TRILOGY
ENERGY CORP.

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

	Three Months Ended March 31, 2012	Three Months Ended December 31, 2011	Change %
FINANCIAL			
Petroleum and natural gas sales	**108,080**	106,478	2
Funds flow			
From operations [1]	**58,933**	60,494	(3)
Per share - diluted	**0.49**	0.51	(3)
Earnings			
Earnings (loss) before tax	**(2,601)**	(5,247)	(50)
Per share - diluted	**(0.03)**	(0.04)	(35)
Earnings (loss) after tax	**(3,003)**	(4,651)	(35)
Per share - diluted	**(0.03)**	(0.04)	(37)
Dividends declared	**12,215**	12,200	-
Per share	**0.105**	0.105	-
Capital expenditures			
Exploration, development, land, and facility	**180,226**	101,726	77
Acquisitions (dispositions) and other - net	**188**	(67)	(381)
Net capital expenditures	**180,414**	101,659	77
Total assets	**1,391,120**	1,260,364	10
Net debt [1]	**625,796**	490,945	27
Shareholders' equity	**520,384**	530,445	(2)
Total shares outstanding (thousands)			
- As at end of period [2]	**116,216**	116,118	-
OPERATING			
Production			
Natural gas (MMcf/d)	**113**	109	4
Oil (Bbl/d)	**8,023**	6,089	32
Natural gas liquids (Boe/d)	**4,236**	4,095	3
Total production (Boe/d @ 6:1)	**31,012**	28,288	10
Average prices before financial instruments			
Natural gas ($/Mcf)	**2.49**	3.45	(28)
Crude Oil ($/Bbl)	**86.15**	88.72	(3)
Natural gas liquids ($/Bbl)	**51.16**	59.16	(14)
Drilling activity (gross)			
Gas	**17**	7	143
Oil	**14**	15	(7)
D&A	**-**	1	(100)
Total wells	**31**	23	35

[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.

Review of Operations

Operations Update for the First Quarter 2012

- Average production of 31,012 Boe/d
- $180.4 Million net capital expenditures
- Average operating costs $8.56/Boe
- Operating netback $23.08/Boe
- $58.9 Million funds flow from operations
- 31(23.9 net) wells drilled, with a 100 percent success rate
- Drilled 8 horizontal wells into Kaybob Montney Oil Pool
- Drilling 2 horizontal Duvernay shale gas/oil wells over the end of the first quarter

Production

Trilogy's first quarter 2012 production was 31,012 Boe/d, (112.5 MMcf/d of natural gas, 8,023 Bbl/d of crude oil and 4,236 Bbl/d of natural gas liquids), an increase of 10 percent over fourth quarter 2011 production of 28,288 Boe/d and 22 percent over first quarter 2011 production of 25,362 Boe/d. This significant increase in daily production volumes reflects the successful execution of Trilogy's growth strategy through 2011 and into the first quarter of 2012. Crude oil and natural gas liquids production increased from 6,501 Bbl/d in the first quarter of 2011 to 12,259 Bbl/d in the first quarter of 2012, representing an increase from 26 percent to 40 percent of total production. Sales from oil and natural gas liquids represented 76 percent of total sales revenue (before hedges) for the quarter, up from 68 percent in the prior quarter. By yearend, it is anticipated that approximately 90 percent of sales revenue will be derived from oil and natural gas liquids production.

Positive results from Trilogy's horizontal drilling program in the Presley area targeting liquids-rich Montney gas, the continued success of Trilogy's horizontal oil well program in the Kaybob area and the completion of a portion of Company's current infrastructure expansion initiatives contributed to the increase in production. Production volumes increased through the first quarter from 26,632 Boe/d in January and 30,473 Boe/d in February to 35,895 Boe/d in March. April production is estimated to be approximately 38,000 Boe/d and is forecasted to increase through the second quarter in response to positive drilling and completion results achieved during the first quarter and upon the completion of the infrastructure projects associated with the Montney oil pool. Second quarter 2012 production is expected to increase to approximately 40,000 Boe/d as new wells are tied in and construction projects are completed.

As a result of the positive results achieved during the first quarter, Trilogy is maintaining its 2012 production guidance of 40,000 Boe/d, which equates to a projected 43 percent increase in production compared to the previous year.

In the second half of the year, 2012 budgeted capital previously allocated to natural gas projects is expected to be reallocated to oil projects, increasing oil and natural gas liquids production to approximately 45 percent of the Company's total production for 2012 versus 29 percent in the prior year.

Capital Expenditures

During the first quarter of 2012, Trilogy spent $180.4 Million (after disposition proceeds of $0.4 Million) on drilling, completions, production facilities and land acquisitions, as compared to $132.8 Million in the first quarter of 2011. This increase in capital spending reflects the continued development of Trilogy's Montney oil and gas pools in the Kaybob area and the ongoing expansion of the producing infrastructure for these properties. During the quarter, approximately $158 Million was spent to drill, complete and tie in wells and $20 Million was used to construct the production and gathering systems required to handle the increasing Kaybob area production volumes. Capital spending as of the end of the first quarter reflects 60 percent of Trilogy's $300 Million 2012 capital budget. The relative allocation of the Company's capital expenditures for the balance of the year will be addressed in light of changing commodity prices to ensure that Trilogy focuses its capital on higher rate of return crude oil and liquids-rich natural gas projects. At the same time, a portion of Trilogy's capital will continue to be allocated to maintaining its land positions and participating in third-party proposed joint venture operations.

In late March, Trilogy's banking syndicate increased the Company's borrowing base from $525 million to $600 million as a result of Trilogy's positive 2011 reserve additions. This borrowing base increase provided the Company with the opportunity to accelerate its oil development program by drilling 4 additional wells in the quarter, initiate drilling operations on 2 (2.0 net) Duvernay prospects and participate in a number of joint venture operations in the Kaybob and Grande Prairie areas. The increase in Trilogy's net debt, arising primarily from first quarter capital spending, is expected to decrease over the balance of the year as capital spending decreases and revenues increase. Trilogy believes oil and natural gas liquids pricing will remain at current levels for the balance of the year, while natural gas prices may trend lower through the summer months.

Operating Costs

Operating costs in the first quarter of 2012 were $8.56/Boe, down 14 percent from fourth quarter 2011 operating costs of $9.95 /Boe and up 9 percent from the $7.86/Boe reported for the first quarter of 2011. Operating costs for new oil wells are typically higher than those for new gas wells due to the costs associated with maintaining test equipment on site during initial production to ensure that accurate information is obtained for each well. Trilogy has been successful in reducing operating costs over the long term by increasing the percentage of its production that utilizes Trilogy-owned and operated pipelines and production facilities, thereby diluting fixed costs on a per unit of production basis and eliminating substantial third party-capital fees. Trilogy has invested a significant amount of capital over the past two years to maximize the volume of its production that flows through its own infrastructure at Presley, its Kaybob North plant, and more recently at the Kaybob Montney oil pool. This will ensure long term operating costs are reduced in Trilogy's core areas. On each of its major producing properties, Trilogy has endeavored to develop a long term operating and development plan to reduce costs and maximize production. Execution of these plans takes time and a tremendous amount of planning to ensure producing properties are developed and produced at prudent rates.

Trilogy anticipates the combined benefits from its recent infrastructure projects, including the Presley Pipeline, Kaybob North Gas Plant expansion and the new Montney oil infrastructure, together with ongoing cost reduction initiatives, will reduce operating costs for the balance of the year. Forecasted annual operating costs are expected to average $7.00/Boe as compared to 2011 annual operating costs of $8.29/Boe.

Profitability

Operating netback in the first quarter of 2012, on a per unit of production basis, decreased 11 percent to $23.08/Boe as compared to $25.91/Boe in the fourth quarter of 2011. This decrease quarter-over-quarter is attributed primarily to a significant reduction in the price for natural gas and, to a lesser extent, the price for natural gas liquids. The reduction in average sales prices was mitigated significantly by the impact of higher oil production on Trilogy's overall weighted average commodity price per Boe. Realized financial instrument losses on oil volumes hedged, offset, in part, by lower operating costs also contributed to a lower operating netback.

The aforementioned items contributed to a decrease, on a dollar-value basis, of 3 percent on operating netback from $67.4 Million in the prior quarter to $65.1 Million in the first quarter of 2012. Trilogy's increase in oil production relative to total production and the related premiums associated on oil products mitigated, in part, the impact of lower gas and natural gas liquids prices realized.

Drilling and Land Sale Activity

During the first quarter of 2012, Trilogy participated in the drilling of 31 (23.9 net) wells, of which 26 (21.2 net) were located in the Kaybob area and 5 (2.7 net) in the Grande Prairie area. The application of horizontal drilling and completion technology continued in the first quarter as 29 (21.9 net) wells drilled during the quarter were drilled horizontally and the remaining 2 (2.0 net) were drilled as verticals. Drilling and completion results to date have been very positive, resulting in 13.0 net gas wells and 10.9 net oil wells, for an overall success rate of 100 percent. Trilogy believes this high success rate reflects its expertise in the execution of its development and exploitation strategies and the high quality of its drilling inventory. Trilogy intends to continue to target crude oil and liquids-rich natural gas in order to maximize returns and will manage risk by drilling a high percentage of wells in areas believed to have multi-zone development opportunities and adequate producing infrastructure. In addition, risk sharing through joint venture projects will assist to manage exposure on emerging plays in the Kaybob area.

Trilogy acquired 1,280 net hectares at Alberta Crown land sales during the first quarter, for a total expenditure of $0.14 Million. Ongoing evaluation and acquisition of high quality acreage will permit Trilogy to maintain its prospect inventory for future development and potential reserve additions.

Operating Area Updates

Kaybob

Trilogy's drilling operations during the first quarter of this year were primarily focused in the Kaybob area, where Trilogy participated in the drilling of 26 (21.2 net) wells. Of these wells, 24 (19.2 net) wells were successfully drilled horizontally for oil and gas production in the Cardium, Dunvegan, Spirit River, Bluesky, Montney, Mississippian and Duvernay formations. Trilogy continues to evaluate the productivity and reserve potential of these wells in order to assess the additional development and exploitation potential of its acreage.

Through the balance of the year, Trilogy will be focusing its attention on oil plays in the Cardium, Dunvegan, Gething, and Montney formations and on the liquids-rich Duvernay formation in the Kaybob area. Trilogy's land base provides the potential to move from dry gas to liquids-rich gas to oil prospects as economics dictate, providing Trilogy with the flexibility to generate better returns for its shareholders. Trilogy's large land base and producing infrastructure in the Kaybob area has generated a significant asset base that we believe will afford development opportunities for the next decade.

Kaybob Montney Oil Development

During the first quarter, Trilogy drilled 8 wells to further develop the Montney oil pool, bringing the total to 31 wells that have been drilled into the pool, As many as 20 wells were on production during the month of March when production averaged approximately 9,000 Bbl/d of crude oil. Trilogy will complete drilling operations on 1 additional well in the second quarter and will fracture stimulate the well when the oil infrastructure is completed in the second quarter.

Trilogy completed the installation of two 8 inch pipelines in late February, increasing production capacity from approximately 5,000 Bbl/d to 10,000 Bbl/d from the oil pool. Through April and May, Trilogy expects to complete the construction of its field solution gas compression at 16-7-64-18W5M and the installation of a third oil treater and second 10,000 barrel storage tank, increasing capacity at the 12-10-64-19W5M Battery site to 20,000 Bbl/d of liquids handling. Following completion of these projects, Trilogy will have the productive capacity to safely bring on its shut-in wells and increase production above 10,000 Bbl/d.

The following table summarizes field production data for wells that were drilled and completed in 2011 and first quarter 2012. The reported production rates reflect the average producing day rates for the periods provided (volume of crude oil over the number of days produced, in barrels per day after recovery of completion fluid) from inception to April 30, 2012. Infrastructure constraints existed throughout this period requiring Trilogy to manage each well's daily production in order to maximize overall oil production from the field and minimize gas production that constrained the oil infrastructure. Management of the production from these wells creates variability for each individual well's average production day rate. This variability also creates difficulties in comparing production data between multiple wells.

Rig Release	Well	Hz length (m)	Frac stages	1st week (Bbl/d)	1st month (Bbl/d)	2nd month (Bbl/d)	3rd month (Bbl/d)	4-6 months (Bbl/d)	Cum. Prod. (MBbl)
Q4 2010	16-1	1,504	15	673	589	292	191	171	56
Q1 2011	02/3-21	1,158	15	1,760	1,775	902	488	273	112
Q1 2011	13-2	1,381	20	1,668	1,041	599	462	162	77
Q1 2011	9-1	1,546	22	1,122	576	319	157	100	42
Q2 2011	5-17	1,556	22	3,132	2,614	1,134	265		134
Q3 2011	4-21	1,982	27	1,569	1,387	762	681		99
Q3 2011	02/2-11	1,571	22	1,426	758	260	147		34
Q3 2011	1-11	1,565	22	897	588	159	159		39
Q3 2011	13-17	1,552	22	2,612	1,593	559	364		82
Q3 2011	12-17	1,558	22	2,184	1,855	490	800		94
Q3 2011	5-2	1,553	22	1,528	1,049	561	221		56
Q3 2011	4-9	1,558	22	1,325	953	794	332		67

Q3 2011	8-1	1,546	22	515	265	118	94		16
Q4 2011	2-8	1,563	22	443	862	859	663		67
Q4 2011	12-2	1,567	22	971	460	165	171		28
Q4 2011	4-17	1,581	22	1,036	1,073	650	949		87
Q4 2011	1-8	1,553	22	1,218	1,050				51
Q4 2011	3-8	1,565	22	1,216	1,498				75
Q4 2011	02/4-20	1,568	22	434					13
Q4 2011	4-8	1,567	22	1,266	1466				64
Q4 2011	03/2-9	1,559	22	752					8
Q4 2011	3-9	2,357	31	671	758	372			31
Q4 2011	1-21	1,960	27						2
Q1 2012	16-18	1,555	22	1239					28
Q1 2012	02-21	1,964	27	1604	1978				69
Q1 2012	01-09	1,568	22	1,279					13
Q1 2012	02-23	1,962	18	600					7
Q1 2012	01-01	1,600	22	1,282					8
Q1 2012	13-15	1,588	21	2,838					17
Q1 2012	02/04-10	1,571	22						
Q1 2012	03/04-10	1,562	22						

Fox Creek (Iosegun) Montney Exploration Play

Trilogy has followed up on the success of the first 2 Montney oil wells in the Fox Creek pool by drilling a third well at 16-1-63-19W5 ("16-1 well") which was spud on March 22, 2012 and rig released on April 8, 2012. The well was drilled to a measured depth of 3,838 meters including a 1,749 meter horizontal lateral in the Montney formation. The 16-1 well was cased with a liner assembly which will allow a 24 stage fracture stimulation following spring break up.

The second well that was drilled from an existing surface lease at 4-14-63-19W5M to a bottom hole location at 102/13-10-63-19W5M (the "13-10 well") was completed with a 21-stage fracture stimulation on December 19, 2011. Surface equipment has been installed to chemically treat and remove H2S from the solution gas so the well can be temporarily tied into the existing sweet gas gathering system with the expectation that it will be placed on production in the second quarter through the temporary facilities.

Trilogy holds a 100% working interest in the 3 wells that have been drilled into this pool to date and in substantially all of the land believed to be associated with the new pool. Trilogy is pleased with the initial results from both of the completed wells. During the remainder of the year, the Company will evaluate the new completion and production information from these wells to evaluate further pool delineation and determine the productivity and reserve potential of the new pool. It is anticipated that 2 to 4 additional wells will be required to further delineate the new pool and justify expanding the existing sour gas and oil gathering systems. Timing of these capital expenditures will be determined following a full evaluation of all oil opportunities in the Kaybob and Grande Prairie areas.

Presley Montney Gas Development

Positive drilling and completion results from 8 Presley area horizontal Montney wells drilled in the quarter added approximately 30 MMcf/d of additional natural gas production late in the first quarter. This production comes from 6 of the 8 wells drilled. The remaining 2 wells will be tied-in following break up and as capacity in the field compression becomes available. Initial production from new Montney horizontal gas wells are typically in the 8 to 12 MMcf/d range; however the new higher pressure wells back out some of the existing lower pressure production until the pressure in the gathering system drops to normal operating pressures.

Continued developments in horizontal drilling and completion technology have allowed industry the opportunity to increase the length of the lateral wellbore and the number of fracture stages available per horizontal well to as many as 35 stages using ball drop fracture stimulation systems. Early production information from the 15-25-59-20W5 well supports the effectiveness of these extended reach horizontal wellbores with production averaging 11.6 MMcf/d for the initial seven days and 11.8 MMcf/d for the first 30 days. This well appears to be declining at a rate lower than the average one mile horizontal leg which would typically recover an estimated 3 Bcf per well. During the quarter Trilogy drilled its second long lateral at 16-35-58-21W5 and completed it with a 28 stage fracture stimulation over its 2,670 meter lateral length. This well was placed on production March 27 and averaged 10.9 MMcf/d over the first seven producing days. Trilogy will continue to monitor the production of these long lateral wellbores and evaluate where they can be used in the field.

Duvernay Shale Gas Development

Trilogy participated in the third joint venture Duvernay horizontal well at 13-36-60-20W5 (the “13-36 well”) with its partners Celtic Exploration Ltd. and Yoho Resources Inc. The 13-36 well was drilled in the fourth quarter 2011 and fracture stimulated in 25 intervals over 15 stages in December 2011. The well began producing on February 9, 2012. After 30 days, the well was producing at 4.4 MMcf/d with approximately 100 Bbls/MMcf of condensate from its 1,727 meter lateral section.

During the first quarter of 2012, Trilogy participated in the drilling of its fourth joint venture Duvernay horizontal well at 5-11-60-20W5 (the “5-11 well”). Following being spud on January 4, 2012 from a surface location at 4-14-60-20W5, the 5-11 well encountered some challenging drilling conditions and was ultimately drilled to 4,352 meters measured depth, approximately 640 meters short of the planned total depth. A 13-stage packer assembly was successfully run into the 873 meter lateral section. The well was rig released on March 9, 2012, at a cost of approximately $6 million. Completion and tie-in of the 5-11 well is scheduled after spring break-up in the third quarter of 2012.

Trilogy initiated drilling operations on a 100 percent working interest Duvernay horizontal well at 5-3-60-19W5 (the “5-3 well”), which spud on March 11, 2012 from a surface location at 9-5-60-19W5. The 5-3 well reached total depth of 5,306 meters on April 15 and was cased with a 16 stage (31 fracture interval) packer assembly over its 1,753 meter horizontal length. Field costs for the drilling and liner assembly are estimated to be $6.5 million. Completion and tie-in operations are anticipated to begin in the third quarter, at an estimated cost of approximately $5 million for the completion and $0.5 million for the tie-in.

Trilogy also spud the 4-3-64-21W5 horizontal Duvernay well (the “4-3 well”) on 100 percent working interest acreage on March 4, 2012. The 4-3 well is located approximately 40 kilometers northwest of the 5-3 well. The Duvernay is approximately 30 meters thick and is expected to have higher liquids yield as compared to the 100 Bbls/MMcf that is currently being produced from horizontal Duvernay wells to the south. The 4-3 well was drilled to a total measured depth of 4,800 meters and rig released on April 27, 2012 at a cost of approximately $7.0 million. The 1,648 meter lateral in the Duvernay formation will be completed in 30 intervals over 16 separate stages. Completion and tie-in operations are forecast to start following break up and are expected to be completed by the end of the third quarter of 2012.

Trilogy has budgeted $40 million to evaluate the Duvernay formation and manage its expiring acreage in 2012. The process of surveying, acquiring surface land and preparing the lease is currently underway on Duvernay prospects throughout the Kaybob area. By year-end, with continued economic success, it is anticipated Trilogy can begin to plan the development of the Duvernay formation across its land base by leveraging the knowledge gained through operated and non-operated activities, and pursuant to data exchange arrangements entered into with third parties since the play's inception in mid-2010.

Dunvegan Oil Development

Through 2011 and the first quarter of 2012, Trilogy participated in the drilling of 4 (1.3 net) horizontal oil wells targeting the Dunvegan formation. It is expected that up to 7 (3.0 net) additional horizontal oil wells could be drilled in the remainder of 2012. Trilogy has surveyed seven multi-well pads to facilitate development of higher working interest lands. Two 100 percent working interest wells are expected to be drilled in the third quarter. With continued drilling and completion success and the construction of a centralized sweet oil battery, Trilogy will continue its development drilling in 2013.

The following table summarizes Trilogy's working interest in the Dunvegan wells drilled and proposed for the balance of the year.

	Location	W.I.	TD (m)	Hz length (m)	On production	Cum (Mbbls)
Q4 2011	12-16-60-17W5	12.5%	3100	1404	Oct 17, 2011	40.2
Q1 2012	3-23-60-18W5	18.8%	3275	1410	Jan 2, 2012	13.2
	8-6-61-18W5	50%	3283	1300		
	02/13-12-61-19W5	50%	2885	1065		
Q2 2012	1-10-60-18W5	12.5%	3171	1360		
	02/13-34-60-18W5	12.5%	3129	1318		
	02/13-27-60-18W5	9.4%	3200 (est)			
	4-3-61-18W5	17.0%	3170 (est)			
Q3 2012	4-7-61-18W5	50%	3360 (est)			
	12-4-61-18W5	100%	3150 (est)			
	3-33-60-18W5	100%	3150 (est)			

Grande Prairie

During the first quarter of 2012, Trilogy participated in 5 (2.8 net) horizontal drills and cumulative capital spent was approximately $19 million of the proposed $35 million annual capital budget for the area. At Wembley, Trilogy's first horizontal Nikanassin oil well was drilled and completed in February. The well averaged approximately 1,100 Bbl/d of oil in the first week of production and 700 Bbl/d over the first 30 producing days. The well produced on clean up for the months of February and March and is now shut in until a battery can be upgraded to handle the increased volumes. It is anticipated that construction of the battery will begin in July. Trilogy plans to drill a second horizontal Nikanassin oil well in the third quarter, to be brought on production when the battery expansion is completed.

Trilogy drilled and participated in 2 Lower Doig horizontal wells and 2 Lower Montney wells in the Valhalla area. The Lower Doig wells test flowed at rates of 5.5 over 2 days and 8 MMcf/d over 1.5 days, respectively. The 2 Lower Montney wells will be completed in the third quarter when capacity is available.

In the Grande Prairie area, producers are starting to shut in gas production and 3 of Trilogy's non-operated low working interest gas wells have been shut in by the operator. February and March production averaged approximately 1,800 Boe/d, however April through July production will decrease to approximately 1,500 Boe/d while the Wembley battery expansion is being completed. Trilogy has approximately 4 to 5 MMcf/d gas production shut in due to capacity limitations in the Valhalla area. These restrictions are expected to be removed in the third quarter when non-operated facilities are completed by the joint well operator.

Risk Management

Trilogy's management and Board of Directors believe that hedging a portion of production is prudent to support the Corporation's dividend policy and capital spending programs. Trilogy currently has 3,276 barrels per day of crude oil hedged for the balance of the year at approximately $90.47 /Bbl (WTI). Trilogy will continue to evaluate opportunities to hedge oil production as exploitation of the Kaybob Montney oil pool continues, to ensure that we realize sufficient cash flow to grow this developing asset. A summary of Trilogy's hedging contracts are available in notes 17 and 18 of the Interim Consolidated Financial Statements.

Outlook

Trilogy has continued to expand its land position and technical expertise in large, tight liquid rich gas and oil resource plays in the deep basin, resulting in the accumulation of a large inventory of high quality vertical and horizontal drilling prospects that should enable Trilogy the opportunity to grow production, replace produced reserves and maintain a meaningful dividend for its shareholders. Trilogy reaffirms its annual guidance for 2012 as follows:

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

Trilogy's net debt traditionally peaks in April and May of each year due to the fact that approximately 50 to 60 percent of it annual capital expenditures are incurred in the first quarter of the year. Trilogy has planned for this by increasing its borrowing base to $600 million. Net debt is expected to be reduced through the balance of the year from increased cash flow from the growing Montney and Dunvegan oil production and non core asset dispositions in the Grande Prairie area. Proforma debt to cash flow at year-end is estimated to be 1.4 to 1.6 times cash flow.

In the current commodity price environment, Trilogy plans to manage its balance sheet through production replacement, prudent asset management and continued control over operations. As a growth-oriented corporation, Trilogy must remain flexible in order to respond to volatility in commodity prices and take advantage of government incentive programs. The remainder of 2012 may see continued depressed natural gas prices as demand and supply forces in the North American natural gas markets come into balance. Trilogy believes it can manage its assets prudently through this potentially difficult period as its production base increasingly trends to an oil and liquids rich composition. Trilogy is confident in its strategy, its high quality assets and the proven expertise of its employees.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") for the three months ended March 31, 2012, and should be read in conjunction with the Company's interim consolidated financial statements, the ("Interim Financial Statements) and related notes for the same three months-ended and its annual consolidated financial statements and MD&A for the year-ended December 31, 2011. The Interim Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of May 2, 2012.

FINANCIAL AND OPERATING HIGHLIGHTS

- Reported sales volumes for the first quarter of 2012 averaged 31,012 Boe/d compared to 28,288 Boe/d for the previous quarter, representing a 10 percent increase over the sales volumes for the prior quarter.
- Oil sales volumes increased 32 percent quarter-over-quarter. Combined oil and natural gas liquids sales volumes increased to 40 percent of total sales volumes, from 36 percent in the prior quarter.
- Oil and natural gas liquids sales represented 76 percent of total sales revenue (before hedges), up from 68 percent in the prior quarter.
- Net capital expenditures totaled $180.4 million (60% of annual budgeted capital) for the first quarter of 2012 compared to $101.6 million for the prior quarter.
- In total, 31 (23.9 net) wells were drilled in the quarter. Significant expenditures were made in the quarter drilling 8 Kaybob Montney oil wells, developing the related infrastructure, and spudding 2 (100 percent working interest) horizontal Duvernay shale wells.
- In response to the current low natural gas commodity price environment, Trilogy intends to reallocate a significant portion of its remaining capital expenditure budget to crude oil projects, as the economics on such plays are significantly more attractive given the current pricing environment for crude oil relative to natural gas.
- Funds flow from operations (1) remained relatively consistent at $58.9 million for the first quarter of 2012 as compared to $60.5 million for the previous quarter.
- Dividends to Shareholders for the first quarter of 2012 were $12.2 million or 21 percent of cash flow from operations (prior quarter – 20 percent).

(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 winter resulting in reduced heating demand for gas have given rise to record gas storage levels relative to prior years. The ensuing reduction in natural gas prices may to continue through 2012. Furthermore, increases in the discount differential to world oil prices are resulting in a reduction in the price for oil realized in Canada. Notwithstanding the current price challenges in both the oil and gas markets, Trilogy expects to continue profitably exploiting its current land base, growing production, and paying a meaningful dividend all from internally generated cash-flow. Trilogy is confident in the success of its business model and the ability to provide shareholder value.

Trilogy has continued to realize significant value pursuant to provincial natural gas deep drilling program incentives and other changes effective under the Alberta Royalty Framework. This incentive program and the related royalty framework 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:

	Q1 2012	Q4 2011	Q1 2011
Crude Oil			
West Texas Intermediate monthly average (U.S.$/Bbl)	**104.38**	94.06	94.10
Edmonton Par monthly average (Cdn$/Bbl)	**93.48**	97.26	88.01
Natural Gas			
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**2.51**	3.55	4.13
AECO monthly average (Cdn$/GJ)	**2.39**	3.29	3.58
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.00**	1.02	0.97

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 techniques.

Trilogy's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, the effectiveness of the Company's approach to managing commodity price volatility, capital spending allocations, its ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to, average production per day, average realized prices, average operating costs per unit of production and average annual finding and development cost per unit of reserve additions. Disclosure of these key performance measures can be found in this MD&A and/or previous interim or annual MD&A disclosures.

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	Three Months Ended		
	March 31, 2012	**December 31, 2011**	**March 31, 2011**
Operating income[1]	**68,382**	66,354	53,364
Other income/(losses)	**274**	401	(205)
Realized financial instruments gains/(losses) [2]	**(3,267)**	1,228	(270)
Actual decommissioning and restoration costs	**(247)**	(539)	(737)
Operating netback[1]	**65,142**	67,444	52,152
Interest and financing charges	**(4,294)**	(4,156)	(3,315)
General and administrative expenses	**(1,915)**	(2,794)	(3,252)
Funds flow from operations[1]	**58,933**	60,494	45,585
Non-cash items:			
Depletion and depreciation	**(50,238)**	(46,220)	(31,977)
Gain/ (loss) on unrealized financial instruments[2]	**(2,110)**	(15,463)	(3,093)
Share based compensation	**(4,098)**	(2,668)	(3,752)
Exploration expenditures[3]	**(3,961)**	(4,098)	(6,122)
Other gains/(losses)	**(80)**	3,453	-
Accretion on decommissioning and restoration liability[4]	**(940)**	(613)	(802)
Deferred income tax (expense) recovery	**(402)**	596	(473)
Unrealized foreign exchange gains (losses) and other	**(107)**	(132)	422
Profit (loss) and comprehensive income	**(3,003)**	(4,651)	(212)

(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

FUNDS FLOW FROM OPERATIONS

Funds Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended March 31, 2012	December 31, 2011	March 31, 2011
Sales	**38.30**	40.91	35.05
Transportation costs	**(1.40)**	(1.54)	(1.19)
Royalties	**(4.10)**	(3.93)	(2.62)
Operating costs	**(8.56)**	(9.95)	(7.86)
Operating income[1]	**24.23**	25.50	23.38
Other income (loss)	**0.10**	0.15	(0.09)
Realized financial instruments gains (losses) [2]	**(1.16)**	0.47	(0.12)
Actual decommissioning and restoration costs	**(0.09)**	(0.21)	(0.32)
Operating netback[1]	**23.08**	25.91	22.85
Interest and financing charges	**(1.52)**	(1.60)	(1.45)
General and administrative expenses	**(0.68)**	(1.07)	(1.42)
Funds flow from operations[1]	**20.88**	23.24	19.98

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

[2] See Risk Management section below

Operating Income Items

First Quarter 2012 vs. Fourth Quarter 2011			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**Q1 2012**	**Q4 2011**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**112,517**	108,628	3,889	4
Oil (Bbl/d)	**8,023**	6,089	1,934	32
Natural gas liquids (Boe/d)	**4,236**	4,095	141	3
Total (Boe/d)	**31,012**	28,288	2,724	10
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**2.49**	3.45	(0.96)	(28)
Oil ($/bbl)	**86.15**	88.72	(2.57)	(3)
Natural gas liquids ($/Boe)	**51.16**	59.16	(8.00)	(14)
Average realized prices after financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**2.49**	3.45	(0.96)	(28)
Oil ($/bbl)	**80.93**	90.58	(9.66)	(11)
Natural gas liquids ($/Boe)	**51.16**	59.16	(8.00)	(14)
Petroleum and natural gas sales before financial instruments and before transportation:				
Natural gas	**25,464**	34,491	(9,027)	(26)
Oil	**62,897**	49,696	13,201	27
Natural gas liquids	**19,719**	22,290	(2,571)	(12)
Total petroleum and natural gas sales before financial instruments and before transportation	**108,080**	106,477	1,603	2
Royalties	**(11,580)**	(10,225)	1,355	13
Operating costs	**(24,167)**	(25,903)	(1,736)	(7)
Transportation costs	**(3,951)**	(3,995)	(44)	(1)
Operating income[(1)]	**68,382**	66,354	2,028	3

(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 volumes increased from the prior quarter as a result of new wells coming on production, primarily from Trilogy's Montney oil play. Oil sales increased by $13.2 million due to higher sales volumes ($14.6 million) offset by lower realized prices ($1.4 million). Natural gas sales decreased by $9 million due to lower realized prices ($9.6 million) offset by higher sales volumes ($.6 million). NGL sales decreased by $2.6 million due to lower realized prices ($3.1 million) offset by higher sales volumes ($.5 million).

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

Operating Costs – First quarter operating costs decreased from the prior quarter, in part, due to a decrease in field projects and cost savings associated with increasing its operated infrastructure presence in the Montney gas and oil-rich areas.

First Quarter 2012 vs. First Quarter 2011			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**Q1 2012**	**Q1 2011**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**112,517**	113,167	(650)	(1)
Oil (Bbl/d)	**8,023**	2,273	5,750	253
Natural gas liquids (Boe/d)	**4,236**	4,228	8	-
Total (Boe/d)	**31,012**	25,362	5,650	22
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**2.49**	4.03	(1.55)	(38)
Oil ($/Bbl)	**86.15**	87.33	(1.19)	(1)
Natural gas liquids ($/Boe)	**51.16**	55.36	(4.20)	(8)
Average realized prices after financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**2.49**	4.03	(1.55)	(38)
Oil ($/Bbl)	**80.93**	86.01	(5.09)	(6)
Natural gas liquids ($/Boe)	**51.16**	55.36	(4.20)	(8)
Petroleum and natural gas sales before financial instruments:				
Natural gas	**25,464**	41,068	(15,604)	(38)
Oil	**62,897**	17,866	45,031	252
Natural gas liquids	**19,719**	21,064	(1,345)	(6)
Total petroleum and natural gas sales before financial instruments	**108,080**	79,998	28,082	35
Royalties	**(11,580)**	(5,974)	5,606	94
Operating costs	**(24,167)**	(17,952)	6,215	35
Transportation costs	**(3,951)**	(2,708)	1,243	46
Operating income[(1)]	**68,382**	53,364	15,018	28

(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 $45 million due to higher volumes ($45.2 million) partially offset by lower realized prices ($.2 million). Natural gas sales decreased by $15.6 million due to lower realized natural gas prices ($15.7 million), offset by higher sales volumes ($.1 million). NGL sales decreased by $1.3 million on higher sales volumes ($.3 million), offset by $1.6 million due to lower realized NGL prices.

Royalties – In comparison to last year, royalties were higher, primarily as a result of increased oil production which attract a higher effective royalty rate, partially offset by lower gas royalties in conjunction with a decrease in gas prices. Significant benefits were realized in the year under the Alberta royalty regime, in particular, the Natural Gas Deep Drilling Royalty Program, and the New Well Royalty Rate Program.

Operating Costs – Total operating costs increased in conjunction with higher production. Operating costs on a unit of production basis decreased in comparison to the same period in 2011 as a result of the efficiencies achieved in allocating fixed operating costs over a higher production base. These efficiencies were offset, in part, by higher operating costs associated with increased oil production. However, the premium received on oil production significantly exceeds any incremental operating cost.

OTHER INCOME STATEMENT ITEMS

Depletion and Depreciation Expense

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Reported amount	**50,238**	46,220	31,977
Expense per sales volume ($/Boe)	**17.80**	17.76	14.01

Depletion and depreciation expense increased for the first quarter of 2012 relative to the prior quarters above, primarily due to higher production volumes.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Salaries and other benefits	**6,216**	5,873	5,897
Office and communications	**1,043**	1,112	983
Corporate and other	**498**	755	823
Recoveries and reclassifications	**(5,841)**	(4,948)	(4,538)
Reported amount	**1,915**	2,793	3,165
Expense per sales volume ($/Boe)	**0.68**	1.07	1.39

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 in 2012. Increased sales volumes in 2012, over prior quarters further reduced general and administrative expenses on a per Boe basis.

Share based Compensation

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Share Incentive Plan	**1,089**	1,204	1,178
Share Option Plan	**3,009**	1,464	2,660
Reported Amount	**4,098**	2,668	3,838
Expense per sales volume ($/Boe)	**1.45**	1.03	1.68

The increase in share based compensation expense for 2012 relative to the prior periods was attributed primarily to 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.

Interest and Financing Charges

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2012	**December 31, 2011**	**March 31, 2011**
Accretion on decommissioning and restoration liability	**1,187**	1,152	1,539
Interest and other finance costs	**4,294**	4,156	3,315
Expense per sales volume ($/Boe)	**1.52**	1.60	1.45

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

Interest financing charges increased in the first quarter of 2012 as compared to the previous quarters in conjunction with higher debt levels related to Trilogy's capital expenditure budget.

Exploration Expenditures

(In thousand dollars except as otherwise indicated)

	Three Months Ended		
	March 31, 2012	**December 31, 2011**	**March 31, 2011**
Expired mineral leases	**1,819**	166	955
Dry-hole	**188**	3,616	4,607
Geological and geophysical	**1,954**	316	560
Exploration and evaluation expenses	**3,961**	4,098	6,122

Exploration expenditures consist of exploratory dry holes, costs of uneconomic exploratory wells, geological and geophysical costs and costs of expired leases. The change in exploration and evaluation expenditures between the above periods is due mainly to fluctuations in dry-hole costs and accelerated amortization on expired mineral leases. Increased geological and geophysical costs were incurred in the current quarter relative to prior quarters seismic work was performed in the Presley area.

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 2011 annual consolidated financial statements, March 31, 2012 Interim Financial Statements, the Advisories and other sections of this MD&A as well as the Company's Annual Information Form.

The financial instruments outstanding as at the balance sheet dates are recognized at fair value on Trilogy's balance sheet. The change in the fair value of outstanding financial instruments, which are classified as held-for-trading, is presented as an 'unrealized gain (loss) on financial instruments' in the interim consolidated statements of earnings and other comprehensive income. Gains or losses arising from monthly settlement with counterparties are presented as a 'realized gain (loss) on financial instruments'. The amounts of unrealized and realized gain (loss) on financial instruments during the periods are as follows:

Financial Risks

(In thousand dollars except as indicated)	Three Months Ended March 31, 2012	December 31, 2011	March 31, 2011
Realized gain (loss) on financial instruments	**(3,267)**	1,228	(270)
Unrealized (loss) on financial instruments	**(2,110)**	(15,463)	(2,880)
Total (loss) on financial instruments	**(5,377)**	(14,235)	(3,150)
Realized gain (loss) on financial instruments per Boe ($/Boe)	**(1.16)**	0.47	(0.12)

Trilogy enters into oil, gas, 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 result of an increase in the market price of oil as compared to Trilogy's hedged average price. Refer to notes 18 and 19 of the Interim 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

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

Foreign Exchange

(In thousand dollars except where stated otherwise)

Weekly ending FX rate trading range (CND per U.S)		USD sell per week on trading range			Weekly premium receipt within trading range	Expiry
Lower	Upper	Below lower	Between range	Above upper		
0.961	1.035	See Below	NIL	$3 million at upper range	30	November 2012

To the extent the weekly ending foreign exchange rate is:

- above the upper range, the Company is committed to selling $3 million dollars US at 1.0350 (Canadian);
- between the payout range, the company receives the referenced premium; and
- at any time, if the lower range is reached, the Company receives a payout equal to $15 k for each remaining contracted week.

Interest Rate

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

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

Operational and Other Risks

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

LIQUIDITY AND CAPITAL RESOURCES

(In thousand dollars)

	Mar. 31, 2012	Dec. 31, 2011
Net current liabilities	**134,586**	77,696
Long-term debt	**491,210**	413,249
Net debt[(1)]	**625,796**	490,945
Shareholders' equity	**520,384**	530,445
Total	**1,146,180**	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 the first quarter of 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 $625.8 million at March 31 2012.

Any working capital deficiency is funded by cash flow from operations and draw-downs from the Company's credit facilities. Refer to Capital Management and Liquidity section in the Interim Financial Statements.

Long-term Debt and Credit Facilities

Long-term debt represents the outstanding draws from Trilogy's credit facility as described in the notes to Trilogy's Interim Financial Statements. Trilogy's bank debt outstanding under its credit facility was $493 million (before unamortized interest discount and financing costs) as at March 31, 2012.

During the quarter, Trilogy amended its secured credit facility with a syndicate of Canadian banks. The amendment eliminated the $50 million Development tranche previously extended to the Company and increased its revolving tranche from $440 to $565 million. The working capital tranche remained constant at $35 million. Overall, Trilogy's commitment from its lenders increased $75 million with the amendment. 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 March 31, 2012, has the following significant terms:

- total commitments of $600 million, consisting of a $35 million working capital, and a $565 million revolving tranche;
- a maturity date of April 30, 2014;
- the working capital and revolving tranche are generally subject to semi-annual borrowing base reviews, with the next scheduled review in the third quarter of 2012; and
- advances drawn on the credit facility are secured by a fixed and floating debenture charge over the assets of the Company.

Advances drawn on the credit facility are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facility is not extended or renewed, amounts drawn down under the facility would be due and payable on expiry.

The size of the committed credit facilities is based primarily on the value of Trilogy's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. Note 10 of the Interim Financial Statements provides a comparison of Trilogy's debt structure against the committed amount on existing credit facilities at the listed balance sheet dates therein.

The increase in net debt from $490.9 million at December 31, 2011 to $625.8 million at March 31, 2012 is attributable primarily to the substantial capital spending undertaken in the first quarter of 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 future benefit is realized in future periods. These timing differences can increase Trilogy's debt levels, the repayment of which may occur over future periods. Net debt is expected to be reduced through out the balance of the year through non core asset dispositions and from increased cash flow from increasing oil production mainly from the Montney and Dunvegan formations. Note 17 of the Interim Financial Statements provide a discussion of liquidity and capital management.

Contractual Obligations

An increase of approximately $6.2 million (undiscounted) in pipeline transportation commitments were incurred as at March 31, 2012 in respect of Trilogy's contractual financial obligation from those disclosed at December 31, 2011. For a detailed account of Trilogy's commitments since December 31, 2011, refer to note 25 of the 2011 annual consolidated financial statements.

Shares, Options and Rights

For a detailed account of Trilogy's share capital since December 31, 2011, refer to note 13 of the Interim Financial Statements.

Outstanding share options issued under Trilogy's Share Option Plan were 5,886,500 as at March 31, 2012 and 5,687,000 share options as at the date hereof, of which 1,623,500 share options and 1,429,000 share options were exercisable as at those dates, respectively.

Dividends

(In thousand dollars except where stated otherwise)

	Three Months Ended		
	March 31, 2012	**December 31, 2011**	**March 31, 2011**
Funds flow from operations[1]	**58,933**	60,494	45,585
Net changes in operating working capital	**(856)**	404	1,206
Cash flow from operations	**58,077**	60,898	46,791
Net earnings (loss)	**(3,003)**	(4,651)	(211)
Dividends declared	**12,215**	12,200	12,105
Dividends declared per share (In full amount)	**0.105**	0.105	0.105
Excess of cash flow from operations over dividends declared	**45,862**	48,698	34,686
Excess (Deficiency) of net earnings (loss) over dividends	**(15,218)**	(16,851)	(12,316)

(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 and credit facilities above*) and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Trilogy's payout ratio, calculated as the percentage of dividends declared over cash flow from operations, was 21 percent for the three months-ended March 31, 2012 (26 percent for the three months-ended March 31, 2011).

Capital Expenditures

(In thousand dollars except where stated otherwise)

	Three Months Ended		
	March 31, 2012	**December 31, 2011**	**March 31, 2011**
Land	**137**	39	36,298
Geological and geophysical	**1,953**	316	560
Drilling and completions	**136,120**	75,451	79,260
Drilling incentive credits	**-**	-	1,500
Production equipment and facilities	**42,016**	26,043	18,208
	180,226	101,848	135,826
Proceeds received from property dispositions	**(396)**	(206)	(3,840)
Property acquisitions	**494**	-	511
Corporate assets	**90**	17	279
Net capital expenditures	**180,414**	101,659	132,776

Capital expenditures increased in the quarter as compared to the previous quarter as Trilogy executed a significant portion of its annual capital expenditure budget. Production equipment and facility work was particularly significant in the current quarter in conjunction with the building infrastructure and facility expansion work to bring increasing Montney oil production to market. Capital expenditures for the forth quarter of 2011 were significant as certain projects scheduled for 2012 were accelerated to the 2011 year. The increased capital expenditures were fundamental to increasing Trilogy's production profile.

For the remainder of 2012, capital previously allocated to natural gas projects is expected to be reallocated to oil projects. This reallocation is in response to low natural gas prices and relatively high crude oil prices that the industry is currently experiencing and should provide a superior rate of return for shareholders.

Wells Drilled

	Three Months Ended					
(Number of wells)	**March 31, 2012**		**December 31, 2011**		**March 31, 2011**	
	Gross(1)	**Net(2)**	**Gross(1)**	**Net(2)**	**Gross(1)**	**Net(2)**
Natural gas	**17**	**13.0**	7	2.4	19	13.1
Oil	**14**	**10.9**	15	12.1	2	2.0
Dry & abandoned	**-**	**-**	1	1.0	-	-
Total	**31**	**23.9**	23	15.5	21	15.1

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

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

INCOME TAXES

The Company recorded a future income tax recovery of $0.4 million in the current quarter. Refer to note 8 to the Interim Financial Statements. The Company's statutory tax rate of 25 percent is reduced to an effective tax rate of (15.5) after taking into consideration permanent differences on the Company's share based compensation.

RELATED PARTY TRANSACTIONS

Trilogy had certain transactions with Paramount Resources ("Paramount"), a wholly-owned subsidiary of Paramount Resources Ltd. which owns approximately 16.5 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 for the three months ended March 31, 2012. The Company and Paramount also had transactions with each other arising from normal business activities. These transactions were recorded at fair value similar to third parties.

OUTLOOK INFORMATION

Trilogy reaffirms its annual guidance for 2012 as follows:

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

In response to the current low natural gas commodity price environment, Trilogy intends to reallocate a significant portion of its remaining capital expenditure budget to crude oil projects, as the economics on such plays are significantly more attractive given the current pricing environment for crude oil relative to natural gas.

QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per share amounts)

	Q1 2012	Q4 2012	Q3 2011	Q2 2011
Revenue after financial instruments, royalties and other income	**91,290**	82,287	95,339	89,078
Earnings (loss) before tax	**(2,601)**	(5,246)	19,049	10,977
Net earnings (loss)	**(3,003)**	(4,651)	14,404	7,872
Earnings (loss) per Share (in full amounts):				
Basic	**(0.03)**	(0.04)	0.12	0.07
Diluted	**(0.03)**	(0.04)	0.12	0.07

	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Revenue after financial instruments, royalties and other income	70,878	57,829	56,751	58,167
Income (loss) before tax	262	(9,483)	(9,705)	(5,304)
Net income (loss)	(211)	(7,576)	(7,748)	(2,664)
Income (loss) per Share (in full amounts):				
Basic	NIL	(0.07)	(0.07)	(0.02)
Diluted	NIL	(0.07)	(0.07)	(0.02)

The fluctuations in Trilogy's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact on royalties, and realized and unrealized gains/losses on financial instruments. Please refer to the Results of Operations and other sections of this MD&A for the detailed discussions on changes from the fourth quarter of 2011 to the first quarter of 2012, and to Trilogy's previously issued annual MD&A for changes in prior quarters.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves Estimation

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

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

Exploration and Evaluation Expenditures

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

Impairment of Non-financial Assets

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

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

Decommissioning and Restoration Costs

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

Share-based Payments

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

Deferred Income Tax Assets

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

Financial Instruments

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

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management has assessed the effectiveness of Trilogy's internal controls over financial reporting and disclosures controls and procedures as at March 31, 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 crude oil and natural gas prices; business strategy and objectives; statements regarding providing shareholder value; capital expenditures and the relative allocation of Trilogy's capital budget; future production levels and the natural gas liquids content therein; estimates of drilling prospect inventory and the risk and potential of reserves associated therewith; development plans and the timing, cost and expected benefits thereof, including Trilogy's horizontal well program and associated technology; exploration and development of the Montney, Duvernay, Dunvegan, and other formations and other drilling, construction and facility expansion plans and the timing, cost and expected benefits therefrom; the location, extent, geology and potential for development of the Kaybob and Fox Creek Montney oil pools and the Duvernay shale gas development and the nature of Trilogy's plans to further delineate and exploit these assets; potential application of drilling technologies to other areas and geological formations and projections as to potential reserves associated therewith; statements as to the prospective nature of Trilogy's lands; net revenue and cash flow; approach to and amount of dividends; operating and other costs; royalty rates; estimates of future tax amounts, tax assets and tax pools; applicability of income tax legislation and government incentive and royalty programs affecting Trilogy; expected counterparty risk; credit limits, the cost of borrowing and Trilogy's expectations regarding the term of its credit facility; pro-forma debt levels; projected results of hedging contracts and other financial instruments; and the expected impact of new accounting pronouncements. Statements regarding "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitable produced in the future.

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

- future oil, natural gas and natural gas liquids supply and prices;
- the natural gas liquids content of Trilogy's natural gas;
- future power prices;
- geology applicable to Trilogy's land holdings;
- current reserves estimates;
- drilling and operational results and timing consistent with expectations;
- Trilogy's ability to obtain competitive pricing;
- the ability of Trilogy to market oil and natural gas successfully to current and new customers;
- currency, exchange and interest rates;
- assumptions based on Trilogy's current guidance;
- cash flow consistent with expectations;
- continuity of government drilling and royalty incentive programs and their application to Trilogy's operations;
- the ability of Trilogy to obtain equipment, services and supplies in a timely manner to carry out its evaluations and activities;
- the timing and costs of plant turnaround and pipeline and storage facility construction and expansion and the ability to secure adequate product processing and transportation;
- the timely receipt of required regulatory approvals;
- the ability of Trilogy to obtain financing on acceptable terms;
- the timing and estimate of reversals of temporary differences between assets

and liabilities recorded for accounting and tax purposes; and
- credit facility increases consistent with expectations
- continuity of the mutually beneficial natural gas liquids recovery agreement with Aux Sable Canada LP

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

- fluctuations in oil, natural gas and natural gas liquids prices, foreign currency exchange rates and interest rates;
- volatile economic and business conditions
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- Trilogy’s ability to secure adequate product processing, transmission and transportation;
- the ability of management to execute its business plan;
- risks and uncertainties involving geology of oil and gas deposits including, without limitation, those regarding the extent and development potential of the Kaybob and Fox Creek Montney oil pools;
- risks inherent in Trilogy's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- availability of cost effective goods and services;
- Trilogy's ability to enter into or renew leases;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing, including Trilogy’s ability to extend its credit facility on an ongoing basis and repay debt in accordance with current expectations;
- the ability of Trilogy to add production and reserves through development and exploration activities and establish basis for borrowing base increases;
- weather conditions;
- general economic and business conditions;
- the possibility that government policies, regulations, laws or incentive programs may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and applicability of and change to royalty regimes and incentive programs including, without limitation, the Natural Gas Deep Drilling Program and the Drilling Royalty Credit Program;
- imprecision in estimates of product sales, tax pools, tax shelter, tax deductions available to Trilogy, changes to and the interpretation of tax legislation and regulations applicable to Trilogy, and timing and amounts of reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes.
- uncertainty regarding aboriginal land claims, consultations and co-existence with local populations;
- uncertainty regarding results of third party industry participants’ objections to Trilogy’s development plans;
- risks associated with existing and potential future law suits and regulatory actions against Trilogy;
- hiring/maintaining staff;
- the impact of market competition; and

- other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

Additional information on these and other factors which could affect the Company’s operations or financial results are included in the Company’s most recent Annual Information Form and in other documents on file with the Canadian Securities regulatory authorities. The forward-looking statements or information contained in this document are made as of the date hereof and Trilogy undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Non-GAAP Measures

Certain measures used in this document, including “funds flow from operations”, “operating income”, “net debt”, “finding and development costs”, “operating netback” and “payout ratio” collectively the “Non-GAAP measures” do not have any standardized meaning as prescribed by IFRS and previous GAAP and, therefore, are considered Non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Trilogy to provide shareholders and potential investors with additional information regarding the Company’s liquidity and its ability to generate funds to finance its operations. However, given their lack of standardized meaning, such measurements are unlikely to be comparable to similar measures presented by other issuers.

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

“Operating income” is equal to petroleum and natural gas sales before financial instruments and bad debt expenses minus royalties, operating costs, and transportation costs. “Operating netback” refers to Operating income plus realized financial instrument gains and losses and other income minus actual decommissioning and restoration costs incurred. “Net debt” is calculated as current liabilities minus current assets plus long-term debt. The components described for “operating income”, “operating netback” and “net debt” can be derived directly from Trilogy’s consolidated financial statements.

“Finding and development costs” refers to all current year net capital expenditures, excluding property acquisitions and dispositions with associated reserves, and including changes in future development capital on a proved and proved plus probable basis. “Finding and development costs per Barrel of oil equivalent” (“F&D $/Boe”) is calculated by dividing finding and development costs by the current year’s reserve extensions, discoveries and revisions on a proved or proved plus probable reserve basis.

“Recycle ratio” is equal to “Operating netback” on a production barrel of oil equivalent for the year divided by “F&D $/Boe” (computed on a proved or proved plus probable reserve basis as applicable).

Investors are cautioned that the Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with IFRS, as set forth above, or other measures of financial performance calculated in accordance with IFRS.

Numerical References

All references in this document and Trilogy's functional currency are in Canadian Dollars unless otherwise indicated.

The columns on some tables in this document may not add due to rounding.

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For Q1 2012, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 35:1 ("Value Ratio"). The Value Ratio is obtained using the Q1 2012 average realized oil price of $86.15 (CAD$/Bbl) and the Q1 2012 average realized natural gas price of $2.49 (CAD$/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.

TRILOGY ENERGY CORP.

Consolidated Interim Balance Sheet (unaudited)

(in thousand Canadian dollars)

	Note		March 31, 2012		December 31, 2011
ASSETS					
Current assets					
Trade and other receivables	*16, 17, 18*	$	**57,379**	$	54,686
Derivative financial instruments	*17,18,19*		**995**		134
Prepaids			**833**		489
			59,207		55,309
Non-current assets					
Property, plant and equipment	*6,7*		**1,006,730**		855,183
Exploration and evaluation assets	*6, 7*		**85,086**		109,373
Deferred tax asset	*8*		**99,626**		100,028
Goodwill			**140,471**		140,471
Total assets		$	**1,391,120**	$	1,260,364
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	*16, 17, 18*	$	**176,788**	$	118,974
Dividend payable	*9, 17,18*		**4,073**		4,070
Derivative financial instruments	*17,18,19*		**12,932**		9,961
			193,793		133,005
Non-current liabilities					
Long-term debt	*10, 17, 18*		**491,210**		413,249
Decommissioning and restoration liability	*11*		**185,733**		183,665
Total liabilities			**870,736**		729,919
Shareholders' equity					
Shareholders' capital	*12, 13*		**878,907**		877,682
Contributed surplus			**25,639**		21,706
Accumulated deficit after dividends			**(384,162)**		(368,943)
			520,384		530,445
Total shareholders' equity and liabilities		$	**1,391,120**	$	1,260,364

Commitments (Note 20)

See accompanying notes to the consolidated interim financial statements

TRILOGY ENERGY CORP.

Consolidated Interim Statement of Comprehensive Income (Loss) (unaudited)

(in thousand Canadian dollars except per share amounts)

	Note	Three months ended March 31, 2012	2011
Revenue and other			
Petroleum and natural gas sales	*21*	$ **108,080**	$ 79,998
Royalties		**(11,580)**	(5,974)
Revenue		**96,500**	74,024
Other		**167**	4
Loss on derivative financial instruments	*17, 18, 19*	**(5,377)**	(3,150)
		91,290	70,878
Expenses			
Operating and production		**24,167**	17,952
Transportation		**3,951**	2,708
Depletion and depreciation	*6*	**50,238**	31,977
Exploration and evaluation	*7*	**3,961**	6,122
Loss (gain) on disposal of assets		**80**	-
General and administrative		**1,915**	3,165
Share-based compensation	*12*	**4,098**	3,838
Accretion on decommissioning and restoration liability	*11*	**1,187**	1,539
Interest and other finance costs	*10*	**4,294**	3,315
		93,891	70,616
Net income (loss) before income tax		**(2,601)**	262
Income tax expense (recovery)			
Deferred	*8*	**402**	473
Comprehensive income (loss)		$ **(3,003)**	$ (211)
Earnings (loss) per share	*14*		
- Basic		$ **(0.03)**	$ -
- Diluted		$ **(0.03)**	$ -

See accompanying notes to the consolidated interim financial statements

TRILOGY ENERGY CORP.

Consolidated Interim Statement of Changes in Equity (unaudited)

(In thousand Canadian dollars except share information)

	Three months ended March 31, 2012				
	Outstanding Common and Non-Voting Shares [(1)]	Share Capital	Contributed Surplus	Accumulated Deficit	Shareholders' Equity
Balance at January 1, 2012	**116,118,158**	$ 877,682	$ 21,706	$ (368,943)	$ 530,445
Net income (loss) for the period	-	-	-	(3,003)	(3,003)
Share options exercised *(note 12, 13)*	97,500	1,225	(165)	-	1,060
Dividends declared *(note 9)*	-	-	-	(12,216)	(12,216)
Share Incentive Plan purchases, net of grants vested *(note 12, 13)*	-	-	-	-	-
Share-based compensation *(note 12)*	-	-	4,098	-	4,098
Balance at March 31, 2012	**116,215,658**	**$ 878,907**	**$ 25,639**	**$ (384,162)**	**$ 520,384**

	Three months ended March 31, 2011				
	Outstanding Common and Non-Voting Shares [(1)]	Share Capital	Contributed Surplus	Accumulated Deficit	Shareholders' Equity
Balance at January 1, 2011	**114,741,491**	**$ 863,011**	**$ 15,810**	**$ (337,702)**	**$ 541,119**
Net income (loss) for the period	-	-	-	(211)	(211)
Share options exercised *(note 12, 13)*	348,500	4,105	-	-	4,105
Dividends declared *(note 9)*	-	-	-	(12,105)	(12,105)
Share Incentive Plan purchases, net of grants vested *(note 12, 13)*	(165,000)	(2,431)	-	-	(2,431)
Share-based compensation *(note 12)*	-	-	2,907	-	2,907
Balance at March 31, 2011	**114,924,991**	**$ 864,685**	**$ 18,717**	**$ (350,018)**	**$ 533,384**

(1) Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan (refer to notes 12 and 13 for additional disclosures).

See accompanying notes to the consolidated interim financial statements

TRILOGY ENERGY CORP.

Consolidated Interim Statement of Cash Flows (unaudited)

(in thousand Canadian dollars except as otherwise indicated)

	Note	Three months ended March 31, 2012	2011
Operating activities			
Net income (loss) before income tax		$ **(2,601)**	262
Adjustments for non-cash and other items:			
Unrealized Losses on derivative financial instruments	*17, 18, 19*	**2,110**	2,880
Unrealized foreign exchange (gains) / losses		**107**	(208)
Depletion and depreciation	*6*	**50,238**	31,977
Exploration and evaluation	*7*	**3,961**	6,122
Losses on disposal of assets		**80**	-
Share based compensation	*12*	**4,098**	3,751
Accretion on decommissioning and restoration liability	*11*	**1,187**	1,539
Decommissioning and restoration costs	*11*	**(247)**	(737)
Net change in non-cash working capital	*15*	**(856)**	1,206
Net cash flow from operating activities		**58,077**	46,792
Investing activities			
Exploration and evaluation expenditures	*7*	**(5,821)**	(51,422)
Property, plant and equipment expenditures	*6*	**(174,495)**	(84,683)
Property acquisitions	*6*	**(494)**	(511)
Proceeds from disposition of property, plant and equipment	*6*	**396**	3,840
Net change in non-cash working capital	*15*	**55,463**	40,178
Net cash flow used in investing activities		**(124,951)**	(92,598)
Financing activities			
Proceeds on long-term debt	*10*	**78,023**	57,069
Dividends paid to Shareholders	*9*	**(12,211)**	(12,092)
Share incentive plan purchases	*12, 13*	**-**	(2,431)
Shares issued	*12, 13*	**1,062**	3,260
Net cash flow used in financing activities		**66,874**	45,806
Net change in cash		**-**	-
Cash balance, beginning of year		**-**	-
Cash balance, end of year		**-**	-
Cash interest and financing charges paid		$ **4,462**	$ 3,208

See accompanying notes to the consolidated interim financial statements

1. GENERAL

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

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

2. BASIS OF PREPARATION

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

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

The policies applied in these Interim Financial Statements are based on IFRS issued and outstanding as of May 2, 2012, the date the Interim Financial Statements were approved by the Board for issuance.

These Interim Financial Statements should be read in conjunction with the Company's 2011 annual consolidated financial statements.

The Interim Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 18).

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions concerning the future that may, by definition, differ from actual results. The estimates and judgments applied by management that most significantly affect the Company's financial statements include: reserve estimation; exploration and evaluation expenditures; impairment of non-financial assets; decommissioning and restoration costs, share-based payments; deferred income taxes; and financial instruments. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Additional information on these estimates and judgements are disclosed in note 3 of the 2011 annual consolidated financial statements. Accordingly, these unaudited Interim Financial Statements should be read in conjunction with the 2011 annual consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Interim Financial Statements of the Company follow the same accounting policies and basis or presentation as the 2011 annual consolidated financial statements. These Interim Financial Statements note disclosures do not include all of those required by IFRS applicable for annual financial statements. Accordingly, these Interim Financial Statements should be read in conjunction with the 2011 annual consolidated financial statements.

5. NEW ACCOUNTING PRONOUNCEMENTS

Unless otherwise noted, the revised standards and amendments as disclosed in note 5 of the 2011 annual consolidated financial statements are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(in thousand Canadian dollars except as otherwise indicated)

6. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at December 31, 2011	2,045,386	10,064	2,055,450
Additions	**173,577**	**91**	**173,668**
Transfers from intangible exploration and evaluation assets	**28,198**	**-**	**28,198**
Acquisitions	**-**	**-**	**-**
Disposals	**(81)**	**-**	**(81)**
Balance at March 31, 2012	**2,247,080**	**10,155**	**2,257,235**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2011	1,192,675	7,592	1,200,267
Depletion and depreciation charge	**49,833**	**405**	**50,238**
Disposals	**-**	**-**	**-**
Balance at March 31, 2012	**1,242,508**	**7,997**	**1,250,505**
Net carrying value			
At December 31, 2011	852,711	2,472	855,183
At March 31, 2012	**1,004,572**	**2,158**	**1,006,730**

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 $60.5 million as at March 31, 2012 (December 31, 2011: $34.7 million) include development assets under construction and tangible 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)

7. EXPLORATION AND EVALUATION ASSETS

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
Balance at December 31, 2011	88,335	21,039	109,373
Additions	**137**	**5,684**	**5,821**
Expensed	**(1,819)**	**(188)**	**(2,007)**
Transfers to property, plant and equipment	**(10,869)**	**(17,329)**	**(28,198)**
Acquisitions	**493**	**-**	**493**
Dispositions	**(396)**	**-**	**(396)**
Balance at March 31, 2012	**75,881**	**9,206**	**85,086**

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

	March 31, 2012	March 31, 2011
Expired mineral leases	**1,819**	955
Dry hole	**188**	4,607
	2,007	5,562
Geological and geophysical costs	**1,954**	560
Exploration and evaluation expenditures	**3,961**	6,122

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

8. INCOME TAX

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

Net Deferred Income Tax Asset/(Liability)	Property, Plant, & Equipment	Risk Management	Decommissioning Liabilities	Losses & Other	Total
At December 31, 2011	**(117,055)**	**1,476**	**45,916**	**169,692**	**100,028**
(Charge)/credited to earnings	857	(329)	517	(1,447)	(402)
At March 31, 2012	**(116,199)**	**1,147**	**46,433**	**168,245**	**99,626**

The $0.4 million deferred income tax expense was charged to the consolidated interim statement of comprehensive income. No income tax amounts were recorded directly to equity.

(in thousand Canadian dollars except as otherwise indicated)

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 $659 million that are available for carry forward against future taxable income of the entities in which the losses arose. Deferred tax assets are recognized for the carry-forward of unused tax losses to the extent that it is probable that taxable profits will be available for application against such unused tax losses.

9. DIVIDENDS PAYABLE

Dividends declared were $0.105 per share for three months ended March 31, 2012 and March 31, 2011. The dividend payable was $4.1 million ($0.035 per share) as at March 31, 2012 and $4.1 million ($0.035 per share) as at December 31, 2011.

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 working capital and future capital requirements of the Company.

10. LONG-TERM DEBT

	March 31, 2012	December 31, 2011
Revolving credit and working capital facility	**492,684**	414,555
Less prepaid interest and unamortized financing costs	**(1,474)**	(1,306)
Carrying value of long term debt	**491,210**	413,249

During the quarter, Trilogy amended its secured credit facility with a syndicate of Canadian banks. Prior to the amendment, total commitments by the lenders were $525 million. 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 March 31, 2012, has the following significant terms:

- Total commitments of $600 million, consisting of a $35 million working capital, a $565 million revolving tranche.
- A maturity date of April 30, 2014.
- The working capital and revolving tranche are generally subject to semi-annual borrowing base reviews, with the next scheduled review in the third quarter of 2012.
- Advances drawn on the credit facility are secured by a fixed and floating debenture charge over the assets of the Company.

The Company has undrawn letters of credit totalling $14 million as at March 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.

(in thousand Canadian dollars except as otherwise indicated)

11. DECOMMISSIONING AND RESTORATION LIABILITY

	Three months-ended March 31, 2012	Twelve months-ended December 31, 2011
Decommissioning and restoration obligation		
Balance - beginning of period	**183,665**	177,144
Liabilities incurred	**3,021**	8,629
Liabilities settled	**(247)**	(1,946)
Accretion	**1,187**	5,777
Revision to estimates	**(1,893)**	(5,939)
Balance – end of period	**185,733**	183,665

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $206.7 million as at March 31, 2012 (December 31, 2011: $203.4 million).

Settlement of this obligation is expected to be paid after 10 to 30 years and will be funded from the general resources of the Company. The estimated future cash flows as at March 31, 2012 have been discounted using an average risk free rate of approximately 2.6 percent and an inflation rate of 2 percent (December 31, 2011 – approximately 2.6 percent and 2 percent, respectively).

12. SHARE-BASED PAYMENT PLANS

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

	March 31, 2012	March 31, 2011
Expense arising from:		
Share Incentive Plan	**1,089**	1,178
Share Option Plan	**3,009**	2,660
Total expense arising from share-based payment	**4,098**	3,838

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:

	Three months-ended March 31, 2012	Twelve months-ended December 31, 2011
Beginning	**168,814**	295,481
Purchases	**-**	165,000
Vested	**-**	(291,667)
Ending	**168,814**	168,814

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

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

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

	Three months-ended March 31, 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	**-**	**-**	38.57	1,512,000
Exercised	**10.90**	**(97,500)**	9.87	(1,336,000)
Forfeited	**-**	**-**	8.92	(62,000)
Outstanding at period end	**$ 16.48**	**5,886,500**	$ 16.39	5,984,000
Exercisable at period end	**$ 8.11**	**1,623,500**	$ 8.26	1,716,000

The weighted average fair value of options granted during the period determined using the Binomial model was $NIL per option (Full Year - 2011: $10.89).

The weighted average share price at the date of exercise for share options exercised in 2012 was $29.16 (Full Year - 2011: $24.03).

(in thousand Canadian dollars except as otherwise indicated)

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

		Outstanding Options		Exercisable Options	
Exercise Price Range	**Weighted Average Contractual Life Remaining**	**Number of Options**	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
$4.85 to $8.90	2.1	2,587,000	$6.69	1,113,000	$6.46
$8.97 to $12.15	3.5	1,719,500	11.94	459,500	11.59
$12.30 to $38.74	4.9	1,580,000	37.45	51,000	12.60
Total	3.5	5,886,500	$16.48	1,623,500	$8.11

13. ISSUED CAPITAL

Authorized

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

Issued and Outstanding and Fully Paid

The following provides a continuity of outstanding share capital:

	Common Shares [1]	**Non-Voting Shares**	**Total**	**Amount**
Shares as at December 31, 2011	**85,282,296**	**30,835,862**	**116,118,158**	**877,682**
Issued - Share Option Plan	**97,500**	**-**	**97,500**	**1,225**
Cancellation and issuance	**5,000,000**	**(5,000,000)**	**-**	**-**
Share Incentive Plan purchases	**-**	**-**	**-**	**-**
Vesting of Share Incentive Plan awards	**-**	**-**	**-**	**-**
Common Shares and Non-Voting Shares as at March 31, 2012	**90,379,796**	**25,835,862**	**116,215,658**	**878,907**

(1) Net of Common Shares held in trust for the benefit of employees and officers under Trilogy's Share Incentive Plan (refer to notes 12 for additional disclosures).

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

(in thousand Canadian dollars except as otherwise indicated)

14. EARNINGS (LOSS) PER SHARE

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

	Three months ended March 31	
	2012	**2011**
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**(3,003)**	(211)
Weighted average number of shares for the purposes of basic earnings per share	**116,145,174**	114,808,130
Effect of dilution	**3,233,603**	2,523,933
Weighted average number of shares for diluted earnings per share	**119,378,777**	117,332,063
Earnings (loss) per share – Basic	**(0.03)**	-
Earnings (loss) per share – diluted	**(0.03)**	-

15. RECONCILIATION OF CHANGES IN NON-CASH WORKING CAPITAL

	2012	**2011**
Decrease (increase) in trade, other receivables and prepaids	**3,037**	2,816
Increase (decrease) in trade, other payables and dividends payable	**51,570**	38,568
	54,607	41,384
Changes in non-cash operating working capital	**(856)**	1,206
Changes in non-cash investing working capital	**55,463**	40,178

16. RELATED PARTY TRANSACTIONS

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

- Pursuant to an amended and restated services agreement dated February 5, 2010, a Paramount subsidiary provides limited administrative services to the Company. The agreement is in effect until March 31, 2013 however may be terminated by either party with at least six months written notice. The amount of expenses billed and accrued under this agreement was $0.1 million for the three months ended March 31, 2012 (March 31, 2011 - $0.1 million). Costs associated with this agreement are included as part of the general and administrative expenses in the Company's consolidated statement of comprehensive income.

(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 carried out on commercial terms and conditions similar to transactions with third parties as follows:

	March 31, 2012	March 31, 2011
Joint venture activites billed by Trilogy to Paramount	**700**	1,066
Joint venture activities billed by Paramount to Trilogy	**3,286**	668

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

March 31, 2012 Presented in the Balance Sheet as	Normal Business	Services Agreement	Dividend
Trade and other receivables	**798**	**-**	**-**
Trade and other payables	**(877)**	**(60)**	**-**
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.

(in thousand Canadian dollars except as otherwise indicated)

17. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

The main risks arising from Trilogy's financial instruments are credit risk, liquidity risk, commodity price risk, interest rate risk and foreign currency risk. A detailed discussion of these risks as they apply to the Company are listed in the 2011 annual consolidated financial statements.

Credit Risk

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

	March 31, 2012	December 31, 2011
Trade and other receivables	**57,379**	54,686
Derivatives Financial Instruments[1]	**995**	134
	58,374	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 credit facility. The variability of market benchmarks as noted below provides uncertainty as to the level of Trilogy's cash flow from operations. As a result, Trilogy may eliminate or adjust the levels of dividends declared to Shareholders and/or adjust operational and capital spending to maintain its liquidity.

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

	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	176,788	-	-	176,788
Dividends payable	4,073	-	-	4,073
Derivative financial instruments	12,932	-	-	12,932
Long-term debt and estimated interest[1]	20,041	512,921	-	532,962
Total	213,834	512,921	-	726,755

[1] Estimated interest for future periods was calculated using the weighted average interest rate for the quarter ended March 31, 2012 applied to the debt principal balance outstanding as at that date. Principal repayment is assumed on April 30, 2014.

(in thousand Canadian dollars except as otherwise indicated)

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, 2012 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 future 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 Capital Management section for further discussion on the management of Trilogy's capital structure.

Capital Management

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

The objectives in managing the capital structure are to:

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

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

(in thousand Canadian dollars except as otherwise indicated)

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

	March 31, 2012	December 31, 2011
Committed amount that can be drawn from the credit facility (see note 10)	**600,000**	525,000
Outstanding undrawn letters of credit	**(14,115)**	(8,632)
Amount that can be drawn after letters of credit	**585,885**	516,368
Long-term debt	**(491,210)**	(413,249)
Net current liabilities (working capital)	**(134,586)**	(77,696)
Net debt[1]	**(625,796)**	(490,945)

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

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

18. 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.

	March 31, 2012	December 31, 2011
Financial assets		
Receivables[1]	**57,379**	54,686
Financial instruments fair valued through profit and loss[2]	**995**	134
Financial liabilities		
Other liabilities - non-trading liabilities[1] [3]	**(180,861)**	(123,044)
Financial instruments fair valued through profit and loss[2]	**(12,932)**	(9,961)
Other liabilities - long-term debt[4]	**(491,210)**	(413,249)

(1) Carried at cost which approximates the fair value of the assets and liabilities due to the short-term nature of the accounts.

(2) Carried at the estimated fair value of the related financial instruments based on third party quotations. See Commodity Contracts below.

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

(4) The Company's long term debt carries interest based on specified benchmark interest rates plus a spread. The fair values of the Company's debt obligations approximate their carrying amounts due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk.

(in thousand Canadian dollars except as otherwise indicated)

Commodity Contracts

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

Crude Oil

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

Foreign Exchange

Weekly ending FX rate trading range (CND per U.S)		USD sell per week on trading range			Weekly premium receipt within trading range	Expiry
Lower	**Upper**	**Below lower**	**Between range**	**Above upper**		
0.961	1.035	See Below	NIL	$3 million at upper range	30	November 2012

To the extent the weekly ending foreign exchange rate is:

- Above the upper range, the Company is committed to selling $3 million dollars US at 1.035 Canadian.
- Between the payout range, the Company receives the referenced premium.
- At any time the lower range is reached, the Company receives a payout equal to $15 for each remaining contracted week.

Interest Swap

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

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

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 interim statement of comprehensive income. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the consolidated interim statement of comprehensive income.

(in thousand Canadian dollars except as otherwise indicated)

19. GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

	March 31, 2012	March 31, 2011
Realized Gains (Losses)		
Crude oil	**(3,811)**	(270)
Foreign exchange	**420**	-
Interest swaps	**124**	-
Sub-total	**(3,267)**	(270)
Unrealized Gains (Losses)		
Crude oil	**(2,881)**	(3,093)
Foreign exchange	**(90)**	213
Interest swaps	**861**	-
Sub-total	**(2,110)**	(2,880)
Gain (loss) on derivative financial intsruments	**(5,377)**	(3,150)

20. COMMITMENTS

During the quarter, Trilogy incurred the following additional pipeline transportation commitment in addition to those disclosed in the 2011 annual consolidated financial statements.

	2012	2013	2014	2015	2016	2017 and after	Total
Pipeline transportation [(1)]	466	621	621	621	621	3,264	6,214
Total	466	621	621	621	621	3,264	6,214

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

21. SEGMENT REPORTING

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

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

	March 31, 2012	March 31, 2011
Petroleum and natural gas sales:		
Natural gas	**25,464**	41,068
Oil	**62,897**	17,866
Natural gas liquids	**19,719**	21,064
Total petroleum and natural gas sales	**108,080**	79,998

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 (1)
Chairman of the Board
Calgary, Alberta

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

M.H. Dilger (2)(4)
President and Chief Operating Officer
Pembina Pipeline Corporation
Calgary, Alberta

D.A. Garner (2)(4)
Independent Businessman
Calgary, Alberta

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

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

E.M. Shier (3)(4)
General Counsel, Corporate Secretary & Manager, Land,
Paramount Resources Ltd.
Counsel to Heenan Blaikie LLP
Calgary, Alberta

D.F. Textor (1)
Portfolio Manager,
Dorset Energy Fund
Partner, Knott Partners Management LLC
Locust Valley, New York

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

HEAD OFFICE
1400, 332 6th Avenue SW
Calgary, Alberta, Canada T2P 0B2
Telephone: (403) 290-2900
Facsimile: (403) 263-8915
www.trilogyenergy.com

AUDITORS
PricewaterhouseCoopers LLP
Calgary, Alberta

BANKERS
Bank of Montreal
Calgary, Alberta
The Bank of Nova Scotia
Calgary, Alberta
Canadian Imperial Bank of Commerce
Calgary, Alberta
Royal Bank of Canada
Calgary, Alberta
ATB Financial
Calgary, Alberta
The Toronto-Dominion Bank
Calgary, Alberta

CONSULTING ENGINEERS
InSite Petroleum Consultants Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada
Calgary, Alberta / Toronto, Ontario

STOCK EXCHANGE LISTING
The Toronto Stock Exchange - “TET”

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD AT:

Conference Centre (Mezzanine Level)
Centrium Place – 332 – 6th Avenue S.W.
Calgary, Alberta
Thursday, May 10, 2012
2:00 PM (Calgary Time)