current Company hedges
- The Company plans to invest approximately \$60 million into the Kaybob Montney oil pool in 2017 to drill 15 horizontal net wells, complete 18 net wells and complete infrastructure projects that will reduce ongoing operating costs in this area
- Trilogy also plans to invest approximately \$25 million into the Presley gas pool in 2017 to drill, complete and tie-in 5.25 net wells
- The balance of the capital budget will be primarily allocated to developing Trilogy’s Duvernay assets in the second half of the year, with lesser amounts allocated to infrastructure, workovers, tie-ins and projects designed to reduce operating costs
- The Company is estimating funds flow from operations for 2016 of \$56.5 million, which includes a provision in the fourth quarter of 2016 of \$5.1 million in connection with the Company’s previously reported Kaybob Emulsion Release and approximately \$2.5 million on third party downward revenue adjustments for prior year production allocations

#### **Q4 2016 Operating Update**

Trilogy’s average production during the fourth quarter of 2016 is expected to be approximately 22,600 Boe/d, resulting in annual 2016 average production of approximately 21,800 Boe/d, with production in December 2016 being approximately 23,800 Boe/d. During the quarter, Trilogy recorded a \$5.1 million provision for the Kaybob emulsion release reported in October 2016 and a \$2.5 million provision for a third party downward revenue adjustment relating to prior year production allocations. Third party revenue adjustments negatively impacted full year 2016 average production by an estimated 115 Boe/d.

Funds flow from operations for the fourth quarter is approximately \$22.4 million. Excluding one-time adjustments for the emulsion release (\$5.1 million) and revenue allocation (\$2.5 million), fourth quarter 2016 funds flow from operations was expected to be approximately \$30 million.

### Montney Update

Based on the encouraging completion results from its first quarter 2016 Montney horizontal oil wells, the Company elected to increase its Montney drilling activity in 2016 from the 2 wells that were initially planned to a total of 12 wells for the year. Nine of these wells were completed prior to the end of 2016 and the remaining 3 will be completed in 2017.

Improvements to Trilogy's Montney oil well drilling and completion program resulted in well costs declining by approximately 30 percent while productivity generally increased. Cost savings were achieved in the drilling operations through the utilization of multi-well pads and high performance mud motor drilling. The change from hydrocarbon based fracture stimulations to water based fracture stimulations significantly reduced completion costs and allowed the Company to economically increase proppant volume and decrease stage spacing.

Trilogy varied sand volumes per stage from 10 tonnes per stage in its original horizontal Montney oil wells to as much as 20 tonnes per stage in recent wells. At the same time, stage spacing was reduced from 75 meters per stage in the original wells to 50 to 65 meters in the recent wells. Incorporating the efficiencies from its 2016 Montney drilling and completion program, Trilogy plans to drill 15 horizontal Montney oil wells and complete 18 wells in 2017.

The following table summarizes production results from the 9 horizontal Montney oil wells that were drilled, completed and brought on production in 2016. The variable results reflect the evolution of completion techniques described above.

	Cum Oil MBbl	Cum Gas MMcf	Average Oil Rate Bbl/d	Average Gas Rate MMcf/d	Average Prod. Boe/d	Sand Tonnes per stage	Stage Spacing meters	Total Prod. Days	On Prod. Date
02/12-6-64-18W5	68	175	300	0.8	433	10	75	227	May 12 2016
5-6-64-18W5	101	267	464	1.2	664	20	75	216	Mar 18 2016
10-31-64-18W5	13	5	152	0.1	169	20	100	85	Sept 23 2016
02/1-1-64-19W5	46	57	830	1.0	997	20	75	55	Oct 16 2016
2-1-64-19W5	13	6	415	0.2	448	20	65	30	Oct 20 2016
02/2-1-64-19W5	43	39	958	0.9	1,108	20	75	45	Oct 17 2016
02/5-6-64-18W5	65	90	1,197	1.7	1,480	13	50	54	Nov 12 2016
02/4-6-64-18W5	26	20	966	0.7	1,082	20	50	27	Nov 11 2016
03/4-6-64-18W5	11	13	400	0.5	483	20	50	27	Nov 14 2016

### Duvernay Update

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

The 02/16-17-61-19W5 well was placed on production November 10, 2016 and has produced for 63 days since that time, producing an aggregate of 17 MBbl of condensate and 194 MMcf of natural gas. Production is currently restricted through a downhole choke which will be pulled once surface flowing pressures stabilize. Liquids recovery from this well has been variable since coming on production relative

to other Duvernay wells operated by Trilogy and other producers in the area. This well's condensate gas ratio will be monitored closely over the next few months to confirm that it normalizes in the expected range of approximately 125 Bbl/MMcf.

The 12-21-63-17W5 well was brought on production December 21, 2016 and has produced an aggregate of 9.0 MBbls of crude oil/condensate (42 degree API, density of 814 kg/m<sup>3</sup>) and 8.9 MMcf of natural gas in the past 17 days. The well is expected to decline from current rates and Trilogy is forecasting the well to stabilize within the initial 6 to 12 producing months

	Cum Cond MBbl	Cum Gas MMcf	Average Oil/Cond Rate Bbl/d	Average Gas Rate MMcf/d	Average Prod. Boe/d	Condensate Gas Ratio Bbl/MMcf	Sand Conc. t/m	Total Prod. Days	On Prod. Date
2/16-17-61-19W5	17.0	194	280	3.2	813	88	2.2	61	Nov 10 2016
12-21-63-17W5	9.0	8.9	532	0.5	615	1010	2.2	17	Dec 21 2016

### 2017 Hedge Update

Trilogy has hedged approximately 31 percent of its forecast 2017 production to lock in expected returns from wells drilled in its 2017 capital spending program. Details of the hedges are as follows:

- hedged 30,000 MMbtu/d of natural gas for calendar 2017 at NYMEX \$3.44 USD
- hedged 2,000 Bbl/d of crude oil for calendar 2017 at NYMEX \$71.17 CDN
- collared 500 Bbl/d of crude oil for calendar 2017 between \$38.00 and \$57.50 USD WTI
- collared 500 Bbl/d of crude oil for calendar 2017 between \$42.00 and \$52.90 USD WTI
- locked-in \$1.3 million USD hedging gain for 2017 from the sale and repurchase of certain hedging contracts. The gain is expected to be realized evenly over calendar 2017

### 2017 Annual Guidance

Trilogy plans to execute a 2017 capital spending budget that is within anticipated 2017 cash flow based on Trilogy's 2017 production expectations and forecasted pricing. Certain projects that were originally planned for 2017 were accelerated into December 2016 to improve efficiencies and take advantage of operational opportunities.

Based on the results from the Company's 2016 Montney oil and gas drilling programs, Trilogy is budgeting capital expenditures of approximately \$60 million to drill 15 horizontal Montney net oil wells, complete 18 net wells and develop additional infrastructure in the Kaybob Montney oil pool in 2017. Trilogy will also be allocating approximately \$25 million in capital to drill 6 (5.25 net) wells into the Presley Montney gas pool, including 3 extended reach lateral wells and 3 one-mile laterals. The balance of the 2017 capital program will be allocated to Trilogy's Duvernay assets, infrastructure and other projects designed to reduce operating costs. The level of capital to be allocated to Duvernay projects will be reflective of commodity prices and will be weighted to the second half of 2017.

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

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

## About Trilogy

Trilogy is a petroleum and natural gas-focused Canadian energy corporation that actively develops, produces and sells natural gas, crude oil and natural gas liquids. Trilogy's geographically concentrated assets are primarily high working interest properties that provide abundant low-risk infill drilling opportunities and good access to infrastructure and processing facilities, many of which are operated and controlled by Trilogy. Trilogy's common shares are listed on the Toronto Stock Exchange under the symbol "TET".

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## Certain Financial Information and Non-GAAP Measures

All financial information presented in this press release in relation to fourth quarter and annual 2016 is based on estimates and is unaudited.

Certain measures used in this document, including "funds flow from operations", "the "Non-GAAP measures" do not have any standardized meaning as prescribed by IFRS 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. "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.

Financial data contained within this press release are reported in Canadian dollars, unless otherwise stated.

## Forward-Looking Information

Certain information included in this news release constitutes 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 news release include, but are not limited to:

- the Company's 2017 drilling, completion and development plans in Trilogy's Kaybob Montney oil and gas pools and the Duvernay shale play, including estimated costs of drilling and completing the wells in these plays, the timing thereof and the expectant production resulting therefrom;
- projections as to the results of the Company's current hedging program and the expected impact on Trilogy's 2017 capital program;
- Trilogy's forecast 2017 annual production levels, capital expenditures and allocation thereof, and operating costs;
- management's intention to fund its 2017 capital program entirely through funds flow from operations;
- estimates of fourth quarter and annual 2016 capital expenditures;
- expectations as to fourth quarter and annual 2016 funds flow from operations and the estimated financial impact of the Kaybob emulsion release and third party revenue adjustments thereon; and
- other statements regarding the Company's business strategy and objectives for 2017 and beyond.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. Such assumptions include:

- current commodity price forecasts for petroleum, natural gas and natural gas liquids (including condensate);
- current production forecasts and the relative mix of crude oil, natural gas and natural gas liquids therein;
- the ability of Trilogy and its partners to achieve drilling, completion, construction and other operational results consistent with our expectations (including in respect of anticipated production volumes, reserves additions and NGL yields, and expectations as to the timing and costs thereof);
- well economics and decline rates;
- funds flow from operations consistent with expectations;
- credit facility availability and access to sources of funding for Trilogy's planned operations and expenditures;
- current reserves estimates;
- geology applicable to Trilogy's land holdings;
- operating and other costs and expenses, currency exchange and interest rates and assumptions regarding royalties the applicability and continuity of royalty regimes and government incentive programs;
- budget allocations and capital spending flexibility;
- the ability of Trilogy to service and repay its debt when due;
- estimates of deferred tax amounts, tax assets and tax pools;
- estimates and projections in respect of the application of tax laws;
- the ability of Trilogy to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability to secure adequate product processing, transmission, transportation, fractionation and storage capacity on acceptable terms;
- the ability of Trilogy to market its crude oil, natural gas and natural gas liquids successfully to current and new customers;
- expectations that counterparties will fulfill their obligations under operating, gathering, processing, midstream and marketing agreements;
- the timing and costs of pipeline, storage and facility construction and expansion and facility run-times;
- the timely receipt of required regulatory approvals;
- assumptions used in calculating the financial impact of the recent Kaybob emulsion release and third party revenue adjustment; and
- general business, economic, and market conditions; among others.

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 oil, natural gas, condensate and other natural gas liquids and commodity prices;
- Trilogy's ability to generate sufficient funds flow from operations and other sources of financing at an acceptable cost to fund Trilogy's exploration, development and construction plans and meet current and future obligations;
- the uncertainty of estimates and projections relating to future production and NGL yields, and the ability of Trilogy to add production and reserves through development and exploration activities and acquisitions;
- the uncertainty of reserves estimates and reserves life;
- foreign currency, exchange rates and interest rates;
- uncertainty with regard to royalty payments and the applicability of and changes to royalty regimes and government incentive programs;
- uncertainties as to the availability and cost of financing;
- Trilogy's ability to pay its debt when due and satisfy the maintenance covenants within its credit and debt arrangements;
- the risk and effect of a downgrade in Trilogy's credit rating;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil, natural gas, condensate and other natural gas liquids and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- risks inherent in Trilogy's marketing operations, including credit risk and the risk that Trilogy may not be able to enter into suitable arrangements for the sale of its sales volumes;
- general risks related to strategic and capital allocation decisions, including potential delays or changes in plans with respect to exploration or development projects or capital expenditures and Trilogy's ability to react to same;
- Trilogy's ability to secure adequate product transmission, transportation, fractionation and storage capacity on acceptable terms and on a timely basis or at all;
- potential disruptions or unexpected technical difficulties in designing, developing or operating new, expanded or existing pipelines or facilities

- (including third party operated pipelines and facilities);
- risks related to the actions and financial circumstances of Trilogy's agents, contractors, counterparties, and joint venture partners;
  - Trilogy's ability to enter into, renew or maintain leases;
  - health, safety and environmental risks;
  - weather conditions;
  - risks associated with Trilogy's mitigation strategies including insurance and hedging activities;
  - imprecision in estimates of product sales, commodity prices, capital expenditures, tax pools and tax deductions available to Trilogy;
  - the possibility that government policies, regulations or laws, including without limitation those relating to the environment and taxation, may change or be interpreted in a manner other than Trilogy's current interpretation;
  - risks and costs associated with environmental, regulatory, and compliance, including those potentially associated with hydraulic fracturing,
- greenhouse gasses and "climate change" and the cost to Trilogy of complying with same;
  - the possibility that regulatory approvals may be delayed or withheld;
  - risks associated with existing and potential future lawsuits and regulatory actions against Trilogy;
  - uncertainty regarding aboriginal land claims and co-existing local populations;
  - the impact of market competition;
  - the risks that current calculations of fourth quarter 2016 funds flow from operations and/or the assumptions used by Management to estimate the financial impact of the recent Kaybob emulsion release and third party revenue adjustments prove to be inaccurate;
  - volatile economic and business conditions; the ability of management to execute its business plan; and
  - other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

The forward-looking statements and information contained in this news release 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.

### **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 Q3 2016, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 21:1 ("Value Ratio"). The Value Ratio is obtained using the Q3 2016 average realized oil price of \$52.03 (CAD\$/Bbl) and the Q3 2016 average realized natural gas price of \$2.47 (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.