TRILOGY
ENERGY CORP.

2012
Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

	Three Months Ended			Year Ended December 31		
	December 31, 2012	**September 30, 2012**	**Change %**	**2012**	**2011**	**Change %**
FINANCIAL						
Petroleum and natural gas sales	**135,221**	103,535	31	**455,697**	380,998	20
Funds flow						
From operations[1]	**80,529**	47,176	71	**241,941**	218,502	11
Per share - diluted	**0.67**	0.40	67	**2.03**	1.84	10
Earnings						
Earnings (loss) before tax	**3,474**	(13,413)	(126)	**(12,093)**	25,042	(148)
Per share - diluted	**0.03**	(0.12)	(125)	**(0.10)**	0.21	(149)
Earnings (loss) after tax	**1,682**	(11,094)	(115)	**(12,133)**	17,415	(170)
Per share - diluted	**0.01**	(0.10)	(115)	**(0.10)**	0.15	(171)
Dividends declared	**12,255**	12,242	-	**48,956**	48,656	1
Per share	**0.105**	0.105	-	**0.420**	0.420	-
Capital expenditures						
Exploration, development, land, and facility	**76,544**	61,824	24	**349,294**	351,744	(1)
Acquisitions (dispositions) and other - net	**495**	(919)	(154)	**2,022**	(1,865)	(208)
Net capital expenditures	**77,039**	60,905	26	**351,316**	349,879	-
Total assets	**1,395,111**	1,364,815	2	**1,395,111**	1,260,364	11
Net debt[1]	**636,785**	628,692	1	**636,785**	490,945	30
Shareholders' equity	**486,399**	491,768	(1)	**486,399**	530,445	(8)
Total shares outstanding (thousands)						
- As at end of period [2]	**116,674**	116,494	-	**116,674**	116,118	-
OPERATING						
Production						
Natural gas (MMcf/d)	**118**	125	(6)	**120**	120	-
Oil (Bbl/d)	**10,780**	8,014	35	**9,153**	3,759	143
Natural gas liquids (Boe/d)	**4,555**	4,517	1	**4,315**	4,287	1
Total production (Boe/d @ 6:1)	**35,014**	33,412	5	**33,510**	28,012	20
Average prices before financial instruments						
Natural gas ($/Mcf)	**3.39**	2.42	40	**2.57**	3.88	(34)
Crude Oil ($/Bbl)	**78.96**	78.03	1	**79.76**	89.21	(11)
Natural gas liquids ($/Boe)	**47.85**	43.56	10	**47.85**	56.99	(16)
Average realized price	**41.98**	33.68	25	**37.16**	37.26	0
Drilling activity (gross)						
Gas	**5**	1	400	**28**	34	(18)
Oil	**12**	13	(8)	**47**	33	42
D&A	**-**	-	-	**-**	1	(100)
Total wells	**17**	14	21	**75**	68	10

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

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

2012 REVIEW OF OPERATIONS

First Quarter Review

- Average production 31,012 Boe/d
- $180.4 million of net capital expenditures
- 33 (23.2 net) wells drilled with a 100 percent success rate
- Average operating costs $8.56/Boe
- Operating netback of $23.08/Boe
- $58.9 million funds flow from operations

Second Quarter Review

- Average production of 34,585 Boe/d
- $33.0 million net capital expenditures
- 10 (6.0 net) wells drilled with a 100 percent success rate
- Average operating costs of $7.67/Boe
- Operating netback of $20.41/Boe
- $55.3 million funds flow from operations

Third Quarter Review

- Average production of 33,412 Boe/d
- $60.9 million net capital expenditures
- 15 (8.2 net) wells drilled with a 100 percent success rate
- Average operating costs of $8.91/Boe
- Operating netback of $18.45/Boe
- $47.2 million funds flow from operations

Fourth Quarter Review

- Average production of 35,014 Boe/d
- $77.0 million of net capital expenditures
- 17 (10.5 net) wells drilled with a 100 percent success rate
- Average operating costs of $8.23/Boe
- Operating netback of $28.13/Boe
- $80.5 million funds flow from operations

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.

2012 Annual Highlights

- Production averaged 33,510 Boe/d (12.265 MMBoe) for the year, an increase of 20 percent from 2011 annual production of 28,012 Boe/d.
- Oil and natural gas liquids production increased from 29 percent of 2011 annual production to 40 percent of 2012 annual production.
- Trilogy's production from the Montney oil pool increased from 5,000 Bbl/d in December 2011 to approximately 9,100 Bbl/d in December 2012. For the last two weeks of February 2013, the pool produced an average production of 10,300 Bbl/d, which is expected to increase through March and April as new wells drilled during the first quarter are brought on production. The completion of the oil and gas gathering systems and oil battery expansion projects in the second quarter of 2012 increased processing capacity in this area to approximately 20,000 Bbl/d with the ability to expand to 30,000 Bbl/d by installing another oil treater.
- Net capital expenditures totaled $351.3 million for the year.
- Added 19.2 MMBoe of proved reserves (56 percent oil and NGLs) and 20.6 MMBoe of proved plus probable reserves (59 percent oil and natural gas liquids), including positive technical revisions.
- Replaced 157 percent of 2012 produced reserves when compared to proved reserve additions, and 168 percent when compared to proved plus probable reserves.
- Finding and development costs were $17.60/Boe for total proved reserves and $16.63/Boe for proved plus probable reserves on capital expenditures of $351.3 million (including corporate expenses and net dispositions of undeveloped land).
- Annual operating costs were $8.33/Boe.
- Annual operating netback of $22.56/Boe.
- Drilled 75 (47.9 net) wells drilled with a 100 percent success rate, including 73 horizontal wells primarily evaluating the Duvernay, Montney, Doig, Nikanassin, Notikewin, Dunvegan and Cardium formations.

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 crude oil and liquids-rich natural gas locations continued to provide the opportunity to grow production and reserves and has proven to be extremely valuable during this period of volatile commodity prices. In 2013, Trilogy will continue to exploit the plays that are anticipated to have the highest rate of return on capital invested, provide low cost reserve additions and grow production while providing the highest netback on a per Boe basis.

Production

Trilogy's production averaged 33,510 Boe/d (120.3 MMcf/d of natural gas, 9,153 Bbl/d of crude oil and 4,315 Boe/d of natural gas liquids) in 2012. **This represents a 20 percent increase over the annual production volume for the prior year and primarily reflects Trilogy's successful efforts on profitable production and reserve growth in the Kaybob Montney oil pool. Through the prudent allocation of capital towards oil and liquids-rich plays during the year, Trilogy was able to increase its oil and natural gas liquids mix from 29 percent in 2011 to 40 percent in 2012.** In 2013, Trilogy expects oil and natural gas liquids production to rise to 45 to 50 percent of total production. Trilogy estimates that its existing oil and liquids-rich gas drilling prospects inventory can yield more than 900 drilling locations. The pace of development of these locations is dependent on the economics of the plays, with a goal of continued profitable growth per share beyond 2013.

The following table summarizes the average daily production by product for the past four years as well as the Company's production guidance for 2013. Since converting from an income trust structure in February 2010, Trilogy has been able to double production and increase its oil and natural liquids composition from 21 percent to 40 percent of annual production. Continued development of the Kaybob Montney oil pool, Presley Montney liquids–rich gas pool, the Duvernay and its core producing properties should provide the basis for 10 to 20 percent annual production growth over the next few years. During this period it is expected that additional emerging plays will be developed and "derisked" in the Kaybob and Grande Prairie areas.

	2013 Forecast	2012	2011	2010	2009
Natural Gas Production (MMcf/d)	126.0	**120.3**	119.8	108.9	93.3
NGL Production (Boe/d)	4,407	**4,315**	4,287	2,707	2,390
Crude Oil Production (Bbl/d)	14,655	**9,153**	3,759	1,935	1,848
Total Production (Boe/d)	40,000	**33,510**	28,012	22,788	19,780

2012 annual production was less than originally forecast due to unexpected delays in the infrastructure and battery expansion projects that were required to increase oil and gas production from the Kaybob Montney oil pool. Pipeline and field infrastructure projects were completed during the second quarter which pushed additional production issues downstream to Trilogy's Kaybob North 8-9 sour gas plant. These issues took approximately 6 weeks to rectify and allow shut in wells to produce. Drilling operations were restricted when anomalously high summer rain fall in July and August forced Trilogy to suspend drilling and completion operations for much of the third quarter. A short reprieve in the wet weather allowed a few rigs to move and get a portion of Trilogy's budgeted third quarter drilling and completion activity completed. Production guidance was reduced in May 2012 from 40,000 Boe/d to 37,000 Boe/d in response to the delays in completing the production infrastructure. Guidance was further reduced from 37,000 Boe/d to 34,000 Boe/d in November 2012 to account for the delay in executing the expanded drilling and completion programs.

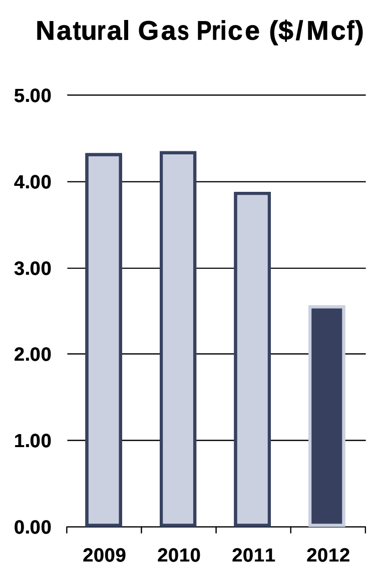
Trilogy is confident in its development plans for the Kaybob Montney oil pool and increased the number of wells drilled into the pool during 2012 to 24 wells, as compared to the 13 that were originally budgeted. The Kaybob Montney oil pool development plan for 2013 includes 36 wells to be drilled within the pool boundary that Trilogy has currently identified and two additional wells to be drilled with the anticipation of expanding the east and west boundaries of the pool in the second half of 2013.

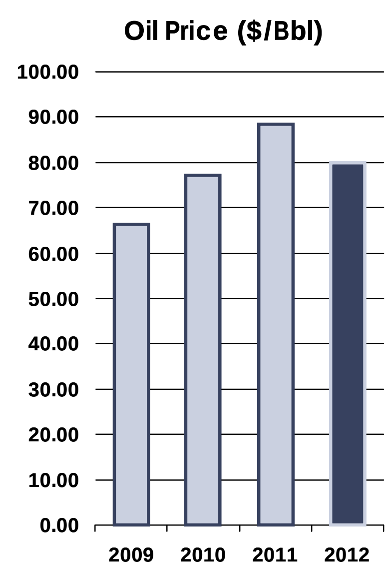
Based on Trilogy's current portfolio of producing assets and its proposed $350 million capital expenditure budget, Trilogy expects to grow 2013 production by 20 to 25 percent over 2012 volumes, to approximately 40,000 – 42,000 Boe/d. Trilogy will focus approximately 50 percent of its capital spending plans in 2013 on the Montney oil plays in the North Kaybob area. Additional production and reserve growth in 2013 is also expected to come from the Dunvegan, liquids-rich Montney gas and Duvernay formations in the Kaybob area and the Nikanassin, Doe Creek and Charlie Lake formations in the Grande Prairie area. The nature and location of Trilogy's assets provides the opportunity to pursue emerging play types, thereby better managing the risk of exposure to a single play type or a single geographic area. Recent advances in horizontal drilling and multi-stage fracture stimulation completion techniques 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 oil and gas reservoirs on its acreage at attractive finding and development costs. Trilogy believes its core assets should provide economic drilling opportunities with an attractive rate of return even in the current low natural gas commodity price environment.

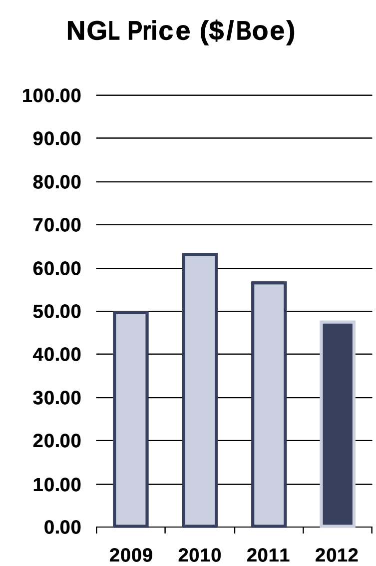
Operating Costs

Operating costs remained relatively flat in 2012 at $8.33/Boe when compared to $8.29/Boe in 2011. Operating costs were forecast to be $7.00/Boe in 2012, however, given that production volumes in the year were lower than predicted and costs related to field projects were higher than forecast, the resulting operating costs for the year came in higher than anticipated. Operating costs for the fourth quarter were $8.23/Boe, compared to $8.91/Boe in the third quarter, reflecting the dilution of costs in response to increased production. **Trilogy is forecasting 2013 operating costs to be approximately $8.00/Boe for the year, based on the expected growth in production and the anticipated availability of pipeline transportation for new crude oil production.**

An escalating demand for services in the first quarter of 2012 put upward pressure on the cost for services and equipment, reducing the netback on natural gas and oil production. Through the balance of the year, low natural gas prices proved to be challenging, requiring our employees, consultants, contractors and service providers to continue to evaluate cost reduction opportunities in all areas of our business. By operating the majority of the wells, gathering systems and plants that process Trilogy's production, Trilogy believes it can exercise significant control over how its operating dollars are spent and how such costs can be reduced to realize significant efficiencies and minimize inflationary pressures on its cost structure.







Profitability

Trilogy's average natural gas sales price (before financial instruments and transportation) is down 34 percent year over year to $2.57/Mcf in 2012 as compared to $3.88/Mcf in 2011. Approximately 60 percent of Trilogy's 2012 production on a per barrel of oil equivalent basis (6 Mcf: 1 Boe) is natural gas. Despite the reduction in all commodity prices, Trilogy was able to essentially maintain its average price per Boe through the significant increase in oil production and the associated premium it receives relative to natural gas. Operating netback in 2012, including realized financial instruments, decreased 6 percent to $22.56/Boe as compared to $24.09/Boe in 2011. This decrease is attributed to the decrease in natural gas, crude oil and natural gas liquids commodity pricing, increased royalties on higher oil production and changes in financial instruments, which were partially offset by the significant increase in oil production in 2012.

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

- On a funds flow from operations per Boe basis, Trilogy realized an 8 percent decrease, from $21.37/Boe in 2011 to $19.73/Boe in 2012.
- Funds flow from operations per diluted share was up 10 percent, from $1.85/share in 2011 to $2.03/share in 2012.
- Annual operating netback was $22.56/Boe (including realized gains/losses on financial instruments and other income), resulting in a recycle ratio of 1.4 times for proved plus probable reserves.

Funds Flow Reconciliation	**2012**		**2011**	
Production (Boe/d)	**33,510**		**28,012**	
	$ million	**$/Boe**	**$ million**	**$/Boe**
Revenue including other income and realized financial instruments	453.9	36.99	385.1	37.66
Royalties	(56.6)	(4.61)	(38.9)	(3.80)
Operating	(102.2)	(8.33)	(84.7)	(8.29)
Transportation	(15.6)	(1.27)	(13.2)	(1.29)
Decommissioning and restoration	(2.8)	(0.22)	(2.0)	(0.19)
Operating Netback	**276.7**	**22.56**	**246.3**	**24.09**
General and administrative	(11.5)	(0.94)	(12.2)	(1.19)
Interest and financing	(23.3)	(1.90)	(15.6)	(1.53)
Funds flow	**241.9**	**19.73**	**218.5**	**21.37**
Weighted average shares outstanding for the year (fully diluted)	119,340		118,868	
Funds flow per Share ($/share)	**2.03**		**1.84**	

Note

i) Columns and rows may not add due to rounding

Capital Expenditures

Annual capital expenditures for 2012 were originally budgeted to be $300 million. However, given the continued success of the Montney oil development program, additional joint venture opportunities and increased well costs primarily on the Duvernay wells, Trilogy's Board of Directors approved additional capital spending of $51 million, for a total of $351 million for the year. This expanded capital program allowed Trilogy the opportunity to keep drilling rigs operational through the fourth quarter and into the first quarter of 2013, resulting in continuous operations which should increase the Company's ability to efficiently execute an aggressive drilling and completion program in the first quarter of 2013. **Trilogy has budgeted for a $350 million capital spending program during 2013, with approximately $180 million being spent in the first quarter of the year.**

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

Capital Expenditures (millions of dollars)	**2013**(ii)	**2012**	**2011**
Land	3.0	1.0	**38.1**
Geological and geophysical	2.0	2.1	**1.0**
Drilling and completion	300.0	265.9	**238.4**
Production equipment, facilities and inventory	45.0	80.3	**74.3**
Exploration and development expenditures	350.0	349.3	**351.8**
Corporate and Field office		3.4	**0.6**
Property acquisitions		0.5	**1.5**
Proceeds received on property dispositions		(1.9)	**(4.0)**
Net capital expenditures	350.0	351.3	**349.9**

Note
i) Columns and rows may not add due to rounding
ii) 2013 Annual Budget

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

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

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

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

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

In the second quarter of 2012 Trilogy reallocated approximately $35 million in capital spending from its liquids-rich gas prospects in the Presley area to crude oil prospects in the Montney and Dunvegan formations, as natural gas prices dropped from approximately $3.00/MMcf to less than $2.00/MMcf through the first quarter. Trilogy will continue to focus its 2013 capital expenditures on the most profitable plays, ensuring that cash flow is maximized. Progression of Trilogy's emerging Duvernay shale play will also be a focus in 2013, with a view to bringing long term value to shareholders while managing lease continuations on these lands. **Trilogy 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

Trilogy participated in the drilling of 75 (47.9 net) wells during 2012, as compared to 68 (45.7 net) wells in 2011, with an overall success rate of 100 percent for the year. This high drilling success rate in the Kaybob and Grande Prairie areas reflects Trilogy's drilling strategy, expertise in focusing on the exploitation of large, low risk resource plays on its lands, as well as the application of horizontal drilling and multi-stage fracture completions.

Drilling Results	Development		Exploration	
	Gross	Net	Gross	Net
Gas	24	15.9	4	1.1
Oil	44	29.6	3	1.3
D&A	0	0	0	0
Total All Wells	**68**	**45.5**	**7**	**2.4**
Success (%)	**100**	**100**	**100**	**100**

In 2013 Trilogy will continue to build on its 2012 drilling successes, as it continues to develop and expand its proved producing asset base. Trilogy expects to drill up to 65.5 net wells in 2013, with all of the wells targeting crude oil or liquids-rich gas prospects. In 2013, Trilogy plans to continue to develop and exploit play types that are similar to those drilled in 2011 and 2012. In addition to its own technological advancements, Trilogy continues to closely monitor industry activity, with a view to capitalizing on best practices and risk mitigation techniques with regards to these technologies, particularly as they relate to the emerging Duvernay shale play. Trilogy plans to continue acquiring land in core areas to maintain an ongoing prospect inventory of high quality, low risk development wells capable of growing the Company's existing assets beyond current production levels, while replacing produced reserves on an annual basis.

Land

In 2012, Trilogy spent $1.0 million to acquire 12,160 gross acres (12,160 net acres) of land at Alberta Crown land sales. This brings Trilogy's total acreage count to 863,312 gross acres (626,748 net acres) of land as of December 31, 2012, of which 64 percent (400,591 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 $294.8 million in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. This is an increase of $79.0 million, from $215.8 million in 2011. Notwithstanding this significant increase in undeveloped land value, management is of the opinion that it does not fully reflect the significant multi-zone development potential of Trilogy's developed land base (lands with reserves assigned), and in particular, the full value of all of Trilogy's Duvernay mineral rights contained within petroleum and natural gas leases in which reserves have been assigned to other zones. The Duvernay is an emerging shale play that stretches across a large portion of the Kaybob area and given successful drilling and completion results by Trilogy and its industry partners in 2012 and 2013, has the potential to add significant value to Trilogy.

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	350,894	226,157
Undeveloped land	512,418	400,591
Total	**863,312**	**626,748**
Fair market value of undeveloped land (thousand dollars)		**$294,783**

OPERATING AREAS

The Company has always held the belief that it has an excellent asset base for a growth-oriented exploration company. During the period since converting from an income trust to a growth orientated exploration and development company, **Trilogy's annual production has grown organically by more than 69 percent from 19,780 Boe/d in 2009 to 33,510 Boe/d in 2012.** Trilogy's management believes that investing a higher portion of its annual cash flow to exploit its developed and undeveloped land base using horizontal drilling and multi-stage fracturing technology will continue to add value for its Shareholders for many years to come. Trilogy continues to evaluate new plays 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 will be added to the Company's growing inventory of high quality crude oil and liquids-rich gas drilling locations.

Kaybob

The Kaybob area accounted for approximately 95 percent of Trilogy's production and 94 percent of its capital expenditures in 2012 and will continue to be the focus of its 2013 spending plans and forecasted growth. Trilogy's large portfolio of tight oil and gas assets in Kaybob lend themselves to continued exploitation and development using horizontal drilling and multi-stage completion technology. Activity in this area provides Trilogy with the opportunity to grow annual production and replace produced reserves on economic plays that have a low risk profile. Given the Company's success in applying drilling and completion technologies to new areas and formations, Trilogy has a large prospect inventory that will be further exploited when natural gas prices improve. Trilogy also expects that it will be able to leverage off of its substantial investment in production infrastructure to minimize production disruptions and reduce costs.

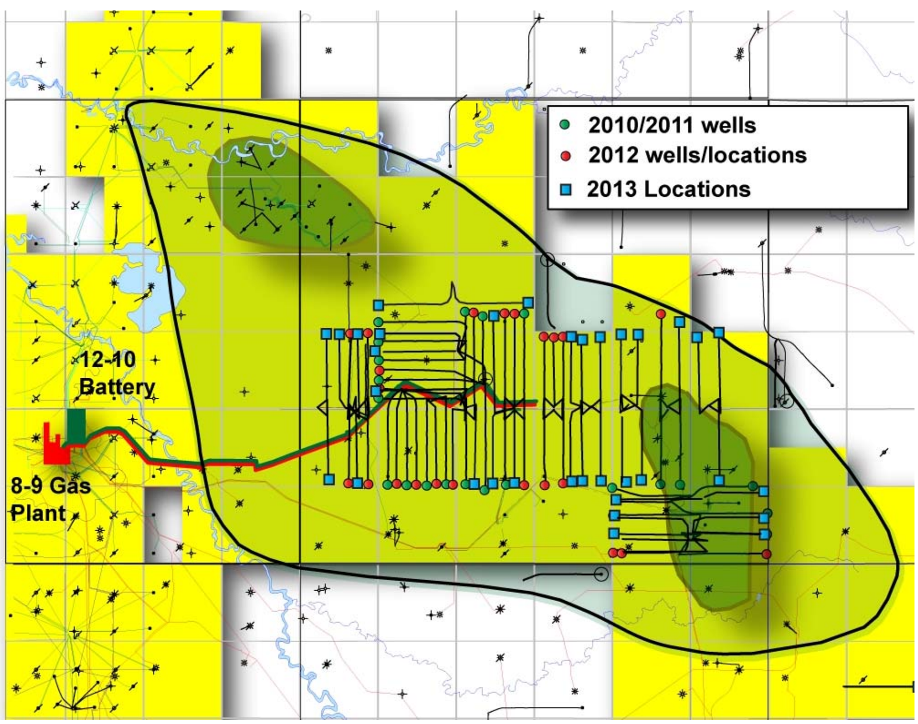
Trilogy produced 31,743 Boe/d in the Kaybob area in 2012 as compared to 26,479 Boe/d in 2011. This 5,264 Boe/d increase in production can be attributed to the significant amount of capital that Trilogy has invested into the Kaybob Montney oil pool in 2012. Field operations have been faced with variable operating conditions from these high productivity oil wells, while at the same time, the production infrastructure and weather have created numerous additional challenges. It is expected that the increase in base production from this area will minimize the impact on the infrastructure for new, high productivity wells and that the operational challenges will be reduced in the future.

In Kaybob, Trilogy's 2012 capital expenditures totaled $325 million. Trilogy drilled 70 (45.2 net) wells in this area during the year, of which 68 (44.2 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, Notikewin, Dunvegan and Cardium formations. In 2013, Trilogy will continue to evaluate prospective formations to ensure that capital is allocated to drilling opportunities which are expected to provide the best economic rate of return and the largest development potential for the Company. Trilogy will also continue to monitor horizontal drilling activity and evaluate additional formations for further exploitation.

Kaybob Montney Oil Pool Development

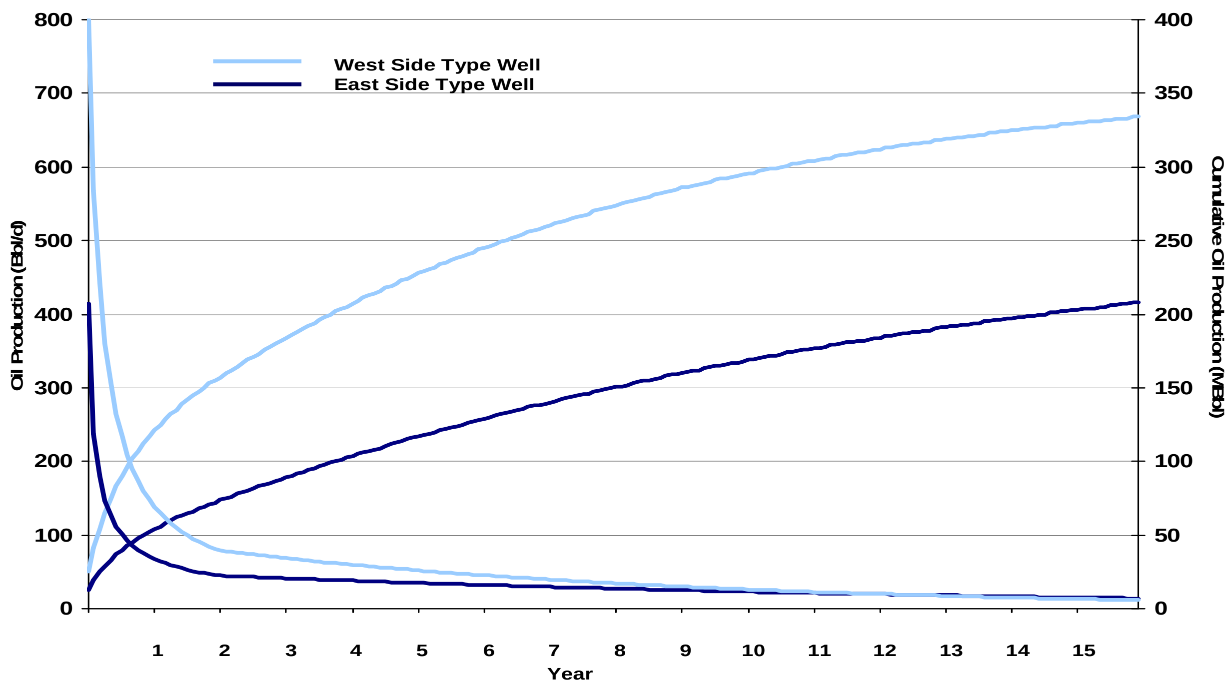
Through 2012 Trilogy built on the success it achieved in 2011 with the continued development drilling of the Kaybob Montney oil pool. **In 2010 and 2011, Trilogy drilled a total of 23 wells into the pool, followed by an additional 24 wells in 2012, and plans to drill and complete an additional 36 wells within the existing pool boundary in 2013.** The success of the pool development is based on the application of horizontal drilling and multi-stage fracture completion techniques in a pool that had been partially delineated over the previous 10 to 15 years using vertical drilling and completion technology.



In 2012, Trilogy spent approximately $85 million to drill, complete and tie-in 21 wells to find 7.3 MMBoe of proved reserves and 9.1 MMBoe of proved plus probable reserves, the remaining three wells will be completed and tied in during January 2013. **On average, the year's drilling and completion program added 347 MBoe of proved reserves per well (68 percent oil reserves) and 434 MBoe per well of proved plus probable reserves (67 percent oil reserves). This represents a finding and development cost of $11.64/Boe for proved reserves and $9.34/Boe for proved plus probable reserves.** Over the past two years, Trilogy has only booked reserves to the 47 wells that have been drilled and competed within the Kaybob Montney oil pool, with average proved reserves per well of 375 MBoe (67 percent oil reserves) and average proved plus probable reserves per well of 456 MBoe (67 percent oil reserves).

As of year end 2012, the pool has produced approximately 3.4 MMBbls of oil from the horizontal wells drilled into the pool. Wells typically come on production between 1,000 and 3,000 Bbl/d of oil and decline relatively quickly over the first few months of production. Under the current royalty regime, each well qualifies for royalty relief, where Crown royalties are reduced to 5 percent on the initial 80 MBoe of production. Historically, the costs of approximately $4 million to drill, complete and tie-in are usually paid out within one year of production**. In 2012, production from the pool averaged 9,830 Boe/d (74 percent oil and natural gas liquids production), with operating costs of $4.66/Boe and operating income of $47.75/Boe.** For the last two weeks of February 2013, the pool produced an average rate of 10,300 Bbl/d and 24 MMcf/d of natural gas, for a total of 14,300 Boe/d.

As of December 31, 2012, Trilogy has booked oil and gas reserves to 47 horizontal Montney oil wells within the existing pool boundary. The wells can be separated into east (11 wells) and west (36 wells) based on geography and reservoir thickness. **On average, the east wells have been assigned 208 MBbl (334 MBoe) of proved plus probable reserves per well, while the west wells have been assigned average reserves of 333 MBbl of oil (493 MBoe) of proved plus probable reserves per well.** The following decline plot illustrates the difference in production profiles for the east and west wells.



Production in 2012 was less than expected due to infrastructure issues in the first and second quarters; this was followed by weather related issues in the third quarter. Through the year, Trilogy has worked to remove operating bottle necks and reduce down time in the pool to ensure that production flows more consistently in 2013. Trilogy is becoming increasingly more confident in its ability to forecast production and reduce operational issues as the base pool production stabilizes with time. Trilogy has budgeted $159 million to be spent on the pool in 2013 to drill 36 additional wells and grow production to an estimated 15,000 Boe/d for the year.

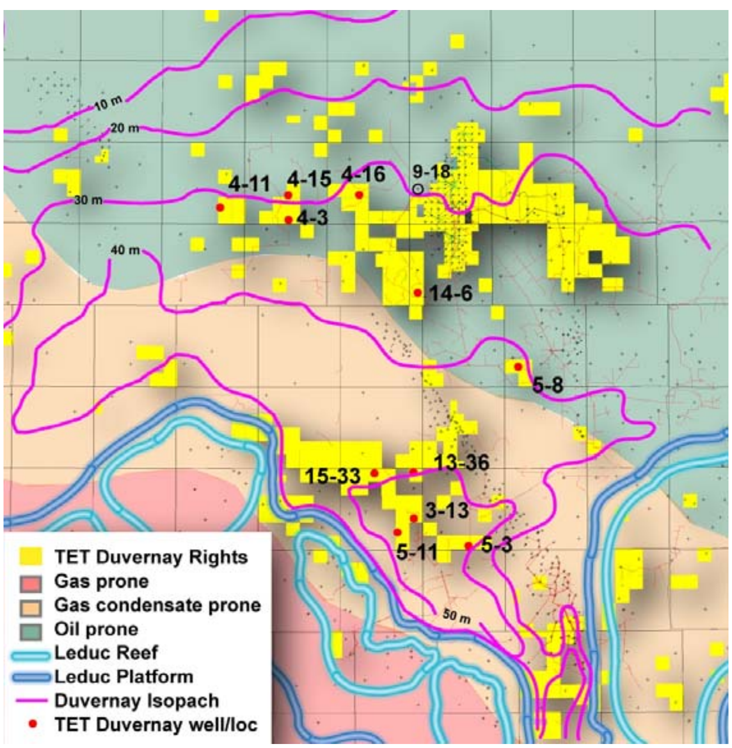
Presley Montney Gas Development

The original 2012 budget provided for 15 wells to be drilled into Trilogy's Presley Montney liquids-rich gas pool. However, given the dramatic drop in natural gas prices during the first quarter, Trilogy reduced its drilling program to eight wells which were all drilled during the first quarter and brought on production through the first three quarters of the year. **The previously budgeted $35 million to drill the additional seven wells was reallocated to Montney and Dunvegan oil wells in the Kaybob area.**

Production for this area averaged approximately 9,011 Boe/d for 2012. Trilogy has budgeted $50 million to drill an additional 9(8.7 net) wells into the pool in 2013, five of which are expected to be drilled during the first quarter and the remaining four are to be drilled in the second half of 2013.

Duvernay Shale Oil/Gas Development

Trilogy has been active in the emerging Duvernay shale play for approximately two years. **Since its initial involvement in the play, Trilogy has participated in the drilling of ten horizontal Duvernay wells and three vertical stratigraphic test wells**. In 2012, Trilogy spent approximately $57 million to drill 7 (3.4 net) wells targeting the Duvernay and plans to spend approximately $75 million in 2013 to drill an additional 8 (5.6 net) wells. **Trilogy has accumulated approximately 200 net sections of land on the play and will be managing the land base as the play develops.**



Results to date on the play have been encouraging, however further delineation is required to determine well productivity and liquids yield which are ultimately needed to determine the economic potential of the play. Once drilling, completion and production best practices have been determined to maximize recoverable reserves per well, the industry will be in a better position to drive down costs to ensure the maximum rate of return is achieved.

The Trilogy-operated well at 3-13-60-20W5, drilled on the joint venture block with Celtic Exploration Ltd. and Yoho Resources Inc, has produced approximately 0.8 Bcf of natural gas and 75 MBbl of condensate in approximately 18 months. This well was drilled in 2010 to test the production potential of the Duvernay shale in the gas condensate window, and has proven the shale play to be viable. The 3-13 well was a starting point for maximizing production and reserve potential of the Duvernay shale reservoir. Trilogy believes that the industry has made significant progress in delineating the liquids yield in the Duvernay and the next step will be to determine the best completion practices to maximize gas and liquids production in each area.

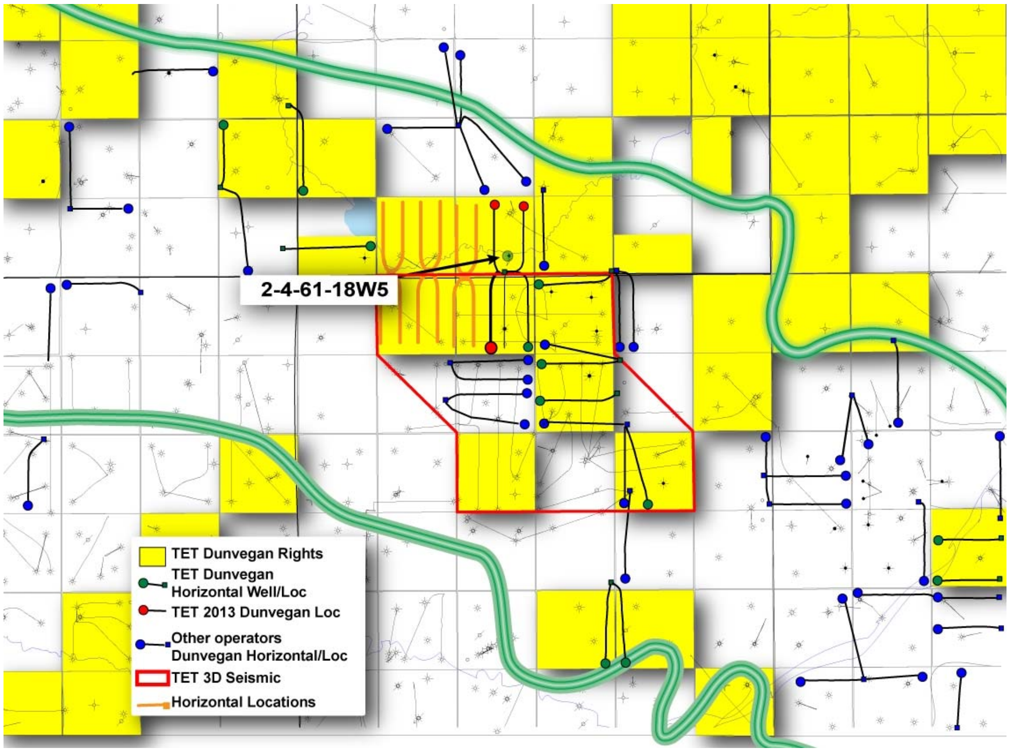
In 2012, Trilogy drilled 3 (2.5 net) Duvernay wells on expiring acreage in the Kaybob area. Each of these wells was drilled with intermediate casing and approximately one mile horizontal laterals completed using a ball drop system. Results from the first well, 4-3-64-21W5, were encouraging, however only 10 of the planned 30 stages were successfully fracture stimulated. Based on the results from this completion Trilogy was able to adjust the fracture stimulation program to successfully fracture stimulate the second and third wells at 5-3-60-19W5 and 5-8-62-18W5.

Based on the partial success of the 4-3-64-21W5 well, Trilogy proceeded with the drilling of two additional wells in this area during the first quarter of 2013 at 4-11-64-22W5 and 4-15-64-21W5. Trilogy plans to utilize a plug and perforation technique to complete these wells, to increase the number of fracture intervals along the horizontal and maximize the ability to clean the well bore out in the event of completion issues. These completion operations are expected to take place during the first and second quarters of 2013.

Dunvegan Oil Play

In 2012 Trilogy had an interest in 12 (3.25 net) wells that were drilled for Dunvegan oil potential in the Kaybob area, of which 2 (1.5 net) wells were operated by Trilogy. Overall results have been encouraging to date, although individual well results have varied considerably. Initial production results appear to vary with reservoir quality, reservoir thickness, the areal extent of the reservoir and horizontal wellbore length, as well as formation pressure gradients and reservoir fluid properties. Trilogy will continue to be selective on which non-operated wells it participates in an effort to maximize returns on the capital invested.

In 2013, Trilogy expects to invest approximately $20 million to drill five net Dunvegan oil wells in the Kaybob area, with 3 (3.0 net) wells to be drilled by Trilogy in the first quarter of 2013.



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 own 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 eliminate the need for Trilogy to proceed with its deep-cut facility project.

In 2012 Trilogy received approximately 2,146 Boe/d of natural gas liquid production and $14.2 million under the NGL Agreement, which compares to 2,032 Boe/d and $19.8 million in 2011. The benefits of the agreement are expected to improve as production increases and when ethane and propane margins increase.

Grande Prairie

The Grande Prairie area accounted for approximately 5 percent of Trilogy's production and 6 percent of total capital expenditures in 2012 and is forecast to be allocated 7 percent of the 2013 capital budget. Production from the Grande Prairie area increased from 1,534 Boe/d in 2011 to 1,767 Boe/d in 2012. Trilogy's production continues to be negatively impacted in the Grande

Prairie area as producing infrastructure is primarily owned and operated by larger producers who have restricted Trilogy's access to their gathering and processing facilities. Trilogy has approximately 10 MMcf/d (1,700 Boe/d) production shut in due to transportation or processing issues. In 2013 Trilogy will continue to be challenged in this area by limited access to non-operated production facilities.

Trilogy operated the successful drilling and completion of a second Lower Doig horizontal well in the Valhalla area through the second and third quarters of 2012. The well produced for one month at a restricted gas rate of approximately 3 MMcf/d and was then shut in due to processing constraints at the gas plant. In total, Trilogy participated in 3 non-operated Lower Doig and Montney wells. Trilogy's partner has expanded its compression facilities in the area to handle a portion of the increased production expected from the these formations, however 3rd party transportation and processing limitations still exist and therefore the need to construct an additional sour gas processing plant in 2014 is expected.

In the first quarter 2012, Trilogy drilled and completed a horizontal Nikanassin oil well in the Wembly area of Grande Prairie, which has produced approximately 50,000 Bbl of oil to date. Subsequent to the end of the year, Trilogy drilled a second horizontal Nikanassin oil well in the Wembley area. This well has a lateral length of approximately 1,400 m and was completed with a 20 stage water based multi stage fracture stimulation. The well is currently expected to flow at rates similar to the first well and will go on production in March after the flow and build up analysis is completed. Trilogy has also drilled a Doe Creek horizontal oil well and a Boundary Lake horizontal oil well in the Valhalla area; both wells will be completed in the first quarter 2013.

Trilogy's 2012 capital spending in the Grande Prairie area totaled approximately $21 million. Trilogy has interests in 5 (2.7 net) wells drilled in the year, resulting in 4 (1.7 net) gas wells and 1 (0.96 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 $25 million in 2013 capital to participate in the drilling of horizontal wells in this area to further develop oil plays; the drilling of further gas wells is being deferred until gathering and facility infrastructure is in place.

2012 Year End Reserves Report Highlights

- Added 19.2 MMBoe of proved reserves (56 percent oil and NGLs) and 20.6 MMBoe of proved plus probable reserves (59 percent oil and NGLs)
- Replaced 157 percent of 2012 produced reserves when compared to proved reserve additions and 168 percent when compared to proved plus probable reserve additions
- Proved plus probable reserve value at NPV 10 decreased 4.5 percent from $1,438 million at the end of 2011 to $1,373 million at the end of 2012, in a very challenging natural gas price environment where prices over the next five years are forecasted to decrease by an average of 15 percent for natural gas and 7 percent for crude oil when compared with the 2011 year end price forecast
- Finding and development costs were $17.60/Boe for total proved reserves and $16.63/Boe for proved plus probable reserves on capital expenditures $351.3 million including corporate expenses and net of dispositions of undeveloped land

- Reserve life index decreased to 7.9 years for proved plus probable reserves in 2012 as compared to 8.7 years in 2011, reflecting the 20 percent growth in production over 2012 and a 9.5 percent growth in the proved plus probable reserve base over the same period.

The following is a summary of Trilogy's 2012 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.

Proved plus probable crude oil reserves have increased 28 percent from 15,830 MBbl at the end of 2011 to 20,332 MBbl at the end of 2012. Natural gas liquids increased 23 percent from 12,292 MBbl at the end of 2011 to 15,091 MBbl at the end of 2012. Trilogy's proved plus probable natural gas reserves have increased 2 percent, from 362.7 Bcf at the end of 2011 to 369.2 Bcf at the end of 2012.

The Company considers its reserves base to be very strong, with solid proven and probable reserve additions and probable reserves moving to the proven category. As in the past, Trilogy was able to replace produced reserves at a very attractive cost without adding reserves in the undeveloped category. Proved undeveloped reserves represent only 0.1 percent of the total proved reserves.

The following table summarizes Trilogy's gross reserves (before royalties and tax) and reserves value for the year ended December 31, 2012 using forecast prices and costs.

Reserve Category	Natural Gas	Crude Oil	Natural Gas Liquids	Boe (6:1)	Before tax Net Present Value ($millions)		
	BCF	MBbl	MBbl	MBoe	0%	5%	10%
Proved							
Developed producing	243.1	13,558.6	10,340.5	64,422.1	1,710.5	1,279.9	1,029.0
Developed non-producing	23.6	1,292.4	898.4	6,130.4	141.1	107.9	87.0
Undeveloped	0.4	0.0	8.0	80.7	5.3	3.1	2.1
Total Proved	267.2	14,851.0	11,246.9	70,633.2	1,856.9	1,390.9	1,118.1
Probable	102.0	5481.4	3,844.3	26,325.8	801.8	410.9	255.3
Total Proved plus Probable	**369.2**	**20,332.4**	**15,091.2**	**96,958.9**	**2,658.7**	**1,801.8**	**1,373.4**

Notes

i) Columns and rows may not add due to rounding
ii) Reserve values were determined by InSite as of December 31, 2012, 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, 2013, have not been valued by InSite.

2012 Year End Reserve Reconciliation

Total proved reserves were 70,633 MBoe and proved plus probable reserves were 96,959 MBoe as of December 31, 2012, which reflect increases of 11 percent and 9.5 percent respectively as compared to Trilogy's reserves at the 2011 year end.

The following table sets forth the reconciliation of Trilogy's gross reserves for the year ended December 31, 2012 using forecast prices and costs:

	Total Proved Reserves				Probable Reserves				Total P+P Reserves			
	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe
Dec 31, 2011	11,005	260	9,291	63,665	4,824	103	3,001	24,913	15,830	363	12,292	88,578
2012 Production	(3,350)	(44)	(1,579)	(12,265)	0	0	0	0	(3,350)	(44)	(1,579)	(12,265)
Technical Revisions	739	3	2,399	3,561	(1,183)	(10)	610	(2,274)	(444)	(8)	3,009	1,287
Reserve Additions	6,456	48	1,136	15,672	1,840	10	234	3,686	8,296	58	1,370	19,359
Acquisition	0	0	0	0	0	0	0	0	0	0	0	0
Econ Factors	0	0	0	0	0	0	0	0	0	0	0	0
Dec 31, 2012	14,851	267	11,247	70,633	5,481	102	3,844	26,326	20,332	369	15,091	96,959

Note
i) Columns and rows may not add due to rounding

Reserve Replacement

Trilogy produced 12,265 MBoe of reserves in 2012 (33,510 Boe/d) and through a successful drilling, completion and workover program, added 19,233 MBoe of proved reserves and 20,646 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 2012, Trilogy replaced 157 percent of its produced reserves and 168 percent of its proved plus probable reserve additions**.

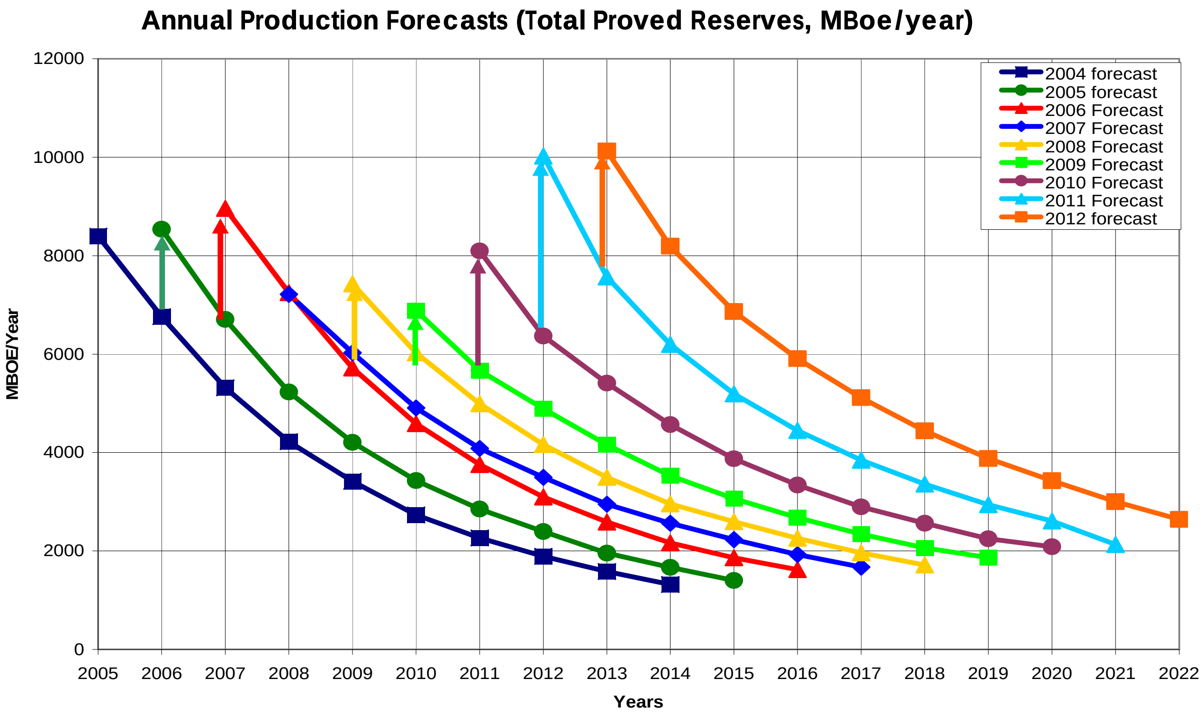
Historically, Trilogy's undeveloped reserves category has contributed a very small portion to the overall reserve base. **Trilogy's proved undeveloped reserve component is 80.7 MBoe, or 0.1 percent of its 70,633 MBoe total proved reserves.**

Technical Revisions

Trilogy has consistently reported positive technical revisions to its proved and proved plus probable reserve categories. For 2012, Trilogy reports positive revisions for total proved reserves on all fluids. For proved plus probable reserves, oil was negatively revised with 444 MBbls from a total of 18,830 MBbls or 3 percent, mainly from the wells drilled on the east side of the Kaybob Montney oil pool. Due to low gas prices, Trilogy elected to spend more time and efforts towards liquids properties; therefore gas reserves were revised downward 8 Bcf, or 2 percent. Trilogy anticipates that part of these reserves will be rebooked once natural gas prices improve. Presley Montney horizontal gas wells did not experience any significant revisions. Natural gas liquids were revised upward by 3 MMBbls based on the assumption that once the existing Natural Recovery Agreement with Aux Sable expires, Trilogy will elect to extend the arrangements under similar terms, or construct its own deep cut gas plant to recover the natural gas liquids from the produced natural gas.

Proved Reserve Forecast

The graph below illustrates Trilogy's annual production forecast for Total Proved Reserves from the Reserve Reports for the past nine years. Trilogy's annual production forecast increased from inception until 2007 when the annual production forecast declined due to the asset sales in Marten Creek and Southern Alberta. The reserve forecast increased again in 2010 through 2012 as Trilogy converted from an energy trust to a growth oriented energy corporation and developed its Kaybob Montney oil and gas pools.

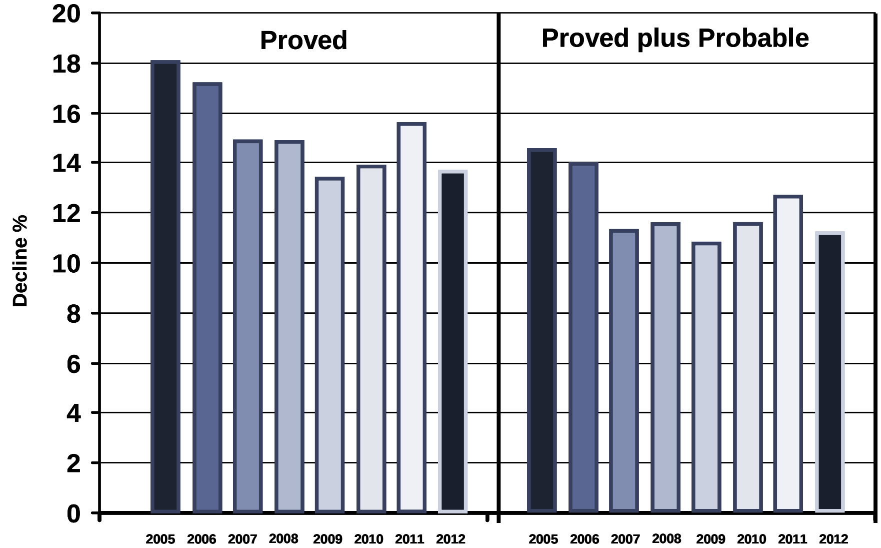


Production Decline Rate

Trilogy's production decline rate has improved over the past three years, subsequent to the sale of the Marten Creek property and Southern Alberta assets, which had higher production declines relative to Trilogy's remaining producing properties. The disposition of these properties 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 19 percent decline for 2013 and 16 percent for 2014 for total proved reserves. For proved plus probable reserves the 2013 decline is 13 percent while 2014 production will decline 12 percent.

10 Year Average Base Production Decline Rate



Finding and Development Costs

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

2012 Working Interest Capital Expenditures (millions of dollars)		**Change in FDC**		**Total Capital**	
		Proved	**Proved plus Probable**	**Proved**	**Proved plus Probable**
Land	1.0			1.0	1.0
Geological and geophysical	2.1			2.1	2.1
Drilling and completion	265.9	(12.9)	(8.0)	253.0	257.9
Production equipment, facilities and inventory	80.3			80.3	80.3
2012 Dispositions net of acquisitions & corporate assets	2.0			2.0	2.0
Total capital expenditures	**351.3**	**(12.9)**	**(8.0)**	**338.4**	**343.3**

Reserve additions of 19.2 MMBoe of proved reserves and 20.6 MMBoe proved plus probable reserves during 2012 generated a finding and development ("F&D") cost of $17.60/Boe for proved reserves and $16.63/Boe for proved plus probable reserves

When calculated over the three year period ended December 31, 2012, F&D costs were $16.64/Boe for proven reserves and $15.56/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.

	Year	Proved Capital $million	Proved Reserves MBoe	Proved F&D $/Boe	Proved + Probable Capital $million	Proved + Probable Reserves MBoe	Proved + Probable F&D $/Boe
Extensions, discoveries and revisions including FDC	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
	2012	338.4	19,233	17.60	343.3	20,646	16.63
3 Year Average F&D Cost		**861.5**	**51,763**	**16.64**	**866.0**	**55,668**	**15.56**

Commodity Price Forecast

InSite Petroleum Consultants Ltd. December 31, 2012 Price Forecast

Year	WTI @ Cushing $US/Bbl	Edm. Ref. Price $C/Bbl	Henry HUB US$/MMBTU	AECO C C$/MMBTU	CDN/US Exchange Rate
2013	92.00	90.00	3.75	3.34	1.00
2014	94.00	91.36	4.25	3.83	1.00
2015	96.00	93.92	4.75	4.33	1.00
2016	98.00	95.88	5.20	4.77	1.00
2017	100.00	97.84	5.55	5.11	1.00
Next 5 years avg.	106.16	103.86	6.25	5.78	1.00

Note
i) All prices escalated at 2% per year after 2029

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

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

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

The activities conducted by Trilogy in these areas in 2012 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.

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), an Alberta government program that recognizes employers that successfully develop certain health and safety standards. In 2012 Trilogy adopted the 'safetyfirst" logo as a means to convey to our staff and contractors that safety is the corner stone of our daily decision making to ensure that we have a safe worksite and procedures.

safetyfirst
TRILOGY ENERGY

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 greenhouse gas emissions from its operations, several emission reduction projects were completed at Trilogy operated facilities in 2012 including:

- electrifying pump jack drivers;

- expanding multiple oil batteries to include solution gas conservation and hydrocarbon vapour recovery;
- scavenging H_2S from solution gas to allow gas conservation into sweet infrastructure;
- installing floating roof oil storage tanks to minimize fuel gas makeup and hydrocarbon vapour recovery requirements;
- working with our power distributors to extend the electrical grid to new development areas;
- eliminating parasitic generation and reducing site internal combustion horsepower requirements by extending electric grid connection to compressor stations;
- adopting a pad drill philosophy wherever possible to aggregate wells onto a single well pad to reduce the number of flare stacks, roads and pipelines required, and to reduce the volume of purge/pilot fuel gas required, thereby lessening the overall environmental footprint of our operations;
- extending our pad drill philosophy of consolidating surface equipment by consolidating facilities for offsetting drill locations; and,
- utilizing waste flash gas volumes to replace fuel gas in flare pilot supply and thereby reducing our total flare volume requirements.

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

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

Community Involvement

Helping to build the foundations of a community and ensuring that those living in it have the opportunities and services that enhance their lives is an important part of how Trilogy operates. Trilogy is proud to support the communities our employees live in and support the causes that impact those communities.

For Trilogy, giving comes by way of financial support but also by way of service. Trilogy employees volunteer their time to charitable organizations in both Calgary and Fox Creek, Alberta. Some of the charities that benefitted from these services were: Soup Sisters, Ronald McDonald House, The Calgary Inter-Faith Food Bank, Fox Creek Santa's Anonymous, The Fox Creek Hospital Society and The Scouts.

Our annual United Way of Calgary campaign continues to be our largest fund raising effort and we are proud to once again match 100 percent of the generous contributions made by the employees in 2012.

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, 2012, and should be read in conjunction with the Company's annual consolidated financial statements, the ("Annual Financial Statements). The Annual Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of March 5, 2013.

FINANCIAL AND OPERATING HIGHLIGHTS

- Trilogy added 19.2 MMBoe of proved reserves (56 percent oil and NGLs) and 20.6 MMBoe of proved plus probable reserves (59 percent oil and natural gas liquids), including positive technical revisions.
- Trilogy replaced 157 percent of 2012 produced reserves when compared to proved reserve additions, and 168 percent when compared to proved plus probable reserves.
- 2012 reported sales volumes averaged 33,510 Boe/d as compared to 28,012 Boe/d in 2011, representing a 20 percent increase in production. Reported sales volumes for the fourth quarter of 2012 averaged 35,014 Boe/d as compared to 33,412 for the previous quarter, representing a 5 percent increase in production.
- 2012 oil sales volumes increased 143 percent to 9,153 Bbl/d from 3,759 Bbl/d in 2011. Oil sales volumes increased 35 percent in the fourth quarter over the third quarter of 2012. Combined oil and natural gas liquids sales volumes represented 40 percent of total sales volumes for the year (29 percent in 2011).
- Trilogy's Kaybob Montney oil pool production averaged 14,300 Boe/d, consisting of 10,300 Bbl/d of oil and 24 MMcf/d of natural gas, for the last two weeks of February 2013.
- 2012 net capital expenditures totaled $351.3 million as compared to $349.9 million in 2011. $77 million was spent in the fourth quarter of 2012 as compared to $60.9 million in the prior quarter.
- Finding and development costs(1) were $17.60/Boe for total proved reserves and $16.63/Boe for proved plus probable reserves on net capital expenditures of $351.3 million.
- 75 (47.9 net) wells were drilled in 2012, as compared to 68 (45.7 net) wells in 2011. 17 (10.5 net) wells were drilled in the fourth quarter, as compared to 14 (8.2 net) wells in the prior quarter.
- 2012 funds flow from operations(1) totaled $241.9 million as compared to $218.5 million in 2011, representing an 11 percent increase year-over-year. Funds flow from operations(1) increased to $80.5 million for the fourth quarter as compared to $47.1 million in the previous quarter.
- Dividends declared to Shareholders in 2012 totaled $49.0 million or 21 percent of cash flow from operating activities (2011 – $48.6 million or 23 percent). Dividends for the fourth quarter of 2012 were $12.3 million or 16 percent of cash flow from operations (prior quarter – $12.2 million or 26 percent).
- In December 2012, Trilogy issued Senior Unsecured Notes in the amount of $300 million. Proceeds from the issuance were used to repay existing indebtedness under Trilogy's Revolving Credit Facility. Borrowing capacity under Trilogy's revolving credit facility was $253 million as at December 31, 2012.

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

BUSINESS ENVIRONMENT AND ECONOMIC CONDITIONS

The increase in production of gas in North America and an unusually warm 2011/2012 winter, resulting in reduced heating demand for gas, gave rise to record gas storage levels relative to prior years. The ensuing reduction in natural gas and natural gas liquids prices have recently shown signs of improvement. Trilogy remains cautiously optimistic that natural gas prices will continue to slowly recover as supply and demand forces in the North American natural gas markets attempt to find balance. Furthermore, volatility in the discount differential between the Edmonton par price to world oil prices and general volatility in the world oil price due to continued European and North American economic concerns and tensions in the Middle East are adversely impacting the price for oil realized in Canada. Notwithstanding the current price challenges in both the oil and natural gas markets, Trilogy expects to continue profitably exploiting its current land base, growing production, and paying a meaningful dividend. Trilogy is confident in the success of its business model and its ability to provide shareholder value over the long term.

Trilogy has continued to realize significant value pursuant to changes effective under the Alberta Royalty Framework. These changes, which have made Alberta more competitive with other provincial royalty regimes, 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 2012	Q3 2012	YTD 2012	YTD 2011
Crude Oil				
West Texas Intermediate monthly average (U.S.$/Bbl)	**88.30**	92.18	**94.19**	95.00
Edmonton Par monthly average (Cdn$/Bbl)	**84.28**	84.79	**86.53**	95.16
Natural Gas				
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**3.40**	2.80	**2.79**	4.04
AECO monthly average (Cdn$/GJ)	**3.25**	2.27	**2.32**	3.62
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**0.99**	0.98	**0.99**	1.00

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

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

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

(In thousand dollars except as otherwise indicated)	**2012**	**2011**	**2010**
Average production (Boe/d)	**33,510**	**28,012**	22,788
Oil and natural gas liquids production	**40%**	**29%**	20%
Average realized prices (before financial instruments):			
Natural gas ($/Mcf)	**2.57**	**3.88**	4.35
Oil ($/bbl)	**79.76**	**89.21**	77.89
Natural gas liquids ($/Boe)	**47.85**	**56.99**	63.53
Average realized prices (after financial instruments):			
Natural gas ($/Mcf)	**2.57**	**3.88**	4.79
Oil ($/bbl)	**78.32**	**90.84**	77.89
Natural gas liquids ($/Boe)	**47.85**	**56.99**	63.53
Total assets	**1,395,111**	**1,260,364**	1,081,448
Long-term debt	**592,325**	**413,249**	279,599
Total revenues and other income (1)	**466,490**	**376,474**	305,803
Average operating cost ($/Boe)	**8.33**	**8.29**	8.49
Earnings (loss) before income tax	**(12,093)**	**25,042**	145,623
Per diluted Share ($/Share)	**(0.10)**	**0.21**	1.27
Net earnings (loss)	**(12,133)**	**17,415**	178,242
Per Share– Basic ($/Share) (2)	**(0.10)**	**0.15**	1.56
Per Share – Diluted ($/Share) (2)	**(0.10)**	**0.15**	1.55
Cash flow from operating activities	**235,351**	**215,753**	165,041
Per diluted Share ($/Share) (2)	**1.97**	**1.82**	1.43
Funds flow from operations (3)	**241,941**	**218,502**	153,519
Per diluted Share ($/Share) (2)	**2.03**	**1.84**	1.33
Dividends declared	**48,956**	**48,656**	49,816
Per Voting and Non-Voting Share ($/Share) (2)	**0.420**	**0.420**	0.435
Net exploration and development expenditures	**351,316**	**349,879**	166,044
Finding and development cost (3):			
Proved ($/Boe)	**17.60**	**18.52**	12.49
Proved plus probable ($/Boe)	**16.63**	**17.23**	11.63

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

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	**Three Months Ended**		**Twelve Months Ended**	
	December 31, 2012	**September 30, 2012**	**December 31, 2012**	**December 30, 2011**
Operating income(1)	**90,815**	57,083	**281,315**	244,168
Other income	**208**	135	**882**	1,024
Realized financial instruments gains (losses) (2)	**869**	(213)	**(2,773)**	3,081
Actual decommissioning and restoration costs	**(1,292)**	(299)	**(2,754)**	(1,946)
Operating netback(1)	**90,600**	56,706	**276,670**	246,327
Interest and financing charges(5)	**(7,096)**	(6,381)	**(23,260)**	(15,630)
General and administrative expenses	**(2,975)**	(3,149)	**(11,469)**	(12,195)
Funds flow from operations(1)	**80,529**	47,176	**241,941**	218,502
Non-cash items:				
Depletion, depreciation, and impairments	**(54,718)**	(56,001)	**(224,295)**	(159,024)
Gain on unrealized financial instruments(2)	**172**	663	**12,724**	(9,137)
Share based compensation	**(3,757)**	(4,134)	**(16,227)**	(10,758)
Exploration expenditures(3)	**(18,401)**	(1,549)	**(24,900)**	(14,674)
Amortization of financing fee	**(511)**	-	**(511)**	-
Other gains (losses)	**51**	1,462	**1,310**	3,453
Accretion on decommissioning and restoration liability(4)	**49**	(913)	**(2,095)**	(3,831)
Deferred income tax recovery (expense)	**(1,792)**	2,319	**(40)**	(7,627)
Unrealized foreign exchange gains (losses) and other	**60**	(117)	**(40)**	511
Profit (loss) and comprehensive income	**1,682**	(11,094)	**(12,133)**	17,415

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

(2) See Risk Management section below

(3) Includes costs associated with dry-holes, geological and geophysical and expired mineral lease costs

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

(5) Excludes amorization of financing fees

FUNDS FLOW FROM OPERATIONS

Funds Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended **December 30, 2012**	**September 30, 2012**	Twelve Months Ended **December 30, 2012**	**December 30, 2011**
Sales	**41.98**	33.68	**37.16**	37.26
Transportation costs	**(1.20)**	(1.21)	**(1.27)**	(1.29)
Royalties	**(4.36)**	(4.99)	**(4.61)**	(3.80)
Operating costs	**(8.23)**	(8.91)	**(8.33)**	(8.29)
Operating income[1]	**28.19**	18.57	**22.94**	23.88
Other income	**0.07**	0.04	**0.07**	0.10
Realized financial instruments gains (losses) [2]	**0.27**	(0.07)	**(0.23)**	0.30
Actual decommissioning and restoration costs	**(0.40)**	(0.10)	**(0.22)**	(0.19)
Operating netback[1]	**28.13**	18.45	**22.56**	24.09
Interest and financing charges[3]	**(2.20)**	(2.08)	**(1.90)**	(1.53)
General and administrative expenses	**(0.92)**	(1.02)	**(0.94)**	(1.19)
Funds flow from operations[1]	**25.00**	15.35	**19.73**	21.37

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

(2) See Risk Management section below

(5) Excludes amortization of financing fees

Operating Income Items

Fourth Quarter 2012 vs. Third Quarter 2012			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**Q4 2012**	**Q3 2012**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**118,072**	125,286	(7,214)	(6)
Oil (Bbl/d)	**10,780**	8,014	2,766	35
Natural gas liquids (Boe/d)	**4,555**	4,517	38	1
Total (Boe/d)	**35,014**	33,412	1,602	5
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.39**	2.42	0.97	40
Oil ($/bbl)	**78.96**	78.03	0.93	1
Natural gas liquids ($/Boe)	**47.85**	43.56	4.29	10
Average realized price	**41.98**	33.68	8.30	25
Average realized prices after financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**3.39**	2.42	0.97	40
Oil ($/bbl)	**79.31**	77.03	2.28	3
Natural gas liquids ($/Boe)	**47.85**	43.56	4.29	10
Average realized price	**42.08**	33.44	8.64	26
Operating income [(1)]				
Natural gas	**36,859**	27,899	8,960	32
Oil	**78,308**	57,532	20,776	36
Natural gas liquids	**20,054**	18,104	1,950	11
Total petroleum and natural gas sales before financial instruments	**135,221**	103,535	31,686	31
Royalties	**(14,031)**	(15,348)	(1,317)	(9)
Operating costs	**(26,512)**	(27,381)	(869)	(3)
Transportation costs	**(3,863)**	(3,723)	140	4
Operating income [(1)]	**90,815**	57,083	33,732	59

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

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

Petroleum and Natural Gas Sales Before Financial Instruments and Transportation – Oil sales increased by $20.8 million due to higher sales volumes ($20.0 million) and by higher realized prices ($0.8 million). Oil volumes increased in the quarter primarily as a result of new well production added at Trilogy's Montney oil play. Natural gas sales increased by $8.9 million due to higher realized prices ($11.2 million) offset by lower sales volumes ($2.3 million). NGL sales increased by $1.9 million due to higher sales volumes ($0.2 million) and higher realized prices ($1.7 million).

Royalties – Trilogy's effective royalty rate and royalties paid decreased primarily as a result of historical gas cost allowance credits recorded in the fourth quarter. Benefits applied to new well production pursuant to Alberta's New Well Royalty Reduction Incentive Program also contributed to a lower effective royalty rate in the fourth quarter, offset, in part by higher oil sales volumes.

Operating Costs – Operating costs decreased in total and on a per unit of production basis, primarily as a result of lower project costs incurred in the fourth quarter.

Year-to-date 2012 vs Year-to-date 2011			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**YTD 2012**	**YTD 2011**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**120,250**	119,802	448	-
Oil (Bbl/d)	**9,153**	3,759	5,394	143
Natural gas liquids (Boe/d)	**4,315**	4,287	28	1
Total (Boe/d)	**33,510**	28,012	5,498	20
Average realized prices after financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**2.57**	3.88	(1.31)	(34)
Oil ($/Bbl)	**79.76**	89.21	(9.44)	(11)
Natural gas liquids ($/Boe)	**47.85**	56.99	(9.14)	(16)
Average realized price	**37.16**	37.26	(0.11)	-
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**2.57**	3.88	(1.31)	(34)
Oil ($/Bbl)	**78.32**	90.84	(12.53)	(14)
Natural gas liquids ($/Boe)	**47.85**	56.99	(9.14)	(16)
Average realized price	**36.76**	37.48	(0.72)	(2)
Operating income[(1)]				
Natural gas	**112,924**	169,447	(56,523)	(33)
Oil	**267,199**	122,387	144,812	118
Natural gas liquids	**75,574**	89,164	(13,590)	(15)
Total petroleum and natural gas sales before financial instruments	**455,697**	380,998	74,699	20
Royalties	**(56,599)**	(38,892)	17,707	46
Operating costs	**(102,203)**	(84,723)	17,480	21
Transportation costs	**(15,580)**	(13,215)	2,365	18
Operating income[(1)]	**281,315**	244,168	37,147	15

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

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

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $144.8 million due to higher volumes ($157.6 million) partially offset by lower realized prices ($12.8 million). The continued development of Trilogy's Kaybob Montney oil pool and related infrastructure contributed to the increase in production. Natural gas sales decreased by $56.5 million due to significantly lower realized natural gas prices ($57.2 million) offset, in part, by slightly higher sales volumes ($0.7 million). Natural gas volumes were relatively consistent as new well production from the Montney and Duvernay shale plays replaced natural production declines. NGL sales decreased by $13.6 million on lower realized NGL prices ($14.3 million), offset, in part, by higher sales volumes ($0.7 million). The reduction in the NGL realized average price was attributed to lower recoveries from Trilogy's NGL Recovery Agreement with Aux Sable Canada LP, in addition to general reductions in the price for Trilogy's other natural gas liquids production.

Royalties – Royalties were higher, primarily as a result of increased oil production having higher associated royalty rates. The increase in royalties was offset, in part, by lower royalty rates on depressed gas prices, and through benefits realized in the year under the Alberta royalty regime, including the Natural Gas Deep Drilling Royalty Program, and the New Well Royalty Reduction Incentive Program.

Operating Costs – Operating costs increased in conjunction with the higher production volumes. Higher gathering costs associated with oil production and additional field projects and maintenance work performed in the year also contributed to the increase. Finally, general increases in the cost for power, labour and services were experienced in 2012 over 2011. Operating costs on a unit of production basis were consistent year over year, as the aforementioned items were substantially offset by higher production levels in 2012.

OTHER INCOME STATEMENT ITEMS

Depletion and Depreciation Expense

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2012	**September 30, 2012**	**December 30, 2012**	**December 30, 2011**
Reported amount	**54,718**	56,001	**224,295**	159,024
Expense per sales volume ($/Boe)	**16.99**	18.22	**18.29**	15.55

Depletion and depreciation expense decreased in the fourth quarter of 2012 relative to the prior quarter as Trilogy's reserve base increased disproportionately to its production. Year over year, the increased expense per unit of production reflects the higher depletion rates and related costs associated with horizontal, multi-stage fracture wells and related infrastructure assets, primarily in Trilogy's Kaybob Montney oil play.

An impairment was recorded in the fourth quarter of 2012 of $0.7 million. The impairment was primarily a function of reduced estimated future commodity prices on the assets' net recoverable amount. Refer to note 8 and 11 of the Annual Financial Statements for additional information on property, plant and equipment and impairments thereon.

Exploration Expenditures

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2012	**September 30, 2012**	**December 30, 2012**	**December 30, 2011**
Expired mineral leases	**871**	1,494	**5,043**	4,449
Impairments	**17,510**	-	**17,738**	9,249
Geological and geophysical	**20**	55	**2,119**	976
Exploration and evaluation expenses	**18,401**	1,549	**24,900**	14,674

Exploration expenditures consist of the costs of expired leases, impairments on exploratory wells and geological and geophysical amounts. The change in exploration and evaluation expenditures between the above periods is due mainly to fluctuations in impairments and the costs of expired mineral leases. Exploratory wells, by their nature, have increased risks and uncertainties that could translate into cost over-runs and reduced production and reserve additions. Early-stage exploration activities and their associated costs progress Trilogy's knowledge base in the play, with an ultimate goal of extracting, developing and producing oil and gas reserves at attractive returns. Impairments are a reflection of these challenges and represent costs incurred in excess of the benefit Trilogy expects to obtain from the well. Increased geological and geophysical costs were incurred in the first quarter of 2012 as significant seismic work was performed in the Presley area. Refer to notes 9 and 11 of the Annual Financial Statements for more information on exploration and evaluation activities and the related impairments.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2012	**September 30, 2012**	**December 30, 2012**	**December 30, 2011**
Salaries and other benefits	**6,161**	5,950	**24,277**	22,840
Office and communications	**1,106**	1,039	**4,229**	4,263
Corporate and other	**674**	850	**2,577**	2,904
Recoveries and reclassifications	**(4,966)**	(4,691)	**(19,614)**	(17,900)
Reported amount	**2,975**	3,149	**11,469**	12,107
Expense per sales volume ($/Boe)	**0.92**	1.02	0.94	1.18

General and administrative expenses were lower in 2012, primarily as a result of higher overhead recoveries on relatively higher capital expenditures, partially offset by increased salary and benefit costs. Increased sales volumes in 2012 relative to staffing levels at Trilogy further reduced general and administrative expenses on a per unit of production basis.

Share Based Compensation

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2012	**September 30, 2012**	**December 30, 2012**	**December 30, 2011**
Share Incentive Plan	**1,138**	1,138	**4,595**	5,953
Share Option Plan	**2,619**	2,996	**11,632**	4,890
Reported Amount	**3,757**	4,134	**16,227**	10,843
Expense per sales volume ($/Boe)	**1.17**	1.34	**1.32**	1.06

The increase in share based compensation expense for 2012 was attributed primarily to the amortization of higher fair values associated with options granted under Trilogy's Share Option Plan. Changes to risk free interest rates, volatility assumptions, dividend yields, and expected lives of the options granted will impact the fair value attributed to any given grant. Higher production volumes in 2012 partially offset the increased share based compensation costs on a per unit of production basis.

Interest, Financing, and Accretion Charges

(In thousand dollars except as otherwise indicated)

	Three Months Ended		Twelve Months Ended	
	December 31, 2012	**September 30, 2012**	**December 30, 2012**	**December 30, 2011**
Accretion on decommissioning and restoration liability	**1,243**	1,212	**4,849**	5,777
Interest and other finance costs(1)	**7,607**	6,381	**23,771**	15,630
Expense per sales volume ($/Boe)	**2.36**	2.08	**1.94**	1.53

(1) Includes the amortization of financing fees therein

Accretion on the Company's decommissioning and restoration liability for three months ended December 31, 2012 was consistent with the prior quarter. Compared to the same period last year, accretion decreased as a result primarily of changes in the discount and inflation rate assumptions used in estimating Trilogy's decommissioning and restoration liability.

Interest and financing charges increased in 2012 in conjunction with higher debt levels, increased margins on Trilogy's revolving credit facility and increased borrowing costs in conjunction with Trilogy's December issuance of senior unsecured notes. For additional information on Trilogy's long-term debt, refer below under the "Long-term Debt" section of this MD&A and to note 15 of the Annual Financial Statements.

RISK MANAGEMENT

Financial Risks

Trilogy's main financial risks include credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, and are discussed in detail in the notes to Trilogy's 2012 Annual Financial Statements, the Advisories and other sections of this MD&A as well as the Company's Annual Information Form.

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

	Three Months Ended		Twelve Months Ended	
(In thousand dollars except as indicated)	**December 31, 2012**	September 30, 2012	**December 30, 2012**	December 30, 2011
Realized gain (loss) on financial instruments	**869**	(213)	**(2,773)**	3,081
Unrealized gain (loss) on financial instruments	**172**	663	**12,724**	(9,137)
Total gain (loss) on financial instruments	**1,041**	450	**9,951**	(6,056)
Realized loss on financial instruments per Boe ($/Boe)	**0.27**	(0.07)	**(0.23)**	0.30

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

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

The fair value accounting of financial instruments causes significant fluctuations in the unrealized gain (loss) on financial instruments due to the volatility of energy commodity prices, interest and foreign exchange rates 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

Term	Financial Forward Sale Volume (bbls/d)	Average USD WTI Price/bbl
January 1, 2013 to December 31, 2013	5,000	$94.39

Foreign Exchange

Weekly ending FX rate trading range: (CAD per USD)		USD sell per week on trading range:			Weekly premium receipt within trading range:	Expiry
Lower	Upper	Below lower	Between range	Above upper		
0.961	1.078	NIL	NIL	$3 million at 1.045	$30 Thousand	March 2013

To the extent the weekly ending foreign exchange rate is:

- above the upper range of 1.078, the Company is committed to selling $3 million USD at 1.045 CAD;
- between the payout range, the Company receives the referenced premium with no commitment to sell USD;
- less then the lower range, the Company will not receive the referenced premium with no commitment to sell USD.

Interest Rate

The Company has an interest rate swap contract in place on a notional amount of $200 million of long-term debt, swapping the floating interest rate on this debt for a fixed interest rate of 0.95% as detailed below:

Fixed Rate	Variable Settlement	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)

	December 31, 2012	December 31, 2011
Current liabilities net of current assets	**44,460**	77,696
Long-term debt	**592,325**	413,249
Net debt[1]	**636,785**	490,945
Shareholders' equity	**486,399**	530,445
Total	**1,123,184**	1,021,390

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

Working Capital

Trilogy's significant capital expenditure program undertaken in 2012 and the related increase in Trilogy's asset base were primarily responsible for the increase in net debt from $490.9 million at December 31, 2011 to $636.8 million at December 31 2012. Any working capital deficiency is funded by cash flow from operations and draw-downs from the Company's credit facility. Refer to Capital Management and Liquidity section in the Annual Financial Statements.

Long-term Debt

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

Revolving Credit Facility

Trilogy's bank debt outstanding under its credit facility was $299 million (before unamortized interest discount and financing costs) as at December 31, 2012.

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, 2012, has the following significant terms:

- total commitments of $610 million, consisting of a $35 million working capital tranche and a $575 million revolving tranche;
- a maturity date of April 30, 2014;
- the working capital and revolving tranches are subject to semi-annual borrowing base reviews; and,
- advances drawn on the credit facility are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facility is not extended or renewed, amounts drawn down under the facility would be due and payable on the above maturity date.

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

- a ratio of Consolidated Debt to "EBITDA" (earnings before interest, taxes, depreciation and amortization) for the twelve month period then ended of not greater than 4.0. Consolidated debt generally includes all long-term debt and net working capital (excluding financial instrument assets and liabilities therein).

- a ratio of Senior Debt to EBITDA Ratio for the twelve month period then ended of not greater than 3.0. Senior Debt is generally defined as Consolidated Debt but excluding any indebtedness under the Senior Unsecured Notes;

The Company is in compliance with all debt covenants.

The size of the committed credit facilities is based primarily on the value of Trilogy's producing petroleum and natural gas assets as determined by the lenders. Note 15 of the Annual Financial Statements provides a comparison of Trilogy's debt structure against the committed amount on existing credit facilities at the listed balance sheet dates therein.

<u>Senior Unsecured Notes</u>

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

Interest is payable semi-annually in arrears on June 13 and December 13 of each year, commencing June 13, 2013. The Notes rank pari passu with all of Trilogy's existing indebtedness and are subordinated to all secured indebtedness, which includes Trilogy's Revolving Credit Facility indebtedness.

The Company has the option, prior to December 15, 2015, to redeem the Notes as follows:

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

The Company also has the option to redeem the Notes at a price of 103.625 percent, beginning December 15, 2015, decreasing down to 100 percent after December 15, 2018.

To the extent the Company experiences a change of control, each holder of the Notes will have the right to require the Company to repurchase, at 101 percent, all or part of such holder's Notes.

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

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

The increase in net debt from $490.9 million at December 31, 2011 to $636.7 million at December 31, 2012 is attributable primarily to the substantial capital spending undertaken by the Company in 2012, relative to the incremental operating income received to-date on those capital expenditures. Trilogy's exploration and development activities are conducted primarily during colder weather, as ground conditions provide improved access to leases and more efficient execution of its capital expenditure activities. Significant expenditures are made during these periods and the related benefit can be realized in future periods. These timing differences can increase Trilogy's debt levels, the repayment of which may occur over future periods. Refer to Note 22 of the Annual Financial Statements for further disclosures on liquidity and capital management.

Contractual Obligations

In addition to the commodity contracts disclosed above, the Company has the following estimated contractual financial obligations (undiscounted) as at December 31, 2012:

	Payable in				
(In thousand dollars)	2013	2014 – 2015	2016 – 2017	beyond 2017	Total
On or partially on balance sheet:					
Long-term debt(1)	-	299,004	-	300,000	599,004
Asset retirement obligations(2)	1,985	4,090	4,255	208,560	218,890
Off balance sheet:					
Estimated interest on long-term debt(1)	34,398	47,716	43,500	43,500	169,114
Pipeline transportation commitments(3)	10,890	20,777	2,584	4,328	38,579
Office premises operating leases(4)	2,624	6,340	5,613	-	14,577
Vehicle and energy service commitments	4,938	-	-	-	4,938
Total	54,835	377,927	55,952	556,388	1,045,102

(1) Debt relating to the revolving credit facility has been assumed to be payable within 1.33 years based on the existing terms of the agreement. Interest on this debt was calculated based on an approximate interest rate of 4.23 percent per annum applied to the outstanding balance as at December 31, 2012. Interest on the unsecured senior notes is payable at 7.25% per annum on the principal balance with a maturity date of December 13, 2019.

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

(3) Some of the pipeline transportation commitments are covered by letters of credit issued by the Company totaling $14.2 million as at December 31, 2012.

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

Shares, Options and Rights

Trilogy had 116,673,682 Shares outstanding as at December 31, 2012, consisting of 90,837,820 Common Shares and 25,835,862 Non-Voting Shares. For a detailed continuity of Trilogy's share capital in 2011 and 2012, refer to note 18 of the Annual Financial Statements.

During the year, 488,100 share options were exercised for proceeds of $4.8 million.

Outstanding share options issued under Trilogy's share option plan were 7,257,900 as at December 31, 2012 and 7,097,900 share options as at the date hereof, of which 2,740,900 share options and 2,555,900 share options were exercisable as at those dates, respectively.

Dividends

(In thousand dollars except where stated otherwise)

	Three Months Ended		Twelve Months Ended	
	December 31, 2012	**September 30, 2012**	**December 31, 2012**	**December 31, 2011**
Funds flow from operations[1]	**80,529**	47,176	**241,941**	218,502
Net changes in operating working capital	**(4,262)**	418	**(6,590)**	(2,749)
Cash flow from operating activities	**76,267**	47,594	**235,351**	215,753
Net earnings (loss)	**1,682**	(11,094)	**(12,133)**	17,415
Dividends declared	**12,255**	12,242	**48,956**	48,656
Dividends declared per share (In full amount)	**0.105**	0.105	**0.420**	0.420
Excess of cash flow from operations over dividends declared	**64,012**	35,352	**186,395**	167,097
Excess (deficiency) of net earnings (loss) over dividends	**(10,573)**	(23,336)	**(61,089)**	(31,241)

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

Trilogy's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and where applicable, the repayment of debt. To the extent that the excess of cash flow from operations over dividends is not sufficient to cover capital spending, the shortfall is 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 above*) and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Trilogy's payout ratio, calculated as the percentage of dividends declared over cash flow from operating activities, was 21 percent for the twelve months ended December 31, 2012 (23 percent for the twelve months ended December 31, 2011).

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, accretion on decommissioning liabilities and unrealized mark-to-market gains or losses. In addition, dry hole costs and depletion and depreciation expense is not an appropriate measure of the cost of productive capacity maintenance *(see next paragraph)*. In instances where dividends exceed net earnings, a portion of the cash dividend to Shareholders may represent an economic return of capital.

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

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

Capital Expenditures

(In thousand dollars except where stated otherwise)

	Three Months Ended		Twelve Months Ended	
	December 31, 2012	**September 30, 2012**	**December 31, 2012**	**December 31, 2011**
Land	**18**	115	**1,027**	38,101
Geological and geophysical	**20**	54	**2,119**	976
Drilling and completions	**62,934**	59,737	**265,836**	238,395
Production equipment and facilities	**13,571**	1,917	**80,312**	74,272
	76,544	61,823	**349,294**	351,744
Proceeds received from property dispositions	**1**	(1,500)	**(1,896)**	(4,000)
Property acquisitions	**-**	-	**494**	1,524
Corporate assets	**494**	581	**3,424**	611
Net capital expenditures	**77,039**	60,905	**351,316**	349,879

Capital expenditures were consistent in 2012 over 2011. Increased drilling and completion work in the Kaybob Montney oil pool, Montney gas, Dunvegan oil and Duvernay shale plays were offset by a reduction in undeveloped land acquisitions. Production and facility expenditures year over year was higher as Trilogy continued building and expanding infrastructure at its Kaybob Montney oil and Presley gas plays. In addition, oil infrastructure work was completed in 2012 at Trilogy's Wembley area. Corporate assets increased year over year as a result of the acquisition and renovation of a field office at Kaybob.

Wells Drilled

	Three Months Ended				Twelve Months Ended			
(Number of wells)	**December 31, 2012**		**September 30, 2012**		**December 31, 2012**		**December 31, 2011**	
	Gross[1]	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**
Natural gas	**5**	**1.1**	1	0.2	**28**	**17.0**	34	20.2
Oil	**12**	**9.4**	13	8.0	**47**	**30.9**	33	24.5
Dry & abandoned	**-**	**-**	-	-	**-**	**-**	1	1.0
Total	**17**	**10.5**	14	8.2	**75**	**47.9**	68	45.7

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

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

INCOME TAXES

The Company recorded a future income tax expense of $NIL for the year ($1.8 million in the fourth quarter). Refer to note 12 to the Annual Financial Statements for additional income tax disclosures. The Company's statutory tax rate of 25 percent is reduced to an effective tax rate of 0.3 percent. Share based compensation amounts deducted in computing net income (loss) before tax which are not deductible for tax purposes contributed primarily to the effective tax rate from the rate of approximately 25 percent expected for a Canadian corporation with operations in Alberta.

RELATED PARTY TRANSACTIONS

Trilogy had certain transactions with Paramount Resources ("Paramount"), a wholly-owned subsidiary of Paramount Resources Ltd. which owns approximately 16 percent of the equity in the Company. The amount of expenses billed and accrued in respect of services provided by Paramount to the Company under a services agreement was $0.1 million and $0.3 million respectively for the three and twelve months ended December 31, 2012. The Company and Paramount also had transactions with each other arising from normal business activities. These transactions were recorded at the fair value of the transacted amount.

OUTLOOK INFORMATION

Trilogy is forecasting that it will spend approximately $350 million to grow the existing asset base to an annual production of 40,000 - 42,000 Boe/d, representing approximately 20 - 25 percent year over year production growth. This includes spending approximately $175 million to drill, complete and tie-in approximately 40 Montney oil wells, $20 million towards Dunvegan oil wells and $155 million allocated toward Montney, Duvernay and Nikanassin oil and liquids-rich gas plays in the Kaybob and Grande Prairie areas. Trilogy is currently producing approximately 37,000 Boe/d, which is in line with budget expectations. First quarter 2013 production is forecast to be approximately 38,000 Boe/d which is also in line with expectations required to meet annual production guidance. Trilogy anticipates that most of the wells drilled and completed in the first quarter will be on production in March through early April, adding significant production volumes in the second quarter.

Trilogy's 2013 annual guidance is as follows:

Average production	40,000 – 42,000 Boe/d (45% oil and NGLs)
Average operating cost	$8.00/Boe
Capital expenditures	$350 million

QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per share amounts)

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

	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

The fluctuations in Trilogy's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact on royalties, realized and unrealized gains/losses on financial instruments, and impairments to exploratory and evaluation assets and property, plant, and equipment, and upon the expiry of mineral land leases. Please refer to the Results of Operations and other sections of this MD&A for the detailed discussions on variances between reporting periods in 2012 and 2011, and to Trilogy's previously issued annual MD&A for changes in prior periods.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves Estimation

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

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

Exploration and Evaluation Expenditures

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

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 10 and 11 of the Annual Financial Statements for more details about methods and assumptions used in estimating net recoverable amounts.

Decommissioning and Restoration Costs

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

Share-based Payments

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

Deferred Income Tax Assets

Trilogy recognizes 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 deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 12 of the Annual Financial Statements for further details.

Financial Instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage 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.

NEW ACCOUNTING PRONOUNCEMENTS

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

(i) *IAS 1, Financial statement presentation, regarding other comprehensive income.* The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

(ii) *IFRS 7, Financial instruments: Disclosures, on asset and liability offsetting.* This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

(iii) *IFRSs10, 11 and 12 on transition guidance.* These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures

related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

(iv) *IFRS 10, Consolidated financial statements.* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

(v) *IFRS 11, Joint arrangements.* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

(vi) *IFRS 12, Disclosures of interests in other entities.* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

(vii) *IFRS 13, Fair value Measurement.* IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

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

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

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, 2012 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 commodity prices for crude oil, natural gas; natural gas liquids and related products; business strategy and objectives for 2013 and beyond; statements regarding providing shareholder value; capital expenditures and the timing thereof; budget allocations; future production levels and sales volumes and the relative content of crude oil, natural gas liquids, and natural gas therein; statements regarding sources of and plans for funding Trilogy's exploration, development, facilities and other expenditures; estimates of drilling prospect inventory, prospective geological formations and the risk and potential of reserves associated therewith; exploration and development plans and the timing, cost and expected benefits thereof; exploration and development of the Montney, Duvernay, Dunvegan and other formations and other drilling, completion, tie-in, construction and facility expansion plans and the timing, cost, anticipated payout and expected benefits therefrom; the location, extent, geology and potential for development of the Kaybob Montney oil and gas pool, the Duvernay shale gas development and the Dunvegan oil program, among other plays, and the nature of Trilogy's plans to further delineate and exploit these and other assets; potential application of drilling and completion technologies to other areas and geological formations and projections as to the prospectivity of Trilogy's current and future land holdings; statements as to facility capacity, run-times, expected facility downtime and availability of transportation capacity; estimates of undeveloped land value; statements regarding the continuity of the NGL Agreement with Aux Sable Canada LP; 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; cash flow projections; pro-forma debt levels and statements regarding reduction of net debt; 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 profitably produced in the future.

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

- future crude oil, natural gas and natural gas liquids supply and prices;
- general business, economic, and market conditions;
- future power prices;
- geology applicable to Trilogy's land holdings;
- the extent and development of Trilogy's assets including, without limitation, Trilogy's Kaybob Montney oil and gas assets, the Duvernay Shale Gas development program and the Dunvegan oil program, among others;
- current reserves estimates;
- current production forecasts and the relative content of crude oil, natural gas and natural gas liquids therein;
- drilling and operational results and timing consistent with expectations;
- budget allocations and capital spending flexibility;
- expected timelines and budgets being met;
- well economics;
- Trilogy's ability to obtain competitive pricing;
- the ability of Trilogy to market oil and natural gas and other products successfully to current and new customers;
- the impact of Trilogy's February 2010 conversion from a trust to a corporation 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 and access to capital markets on acceptable terms;
- credit facility increases consistent with expectations;
- continuity of the mutually beneficial agreement with Aux Sable Canada LP and pricing thereunder;
- estimates of deferred tax amounts, tax assets and tax pools.

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

- fluctuations in crude oil, natural gas 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, natural gas and related products and market demand;
- Trilogy's ability to secure adequate product processing, transmission and transportation on a timely basis or at all;
- 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 Montney oil, Duvernay shale and Dunvegan oil developments;
- risks inherent in Trilogy's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- changes in land values paid by industry;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- the ability to generate sufficient cash flow from operations and other sources to meet current and future obligations, including costs of anticipated projects and repayment of debt;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- potential disruptions or unexpected technical difficulties in designing, developing, or operating new, expanded, or existing facilities, including third party operated facilities;
- 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 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:
- 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 "recycle ratio" collectively the "Non-GAAP measures" do not have any standardized meaning as prescribed by IFRS and previous GAAP and, therefore, are considered Non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Trilogy to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. However, given their lack of standardized meaning, such measurements are unlikely to be comparable to similar measures presented by other issuers.

"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.

Oil and Gas Advisory

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil (6:1). Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For fiscal 2012, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 31:1 ("Value Ratio"). The Value Ratio is obtained using the 2012 average realized oil price of $79.76 (CAD$/Bbl) and the 2012 average realized natural gas price of $2.57 (CAD$/mcf). This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

ADDITIONAL INFORMATION

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

MANAGEMENT'S REPORT

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

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

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

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

/s/J. H. T. Riddell	*/s/ M. G. Kohut*	
J. H. T. Riddell	**M. G. Kohut**	
Chief Executive Officer	Chief Financial Officer	March 5, 2013

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, 2012 and December 31, 2011 and the consolidated statements of comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F:+1 403 781 1825, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trilogy Energy Corp. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 5, 2013

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

	Note		December 31, 2012		December 31, 2011
ASSETS					
Current assets					
Restricted cash	6		**5,369**		-
Trade and other receivables	*7, 21, 22, 23*	$	**64,978**	$	54,686
Derivative financial instruments	*22, 23, 24*		**2,897**		134
Prepaids			**895**		489
			74,139		55,309
Non-current assets					
Property, plant and equipment	*8, 9, 11*		**1,004,660**		855,183
Exploration and evaluation assets	*8, 9, 11*		**75,353**		109,373
Deferred tax asset	*12*		**100,488**		100,028
Goodwill	*10*		**140,471**		140,471
Total assets		$	**1,395,111**	$	1,260,364
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	*13, 21, 22, 23*	$	**113,380**	$	118,974
Dividend payable	*14, 22, 23*		**4,087**		4,070
Interest payable	*15*		**1,132**		-
Derivative financial instruments	*22, 23, 24*		**-**		9,961
			118,599		133,005
Non-current liabilities					
Long-term debt	*15, 22, 23*		**592,325**		413,249
Decommissioning and restoration liability	*16*		**197,788**		183,665
Total liabilities			**908,712**		729,919
Shareholders' equity					
Shareholders' capital	*17, 18*		**883,758**		877,682
Contributed surplus	*17*		**32,673**		21,706
Accumulated deficit			**(430,032)**		(368,943)
			486,399		530,445
Total shareholders' equity and liabilities		$	**1,395,111**	$	1,260,364

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 Comprehensive Income (Loss)

(in thousand Canadian dollars except per share amounts)

	Note	Year Ended December 31, 2012	2011
Revenue and other			
Petroleum and natural gas sales	27	$ 455,697	$ 380,998
Royalties		(56,599)	(38,892)
Revenue		399,098	342,106
Other income		842	1,532
Gain (loss) on derivative financial instruments	22, 23, 24	9,951	(6,056)
		409,891	337,582
Expenses			
Operating and production		102,203	84,723
Transportation		15,580	13,215
Depletion, depreciation, and impairments	8, 11	224,295	159,024
Exploration and evaluation	9, 11	24,900	14,674
Gain on disposal of assets		(1,310)	(3,453)
General and administrative	26	11,469	12,107
Share-based compensation	17	16,227	10,843
Accretion on decommissioning and restoration liability	16	4,849	5,777
Interest and other finance costs	15	23,771	15,630
		421,984	312,540
Net income (loss) before income tax		(12,093)	25,042
Income tax (recovery) expense			
Deferred	12	40	7,627
Comprehensive income (loss)		$ (12,133)	$ 17,415
Earnings (loss) per share	19		
- Basic		$ (0.10)	0.15
- Diluted		$ (0.10)	0.15

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.

Consolidated Statement of Changes in Equity

(In thousand Canadian dollars except share information)

	Outstanding Common and Non-Voting Shares [(1)]		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2011	**114,741,491**	**$**	**863,011**	**$**	**15,810**	**$**	**(337,702)**	**$**	**541,119**
Net income for the period	-		-		-		17,415		17,415
Share options exercised *(note 17, 18)*	1,250,000		14,679		(2,524)		-		12,155
Dividends declared *(note 14)*	-		-		-		(48,656)		(48,656)
Share Incentive Plan purchases, net of grants vested *(note 17, 18)*	126,667		(8)		(2,423)		-		(2,431)
Share-based compensation *(note 17)*	-		-		10,843		-		10,843
Balance at December 31, 2011	**116,118,158**	**$**	**877,682**	**$**	**21,706**	**$**	**(368,943)**	**$**	**530,445**
Net (loss) for the period	-		-		-		(12,133)		(12,133)
Share options exercised *(note 17, 18)*	488,100		6,045		(1,240)		-		4,805
Dividends declared *(note 14.)*	-		-		-		(48,956)		(48,956)
Share Incentive Plan purchases, net of grants vested *(note 17, 18)*	67,424		31		(4,020)		-		(3,989)
Share-based compensation *(note 17)*	-		-		16,227		-		16,227
Balance at December 31, 2012	**116,673,682**	**$**	**883,758**	**$**	**32,673**	**$**	**(430,032)**	**$**	**486,399**

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

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.

Consolidated Statement of Cash Flows

(in thousand Canadian dollars except as otherwise indicated)

	Note	Year Ended December 31, 2012	2011
Operating activities			
Net income (loss) before income tax		$ **(12,093)**	25,042
Adjustments for non-cash and other items:			
Unrealized (gains) losses on derivative financial instruments	*22, 23, 24*	**(12,724)**	9,137
Unrealized foreign exchange (gains) losses		**40**	(510)
Depletion and depreciation	*8*	**224,295**	159,024
Exploration and evaluation	*9*	**24,900**	14,674
Gain on disposal of assets		**(1,310)**	(3,453)
Amortization of finance fees		**511**	-
Share based compensation	*17*	**16,227**	10,757
Accretion on decommissioning and restoration liability	*16*	**4,849**	5,777
Decommissioning and restoration costs	*16*	**(2,754)**	(1,946)
Net change in non-cash working capital	*20*	**(6,590)**	(2,749)
Net cash flow from operating activities		**235,351**	215,753
Investing activities			
Exploration and evaluation expenditures	*9*	**(30,961)**	(72,297)
Property, plant and equipment expenditures	*8*	**(321,756)**	(280,059)
Property acquisitions	*8*	**(994)**	(1,524)
Proceeds from disposition of property, plant and equipment	*8*	**1,898**	4,000
Restricted cash	*6*	**(5,369)**	-
Net change in non-cash working capital	*20*	**(8,571)**	38,412
Net cash flow used in investing activities		**(365,753)**	(311,468)
Financing activities			
(Repayments) draws on revolving credit facility	*15*	**(115,625)**	134,517
Proceeds from senior notes, net of issue costs	*15*	**294,148**	-
Dividends paid to Shareholders	*14*	**(48,937)**	(48,612)
Share incentive plan purchases	*17, 18*	**(3,989)**	(2,431)
Shares issued	*17, 18*	**4,805**	12,241
Net cash flow from in financing activities		**130,402**	95,715
Net change in cash		**-**	-
Cash balance, beginning of year		**-**	-
Cash balance, end of year		**-**	-
Cash interest paid		$ **23,336**	$ 15,988

See accompanying notes to the consolidated financial statements

1. GENERAL

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

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

2. BASIS OF PREPARATION

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

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

The policies applied in these Annual Financial Statements are based on IFRS issued and outstanding as of March 5, 2013, the date the Annual Financial Statements were approved for release by Trilogy's Audit Committee on behalf of Trilogy's Board of Directors for issuance.

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Reserves Estimation

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

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

Exploration and Evaluation Expenditures

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

Impairment of Non-financial Assets

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 10 and 11 for more details about methods and assumptions used in estimating net recoverable amounts.

Decommissioning and Restoration Costs

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

Share-based Payments

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

Deferred Income Tax Assets

Trilogy recognizes 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 deferred tax assets recorded at the balance sheet date may be compromised. Refer to note 12 for further details.

Financial Instruments

The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage oil and gas commodity price, foreign currency and interest rate exposures. The fair values of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows and discount rates. Management's assumptions rely on external observable market data including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty. Refer to note 22, 23 and 24 for further details.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jointly Controlled Operations

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

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

Foreign Currency Translation

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

Goodwill

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

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

Oil and Natural Gas Exploration and Development Expenditures

Exploration and Evaluation Costs

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

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

Geological and geophysical costs are charged against income when incurred. The costs directly associated with an exploration well are capitalized as 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 compared to their recoverable amounts. Impairment losses are recognized, as identified, in the consolidated statement of comprehensive income.

Development Costs

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

Asset Exchanges

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

Property, Plant and Equipment

Carrying Value

Property, plant and equipment are stated at cost less accumulated depreciation and depletion and accumulated impairment losses. The initial cost of 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 producing' reserves.

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

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

Impairment

At the end of each quarter, the Company reviews the property, plant and equipment for circumstances that indicate that the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing, which is the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is 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, for example, when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred less interest income earned. Where surplus funds are available for a short term out of borrowed money specifically to finance a project, the income generated from such short-term investments reduces the total capitalized borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using the weighted average of rates applicable to Trilogy's general borrowings during the period. All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period these are incurred.

Financial Instruments

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

Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial assets and liabilities at fair value through profit or loss 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 of loss. Gains or losses on financial assets and liabilities are recognized at fair value in the consolidated statement of comprehensive income.

Loans and Receivables

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

Financial liabilities at amortized cost

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

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

Fair Value

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

Provisions

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

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

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

Decommissioning and Restoration

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

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

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

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

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

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

Revenue Recognition

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

Cash and Cash Equivalents

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

Share-based Payments and Management Compensation

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

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

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date").

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting periods have accrued and Trilogy's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized from the beginning to the end of that period. Trilogy accrues a cash bonus calculated with reference to dividends declared in conjunction with unexercised stock options outstanding. Upon vesting of those options, such amounts accrued are paid by the Company.

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

Dividends

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

Share Capital

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). Shares held in trust for the benefit of Trilogy's employees under the Company's share incentive plan are deducted from the total outstanding shares in computing EPS. Trilogy's potentially dilutive shares are comprised of share options granted on Common Shares to employees and shares held in trust the share incentive plan.

5. NEW ACCOUNTING PRONOUNCEMENTS

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

(i) *IAS 1, Financial statement presentation, regarding other comprehensive income.* The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

(ii) *IFRS 7, Financial instruments: Disclosures, on asset and liability offsetting.* This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS

financial statements to those that prepare financial statements in accordance with US GAAP.

(iii) *IFRSs10, 11 and 12 on transition guidance.* These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

(iv) *IFRS 10, Consolidated financial statements.* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

(v) *IFRS 11, Joint arrangements.* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

(vi) *IFRS 12, Disclosures of interests in other entities.* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

(vii) *IFRS 13, Fair value Measurement.* IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

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

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

6. RESTRICTED CASH

The Company has a subsidiary with a cash balance of $5.4 million that is restricted for settlement against an equivalent amount recorded within accounts payable and accrued liabilities.

(in thousand Canadian dollars except as otherwise indicated)

7. TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-interest bearing and are generally on 25 to 60 day terms. As at December 31, 2012 and 2011 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, 2012	December 31, 2011
Petroleum and natural gas sales and processing income	**45,907**	37,725
Joint venture receivables	**18,578**	14,865
Advances and other	**493**	2,096
	64,978	54,686

	December 31, 2012	December 31, 2011
Current to 90 days	**62,481**	52,293
Greater than 90 days	**2,497**	2,393
Total trade receivables	**64,978**	54,686

(in thousand Canadian dollars except as otherwise indicated)

8. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at December 31, 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
Additions	**328,242**	**3,424**	**331,666**
Transfers from intangible exploration and evaluation assets	**42,232**	**-**	**42,232**
Acquisitions	**-**	**-**	**-**
Disposals	**(124)**	**-**	**(124)**
Balance at December 31, 2012	**2,415,736**	**13,490**	**2,429,226**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
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
Depletion and depreciation charge	**222,473**	**1,107**	**223,580**
Impairment charge, net of reversals (Note 11)	**715**	**-**	**715**
Disposals	**2**	**-**	**2**
Balance at December 31, 2012	**1,415,865**	**8,701**	**1,424,566**
Net carrying value			
At December 31, 2011	852,711	2,472	855,183
At December 31, 2012	**999,871**	**4,789**	**1,004,660**

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 $47.3 million as at December 31, 2012 (December 31, 2011: $34.7 million) include development assets under construction and field inventory that are not being depreciated. No borrowing costs were capitalized to property, plant and equipment in respect of the referenced periods.

(in thousand Canadian dollars except as otherwise indicated)

9. EXPLORATION AND EVALUATION ASSETS

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
Balance at December 31, 2010	55,955	14,303	70,258
Additions	38,101	34,196	72,297
Expensed	(3,851)	(9,847)	(13,698)
Transfers to property, plant and equipment	(1,871)	(17,613)	(19,484)
Balance at December 31, 2011	88,334	21,039	109,373
Additions	**1,027**	**29,934**	**30,961**
Expensed	**(5,043)**	**(17,738)**	**(22,781)**
Transfers to property, plant and equipment	**(12,417)**	**(29,815)**	**(42,232)**
Acquisitions	**494**	**-**	**494**
Dispositions	**(462)**	**-**	**(462)**
Balance at December 31, 2012	**71,933**	**3,420**	**75,353**

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

	Twelve months ended December 31	
	2012	**2011**
Expired mineral leases	**5,043**	4,449
Impairment charge, net of reversals (Note 11)	**17,738**	9,249
	22,781	13,698
Geological and geophysical costs	**2,119**	976
Exploration and evaluation expenditures	**24,900**	14,674

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

(in thousand Canadian dollars except as otherwise indicated)

10. Goodwill

	2012	2011
Cost		
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
Accumulated impairment losses		
At January 1	**-**	-
Impairment losses recognized in the year	**-**	-
Balance at December 31	**-**	-
Net Book Value at December 31	**140,471**	140,471

Goodwill was assessed for impairment as at December 31, 2012. 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, 2012 and 2011.

As at December 31, 2012 and December 31, 2011, the recoverable amounts exceeded the aggregated carrying values of the cash-generating units. Accordingly, no impairments to goodwill were recorded.

11. IMPAIRMENT LOSS/ (RECOVERY)

	Twelve months-ended December 31, 2012	Twelve months-ended December 31, 2011
Impairment Losses recorded within:		
Exploration and evaluation	**17,738**	9,249
Property, plant and equipment	**715**	-
	18,453	9,249
Reversal of Previously Booked Impairments		
Exploration and evaluation	**-**	-
Property, plant and equipment	**-**	-
Total impairment losses (recovery)	**18,453**	9,249

An impairment of $0.7 million was recorded on property, plant, and equipment in respect of a CGU in the Grande Prairie area of Alberta; the impairment was primarily a function of reduced estimated future commodity prices on the assets' net recoverable amount. An impairment of $17.7 million was recorded on certain of the Company's exploration and evaluations assets upon transfer to property, plant and equipment. The impairment represents costs incurred in excess of the benefit Trilogy expects to obtain from the wells.

(in thousand Canadian dollars except as otherwise indicated)

The Company determined the recoverable amounts for its CGU's 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 or exploration and evaluation asset. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating costs structures and commodity prices. In computing the recoverable amount, future cash flows were adjusted for risks specific to the CGU and discounted using a after-tax discount rate of 10 percent (2011: 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, 2012 and December 31, 2011 are as follows:

December 31, 2012

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

December 31, 2011

		2012	2013	2014	2015	2016
AECO Gas	Cdn$/MMBtu	3.45	4.04	4.53	5.02	6.00
Edmonton	Cdn$/Bbl	98.00	99.00	99.96	100.92	101.88
Condensate	Cdn$/Bbl	102.90	101.97	102.96	103.95	104.93
West Texas Intermediate	U.S.$/Bbl	100.00	101.00	102.00	103.00	104.00

12. INCOME TAX

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

	2012	2011
Profit (loss) before tax	**(12,093)**	25,042
Expected income tax rate	**25.0%**	26.5%
Expected income tax	**(3,024)**	6,636
Non-deductible share-based compensation	**3,060**	1,343
Statutory rate changes	**-**	(454)
Other	**4**	102
Income tax expense (recovery)	**40**	7,627

(in thousand Canadian dollars except as otherwise indicated)

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

Net Deferred Income Tax Asset/(Liability)	Property, Plant, & Equipment	Risk Management	Decommissioning Liabilities	Losses & Other	Total
At December 31, 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
(Charge) to earnings	**406**	**(2,200)**	**3,531**	**(1,777)**	**(40)**
Acquisition of subsidiary	**-**	**-**	**-**	**500**	**500**
At December 31, 2012	**(116,650)**	**(724)**	**49,447**	**168,415**	**100,488**

The $0.04 million deferred income tax expense was charged to the consolidated statement of comprehensive income. No income tax amounts were recorded directly to equity.

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

Trilogy has tax losses of $736 million that are available for carry forward against future taxable income of the entities in which the losses arose. Of this amount, a deferred tax asset has been recognized for $667 million of the losses, representing the Company's probable estimate of future taxable income that can be applied to the total losses.

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

	December 31, 2012	December 31, 2011
Deferred Income Tax Assets		
Deferred tax assets to be recovered within 12 months	**-**	44,476
Deferred tax assets to be recovered after more than 12 months	**217,862**	172,608
	217,862	217,084
Deferred Income Tax Liabilities		
Deferred tax liabilities to be settled within 12 months	**(724)**	-
Deferred tax liabilities to be settled after more than 12 months	**(116,650)**	(117,056)
	(117,374)	(117,056)
Net Deferred Income Tax Assets	**100,488**	100,028

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

(in thousand Canadian dollars except as otherwise indicated)

13. TRADE AND OTHER PAYABLES

	December 31, 2012	December 31, 2011
Trade payables	**16,850**	23,242
Joint venture payables	**4,871**	3,596
Accrued liabilities	**91,659**	92,137
	113,380	118,974

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

14. DIVIDENDS PAYABLE

Dividends declared were $0.42 per Share for the twelve months ended December 31, 2012 and December 31, 2011, respectively. The dividend payable was $4.1 million ($0.035 per Share) as at December 31, 2012 and December 31, 2011, respectively.

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

15. LONG-TERM DEBT

Revolving Credit Facility

Trilogy has a revolving senior secured credit facility with a syndicate of Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions. The credit facility, as at December 31, 2012, has the following significant terms:

- total commitments of $610 million, consisting of a $35 million working capital tranche and a $575 million revolving tranche.
- a maturity date of April 30, 2014.
- the working capital and revolving tranches are subject to semi-annual borrowing base reviews.
- advances drawn on the credit facility are secured by a fixed and floating debenture charge over the assets of the Company.

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

- a ratio of Consolidated Debt to "EBITDA" *(earnings before interest, taxes, depreciation and amortization)* for the twelve month period then ended of not greater than 4.0. Consolidated debt generally includes all long-term debt and net working capital (excluding financial instrument assets and liabilities therein).

(in thousand Canadian dollars except as otherwise indicated)

- a ratio of Senior Debt to EBITDA Ratio for the twelve month period then ended of not greater than 3.0. Senior Debt is generally defined as Consolidated Debt but excluding any indebtedness under the Senior Unsecured Notes;

The Company is in compliance with all debt covenants.

The Company has undrawn letters of credit totalling $14.3 million as at December 31, 2012 (December 31, 2011: $8.6 million). These letters of credit reduce the amount available for draw under the Company's working capital tranche.

Senior Unsecured Notes

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

The Company, may at its own option, prior to December 15, 2015, redeem the notes at various premiums. To the extent the Company experiences a change in control, each note holder will have the right to require the Company to re-purchase, at 101 percent, all or part of each holders' notes. The notes were initially recognized at fair value net of transactions costs and are subsequently measured at amortized cost using an effective interest rate of 7.53 percent.

Long-term debt as at December 31, 2012 and 2011 is comprised of the following:

	Twelve months-ended December 31, 2012	**Twelve months-ended December 31, 2011**
Revolving credit facility	**299,004**	414,555
Less prepaid interest and unamortized financing costs	**(870)**	(1,306)
Carrying value	**298,134**	413,249
Senior unsecured notes	**300,000**	-
Less unamortized financing costs	**(5,809)**	-
Carrying value	**294,191**	-
Total carrying value of long term debt	**592,325**	413,249

(in thousand Canadian dollars except as otherwise indicated)

16. DECOMMISSIONING AND RESTORATION LIABILITY

	Twelve months-ended December 31, 2012	Twelve months-ended December 31, 2011
Balance - beginning of period	**183,665**	177,144
Liabilities incurred	**9,825**	8,629
Liabilities settled	**(2,754)**	(1,946)
Accretion	**4,849**	5,777
Revision to estimates	**2,203**	(5,939)
Balance – end of period	**197,788**	183,665

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $224.4 million as at December 31, 2012 (December 31, 2011: $203.4 million).

Settlement of this obligation is expected to be paid from 10 to 30 years and will be funded from the general resources of the Company. The estimated future cash out flows as at December 31, 2012 and December 31, 2011 have been discounted using an average risk free rate of approximately 2.6 percent and an inflation rate of 2.0 percent, respectively**.**

17. SHARE-BASED PAYMENT PLANS

The share-based payment expense recognized for employee services received for the three-month comparative periods are as follows:

	Twelve months ended December 31	
	2012	2011
Expense arising from:		
Share Incentive Plan	**4,595**	5,953
Share Option Plan	**11,632**	4,890
Total expense arising from share-based payment transactions	**16,227**	10,843

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.

(in thousand Canadian dollars except as otherwise indicated)

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

	Twelve months-ended December 31, 2012	Twelve months-ended December 31, 2011
Beginning	**168,814**	295,481
Purchases	**166,200**	165,000
Vested	**(233,624)**	(291,667)
Ending	**101,390**	168,814

The cost to the Company of the Common Shares held in trust as at December 31, 2012 was $2.4 million and $2.5 million at December 31, 2011 and was recorded as a reduction to Common Shares outstanding and shareholder capital. Conversely, the vesting of Share Incentive Plan awards increases Common Shares outstanding and shareholder capital, respectively.

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

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

	Twelve months-ended December 31, 2012		Twelve months-ended December 31, 2011	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at January 1	**$ 16.39**	**5,984,000**	$ 9.11	5,870,000
Granted	**28.26**	**1,790,000**	38.57	1,512,000
Exercised	**$9.81**	**(488,100)**	9.87	(1,336,000)
Forfeited	**20.06**	**(28,000)**	8.92	(62,000)
Outstanding at period end	**$19.77**	**7,257,900**	$ 16.39	5,984,000
Exercisable at period end	**$ 11.08**	**2,740,900**	$ 8.26	1,716,000

The weighted average fair value of options granted during the period was $9.86 per option (2011: $10.89). The significant inputs into the model were as follows:

	December 31, 2012	December 31, 2011
Dividend yield (percent)	**1.51 to 1.54**	**1.13 to 3.5**
Expected volatility (percent)	**47 to 48**	**45 to 47**
Risk-free interest rate (percent)	**1.32 to 1.38**	**1.21 to 1.6**
Expected life of options (years)	**4 - 5**	**2.75 - 5**

(in thousand Canadian dollars except as otherwise indicated)

The weighted average share price at the date of exercise for share options exercised in 2012 was $27.36 (2011: $24.03).

The range of exercise prices of the outstanding options and exercisable options as at December 31, 2012 are as follows:

Exercise Price Range	Weighted Average Contractual Life Remaining	Outstanding Options: Number of Options	Outstanding Options: Weighted Average Exercise Price	Exercisable Options: Number of Options	Exercisable Options: Weighted Average Exercise Price
$4.85 to $8.90	1.4	2,424,900	$6.69	1,905,400	$6.54
$8.97 to $12.15	3.2	1,561,000	12.49	540,000	12.09
$12.30 to $38.74	4.9	3,272,000	33.03	295,500	38.52
Total	3.3	7,257,900	$19.77	2,740,900	$11.08

18. ISSUED CAPITAL

Authorized

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

Issued and Outstanding and Fully Paid

The following provides a continuity of outstanding share capital:

	Common Shares	Non-Voting Shares	Total[1]		Amount
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
Shares as at December 31, 2011	**85,282,296**	**30,835,862**	**116,118,158**	$	**877,682**
Issued - Share Option Plan	**488,100**	**-**	**488,100**		**6,045**
Cancellation and issuance	**5,000,000**	**(5,000,000)**	**-**		**-**
Share Incentive Plan purchases	**(166,200)**	**-**	**(166,200)**		**(3,989)**
Vesting of Share Incentive Plan awards	**233,624**	**-**	**233,624**		**4,020**
Common Shares and Non-Voting Shares as at December 31, 2012	**90,837,820**	**25,835,862**	**116,673,682**	**$**	**883,758**

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

(in thousand Canadian dollars except as otherwise indicated)

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

19. EARNINGS (LOSS) PER SHARE

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

	Twelve months ended December 31	
	2012	**2011**
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**(12,133)**	17,415
Weighted average number of shares for the purposes of basic earnings per share	**116,418,403**	115,548,433
Effect of dilution	**NIL**	3,319,768
Weighted average number of shares for diluted earnings per share	**116,418,403**	118,868,200
Earnings (loss) per share – Basic	**(0.10)**	0.15
Earnings (loss) per share – diluted	**(0.10)**	0.15

At December 31, 2012, the Company 2,921,104 of potentially dilutive share options.

20. RECONCILIATION OF CHANGES IN NON-CASH WORKING CAPITAL

	Twelve months ended December 31	
	2012	**2011**
Decrease (increase) in trade, other receivables and prepaids	**(10,698)**	(4,084)
Increase (decrease) in trade, other payables and interest payable	**(4,463)**	39,747
	(15,161)	35,663
Changes in non-cash operating working capital	**(6,590)**	(2,749)
Changes in non-cash investing working capital	**(8,571)**	38,412

21. RELATED PARTY TRANSACTIONS

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

- Pursuant to a services agreement, a Paramount subsidiary provides limited administrative services to the Company. The agreement may be terminated by either party with at least six months written notice. The amount of expenses billed and accrued under this agreement was $0.3 million for the twelve months ended December 31, 2012 (December 31, 2011 - $0.3 million). Costs associated with this agreement are included as part of the general and administrative expenses in the Company's consolidated statement of comprehensive income.

(in thousand Canadian dollars except as otherwise indicated)

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

	Twelve months ended December 31	
	2012	**2011**
Joint venture activites billed by Trilogy to Paramount	**7,316**	7,983
Joint venture activities billed by Paramount to Trilogy	**13,436**	1,806

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

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

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)

The receivables and payables are unsecured in nature and bear no interest. No provisions were held against receivables or payables from Paramount through 2012 and 2011.

22. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

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

Credit Risk

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

(in thousand Canadian dollars except as otherwise indicated)

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

	December 31, 2012	December 31, 2011
Cash and marketable securities	**5,369**	-
Trade and other receivables	**64,978**	54,686
Derivatives Financial Instruments[1]	**2,897**	134
	67,875	54,820

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

Liquidity Risk

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

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

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

[1] Estimated interest related to the revolving credit facility for future periods was calculated using the weighted average interest rate for the year ended December 31, 2012 applied to the debt principal balance outstanding as at that date. Principal repayment is assumed on April 30, 2014. Estimated interest related to the unsecured senior notes for future periods was calculated using the coupon interest rate of 7.25 percent applied to the principal balance. Principal repayment is assumed on December 13, 2019.

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.

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

Commodity Price Risk

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

To protect cash flow against commodity price volatility, Trilogy may use derivative commodity price contracts that require financial settlement with counterparties. Derivative contracts are generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production (see note 23 for details of outstanding financial instruments as at December 31, 2012).

Sensitivity Analysis on derivative contracts outstanding at December 31, 2012

As at December 31, 2012, if the forward price of oil had been $10 per barrel lower, with all other variables held constant, net earnings for the year would have increased $18.2 million, due to changes in the fair value of the financial contracts. An equal and opposite impact would have occurred to net earnings had oil prices been $10 per barrel higher.

Interest Rate Risk

As described in note 15, Trilogy's credit facility is subject to floating interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The interest rate margin is determined 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 (see note 23 for details of outstanding financial instruments as at December 31, 2012). Assuming all other variables remain constant, an increase or decrease of 1 percent in market interest rates for the year ended December 31, 2012 would have decreased or increased shareholders' equity and comprehensive net income by $5.1 million (2011 - $3.7 million).

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

Sensitivity Analysis on derivative contracts outstanding at December 31, 2012

As at December 31, 2012, 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 increased $2.0 million, 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 by 100 basis points.

Foreign Currency Risk

Foreign currency rate fluctuations may impact the Company primarily in conjunction with normal conversions of U.S. dollar denominated revenues into the Canadian dollar. Approximately 8 percent of Trilogy's petroleum and natural gas sales for the twelve months ended December 31, 2012 were denominated in the U.S. dollars. Trilogy may enter into derivative currency contracts to mitigate the impact of foreign currency fluctuations (see note 23 for details of outstanding financial instruments as at December 31, 2012).

Sensitivity Analysis on derivative contracts outstanding at December 31, 2012

As at December 31, 2012, a 100 basis point strengthening of the Canadian dollar against the US dollar, with all other variables held constant, would have decreased profit or loss by a nominal amount, due to changes in the fair value of the financial contracts.. 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 senior notes, revolving credit facility, letters of credit issued as financial security to third parties and shareholders' equity.

The objectives in managing the capital structure are to:

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

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

(in thousand Canadian dollars except as otherwise indicated)

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

	December 31, 2012	December 31, 2011
Committed amount that can be drawn from the credit facility (see note 15)	**610,000**	525,000
Outstanding undrawn letters of credit	**(14,253)**	(8,632)
Amount that can be drawn after letters of credit	**595,747**	516,368
Revolving credit facility	**(298,134)**	(413,249)
Current liabilities net of current assets	**(44,460)**	(77,696)
Capacity under revolving credit facility	**253,153**	25,423

Trilogy's net debt calculated as its long-term debt plus any net working capital deficiency is as follows at December 31:

	December 31, 2012	December 31, 2011
Revoling credit facility (see note 15)	**(298,134)**	(413,249)
Senior notes (see note 15)	**(294,191)**	-
Current liabilities net of current assets	**(44,460)**	(77,696)
Net debt[1]	**(636,785)**	(490,945)

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

The increase in net debt above can be attributed primarily to the significant capital expenditures incurred in 2012 relative to the incremental operating income received to date.

23. FINANCIAL INSTRUMENTS

Carrying Values

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

	December 31, 2012	December 31, 2011
Financial assets		
Restricted cash	**5,369**	-
Receivables[1]	**64,978**	54,686
Financial instruments fair valued through profit and loss[2]	**2,897**	134
Financial liabilities		
Other liabilities - non-trading liabilities[1] [3]	**(118,599)**	(123,044)
Financial instruments fair valued through profit and loss[2]	**-**	(9,961)
Other liabilities - long-term debt[4]	**(592,325)**	(413,249)

(in thousand Canadian dollars except as otherwise indicated)

(1) Carried at cost which approximates the fair value of the assets and liabilities due to the short-term nature of the accounts.
(2) Carried at the estimated fair value of the related financial instruments based on third party quotations.
(3) Consists of accounts payable, accrued liabilities, and dividend payable.
(4) The Company's revolving credit facility debt carries interest based on specified benchmark interest rates plus a spread for the Company's own credit risk. The fair values of the revolving credit facility debt approximates its carrying amount due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk. The carrying value of the senior unsecured notes approximates its fair value at year end given the recency of the debt issuance.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Input other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – inputs that are not based on observable data

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

December 31, 2012

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

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)

Commodity Contracts

At December 31, 2012 the Company had the following outstanding crude oil derivative contracts:

Crude Oil

	Financial Forward Sale	
Term	**Volume (bbls/d)**	**Average USD WTI Price/bbl**
January 1, 2013 to December 31, 2013	5,000	$94.39

(in thousand Canadian dollars except as otherwise indicated)

Foreign Exchange

Weekly ending FX rate trading range: (CAD per USD)		USD sell per week on trading range:			Weekly premium receipt within trading range:	Expiry
Lower	Upper	Below lower	Between range	Above upper		
0.961	1.078	NIL	NIL	$3 million at 1.045	$30 Thousand	March 2013

To the extent the weekly ending foreign exchange rate is:

- above the upper range of 1.078, the Company is committed to selling $3 million USD at 1.045 CAD.
- between the payout range, the Company receives the referenced premium with no commitment to sell USD
- less then the lower range, the Company will not receive the referenced premium with no commitment to sell USD

Interest Swap

The Company has an interest rate swap contract in place on a notional amount of $200 million of long-term debt swapping the floating interest rate on this debt for a fixed interest rate of 0.95% as detailed below:

Fixed Rate	Variable Settlement	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.

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

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

(in thousand Canadian dollars except as otherwise indicated)

The following table summarizes the fair value as at December 31, 2012 and December 31, 2011, and the change in fair value for the twelve months ended December 31, 2012 and December 31, 2011.

	Twelve months-ended December 31, 2012	Twelve months-ended December 31, 2011
Derivative asset, beginning of period	**134**	-
Unrealized change in fair value	**2,763**	134
Derivative asset, end of period	**2,897**	134
Derivative liabiltiy, beginning of period	**(9,961)**	(690)
Unrealized change in fair value	**9,961**	(9,271)
Derivative liabiltiy, end of period	**-**	(9,961)
Unrealized change in fair value for the period	**12,724**	(9,137)

24. GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

	Twelve months ended December 31	
	2012	**2011**
Realized gains (losses)		
Crude oil	**(4,849)**	2,244
Foreign exchange	**1,552**	805
Interest swaps	**524**	32
Sub-total	**(2,773)**	3,081
Unrealized gains (losses)		
Crude oil	**12,094**	(9,299)
Foreign exchange	**232**	29
Interest swaps	**398**	133
Sub-total	**12,724**	(9,137)
Gain (loss) on derivative financial intsruments	**9,951**	(6,056)

(in thousand Canadian dollars except as otherwise indicated)

25. COMMITMENTS

In addition to items disclosed elsewhere in these financial statements, Trilogy had the following off balance sheet commitments as at December 31, 2012:

	2013	2014	2015	2016	2017	2018 and after	Total
Pipeline transportation (1)	10,890	11,014	9,763	1,342	1,242	4,328	38,579
Office premises operating lease (2)	2,624	3,023	3,317	3,317	2,296	-	14,577
Vehicle and energy service commitments	4,938	-	-	-	-	-	4,938
Total	18,452	14,037	13,080	4,659	3,538	4,328	58,094

(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 physical fixed price power purchase contracts as at December 31, 2012:

Quantity	Price (per MWh)	Remaining Term
2 MW/h	$61.40	January - December 2013

26. GENERAL AND ADMINISTRATIVE EXPENDITURES

	December 31, 2012	December 31, 2011
Salaries and other benefits	**24,277**	22,841
Office and communications	**4,229**	4,263
Corporate and other	**2,578**	2,903
Recoveries	**(19,614)**	(17,900)
	11,469	12,107

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

	December 31, 2012	December 31, 2011
Salaries and other short-term benefits	**21,336**	20,000
Other long-term benefits	**2,941**	2,841
Salaries recoveries and reclassifications	**(9,900)**	(8,583)
Sub-total	**14,378**	14,258
Amortization of share-based payment awards	**16,227**	10,843
	30,604	25,101

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

(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:

	December 31, 2012	December 31, 2011
Salaries and other short-term benefits	**1,397**	1,321
Other long-term benefits	**1,347**	1,844
Sub-total	**2,744**	3,165
Amortization of share-based payment awards	**8,879**	5,204
	11,623	8,369

27. SEGMENT REPORTING

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

	Twelve months ended December 31	
	2012	**2011**
Petroleum and natural gas sales:		
Natural gas	**112,923**	169,447
Oil	**267,199**	122,387
Natural gas liquids	**75,574**	89,164
Total petroleum and natural gas sales	**455,697**	380,998

CORPORATE INFORMATION

OFFICERS

J.H.T. Riddell
Chief Executive Officer

J.B. Williams
President and Chief Operating Officer

M.G. Kohut
Chief Financial Officer

G.L. Yester
General Counsel & Corporate Secretary

DIRECTORS

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

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

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

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

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

R.M. MacDonald (2)(3)(4)(5) (6)
Independent Businessman and Corporate Director
Calgary, Alberta

E.M. Shier (3)(5)
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
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) Nominating Subcommittee
(5) Member of the Environmental, Health & Safety Committee
(6) Lead Director

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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.
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 9, 2013
2:00 PM (Calgary Time)