



2011
Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

| | Three Months Ended | | | Years Ended December 31 | | |
|---|----------------------|-----------------------|----------|-------------------------|-----------|----------|
| | December 31, 2011 | September 30, 2011 | Change % | 2011 | 2010 | Change % |
| FINANCIAL | | | | | | |
| Petroleum and natural gas sales | 106,478 | 100,466 | 6 | 380,998 | 290,841 | 31 |
| Funds flow | | | | | | |
| From operations ⁽¹⁾ | 60,494 | 60,312 | - | 218,502 | 153,519 | 42 |
| Per share - diluted | 0.51 | 0.51 | - | 1.84 | 1.33 | 38 |
| Earnings | | | | | | |
| Earnings (loss) before tax | (5,247) | 19,049 | (128) | 25,042 | 145,623 | (83) |
| Per share - diluted | (0.04) | 0.16 | (125) | 0.21 | 1.27 | (83) |
| Earnings (loss) after tax | (4,651) | 14,404 | (132) | 17,415 | 178,242 | (90) |
| Per share - diluted | (0.04) | 0.12 | (133) | 0.15 | 1.55 | (90) |
| Dividends declared | 12,200 | 12,179 | - | 48,656 | 49,816 | (2) |
| Per share | 0.105 | 0.105 | - | 0.420 | 0.435 | (5) |
| Capital expenditures | | | | | | |
| Exploration, development, land, and facility | 101,726 | 71,478 | 42 | 351,744 | 165,564 | 112 |
| Acquisitions (dispositions) and other - net | (67) | 98 | 42 | (1,865) | 480 | (489) |
| Net capital expenditures | 101,659 | 71,576 | 42 | 349,879 | 166,044 | 111 |
| Total assets | 1,260,364 | 1,209,487 | 4 | 1,260,364 | 1,081,448 | 17 |
| Net debt ⁽¹⁾ | 490,945 | 424,604 | 16 | 490,945 | 312,095 | 57 |
| Shareholders' equity | 530,445 | 542,010 | (2) | 530,445 | 541,119 | (2) |
| Total shares outstanding (thousands) | | | | | | |
| - As at end of period ⁽²⁾ | 116,118 | 115,853 | - | 116,118 | 114,717 | 1 |
| OPERATING | | | | | | |
| Production | | | | | | |
| Natural gas (MMcf/d) | 109 | 125 | (13) | 120 | 109 | 10 |
| Oil (Bbl/d) | 6,089 | 3,886 | 57 | 3,759 | 1,935 | 94 |
| Natural gas liquids (Boe/d) | 4,095 | 4,397 | (7) | 4,287 | 2,707 | 58 |
| Total production (Boe/d @ 6:1) | 28,288 | 29,035 | (3) | 28,012 | 22,788 | 23 |
| Average prices before financial instruments | | | | | | |
| Natural gas (\$/Mcf) | 3.45 | 4.04 | (15) | 3.88 | 4.35 | (11) |
| Crude Oil (\$/Bbl) | 88.72 | 85.85 | 3 | 89.21 | 77.89 | 15 |
| Natural gas liquids (\$/Bbl) | 59.16 | 57.96 | 2 | 56.99 | 63.53 | (10) |
| Drilling activity (gross) | | | | | | |
| Gas | 7 | 3 | 133 | 34 | 45 | (24) |
| Oil | 15 | 11 | 36 | 33 | 11 | 200 |
| D&A | 1 | - | 100 | 1 | - | 100 |
| Total wells | 23 | 14 | 64 | 68 | 56 | 21 |

⁽¹⁾ Funds flow from operations and net debt are non-GAAP terms. Funds flow from operations represents cash flow from operating activities before net changes in operating working capital accounts. Net debt is equal to long-term debt plus/minus working capital. 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 annual consolidated financial statements for additional information.



Message to Shareholders

A lot can happen in a year, as demonstrated by Trilogy in 2011. Growth has clearly taken hold at Trilogy as a result of continued development in the Presley Montney gas pool, the development of the new Kaybob Montney oil pool, and initial results on the emerging Duvernay shale play. This has allowed for record production and reserve levels, and increasing netbacks on production through the year, despite declining natural gas prices. The majority of Trilogy's 2011 capital program continued to utilize horizontal drilling and multi-stage fracture completion technology, directed at oil targets or relatively high liquids rich natural gas projects yielding generally better relative economics for these types of targets.

During 2011, Trilogy produced 28,012 Boe/d as compared to 22,788 Boe/d in 2010 representing a 23% increase in production. Trilogy's production mix saw oil and natural gas liquids production grow to 29% of total production as compared to 20% in 2010, mitigating the impact of declining natural gas prices. Trilogy was able to produce its reserves at an operating cost of \$8.29/Boe. Trilogy spent \$351.8 million on its exploration and development program during 2011 as the company made a significant land acquisition to capture the majority of the remaining lands within the Kaybob Montney oil pool and accelerate the development of the oil pool and related facilities to produce these associated reserves. In 2011, Trilogy generated funds flow from operations of \$218.5 million as compared to \$153.5 million in 2010, a 42% increase year over year. Trilogy also declared \$48.7 million in dividends during the year. Trilogy's net debt was \$490.9 million at the end of 2011 or just over two times 2011 cash flow levels. This metric is expected to be significantly less with projected cash flow increases in 2012.

Trilogy drilled 13 net wells in its Presley area Montney gas play, with continued success. Production reached record peak levels of 75 MMcf/d and averaged approximately 60 MMcf/d in this area during 2011. Individual well productivity continued to improve as more fracture stimulations were completed in each horizontal well. Further improvements in the economics of these wells is anticipated as technology has progressed to allow for the same inter-fracture spacing in wells as long as two miles, resulting in lower costs per fracture stage while maintaining the rate and reserves per stage. Trilogy also made significant investments in area infrastructure, installing field compression to increase capacity in the Presley area to approximately 80 MMcf/d and also doubled the E Plant functional unit's capacity at the Kaybob North Gas Plant to over 100 MMcf/d. At the same plant, Trilogy also doubled the acid gas disposal capacity by installing additional acid gas compression as well as drilling a second acid gas disposal well. Trilogy spent \$17 million completing the Kaybob North Gas Plant expansion and Presley field compression additions, providing for continued growth out of the Presley Montney development over the next few years.

In early 2011, Trilogy further capitalized on its new 53 kilometer Presley Pipeline by entering into a strategic agreement with Aux Sable Canada LP to capture additional value from the liquids-rich natural gas produced in the Presley and Kaybob North areas. Trilogy recovered in excess of 2,000 Boe/d of natural gas liquids from its natural gas production and approximately \$20 million during the year through the rich gas premium arrangement. It is anticipated that these recoveries will grow during 2012 with further production increases from Trilogy-operated fields that deliver into the Alliance pipeline system and therefore benefit from this rich gas premium arrangement.

The development of the Kaybob Montney oil pool had the largest impact on Trilogy during 2011. An initial well drilled in the fourth quarter of 2010 tested at approximately 1,800 Bbl/d of oil with associated natural gas while a second well was immediately drilled into a large Alberta Crown

land posting with an even better initial test rate of over 3,000 Bbl/d in early February 2011. Trilogy announced the results from the two initial wells drilled into the pool along with the acquisition of the remaining undeveloped lands within the pool on February 9, 2011. Throughout the remainder of 2011, Trilogy drilled 22 additional wells into the pool with initial seven day production rates averaging 1,285 Bbl/d for the 21 wells completed and placed on production prior to year-end; with the highest producing over 3,000 Bbl/d. Based on the success of the drilling program, Trilogy exceeded its initial target of increasing production to over 5,000 Bbl/d of oil from this pool, and has now surpassed the milestone of 10,000 Bbl/d. Facilities constructed during the year to produce at the lower rates are now being expanded to over 20,000 Bbl/d of capacity in anticipation of further growth. Trilogy has projected 10,000 Bbl/d from this pool in its 2012 guidance.

During 2011, Trilogy followed up the initial successful Duvernay shale well drilled in 2010 with an operated well which was press released in April 2011. Trilogy has subsequently participated in an additional third party operated well and is currently participating in the drilling of a fourth horizontal Duvernay well. The wells have shown progressively better deliverability while the costs to drill and complete have declined from as high as \$18 million per well down to approximately \$10 million per well. The Duvernay wells have exhibited very high natural gas liquids content, producing up to 100 Bbl/MMcf of condensate and demonstrating the potential to recover over 200 Bbl/MMcf if the gas was to be processed at temperatures low enough to recover the ethane components from this very liquids-rich natural gas. Industry has spent over \$1.5 billion capturing land on the play, and Trilogy anticipates a significant amount of data to be available from other operators drilling wells into the play which should refine our understanding of the play's potential on Trilogy's land base. Trilogy has plans to operate drilling several more Duvernay wells through the remainder of 2012.

Throughout the year, Trilogy was also able to test a number of additional opportunities, including testing two new Montney oil prospects with encouraging results. These wells will be placed on production in 2012 to better understand the longer term production performance of the plays. Additional drilling success was also achieved by testing new exploration wells into the Dunvegan and Cardium formations, yielding positive initial oil rates and establishing a significant inventory of follow-up locations on these plays.

Through its 2011 capital expenditure program, Trilogy was able to add 19.4 MMBoe of proved reserves and 20.6 MMBoe of proved plus probable reserves, inclusive of technical revisions. This represented a replacement of 190% of proved reserves and 202% of proved plus probable reserves based on 10.2 MMBoe of production in 2011. Trilogy was able to add these reserves at a very low finding and development cost of \$18.52/Boe on a proved basis, and \$17.23/Boe on proved plus probable basis. Excluding capital expenditures of \$81.9 million related to land and facility expansions, finding and development costs were \$14.29/Boe on a proved basis, and \$13.25/Boe on proved plus probable basis. The before-tax present value discounted at 10% increased 20% from \$1.19 billion at the end of 2010 to \$1.44 billion at the end of 2011, despite a significant drop in the forecast price of natural gas, as a result of the majority of new reserve additions coming from new oil wells drilled into the Kaybob Montney oil pool. Trilogy expects to continue to be an industry leader in this category, as the majority of its 2012 drilling program is focused on further exploiting its Montney horizontal development at Presley and the Kaybob Montney oil pool.

The business environment in which Trilogy operates continues to rapidly change as North American gas markets struggle to understand what the natural gas price needs to be to generate a balance between supply and demand. Natural gas prices have been impacted by an extremely mild winter, reducing heating demand for the commodity, somewhat offset by a growing demand by energy users for a lower cost, more environmentally friendly alternative for

energy. Prices for oil have behaved much differently than those for natural gas, with a tightening supply demand balance and geopolitical pressures increasing crude oil market prices currently to over \$100/Bbl. New technologies, combined with a dramatic disparity between the price of natural gas and that of oil and natural gas liquids, have dramatically changed the economics for many of the plays in Canada. It appears that oil plays and only the very best liquids rich gas plays may be economically pursued. These strong liquids prices will benefit Trilogy greatly given its growing natural gas liquids production and Montney oil development program, its Presley Montney gas play and the emerging Duvernay play. Trilogy believes it is fortunate to have captured and to control some of the best and most economic oil and natural gas prospects available in North America. Trilogy is of the view that prices have dropped to a level that is unsustainable for the full-cycle replacement of dry natural gas prospects, and that we should see an appreciably higher price in the near term. Trilogy will manage its business to pursue opportunities that provide robust economics at current commodity prices and expects it will soon be able to capitalize on more of its inventory prospects when natural gas prices improve.

Trilogy has provided 2012 guidance of 40,000 Boe/d, which would represent a 43% increase in production year-over year. Capital Expenditures are budgeted at \$300 million and operating costs are forecast to be \$7.00/Boe. Consistent with our strategy of increasing production and reserves while paying our shareholders a meaningful dividend from internally generated cash flow, the aggregate of our 2012 capital budget and projected dividends of approximately \$50 million is expected to be less than anticipated annual cash flow. Any excess cash flow will be used to pay down our long-term debt. Trilogy looks forward to delivering on its goals in 2012.

Yours truly,

/s/ James H.T. Riddell

Jim Riddell
Chief Executive Officer
Trilogy Energy Corp.



2011 REVIEW OF OPERATIONS

First Quarter Review

- Average production 25,362 Boe/d
- \$132.8 million of net capital expenditures
- 21(15.0 net) wells drilled with a 100 percent success rate
- Average operating costs \$7.86/Boe
- Operating netback of \$22.85/Boe
- \$45.6 million funds flow from operations or \$0.39 per diluted Share

Second Quarter Review

- Average production of 29,320 Boe/d
- \$43.8 million net capital expenditures
- 9 (5.1 net) wells drilled with a 100 percent success rate
- Average operating costs of \$8.15/Boe
- Operating netback of \$22.12/Boe
- \$52.1 million funds flow from operations or \$0.44 per diluted Share

Third Quarter Review

- Average production of 29,035 Boe/d
- \$71.6 million net capital expenditures
- 15 (10.0 net) wells drilled with a 100 percent success rate
- Average operating costs of \$7.16/Boe
- Operating netback of \$25.35/Boe
- \$60.3 million funds flow from operations or \$0.51 per diluted Share

Fourth Quarter Review

- Average production of 28,288 Boe/d
- \$101.7 million of net capital expenditures
- 23 (15.6 net) wells drilled
- Average operating costs of \$9.95/Boe
- Operating netback of \$25.91/Boe
- \$60.5 million funds flow from operations or \$0.51 per diluted Share

Certain statements included in this Review of Operations constitute forward-looking statements under applicable securities legislation. Please refer to the Management Discussion and Analysis ("MD&A") to which this Review of Operations is attached for Advisories on forward-looking statements, the assumptions upon which such statements are made and the risks and uncertainties which could cause actual results to differ materially from those anticipated by Trilogy and described in the forward-looking statements or information. Please also refer to the MD&A for applicable definitions of non-GAAP measures used including: funds flow from operations, operating income, operating netback, net debt, finding and development costs and recycle ratio,

2011 Annual Highlights

- Production averaged 28,012 Boe/d (10.2 MMBoe) for the year.
- Trilogy's production from the Montney oil pool has increased from 5,000 Bbl/d in December 2011 to approximately 10,000 Bbl/d in February 2012, pursuant to the installation of 2 – 8 inch field pipelines. Completion of oil battery expansion projects in the second quarter of 2012 will increase processing capacity in this area to approximately 20,000 Bbl/d.
- Net capital expenditures totaled \$349.9 million for the year, including approximately \$29.3 million in costs related to the expansion of the Kaybob Montney oil pool infrastructure, \$10.5 million on Presley infrastructure, \$6.5 million to further expand Kaybob 8-9 gas plant and \$35.3 million in land expenditures for the Kaybob Montney oil and Duvernay mineral rights
- Added 19.4 MMBoe of proved reserves (37 percent oil and NGLs) and 20.6 MMBoe of proved plus probable reserves (39 percent oil and NGLs)
- Replaced 190 percent of 2011 produced reserves when compared to proved reserve additions and 202 percent when compared to proved plus probable reserves
- Proved plus probable before tax NPV 10 increased 20 percent from \$1,195 million at the end of 2010 to \$1,438 million at the end of 2011 in a very challenging natural gas price environment where forecasted natural gas prices decreased by an average of 22 percent over the next five years when compared with the 2010 year end price forecast
- Finding and development costs were \$18.52/Boe for total proved reserves and \$17.23/Boe for proved plus probable reserves on capital expenditures \$349.9 million including corporate expenses and net of dispositions
- Finding and development costs were \$14.29/Boe for total proved reserves and \$13.25/Boe for proved plus probable reserves on capital expenditures of \$349.9 million minus \$81.9 million for land and facilities capital related to Trilogy's Montney oil pool and Presley gas pool
- Reserve life index decreased to 8.7 years for proved plus probable reserves in 2011 as compared to 9.4 years in 2010, reflecting the 23 percent growth in production over 2010 and a 13 percent growth in the proved plus probable reserve base over the same period
- Annual operating costs were \$8.29/Boe
- Annual operating netback of \$24.09/Boe (including realized gains/losses on financial instruments and other income)
- Participated in 63 horizontal wells evaluating nine different formations including; the Duvernay, Montney, Doig, Gething, Bluesky, Wilrich, Spirit River, Dunvegan and Cardium formations
- 2011 capital expenditures of approximately \$277 million to drill, complete and tie-in new reserves added an estimated \$530 million of value (NPV 10). This estimate includes approximately \$85 million in 2011 cash flow from new wells placed on production during the year
- The estimated value of Trilogy's undeveloped land base increased \$66.7 million from \$149.1 million in 2010 to \$215.8 million in 2011

The year proved to be very successful as the Company focused its capital spending on oil and liquids-rich gas plays that provided the best rate of return with a lower risk profile. Trilogy's high

quality prospect inventory of horizontal and vertical locations continued to provide the opportunity to grow production and reserves and has proven to be extremely valuable during this period of low natural gas commodity prices and rising oil and natural gas liquids prices. In 2012, Trilogy will continue to exploit the prospects that are anticipated to add low cost reserve and production additions while providing the highest netback on a per Boe basis.

Production

Trilogy's production averaged 28,012 Boe/d (119.8 MMcf/d of natural gas, 3,759 Bbl/d of crude oil and 4,287 Bbl/d of natural gas liquids) in 2011. This represents a 23 percent increase over the annual production volume for the prior year and reflects Trilogy's focused efforts on profitable production and reserve growth. **Trilogy was able to allocate capital towards its oil and liquids-rich plays during the year, resulting in a shift from 20 percent oil and natural gas liquids in 2010 to 29 percent oil and natural gas liquids in 2011. In 2012, Trilogy will continue the transition from a gas-weighted producer to a more liquids-rich producer; with oil and natural gas liquids production expected to rise to approximately 43 percent of total production.** This transition is expected to contribute to a significant increase in cash flow in 2012. As of year end, Trilogy estimates that its liquids-rich gas and oil prospects yield an inventory of more than 900 drilling locations that Trilogy believes will provide for continued growth into the future. Trilogy is moving forward with a strategy that should see year-over-year growth through the development of these assets with horizontal drilling and completion techniques.

The following table summarizes the average daily production by product for the past four years as well as the Company's production guidance for 2012.

| | 2012 Forecast | 2011 | 2010 | 2009 | 2008 |
|--|------------------|---------------|--------|--------|--------|
| Natural Gas Production (MMcf/d) | 138.0 | 119.8 | 108.9 | 93.3 | 97.0 |
| NGL Production (Boe/d) | 4,500 | 4,287 | 2,707 | 2,390 | 2,413 |
| Crude Oil Production (Bbl/d) | 12,500 | 3,759 | 1,935 | 1,848 | 2,009 |
| Total Production (Boe/d) | 40,000 | 28,012 | 22,788 | 19,780 | 20,585 |

Trilogy's production volumes in the third and fourth quarters remained relatively flat at 29,035 and 28,288 Boe/d respectively. Through the fourth quarter, Trilogy experienced pipeline transportation issues related to an increase of oil production from its new Montney oil pool at Kaybob. Trilogy had expected to transport 10,000 Bbl/d of crude oil through the existing oil gathering system. However, the high deliverability Montney oil wells required significant inlet separator pressures at the field batteries. This high pressure resulted in increased flash gas volumes in the tank farms that loaded the vapor recovery units. Further increases in the inlet separator oil volumes would have caused additional health and safety concerns. **These issues were resolved in mid February of 2012 at which time Trilogy was able to produce at stable rates of approximately 10,000 Bbl/d of crude oil, rates which were originally forecast to be produced in November and December 2011. Montney crude oil production volumes are expected to increase through the balance of the first quarter of 2012 to approximately 12,000 Bbl/d as the remaining bottlenecks are removed from the existing facilities.**

Processing issues at the third party operated Kaybob South Gas Plant No. 3 (the "K3 Plant") negatively impacted Trilogy's production in 2011. Unexpected outages at the K3 Plant resulted in approximately 65 days of down time in the year. Trilogy processed an average of 2,500 Boe/d through the K3 Plant in 2011 however the down time resulted in 2011 annual production being reduced by approximately 450 Boe/d. Additional production outages in the Kaybob area during the spring and summer were related to forest fires, wind storms and flooding.

Trilogy's Kaybob 8-9 gas plant and related facilities were shut in for approximately 10 days during the third quarter of 2011 to accommodate the expansion of the sour gas processing and acid gas disposal projects. These projects were required to expand the sour gas processing of the recently constructed E Plant to 100 MMcf/d of sour gas and to provide for the disposal of acid gas from the expanded facility. The opportunity was also used to start the expansion of the 12-10 oil battery such that the required shut down in the second quarter of 2012 to expand the oil battery to 20,000 Bbl/d of treating capacity would be minimized. The shut down reduced third quarter volumes by approximately 1,050 Boe/d and annual production by approximately 260 Boe/d.

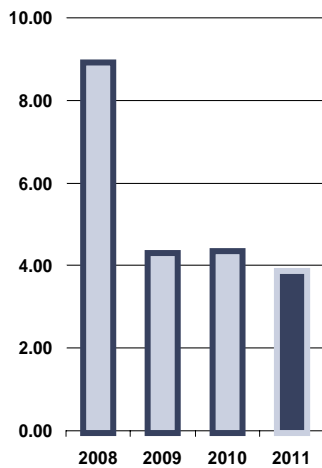
Based on Trilogy's current portfolio of producing assets and its proposed capital spending plans in 2012, Trilogy expects to grow 2012 production by 43 percent over 2011 volumes, to approximately 40,000 Boe/d. Trilogy will focus its capital spending plans in 2012 on the liquids-rich Montney gas in the South Kaybob Presley area and on the Montney oil plays in the North Kaybob area. Additional production and reserve growth in 2012 is also expected to come from the Dunvegan and Duvernay formations in the Kaybob area. The nature and location of Trilogy's assets provides the opportunity to pursue numerous additional emerging play types, thereby better managing the risk of exposure to a single type or a single geographic area. The advances in horizontal drilling and multi-stage fracture stimulation completion techniques over the past few years and Trilogy's significant infrastructure investments will continue to provide Trilogy with the opportunity to adjust its drilling and completion programs to economically exploit tight gas reservoirs on its acreage for very attractive finding and development costs. Trilogy's core assets should provide economic drilling opportunities with an attractive rate of return even in a low natural gas commodity price environment.

Operating Costs

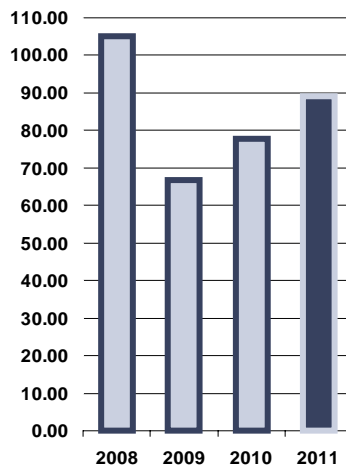
Operating costs decreased 2 percent in 2011 to \$8.29/Boe compared to \$8.49/Boe in 2010. Operating costs were forecast to be \$7.75/Boe in 2011. However, given that production volumes in the fourth quarter were lower than anticipated and costs related to field projects were higher than forecast, the resulting operating costs for the fourth quarter were \$9.95/Boe. **Trilogy is forecasting 2012 operating costs to be \$7.00/Boe for the year, based on the expected continued growth in production and the pipeline transportation of new crude oil production through the expanded gathering system.**

An escalating demand for services early in the year put upward pressure on costs for services and equipment and reduced the netback on gas and oil production. Current low natural gas prices will prove to be challenging, requiring our employees, consultants, contractors and service providers to evaluate cost reduction opportunities in all areas of our business. However, by operating the majority of the wells, gathering systems and plants that process Trilogy's production, Trilogy believes it can control how its operating dollars are spent and how such costs can be reduced.

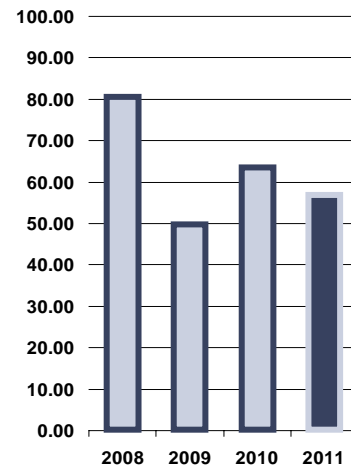
Natural Gas Price (\$/Mcf)



Oil Price (\$/Bbl)



NGL Price (\$/Boe)



Profitability

Trilogy's average natural gas sales price (before financial instruments and transportation) is down 11 percent year over year to \$3.88/Mcf in 2011 as compared to \$4.35/Mcf in 2010. Approximately 71 percent of Trilogy's 2011 production on a per barrel of oil equivalent basis (6 Mcf: 1 Boe) is natural gas. Operating netback in 2011, including realized financial instruments, increased 11 percent to \$24.09/Boe as compared to \$21.62/Boe in 2010. The increase in operating netback is primarily attributed to the increase in oil and natural gas liquids production in 2011 as compared to 2010, and a lower effective royalty rate, partially offset by a reduction in financial instrument gains in 2011.

- On a funds flow per Boe basis, Trilogy realized a 16 percent increase, from \$18.46/Boe in 2010 to \$21.37/Boe in 2011
- The funds flow from operations per diluted share was up 42 percent, from \$1.33/share in 2010 to \$1.85/share in 2011
- Annual operating netback was \$24.09/Boe (including realized gains/losses on financial instruments and other income), resulting in an all in recycle ratio of 1.4 times for proved plus probable reserves
- The Alberta Government's Royalty Incentives and Natural Gas Deep Drilling Program positively impacted Trilogy's netback in 2011

| Funds Flow Reconciliation | 2011 | | 2010 | |
|---|--------------|--------------|--------------|--------------|
| | 28,012 | | 22,788 | |
| Production (Boe/d) | \$ million | \$/Boe | \$ million | \$/Boe |
| Revenue including other income and realized financial instruments | 385.1 | 37.66 | 309.6 | 37.22 |
| Royalties | (38.9) | (3.80) | (44.7) | (5.38) |
| Operating | (84.7) | (8.29) | (70.6) | (8.49) |
| Transportation | (13.2) | (1.29) | (12.7) | (1.52) |
| Decommissioning and restoration | (2.0) | (0.19) | (1.7) | (0.21) |
| Operating Netback | 246.3 | 24.09 | 179.9 | 21.62 |
| General and administrative | (12.2) | (1.19) | (15.3) | (1.84) |
| Interest | (15.6) | (1.53) | (11.0) | (1.33) |
| Funds flow | 218.5 | 21.37 | 153.5 | 18.46 |
| Weighted average shares outstanding for the year (fully diluted) | 118,868 | | 115,111 | |
| Funds flow per Share (\$/share) | 1.84 | | 1.33 | |

Note

i) Columns and rows may not add due to rounding

Capital Expenditures

Annual capital expenditures for 2011 were originally budgeted to be \$135 million. However, given the success of the Montney oil development drilling and subsequent land acquisitions in the first quarter, Trilogy's capital spending plan was increased by \$150 million to \$285 million. This amount was subsequently increased in November 2011 to \$350 million to provide for the continued development of the Montney oil and gas pools and the increased activity proposed by third-party joint-venture partners. Actual reported capital expenditures for the year totaled \$349.9 million. Approximately \$35.3 million was spent to acquire the remaining mineral rights in the Montney oil pool and approximately \$46.6 million of the capital spending was for the expansion of the gathering and processing capacity required for the development of the Montney oil and Presley gas pools. This expansion will allow for processing capacity to increase to 20,000 Bbl/d and is expected to be completed in April 2012.

Trilogy participated in a significant number of joint venture operations on its lands when they were supported by Trilogy's internal technical and economic evaluations. Participation in these additional projects ensures that Trilogy does not forego an investment opportunity or the realization of immediate financial returns. Continued development by other operators in the Kaybob area will "de-risk" emerging play types and, assuming success, will provide Trilogy with additional drilling opportunities in the future.

| Capital Expenditures (millions of dollars) | 2012 (ii) | 2011 | 2010 |
|---|------------------|--------------|-------------|
| Land | 10.0 | 38.1 | 3.6 |
| Geological and geophysical | 4.0 | 1.0 | 0.4 |
| Drilling and completion | 250.0 | 224.0 | 114.2 |
| Drilling incentive (credits) repayment | - | 1.7 | (19.8) |
| Production equipment, facilities and inventory | 36.0 | 87.0 | 67.1 |
| Exploration and development expenditures | 300.0 | 351.8 | 165.5 |
| Corporate office | - | 0.6 | 0.2 |
| Property acquisitions | - | 1.5 | 0.4 |
| Proceeds received on property dispositions | - | (4.0) | - |
| Net capital expenditures | 300.0 | 349.9 | 166.1 |

Note

i) Columns and rows may not add due to rounding

ii) 2012 Annual Budget

The continued strength in crude oil and natural gas liquid pricing through 2011 and into 2012 has afforded Trilogly the opportunity to allocate a significant portion of its cash flow back into very attractive plays which we believe target higher returns. Continued emphasis and accountability to control costs and achieve successful drilling results will ensure that our balance sheet is strong and that we remain operationally competitive.

- Trilogly's staff continue to develop higher levels of expertise in drilling and completing horizontal wells, providing additional certainty in budgeting, allocating capital and analyzing risk for the various play types Trilogly pursues
- Participating in joint-venture operations affords Trilogly additional opportunities to monitor results on emerging plays and to possibly improve on the execution of Trilogly-operated projects
- By drilling directional and horizontal wells, Trilogly is able to utilize existing roads, surface leases and pipelines, reducing both costs and the environmental footprint while expediting the time to get new production on-line

Trilogly will continue to focus its 2012 capital expenditures on the most profitable plays, ensuring that cash flow is maximized. Trilogly is confident in its ability to respond to changing commodity prices to maximize cash flow by reallocating budgeted capital to the most economic plays.

Drilling Activity

Trilogly participated in the drilling of 68 (45.7 net) wells during 2011, as compared to 56 (36.1 net) wells in 2010, with an overall success rate of 98 percent (97.8 percent net) for the year. This high drilling success rate in the Kaybob and Grande Prairie areas reflects Trilogly's drilling strategy and expertise in focusing on the exploitation of large, low risk resource plays on its lands as well as conventional oil and gas plays with multi-zone development potential. One exploratory well was abandoned in the year. This well was drilled as a vertical Duvernay well to validate an expiring license and allow Trilogly to earn a 50 percent working interest in the Duvernay mineral rights in a four-section land block. After earning the deeper mineral rights, the well was plugged back and whipstocked to drill a horizontal Montney oil well as part of a pooling and farm-in operation with an industry partner.

Trilogly believes its growth strategy is supported by the increase in wells drilled in 2011 versus 2010. Trilogly expects to build on this success through 2012 as it continues to develop and expand its asset base. Trilogly continues to drill more horizontal wells each year, at a significantly higher

capital cost per well as compared to vertical wells. However, the economic returns of Trilogy's horizontal wells significantly outweigh the higher costs associated with drilling and completing these wells. **In 2011 Trilogy participated in 63 (42.5 net) horizontal drilling operations as compared to 36 (20.0 net) in 2010 and 19 (11.9 net) in 2009.**

| Drilling Results | Development | | Exploration | |
|------------------------|-------------|-------------|-------------|-------------|
| | Gross | Net | Gross | Net |
| Gas | 29 | 18.1 | 5 | 2.1 |
| Oil | 30 | 22.5 | 3 | 2.0 |
| D&A | 0 | 0.0 | 1 | 1.0 |
| Total All Wells | 59 | 40.6 | 9 | 5.1 |
| Success (%) | 100 | 100 | 89 | 80.4 |

In 2012, Trilogy plans to continue to develop and exploit play types that are similar to those drilled in 2010 and 2011, and to pursue other formations that may provide similar economic potential. The applications of horizontal drilling and multi-stage fracture completions are a significant factor in Trilogy's drilling results. In addition to its own technological advancements, Trilogy continues to closely monitor industry activity, with a view to capitalizing on best practices and risk mitigation techniques with regards to these technologies. Trilogy plans to continue acquiring land in core areas to maintain an ongoing prospect inventory of high quality/low risk development wells capable of growing the existing assets beyond current production levels, while replacing produced reserves on an annual basis.

OPERATING AREAS

The Company has always held the belief that its assets provide an excellent asset base for a growth-oriented exploration company. **After completing a second year as a growth-oriented energy company, Trilogy's annual production is up more than 41 percent from 19,780 Boe/d in 2009 to 28,012 Boe/d in 2011.** Trilogy's management believes that investing a higher portion of its annual cash flow to exploit its developed and undeveloped land base using horizontal drilling and multi-stage fracturing technology will continue to add value for its Shareholders for many years to come. Trilogy has tested several new plays and formations on its acreage in the Kaybob area. By targeting different formations and geographic areas, Trilogy has been able to identify additional drilling prospects that were added to the Company's growing inventory of high quality, liquids-rich gas and oil drilling locations.

Kaybob

The Kaybob area accounted for approximately 95 percent of Trilogy's production and 94 percent of its capital expenditures in 2011 and will continue to be the focus of its 2012 spending plans and forecasted growth. Trilogy's large portfolio of tight oil and gas assets in Kaybob lend themselves to continued exploitation and development using horizontal drilling and multi-stage completion technology. **Activity in this area provides Trilogy with the opportunity to grow annual production and replace produced reserves on economic plays that have a low risk profile.** Given the Company's success in applying drilling and completion technologies to new areas and formations, Trilogy will have a large prospect inventory that will be further exploited when natural gas prices improve. Trilogy expects that it will be able to leverage off of its substantial investment in production infrastructure to ensure that production is optimized at the lowest costs resulting in the highest netback.

Trilogy produced 26,479 Boe/d in the Kaybob area in 2011 as compared to 21,120 Boe/d in 2010. The 5,359 Boe/d increase in production can be attributed to the significant amount of capital that

Trilogy has invested into the new Kaybob Montney oil pool and existing Presley Montney gas pool in 2011. Trilogy's oil and natural gas liquids content increased to 29 percent of Kaybob production as compared to 20 percent in 2010 as a percentage of total area production on a barrel of oil equivalent basis. Field operations were successful in ensuring that Trilogy volumes were not materially impacted by operational issues at the Trilogy processing facilities; however, significant downtime at the K3 plant reduced 2011 production by approximately 450 Boe/d for the year. Nature provided its own challenges in the form of forest fires, wind storms and flooding, however Trilogy's field staff was able to minimize the impact and restore production after relatively short outages in the spring and summer months. Operating the processing and transportation infrastructure provides for flexibility to maintain production volumes while dealing with operational issues.

In Kaybob, Trilogy's 2011 capital expenditures totaled \$329.8 million. Trilogy drilled 59 (42.8 net) wells in this area during the year, of which 55 (39.7 net) wells were drilled horizontally. The increase in the number, depth, length of horizontal sections and the number of fracture stimulations in these wells resulted in a significant increase in capital expenditures as compared to previous years. **Offsetting these additional costs were reductions in tie-in costs, reduced drilling times and, more importantly, a substantial increase in Trilogy's production levels and reserve assignment.**

Most of the horizontal drilling in the Kaybob area has been focused on the Montney formation. However, horizontal wells were also used to evaluate the development potential of the Duvernay, Gething, Bluesky, Wilrich, Spirit River, Dunvegan and Cardium formations. In 2012, Trilogy will continue to evaluate these formations to determine which opportunities provide the best economic rate of return and the largest development potential for the Company. Trilogy will continue to monitor horizontal drilling activity and evaluate additional formations for further exploitation.

Presley Montney Gas Development

Since 2008, when Trilogy began developing the Montney pool at Presley using horizontal drilling techniques, the Company has continuously improved its knowledge and expertise in this area, increasing the length of its horizontal wellbores and optimizing the number of fracture stimulations per well. **The total measured depth of these wells has increased from 3,500 m to as much as 5,500 m, while the horizontal section has increased from 700 m to 2,600 m. The number of fracture stimulations per well has increased along with the lateral length of the wellbore, from 7 fracture stimulations in the early wells to as many as 30 fracture stimulations in Trilogy's most recent long reach horizontal well.** Spacing between fractures has decreased from 150 m to approximately 75 to 100 m depending on reservoir quality. Continued developments are expected to increase the recovery factor and accelerate production, ultimately increasing the recoverable reserves per well and Trilogy's overall capital efficiencies through a reduction of the number of wells required to effectively recover reserves in a given section. Montney horizontal wells currently cost approximately \$5 million to drill, complete and tie-in.

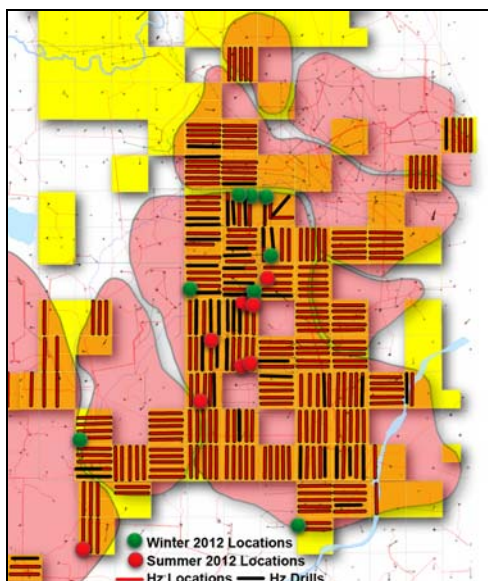
To date, Trilogy has drilled and completed 41 horizontal wells into the Presley Montney gas pool. Reserve bookings for the Montney are limited to only these 41 wells as of December 31, 2011 as set out in the report prepared by InSite Petroleum Consultants Ltd. There are a number of horizontal Montney gas wells drilled by industry to the north, west and south of Trilogy's Presley Montney gas pool which have significantly "de-risked" Trilogy's Montney play in this area. The Company holds approximately 52 net sections of land in the Presley area. If there is 10 to 15 Bcf of gas per section, Trilogy estimates there could be greater than 500 Bcf of recoverable gas on Trilogy lands in the Montney formation. The Company has developed a plan to exploit the Montney tight gas pools at Presley over the next 10 to 15 years which, if these internal estimates are correct, could increase natural gas production to as much as 136 MMcf/d. To date, well

results have been better than forecasted and Trilogy is anticipating reserve bookings of approximately 3 Bcf of natural gas plus 30 Boe per MMcf of natural gas liquids per well. If recoverable reserves exceed this estimate, Trilogy would reduce the number of wells per section to exploit the reserves, resulting in reduced capital spending and providing better economics for the project.

Based on the nature of the pool and the low risk development opportunities associated with infill development drilling, Trilogy's internal estimate is that each horizontal Montney well could add a potential 600 MBoe of reserves. Based on that assumption and assuming capital costs of \$5 million to drill, complete and tie-in each well, the un-risked cost of finding and development per well would be \$8.33 per Boe. In addition to attractive finding and development costs, the Presley gas production is transported and processed through Trilogy-operated facilities and has shown a significant reduction in operating costs due to lower processing costs and increased run time to approximately \$4.00 per Boe. Given the high initial production and lower operating costs, these wells have an estimated payout of approximately six to eight months at current commodity prices.

Current natural gas prices require caution and mindfulness with respect to the relative economics and the rate of return on capital employed in the exploitation of the Montney gas pool. Trilogy will continue to exploit the Presley gas with a keen eye on the bottom line, as the relatively high liquids yield make the netback attractive. Relative netbacks will increase when natural gas prices increase. **Trilogy estimates that it has over 200 horizontal Montney locations in its prospect inventory and plans to continue to drill wells to fill its existing compression.** Natural gas produced from the Presley Montney gas pool is transported through the recently completed 12-inch Presley Pipeline to the Kaybob North Sour Gas Plant and, as such, receives the benefit of the Natural Gas Liquids Recovery Agreement negotiated with Aux Sable Canada LP.

In 2011, Trilogy drilled 14 (13.0 net) horizontal Montney gas wells in the Presley area. The total capital cost for drilling, completion, tie-in and compression was approximately \$94.2 million in 2011. Proved plus probable reserve additions related to these projects were 6.4 MMBoe of reserves. The resulting finding and development costs for the proved plus probable reserve additions for the pool were \$14.65/Boe. Proved plus probable finding and development costs decrease to \$13.02/Boe after excluding \$10.5 million in capital related to expansion of the Presley area compression and dehydration facilities. In 2012, Trilogy is planning to drill 14 net horizontal Montney gas wells in the Presley area and one additional compressor is to be installed for an estimated capital cost of approximately \$80 million. Assuming continued success, we anticipate that 2012 reserve additions and cost of finding will be in line with historical values.



Natural Gas Liquids Recovery Agreement

In January 2011, Trilogy announced that it had entered into a commercial arrangement with Aux Sable Canada LP (“Aux Sable”) pursuant to which Trilogy will receive additional economic value for the natural gas liquids in its liquids-rich natural gas stream originating from the Trilogy operated gas plants in the Kaybob area. The initial term of the agreement is five years. While the agreement entered into with Aux Sable (the “NGL Agreement”) does not preclude Trilogy from proceeding with its previously announced plans to construct a deep-cut facility at the Kaybob North Sour Gas Plant, Trilogy indefinitely deferred those plans, as the NGL Agreement is projected to provide natural gas liquids recovery values that are at least equivalent to the value Trilogy would have received at that time had the deep-cut facility project were to have proceeded after factoring in the capital, operating and other costs and risks associated with a liquids extraction facility. Given the composition of its existing gas stream Trilogy anticipates that a continued, mutually beneficial, long term relationship with Aux Sable under the NGL Agreement will obviate the need for Trilogy to proceed with its deep-cut facility project. The expected benefits of the NGL Agreement include the following:

- NGL Agreement was effective January 1, 2011, allowing for immediate recovery of additional value for Trilogy’s natural gas liquids produced at Kaybob versus a Q2 2012 estimated completion date for the proposed deep-cut facility;
- Pricing under the NGL Agreement is calculated with reference to the U.S. natural gas liquids market, allowing Trilogy to access a larger, more liquid, higher priced market;
- Eliminated 2011 and 2012 capital expenditure of approximately \$55 Million to install a new cryogenic deep-cut functional unit and related equipment at the Kaybob North Sour Gas Plant;
- Operating cost savings of approximately \$2.5 million per year at the Plant and transportation cost savings of approximately \$3.0 million per year to transport dry gas as compared to constructing the deep-cut facility;
- **Trilogy realized a benefit of approximately \$20 million from the Aux Sable Liquid Recovery Agreement in 2011 and added 2,032 Boe/d of natural gas liquids production in the year;**
- Assuming the contracted volumes increase to approximately 130 MMcf/d, cash flow under the NGL Agreement may reach \$30 to \$40 million per year with a total of approximately \$170 million over the initial five year term of the NGL Agreement.

Kaybob Montney Oil Development

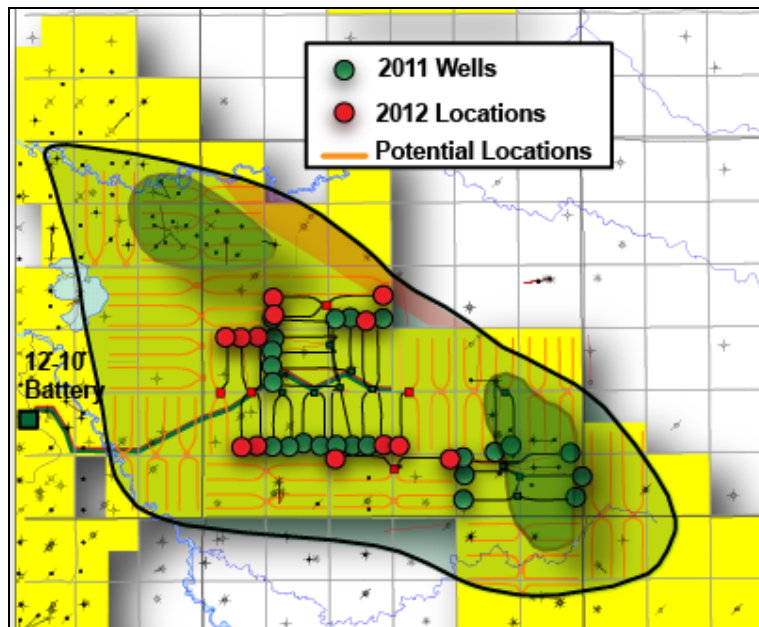
In the fourth quarter of 2010, Trilogly completed drilling operations on a horizontal Montney oil well at 16-1-64-18W5 (the "16-1 well"). The well was completed using a 15-stage fracture stimulation. Following recovery of the completion load fluid, the 16-1 well flowed crude oil at 1,800 Bbl/d. Over the first 30 producing days, this well produced an average of 569 Bbl/d of crude oil and 1 MMcf/d of natural gas. The 16-1 well was assigned proved plus probable reserves of 300 MBbl, 404 MMcf of natural gas and 23 MBoe of natural gas liquids (391 MBoe) with a net present value at 10 percent of \$14.2 million in the January 1, 2011 InSite Petroleum Consultants Ltd. report. The 16-1 horizontal well has produced 52 MBbl of crude oil as of December 31, 2011 and is currently producing at 160 Bbl/d of oil with a 17 percent water cut. Cumulative production is lower than expected after twelve months as Trilogly chooses to produce the highest rate, lowest royalty wells as space in the pipeline allows. It is expected that this well will be on production full time starting in February 2012, which will allow for a decline curve to be created for the purpose of estimating the longer term deliverability of 15-stage fracture stimulated horizontal Montney oil wells.

Trilogly followed up on the success of the 16-1 well by drilling a horizontal Montney oil well to further delineate the Montney oil pool. The second well was drilled as a vertical well at 6-16-64-18W5 in order to core the Montney formation; it was subsequently plugged back to a kick-off point and drilled horizontally through the Montney to a total depth of 3,120 m with a bottom hole location at 3-21-64-18W5. The lateral portion of the well was 1,158 m in length and completed with a 15-stage fracture stimulation. Trilogly was able to flow back the well immediately prior to the February 9, 2011 Alberta Crown land sale, recovering all 3,650 barrels of completion fluid and 1,600 barrels of oil in the first 24 hours of production. The final rate during flow back was 1.9 MMcf/d and 3,000 Bbl/d of crude oil (40 degree API) at a flowing pressure of 4,450 kPa (645 psi). The 3-21 well has produced 102.3MBbls of crude oil and 12.5MBbls of water as of December 31, 2011 and is currently producing at 240 Bbl/d of oil with a 35 percent water cut.

Based on the success of these two horizontal Montney oil wells, Trilogly acquired 28 sections of land in this area at the February 9, 2011 land sale at a cost of \$32.2 million. One additional section was acquired at the March 9, 2011 land sale for an additional \$3 million. With a 100 percent working interest in 41 sections of land in this area, Trilogly believes it holds substantially all of the petroleum and natural gas rights associated with this Montney oil pool.

Trilogly moved forward with a three well program in the second quarter of 2011 as well as the expansion of the oil and gas gathering system to increase oil handling to 5,000 Bbl/d. **However, given the success of the drilling and completion of these wells through August 2011, it became apparent that it would be necessary to modify Trilogly's facility expansion plans to accommodate 10,000 Bbl/d by the end of 2011.**

During the third quarter, Trilogly completed the expansion of two oil satellite batteries at 10-2-64-18W5 and 10-4-64-18W5 to handle the separation and compression of Montney oil and solution gas in the field. The Trilogly-operated central oil processing battery at 12-10-64-19W5 was also expanded from 2,000 to 12,000 Bbl/d of fluid processing by adding a larger oil treater at the site. Production from the Montney oil pool was expected to reach 8,000 to 10,000 Bbl/d of oil by the end of the year.



Starting in mid August 2011, four drilling rigs were used to execute an 18-well horizontal drilling program during the third and fourth quarters. Drilling operations were originally forecast to take 30 to 35 days; actual drilling times were reduced to 20 to 25 days per well based on continuous improvement of the drilling practices throughout the program. Faster drilling times have reduced drilling costs and accelerated the need for additional production and processing equipment. As a result, wells were produced in such a way as to maximize oil production and reduce effective royalty rates while the new facilities and equipment were being constructed.

Trilogy's capital spending on the Kaybob Montney oil pool in 2011 was approximately \$175 million, which includes the costs associated with the related Crown land sale acquisitions (\$35.3 million), costs to drill, complete and tie-in 22 wells during the year (\$110.4 million) and costs related to the pipeline, batteries and facilities (\$29.3 million). Reserve additions resulting from this drilling program were 7.5 MMBoe of proved reserves and 10.2 MMBoe of proved plus probable reserves. Finding and development costs were \$23.42/Boe for proved reserves and \$17.19/Boe for proved plus probable reserves. **After excluding approximately \$64.6 million in costs relating to land acquisitions (Montney and Duvernay mineral rights) and the expansion of the producing infrastructure, finding and development costs decrease to \$14.77/Boe for proved reserves and \$10.84/Boe for proved plus probable reserves.**

Initial production rates from the Montney oil wells exceeded Trilogy's expectations. Trilogy anticipates the wells will decline relatively quickly over the first 6 to 12 months of production; more information is required to evaluate the long term production trends. Each well will be monitored to better understand deliverability over the life of the well. Individual well results are expected to vary across the pool as it is further delineated, ultimately providing the data required to fully develop the Montney oil reservoir.

The following table summarizes the individual well results to date for wells that were drilled and completed in 2011. The reported production rates reflect the average producing day rates for the periods provided (volume of crude oil over the number of days produced, in Bbl/d after recovery of completion fluid) from inception to February 29, 2012. The information was compiled using field production data. Given infrastructure constraints existing throughout the year, significant management of each well's production was required to maximize overall oil production from the field and to minimize gas production subject to facility constraints. The

management of this production created variability for each individual well's average production day rate. This variability also creates difficulties in comparing production data from multiple wells. **From December 2010 (when the original 16-1 well was placed on production) through February 2012, the Montney oil pool has produced over 1 million barrels of oil from the new horizontal oil wells.**

| Rig Release | Well | H _z length(m) | Frac stages | 1st week (Bbl/d) | 1st month (Bbl/d) | 2nd month (Bbl/d) | 3rd month (Bbl/d) | 4-6 months (Bbl/d) | Cum. Prod. (MBbl) |
|-------------|---------|--------------------------|-------------|------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
| Q4 2010 | 16-1 | 1,504 | 15 | 673 | 589 | 292 | 191 | 171 | 56 |
| Q1 2011 | 02/3-21 | 1,158 | 15 | 1,760 | 1,775 | 902 | 488 | 273 | 112 |
| Q1 2011 | 13-2 | 1,381 | 20 | 1,668 | 1,041 | 599 | 462 | 162 | 74 |
| Q1 2011 | 9-1 | 1,546 | 22 | 1,122 | 576 | 319 | 157 | 100 | 39 |
| Q2 2011 | 5-17 | 1,556 | 22 | 3,132 | 2,614 | 1,134 | 265 | | 128 |
| Q3 2011 | 4-21 | 1,982 | 27 | 1,569 | 1,387 | 762 | 681 | | 83 |
| Q3 2011 | 02/2-11 | 1,571 | 22 | 1,426 | 758 | 260 | 147 | | 34 |
| Q3 2011 | 1-11 | 1,565 | 22 | 897 | 588 | 159 | 159 | | 25 |
| Q3 2011 | 13-17 | 1,552 | 22 | 2,612 | 1,593 | | | | 58 |
| Q3 2011 | 12-17 | 1,558 | 22 | 2,184 | 1,855 | | | | 58 |
| Q3 2011 | 5-2 | 1,553 | 22 | 1,528 | 1,049 | 561 | | | 45 |
| Q3 2011 | 4-9 | 1,558 | 22 | 1,325 | 953 | | | | 49 |
| Q3 2011 | 8-1 | 1,546 | 22 | 515 | 265 | 118 | | | 11 |
| Q4 2011 | 2-8 | 1,563 | 22 | 443 | 862 | 859 | | | 53 |
| Q4 2011 | 12-2 | 1,567 | 22 | 971 | 460 | 165 | | | 20 |
| Q4 2011 | 4-17 | 1,581 | 22 | 1,036 | 1,073 | | | | 42 |
| Q4 2011 | 1-8 | 1,553 | 22 | 1,218 | 1,050 | | | | 30 |
| Q4 2011 | 3-8 | 1,565 | 22 | 1,216 | 1,498 | | | | 44 |
| Q4 2011 | 02/4-20 | 1,568 | 22 | 434 | | | | | 8 |
| Q4 2011 | 4-8 | 1,567 | 22 | 1,266 | | | | | 33 |
| Q4 2011 | 03/2-9 | 1,559 | 22 | | | | | | 2 |
| Q4 2011 | 3-9 | 2,357 | 31 | | | | | | 1 |
| Q4 2011 | 1-21 | 1,960 | 27 | | | | | | 0 |

Fox Creek (Iosegun) Montney Exploration Play

Trilogy has drilled and completed 2 horizontal Montney exploration wells into a new Montney oil pool approximately six miles southwest of the original Kaybob Montney oil pool announced on February 9, 2011. The first well (the "8-1 well"), licensed as a Deep Pool Test, was spud on September 9, 2011 from a surface location at 1-2-63-19W5M and drilled to a bottom hole location at 8-1-63-19W5M. The Montney reservoir was penetrated with an 1,890 m lateral wellbore reaching a total depth of 4,064 m at the bottom hole location in 8-1-63-19W5M. The well was rig released on October 3, 2011 and completed during the period October 14 to 16 utilizing a 25-stage fracture stimulation over the horizontal portion of the well. The well produced 6,856 barrels of oil in 75 hours, representing 59 percent of the 11,532 barrels of completion fluid while flowing 2.3 MMcf of natural gas in the same period. The well produced 1,622 barrels of water over this time, representing a 19 percent water-cut.

The second well was drilled from an existing surface lease at 4-14-63-19W5M to a bottom hole location at 102/13-10-63-19W5M (the "13-10 well"). The well was drilled to a total measured depth of 3,624 m and rig released on December 9, 2011. The lateral section of the well was 1,485 m in

length and was subsequently completed with a 21-stage fracture stimulation on December 19, 2011. Results from the well were positive as the reservoir quality during drilling operations looked similar to the Montney oil wells to the north, and the well flowed 3,233 barrels of oil in 40 hours, which represents 64 percent of the 5,070 barrels of completion fluid used during the fracture stimulation. The well flowed 6.4 MMcf of natural gas and 742 barrels of water, representing a 19 percent water-cut during the 40 hour flow period. The completion operation was suspended once its maximum flare volume was reached. The well was subsequently shut in. Surface equipment will be installed to chemically treat the sour solution gas to remove the sour component from the production stream so the well can be temporarily tied into the existing sweet gas gathering system. Surface equipment is expected to be installed at the 13-10 well in March 2012, with the production potential of the well being evaluated over the following few months.

Trilogy holds a 100% working interest in the 8-1 and 13-10 wells and in substantially all of the land believed to be associated with the new pool. **Trilogy is pleased with the initial results from both of the wells and will continue to evaluate the well information to determine the productivity and reserve potential of the new pool. It is anticipated that 3 to 5 additional wells will be drilled in 2012 to further delineate the new pool and justify expanding the sour gas and oil gathering systems.**

Duvernay Shale Gas Development

Trilogy participated in a joint-venture horizontal well at 15-33-060-20W5M (the "15-33 well") targeting the Duvernay formation in 2010; this well was rig released on August 5, 2010. Completion operations and a flow test were concluded on September 14, 2010 after completion of 6 of the 13 planned fracture stimulations. Operational issues prevented the remaining 7 fractures from being completed; however the results of the first 6 stages were encouraging. The Duvernay shale was shown to contain a significant amount of natural gas liquids (approximately 75 barrels of natural gas liquids per million cubic feet of natural gas) in addition to producing approximately 2 MMcf/d of sweet natural gas. The operator of the project tied the well in during May 2011 and the 15-33 well has produced 0.24 Bcf of natural gas and 15 MBbl of condensate since coming on production.

Trilogy managed the drilling and completion operations for the second joint-venture well in the first quarter of 2011. The second well was spud at a surface location at 16-14-60-20W5 and drilled to a bottom hole location of 3-13-60-20W5 (the "3-13 well"). The 3-13 well is approximately five kilometers southeast of the first joint venture well at 15-33. Drilling operations were completed on February 20, 2011 and the completion operation was finished in April. The Duvernay shale well has been on production since April 2011 and is currently producing approximately 1.5 MMcf/d with 90 barrels per MMcf of condensate. The 3-13 well has produced 0.47 Bcf of natural gas and 45 MBbl of condensate. The natural gas liquids content in the gas stream exceeded Trilogy's original expectations, supporting ongoing exploration and development to further evaluate the resource potential of the Duvernay.

Trilogy participated for a 33 percent working interest in the third joint-venture well which spud on October 22, 2011 from a surface location at 1-36-60-20W5 and rig released on December 3, 2011 after drilling to a bottom hole location at 13-36-60-20W5 (the "13-36 well"). This well was flow tested through early January and was shut in for build up until February 9, 2012. The 13-36 well was drilled and completed with a 25-stage fracture stimulation for a total cost of approximately \$10.5 million, further supporting the economic viability of this emerging shale play in central Alberta. The 13-36 well came on production February 9, 2012.

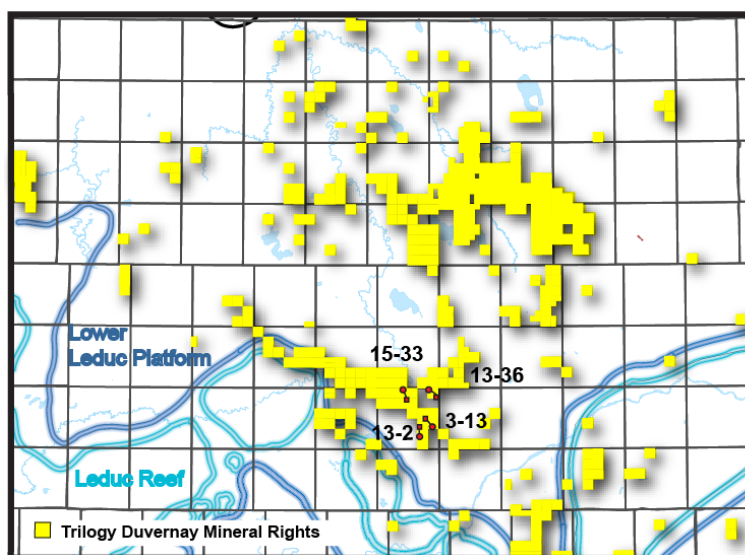
Subsequent to the end of 2011, Trilogy elected to participate for its 33 percent working interest in the fourth well on the joint-venture acreage, drilled from a surface location at 4-14-60-20W5 to a bottom hole location at 4-11-60-20W5 (the "4-11 well"). The 4-11 well spud on January 4, 2012 and

is expected to rig released in March, 2012. Trilogy has licensed 2 (2.0 net) Duvernay Horizontal wells which are expected to spud late in the first quarter of 2012.

Trilogy has greater than 100 net sections of Duvernay mineral rights in the core of this emerging resource play, and a total of greater than 200 net Duvernay sections in the greater Kaybob area. Trilogy believes this area could provide significant upside to its shareholders if the play type proves to be an economic success, particularly in light of the Alberta Government's reduced royalty rates for shale gas wells (5 percent for three years with no volume limit).

Industry wide, there have been 43 wells licensed (22 horizontals) to evaluate the Duvernay formation in the greater Kaybob area since the inception of the play in 2010. To date, 34 wells (19 horizontals) have been or are currently being drilled. The information to be gained over the next year from these additional wells should provide the required technical data for the industry to properly evaluate the Duvernay shale in order to progress the play to a higher level of commercial productivity.

The following map shows Trilogy's land position in the Duvernay formation. The Duvernay shales are organic-rich shales that were deposited in the off reef position of Leduc reefs (grey outline). The Duvernay is thought to be oil prone in the northeast portion of the map and liquids-rich gas in the central portion, trending toward a dry gas reservoir in the southwest area of the map.



Grande Prairie

The Grande Prairie area accounted for approximately 5 percent of Trilogy's production and 6 percent of total capital expenditures in 2011 and is forecast to be allocated 12 percent of the 2012 capital budget. Production from the Grande Prairie area declined from 1,668 Boe/d in 2010 to 1,541 Boe/d in 2011. Trilogy's production was negatively impacted through the year as the Grande Prairie producing infrastructure is primarily owned and operated by larger producers that have restricted access to their gathering and processing facilities. Trilogy has approximately 4.5 MMcf/d (750 Boe/d) production shut in due to transportation or processing issues. Trilogy will continue to be challenged by limited access to non-operated production facilities; however, Trilogy continues to focus its capital spending on the Nikanassin in the Wembley area and on the emerging Montney/Doig in the Valhalla area, where it believes a critical mass can be achieved to justify development of area producing infrastructure in 2012.

Trilogy operated the successful drilling and completion of a Lower Doig horizontal well in the Valhalla area through the second and third quarters of 2011, which produced natural gas at rates up to 19 MMcf/d during the production test. The well produced for two months at a restricted gas rate of approximately 5 MMcf/d and was then shut in due to processing constraints at the gas plant. Trilogy and its partners will be expanding the compression facilities in the area to handle the increased production expected from the Montney and Doig formations and are evaluating the need to construct an additional sour gas processing plant in this area.

Subsequent to the end of the year, Trilogy drilled a horizontal Nikanassin oil well in the Wembley area. The well has a lateral length of 1,445 m and was completed with a 19 stage water based fracture stimulation. The well flowed at rates of approximately 1,500 Bbl/d of oil during the test period and is currently shut in for build up. The flow test and build up analysis will provide additional information to assist in reserve determination and pool development.

Trilogy's 2011 capital spending in the Grande Prairie area totaled approximately \$21.2 million. Trilogy has interests in 9 (2.8 net) wells drilled in the year, resulting in 5 (2.5 net) gas wells and 4 (0.3 net) oil wells.

Trilogy remains optimistic regarding the future development of the Grande Prairie area and believes that a growing prospect inventory and land base will provide significant opportunity for future development using horizontal drilling and completion techniques on the tight oil and gas reservoirs. **Trilogy has budgeted \$35 million in 2012 capital to participate in the drilling of horizontal wells in this area to further develop liquids-rich gas and oil plays in the Montney, Doig, and Nikanassin formations.** Capital allocation may vary, as commodity prices and access to infrastructure affect economics on the emerging plays in this area.

Land

In 2011, Trilogy spent \$38.1 million to acquire 32,480 gross acres (30,900 net acres) of land at Alberta Crown land sales. This brings Trilogy's total acreage count to 885,232 gross acres (649,204 net acres) of land as of December 31, 2011, of which 64 percent (415,837 net acres) of this acreage is considered undeveloped (no reserves assigned). Trilogy's undeveloped acreage has been evaluated by Seaton-Jordan & Associates Ltd. and assigned a fair market value of \$215.7 million in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Trilogy's developed land base (land with reserves assigned) has considerable value that is not reflected in this report.

Capitalizing on its technical expertise in order to maximize value for its Shareholders, Trilogy has proven that more than one well per section will be needed to adequately develop its land base and fully exploit the underlying reserves. Trilogy intends to continue to acquire acreage that it believes has future development potential and to ensure it maintains a competitive advantage in its core operating areas.

| Land Area (acres) | Gross | Net |
|---|----------------|----------------|
| Land assigned reserves | 355,694 | 233,367 |
| Undeveloped land | 529,538 | 415,837 |
| Total | 885,232 | 649,204 |
| Fair market value of undeveloped land (thousand dollars) | | 215,758 |

The value of Trilogy's undeveloped land base increased \$66.7 million from \$149.1 million in 2010 to \$215.8 million in 2011. This increase is largely due to the highly competitive nature of land sales in

the Kaybob area during the year, particularly as a result of heightened interest in the emerging Duvernay play.

2011 Year End Reserves Report Highlights

The following is a summary of Trilogy's 2011 year end reserves and reserves value, as evaluated and reported on by the independent engineering firm InSite Petroleum Consultants Ltd. ("InSite"). The reserves report has been prepared in accordance with National Instrument 51-101 definitions, standards and procedures.

The before-tax net present value of Trilogy's proved plus probable reserves discounted at 10 percent increased 20 percent from \$1,195 million at the end of 2010 to \$1,438 million at the end of 2011. Trilogy's proved plus probable natural gas reserves have increased 9 percent, from 331.6 Bcf at the end of 2010 to 362.7 Bcf at the end of 2011. **Proved plus probable crude oil reserves have increased 59 percent from 9,985 MBbl at the end of 2010 to 15,830 MBbl at the end of 2011.** Natural gas liquids decreased 5 percent from 12,952 MBbl at the end of 2010 to 12,292 MBbl at the end of 2011.

The Company considers its reserves base to be very strong, with solid proven reserve additions every year and probable reserves moving to the proven category. As in the past, Trilogy was able to replace produced reserves at a very attractive cost without adding reserves in the undeveloped category. **Proved undeveloped reserves represent only 1.5 percent of the total proved reserves and proved plus probable undeveloped reserves account for 2.9 percent of proved plus probable reserves at year end.**

The following table summarizes Trilogy's gross reserves (before royalties and tax) and reserves value for the year ended December 31, 2011 using forecast prices and costs.

| Reserve Category | Natural Gas BCF | Crude Oil MBbl | Natural Gas Liquids MBbl | Boe (6:1) MBoe | Before tax Net Present Value (\$millions) | | |
|-----------------------------------|--------------------|-------------------|-----------------------------|----------------------|---|----------------|----------------|
| | | | | | 0% | 5% | 10% |
| Proved | | | | | | | |
| Developed producing | 234.5 | 9,164.4 | 8,341.7 | 56,581.5 | 1,786.4 | 1,291.4 | 1,021.3 |
| Developed non-producing | 23.7 | 1,313.7 | 856.1 | 6,114.0 | 194.4 | 150.2 | 123.8 |
| Undeveloped | 2.1 | 527.5 | 93.3 | 969.2 | 43.7 | 31.0 | 23.9 |
| Total Proved | 260.2 | 11,005.5 | 9,291.0 | 63,664.6 | 2,024.4 | 1,472.6 | 1,169.0 |
| Probable | 102.5 | 4,824.2 | 3,000.7 | 24,913.1 | 969.5 | 456.6 | 268.7 |
| Total Proved plus Probable | 362.7 | 15,829.7 | 12,291.6 | 88,577.7 | 2,993.9 | 1,929.2 | 1,437.7 |

Notes

- i) Columns and rows may not add due to rounding
- ii) Reserve values were determined by InSite as of December 31, 2011, using the forward-pricing assumptions in effect by the firm for that date.
- iii) InSite evaluated 100 percent of Trilogy's reserves.
- iv) No value has been assigned to tangible assets other than those associated with proved producing reserves.
- v) Reserve values have been evaluated under a blow-down scenario.
- vi) Trilogy's financial instruments, which extend past January 1, 2012, have not been valued by InSite.

2011 Year End Reserve Reconciliation

Total proved reserves were 63,665 MBoe and proved plus probable reserves were 88,578 MBoe as of December 31, 2011, which reflect increases of 17 percent and 13 percent respectively as compared to Trilogy's reserves at the 2010 year end.

The following table sets forth the reconciliation of Trilogy's gross reserves for the year-ended December 31, 2011 using forecast prices and costs:

| | Total Proved Reserves | | | | Probable Reserves | | | | Total P+P Reserves | | | |
|-----------------|-----------------------|-------|---------|----------|-------------------|-----|-------|---------|--------------------|-------|---------|----------|
| | Oil | Gas | NGL | BOE | Oil | Gas | NGL | BOE | Oil | Gas | NGL | BOE |
| | MBbl | Bcf | MBbl | MBoe | MBbl | Bcf | MBbl | MBoe | MBbl | Bcf | MBbl | MBoe |
| Dec. 31, 2010 | 6,656 | 231 | 9,420 | 54,502 | 3,329 | 101 | 3,532 | 23,694 | 9,985 | 332 | 12,952 | 78,196 |
| 2011 prod'n | (1,372) | (44) | (1,565) | (10,225) | - | - | - | - | (1,372) | (44) | (1,565) | (10,225) |
| Tech. revisions | (300) | 22 | 142 | 3,445 | (664) | (8) | (846) | (2,887) | (964) | 13 | (704) | 559 |
| Reserve adds | 6,022 | 52 | 1,295 | 15,955 | 2,159 | 10 | 315 | 4,106 | 8,181 | 62 | 1,609 | 20,061 |
| Acquisition | - | - | - | - | - | - | - | - | - | - | - | - |
| Econ. factors | - | (0.1) | (1) | (13) | - | - | - | - | - | (0.1) | (1) | (13) |
| Dec. 31, 2011 | 11,005 | 260 | 9,291 | 63,665 | 4,824 | 103 | 3,001 | 24,913 | 15,830 | 363 | 12,292 | 88,578 |

Note

i) Columns and rows may not add due to rounding

Reserve Replacement

Trilogy produced 10,225 MBoe of reserves in 2011 (28,012 Boe/d) and through a successful drilling, completion and workover program, added 19,387 MBoe of proved reserves and 20,606 MBoe of proved plus probable reserves from new additions as a result of capital investment and technical revisions. Based on total proved reserve additions in 2011, Trilogy replaced 190 percent of its produced reserves and 202 percent of its proved plus probable reserve additions. With this capital, Trilogy generated an NPV 10 of \$460 million in proved reserves and \$530 million in proved plus probable reserves from new additions alone.

Historically, Trilogy's undeveloped reserves category has contributed a very small portion to the overall reserve base. Trilogy's proved undeveloped reserve component is 969 MBoe, or 1.5 percent of its 63,665 MBoe total proved reserves. **Two oil wells representing approximately 686 MBoe were brought on production during the first quarter of 2012, reducing the current outstanding proved undeveloped reserves to 0.4 percent of total proved reserves from 1.5 percent at year-end.**

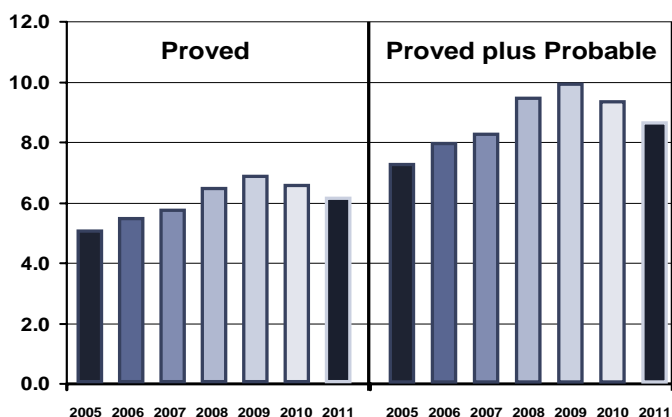
Technical Revisions

Trilogy has consistently reported positive technical revisions to its proved and probable reserve categories. These are reserves that were not assigned to wells when they were first drilled and completed because National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101) and the Canadian Oil and Gas Evaluations Handbook prescribes that the independent reserves evaluator must be at least 90 percent confident the producible reserves are present to be included as proven reserves and 50 percent certain for probable reserves. A significant portion of Trilogy's reserves are in tight reservoirs that tend to have lower decline rates over time and may typically produce more reserves than is shown when the well is first evaluated. As a result, it may take up to three years for a well's total reserve to be accurately assigned.

Trilogy evaluates all of its producing assets to ensure that there is a thorough understanding of the reservoir and the production capabilities.

Reserves Life Index

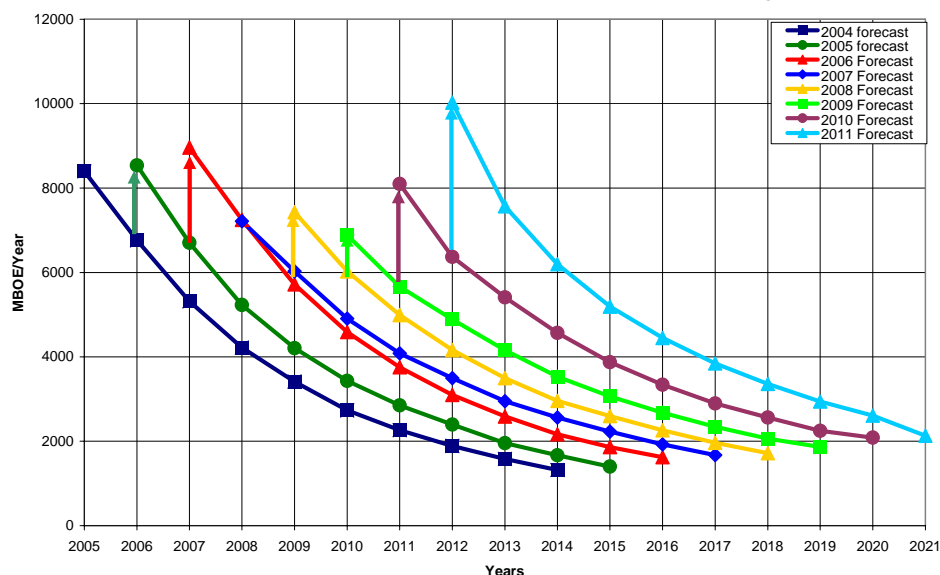
For total proved reserves, Trilogy's Reserve Life Index (RLI), defined as year end reserves over current year production, has increased from 5.1 years at the Company's inception in 2005 to 6.2 years at the end of 2011. Based on total proved plus probable reserves, the RLI has increased from 7.3 years to 8.7 years for the same period. As compared to 2010 year end, Trilogy's RLI has decreased due to the 23 percent increase in production, from 22,788 Boe/d in 2010 to 28,012 Boe/d in 2011. The decrease in RLI is attributed to an increasing inventory of horizontal wells which produce the related reserves in a shorter time frame than conventional vertical wells.



Proved Reserve Forecast

The graph below illustrates Trilogy's annual production forecast for Total Proved Reserves from the Reserve Reports for the past seven years. Trilogy's annual production forecast increased from inception until 2007 when the annual production forecast declined due to the asset sales in Marten Creek and Southern Alberta.

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



Production Decline Rate

Trilogy's production decline rate has improved over the past three years due to the sale of the Marten Creek property and Southern Alberta assets. These properties had higher production declines relative to Trilogy's remaining producing properties; the dispositions resulted in an improvement in the average quality of Trilogy's reserve base, a lower production decline rate and a higher RLI.

Trilogy's base production forecast assumes a 24.5 percent decline for 2012 and 18.0 percent for 2013 for total proved reserves. For proved plus probable reserves the 2012 decline is 18.4 percent while 2013 production will decline only 18.7 percent.

Finding and Development Costs

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

| 2011 Working Interest Capital Expenditures (millions of dollars) | Change in FDC | | Total Capital | |
|---|---------------|----------------------|---------------|----------------------|
| | Proved | Proved plus Probable | Proved | Proved plus Probable |
| Land | 38.1 | | 38.1 | 38.1 |
| Geological and geophysical | 1.0 | | 1.0 | 1.0 |
| Drilling and completion | 225.7 | 9.1 | 234.8 | 230.8 |
| Production equipment, facilities and inventory | 87.0 | | 87.0 | 87.0 |
| 2011 Dispositions net of acquisitions and corporate assets | (1.9) | | (1.9) | (1.9) |
| Total capital expenditures | 349.9 | 9.1 | 359.0 | 355.0 |

Working interest capital expenditures directly related to the drilling, completion and equipping of the wells that contributed to the 2011 reserve additions totaled approximately \$277 million (including future development capital). The exclusion of \$81.9 related to facility expansion at Presley, the Montney oil pool and at the Kaybob 8-9 gas plant, as well as the land sale purchase at the Montney oil pool are for the long term development of the assets, where by these projects and land will be for the benefit of all wells drilled in this area in the future. Reserve additions of 19.4 MMBoe of proved reserves and 20.6 MMBoe proved plus probable reserves during 2011 generate a finding and development ("F&D") cost of \$14.29/boe for proved reserves and \$13.25/boe for proved plus probable reserves

Based on 2011 total capital expenditures of \$283.2 million, including the change in land value between 2010 and 2011 of \$66.7 million, Trilogy's finding and development costs for reserve additions were \$15.08/Boe for proven reserves and \$13.99/Boe for proven plus probable reserves for the year ended December 31, 2011.

All in finding and development costs excluding change in land value are \$18.52/Boe for proven reserves and \$17.23/Boe for proven plus probable reserves.

| 2011 F&D Cost including FDC | Proved Capital | Proved Reserves | Proved F&D | Proved + Probable Capital | Proved + Probable Reserves | Proved + Probable F&D |
|---|-------------------|--------------------|---------------|---------------------------------|----------------------------------|-----------------------------|
| | \$million | MBoe | \$/Boe | \$million | MBoe | \$/Boe |
| Extensions, discoveries and revisions excluding facility and land capital | 277.1 | 19,387 | 14.29 | 273.1 | 20,606 | 13.25 |
| Extensions, discoveries and revisions including change in land value | 292.4 | 19,387 | 15.08 | 288.4 | 20,606 | 13.99 |
| Extensions, discoveries and revisions excluding change in land value | 359.0 | 19,387 | 18.52 | 355.0 | 20,606 | 17.23 |

When calculated over the three-year period ended December 31, 2011, F&D costs were \$15.05/Boe for proven reserves and \$14.25/Boe for proven plus probable reserves. These numbers illustrate consistency in the cost of finding and developing the reserves on Trilogy's land base. Calculating F&D costs over a longer period reduces the effect of spending capital in one year and booking reserves in the following year and includes all land and facilities related capital.

| | Year | Proved Capital | Proved Reserves | Proved F&D | Proved + Probable Capital | Proved + Probable Reserves | Proved + Probable F&D |
|---|------|-------------------|--------------------|---------------|---------------------------------|----------------------------------|-----------------------------|
| | | \$million | MBoe | \$/Boe | \$million | MBoe | \$/Boe |
| Extensions, discoveries and revisions including FDC | 2009 | 86.8 | 8,002 | 10.85 | 86.1 | 7,694 | 11.19 |
| | 2010 | 164.1 | 13,143 | 12.49 | 167.7 | 14,416 | 11.63 |
| | 2011 | 359.0 | 19,387 | 18.52 | 355.0 | 20,606 | 17.23 |
| 3 Year Average F&D Cost | | 609.9 | 40,532 | 15.05 | 608.8 | 42,716 | 14.25 |

Commodity Price Forecast

InSite Petroleum Consultants Ltd.
December 31, 2011 Price Forecast

| Year | WTI @ Cushing \$/Bbl | Edm. Ref. Price \$/Bbl | Henry HUB US\$/MMBTU | AECO C C\$/MMBTU | CDN/US Exchange Rate |
|-------------------|----------------------------|------------------------------|-------------------------|---------------------|----------------------------|
| 2012 | 100.00 | 98.00 | 3.90 | 3.45 | 1.00 |
| 2013 | 101.00 | 99.00 | 4.50 | 4.04 | 1.00 |
| 2014 | 102.00 | 99.96 | 5.00 | 4.53 | 1.00 |
| 2015 | 103.00 | 100.92 | 5.50 | 5.02 | 1.00 |
| 2016 | 104.00 | 101.88 | 6.00 | 5.51 | 1.00 |
| Next 5 years avg. | 110.33 | 108.07 | 7.29 | 6.77 | 1.00 |

Note

i) All prices escalated at 2% per year after 2028

ENVIRONMENT, HEALTH AND SAFETY

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

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

The activities conducted by Trilogy in these areas in 2011 included conducting major emergency response training exercises, holding monthly Safety Meetings and an annual Safety Stand Down Meeting with employees, consultants and contractors in the field.

Environment

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

Trilogy participates in voluntary and mandatory reporting of air emissions and greenhouse gases (GHG) to various regulatory agencies. Trilogy's commitment to reducing greenhouse gas emissions makes implementing economically-viable GHG emission reduction projects an important part of our operations. As part of Trilogy's continuing commitment to reduce relative greenhouse gas emissions, several emission reduction projects have been initiated such as a proposal for the installation of a second acid gas injection well that will not only contribute to reducing GHG emissions over the long term, but also present a potential economic benefit under the Alberta Offset System. These initiatives have helped to recognize Trilogy as a Gold Champion Level Reporter in the 2010 reporting year under the Canadian GHG Challenge Registry.

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

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

Health and Safety

Trilogy's main priority is the health and safety of its employees, contractors and the public. The policies, practices and procedures associated with Trilogy's Health and Safety Management System are an integral part of its daily operations; Trilogy endeavors to make safety a guiding factor in all of its decisions with safety awareness, training and accountability being well established fundamentals of Trilogy's corporate culture. Hazard and risk assessment, incident/accident reporting and investigation, and site inspections and audits, internally as well as by insurance companies and regulatory agencies, provide a means of measuring performance. Trilogy continues to ensure its Health and Safety Management System is managed and meets Provincial standards by maintaining its Certificate of Recognition (COR).

STAFFING

In 2011, Trilogy continued to utilize limited services from Paramount Resources ("Paramount") under the Services Agreement ("SA") entered into with Paramount when Trilogy was formed in April of 2005. In 2011, these services consisted mainly of gas marketing services provided by Paramount staff. The SA was further extended to March 31, 2012 and is expected to be continued for another one year term prior to the expiry of the SA.

As of December 31, 2011, Trilogy employed 242 full time and contract employees; this includes 90 full time staff and 19 contract employees in the Calgary office. In the field Trilogy employs 74 full time staff and 59 contract personnel to operate 5 gas plants, 3 oil batteries and manage Trilogy's operated wells.

Trilogy is committed to the training and development of its employees and endeavors to recruit high quality staff that will add value to the organization and who will take an active role in executing Trilogy's strategy. Trilogy has taken initiatives to hire and mentor new graduates, young professionals and apprentices, recognizing today's changing workforce dynamics and to proactively address these factors and reduce the Company's risk in this area.

We are proud of our low attrition rate, which is partially due to the fact that we work hard at engaging and retaining our valued employees.

Community Involvement

Trilogy is proud to support the communities we work and live in. Our employees are a vital part of our giving process. Trilogy employees participate in "Days of Caring" where they may choose to volunteer their time at various charities. Some examples of charities benefitting from Trilogy's Days of Caring in the 2011 year were Habitat for Humanity, The Mustard Seed, The Calgary Inter-Faith Food Bank and Ronald McDonald House. In total 415 hours of employee time was spent volunteering at these charities.

We are especially proud of a fund raising drive that Trilogy initiated for the benefit of The Fox Creek for the Children Fund Raising Society. The funding received through this drive benefitted The Fox Creek School, where a need for new technology in the school was identified. The culmination of this effort resulted in the businesses and individuals working in the oil and gas industry and who benefited from doing business in the Fox Creek area raising over \$190,000 for the Society which used the funds to purchase this new technology.

Trilogy is also a proud supporter of The United Way of Calgary and continued its commitment to match 100% of the employee contributions in the 2011 year.

CORPORATE GOVERNANCE

Board of Directors

Members: Clay Riddell, Jim Riddell, Mick Dilger, Don Garner, Wilf Gobert, Bob MacDonald, Mitch Shier and Don Textor

Trilogy's Board of Directors comprises eight members, of whom five are "independent" as defined in National Instrument 58-101. Operating under the Board Mandate, Canadian and Provincial corporate law and Trilogy's by-laws, the Board oversees the business and affairs of the Company and the activities of Management. The Board does this both as a whole and through specialized committees of the Board. These committees are either fully independent or have a majority of independent members.

Audit Committee

Members: Bob MacDonald (Chair), Don Garner and Mick Dilger

The Audit Committee assists the Board in fulfilling its oversight responsibilities with regard to the Company's accounting principles, practices and internal financial controls, the Company's financial statements and related disclosures, evaluating the Company's oil and natural gas reserves and risk management, among other things. The Audit Committee is directly responsible for overseeing the work of the external auditors and reviewing the appointment of the independent engineering firm charged with evaluating Trilogy's oil and natural gas reserves and meets with both the auditor and the independent evaluator independently of management. As required under Multilateral Instrument 52-110, all of the members of the Audit Committee are financially literate independent directors. The Audit Committee meets at least once each quarter and communicates informally with Management, the external auditors and the reserves evaluators throughout the year.

Environmental Health & Safety (“EH&S”) Committee

Members: Mick Dilger (Chair), Don Garner and Mitch Shier

The EH&S Committee assists the Board in its responsibility for oversight and due diligence by reviewing, reporting and making recommendations to the Board on the development and implementation of the policies and standards of Trilogy in the area of health, safety and the environment. In addition to ongoing informal communications with Management, the EH&S Committee meets with Management at least semi-annually to review and monitor the activities of the Company and to ensure that the Company is taking all necessary action to comply with applicable laws and policies regarding the health and safety of the people involved in and affected by Trilogy’s work and the environmental impact of Trilogy’s operations.

Corporate Governance Committee

Members: Wilf Gobert (Chair), Mitch Shier, Bob MacDonald

The Corporate Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to developing and monitoring the Company’s overall approach to corporate governance and, subject to approval by the Board, implementing and administering a system of governance which reflects superior standards of corporate governance practice. Some of the main responsibilities of the Committee include developing, monitoring and reviewing the Company’s corporate governance charters, policies and mandates, reviewing the effectiveness of the Board and its committees to ensure that the Board can function independently of management, and advising the Board on current corporate governance issues and best practices. The Committee reviews the need to recruit and recommend new members to fill Board vacancies, recommends to the Board with respect to the nominees for election at each annual meeting and conducts an annual assessment and evaluation of the Board and each of its committees. This Committee meets at least semi-annually and communicates informally on an ongoing basis.

Compensation Committee

Members: Wilf Gobert (Chair), Clay Riddell, Don Textor

The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to overall human resource policies, programs, guidelines and plans concerning employee compensation and benefits. The Committee receives from the CEO recommendations concerning annual compensation policies and budgets for Trilogy employees and recommendations for the appointment and compensation of executive officers. The Committee also reviews the corporate goals and objectives relevant to compensation of the CEO and undertakes an annual performance assessment of the CEO in light of those objectives, making recommendations to the Board regarding the compensation for the CEO. The Compensation Committee meets at two regularly scheduled meetings each year and as otherwise required.



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") for the year-ended December 31, 2011, and should be read in conjunction with the Company's annual consolidated financial statements and related notes for the same year-ended. The annual consolidated financial statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of March 5, 2012.

FINANCIAL AND OPERATING HIGHLIGHTS

- Trilogy added 20.6 MMBoe of proved plus probable reserves (including technical revisions) during 2011, replacing 202 percent of produced reserves (190 percent on a proved basis).
- Reported sales volumes for the 2011 year averaged 28,012 Boe/d compared to 22,788 Boe/d in 2010 representing a 23 percent increase over the annual sales volumes for the prior year. The increase is a result of Trilogy's ongoing success with its Montney horizontal drilling program.
- Trilogy's production from the Montney oil pool has increased from 5,000 Bbl/d in December 2011 to approximately 10,000 Bbl/d in February 2012, pursuant to the installation of 2 – 8 inch field pipelines. Completion of oil battery expansion projects in the second quarter of 2012 will increase processing capacity in this area to approximately 20,000 Bbl/d.
- Oil volumes increased 57 percent quarter over quarter (94 percent 2011 over 2010). Combined oil and natural gas liquids volumes increased to 36 percent of total volumes from 28 percent in the prior quarter (28 percent 2011 over 20 percent in 2010).
- Net capital expenditures totaled \$101.6 million for the fourth quarter of 2011, bringing the year-to-date net capital spending to \$349.9 million (including approximately \$29.3 million in costs related to the expansion of the Kaybob Montney oil pool infrastructure and \$35.3 million in land expenditures for the Kaybob Montney oil and Duvernay mineral rights) compared to \$166.0 million in 2010 (which included \$31.5 million related to Trilogy's Presley pipeline and Kaybob North Sour Gas Plant expansion projects). In total, 68 (45.7 net) wells were drilled in the year.
- The estimated value of Trilogy's undeveloped land base increased \$66.7 million from \$149.1 million in 2010 to \$215.8 million in 2011.
- Finding and development costs⁽¹⁾ were \$18.52/Boe for total proved reserves and \$17.23/Boe for proved plus probable reserves on net capital expenditures of \$349.9 million. Finding and development costs⁽¹⁾ were \$14.29/Boe for total proved reserves and \$13.25/Boe for proved plus probable reserves on net capital expenditures of \$349.9 million less \$81.9 million for land and facilities capital related to Trilogy's Montney oil pool and Presley gas pool.
- Funds flow from operations⁽¹⁾ remained consistent at \$60.5 million for the fourth quarter of 2011 as compared to \$60.3 million for the previous quarter. Annual funds flow from operations totaled \$218.5 million compared to \$153.5 million in 2010, representing a 42 percent increase year over year.
- Trilogy realized a benefit of approximately \$20 million from the Aux Sable Liquid Recovery Agreement in 2011.

- Dividends to Shareholders for the fourth quarter of 2011 were \$12.2 million or 20 percent of cash flow from operations (\$48.7 million for year-to-date 2011 or 23 percent of cash flow from operations).

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

BUSINESS ENVIRONMENT AND ECONOMIC CONDITIONS

The increase in production of gas and an unusually warm winter resulting in reduced heating demand for gas have significantly reduced natural gas prices and these factors are expected to continue into 2012. Offsetting the reduced gas prices is an increase in oil prices during the year. Trilogy is confident in the success of its business model and the ability to provide shareholder value given: its premier land base; a significant inventory of current and prospective drilling locations; its liquids-rich gas production; its land acquisition in, and the related development of, its Kaybob area Montney oil play; its significant ownership and control over infrastructures in the Kaybob area; its ability to find and develop its oil and gas reserves at extremely competitive metrics; and its ability to improve cash flow through focusing on reducing its cost structure and increasing operating efficiencies.

Trilogy continued to realize significant value in the year pursuant to recently implemented natural gas deep drilling program incentives and other changes effective under the Alberta Royalty Framework. This incentive program and related royalty framework changes are expected to continue to complement Trilogy's business model and provide benefits to Trilogy through a reduction in its effective royalty rate.

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

| | Q4 2011 | Q3 2011 | YTD 2011 | YTD 2010 |
|--|---------|---------|----------|----------|
| Crude Oil | | | | |
| West Texas Intermediate monthly average (U.S.\$/Bbl) | 94.06 | 88.91 | 95.12 | 78.39 |
| Edmonton Par monthly average (Cdn\$/Bbl) | 97.26 | 80.37 | 95.04 | 77.54 |
| Natural Gas | | | | |
| NYMEX (Henry Hub close) monthly average (U.S.\$/MMBtu) | 3.55 | 4.20 | 4.05 | 4.40 |
| AECO monthly average (Cdn\$/GJ) | 3.29 | 3.53 | 3.49 | 3.91 |
| Canada - U.S. dollar closing exchange rate (Cdn\$/U.S.\$1) | 1.02 | 1.05 | 1.00 | 0.99 |

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

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

On February 5, 2010, Trilogy announced that Trilogy Energy Trust (the "Trust") had completed its previously announced conversion from an income trust to a corporation through a business combination with a private company ("Privateco") pursuant to an arrangement under the Business Corporations Act (Alberta) and related transactions (the "Conversion"). Trilogy's Board of Directors and management team are the former Trust's Board of Directors and management team. Subsequent to the Conversion, former Trust Unitholders held approximately 96 percent of the equity in Trilogy with the remaining 4 percent owned by the former shareholder of Privateco. Immediately subsequent to the Conversion, Trilogy effected an internal reorganization whereby, among other things, the Trust was dissolved and Trilogy received all of the assets and assumed all of the liabilities

of the Trust. References to Trilogy in these financial statements for periods prior to February 5, 2010 are references to the Trust and for periods on or after February 5, 2010 are references to Trilogy Energy Corp. Additionally, Trilogy refers to shares, shareholders and dividends which are comparable to units, unitholders and distributions previously under the Trust.

Trilogy's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, the effectiveness of the Company's approach to managing commodity price volatility, capital spending allocations, its ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to, average production per day, average realized prices, average operating costs per unit of production and average annual finding and development cost per unit of reserve additions. Trilogy's performance during the last three years with respect to these and other measures is set out below.

| (In thousand dollars except as otherwise indicated) | 2011 | 2010 | 2009 ³ |
|---|-----------|-----------|-------------------|
| Average production (Boe/d) | 28,012 | 22,788 | 19,780 |
| Oil and natural gas liquids production | 29% | 20% | 21% |
| Average realized prices (before financial instruments): | | | |
| Natural gas (\$/Mcf) | 3.88 | 4.35 | 4.33 |
| Oil (\$/bbl) | 89.21 | 77.89 | 67.03 |
| Natural gas liquids (\$/Boe) | 56.99 | 63.53 | 49.91 |
| Average realized prices (after financial instruments): | | | |
| Natural gas (\$/Mcf) | 3.88 | 4.79 | 5.25 |
| Oil (\$/bbl) | 90.84 | 77.89 | 67.03 |
| Natural gas liquids (\$/Boe) | 56.99 | 63.53 | 49.91 |
| Total assets | 1,260,364 | 1,081,448 | 893,193 |
| Long-term debt | 413,249 | 279,599 | 236,791 |
| Total revenues and other income ⁽¹⁾ | 376,474 | 305,803 | 247,749 |
| Average operating cost (\$/Boe) | 8.29 | 8.49 | 11.24 |
| Earnings (loss) before income tax | 25,042 | 145,623 | (39,254) |
| Per diluted Share (\$/Share) | 0.21 | 1.27 | (0.39) |
| Net earnings (loss) | 17,415 | 178,242 | (33,362) |
| Per Share– Basic (\$/Share) ⁽²⁾ | 0.15 | 1.56 | (0.33) |
| Per Share – Diluted (\$/Share) ⁽²⁾ | 0.15 | 1.55 | (0.33) |
| Cash flow from operations | 215,753 | 165,041 | 120,469 |
| Per diluted Share (\$/Share) ⁽²⁾ | 1.82 | 1.43 | 1.20 |
| Funds flow from operations ⁽⁴⁾ | 218,502 | 153,519 | 112,477 |
| Per diluted Share (\$/Share) ⁽²⁾ | 1.84 | 1.33 | 1.12 |
| Dividends declared | 48,656 | 49,816 | 60,205 |
| Per Voting and Non-Voting Share (\$/Share) ⁽²⁾ | 0.420 | 0.435 | 0.600 |
| Net exploration and development expenditures | 349,879 | 166,044 | 89,467 |
| Finding and development cost ⁽⁴⁾ : | | | |
| Proved (\$/Boe) | 18.52 | 12.49 | 10.85 |
| Proved plus probable (\$/Boe) | 17.23 | 11.63 | 11.19 |

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

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

(3) Information prepared under Canadian GAAP in effect prior to the conversion to IFRS

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

RESULTS OF OPERATIONS

| Operating Results Summary (In thousand dollars) | Three Months Ended | | Year Ended | |
|--|----------------------|-----------------------|----------------------|----------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Operating income⁽¹⁾ | 66,354 | 65,125 | 244,168 | 162,841 |
| Other income | 401 | 513 | 1,024 | 1,613 |
| Realized financial instruments gains ⁽²⁾ | 1,228 | 2,137 | 3,081 | 17,111 |
| Actual decommissioning and restoration costs | (539) | (54) | (1,946) | (1,717) |
| Operating netback⁽¹⁾ | 67,444 | 67,721 | 246,327 | 179,848 |
| Interest and financing charges | (4,156) | (4,184) | (15,630) | (11,036) |
| General and administrative expenses | (2,794) | (3,225) | (12,195) | (15,293) |
| Funds flow from operations⁽¹⁾ | 60,494 | 60,312 | 218,502 | 153,519 |
| <i>Non-cash items:</i> | | | | |
| Gain on Conversion ⁽³⁾ | - | - | - | 146,053 |
| Depletion and depreciation (including impairment) | (46,220) | (39,942) | (159,024) | (132,019) |
| Gain/ (loss) on unrealized financial instruments ⁽²⁾ | (15,463) | 4,459 | (9,137) | (3,473) |
| Share based compensation | (2,668) | (2,217) | (10,758) | (5,053) |
| Exploration expenditures ⁽⁴⁾ | (4,098) | (2,306) | (14,674) | (8,690) |
| Other (gains) / losses | 3,453 | - | 3,453 | (8) |
| Accretion on decommissioning and restoration liability ⁽⁵⁾ | (613) | (1,486) | (3,831) | (4,417) |
| Deferred income tax (expense) recovery | 596 | (4,645) | (7,627) | 32,619 |
| Unrealized foreign exchange gains (losses) and other | (132) | 229 | 511 | (289) |
| Profit (loss) and comprehensive income | (4,651) | 14,404 | 17,415 | 178,242 |

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

⁽²⁾ See Risk Management section below

⁽³⁾ Represents gain recorded on Conversion from a trust to a corporation. Refer to the notes of the annual consolidated financial statements for more detail

⁽⁴⁾ Includes costs associated with dry-holes, geological and geophysical and expired mineral leases

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

FUNDS FLOW FROM OPERATIONS

| Funds Flow From Operations Per Unit of Sales Volume (Dollar per Boe) | Three Months Ended | | Year Ended | |
|--|----------------------|-----------------------|----------------------|----------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Sales | 40.91 | 37.61 | 37.26 | 34.97 |
| Transportation costs | (1.53) | (1.40) | (1.29) | (1.52) |
| Royalties | (3.93) | (4.67) | (3.80) | (5.38) |
| Operating costs | (9.95) | (7.16) | (8.29) | (8.49) |
| Operating income⁽¹⁾ | 25.50 | 24.38 | 23.88 | 19.58 |
| Other income | 0.15 | 0.19 | 0.10 | 0.19 |
| Realized financial instruments gains ^(2 & 3) | 0.47 | 0.80 | 0.30 | 2.06 |
| Actual decommissioning and restoration costs | (0.21) | (0.02) | (0.19) | (0.21) |
| Operating netback⁽¹⁾ | 25.91 | 25.35 | 24.09 | 21.62 |
| Interest and financing charges | (1.60) | (1.57) | (1.53) | (1.33) |
| General and administrative expenses ⁽⁴⁾ | (1.07) | (1.21) | (1.19) | (1.84) |
| Funds flow from operations⁽¹⁾ | 23.24 | 22.57 | 21.37 | 18.45 |

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

⁽²⁾ See Risk Management section below

⁽³⁾ The realized gains on derivative financial instruments for the twelve months ended December 31, 2010 include a \$7.1 million gain from the settlement of certain derivative financial instruments prior to their scheduled maturity.

⁽⁴⁾ Includes direct and indirect Conversion and internal reorganization costs of \$1.2 million for the twelve months ended December 2010 representing a cost of \$0.14 /Boe for the same period.

Operating Income Items

| <i>Fourth Quarter 2011 vs. Third Quarter 2011</i> | | Increase (Decrease) | | |
|--|----------|---------------------|----------|------|
| (In thousand dollars except as otherwise indicated) | Q4 2011 | Q3 2011 | Value | % |
| Average sales volumes: | | | | |
| Natural gas (Mcf/d) | 108,628 | 124,514 | (15,886) | (13) |
| Oil (Bbl/d) | 6,089 | 3,886 | 2,203 | 57 |
| Natural gas liquids (Boe/d) | 4,095 | 4,397 | (302) | (7) |
| Total (Boe/d) | 28,288 | 29,035 | (747) | (3) |
| Average realized prices before financial instruments and transportation: | | | | |
| Natural gas (\$/Mcf) | 3.45 | 4.04 | (0.59) | (15) |
| Oil (\$/bbl) | 88.72 | 85.85 | 2.87 | 3 |
| Natural gas liquids (\$/Boe) | 59.16 | 57.96 | 1.20 | 2 |
| Average realized prices after financial instruments and before transportation: | | | | |
| Natural gas (\$/Mcf) | 3.45 | 4.04 | (0.59) | (15) |
| Oil (\$/bbl) | 90.58 | 90.99 | (0.41) | - |
| Natural gas liquids (\$/Boe) | 59.16 | 57.96 | 1.20 | 2 |
| Petroleum and natural gas sales before financial instruments and before transportation: | | | | |
| Natural gas | 34,491 | 46,332 | (11,841) | (26) |
| Oil | 49,696 | 30,689 | 19,007 | 62 |
| Natural gas liquids | 22,290 | 23,445 | (1,155) | (5) |
| Total petroleum and natural gas sales before financial instruments and before transportation | 106,477 | 100,466 | 6,011 | 6 |
| Royalties | (10,225) | (12,465) | (2,240) | (18) |
| Operating costs | (25,903) | (19,124) | 6,779 | 35 |
| Transportation costs | (3,995) | (3,752) | 243 | 6 |
| Operating income ⁽¹⁾ | 66,354 | 65,125 | 1,229 | 2 |

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

Petroleum and Natural Gas Sales Before Financial Instruments and Transportation – Oil volumes increased from the prior quarter as a result of new wells coming on production, primarily from Trilogy's Montney oil play. Oil sales increased by \$19 million due to higher sales volumes (\$17.9 million) and higher realized prices (\$1.1 million). Natural gas sales decreased by \$11.8 million due to lower sales volumes (\$5 million) and lower realized prices (\$6.8 million). NGL sales decreased by \$1.1 million due to lower volumes (\$1.6 million), offset in part by higher realized prices (\$.5 million).

Royalties – Royalties decreased in the quarter as a result of lower gas prices and production, partially offset by increased royalties on higher oil production net of royalty holidays associated with new wells drilled in the Kaybob area Montney oil play.

Operating Costs – Fourth quarter operating costs increased from the prior quarter, in part, due to an increase in field projects, labour, and higher costs associated with new Kaybob area Montney oil wells until additional gathering and facility infrastructure, currently under construction, is completed. Operating costs associated with oil production are generally higher than costs associated with natural gas production. Accordingly, Trilogy's increase in operating costs can also be attributed to a higher relative weighting of oil production over total production.

| <i>Year-to-date 2011 vs Year-to-date 2010</i> | | | Increase (Decrease) | |
|--|----------|----------|---------------------|------|
| (In thousand dollars except as otherwise indicated) | YTD 2011 | YTD 2010 | Value | % |
| Average sales volumes: | | | | |
| Natural gas (Mcf/d) | 119,802 | 108,871 | 10,931 | 10 |
| Oil (Bbl/d) | 3,759 | 1,935 | 1,824 | 94 |
| Natural gas liquids (Boe/d) | 4,287 | 2,707 | 1,580 | 58 |
| Total (Boe/d) | 28,012 | 22,787 | 5,225 | 23 |
| Average realized prices before financial instruments and transportation: | | | | |
| Natural gas (\$/Mcf) | 3.88 | 4.35 | (0.48) | (11) |
| Oil (\$/Bbl) | 89.21 | 77.89 | 11.32 | 15 |
| Natural gas liquids (\$/Boe) | 56.99 | 63.53 | (6.54) | (10) |
| Average realized prices after financial instruments but before transportation: | | | | |
| Natural gas (\$/Mcf) | 3.88 | 4.79 | (0.91) | (19) |
| Oil (\$/Bbl) | 90.84 | 77.89 | 12.96 | 17 |
| Natural gas liquids (\$/Boe) | 56.99 | 63.53 | (6.54) | (10) |
| Petroleum and natural gas sales before financial instruments: | | | | |
| Natural gas | 169,447 | 173,059 | (3,612) | (2) |
| Oil | 122,387 | 55,009 | 67,378 | 122 |
| Natural gas liquids | 89,164 | 62,773 | 26,391 | 42 |
| Total petroleum and natural gas sales before financial instruments | 380,998 | 290,841 | 90,157 | 31 |
| Royalties | (38,892) | (44,717) | (5,825) | (13) |
| Operating costs | (84,723) | (70,618) | 14,105 | 20 |
| Transportation costs | (13,215) | (12,665) | 550 | 4 |
| Operating income ⁽¹⁾ | 244,168 | 162,841 | 81,327 | 50 |

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

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by \$67.3 million due to higher volumes (\$59.4 million) and higher realized prices (\$7.9 million). Natural gas sales decreased by \$3.6 million due to lower realized natural gas prices (\$19 million), offset by higher sales volumes (\$15.4 million). NGL sales increased by \$26.4 million on higher sales volumes (\$32.8 million), offset by \$6.4 million due to lower realized NGL prices. NGL volumes increased significantly from the prior year given the increase in wells drilled and volumes recorded in conjunction with the NGL Recovery Agreement with Aux Sable Canada LP. The realized price per Boe under the NGL Recovery Agreement contributes to a lower realized price on Trilogy's total NGL volumes.

Royalties – In comparison to last year, royalties are lower, primarily as a result of the benefits realized under the new royalty regime; in particular, the Natural Gas Deep Drilling Royalty Program, and the New Well Royalty Rate Program. Royalties also decreased on lower natural gas prices, offset, in part, by higher royalties on increased oil production.

Operating Costs – Operating costs on a unit of production basis decreased in comparison to the same period in 2010 as a result of the impact of allocating fixed operating costs over a higher production base. In addition, Trilogy has reduced its cost structure in 2011 relative to 2010, particularly in conjunction with the savings associated with redirecting production to Trilogy operated facilities and processing and pipeline fees recovered from third party volumes. These

savings were partially offset by an increase in field projects, labour, and higher costs associated with new Montney oil wells until additional gathering and facility infrastructure, currently under construction, is in place. Operating costs in absolute dollar terms have increased in conjunction with the higher sales volumes, partially offset by the aforementioned cost reductions. Operating costs associated with oil production are generally higher than costs associated with natural gas production. Accordingly, Trilogy's increase in operating costs can also be attributed to a higher relative weighting of oil production over total production.

OTHER INCOME STATEMENT ITEMS

Depletion and Depreciation Expense

(In thousand dollars except as otherwise indicated)

| | Three Months Ended | | Year Ended | |
|-----------------------------------|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Reported amount | 46,220 | 39,942 | 159,024 | 132,019 |
| Expense per sales volume (\$/Boe) | 17.76 | 14.95 | 15.55 | 15.87 |

Depletion and depreciation expense increased for the fourth quarter of 2011 relative to the prior quarter, primarily due to refinements in the depletion calculation and the reserves base that created a higher effective depletion rate. The dollar increase for the twelve months ended December 31, 2011 as compared to the same periods in 2010 is primarily attributable to higher production volumes.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)

| | Three Months Ended | | Year Ended | |
|-----------------------------------|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Salaries and other benefits | 5,874 | 5,655 | 22,840 | 21,747 |
| Office and communications | 1,112 | 1,127 | 4,263 | 4,021 |
| Corporate and other | 755 | 726 | 2,904 | 3,805 |
| Recoveries and reclassifications | (4,948) | (4,284) | (17,900) | (14,355) |
| Reported amount | 2,793 | 3,224 | 12,107 | 15,218 |
| Expense per sales volume (\$/Boe) | 1.07 | 1.21 | 1.18 | 1.83 |

General and administrative expenses were lower in 2011, primarily as a result of higher overhead recoveries on capital expenditures, and the absence of \$1.2 million incurred in 2010 in conjunction with the Conversion. Increased sales volumes in 2011 further reduced general and administrative expenses on a per Boe basis.

Share based Compensation

(In thousand dollars except as otherwise indicated)

| | Three Months Ended | | Year Ended | |
|-----------------------------------|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Share Incentive Plan | 1,204 | 1,045 | 5,953 | 2,125 |
| Share Option Plan | 1,464 | 1,172 | 4,890 | 3,003 |
| Reported Amount | 2,668 | 2,217 | 10,843 | 5,128 |
| Expense per sales volume (\$/Boe) | 1.03 | 0.83 | 1.06 | 0.62 |

The increase in share based compensation expense for 2011 year-to-date, relative to the prior periods was attributed to a larger grant of awards under Trilogy's Share Incentive Plan than as originally accrued in 2010 and a higher fair value of underlying grants in the current year. Higher fair values associated with options granted under Trilogy's Share Option Plan also contributed to the increase in the current year expense. 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 grant. Refer to note 16 of the annual consolidated financial statements.

Interest and Financing Charges

(In thousand dollars except as otherwise indicated)

| | Three Months Ended | | Year Ended | |
|--|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Accretion on decommissioning and restoration liability | 1,152 | 1,545 | 5,777 | 6,134 |
| Interest and other finance costs | 4,156 | 4,184 | 15,630 | 11,036 |
| Expense per sales volume (\$/Boe) | 1.60 | 1.57 | 1.53 | 1.33 |

Accretion on the Company's decommissioning and restoration liability for the three and twelve months ended December 31, 2011 was lower due to changes in the assumptions used in estimating Trilogy's decommissioning and restoration liability. In particular, a reduction in the anticipated inflation rate (from 3 to 2 percent), partially offset by a reduction in the risk free rate used (from 3.5% to 2.6 percent).

Interest and financing charges were consistent in the fourth quarter of 2011 as compared to the third quarter of 2011. Interest expense for the twelve months ended December 31, 2011 relative to the same periods in 2010 was higher as a result of increased debt levels in 2011.

Exploration Expenditures

(In thousand dollars except as otherwise indicated)

| | Three Months Ended | | Year Ended | |
|---|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Expired mineral leases | 166 | 1,451 | 4,449 | 6,522 |
| Dry-hole | 3,616 | 865 | 9,249 | 1,732 |
| | 3,782 | 2,316 | 13,698 | 8,254 |
| Geological and geophysical | 316 | (10) | 976 | 436 |
| Exploration and evaluation expenditures | 4,098 | 2,306 | 14,674 | 8,690 |

Exploration expenditures consist of exploratory dry holes, costs of uneconomic exploratory wells, geological and geophysical costs and costs of expired leases. The change in exploration and evaluation expenditures between the above periods is due mainly to fluctuations in dry-hole costs and expired mineral leases.

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 December 31, 2011

annual consolidated financial statements, the Advisories and other sections of this MD&A as well as the Company's Annual Information Form.

The financial instruments outstanding as at the 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 held-for-trading, is presented as an 'unrealized gain (loss) on financial instruments' in the annual consolidated statements of earnings and other comprehensive income. 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:

Financial Risks

(In thousand dollars except as otherwise indicated)

| (In thousand dollars except as indicated) | Three Months Ended | | Year Ended | |
|--|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Realized gain on financial instruments | 1,228 | 2,137 | 3,081 | 17,111 |
| Unrealized gain (loss) on financial instruments | (15,463) | 4,459 | (9,137) | (3,473) |
| Total gain (loss) on financial instruments | (14,235) | 6,596 | (6,056) | 13,638 |
| Realized gain (loss) on financial instruments per Boe (\$/Boe) | 0.47 | 0.80 | 0.30 | 2.06 |

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.

Realized gains on derivative financial instruments for the above periods decreased primarily as result of an increase in the market price of oil as compared to Trilogy's hedged average price. The realized gains on derivative financial instruments for the twelve months ended December, 2010 include a \$7.1 million gain from the settlement of certain derivative financial instruments prior to their scheduled maturity.

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 and new contracts entered into during the period, if any. In addition, the fair value of financial instruments as at the balance sheet date may 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 may 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 (bbls/d) | Average Price/bbl | |
| January 1, 2012 to May 31, 2012 | 4,000 | \$ | 92.44 |
| June 1, 2012 to June 30, 2012 | 3,500 | \$ | 91.20 |
| July 1, 2012 to December 31, 2012 | 3,000 | \$ | 89.46 |

| Financial Price Collar | | | |
|---------------------------------|-----------------|-----------------|-------------------|
| Term | Volume (bbls/d) | Floor Price/bbl | Ceiling Price/bbl |
| January 1, 2012 to May 31, 2012 | 500 | \$ 85.00 | \$ 116.50 |

Foreign Exchange

| Weekly ending FX rate trading range (CND per U.S) | | USD sell per week on trading range | | | Weekly premium receipt within trading range | Expiry |
|---|--------|------------------------------------|---------------|-----------------------|---|---------------|
| Lower | Upper | Below lower | Between range | Above upper | | |
| 0.94 | 1.0275 | NIL | NIL | \$3 MM at upper range | \$30 M | February 2012 |

To the extent the weekly ending foreign exchange rate is:

- Above the upper range, the Company is committed to selling \$3 million dollars US at 1.0275 (Canadian).
- Between the payout range, the company receives the referenced premium
- Below the lower range, the Company has no commitment to sell US dollars, nor is it entitled to receive the referenced premium

Interest Rate

| Variable Settlement | | | | | | |
|---------------------|------------------|----------|--------------------|------------|---------------|--|
| Pay Fixed | Based On: | Currency | Notional Principle | Settlement | Expiry | |
| 0.95% | 1-Month BA-CDOR* | CAD | \$200 Million | Monthly | December 2013 | |

* Average Rates from nine Canadian Banks/contributors. The high and low rates are omitted and the remaining seven are averaged.

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)

| | Dec. 31, 2011 | Dec. 31, 2010 |
|-------------------------|---------------|---------------|
| Net current liabilities | 77,696 | 32,495 |
| Long-term debt | 413,249 | 279,599 |
| Net debt ⁽¹⁾ | 490,945 | 312,094 |
| Shareholders' equity | 530,445 | 541,119 |
| Total | 1,021,390 | 853,213 |

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

Working Capital

The increase in Trilogy's capital expenditure program for 2011 from 2010 and the related increase in Trilogy's asset base were primarily responsible for the increase in net debt from \$312.1 million at December 31, 2010 to \$490.9 million at December 31, 2011.

Any working capital deficiency is funded by cash flow from operations and draw-downs from the Company's credit facilities.

Long-term Debt and Credit Facilities

Long-term debt represents the outstanding draws from Trilogy's credit facility as described in the notes to Trilogy's annual consolidated financial statements. Trilogy's bank debt outstanding under its credit facility was \$414.5 million (before unamortized interest discount and financing costs) as at December 31, 2011.

Trilogy has a 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, as at December 31, 2011, has the following significant terms:

- Total commitments of \$525 million, consisting of a \$35 million working capital, a \$440 million revolving, and a non-revolving \$50 million development tranche.
- A maturity date of April 30, 2014 in respect of the working capital and revolving tranche and August 31, 2012 in respect of the non-revolving development tranche.
- The working capital and revolving tranche are generally subject to semi-annual borrowing base reviews.

As at December 31, 2011 the Company had drawn the entire \$50 million of its development tranche. Repayment of this amount is required in equal instalments commencing May through August of 2012. Borrowing capacity from the revolving and working capital tranches can be used to repay amounts borrowed under the development tranche.

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 expiry.

The size of the committed credit facilities is based primarily on the value of Trilogy's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. Trilogy and its lenders are currently in the process of its semi-annual borrowing base review.

Note 21 of the annual consolidated 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. The increase in net debt from \$312.1 million at December 31, 2010 to \$490.9 million at December 31, 2011 is attributable primarily to the substantial increase in capital spending undertaken year-to-date in 2011, relative to the incremental operating income received to date on those capital expenditures.

Contractual Obligations

In addition to the commodity contracts disclosed in the consolidated financial statements, the Company has the following estimated contractual financial obligations (undiscounted) as at December 31, 2011:

| (In thousand dollars) | Payable in | | | | Total |
|---|---------------|----------------|---------------|----------------|----------------|
| | 2012 | 2013 – 2014 | 2015 – 2016 | After 2016 | |
| On or partially on balance sheet: | | | | | |
| Long-term debt ⁽¹⁾ | - | 413,249 | - | - | 413,249 |
| Asset retirement obligations ⁽²⁾ | 1,985 | 4,090 | 4,255 | 193,032 | 203,362 |
| Off balance sheet: | | | | | |
| Estimated interest on long-term debt ⁽¹⁾ | 16,861 | 22,481 | - | - | 39,342 |
| Pipeline transportation commitments ⁽³⁾ | 9,678 | 19,320 | 9,258 | 14 | 38,270 |
| Office premises operating leases ⁽⁴⁾ | 2,575 | 5,846 | 4,957 | - | 13,378 |
| Vehicle and energy service commitments | 9,336 | 4,923 | - | - | 14,259 |
| Total | 40,435 | 469,909 | 18,470 | 193,046 | 721,860 |

⁽¹⁾ Debt has been assumed to be payable within 2.33 years based on the existing terms of the underlying revolving credit facility solely for purposes of this contractual obligations table. Interest on long-term debt was calculated based on an approximate interest rate of 4.08 percent per annum applied to the outstanding balance of debt as at December 31, 2011.

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

⁽³⁾ Some of the pipeline transportation commitments are covered by letters of credit issued by the Company totaling \$8.3 million as at December 31, 2011.

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

Shares, Options and Rights

Trilogy had 116,118,158 Shares outstanding as at December 31, 2011, consisting of 85,282,296 Common Shares and 30,835,862 Non-Voting Shares. For a detailed continuity of Trilogy's share capital in 2010 and 2011, refer to note 17 of the 2011 annual consolidated financial statements.

Prior to the Conversion and in connection with Trilogy's distribution reinvestment plan ("DRIP"), 403,385 units were issued for proceeds of \$3.2 million for the year ended December 31, 2010. Trilogy terminated its Distribution Reinvestment Plan ("DRIP") prior to the Conversion. Accordingly, shareholders have no further ability to reinvest dividends through any similar program.

Prior to the Conversion and pursuant to a Normal Course Issuer Bid ("NCIB") that expired after March 23, 2010; Trilogy purchased and cancelled 144,400 Trust Units in 2010 for a total cost of \$1.1 million. On March 26, 2010, Trilogy received the necessary approvals for a NCIB to purchase up to 5,104,163 of its Common Shares (the maximum allowable number) through the facilities of the Toronto Stock Exchange. This NCIB expired after approximately one year from the approval date and no purchases were made in respect of this NCIB.

Post Conversion, an additional 4,219,653 Common Shares or 4 percent of the total Shares were issued and outstanding to the sole shareholder of the private corporation that was party to the Conversion. Voting rights are the only difference between the Non-Voting shares and the Common Shares. For more information regarding Share rights, please refer to Trilogy's Annual Information Form under "Description of Share Capital".

During the year, 1,336,000 share options were exercised for proceeds of \$12.2 million.

Outstanding share options issued under Trilogy's share option plan were 5,984,000 as at December 31, 2011 and 5,963,500 share options as at the date hereof, of which 1,716,000 share options and 1,700,500 share options were exercisable as at those dates, respectively. The option agreements outstanding and the related option plan post-Conversion are substantially the same as prior to the Conversion.

Dividends

(In thousand dollars except where stated otherwise)

| | Three Months Ended | | Year Ended | |
|---|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Funds flow from operations ⁽¹⁾ | 60,494 | 60,312 | 218,502 | 153,519 |
| Net changes in operating working capital | 404 | (1,347) | (2,749) | 11,522 |
| Cash flow from operations | 60,898 | 58,965 | 215,753 | 165,041 |
| Net earnings (loss) | (4,651) | 14,404 | 17,415 | 178,242 |
| Dividends declared ⁽²⁾ | 12,200 | 12,179 | 48,656 | 49,816 |
| Dividends declared per share (In full amount) | 0.105 | 0.105 | 0.420 | 0.435 |
| Excess of cash flow from operations over dividends declared | 48,698 | 46,786 | 167,097 | 115,225 |
| Excess (Deficiency) of net earnings (loss) over dividends | (16,851) | 2,225 | (31,241) | 128,426 |

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

⁽²⁾ Including amounts reinvested under the Trust's previous distribution reinvestment plan prior to the Conversion as disclosed in the notes to the annual consolidated financial statements. References to dividends include distributions on Trust Units prior to Conversion

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 funded by draw downs 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 and credit facilities above) and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and

operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Trilogy's payout ratio, calculated as the percentage of dividends declared over cash flow from operations, was 22 percent for the twelve months ended December 31, 2011 (30 percent for the twelve months ended December 31, 2010).

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

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

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

Capital Expenditures

(In thousand dollars except where stated otherwise)

| | Three Months Ended | | Year Ended | |
|--|--------------------|--------------------|-------------------|-------------------|
| | December 31, 2011 | September 30, 2011 | December 31, 2011 | December 31, 2010 |
| Land | 39 | 630 | 38,101 | 3,608 |
| Geological and geophysical | 316 | (10) | 976 | 436 |
| Drilling and completions | 75,451 | 48,502 | 224,021 | 114,211 |
| Drilling incentive credits | - | 135 | 1,653 | (19,795) |
| Production equipment and facilities | 25,920 | 22,221 | 86,993 | 67,104 |
| | 101,726 | 71,478 | 351,744 | 165,564 |
| Proceeds received from property dispositions | (206) | - | (4,000) | (49) |
| Property acquisitions | - | (14) | 1,524 | 359 |
| Corporate assets | 139 | 112 | 611 | 170 |
| Net capital expenditures | 101,659 | 71,576 | 349,879 | 166,044 |

Capital expenditures increased in the quarter as compared to the previous quarter given improved ground conditions that facilitated additional drilling, completion, and tie in activities. Production equipment and facility work was significant in the current quarter and year-to-date in conjunction with the acquisition of the Kaybob area Montney oil leases, and building related infrastructure, including facility expansion work and gathering systems to bring Kaybob area Montney oil and

other production to market. This increase in facility work over the prior year was partially offset by significant expenditures in the prior year to expand Trilogy's operated processing facilities and the construction of a 53 kilometer pipeline to transport Presley gas production.

Wells Drilled

| (Number of wells) | Three Months Ended | | | | Year Ended | | | |
|-------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|
| | December 31, 2011 | | September 30, 2011 | | December 31, 2011 | | December 31, 2010 | |
| | Gross ⁽¹⁾ | Net ⁽²⁾ | Gross ⁽¹⁾ | Net ⁽²⁾ | Gross ⁽¹⁾ | Net ⁽²⁾ | Gross ⁽¹⁾ | Net ⁽²⁾ |
| Natural gas | 7 | 2.4 | 3 | 1.7 | 34 | 20.2 | 45 | 29.6 |
| Oil | 15 | 12.1 | 11 | 8.3 | 33 | 24.5 | 11 | 6.5 |
| Dry & abandoned | 1 | 1.0 | - | - | 1 | 1.0 | - | - |
| Total | 23 | 15.5 | 14 | 10.0 | 68 | 45.7 | 56 | 36.1 |

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

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

INCOME TAXES

The Company recorded a future income tax recovery of \$0.6 million in the current quarter and a year to date expense of \$7.6 million. Refer to note 11 and 24 of Trilogy's annual consolidated financial statements in respect of additional comparative information regarding future tax expense and a related gain recorded in conjunction with the Conversion in 2010.

RELATED PARTY TRANSACTIONS

Trilogy had certain transactions with Paramount Resources, a wholly-owned subsidiary of Paramount Resources Ltd. which owns approximately 21 percent of the equity in the Company. The amount of expenses billed and accrued in respect of services provided under a services agreement was \$0.1 and \$0.3 million for the three and twelve months ended December 31, 2011. The Company and Paramount also had transactions with each other arising from normal business activities. These transactions were recorded at fair value similar to third parties.

OUTLOOK INFORMATION

As at the date hereof, production is over 35,000 Boe/d. Trilogy will see approximately half of its capital expenditure budget spent in the first quarter of 2012, as it is currently operating seven rigs and is participating in a number of non-operated joint venture projects. Assuming the continued success of its exploration and development program, Trilogy reaffirms its guidance for 2012 as follows:

| | |
|-------------------------|---------------|
| Average production | 40,000 Boe/d |
| Average operating costs | \$7.00 /Boe |
| Capital expenditures | \$300 million |

QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per share amounts)

| | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 |
|---|---------|---------|---------|---------|
| Revenue after financial instruments, royalties and other income | 82,287 | 95,339 | 89,078 | 70,878 |
| Earnings (loss) before tax | (5,246) | 19,049 | 10,977 | 262 |
| Net earnings (loss) | (4,651) | 14,404 | 7,872 | (211) |
| Earnings (loss) per Share (in full amounts): | | | | |
| Basic | (0.04) | 0.12 | 0.07 | NIL |
| Diluted | (0.04) | 0.12 | 0.07 | NIL |

| | Q4 2010 | Q3 2010 | Q2 2010 | Q1 2010 |
|---|---------|---------|---------|---------|
| Revenue after financial instruments, royalties and other income | 57,829 | 56,751 | 58,167 | 88,339 |
| Income (loss) before tax | (9,483) | (9,705) | (5,304) | 170,116 |
| Net income (loss) | (7,576) | (7,748) | (2,664) | 196,231 |
| Income (loss) per Share (in full amounts): | | | | |
| Basic | (0.07) | (0.07) | (0.02) | 1.72 |
| Diluted | (0.07) | (0.07) | (0.02) | 1.71 |

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, and realized and unrealized gains/losses on financial instruments. Q1, 2010 income was significantly higher as a result of a gain recorded on Conversion (refer to notes 11 and 24 of Trilogy's annual consolidated financial statements for more information). Please refer to the Results of Operations and other sections of this MD&A for the detailed discussions on changes from the third quarter of 2011 to the fourth quarter of 2011, and to Trilogy's previously issued interim and annual MD&A for changes in prior quarters. Please be aware that as a result of the conversion to IFRS the quarters for 2010 have been restated under IFRS. Financial information presented prior to 2010 has been prepared under previous Canadian Generally Accepted Accounting Principles and has not been restated under IFRS.

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 proved oil and gas properties are amortized to expense on a unit-of-production basis at a rate calculated by reference to proved developed reserves determined in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

Commercial reserves are determined using best estimates of oil and gas in place, recovery factors, future development and extraction costs and future oil and gas prices.

Proved reserves are those reserves that have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Probable reserves are based on geological and/or engineering data similar to that used in estimates of proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves from being classified as proved. Probable reserves are attributed to known accumulations that have a greater or equal to 50% confidence level of recovery. Refer to note 7 for further details.

Exploration and Evaluation Expenditures

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. Exploration and evaluation assets include undeveloped land and costs related to exploratory wells. Exploration costs related to geophysical and geological activities are immediately charged to income as incurred. The Company is required to make estimates and judgments about future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. To the extent a judgment is made that extraction of the reserves is not viable, the exploration and evaluation costs will be impaired and charged to net income.

Impairment of Non-financial Assets

The recoverable amounts of Trilogy's cash-generating units and individual assets have been determined based on fair values less costs to sell. 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.

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..

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.

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.

Deferred Income Tax Assets

Trilogy recognizes the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires Trilogy to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and Trilogy's interpretation of the application of existing tax laws. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Trilogy to realize the net deferred tax assets recorded at the balance sheet date may be compromised.

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 commodity price, foreign currency 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.

IFRS IMPLEMENTATION

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to IFRS for Canadian profit-oriented publicly accountable entities ("PAEs") such as Trilogy. The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. In 2010, the Canadian Institute of Chartered Accountants ("CICA") Handbook was revised to incorporate International Financial Reporting Standards, requiring publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

For all periods up to and including the year ended December 31, 2010, Trilogy prepared its financial statements in accordance with generally accepted accounting principles in effect in Canada during those periods.

The adoption of IFRS has had some impact on information systems requirements. Trilogy has the accounting system functionality requirements, upgrades and modifications which has and will continue to facilitate reporting under IFRS.

In accordance with Trilogy's approach to certification of internal controls required, all entity level information technology disclosure and business process controls have been updated to reflect changes arising from the conversion to IFRS.

A significant gain and related future tax recovery was recorded on Conversion under IFRS relative to the accounting for the Conversion under Canadian GAAP in the twelve months of 2010 (refer to notes 11 and 24 of the 2011 annual consolidated financial statements for further discussion). This

variance in accounting for the Conversion created additional income after taxes under IFRS. Excluding these differences, the adoption of IFRS has not materially impacted any of Trilogy's underlying cash flows and company profitability and performance metrics (see Non-GAAP measures).

NEW ACCOUNTING PRONOUNCEMENTS

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- (i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried

forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

- (ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.
- (iii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.
- (iv) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

- (v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- (vi) There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
- (vii) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- (viii) IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.
- (ix) IFRS 1, First-time Adoption of International Financial Reporting Standards, has been amended for two changes. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to IFRSs'. This eliminates the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted.
- (x) IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management has assessed the effectiveness of Trilogy's internal controls over financial reporting and disclosures controls and procedures as at December 31, 2011, 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: long-term supply of and demand for petroleum and natural gas; future natural gas prices; business strategy and objectives; statements regarding providing shareholder value; capital expenditures; future production levels and the natural gas liquids content therein; estimates of drilling prospect inventory and the risk and potential of reserves associated therewith; development plans and the timing, cost and expected benefits thereof, including Trilogy's horizontal well program and associated technology; exploration and development of the Montney, Duvernay and other formations and other drilling, construction and facility expansion plans and the timing, cost and expected benefits therefrom; the location, extent, geology and potential for development of the Kaybob area Montney oil pools and the Duvernay shale gas development and the nature of Trilogy's plans to further delineate and exploit these assets; potential application of drilling technologies to other areas and geological formations and projections as to potential reserves associated therewith; statements as to the prospective nature of Trilogy's lands including those lands acquired at the February 9, 2011 Alberta Crown land sale; expectations of Trilogy's management regarding the timing and expected benefits of its natural gas liquids recovery agreement with Aux Sable Canada LP including, without limitation, the resultant cash flow, anticipated cost savings under the agreement as well as the deferral of plans to construct a natural gas liquids extraction facility at the Kaybob North Sour Gas Plant, the time it would have taken to complete such facility, the value which would have been obtained therefrom and the costs which would have been attributable thereto; net revenue and cash flow; approach to and amount of dividends; operating and other costs; royalty rates; estimates of future tax amounts, tax assets and tax pools; applicability of income tax legislation and government incentive and royalty programs affecting Trilogy; expected counterparty risk; credit limits, the cost of borrowing and Trilogy's expectations regarding the term of its credit facility; pro-forma debt levels; projected results of hedging contracts and other financial instruments; and the expected impact of new accounting pronouncements. Statements regarding "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitable produced in the future.

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

- future oil, natural gas and natural gas liquids supply and prices;
- the natural gas liquids content of Trilogy's natural gas;
- future power prices;
- geology applicable to Trilogy's land holdings;
- current reserves estimates;
- drilling and operational results and timing consistent with expectations;

- Trilogy's ability to obtain competitive pricing;
- the ability of Trilogy to market oil and natural gas successfully to current and new customers;
- the impact of the Conversion on access to capital markets, liquidity, the generation of cash flow and the reinvestment thereof, credit facility and reserves;
- currency, exchange and interest rates;
- assumptions based on Trilogy's current guidance;
- cash flow consistent with expectations;
- continuity of government drilling and royalty incentive programs and their application to Trilogy's operations;
- the ability of Trilogy to obtain equipment, services and supplies in a timely manner to carry out its evaluations and activities;
- the timing and costs of plant turnaround and pipeline and storage facility construction and expansion and the ability to secure adequate product processing and transportation;
- the timely receipt of required regulatory approvals;
- the ability of Trilogy to obtain financing on acceptable terms;
- the timing and estimate of reversals of temporary differences between assets and liabilities recorded for accounting and tax purposes; and
- credit facility increases consistent with expectations
- continuity of the mutually beneficial agreement with Aux Sable Canada LP

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 and natural gas liquids prices, foreign currency exchange rates and interest rates;
- volatile economic and business conditions
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- Trilogy's ability to secure adequate product processing, transmission and transportation;
- the ability of management to execute its business plan;
- risks and uncertainties involving geology of oil and gas deposits including, without limitation, those regarding the extent and development potential of the Kaybob Area Montney oil pools;
- risks inherent in Trilogy's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- availability of cost effective goods and services;
- Trilogy's ability to enter into or renew leases;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing, including Trilogy's ability to extend its credit facility on an ongoing basis;
- the ability of Trilogy to add production and reserves through development and exploration activities and establish basis for borrowing base increases;
- weather conditions;
- general economic and business conditions;
- the possibility that government policies, regulations, laws or incentive programs

may change or governmental approvals may be delayed or withheld;

- 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 applicable to Trilogy, and timing and amounts of reversals of temporary differences between assets

and liabilities recognized for accounting and tax purposes.

- uncertainty regarding aboriginal land claims, consultations and co-existence with local populations;
- uncertainty regarding results of third party industry participants' objections to Trilogy's development plans;
- risks associated with existing and potential future law suits and regulatory actions against Trilogy;
- hiring/maintaining staff;
- the impact of market competition; and
- other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

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 "funds flow from operations", "operating income", "net debt", "finding and development costs", "operating netback" and "payout 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.

"Funds flow from operations" refers to the cash flow from operating activities before net changes in operating working capital. The most directly comparable measure to "funds flow from operations" calculated in accordance with IFRS is the cash flow from operating activities. "Funds flow from operations" can be reconciled to cash flow from operating activities by adding (deducting) the net change in operating working capital as shown in the consolidated statements of cash flows.

"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. "Net debt" is calculated as current liabilities minus current assets plus long-term debt. The components described for "operating income", "operating netback" and "net debt" can be derived directly from Trilogy's consolidated financial statements.

"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 and 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.

"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).

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.

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. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For fiscal 2011, the ratio between the average price of West Texas Intermediate ("WTI") crude oil at Cushing and NYMEX natural gas was approximately 24:1 ("Value Ratio"). The Value Ratio is obtained using the 2011 WTI average price of \$95.12 (US\$/Bbl) for crude oil and the 2011 NYMEX average price of \$4.05 (US\$/MMbtu) for natural gas. This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

ADDITIONAL INFORMATION

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



MANAGEMENT'S REPORT

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

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

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

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

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

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

March 5, 2012



Independent Auditor's Report

To the Shareholders of Trilogy Energy Corp.

We have audited the accompanying consolidated financial statements of Trilogy Energy Corp., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of earnings and comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trilogy Energy Corp. as at December 31, 2011 and December 31, 2010 and opening statement of financial position January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta
March 5, 2012

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

| | Note | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|----------------|----------------------|----------------------|--------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Trade and other receivables | 6, 20, 21, 22 | \$ 54,686 | \$ 50,837 | \$ 50,797 |
| Derivative financial instruments | 21, 22, 23 | 134 | - | 2,803 |
| Prepays | | 489 | 254 | 239 |
| | | 55,309 | 51,091 | 53,839 |
| Non-current assets | | | | |
| Property, plant and equipment | 7, 8, 10 | 855,183 | 711,973 | 661,944 |
| Exploration and evaluation assets | 7,8 | 109,373 | 70,258 | 72,564 |
| Deferred tax asset | 11 | 100,028 | 107,655 | 11,840 |
| Goodwill | 9 | 140,471 | 140,471 | 140,471 |
| Total assets | | \$ 1,260,364 | \$ 1,081,448 | \$ 940,658 |
| EQUITY AND LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | 12, 20, 21, 22 | \$ 118,974 | \$ 78,870 | \$ 57,722 |
| Dividend payable | 13, 21, 22 | 4,070 | 4,026 | 5,525 |
| Derivative financial instruments | 21, 22, 23 | 9,961 | 690 | - |
| | | 133,005 | 83,586 | 63,247 |
| Non-current liabilities | | | | |
| Long-term debt | 14, 21, 22 | 413,249 | 279,599 | 236,791 |
| Decommissioning and restoration liability | 15 | 183,665 | 177,144 | 150,331 |
| Share-based payment liability | 24 | - | - | 8,228 |
| Deferred tax liability | 11, 24 | - | - | 118,998 |
| Total liabilities | | 729,919 | 540,329 | 577,595 |
| Shareholders' equity | | | | |
| Shareholders' capital | 16, 17 | 877,682 | 863,011 | 824,273 |
| Contributed surplus | | 21,706 | 15,810 | 4,918 |
| Accumulated deficit after dividends | | (368,943) | (337,702) | (466,128) |
| | | 530,445 | 541,119 | 363,063 |
| Total shareholders' equity and liabilities | | \$ 1,260,364 | \$ 1,081,448 | \$ 940,658 |

Opening Balance Sheet (Note 24)
Commitments (Note 25)

See accompanying notes to the consolidated financial statements

On behalf of the Board:

/s/R. M. MacDonald
R. M. MacDonald
Director

/s/ M.H. Dilger
M. H. Dilger
Director

TRILOGY ENERGY CORP.
Consolidated Statement of Earnings and Comprehensive Income

(in thousand Canadian dollars except per share amounts)

| | Note | Year Ended December 31, | |
|--|------------|-------------------------|------------|
| | | 2011 | 2010 |
| Revenue and other | | | |
| Petroleum and natural gas sales | 27 | \$ 380,998 | \$ 290,841 |
| Royalties | | (38,892) | (44,717) |
| Revenue | | 342,106 | 246,124 |
| Other | | 1,532 | 1,324 |
| Gain / (Loss) on derivative financial instruments | 21, 22, 23 | (6,056) | 13,638 |
| | | 337,582 | 261,086 |
| Expenses | | | |
| Operating and production | | 84,723 | 70,618 |
| Transportation | | 13,215 | 12,665 |
| Depletion, depreciation, and impairments | 7, 10 | 159,024 | 132,019 |
| Exploration and evaluation | 8 | 14,674 | 8,690 |
| General and administrative | 26 | 12,107 | 15,218 |
| Share-based compensation | 16 | 10,843 | 5,128 |
| (Gains) / losses on disposal of assets | | (3,453) | 8 |
| | | 291,133 | 244,346 |
| Operating earnings | | 46,449 | 16,740 |
| Gain on conversion to a corporation | 11, 24 | - | (146,053) |
| Accretion on decommissioning and restoration liability | 15 | 5,777 | 6,134 |
| Interest and other finance costs | 14 | 15,630 | 11,036 |
| Net income before income tax | | 25,042 | 145,623 |
| Income tax expense (recovery) | | | |
| Deferred | 11 | 7,627 | (32,619) |
| Comprehensive income | | \$ 17,415 | \$ 178,242 |
| Earnings per share | | 18 | |
| - Basic | | \$ 0.15 | \$ 1.56 |
| - Diluted | | \$ 0.15 | \$ 1.55 |

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP

Consolidated Statement of Changes in Equity

(In thousand Canadian dollars except share information)

| Year Ended December 31, 2011 | | | | | | |
|--|--|-------------------|------------------------|------------------------|-------------------------|--|
| | Outstanding Common and Non-Voting Shares ⁽¹⁾ | Share Capital | Contributed Surplus | Accumulated Deficit | Shareholders' Equity | |
| Balance at January 1, 2011 | 114,741,491 | \$ 863,011 | \$ 15,810 | \$ (337,702) | \$ 541,119 | |
| Net income for the period | - | - | - | 17,415 | 17,415 | |
| Share options exercised <i>(note 16, 17)</i> | 1,250,000 | 14,679 | (2,524) | - | 12,155 | |
| Dividends declared <i>(note 13)</i> | - | - | - | (48,656) | (48,656) | |
| Share Incentive Plan purchases, net of grants vested <i>(note 16, 17)</i> | 126,667 | (8) | (2,423) | - | (2,431) | |
| Share-based compensation | - | - | 10,843 | - | 10,843 | |
| Balance at December 31, 2011 | 116,118,158 | \$ 877,682 | \$ 21,706 | \$ (368,943) | \$ 530,445 | |
| Year Ended December 31, 2010 | | | | | | |
| | Outstanding Common and Non-Voting Shares ⁽¹⁾ | Share Capital | Contributed Surplus | Accumulated Deficit | Shareholders' Equity | |
| Balance at January 1, 2010 | 110,238,903 | \$ 824,273 | \$ 4,918 | \$ (466,128) | \$ 363,063 | |
| Net income for the period | - | - | - | 178,242 | 178,242 | |
| Conversion from a trust to a corporation <i>(note 1, 17)</i> | 4,219,653 | 36,141 | 8,228 | - | 44,369 | |
| Distribution reinvestment plan and other equity issuances <i>(note 13, 16, 17)</i> | 447,385 | 3,937 | (158) | - | 3,779 | |
| Dividends declared <i>(note 13)</i> | - | - | - | (49,816) | (49,816) | |
| Normal course issuer bid <i>(note 17)</i> | (144,400) | (1,079) | (145) | - | (1,224) | |
| Share Incentive Plan purchases net of grants vested <i>(note 16, 17)</i> | (44,050) | (261) | (2,050) | - | (2,311) | |
| Share-based compensation | - | - | 5,017 | - | 5,017 | |
| Balance at December 31, 2010 | 114,717,491 | \$ 863,011 | \$ 15,810 | \$ (337,702) | \$ 541,119 | |

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

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.
Consolidated Statement of Cash Flows

(in thousand Canadian dollars except as otherwise indicated)

| | Note | Year Ended December 31, | |
|--|--------|-------------------------|------------------|
| | | 2011 | 2010 |
| Operating activities | | | |
| Net income before income tax | | \$ 25,042 | 145,623 |
| Adjustments for non-cash and other items: | | | |
| Gain on conversion to corporation | 11, 24 | - | (146,053) |
| Unrealized Losses on derivative financial instruments | 22, 23 | 9,137 | 3,473 |
| Unrealized foreign exchange (gains) / losses | | (510) | 289 |
| Depletion and depreciation | 7 | 159,024 | 132,019 |
| Exploration and evaluation | 8 | 14,674 | 8,690 |
| (Gains) / losses on disposal of assets | | (3,453) | 8 |
| Stock based compensation | 16 | 10,757 | 5,053 |
| Accretion on decommissioning and restoration liability | 15 | 5,777 | 6,134 |
| Decommissioning and restoration costs | 15 | (1,946) | (1,717) |
| Net change in non-cash working capital | 19 | (2,749) | 11,522 |
| Net cash flow from operating activities | | 215,753 | 165,041 |
| Investing activities | | | |
| Exploration and evaluation expenditures | 8 | (72,297) | (14,167) |
| Property, plant and equipment expenditures | 7 | (280,059) | (151,567) |
| Property acquisitions | 7 | (1,524) | (359) |
| Proceeds from disposition of property, plant and equipment | 7 | 4,000 | 49 |
| Net change in non-cash working capital | 19 | 38,412 | 8,847 |
| Net cash flow used in investing activities | | (311,468) | (157,197) |
| Financing activities | | | |
| Proceeds on long-term debt | 14 | 134,517 | 43,264 |
| Purchase and cancellation of shares under normal course issuer bid | 17 | - | (1,224) |
| Dividends to Shareholders | 13 | (48,612) | (48,082) |
| Share incentive plan purchases | 16, 17 | (2,431) | (2,312) |
| Shares issued | 16, 17 | 12,241 | 510 |
| Net cash flow used in financing activities | | 95,715 | (7,844) |
| Net change in cash | | - | - |
| Cash balance, beginning of year | | - | - |
| Cash balance, end of year | | - | - |
| Cash interest and financing charges paid | | \$ 15,988 | \$ 11,492 |

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

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.

On February 5, 2010, Trilogy announced that Trilogy Energy Trust (the "Trust") had completed its previously announced conversion from an income trust to a corporation through a business combination with a private company ("Privateco") pursuant to an arrangement under the Business Corporations Act (Alberta) (the "Conversion"). Trilogy's Board of Directors and management team are the former Trust's Board of Directors and management team. Subsequent to the Conversion, former Trust Unitholders held approximately 96 percent of the equity in Trilogy with the remaining 4 percent owned by the former shareholder of Privateco. Immediately subsequent to the Conversion, Trilogy effected an internal reorganization whereby, among other things, the Trust was dissolved and Trilogy received all of the assets and assumed all of the liabilities of the Trust.

References to Trilogy in these financial statements for periods prior to February 5, 2010 are references to the Trust and for periods on or after February 5, 2010 are references to Trilogy Energy Corp. Additionally, Trilogy refers to shares, shareholders and dividends which are comparable to units, unitholders and distributions previously under the Trust.

2. BASIS OF PREPARATION

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in section I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), requiring publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these annual consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These annual consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of annual financial statements and IFRS 1 – *First time adoption of International Financial Reporting Standards ("IFRS 1")*. Subject to certain transition elections disclosed in note 24, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 24 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's annual consolidated financial statements for the periods presented herein.

The policies applied in these annual consolidated financial statements are based on IFRS issued and outstanding as of March 5, 2012, the date the annual consolidated financial statements were approved by the board of directors for issue.

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

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Reserves Estimation

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

Proved reserves are those reserves that have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Probable reserves are based on geological and/or engineering data similar to that used in estimates of proved reserves, but technical, contractual, or regulatory uncertainties preclude such reserves from being classified as proved. Probable reserves are attributed to known accumulations, that have a greater or equal to 50% confidence level of recovery. Refer to note 7 for further details.

Exploration and Evaluation Expenditures

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. Exploration and evaluation assets include undeveloped land and costs related to exploratory wells. Exploration costs related to geophysical and geological activities are immediately charged to income as incurred. The Company is required to make estimates and judgments about future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. To the extent a judgment is made that extraction of the reserves is not viable, the exploration and evaluation costs will be impaired and charged to net income. Refer to note 8 for further details.

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

Impairment of Non-financial Assets

The recoverable amounts of Trilogy's cash-generating units and individual assets have been determined based on fair values less costs to sell. 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.

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. Refer to note 9 and 10 for more details about methods and assumptions used in estimating net recoverable amounts.

Decommissioning and Restoration Costs

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

Share-based Payments

Trilogy measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value requires the determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires the determination of the most appropriate inputs to the valuation model including the expected life of the option, risk free interest rates, volatility and dividend yield and making assumptions about them. Refer to note 16 for more details about methods and assumptions used in estimating fair value.

Deferred Income Tax Assets

Trilogy recognizes the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires Trilogy to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and Trilogy's interpretation of the application of existing tax laws. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Trilogy to realize the net deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 11 for further details.

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

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 commodity price, foreign currency and interest rate exposures. The fair values of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty. Refer to note 22 for further details.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jointly Controlled Operations

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

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

Foreign Currency Translation

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

Goodwill

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

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

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

Oil and Natural Gas Exploration and Development Expenditures

Exploration and Evaluation Costs

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

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

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

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

Impairment

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

Exploration and evaluation assets are tested for impairment when there are indicators that the carrying value may exceed the recoverable amount and prior to reclassification to property, plant, and equipment. To test for impairment, exploration and evaluation assets are allocated to appropriate cash generating units based on geographic proximity. Impairment losses are recognized, as identified, in the consolidated statement of comprehensive income.

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

Development Costs

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

Asset Exchanges

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

Property, Plant and Equipment

Carrying Value

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

Depreciation and Depletion

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

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

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

Impairment

At the end of each quarter, the Company reviews the property, plant and equipment for circumstances that indicate that the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing, which is the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A

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CGU's recoverable amount is its fair value less selling costs. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down.

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

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

Maintenance and Repairs

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

Borrowing Costs

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

Financial Instruments

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

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Financial Assets and Liabilities at Fair Value through Profit or Loss

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

Loans and Receivables

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

Financial liabilities at amortized cost

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

Fair Value

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

Provisions

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

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

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

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Decommissioning and Restoration

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, and deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Deferred income tax assets and liabilities are offset, if legally enforceable rights exist to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. Tax on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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Revenue Recognition

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

Share-based Payments and Management Compensation

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 18).

Dividends

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

Share Capital

Shares, consisting of common shares ("Common Shares") and non-voting shares ("Non-Voting Shares" (together ("Shares"))), are classified as equity. Incremental costs directly attributable to the issuance of Shares are recognized as a deduction from equity.

Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing the profit (loss) for the period attributable to equity owners of Trilogy by the weighted average number of Shares outstanding during the period. Diluted EPS amounts are calculated by dividing the net profit attributable to Shareholders (after adjusting for the effect of dilution, if any) by the weighted average number of Shares during the period plus the weighted average number of Shares that would be issued on the conversion of all the potential dilutive options into Shares (treasury stock method). Trilogy's potentially dilutive shares are comprised of share options granted on Common Shares to employees. Shares held in

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trust for the benefit of Trilogy's employees under the Company's share incentive plan are deducted from the total outstanding shares and in computing EPS.

5. NEW ACCOUNTING PRONOUNCEMENTS

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- (i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

- (ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.
- (iii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.
- (iv) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- (v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and

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disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

- (vi) There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
- (vii) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in Other Comprehensive Income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- (viii) IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.
- (ix) IFRS 1, First-time Adoption of International Financial Reporting Standards, has been amended for two changes. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to IFRSs'. This eliminates the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted.
- (x) IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

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6. TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-interest bearing and are generally on 30 to 60 day terms.

As at December 31, 2011, 2010 and January 1, 2010 none of the receivables have been assessed as impaired.

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

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|----------------------|----------------------|-----------------|
| Petroleum and natural gas sales and processing income | 37,725 | 33,188 | 32,409 |
| Joint venture receivables | 14,865 | 16,679 | 12,503 |
| Advances and other | 2,096 | 970 | 5,885 |
| | 54,686 | 50,837 | 50,797 |

The following table illustrates the aging of the Company's trade and other receivables:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|-------------------------|----------------------|----------------------|-----------------|
| Current to 90 days | 52,293 | 49,169 | 47,864 |
| Greater than 90 days | 2,393 | 1,668 | 2,933 |
| Total trade receivables | 54,686 | 50,837 | 50,797 |

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7. PROPERTY, PLANT AND EQUIPMENT

| | Oil and Gas Properties | Corporate Assets | Total |
|---|---------------------------|---------------------|------------------|
| <i>Cost:</i> | | | |
| Balance at January 1, 2010 | 1,563,777 | 9,412 | 1,573,189 |
| Additions | 172,677 | 165 | 172,842 |
| Transfers from intangible exploration and evaluation assets | 8,219 | - | 8,219 |
| Acquisitions | 359 | - | 359 |
| Disposals | (432) | - | (432) |
| Balance at December 31, 2010 | 1,744,600 | 9,577 | 1,754,177 |
| Additions | 281,284 | 489 | 281,773 |
| Transfers from intangible exploration and evaluation assets | 19,484 | - | 19,484 |
| Acquisitions | 1,524 | - | 1,524 |
| Disposals | (1,506) | - | (1,506) |
| Balance at December 31, 2011 | 2,045,386 | 10,066 | 2,055,452 |
| <i>Accumulated depletion, depreciation and impairment losses:</i> | | | |
| Balance at January 1, 2010 | 906,261 | 4,984 | 911,245 |
| Depletion and depreciation charge | 118,923 | 1,266 | 120,189 |
| Impairment charge, net of reversals | 11,145 | - | 11,145 |
| Disposals | (375) | - | (375) |
| Balance at December 31, 2010 | 1,035,954 | 6,250 | 1,042,204 |
| Depletion and depreciation charge | 157,680 | 1,344 | 159,024 |
| Disposals | (959) | - | (959) |
| Balance at December 31, 2011 | 1,192,675 | 7,594 | 1,200,269 |
| <i>Net carrying value</i> | | | |
| At January 1, 2010 | 657,516 | 4,428 | 661,944 |
| At December 31, 2010 | 708,646 | 3,327 | 711,973 |
| At December 31, 2011 | 852,711 | 2,472 | 855,183 |

The cost of property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations.

Property, plant and equipment with a carrying value of \$34.7 million as at December 31, 2011 (December 31, 2010: \$11.6 million) include development assets under construction and tangible

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inventory that are not being depreciated. No borrowing costs were capitalized to property, plant and equipment in respect of the referenced periods.

8. EXPLORATION AND EVALUATION ASSETS AND OTHER INTANGIBLE ASSETS

| | Undeveloped Land | Exploratory Wells | Total Exploration and Evaluation Expenditures |
|--|------------------|-------------------|---|
| <i>Cost</i> | | | |
| Balance at January 1, 2010 | 59,766 | 12,798 | 72,564 |
| Additions | 7,120 | 7,047 | 14,167 |
| Expensed | (6,522) | (1,732) | (8,254) |
| Transfers to property, plant and equipment | (4,409) | (3,810) | (8,219) |
| Balance at December 31, 2010 | 55,955 | 14,303 | 70,258 |
| Additions | 38,101 | 34,196 | 72,297 |
| Expensed | (4,449) | (9,249) | (13,698) |
| Transfers to property, plant and equipment | (1,871) | (17,613) | (19,484) |
| Balance at December 31, 2011 | 87,736 | 21,637 | 109,373 |

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

| | December 31, 2011 | December 31, 2010 |
|---|-------------------|-------------------|
| Expired mineral leases | 4,449 | 6,522 |
| Dry hole | 9,249 | 1,732 |
| | 13,698 | 8,254 |
| Geological and geophysical costs | 976 | 436 |
| Exploration and evaluation expenditures | 14,674 | 8,690 |

Exploration and evaluation expenditures on the statement of comprehensive income for the twelve months ended December 31, 2011 and 2010 include costs associated with geological and geophysical costs which are immediately expensed.

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9. Goodwill

| | 2011 | 2010 |
|---|---------|---------|
| <i>Cost</i> | | |
| Balance at January 1 | 140,471 | 140,471 |
| Additional amounts recognized from business combination occurring during the year | - | - |
| Balance at December 31 | 140,471 | 140,471 |
| <i>Accumulated impairment losses</i> | | |
| At January 1 | - | - |
| Impairment losses recognized in the year | - | - |
| Balance at December 31 | - | - |
| <i>Net Book Value at December 31</i> | 140,471 | 140,471 |

Goodwill was assessed for impairment as at December 31, 2011. The recoverable amounts used to assess goodwill were determined using fair value less costs to sell. Fair value less costs to sell was estimated for cash-generating units using the after-tax future net cash flows of proved and probable reserves based on forecast prices and costs, discounted at 10 percent. Forecast prices used to determine fair value in the assessment of goodwill were consistent with the forecast prices used to determine the fair value of Trilogy's property, plant and equipment. The discount rate of 10 percent is reassessed at each reporting date and has remained consistent for goodwill impairment assessments completed as at December 31, 2011 and 2010.

As at December 31, 2011 and December 31, 2010, the recoverable amounts exceeded the aggregated carrying values of the cash-generating units. Accordingly, no impairments were recorded.

10. IMPAIRMENT LOSS/ (RECOVERY)

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|--|---------------------------------|---------------------------------|
| <i>Impairment Losses</i> | | |
| Property, plant and equipment | - | 11,145 |
| <i>Reversal of Previously Booked Impairments</i> | | |
| Property, plant and equipment | - | - |
| Total impairment losses (recovery) | - | 11,145 |

In 2010, the Company recorded an impairment charge of \$11.1 million in relation to a natural gas cash generating unit ("CGU"). The impairment charge related primarily to a reduction in forecasted natural gas prices as at December 31, 2010, in addition to a reversal of reserves recorded in the prior year pursuant to a change in future development plans in the CGU.

The Company determined the recoverable amount using the fair value less costs to sell method based on internally generated cash flow projections. In determining fair value less costs to sell, the Company considered recent transactions within the industry, long-term views of commodity prices, externally evaluated reserve volumes, and discount rates specific to the CGU. The calculation of

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the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates and commodity prices. In computing the recoverable amount, future cash flows were adjusted for risks specific to the CGU and discounted using a post-tax discount rate of 10 percent (2010: 10 percent). This discount rate is considered to approximate the weighted average cost of capital of a typical market participant.

Selected key price forecasts used in the estimation of the value of commercial reserves as at December 31, 2011 and December 31, 2010 are as follows:

| December 31, 2011 | | 2012 | 2013 | 2014 | 2015 | 2016 | Beyond |
|-------------------------|-------------|--------|--------|--------|--------|--------|--------|
| AECO Gas | Cdn\$/MMBtu | 3.45 | 4.04 | 4.53 | 5.02 | 6.00 | 2%+ |
| Edmonton | Cdn\$/Bbl | 98.00 | 99.00 | 99.96 | 100.92 | 101.88 | 2%+ |
| Condensate | Cdn\$/Bbl | 102.90 | 101.97 | 102.96 | 103.95 | 104.93 | 2%+ |
| West Texas Intermediate | U.S.\$/Bbl | 100.00 | 101.00 | 102.00 | 103.00 | 104.00 | 2%+ |

| December 31, 2010 | | 2011 | 2012 | 2013 | 2014 | 2015 | Beyond |
|-------------------------|-------------|-------|-------|-------|-------|--------|--------|
| AECO Gas | Cdn\$/MMBtu | 4.14 | 4.71 | 5.29 | 5.76 | 6.27 | 2%+ |
| Edmonton | Cdn\$/Bbl | 87.30 | 90.28 | 93.83 | 95.88 | 97.92 | 2%+ |
| Condensate | Cdn\$/Bbl | 91.66 | 92.99 | 96.65 | 98.75 | 100.86 | 2%+ |
| West Texas Intermediate | U.S.\$/Bbl | 88.00 | 90.00 | 92.00 | 94.00 | 96.00 | 2%+ |

11. INCOME TAX

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

| | 2011 | 2010 |
|--|--------|----------|
| Profit (loss) before tax | 25,043 | 145,623 |
| Expected income tax rate | 26.5% | 28% |
| Expected income tax | 6,636 | 40,774 |
| Non-deductible share based compensation | 1,343 | 831 |
| Gain on Conversion | - | (40,895) |
| Temporary difference rate re-valuation on Conversion | - | (33,392) |
| Statutory rate changes | (454) | (123) |
| Other | 102 | 186 |
| Income tax expense (recovery) | 7,627 | (32,619) |

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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 January 1, 2010 | (169,148) | (1,083) | 57,958 | 5,115 | (107,158) |
| (Charge)/credited to earnings | 59,969 | 1,256 | (13,672) | (14,934) | 32,619 |
| Conversion to a Corporation | - | - | - | 182,195 | 182,195 |
| At December 31, 2010 | (109,179) | 173 | 44,286 | 172,376 | 107,655 |
| (Charge)/credited to earnings | (7,877) | 1,303 | 1,630 | (2,684) | (7,627) |
| At December 31, 2011 | (117,056) | 1,476 | 45,916 | 169,692 | 100,028 |

The \$7.6 million deferred income tax expense was charged to the consolidated statement of comprehensive income. Zero income tax amounts were recorded directly to equity.

As discussed in note 1, the Trust converted to a corporation by way of a plan of arrangement and related transactions with a private company effective February 5, 2010. Trilogy recorded a deferred tax asset of \$182.2 million and an increase in share capital of \$36.1 million related to the fair value of the 4,219,653 common shares issued in conjunction with the Conversion. The \$146.1 million excess of amounts assigned to the deferred tax asset, measured on an undiscounted basis, over the consideration provided was recorded as a gain in the 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 \$667 million that are available for carry forward against future taxable income of the entities in which the losses arose. Deferred tax assets are recognized for the carry-forward of unused tax losses to the extent that it is probable that taxable profits will be available against which the unused tax losses can be utilized.

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

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--|----------------------|----------------------|--------------------|
| Deferred Income Tax Assets | | | |
| Deferred tax assets to be recovered within 12 months | 44,476 | 173 | - |
| Deferred tax assets to be recovered after more than 12 months | 172,608 | 216,661 | 63,072 |
| | 217,084 | 216,834 | 63,072 |
| Deferred Income Tax Liabilities | | | |
| Deferred tax liabilities to be settled within 12 months | - | - | (1,083) |
| Deferred tax liabilities to be settled after more than 12 months | (117,056) | (109,179) | (169,148) |
| | (117,056) | (109,179) | (170,231) |
| Net Deferred Income Tax Assets | 100,028 | 107,655 | (107,158) |

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. It is expected that future cash flows will be sufficient to provide future taxable profits to utilize the deferred tax assets.

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 Canadian subsidiaries, the Company has not determined the amount of those temporary differences.

12. TRADE AND OTHER PAYABLES

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|------------------------|----------------------|----------------------|-----------------|
| Trade payables | 23,242 | 20,605 | 12,195 |
| Joint venture payables | 3,595 | 4,526 | 3,568 |
| Accrued liabilities | 92,137 | 53,739 | 41,959 |
| | 118,974 | 78,870 | 57,722 |

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

13. DIVIDENDS PAYABLE

Dividends declared were \$0.42 per share for twelve months ended December 31, 2011 (December 31, 2010: \$0.435). The dividend payable was \$4.1 million (\$0.035 per share) as at December 31, 2011, \$4.0 million (\$0.035 per share) as at December 31, 2010, and \$5.5 million (\$0.050 per unit) as at January 1, 2010.

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

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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 working capital and future capital requirements of the Company.

14. LONG-TERM DEBT

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|----------------------|----------------------|--------------------|
| Revolving credit and working capital facility | 414,555 | 280,547 | 237,283 |
| Less prepaid interest and unamortized financing costs | (1,306) | (948) | (492) |
| Carrying value of long term debt | 413,249 | 279,599 | 236,791 |

Trilogy has a 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, as at December 31, 2011, has the following significant terms:

- Total commitments of \$525 million, consisting of a \$35 million working capital, a \$440 million revolving, and a non-revolving \$50 million development tranche.
- A maturity date of April 30, 2014 in respect of the working capital and revolving tranche and August 31, 2012 in respect of the non-revolving development tranche.
- Proceeds from the \$50 million development tranche are to be used exclusively for the development of Trilogy's Montney oil play in the Kaybob area of Alberta.
- The working capital and revolving tranche are generally subject to semi-annual borrowing base reviews with the next review scheduled for Q2 2012.

As at December 31, 2011 the Company had drawn the entire \$50 million of its development tranche. Repayment of this amount is required in equal instalments commencing May through August of 2012. Borrowing capacity from the revolving and working capital tranches can be used to repay amounts borrowed under the development tranche.

Advances drawn on the credit facility are secured by a fixed and floating charge debenture over the assets of the Company.

The Company has undrawn letters of credit totalling \$8.6 million as at December 31, 2011 (December 31, 2010: \$8.4 million). These letters of credit reduce the amount available for draw under the Company's working capital tranche.

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15. DECOMMISSIONING AND RESTORATION LIABILITY

| | Year ended December 31, 2011 | Year ended December 31, 2010 |
|---|---------------------------------|---------------------------------|
| Decommissioning and restoration obligation | | |
| Balance - beginning of period | 177,144 | 150,331 |
| Liabilities incurred | 8,629 | 3,738 |
| Liabilities settled | (1,946) | (1,717) |
| Accretion | 5,777 | 6,134 |
| Revision to estimates | (5,939) | 18,658 |
| Balance – end of period | 183,665 | 177,144 |

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be \$203.4 million as at December 31, 2011 (December 31, 2010: \$193.4 million).

Settlement of this obligation is expected to be paid after 10 to 30 years and will be funded from the general resources of the Company. The estimated future cash flows as at December 31, 2011 have been discounted using an average risk free rate of approximately 2.6 percent and an inflation rate of 2 percent (December 31, 2010 – approximately 3.5 percent and 3 percent, respectively).

16. SHARE-BASED PAYMENT PLANS

The expense recognized for employee services received during the twelve months ended December 31, 2011 is shown in the following table:

| | 2011 | 2010 |
|---|--------|-------|
| Expense arising from: | | |
| Share Incentive Plan | 5,953 | 2,125 |
| Share Option Plan | 4,890 | 3,003 |
| Total expense arising from share-based payment transactions | 10,843 | 5,128 |

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. Generally, one third of an award vests immediately, with the remaining tranches vesting annually over two years. 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.

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The following table reconciles the SIP Common Shares held in Trust at the beginning and end of the period.

| | December 31, 2011 | December 31, 2010 |
|-----------|-------------------|-------------------|
| Beginning | 295,481 | 251,431 |
| Purchases | 165,000 | 271,300 |
| Vested | (291,667) | (227,250) |
| Ending | 168,814 | 295,481 |

The cost to the Company of the Common Shares held in trust as at December 31, 2011 and December 31, 2010 was \$2.5 million, respectively and \$1.2 million as at January 1, 2010, 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 allows management to award 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 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 market price of the shares at the date of the grant. The contractual life of each option granted is 4.5 to 5.5 years.

The following table reconciles the share options outstanding at the beginning and end of the period.

| | December 31, 2011 | | December 31, 2010 | |
|---------------------------|---------------------------------|----------------|---------------------------------|----------------|
| | Weighted Average Exercise Price | No. of Options | Weighted Average Exercise Price | No. of Options |
| Outstanding at January 1 | \$ 9.11 | 5,870,000 | \$ 8.16 | 4,627,500 |
| Granted | 38.57 | 1,512,000 | 12.05 | 1,540,000 |
| Exercised | 9.87 | (1,336,000) | 9.65 | (221,000) |
| Forfeited | 8.92 | (62,000) | 8.82 | (76,500) |
| Outstanding at period end | \$ 16.39 | 5,984,000 | \$ 9.11 | 5,870,000 |
| Exercisable at period end | \$ 8.26 | 1,716,000 | \$ 8.56 | 1,799,000 |

The weighted average fair value of options granted during the period determined using the Binomial model was \$10.89 per option (2010: \$3.97). The significant inputs into the model were as follows:

| | 2011 | 2010 |
|-----------------------------------|----------------|------------------|
| Dividend yield (percent) | 3.5% to 1.13% | 3.5% to 4.6% |
| Expected volatility (percent) | 45% to 47% | 44.5% to 49% |
| Risk-free interest rate (percent) | 1.21% to 1.6% | 2.2% to 2.9% |
| Expected life of options (years) | 2.75 - 5 years | 4.4 to 5.4 years |

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The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The weighted average share price at the date of exercise for share options exercised in 2011 was \$24.03 (2010: \$10.60)

The range of exercise prices of the outstanding options and exercisable options as at December 31, 2011 are 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 \$8.90 | 2.34 | 2,591,500 | \$6.69 | 1,117,500 | \$6.46 |
| \$8.97 to \$12.15 | 3.61 | 1,812,500 | 11.90 | 547,500 | 11.54 |
| \$12.30 to \$38.74 | 5.14 | 1,580,000 | 37.45 | 51,000 | 12.60 |
| Total | 3.47 | 5,984,000 | \$16.39 | 1,716,000 | \$8.26 |

17. 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 essentially the same as the Common Shares except they do not carry any voting rights.

Issued and Outstanding and Fully Paid

The following provides a continuity of outstanding Trust Unit capital from January 1, 2010 up to the Conversion date on February 5, 2010:

| | Units | Amount |
|--|-------------|------------|
| Trust Units – January 1, 2010 | 110,238,903 | \$ 824,273 |
| Issued - Distribution Reinvestment Plan | 403,385 | 3,234 |
| Issued - Unit Option Plan | 19,000 | 164 |
| Share Incentive Plan purchases | (271,300) | (2,312) |
| Purchased and cancelled – Normal Course Issuer Bid | (144,400) | (1,079) |
| Trust Units – prior to Conversion | 110,245,588 | \$ 824,280 |

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The following provides a continuity of outstanding share capital from the Conversion date on February 5, 2010 through to December 31, 2011:

| | Common Shares | Non-Voting Shares | Total | Amount |
|--|---------------|-------------------|-------------|------------|
| February 5, 2010 - Shares outstanding in private corporation | 4,219,653 | - | 4,219,653 | \$ 36,141 |
| Conversion – Effected through Plan of Arrangement | 79,409,726 | 30,835,862 | 110,245,588 | 824,280 |
| Vesting of Share Incentive Plan awards | 227,250 | - | 227,250 | 2,050 |
| Issued - Share Option Plan | 49,000 | - | 49,000 | 540 |
| Common Shares and Non-Voting Shares as at December 31, 2010 | 83,905,629 | 30,835,862 | 114,741,491 | \$ 863,011 |
| Issued - Share Option Plan | 1,250,000 | - | 1,250,000 | 14,679 |
| Share Incentive Plan purchases | (165,000) | - | (165,000) | (2,431) |
| Vesting of Share Incentive Plan awards | 291,667 | - | 291,667 | 2,423 |
| Common Shares and Non-Voting Shares as at December 31, 2011 | 85,282,296 | 30,835,862 | 116,118,158 | 877,682 |

18. EARNINGS PER SHARE

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

Basic and Diluted Earnings per Share

| | Years Ended December 31 | |
|--|----------------------------|-------------|
| | 2011 | 2010 |
| Net earnings used in the calculation of total basic and diluted earnings per share | 17,415 | 178,242 |
| Weighted average number of shares for the purposes of basic earnings per share | 115,548,433 | 114,228,639 |
| Effect of dilution | 3,319,768 | 882,232 |
| Weighted average number of shares for diluted earnings per share | 118,868,201 | 115,110,871 |
| Earnings per share – Basic | 0.15 | 1.56 |
| Earnings per share – diluted | 0.15 | 1.55 |

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19. RECONCILIATION OF CHANGES IN NON-CASH WORKING CAPITAL

| | Years Ended December 31 | |
|---|----------------------------|--------|
| | 2011 | 2010 |
| Decrease (increase) in trade, other receivables and prepaids | (4,084) | (54) |
| Increase (decrease) in trade, other payables and dividends payable | 39,747 | 20,423 |
| | 35,663 | 20,369 |
| Changes in non-cash operating working capital | (2,749) | 11,522 |
| Changes in non-cash investing working capital | 38,412 | 8,847 |

20. RELATED PARTY TRANSACTIONS

Trilogy had the following transactions with Paramount Resources Ltd. ("Paramount"), an entity with significant influence over the Company:

- Pursuant to an amended and restated services agreement dated February 5, 2010, a Paramount subsidiary provides limited administrative services to the Company. The agreement is in effect until March 31, 2012 however may be terminated by either party with at least six months written notice. The amount of expenses billed and accrued under this agreement was \$0.3 million for the twelve months ended December 31, 2011 (twelve months ended December 31, 2010 - \$0.4 million). Costs associated with this agreement are included as part of the general and administrative expenses in the Company's consolidated statement of comprehensive income.
- The Company and Paramount also had transactions with each other arising from the normal course of business. These transactions were carried out on commercial terms and conditions similar to transactions with third parties as follows:

| | 2011 | 2010 |
|---|-------|-------|
| Joint venture activities billed by Trilogy to Paramount | 7,983 | 428 |
| Joint venture activities billed by Paramount to Trilogy | 1,806 | 2,855 |

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

| December 31, 2011 | | | |
|-----------------------------------|-----------------|--------------------|----------|
| Presented in the Balance Sheet as | Normal Business | Services Agreement | Dividend |
| Trade and other receivables | 1,686 | - | - |
| Trade and other payables | (86) | (60) | - |
| Dividends payable | - | - | (847) |

| December 31, 2010 | | | |
|-----------------------------------|-----------------|--------------------|----------|
| Presented in the Balance Sheet as | Normal Business | Services Agreement | Dividend |
| Trade and other receivables | 105 | - | - |
| Trade and other payables | (295) | (30) | - |
| Dividends payable | - | - | (846) |

| January 1, 2010 | | | |
|-----------------------------------|-----------------|--------------------|----------|
| Presented in the Balance Sheet as | Normal Business | Services Agreement | Dividend |
| Trade and other receivables | 219 | - | - |
| Trade and other payables | (615) | (60) | - |
| Dividends payable | - | - | (1,200) |

The receivables and payables are unsecured in nature and bear no interest. No provisions were held against receivables or payables from Paramount through 2011 and 2010.

21. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

The main risks arising from Trilogy's financial instruments are credit risk, liquidity risk, commodity price risk, interest rate risk and foreign currency risk.

Credit Risk

The Company is exposed to credit risk from financial instruments to the extent of non-performance by third parties. Credit risks associated with the possible non-performance by financial instrument counterparties maybe minimized by entering into contracts with counterparties having high credit ratings, conducting initial credit due diligence procedures, obtaining letters of credit from the counterparty, continuously assessing limits on exposures to any one counterparty and ongoing credit monitoring procedures.

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Trilogy's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivable are from customers and joint venture partners in the Canadian petroleum and natural gas industry are subject to normal industry specific credit risk. The Company has not provided an allowance for any of its overdue receivables as they are all considered collectible. The maximum exposure to credit risk at period-end is as follows:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--|-------------------|-------------------|-----------------|
| Trade and other receivables | 54,686 | 50,837 | 50,797 |
| Derivatives Financial Instruments ⁽¹⁾ | 134 | - | 2,803 |
| | 54,820 | 50,837 | 53,600 |

⁽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 its existing credit facility. The variability of market benchmarks as noted below provides uncertainty as to the level of Trilogy's cash flow from operations. As a result, Trilogy may eliminate or adjust the levels of dividends declared to Shareholders and/or adjust operational and capital spending to maintain its liquidity.

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2011 is as follows:

| | Within 1 Year | 1 to 5 years | More than 5 years | Total |
|--|---------------|--------------|-------------------|---------|
| Accounts payable and accrued liabilities | 118,974 | - | - | 118,974 |
| Dividends payable | 4,070 | - | - | 4,070 |
| Derivative financial instruments | 9,961 | - | - | 9,961 |
| Long-term debt and estimated interest ⁽¹⁾ | 16,861 | 435,730 | - | 452,591 |
| Total | 149,866 | 435,730 | - | 585,596 |

⁽¹⁾ Estimated interest for future periods was calculated using the weighted average interest rate for the period ended December 31, 2011 applied to the debt principal balance outstanding as at that date. Principal repayment is assumed on April 30, 2014.

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2010 is as follows:

| | Within 1 Year | 1 to 5 years | More than 5 years | Total |
|--|---------------|--------------|-------------------|---------|
| Accounts payable and accrued liabilities | 78,870 | - | - | 78,870 |
| Dividends payable | 4,026 | - | - | 4,026 |
| Derivative financial instruments | 690 | - | - | 690 |
| Long-term debt and estimated interest ⁽¹⁾ | 10,876 | 290,875 | - | 301,751 |
| Total | 94,462 | 290,875 | - | 385,337 |

⁽¹⁾ Estimated interest for future periods was calculated using the weighted average interest rate for the period ended December 31, 2010 applied to the debt principal balance outstanding as at that date. Principal repayment is assumed one year after the expiry of the current revolving phase of the credit facility.

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Commodity Price Risk

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

To protect cash flow against commodity price volatility, Trilogy may use derivative commodity price contracts that require financial settlement between counterparties. Derivative contracts are generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production (see note 22 for details of outstanding financial instruments as at December 31, 2011).

Sensitivity Analysis on derivative contracts outstanding at December 31, 2011

As at December 31, 2011, if the forward price of oil had been \$10 per barrel lower, with all other variables held constant, net earnings for the year would have been \$12.8 million higher (2010: \$1.6 million), due to changes in the fair value of the financial contracts. An equal and opposite impact would have occurred to net earnings had oil prices been \$10 per barrel higher.

Interest Rate Risk

As described in note 14, Trilogy's credit facility is subject to floating interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The interest rate margin is determined by the lenders based on their periodic review of the Company's results and is generally dependent upon Trilogy's debt to cash flow ratio as defined in the credit facility agreement.

Borrowings on Trilogy's credit facility is primarily in the form of bankers' acceptances with fixed terms ranging from 10 to 180 days which are then rolled-over if not repaid on their due dates. Trilogy may enter into interest rate derivative contracts to mitigate the impact of interest rate fluctuations.

Sensitivity Analysis on derivative contracts outstanding at December 31, 2011

As at December 31, 2011, if the forward projected interest rates had been 100 basis points higher, with all other variables held constant, net earnings for the year would have been \$4 million higher (2010: Nil), due to changes in the fair value of the financial contracts. An equal and opposite impact would have occurred to net earnings had forward projected interest rates been lower.

Foreign Currency Risk

Foreign currency rate fluctuations may impact the Company mainly due to the outstanding U.S. Dollar denominated financial instrument contracts, in addition to normal conversions of U.S. dollar denominated revenues into the Canadian dollar. Approximately 13 percent of Trilogy's petroleum and natural gas sales for the twelve months ended December 31, 2011 were denominated in the U.S. dollars. Trilogy may enter into derivative currency contracts to mitigate the impact of foreign currency fluctuations.

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Sensitivity Analysis on derivative contracts outstanding at December 31, 2011

As at December 31, 2011, a 100 basis point strengthening of the Canadian dollar against the US dollar, with all other variables held constant, would have increased net earnings by \$0.1 million (2010: Nil). A 100 basis point weakening of the Canadian dollar against the US dollar would have had the equal and opposite impact to net earnings.

Capital Management

The Company's capital structure currently consists of borrowings under its credit facility agreement, 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 the existing credit facility is detailed below:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--|----------------------|----------------------|--------------------|
| Committed amount that can be drawn from the credit facility (see note 14) | 525,000 | 390,000 | 390,000 |
| Outstanding undrawn letters of credit | (8,632) | (8,408) | (8,886) |
| Portion of credit facilities subject to draw restrictions as at the balance sheet date | - | - | (40,000) |
| Amount that can be drawn after letters of credit | 516,368 | 381,592 | 341,114 |
| Long-term debt | (413,249) | (279,599) | (236,791) |
| Net current liabilities (working capital) | (77,696) | (32,495) | (9,408) |
| Net debt⁽¹⁾ | (490,945) | (312,094) | (246,199) |

(1) Net debt as calculated above are not standard terms/measures used by others

The increase in net debt for the aforementioned periods can be attributed to the significant capital expenditures incurred in 2010 and 2011 relative to the incremental operating income received to date.

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22. FINANCIAL INSTRUMENTS

Carrying Values

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

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|--|----------------------------|----------------------------|--------------------------|
| Financial assets | | | |
| Receivables ⁽¹⁾ | 54,686 | 50,837 | 50,797 |
| Financial instruments fair valued through profit and loss ⁽²⁾ | 134 | - | 2,803 |
| Financial liabilities | | | |
| Other liabilities - non-trading liabilities ^{(1) (3)} | (123,044) | (82,896) | (63,247) |
| Financial instruments fair valued through profit and loss ⁽²⁾ | (9,961) | (690) | - |
| Other liabilities - long-term debt ⁽⁴⁾ | (413,249) | (279,599) | (236,791) |

⁽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. See Commodity Contracts below.

⁽³⁾ Consists of accounts payable and accrued liabilities, dividends payable.

⁽⁴⁾ The Company's long term debt carries interest based on specified benchmark interest rates plus a spread. The fair values of the Company's debt obligations approximate their carrying amounts 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 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

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

December 31, 2011

| | Financial assets (liabilities) – fair value | | | |
|--------------------------------------|---|---------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Total |
| Foreign exchange derivative contract | - | 29 | - | 29 |
| Interest derivative contract | - | 134 | - | 134 |
| Crude oil derivative contract | - | (9,990) | - | (9,990) |
| | | (9,827) | | (9,827) |

December 31, 2010

| | Financial assets (liabilities) – fair value | | | |
|-------------------------------|---|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | Total |
| Crude oil derivative contract | - | (690) | - | (690) |
| | - | (690) | | (690) |

January 1, 2010

| | Financial assets (liabilities) – fair value | | | |
|--------------------------------------|---|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | Total |
| Natural gas derivative contract | - | 2,782 | - | 2,782 |
| Foreign exchange derivative contract | - | 21 | - | 21 |
| | | 2,803 | | 2,803 |

Commodity Contracts

At December 31, 2011, the Company had the following outstanding crude oil derivative contracts (Refer to Note 21):

Crude Oil

| Term | Financial Forward Sale | | | |
|-----------------------------------|------------------------|-------------------|-------------------|--|
| | Volume (bbls/d) | Average Price/bbl | | |
| January 1, 2012 to May 31, 2012 | 4,000 | \$ 92.44 | | |
| June 1, 2012 to June 30, 2012 | 3,500 | \$ 91.20 | | |
| July 1, 2012 to December 31, 2012 | 3,000 | \$ 89.46 | | |
| Term | Financial Price Collar | | | |
| | Volume (bbls/d) | Floor Price/bbl | Ceiling Price/bbl | |
| January 1, 2012 to May 31, 2012 | 500 | \$ 85.00 | \$ 116.50 | |

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Foreign Exchange

| Weekly ending FX rate trading range (CND per U.S) | | USD sell per week on trading range | | | Weekly premium receipt within trading range | Expiry |
|---|--------|------------------------------------|---------------|-----------------------|---|---------------|
| Lower | Upper | Below lower | Between range | Above upper | | |
| 0.94 | 1.0275 | NIL | NIL | \$3 MM at upper range | \$30 M | February 2012 |

To the extent the weekly ending foreign exchange rate is:

- Above the upper range, the Company is committed to selling \$3 million dollars US at 1.0275 (Canadian).
- Between the payout range, the company receives the referenced premium
- Below the lower range, the Company has no commitment to sell US dollars, nor is it entitled to receive the referenced premium

Interest Swap

| Pay Fixed | Variable Settlement | | Currency | Notional Principle | Settlement | Expiry |
|-----------|---------------------|--|----------|--------------------|------------|---------------|
| | Based On: | | | | | |
| 0.95% | 1-Month BA-CDOR* | | CAD | \$200 Million | Monthly | December 2013 |

Average Rates from nine Canadian Banks/contributors. The high and low rates are omitted and the remaining seven are averaged.

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 statement of comprehensive income.

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

23. GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

| | 2011 | 2010 |
|---|---------|---------|
| Realized Gains (Losses) | | |
| Crude oil | 2,244 | 17,111 |
| Foreign exchange | 805 | - |
| Interest swaps | 32 | - |
| Sub-total | 3,081 | 17,111 |
| Unrealized Gains (Losses) | | |
| Crude oil | (9,299) | (3,473) |
| Foreign exchange | 29 | - |
| Interest swaps | 134 | - |
| Sub-total | (9,137) | (3,473) |
| Gain (loss) on derivative financial instruments | (6,056) | 13,638 |

24. TRANSITION TO IFRS

The Company's financial statements for the year ended December 31, 2011 will be the first annual financial statements under IFRS. These annual financial statements were prepared as described in Note 2, including the application of IFRS 1. Prior to the adoption of IFRS, the Company followed Canadian GAAP. A reconciliation of the impact to equity between Canadian GAAP and IFRS as at December 31, 2010 is provided herein.

Comparative financial information is required on first-time adoption of IFRS and therefore the Company has adopted IFRS as at January 1, 2010. IFRS generally requires full retrospective application of the standards in effect; however, IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to this requirement.

The Company has applied the optional exemptions:

- IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries that occurred before January 1, 2010.
- IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted after November 7, 2002 that vested before January 1, 2010. In addition, IFRS 2 has not been applied to liabilities arising from cash-settled share-based payment arrangements that were settled before January 1, 2010.
- Trilogy has elected to apply the exemption from full retrospective application of decommissioning and restoration provisions in accordance with IFRIC1. As such Trilogy has re-measured the provisions as at January 1, 2010 under IAS 37, estimated the amounts to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using the best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation and depletion under IFRS.
- Trilogy has also elected to apply the borrowing cost exemption. This election allows the Company to commence capitalization of borrowing costs relating to qualifying assets prospectively from January 1, 2010. The Company did not capitalize borrowing costs under Canadian GAAP and did not identify any qualifying expenditures in 2010.

TRILOGY ENERGY CORP.
Notes to the Consolidated Financial Statements
December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

Reconciliation of Equity

| | | December 31, 2010 | | | January 1, 2010 | | |
|---|------|-------------------|-----------------|------------------|-----------------|----------------|----------------|
| | Note | Cdn GAAP | IFRS Adj | IFRS | Cdn GAAP | IFRS Adj | IFRS |
| ASSETS | | | | | | | |
| Current Assets | | | | | | | |
| Trade and other receivables | | 50,837 | - | 50,837 | 50,797 | - | 50,797 |
| Derivative financial instruments | | - | - | - | 2,803 | - | 2,803 |
| Prepaid expenses | E | 734 | (480) | 254 | 546 | (307) | 239 |
| | | 51,571 | (480) | 51,091 | 54,146 | (307) | 53,839 |
| Non-current Assets | | | | | | | |
| Property, plant and equipment | A, B | 721,652 | (9,679) | 711,973 | 686,736 | (24,792) | 661,944 |
| Intangible exploration and evaluation assets | A, E | - | 70,258 | 70,258 | - | 72,564 | 72,564 |
| Deferred tax asset | D | 98,342 | 9,313 | 107,655 | 11,840 | - | 11,840 |
| Goodwill | | 140,471 | - | 140,471 | 140,471 | - | 140,471 |
| | | 960,465 | 69,892 | 1,030,357 | 839,047 | 47,772 | 886,819 |
| Total Assets | | 1,012,036 | 69,412 | 1,081,448 | 893,193 | 47,465 | 940,658 |
| EQUITY AND LIABILITIES | | | | | | | |
| Current Liabilities | | | | | | | |
| Trade and other payables | E | 79,391 | (521) | 78,870 | 58,257 | (535) | 57,722 |
| Dividend payable | | 4,026 | - | 4,026 | 5,525 | - | 5,525 |
| Derivative financial instruments | | 690 | - | 690 | - | - | - |
| | | 84,107 | (521) | 83,586 | 63,782 | (535) | 63,247 |
| Non-current Liabilities | | | | | | | |
| Long-term debt | | 279,599 | - | 279,599 | 236,791 | - | 236,791 |
| Decommissioning and restoration liability | B | 77,525 | 99,619 | 177,144 | 75,355 | 74,976 | 150,331 |
| Share-based payment liability | C | - | - | - | - | 8,228 | 8,228 |
| Deferred credit | D | 136,241 | (136,241) | - | - | - | - |
| Deferred tax liability | | - | - | - | 82,653 | 36,345 | 118,998 |
| | | 493,365 | (36,622) | 456,743 | 394,799 | 119,549 | 514,348 |
| Total Liabilities | | 577,472 | (37,143) | 540,329 | 458,581 | 119,014 | 577,595 |
| Shareholders' Equity | | | | | | | |
| Shareholders' capital | E | 864,758 | (1,747) | 863,011 | 825,758 | (1,485) | 824,273 |
| Contributed surplus | C, E | 11,587 | 4,223 | 15,810 | 10,251 | (5,333) | 4,918 |
| Accumulated deficit after dividends | | (441,781) | 104,079 | (337,702) | (401,397) | (64,731) | (466,128) |
| | | 434,564 | 106,555 | 541,119 | 434,612 | (71,549) | 363,063 |
| Total Shareholders' Equity and Liabilities | | 1,012,036 | 69,412 | 1,081,448 | 893,193 | 47,465 | 940,658 |

TRILOGY ENERGY CORP.
Notes to the Consolidated Financial Statements
December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

Reconciliation of Comprehensive Income

| | | Year ended December 31, 2010 | | |
|--|---------|---------------------------------|-----------|-----------|
| | Note | Cdn GAAP | IFRS Adj | IFRS |
| Revenue and Other | | | | |
| Petroleum and natural gas sales | | 290,841 | - | 290,841 |
| Royalties | | (44,717) | - | (44,717) |
| Revenue | | 246,124 | - | 246,124 |
| Other | | 1,324 | - | 1,324 |
| Realized gain on derivative financial instruments | | 17,111 | - | 17,111 |
| Unrealized (loss) on derivative financial instruments | | (3,473) | - | (3,473) |
| | | 261,086 | - | 261,086 |
| Expenses | | | | |
| Operating costs | | 70,618 | - | 70,618 |
| Transportation | | 12,665 | - | 12,665 |
| General and administrative expenses | E | 17,343 | (2,125) | 15,218 |
| Share-based compensation | C, E | 1,750 | 3,378 | 5,128 |
| Exploration and evaluation expenditures | E | 2,850 | 5,840 | 8,690 |
| Depletion and depreciation | A, B, E | 126,381 | 5,638 | 132,019 |
| Other losses | | 8 | - | 8 |
| | | 231,615 | 12,731 | 244,346 |
| Operating earnings | | | | |
| Gain on conversion to corporation | D | - | (146,053) | (146,053) |
| Accretion on decommissioning and restoration liability | B | 5,776 | 358 | 6,134 |
| Interest and other finance costs | | 11,036 | - | 11,036 |
| Net earnings before income tax | | 12,659 | 132,964 | 145,623 |
| Income tax expense (recovery) | | | | |
| Current | | - | - | - |
| Deferred | D | 3,227 | (35,846) | (32,619) |
| Net earnings and comprehensive income | | 9,432 | 168,810 | 178,242 |

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

Notes to the Reconciliation of Equity and Comprehensive Income.

A. Property, plant and equipment and impairment thereon

As discussed below under decommissioning and restoration liability, an additional asset of \$47.8 million was recorded in property, plant and equipment in respect of the increased value of the related liability on transition to IFRS and in respect of the assets recorded under Canadian GAAP in 2010. Accordingly, additional depletion and depreciation of \$9.3 million was recorded on these amounts for the 12-month period ended December 31, 2010.

As discussed below under Reclassifications -*Exploration and Evaluation*, as at January 1, 2010 \$72.6 million (December 31, 2010 - \$70.3 million) of costs in respect of exploration and evaluation activities were reclassified from property plant and equipment into a separate category "Exploration and Evaluation Assets".

Under Canadian GAAP, an asset impairment test was carried out using the two-step process, first by comparing the asset's carrying amount with its undiscounted net future cash flows and, second by comparing the asset's carrying amount with its discounted net future cash flows (or fair value) to calculate impairment loss if the asset is impaired in the first step. The Company recorded an impairment of \$8.9 million for the year-ended December 31, 2010.

Under IFRS, an asset impairment test is carried out by comparing the asset's carrying amount with its recoverable amount, which is the higher of (1) the asset's fair value less selling costs and (2) its value in use, with the excess of the carrying amount over recoverable amount being recorded as impairment loss. IFRS has specific provisions in calculating a recoverable amount which resulted in differences in calculations of net future cash flows under Canadian GAAP and IFRS. No impairment was recorded as at the IFRS transition date; however an additional \$2.2 million was recorded as at December 31, 2010.

B. Decommissioning and restoration liability

An adjustment was made in respect of Trilogy's decommissioning and restoration liability on transition to IFRS under the exemption provided by IFRS 1 for the retrospective application of changes in decommissioning and restoration provisions of Issue #1 of the International Financial Reporting Interpretations Committee, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Under Canadian GAAP, Trilogy used a credit adjusted interest rate in calculating the net present value of cash outflows expected to arise from future decommissioning and reclamation activities. IFRS requires the use of a pre-tax discount rate, reflective of a long-term risk-free rate (where the cash flows have been adjusted for the underlying risks) of which the maturity date approximates the anticipated timing of the underlying liability settlement dates. The Company used a risk-free discount rate of 4 percent for measuring the decommissioning and restoration liability. Accordingly, the reduction in rate under IFRS as compared to Canadian GAAP on transition resulted in an increase to Trilogy's decommissioning and restoration liability of \$75.0 million with a corresponding increase to property plant and equipment of \$47.8 million for the amortized value of the related asset. The net amount of these items of \$27.2 million reduced retained earnings. In addition, an increase was recorded to the decommissioning and restoration liability originally booked as at December 31, 2010 under Canadian GAAP, reflecting the reduced discount rate utilized under IFRS.

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2011

(in thousand Canadian dollars except as otherwise indicated)

C. Equity-settled share-based awards

Under Canadian GAAP, options were classified as equity-settled share-based awards while Trilogy operated under a trust structure. Share-based compensation expense was measured using the grant date fair value and amortized over the vesting period of the options with a corresponding charge to contributed surplus. When options were exercised, amounts in contributed surplus were reclassified to share capital.

Under IFRS, these options are not recognized as equity-settled share-based awards until the February 5, 2010 Conversion to a corporation. Prior to this, options are re-measured at fair value at each reporting date. While share-based compensation expense is still amortized over the vesting period of the options, this charge is recorded as a liability, rather than to contributed surplus, under IFRS. However, when options are exercised, liabilities are still reclassified to shareholders' capital.

Upon conversion to a corporation on February 5, 2010, the options were classified under IFRS as equity-settled share-based awards and future share-based compensation expense is measured using the Conversion date fair value amortized over the remaining vesting periods of the options.

Trilogy has a Share Option Plan and a Share Incentive Plan under which employees receive equity instruments as remuneration. In accordance with the above, on transition to IFRS, the re-measurement of previously unvested share options as a liability at fair value resulted in the recording of a share based payment liability of \$5.7 million with a corresponding charge of \$0.4 million to retained earnings and a decrease in contributed surplus of \$5.3 million. Upon conversion to a corporation on February 5, 2010, the related fair value of the options were re-measured and the fair value of approximately \$5.7 was reinstated to contributed surplus.

Trilogy also recorded a share based payment liability under its Share Incentive Plan on transition to IFRS of \$2.5 million. The liability was computed with reference to the unvested portion of the historical awards measured at fair value on transition to IFRS. On Conversion, the related fair value of this liability was adjusted to contributed surplus and amounts were prospectively amortized to share based payment expense.

Under Canadian GAAP, the Company recognized the effect of share based payment forfeitures as they arose. Under IFRS, the Company recognizes an estimated forfeiture rate at the time of grant. The effect on earnings between these two approaches have not historically been significant.

An increase to share based compensation expense of \$1.3 million was recorded in the twelve-month period ended December 31, 2010 under IFRS relative to Canadian GAAP in respect of the increase in the option value requiring measurement at fair value on transition under IFRS relative to the original option value recorded under Canadian GAAP. In addition, \$2.1 million of expense related to the Company's Share Incentive Plan has been included in share based compensation expense under IFRS for the period ended December 31, 2010. This amount was previously included in general and administrative expenses under Canadian GAAP.

D. Deferred income taxes and Gain on conversion to corporation

The transitional adjustments described herein result in varying differences under Canadian GAAP and IFRS. Accordingly, the impact of such differences have been considered in the accounting for income taxes under IFRS.

TRILOGY ENERGY CORP.

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Under Canadian GAAP, temporary differences between Trilogy's book and tax basis were measured at a corporate rate of approximately 25%. Under IFRS, the temporary differences in a trust are considered undistributed income and measured at the highest Alberta individual tax rate of 39%. Accordingly, an increase to the deferred tax liability of \$36.3 million was recorded with a corresponding reduction in retained earnings. In conjunction with the Conversion to a corporation, Trilogy re-measured all temporary differences back to a future expected corporate rate of approximately 25%, resulting in a recovery of the original charge on transition to IFRS.

As discussed in note 1, the Company converted to a corporation by way of a plan of arrangement and related transactions with a private company. Under Canadian GAAP, in accordance with EIC 110 - "Accounting for acquired future tax benefits in certain purchase transactions which are not business combinations" and in conjunction with the Conversion, Trilogy recorded a future tax asset of \$182.2 million and an increase in share capital of \$36.1 million in respect of the 4,219,653 Common Shares issued in conjunction with the Conversion. Under EIC 110, the excess of amounts assigned to the future tax asset recorded on the acquisition over the consideration provided was recorded separately as a deferred credit (\$146.1 million recorded on Conversion and \$136.2 million as at December 31, 2010). A proportionate share of the unamortized deferred credit balance was recognized as an offset to future income tax expense as such future tax asset is utilized. Under IFRS, the excess amount has been recognized directly as a gain in the statement of comprehensive income for the year ended December 31, 2010.

E. Reclassifications

Exploration and Evaluation

Trilogy recorded a reduction of \$72.6 million to its property plant and equipment as at January 1, 2010 (December 31, 2010 - \$70.3 million) with a corresponding increase to exploration and evaluation assets in respect of its undeveloped land and costs associated with its exploration and evaluation activities. Costs associated with the expiry of undeveloped lands have been reclassified from depletion and depreciation to exploration and evaluation expenditures.

Share-based Compensation

Under Canadian GAAP, amounts recognized under Trilogy's Share Incentive Plan and Share Option Plan were recognized under prepaids and through general and administrative expenses. Such amounts have been separately disclosed under IFRS under Share Based Compensation expense.

F. Cash flow statement

The transition from Canadian GAAP to IFRS did not have a material impact on the consolidated statement of cash flows.

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

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25. COMMITMENTS

In addition to items disclosed elsewhere in these financial statements, Trilogy had the following off balance sheet commitments as at December 31, 2011:

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 and after | Total |
|--|---------------|---------------|---------------|---------------|--------------|----------------|---------------|
| Pipeline transportation ⁽¹⁾ | 9,678 | 9,673 | 9,647 | 9,157 | 101 | 14 | 38,270 |
| Office premises operating lease ⁽²⁾ | 2,575 | 2,923 | 2,923 | 2,923 | 2,034 | - | 13,378 |
| Vehicle and energy service commitments | 9,336 | 4,923 | | | | | 14,259 |
| Total | 21,589 | 17,519 | 12,570 | 12,080 | 2,135 | 14 | 65,907 |

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

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

Trilogy has outstanding the following fixed price power purchase contracts as at December 31, 2011:

| Quantity | Price (per MWh) | Remaining Term |
|----------|-----------------|-------------------------|
| 6 MW/h | \$59.26 | January - December 2012 |
| 2 MW/h | \$61.40 | January - December 2013 |

The amount of power purchased under the above contracts is below Trilogy's total ongoing power requirements. Trilogy does not record changes in fair value of the above contracts. Rather, the above contracts are factored in determining Trilogy's total power operating costs in the normal course of its business. The contracts are settled upon delivery of the contracted power.

26. GENERAL AND ADMINISTRATIVE EXPENDITURES

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

| | 2011 | 2010 |
|--|---------|---------|
| Salaries and other short-term benefits | 20,000 | 18,561 |
| Other long-term benefits | 2,841 | 3,186 |
| Salaries recoveries and reclassifications | (8,583) | (8,022) |
| Sub-total | 14,258 | 13,725 |
| Amortization of share-based payment awards | 10,843 | 5,128 |
| | 25,101 | 18,853 |

A portion of salaries and benefits are recovered from joint venture partners, capitalized to property, plant, and equipment, or reclassified to operating and production expenses based on the nature of the work performed by the employees.

TRILOGY ENERGY CORP.

Notes to the Consolidated Financial Statements

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(in thousand Canadian dollars except as otherwise indicated)

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

| | 2011 | 2010 |
|--|-------|-------|
| Salaries and other short-term benefits | 1,321 | 1,065 |
| Other long-term benefits | 1,844 | 1,065 |
| Sub-total | 3,165 | 2,130 |
| Amortization of share-based payment awards | 5,204 | 3,442 |
| | 8,369 | 5,572 |

27. SEGMENT REPORTING

The Company has assessed and determined that only one segment is present for performance and evaluation purposes.

The following schedule illustrates the types of products from which Trilogy earns its revenue.

| | December 31, 2011 | December 31, 2010 |
|---------------------------------------|----------------------|----------------------|
| Petroleum and natural gas sales: | | |
| Natural gas | 169,447 | 173,058 |
| Oil | 122,387 | 55,010 |
| Natural gas liquids | 89,164 | 62,773 |
| Total petroleum and natural gas sales | 380,998 | 290,841 |

During 2011, revenues greater than 10 percent were derived from one single external customer. The external customer accounts for approximately 23 percent of total 2011 revenue. In 2010, three external customers had greater than 10 percent of the Company's total revenue. One customer had approximately 13 percent of the total 2010 revenue, while the other customers had 10 percent.

28. SUBSEQUENT EVENTS

Subsequent to year-end Paramount completed the sale of 5,000,000 of Trilogy's Non-Voting Shares that Paramount owned. Upon completion of the sale, the Non-Voting Shares were cancelled and Trilogy issued 5,000,000 Common Shares to a syndicate of underwriters. Trilogy did not receive any proceeds from the secondary market sale.

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 ⁽¹⁾

Chairman of the Board
Calgary, Alberta

J.H.T. Riddell

Chief Executive Officer
Calgary, Alberta

M.H. Dilger ⁽²⁾⁽⁴⁾

President and Chief Operating Officer
Pembina Pipeline Corporation
Calgary, Alberta

D.A. Garner ⁽²⁾⁽⁴⁾

Independent Businessman
Calgary, Alberta

W.A. Gobert ⁽¹⁾⁽³⁾

Independent Businessman
Calgary, Alberta

R.M. MacDonald ⁽²⁾⁽³⁾⁽⁵⁾

Independent Businessman and Corporate Director
Calgary, Alberta

E.M. Shier ⁽³⁾⁽⁴⁾

General Counsel, Corporate Secretary & Manager, Land,
Paramount Resources Ltd.
Counsel to Heenan Blaikie LLP
Calgary, Alberta

D.F. Textor ⁽¹⁾

Portfolio Manager,
Dorset Energy Fund
Partner, Knott Partners Management LLC
Locust Valley, New York

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⁾ Member of the Environmental, Health & Safety Committee

⁽⁵⁾ Lead Director

HEAD OFFICE

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AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

ATB Financial
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

CONSULTING ENGINEERS

InSite Petroleum Consultants Ltd.
(formerly Paddock Lindstrom and Associates 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
Thursday, May 10, 2012
2:00 PM (Calgary Time)