2011 FIRST QUARTER REPORT

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

	Three Months Ended		
	March 31, 2011	**Dec. 31, 2010**	**Change %**
FINANCIAL			
Petroleum and natural gas sales	**79,998**	**67,033**	19
Funds flow			
From operations[1]	**45,586**	**34,886**	31
Per share – diluted	**0.39**	**0.30**	30
Earnings			
Earnings (loss) before tax	**262**	**(9,483)**	103
Per share – diluted	**—**	**(0.07)**	
Earnings (loss) after deferred income tax	**(211)**	**(7,576)**	97
Per share – diluted	**—**	**(0.07)**	—
Dividends declared	**12,105**	**12,077**	—
Per share	**0.105**	**0.105**	—
Capital expenditures			
Exploration, development and land	**135,826**	**46,286**	193
Acquisitions, (dispositions) and other - net	**(3,050)**	**15**	—
Net capital expenditures	**132,776**	**46,301**	187
Total assets	**1,175,054**	**1,081,448**	9
Net debt[1]	**413,233**	**312,095**	32
Shareholders' equity	**533,384**	**541,119**	(1)
Total shares outstanding (thousands)			
- As at end of period[3]	**114,925**	**114,741**	—
OPERATING			
Production			
Natural gas (MMcf/d)	**113**	**101**	12
Crude oil and natural gas liquids (Bbl/d)	**6,501**	**4,666**	39
Total production (Boe/d @ 6:1)	**25,362**	**21,544**	18
Average prices			
Natural gas (before financial instruments) ($/Mcf)	**4.03**	**3.82**	5
Natural gas ($/Mcf)[2]	**4.03**	**3.96**	2
Crude oil and natural gas liquids (before financial instruments) ($/Bbl)	**66.53**	**73.24**	(9)
Crude oil and natural gas liquids ($/Bbl)[2]	**66.08**	**73.24**	(10)
Drilling activity (gross)			
Gas	**19**	**12**	58
Oil	**2**	**2**	—
D&A	**—**	**—**	—
Total wells	**21**	**14**	50
Success rate	**100%**	**100%**	—

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

(2) Includes realized but excludes unrealized gains and losses on financial instruments.

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

Review of Operations

Operations Update for the First Quarter 2011

- Average production of 25,362 Boe/d
- $136.1 Million net capital expenditures
- 21(15.1 net) wells drilled, with a 100 percent success rate
- Average operating costs $7.86/Boe
- Operating netback $22.85/Boe
- $45.6 Million funds flow from operations
- Completed Natural Gas Liquids Recovery Agreement with Aux Sable
- Announced significant Montney oil pool development in Kaybob area
- Drilled, completed and tied in horizontal Duvernay shale gas/oil well

Production

Trilogy's first quarter 2011 production was 25,362 Boe/d, (113.2 MMcf/d of natural gas and 6,501 Bbl/d of crude oil and natural gas liquids), an increase of 18 percent over fourth quarter 2010 production of 21,544 Boe/d and 10 percent over first quarter 2010 production of 23,079 Boe/d. This significant increase in production volumes reflects the success of Trilogy's Presley area horizontal well program as well as an increase in the natural gas liquids recovered from Trilogy's natural gas pursuant to its previously announced Natural Gas Liquids Recovery Agreement with Aux Sable Canada LP (the "NGL Recovery Agreement"). This production increase was partially offset by a production outage at the Kaybob South Gas Plant No. 3 which was down from March 10 to April 9, 2011, reducing Trilogy's first quarter production by approximately 575 Boe/d. As a result of the positive results during the first quarter, Trilogy is revising its 2011 production guidance to 30,000 Boe/d from its previously announced guidance of 26,500 Boe/d. This equates to a projected 30 percent increase in production compared to the previous year.

Capital Expenditures

In total, Trilogy spent $132.8 Million (after disposition proceeds of $3.8 Million) during the first quarter of 2011 on drilling, completions, production facilities and land acquisitions, compared to $52.3 Million in the first quarter of 2010. This includes $36.3 Million to acquire new Crown lands as compared to $0.6 Million in the same quarter of 2010. The increase in capital spending reflects Trilogy's recent success in identifying a new Kaybob area Montney oil pool that Trilogy plans to exploit using horizontal drilling and completion technology. In the first quarter of 2011, Trilogy was successful in acquiring additional Crown mineral rights in the Montney oil pool in this area, and focused its efforts on accelerating the exploitation of the reservoir. Approximately $50 Million has been spent in the first quarter to acquire the remaining mineral rights, drill four additional horizontal Montney wells and construct the associated gathering systems and batteries. These oil wells were completed and put on production in the second quarter of 2011 and are expected to provide the production information necessary to further develop the play. In response to the drilling success and production information gathered to date, Trilogy is

increasing its 2011 capital spending budget to $285 Million as compared to previous guidance of $130 Million.

Operating Costs

Operating costs in the first quarter of 2011 were $7.86 per Boe, down 3 percent from fourth quarter 2010 operating costs of $8.13 per Boe and down 12 percent from the $8.96 per Boe reported for the first quarter of 2010. Trilogy has been successful in reducing operating costs by increasing the volume of Trilogy production flowing through Trilogy-owned and operated pipelines and gas plants. In the fourth quarter of 2010, Trilogy commissioned the Presley pipeline and Kaybob North Sour Gas Plant (the "Kaybob North Plant") expansion projects, which is expected to reduce operating costs for the life of the reserves in the Presley and North Kaybob areas. Trilogy is presently expanding the new E - Plant at the Kaybob North Plant to increase sour gas processing capacity from 70 MMcf per day to greater than 100 MMcf per day, to meet growing production from the Presley area as well as solution gas production from the Kaybob Montney oil pool. Additional volumes of natural gas liquids realized under the NGL Recovery Agreement have also contributed to reducing costs on a per unit of production basis. Trilogy anticipates the combined benefits from its completed Presley Pipeline and Kaybob North Plant expansion projects and the NGL Recovery Agreement, together with ongoing cost reduction initiatives, will positively effect operating costs for the balance of the year and is forecasting operating costs for the year to be reduced to $7.75 per Boe as compared to previous guidance of $8.50 per Boe.

Drilling and Land Sale Activity

During the first quarter 2011, Trilogy participated in the drilling of 21 (15.1 net) wells, of which 18 (13.6 net) were located in the Kaybob area and 3 (1.5 net) in the Grande Prairie area, 18 (13.0 net) of the wells drilled during the quarter were drilled horizontally and the remaining 3 (2.1 net) were drilled as verticals. The drilling and completion results to date have been very positive, resulting in 13.1 net gas wells and 2.0 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 manage risk exposure by drilling a high percentage of its wells in areas it believes will have multi-zone development opportunities, adequate producing infrastructure, and significant liquids rich natural gas or oil development potential.

Trilogy acquired 10,496 net hectares at Alberta Crown land sales during the first quarter, for a total expenditure of $36.3 Million. Approximately $36 Million was spent acquiring what Trilogy believes to be substantially all of the remaining petroleum and natural gas rights along the Montney oil trend in the Kaybob area. These Crown mineral leases were acquired primarily for the Montney mineral rights, however, the leases also include Duvernay rights, which Trilogy intends to evaluate further as the shale gas and oil plays progress. 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 quarter were primarily focused in the Kaybob area, where Trilogy participated in the drilling of 18 (13.6 net) wells. Of these wells, fifteen (11.5 net) wells were successfully drilled horizontally for oil and gas production in the Spirit River (1 well), Wilrich (2

wells), Bluesky (1 well), Montney (10 wells) and Duvernay (1 well) formations. Trilogy intends to evaluate the productivity and reserve potential of these wells in order to assess the additional development and exploitation potential of its existing acreage in addition to the previously reported Montney potential. In addition to these horizontal wells, Trilogy participated in the drilling of 3 (2.1 net) vertical wells into conventional reservoirs in the Kaybob area. The well results have further supported Trilogy's development strategy of exploiting some of its assets with vertical wells, resulting in significant production and reserve additions at lower capital costs.

Through the balance of the year, Trilogy will be performing additional technical work to evaluate the Cardium, Second White Specks, Dunvegan and Nordegg formations for development potential using horizontal and vertical wells. Trilogy believes there is significant value in understanding the resource potential of each formation, providing Trilogy with the opportunity to exploit formations that provide the greatest return 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.

Presley Montney Gas Development

Results from the Montney horizontal drilling program in the Presley area in 2010 and first quarter 2011 have been very encouraging. Continued developments in horizontal drilling and completion technology have enabled Trilogy to increase the number of fracture stimulations per horizontal well from 11 to 16-stage fracture stimulations in the first half of 2010 to as many as 23 stages per well in the current quarter. As a result, drilling and completion costs have risen over the prior year to approximately $4.75 Million per well, reflecting an increase in oil based completion fluids and additional components in the liner assembly used to stimulate horizontal wells.

In the first quarter of 2011, Trilogy operated the drilling of 8 (8.0 net) horizontal wells in the Presley area, targeting the Montney formation, with 3 (2.5 net) wells being completed subsequent to the end of the first quarter. To date, Trilogy has completed 8 of the 11 wells drilled; operations on the remaining 3 wells will be completed following spring break-up. The wells drilled during the first quarter flowed natural gas at test rates of up to 20 MMcf/d with flowing surface pressures between 10 to 13 Mpa. Trilogy believes the increased fracture density will ultimately result in a greater recovery factor as well as accelerating the production of the ultimate recoverable reserves in each well. Further evaluation will be required to determine the optimal fracture spacing in each formation. Trilogy anticipates drilling 3 or 4 additional wells on this property in the second half of the year.

Trilogy has grown average annual production in the Presley area from 10 MMcf/d in 2008 to 40 MMcf/d in 2010, with forecast growth to 65 MMcf/d in 2011. In order to handle this additional production, Trilogy installed an additional field compressor in April 2011. This additional unit brings Presley area compression capacity to 85 MMcf/d. This should enable Trilogy to handle third party volumes in addition to its own for the balance of the year and into the first quarter of 2012, when Trilogy plans to install additional compression to handle forecast growth for the area.

Kaybob Montney Oil Development

In the fourth quarter of 2010, Trilogy completed drilling operations on a horizontal Montney oil well at 16-1-64-18W5 (the "16-1 well"), and completed it using a 15 stage fracture stimulation over the 1,504 m horizontal length. Following recovery of the completion load fluid, the 16-1 well flowed crude oil at 1,800 Bbl/d. During the first full month of production, this well produced at average rates of 500 Bbl/d of crude oil and 1 MMcf/d of natural gas. The well has produced

approximately 40,000 barrels of crude oil over a four month production period, and is currently producing approximately 250 barrels per day of crude oil. The 16-1 Well was assigned proved plus probable reserves of 300 MBbl and 400 MMcf of natural gas (391 MBoe), with a net present value at 10 percent of $14.2 Million (InSite Petroleum Consultants).

Trilogy followed up on the success of the 16-1 well by drilling a confidential horizontal Montney oil well to further delineate the Montney oil pool. The second well (the "3-21 well") was drilled as a vertical well at 6-16-64-18W5 in order to core the Montney formation; it was subsequently plugged back to a kick off point and drilled horizontally through the Montney to a total depth of 3,120 m at a bottomhole location of 3-21-64-18W5. The lateral portion of the well was 1,158 m in length and completed with a 15 stage fracture stimulation. Trilogy was able to flow the well immediately prior to the February 9, 2011 Crown land sale, recovering all 3,650 barrels of completion fluid and 1,600 barrels of oil in the first 24 hours of production. The final rate during flow back was 1.9 MMcf/d and 3,000 Bbl/d of crude oil (40 degree API) at a flowing pressure of 4,450 kPa (645 psi). The well recovered 12,450 barrels of fluid, 3,650 barrels of completion fluid and 8,800 barrels of new oil during a three day flow period before being suspended upon reaching its maximum permitted flare volume. The well was placed on production May 3, 2011 and is currently producing through the existing gathering system at restricted rates while the gathering and processing infrastructure is expanded to handle additional production from the new Montney oil wells. In the first 16 days of production (including the test period) the well flowed at restricted rates of approximately 2,000 Bbl/d and 1.1 MMcf/d of natural gas and has produced approximately 31,000 Bbl during this period.

Trilogy followed up on the success of its first two horizontal Montney oil wells by drilling three additional horizontal Montney wells into the pool. Two new wells were drilled from the surface lease at 16-2-64-18W5, the same surface lease used to drill the original 16-1-64-18W5 horizontal Montney oil well, to bottom hole locations at 9-1-64-18W5 (the "9-1 well") and 13-2-64-18W5 (the "13-2 well"). The 9-1 well was rig released on March 27, 2011 and the horizontal section was fracture stimulated in 22 separate intervals over the 1,546 meter horizontal section. The well flowed at average rates of 1,300 barrels of crude oil and 2.0 MMcf per day of natural gas at 2,700 kPa (392 psi) over the first 6 days of production. The 13-2 well was rig released on April 20, 2011 and completed on May 13, 2011, in 20 intervals over the 1,381 meter horizontal length. The 13-2 well flowed at average rates of 2,400 barrels of crude oil and 1.1 MMcf per day of natural gas over the first day of production following recovery of load fluid at 2,200 kPa (319 psi). Crude oil from the two new wells is being trucked to central processing facilities until the oil handling facilities are completed in early June, while the natural gas will produce through the existing gas gathering system.

The third new well was drilled from the same surface lease as the 3-21 well, to a bottom hole location at 5-17-64-18W5 ("5-17 well"), and is located on acreage Trilogy acquired at the February 9, 2011 Crown land sale. The well was rig released on April 1, 2011 and is expected to be fracture stimulated in late May when access conditions improve. The well will be fracture stimulated in 22 intervals over the 1,555 meter horizontal well bore length.

Construction is underway to expand two oil satellites and the Trilogy-operated oil battery at 12-10-64-19W5 to handle the additional production volumes from the new oil wells. The Kaybob North Sour Gas Plant is also being expanded to handle the additional sour gas that will be produced with the Montney oil. The battery is expected to be fully operational in early June and the Plant expansion will be completed in early July. Contingency plans are in place to reroute sour gas production from the Kaybob North Sour Gas Plant to Kaybob South Gas Plant No. 3 in order to avoid restricting the sour solution gas that will be produced with the oil.

Trilogy is developing an accelerated drilling program as a result of the early success in its Kaybob Montney oil play. Trilogy is forecasting a capital plan of approximately $138 Million on the asset in 2011 including costs associated with the Crown land sale ($36 Million), four recently drilled wells ($20 million), pipeline and batteries ($12 million) and 14 wells ($70 Million) to be drilled in the second half of the 2011. The additional capital is expected to increase production from this oil property to approximately 5,000 barrels per day of oil and natural gas liquids and 6 MMcf per day of solution gas by the end of the year. The initial production rates from these new wells are expected to decline over the first 6 to 12 months of production. Trilogy has not established long term production trends for these wells and will closely monitor them to better understand the long term deliverability. Individual well results are expected to vary across the pool as it is further delineated, ultimately providing the data required to fully exploit the Montney oil reservoir.

The following table summarizes the well data and initial test rates for Trilogy's first five horizontal Montney oil wells, after recovery of the completion fluids.

	W.I. (%)	Measured Depth (m)	Horizontal Length (m)	Frac stages in well bore	Oil Test Rate (Bbl/d)	Test Rate (MMcf/d)	Flowing Pressure (kPa)
16-1	100	3,507	1,504	15	1,800	2.3	4,050
3-21	100	3,120	1,158	15	3,000	1.9	4,450
9-1	100	3,763	1,546	22	1,500	1.8	3,000
13-2	100	3,501	1,381	20	2,400	1.1	2,200
5-17	100	3,720	1,555	22	To be completed		

Duvernay Shale Gas Development

Trilogy managed the drilling, completion and tie in operations for the second horizontal well targeting the Devonian Duvernay shale formation under a previously announced joint venture with Celtic Exploration Ltd. and Yoho Resources Inc., pursuant to which each partner has a one-third working interest in 30 gross sections of land.

The well (the "3-13 well") was drilled from a surface location at 16-14-60-20W5 to a bottom hole location at 03-13-060-20W5, with a total depth of 4,866 meters. The horizontal lateral was 1,391 metres in length within the Duvernay formation. The well was drilled and cased over 50 days at a cost of approximately $6.5 Million for the drilling operation.

Completion operations began March 8, 2011 and were concluded in late April. The well was fracture stimulated in 31 perforated intervals in 12 separate stages along the length of the horizontal wellbore. In total, approximately 2,300 tonnes of sand and 138,600 barrels of slick water were used to stimulate the well. The well was completed using a staged "plug and perf" horizontal completion technique, incorporating perforation clusters (2 and 3 per stage) to stimulate the well. Following the fracture stimulation, the plugs were drilled out to permit the well to flow without obstruction in the horizontal portion of the well. Completion costs for the well have totaled approximately $11 Million; however, Trilogy expects to see substantial costs savings on subsequent wells targeting this formation as the 3-13 well was the first to use the "plug and perf" completion methodology in the Duvernay.

The 3-13 well has been tied-in since April 10, 2011 in order to reduce flared emissions during the completion and evaluation period. The well was flowing up 7 inch casing at approximately 1,250 Boe per day, consisting of 5.2 MMcf per day of sweet natural gas and an estimated 390 barrels per day of natural gas liquids, including 180 barrels per day of 56° API condensate, and 1,450 barrels per day of completion water. Production tubing was installed in the well and the

well has been placed on production to evaluate the longer-term production performance of the play. The first Duvernay horizontal well at 15-33-60-20W5 was tied in during the first quarter of 2011 and has been producing since April 26, 2011. Additional analysis is required to determine the production composition, including the natural gas liquid content, from this Duvernay shale exploration play.

Trilogy is encouraged by the results from the two horizontal Duvernay shale wells and particularly the high liquids content and will be evaluating opportunities to further evaluate the Duvernay formation in the remainder of the year. Trilogy expects to participate in one more well targeting the Duvernay formation during the balance of 2011. Trilogy currently owns approximately 168,409 gross acres and 138,173 net acres (263 gross sections and 216 net sections) of land with Duvernay rights at Kaybob and surrounding areas.

Natural Gas Liquids Recovery Agreement

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

The NGL Recovery Agreement was effective January 1, 2011, allowing for immediate recovery of additional value for Trilogy's natural gas liquids produced at Kaybob versus a second quarter 2012 estimated completion date for the proposed deep-cut facility. Based on the value sharing arrangement under the Recovery Agreement, Trilogy recognized revenue of $3.8 Million in the first quarter. Using forward strip pricing, Trilogy anticipates that 2011 cash flow will increase by approximately $15 to $20 Million from the NGL Recovery Agreement. Assuming the contracted volumes increase to approximately 130 MMcf/d, cash flow under the NGL Recovery Agreement may reach $30 to $40 Million per year with a total of approximately $170 Million over the initial five year term. The liquids pricing under the NGL Recovery Agreement is calculated with reference to the U.S. natural gas liquids market, allowing Trilogy to access a larger, more liquid, higher priced market. The NGL Recovery Agreement eliminates the previously planned capital expenditures of approximately $55 Million to install a new cryogenic deep-cut functional unit and related equipment at the Kaybob North Sour Gas Plant in 2011 and 2012.

Grande Prairie

During the first quarter of 2011, Trilogy participated in the drilling of 3 Grande Prairie area wells, resulting in 3 (1.5 net) gas wells. The wells were drilled to evaluate the Upper and Lower Montney formation in the Valhalla area of Grande Prairie. Trilogy is evaluating all opportunities to bring these new gas wells on production and to plan for future production growth in the area. Trilogy anticipates drilling two more wells in this area during the balance of the year.

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 1,500 barrels per day of crude oil hedged for the balance of the year at approximately $100 per barrel. Trilogy will continue to evaluate opportunities to hedge oil production as we begin to exploit the Kaybob Montney oil pool to ensure that we realize sufficient cash flow to grow this developing asset. A summary of Trilogy's hedging contracts are available in notes 19 and 21 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. In response to the encouraging first quarter results and the success Trilogy has achieved in the Kaybob area, Trilogy is increasing its 2011 production guidance from 26,500 Boe/d to 30,000 Boe/d, and reducing operating cost guidance from $8.50/Boe to $7.75/Boe. At the same time, Trilogy has increased its capital spending program for 2011 from $130 Million to $285 Million to accelerate the development of its new Kaybob Montney oil play. Trilogy will fund the increased capital expenditure program with the forecasted cash flow resulting from the incremental production additions and, should it be necessary, increased borrowings from its existing credit facility.

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 2011 may prove to be volatile as commodity prices fluctuate based on speculative demand and supply forces in the North American natural gas markets. Trilogy believes it can manage its assets prudently through this potentially difficult period and 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") as at and for the three months ended March 31, 2011, and should be read in conjunction with the Company's condensed interim consolidated financial statements and related notes for the three months then ended and its annual consolidated financial statements and MD&A for the year ended December 31, 2010. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") while the 2010 annual consolidated financial statements and MD&A were prepared under Canadian generally accepted accounting principles in effect prior to January 1, 2010.

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 currently available information as of May 19, 2011.

FIRST QUARTER 2011 HIGHLIGHTS

- Sales volumes for the first quarter of 2011 averaged 25,362 Boe/d as compared to 21,544 Boe/d for the previous quarter, representing an 18 percent increase quarter over quarter.
- Capital expenditures (excluding acquisitions and dispositions and including $36.3 million of undeveloped Crown land purchases) totaled $136.1 million for the first quarter of 2011 versus $46.3 million in the prior quarter. In total, 21 (15.1 net) wells were drilled in the quarter.
- Funds flow from operations increased to $45.6 million during the first quarter of 2011 as compared to $34.9 million for the previous quarter. The increase was attributed primarily to higher production levels and commodity prices, the impact of the previously announced Natural Gas Liquids Recovery Agreement with Aux Sable Canada LP (the "NGL Recovery Agreement") and lower royalties offset, in part, by increased operating costs on the higher volumes.
- Dividends to Shareholders for the first quarter of 2011 were $12.1 million (26 percent of cash flow from operations) as compared to $12.1 million in the prior quarter (42 percent of cash flow from operations).
- Income before tax for the first quarter was $0.3 million as compared to a loss in the prior quarter of $9.5 million. The positive change was primarily a function of the aforementioned increase in funds flow, in addition to the absence of any impairment on Trilogy's assets in the current quarter.
- Operating costs for the quarter averaged $7.86 /Boe, a decrease of 3 percent from the previous quarter of $8.13 /Boe.
- Realized additional economic value for the natural gas liquids in its liquids-rich natural gas stream originating from the Kaybob area effective January 1, 2011 under the NGL Recovery Agreement.
- Announced a significant Montney oil pool development in the Kaybob area
- Drilled and completed a horizontal Duvernay shale gas/oil well

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

On February 5, 2010, Trilogy announced that Trilogy Energy Trust (the "Trust") had completed its previously announced conversion from an income trust to a corporation through a business combination with a private company ("Privateco") pursuant to an arrangement under the Business Corporations Act (Alberta) and related transactions (the "Conversion"). Trilogy's Board of Directors and management team are the former Trust's Board of Directors and management team. Subsequent to the Conversion, former Trust Unitholders held approximately 96 percent of the equity in Trilogy with the remaining 4 percent owned by the former shareholder of Privateco. Immediately subsequent to the Conversion, Trilogy effected an internal reorganization whereby, among other things, the Trust was dissolved and Trilogy received all of the assets and assumed all of the liabilities of the Trust. References to Trilogy in these financial statements for periods prior to February 5, 2010 are references to the Trust and for periods on or after February 5, 2010 are references to Trilogy Energy Corp. Additionally, Trilogy refers to shares, shareholders and dividends which are comparable to units, unitholders and distributions previously under the Trust.

Trilogy continues to focus on maximizing long-term value to its Shareholders by developing its extensive inventory of assets at a growing pace that provides sustainability and replacement of produced reserves without adversely impacting its financial strength.

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 price volatility, capital spending allocations and 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 finding and development cost per unit of reserve additions. Trilogy's performance during the last three years with respect to these and other measures is set out below.

BUSINESS ENVIRONMENT AND ECONOMIC CONDITIONS

Natural gas prices in Canada during the first quarter of 2011 were significantly below those in the equivalent quarter of 2010 whereas oil and natural gas liquids ("NGL") prices were significantly higher. Trilogy remains confident in its ability to provide shareholder value given: its premier land base; a significant inventory of current and prospective drilling locations; its liquids-rich gas production; its recent land acquisition in, and the related development of, its Kaybob Montney oil play; its ability to find and develop its oil and gas reserves at extremely competitive metrics; and its ability to improve cash flow through focusing on reducing its cost structure and increasing operating efficiencies.

Trilogy realized significant value in the quarter pursuant to recently implemented natural gas deep drilling program incentives and other changes effective under the Alberta Royalty Framework. This incentive program is expected to continue to complement Trilogy's business model and provide benefits to Trilogy through a reduction in its effective royalty rate for the duration of the program

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

	Q1 2011	Q4 2010	Q1 2010
Crude Oil			
West Texas Intermediate monthly average (U.S.$/Bbl)	**94.10**	75.70	78.71
Natural gas			
NYMEX (Henry Hub Close) monthly average (U.S.$/MMBtu)	**4.13**	4.17	5.29
AECO monthly average (Cdn$/GJ)	**3.58**	4.01	5.08
Canadian – U.S. Dollar Closing Exchange Rate (Cdn$/U.S.$)	**0.97**	0.99	1.02

EVENTS AFTER THE BALANCE SHEET DATE

In April 2011 Trilogy executed a forward sales contract for 500 Bbl/d from May 2011 through to December 2011 at a price of U.S. $110.22/Bbl.

On May 17, 2011, Trilogy executed an amended and restated credit facility agreement with its lenders. Commitments under this credit facility total $470 million. Refer to the long-term debt section of this MD&A for additional information.

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	**Q1 2011**	**Q4 2010**	**Q1 2010**
Operating income[1]	**53,364**	39,403	52,005
Other income and expenses	**(205)**	344	344
Realized financial instruments[2]	**(270)**	1,326	8,731
General and administrative expenses	**(3,252)**	(3,601)	(5,078)
Interest and financing charges	**(3,315)**	(2,409)	(3,514)
Decommissioning and restoration costs	**(737)**	(177)	(727)
Funds flow from operations[1]	**45,585**	34,886	51,761
Non-cash items:			
Gain on conversion [3]	**-**	-	146,053
Depletion and depreciation (including impairment)	**(31,977)**	(38,256)	(28,924)
Unrealized financial instruments[2]	**(3,093)**	(2,020)	5,244
Stock based compensation	**(3,751)**	(1,530)	(1,457)
Exploration expenditures[4]	**(6,122)**	(975)	(1,921)
Accretion on decommissioning and restoration liability[5]	**(802)**	(1,430)	(778)
Deferred income tax (expense) recovery	**(473)**	1,907	26,115
Other	**422**	(158)	139
Profit (loss) and comprehensive income	**(211)**	(7,576)	196,231

[1] Operating income and funds flow from operations are non-GAAP terms. Operating income is equal to petroleum and natural gas sales minus royalties, operating costs and transportation costs, while funds flow from operations represents cash flow from operating activities before net changes in working capital accounts. Refer to the advisory on Non-GAAP measures at the end of this MD&A

[2] See Risk Management section below

[3] Represents gain recorded on Conversion from a trust to a corporation. Refer to the notes of the condensed interim consolidated financial statements for more detail

[4] Includes generally costs associated with dry-holes, geological and geophysical and expired mineral leases

[5] Equals the accretion in excess of actual amounts paid on decommissioning and restoration activities in the quarter

Cash Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	**Q1 2011**	**Q4 2010**	**Q1 2010**
Gross revenue before financial instruments[1]	**33.77**	32.54	40.13
Royalties	**(2.62)**	(4.35)	(5.96)
Operating costs	**(7.86)**	(8.13)	(8.96)
Decommissioning and restoration costs	**(0.32)**	(0.09)	(0.35)
General and administrative expenses[2]	**(1.42)**	(1.82)	(2.45)
Interest and financing charges	**(1.45)**	(1.22)	(1.69)
Realized gain (loss) on financial instruments[3]	**(0.12)**	0.67	4.20
Funds flow from operations[4]	**19.98**	17.60	24.92
Net change in operating working capital	**0.53**	(3.15)	3.66
Cash flow from operating activities	**20.51**	14.45	28.58

[1] Net of transportation costs and including other income.

[2] Includes direct and indirect Conversion and internal reorganization costs of $1.1 incurred in the first quarter of 2010 representing a cost of $0.53 /Boe for this period.

[3] The realized gains on derivative financial instruments for the three months ended March 31, 2010 include a $7.1 million gain from the settlement of certain derivative financial instruments prior to their scheduled maturity.

[4] Refer to the advisories on non-GAAP measures and numerical references at the end of this MD&A.

Operating Income Items

First Quarter 2011 vs. Fourth Quarter 2010 (In thousand dollars except as otherwise indicated)	Q1 2011	Q4 2010	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**113,167**	101,265	11,902	12
Oil and natural gas liquids (Bbl/d)	**6,501**	4,666	1,835	39
Total (Boe/d)	**25,362**	21,544	3,818	18
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**4.03**	3.82	0.21	5
Oil and natural gas liquids ($/Bbl)	**66.53**	73.24	(6.71)	(9)
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**4.03**	3.96	0.07	2
Oil and natural gas liquids ($/Bbl)	**66.08**	73.24	(7.16)	(10)
Petroleum and natural gas sales before financial instruments:				
Natural gas	**41,068**	35,592	5,476	15
Oil and natural gas liquids	**38,930**	31,441	7,489	24
Total petroleum and natural gas sales before financial instruments	**79,998**	67,033	12,965	19
Royalties	**(5,974)**	(8,627)	(2,653)	(31)
Operating costs	**(17,952)**	(16,109)	1,843	11
Transportation costs	**(2,708)**	(2,894)	(186)	(6)
Operating income[(1)]	**53,364**	39,403	13,961	35

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

Petroleum and Natural Gas Sales – Natural gas sales, before financial instruments, increased by $2.0 million due to higher average prices and $3.5 million due to higher sales volumes. Oil and natural gas liquid sales, before financial instruments, decreased by $2.9 million as a result of lower average realized prices but this was offset by an increase of $10.4 million due to increased sales volumes. Market prices for oil and natural gas liquids increased during the quarter, however, Trilogy's realized average prices decreased on a per unit of sales volume basis for NGLs. The reduction in Trilogy's average realized price for oil and NGL's is attributed to the recovery and inclusion of additional NGL components in sales volumes and revenue under the NGL Agreement. The average realized price of these additional components diluted the average realized price received by Trilogy on total oil and NGL volumes sold. During the first quarter of 2011, Trilogy brought on significant production volumes from recently drilled wells and also received the benefit of increased NGL volumes under of the NGL Recovery Agreement.

Royalties – Royalties decreased during the first quarter primarily as a result of the recording of royalty reductions under Alberta's natural gas deep drilling program. In addition, changes to the Alberta royalty regime reduced effective royalty rates. As a percentage of petroleum and natural gas sales, royalties averaged 7 percent for the first quarter as compared to 13 percent for the fourth quarter. Crown royalties on Alberta gas are calculated based on the Alberta Reference Price, which may vary from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – Operating costs in the current quarter of $7.86 /Boe were consistent with prior quarter operating costs of $8.13/Boe. The decrease can also be attributed to a full-quarter of cost reductions associated with Trilogy's Presley pipeline and Kaybob North Sour Gas Plant projects commissioned in the fourth quarter of 2010. The increase in total operating costs was due to the increase in production.

First Quarter 2011 vs. First Quarter 2010 (In thousand dollars except as otherwise indicated)	Q1 2011	Q1 2010	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**113,167**	109,667	3,500	3
Oil and natural gas liquids (Bbl/d)	**6,501**	4,801	1,700	35
Total (Boe/d)	**25,362**	23,079	2,283	10
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**4.03**	5.51	(1.48)	(27)
Oil and natural gas liquids ($/Bbl)	**66.53**	73.90	(7.37)	(10)
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**4.03**	6.39	(2.36)	(37)
Oil and natural gas liquids ($/Bbl)	**66.08**	73.90	(7.82)	(11)
Petroleum and natural gas sales before financial instruments:				
Natural gas	**41,068**	54,337	(13,269)	(24)
Oil and natural gas liquids	**38,930**	31,931	6,999	22
Total petroleum and natural gas sales before financial instruments	**79,998**	86,268	(6,270)	(7)
Royalties	**(5,974)**	(12,381)	(6,407)	(52)
Operating costs	**(17,952)**	(18,619)	(667)	(4)
Transportation costs	**(2,708)**	(3,263)	(555)	(17)
Operating income[(1)]	**53,364**	52,005	1,359	3

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

Petroleum and natural gas sales – Natural gas sales, before financial instruments, decreased by $14.6 million as a result of lower prices, partially offset by $1.3 million from increased production. Oil and NGL sales, before financial instruments, decreased by $3.1 million due to lower average realized prices, however increased by $10.1 from increased production. Market prices for oil and NGLs increased quarter over quarter , however, Trilogy's realized average prices decreased on a per unit of sales volume basis for NGLs. The reduction in Trilogy's average realized price for oil and NGL's is attributed to the recovery and inclusion of additional NGL components in sales volumes and revenue under the NGL Agreement. The average realized price of these additional components diluted the average realized price received by Trilogy on total oil and NGL volumes sold. Increases in production for the current quarter arising from Trilogy's increased capital program were offset, in part, by an outage at a third party operated gas plant which reduced the quarter's production by approximately 575 Boe/d.

Royalties – Royalties decreased quarter over quarter partly because of lower gas prices but also due to the recording of royalty reductions under Alberta's natural gas deep drilling program. In addition changes to the Alberta royalty regime reduced effective royalty rates. As a percentage of petroleum and natural gas sales, royalties averaged 7 percent for the current quarter as opposed to 14 percent for the first quarter of 2010. Crown royalties on Alberta gas are calculated based on the Alberta Reference Price, which may vary from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – The decrease in operating costs in the first quarter of 2011 is mainly attributable to the impact of increased efficiencies arising from the completion of the Presley pipeline and the Kaybob North Sour Gas Plant projects whereby Trilogy is now processing a higher proportion of its production through Trilogy owned and operated facilities. The average operating cost per unit of production was $7.86 /Boe for the first quarter of 2011 as compared to $8.96 for the first quarter of

2010. The decrease in operating costs on a per unit basis is attributed to the aforementioned items, in addition to the impact of allocating fixed operating costs over a higher production base.

OTHER INCOME STATEMENT ITEMS

Depletion and Depreciation Expense

(In thousand dollars except as otherwise indicated)	Q1 2011	Q4 2010	Q1 2010
Reported amount (thousand dollars)	**31,977**	38,256	28,924
Expense per sales volume ($/Boe)	**14.01**	19.30	13.93

Depletion and depreciation expense decreased in the first quarter compared to the previous quarter mainly due to an $8.1 million property impairment loss recorded during the prior quarter. A reduction in respect of the estimated future cash flows of certain properties in conjunction with the year end reserve report resulted in the impairment. Depletion and depreciation for the three months ended March 31, 2011 against the same period in 2010 was consistent on a per unit of production basis.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)	Q1 2011	Q4 2010	Q1 2010
Expenses before recoveries	**7,704**	7,289	8,758
Overhead recoveries	**(4,539)**	(3,758)	(3,685)
Reported amount	**3,165**	3,531	5,073
Expense per sales volume ($/Boe)	**1.39**	1.78	2.44

General and administrative expenses (before recoveries) in the first quarter of 2010 include direct and indirect costs of $1.1 million related to the Conversion and a related internal reorganization representing $0.53 /Boe. In the first quarter of 2011, overhead recoveries increased as a result of higher capital spending.

Stock based Compensation

(In thousand dollars except as otherwise indicated)	Q1 2011	Q4 2010	Q1 2010
Reported Amount	**3,838**	1,530	1,457
Expense per sales volume ($/Boe)	**1.68**	0.77	0.70

Stock based compensation increased in the first quarter of 2011 relative to that of the above prior quarters in 2010. The increase in 2011 from the fourth quarter of 2010 was as a result of higher amortization on share option awards granted late in 2010. The increase was also attributed, in part, to a larger grant of awards under Trilogy's Share Incentive Plan than as originally accrued at December 31, 2010. Stock based compensation was higher in the current quarter relative to the same quarter of the prior year as a result the aforementioned items.

Interest and Financing Charges

(In thousand dollars except as otherwise indicated)	Q1 2011	Q4 2010	Q1 2010
Accretion on decommissioning and restoration liability	**1,539**	1,607	1,505
Finance costs	**3,315**	2,409	3,514
Expense per sales volume ($/Boe)	**1.45**	1.22	1.69

Accretion on asset retirement obligations was relatively consistent through the above periods.

Interest and financing charges were higher in the first quarter of 2011 as compared to the fourth quarter of 2010 due to higher average debt levels and the recording of interest on royalty refunds received in both quarters but primarily in the fourth quarter of 2010. While the average debt levels in the first quarter of 2010 were lower than in the other quarters the absence of interest on royalty refunds in this quarter increased the reported expense.

Exploration Expenditures and Other

(In thousand dollars)	Q1 2011	Q4 2010	Q1 2010
Exploration expenditures	**6,122**	975	1,921

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 expenditures is due mainly to the fluctuation in dry hole costs from period to period (Q1 2011 - $4.6 million, Q4 2010 – $0.4 million, Q1 2010 - $0.5 million).

RISK MANAGEMENT

Financial Risks

Trilogy's main financial risks include credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, and are discussed in detail in the notes to Trilogy's December 31, 2010 annual consolidated financial statements, the Advisories and other sections of this MD&A as well as the 2010 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 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:

(In thousand dollars except as indicated)	Q1 2011	Q4 2010	Q1 2010
Realized gain (loss) on financial instruments	**(270)**	1,326	8,731
Unrealized gain (loss) on financial instruments	**(3,093)**	(2,020)	5,244
Total gain (loss) on financial instruments	**(3,363)**	(694)	13,975
Realized gain (loss) on financial instruments per Boe ($/Boe)	**(0.12)**	0.67	4.20

The realized gains on derivative financial instruments for the three months ended March 31, 2010 include a $7.1 million gain from the settlement of certain derivative financial instruments prior to their scheduled maturity.

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

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. Trilogy takes appropriate actions to mitigate such risks, as applicable.

LIQUIDITY AND CAPITAL RESOURCES

(In thousand dollars)	Mar. 31, 2011	Dec. 31, 2010
Net current liabilities (assets)	**76,458**	32,496
Long-term debt	**336,775**	279,599
Net debt[1]	**413,233**	312,095
Shareholders' equity	**533,384**	541,119
Total	**946,617**	853,214

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

Working Capital

The substantial increase in capital expenditures during the first quarter was primarily responsible for the increase in net debt from $312.1 million at December 31, 2010 to $413.2 million at March 31 2011.

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

Long-term Debt and Credit Facilities

Long-term debt represents the outstanding draws from Trilogy's revolving credit and working capital facility as described in the notes to Trilogy's consolidated financial statements.

Trilogy's bank debt outstanding under its revolving credit and working capital facility was $337.6 million (before unamortized discount) as at March 31, 2011. The revolving feature of the Company's credit facility expires on June 6, 2011, if not extended. In the event the revolving period is not extended, the revolving facility would be available for a one year term on a non-revolving basis, at the end of which time amounts drawn down under the facility would be due and payable.

The size of the committed credit facilities ($390 million as of March 31, 2011) 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 18 of the interim financial statements provides a comparison of Trilogy's debt structure against the committed amount on existing credit facilities at the listed balance sheet dates therein. The increase in net debt from $312.1 million at December 31, 2010 to $413.2 million at March 31, 2011 is attributable primarily to the substantial increase in capital spending undertaken in the first quarter of 2011.

On May 17, 2011, Trilogy executed an amended and restated credit facility agreement with its lending syndicate (the "New Facility"). The New Facility replaces and is similar in nature to the terms and conditions of Trilogy's credit facility outstanding as at March 31, 2011, with the exception of the following significant differences:

- Total commitments under the New Facility increased to $470 million, consisting of a $35 million working capital, a $385 million revolving, and a non-revolving $50 million development tranche.
- A maturity date of April 30, 2014 in respect of the working capital and revolving tranche and August 31, 2012 in respect of the development tranche.
- Proceeds from the $50 million development tranche will be used exclusively for the development of Trilogy's Montney oil play in the Kaybob area of Alberta.
- The working capital and production facilities are subject to semi-annual borrowing base reviews and borrowings from these facilities can be used to repay amounts borrowed under the development tranche.

Contractual Obligations

No material change occurred as at March 31, 2011 in respect of Trilogy's estimated contractual financial obligations from those as disclosed at December 31, 2010.

Shares, Options and Rights

For a detailed account of Trilogy's share capital since December 31, 2010, refer to note 14 of the current quarter's financial statements.

Outstanding share options issued under Trilogy's share option plan were 5,435,500 as at March 31, 2011 and 4,891,500 as at May 19 2011, of which 1,375,500 and 845,500 share options were exercisable as at those dates, respectively.

Dividends

(In thousand dollars except where stated otherwise)	Q1 2011	Q4 2010	Q1 2010
Funds flow from operations[1]	**45,586**	34,886	51,760
Net changes in operating working capital	**1,206**	(6,242)	7,605
Cash flow from operations	**46,792**	28,644	59,365
Net earnings (loss)	**(211)**	(7,576)	196,231
Dividends declared[2]	**12,105**	12,077	13,588
Dividends declared per share (in full amount)	**0.105**	0.105	0.12
Excess of cash flow from operations over dividends declared	**34,687**	16,567	45,777
Excess (Deficiency) of net earnings (loss) over dividends)	**(12,316)**	(19,653)	182,643

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

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

Trilogy's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and debt repayments. 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, is 26 percent for the three months ended March 31, 2011.

Trilogy's 2010 annual MD&A includes additional disclosures regarding a comparison of dividends to net earnings and its productive capacity and the management thereof.

Capital Expenditures

(In thousand dollars)	Q1 2011	Q4 2010	Q1 2010
Land	**36,298**	1,166	616
Geological and geophysical	**560**	65	178
Drilling	**79,260**	36,600	44,993
Drilling incentive credits	**1,500**	(4,711)	(9,004)
Production equipment and facilities	**18,208**	13,166	15,469
	135,826	46,286	52,252
Proceeds received from property dispositions	**(3,840)**	(50)	—
Property acquisitions	**511**	(9)	—
Corporate assets	**279**	74	65
Net capital expenditures	**132,776**	46,301	52,317

Capital expenditures increased in the first quarter as compared to the previous quarters due to the increased drilling program and substantial land purchases. A small reversal of prior year drilling credits were recorded in the quarter as a result significant benefits under Alberta's natural gas deep drilling program which reduced Crown royalties.

Wells Drilled

(Number of wells)	Q1 2011		Q4 2010		Q1 2010	
	Gross[1]	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**
Natural gas	**19**	**13.1**	12	6.7	19	16.1
Oil	**2**	**2**	2	2	1	0.5
Total	**21**	**15.1**	14	8.7	20	16.6

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

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

INCOME TAXES

The Company recorded a future income tax expense of $0.5 million in the current quarter. Refer to note 9 and 20 of Trilogy's interim consolidated financial statements in respect of additional comparative information regarding future tax expense and a related gain on conversion recorded in conjunction with the Conversion in the first quarter of 2010.

RELATED PARTY TRANSACTIONS

Trilogy had certain transactions with Paramount Resources, a wholly-owned subsidiary of Paramount Resources Ltd. which owns 21 percent of the equity in the Company. The amount of expenses billed and accrued in respect of services provided under a services agreement was $0.1 million for the three months ended March 31, 2011. The Company and Paramount also had transactions with each other arising from normal business activities.

OUTLOOK INFORMATION

Trilogy's revised guidance for 2011 is as follows:

Average production	30,000 Boe/d
Average operating costs	$7.75 /Boe
Capital expenditures excluding acquisitions	$285 million

QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per unit amounts)	Q1 2010	Q4 2010	Q3 2010	Q2 2010
Revenue after financial instruments, royalties and other income	**70,878**	57,829	56,751	58,167
Earnings (loss) before tax	**262**	(9,484)	(9,705)	(5,304)
Net earnings (loss)	**(211)**	(7,576)	(7,748)	(2,664)
Earnings (loss) per Share (in full amounts):				
Basic	**NIL**	(0.07)	(0.07)	(0.02)
Diluted	**NIL**	(0.07)	(0.07)	(0.02)

(In thousand dollars except per unit amounts)	Q1 2010	Q4 2009[1]	Q3 2009[1]	Q2 2009[1]
Revenue after financial instruments, royalties and other income	88,339	64,911	47,790	47,561
Income (loss) before tax	170,116	(5,019)	(12,003)	(20,493)
Net income (loss)	196,231	(8,749)	(10,794)	(19,695)
Income (loss) per Share (in full amounts):				
Basic	1.74	(0.08)	(0.11)	(0.20)
Diluted	1.73	(0.08)	(0.11)	(0.20)

(1) Quarterly information as prepared under Canadian GAAP.

The fluctuations in Trilogy's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact on royalties, and realized and unrealized gains/losses on financial instruments. Q1, 2010 income was significantly higher as a result of a gain recorded on Conversion (refer to notes 9 and 20 of Trilogy's March 31, 2011 interim financial statements for more information). Please refer to the Results of Operations and other sections of this MD&A for the detailed discussions on changes from the fourth quarter of 2010 to the first quarter of 2011, and to Trilogy's previously issued interim and annual MD&A for changes in prior quarters. Please be aware that as a result of the conversion to IFRS the quarters for 2010 have been restated under IFRS.

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.

Exploration and Evaluation Expenditures

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Company is required to make estimates and judgment 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, 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 the higher of value-in-use calculations and fair values less costs to sell. These calculations require 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 in the cost of inflation, present value discount rates on future liabilities and changes to relevant legal requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future results as disclosed in note 12.

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, 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 in each tax jurisdiction. 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 could be impacted.

IFRS IMPLEMENTATION

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

For all periods up to and including the year ended December 31, 2010, Trilogy prepared its financial statements in accordance with generally accepted accounting principles in effect in Canada during those periods. The interim financial statements as at and for the period ended March 31, 2011 are the first Trilogy financial statements prepared in accordance with IFRS.

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

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

A significant gain and related future tax recovery was recorded on Conversion under IFRS relative to the accounting for the Conversion under Canadian GAAP in the first quarter of 2010 (refer to notes 9 and 20 of the interim consolidated financial statements for further discussion). This variance in accounting for the Conversion created additional income after taxes under IFRS. Excluding these differences, the adoption of IFRS has not materially impacted any of Trilogy's underlying cash flows and company profitability and performance metrics (see Non-GAAP measures).

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

There were no material changes to Trilogy's financial reporting disclosure controls and procedures and internal controls over financial reporting for the three months ended March 31, 2011.

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; business strategy and objectives; the anticipated benefits of the Conversion; the anticipated benefits of Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects; capital expenditures; future production levels; estimates of drilling prospect inventory and the risk and potential reserves associated therewith; development plans and the timing, cost and expected benefits thereof, including Trilogy's horizontal well program, exploration and development of the Montney and Duvernay formations and other drilling and construction plans; the location, extent, geology and potential for development of the Kaybob area Montney oil pool and the nature of Trilogy's plans to further delineate and exploit this pool; 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 the lands acquired at the February 9, 2011 Alberta Crown land sale; expectations of Trilogy's management regarding the timing and expected benefits of its natural gas liquids recovery agreement with Aux Sable Canada LP including, without limitation, pricing, projected revenue to be received by Trilogy thereunder, the resultant cash flow, anticipated cost savings and future production levels under the agreement as well as the deferral of plans to construct a natural gas liquids extraction facility at the Kaybob North Sour Gas Plant, the time it would have taken to complete such facility, the value which would have been obtained therefrom and the costs which would have been attributable thereto; net revenue and cash flow; approach to and amount of dividends; operating and other costs; royalty rates; Trilogy's ability to utilize government incentive programs; estimates of future tax amounts; applicability of income tax legislation and government incentive programs affecting Trilogy; expected counterparty risk; credit limits, the cost of borrowing and Trilogy's expectations regarding extension of its credit facility; pro-forma debt levels; projected results of hedging contracts and other financial instruments; and the expected impact of new accounting pronouncements. Statements regarding "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated, and can be profitable produced in the future.

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

- future oil, natural gas and natural gas liquids supply and prices;
- the natural gas liquids content of Trilogy's natural gas;
- future power prices;
- geology applicable to Trilogy's land holdings;
- current reserves estimates;
- drilling and operational results and timing consistent with expectations;
- Trilogy's ability to obtain competitive pricing;
- the ability of Trilogy to market oil and natural gas successfully to current and new customers;
- the impact of the Conversion on access to capital markets, liquidity, the generation of cash flow and the reinvestment thereof, credit facility and reserves;
- currency, exchange and interest rates;

- assumptions based on Trilogy's current guidance;
- cash flow consistent with expectations;
- continuity of government drilling and royalty incentive programs and their application to Trilogy's operations;
- the ability of Trilogy to obtain equipment, services and supplies in a timely manner to carry out its evaluations and activities;
- the timing and costs of plant turnaround and pipeline and storage facility construction and expansion and the ability to secure adequate product processing and transportation;
- the timely receipt of required regulatory approvals;
- the ability of Trilogy to obtain financing on acceptable terms;
- the timing and estimate of reversals of temporary differences between assets and liabilities recorded for accounting and tax purposes; and
- credit facility increases consistent with expectations
- continuity of the mutually beneficial agreement wit 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 Montney oil pool;
- risks inherent in Trilogy's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- availability of cost effective goods and services;
- Trilogy's ability to enter into or renew leases;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing, including Trilogy's ability to extend its credit facility on an ongoing basis;
- the ability of Trilogy to add production and reserves through development and exploration activities and establish basis for borrowing base increases;
- weather conditions;
- general economic and business conditions;
- the possibility that government policies, regulations, laws or incentive programs may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and applicability of and change to royalty regimes and incentive programs including, without limitation, the Natural Gas Deep Drilling Program and the Drilling Royalty Credit Program;
- imprecision in estimates of product sales, tax pools, tax shelter, tax deductions available to Trilogy, changes to and the

interpretation of tax legislation and regulations applicable to Trilogy, and timing and amounts of reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes.
- uncertainty regarding aboriginal land claims, consultations and co-existence with local populations;
- uncertainty regarding results of third party industry participants' objections to Trilogy's development plans;
- risks associated with existing and potential future law suits and regulatory actions against Trilogy;
- hiring/maintaining staff;
- the impact of market competition; and
- other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

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

Non-GAAP Measures

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

"Funds flow from operations" refers to the cash flow from operating activities before net changes in operating working capital. The most directly comparable measure to "funds flow from operations" calculated in accordance with IFRS is the cash flow from operating activities. "Funds flow from operations" can be reconciled to cash flow from operating activities by adding (deducting) the net change in 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 petroleum and natural gas sales plus realized financial instrument gains and losses and other income minus royalties, operating costs, transportation costs and actual decommissioning and restoration costs incurred in the year. "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 capital expenditures excluding property acquisitions, property dispositions and corporate office expenditures and including changes in future development capital on a proved and proved plus probable basis (as

applicable). "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 (as applicable).

"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 are to 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.

ADDITIONAL INFORMATION

Trilogy Energy Corp. 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 geographically concentrated assets are primarily low-risk, high working interest, lower-decline properties that provide abundant infill drilling opportunities and good access to infrastructure and processing facilities, many of which are operated and controlled by Trilogy. Trilogy's common shares are listed on the Toronto Stock Exchange under the symbol "TET". 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.

Condensed Consolidated Interim Balance Sheet (unaudited)

(in thousand Canadian dollars)

	Note		March 31, 2011		December 31, 2010		January 1, 2010
ASSETS							
Current assets							
Trade and other receivables	*18*	$	**47,957**	$	50,837	$	50,797
Derivative financial instruments	*18, 19*		**213**		—		2,803
Prepaids			**317**		253		239
			48,487		51,090		53,839
Non-current assets							
Property, plant and equipment	*6, 8*		**773,625**		711,973		661,944
Exploration and evaluation assets	*7*		**105,289**		70,258		72,564
Goodwill			**140,471**		140,471		140,471
Deferred tax asset	*9*		**107,182**		107,656		11,840
Total assets		$	**1,175,054**	$	1,081,448	$	940,658
EQUITY AND LIABILITIES							
Current liabilities							
Trade and other payables	*18*	$	**117,124**	$	78,870	$	57,722
Dividend payable	*10, 18*		**4,038**		4,026		5,525
Derivative financial instruments	*18, 19*		**3,783**		690		—
			124,945		83,586		63,247
Non-current liabilities							
Long term debt	*11, 18*		**336,775**		279,599		236,791
Decommissioning and restoration liability	*12*		**179,950**		177,144		150,331
Share-based payment liability	*13*		**—**		—		8,228
Deferred tax liability	*9*		**—**		—		118,998
Total liabilities			**641,670**		540,329		577,595
Shareholders' equity							
Shareholders' capital	*14*		**864,685**		863,011		824,273
Contributed surplus			**18,717**		15,810		4,918
Accumulated deficit after dividends			**(350,018)**		(337,702)		(466,128)
			533,384		541,119		363,063
Total shareholders' equity and liabilities		$	**1,175,054**	$	1,081,448	$	940,658

See accompanying notes to the consolidated financial statements.

TRILOGY ENERGY CORP.

Condensed Consolidated Interim Statement of Earnings (Loss) and Other Comprehensive Income (Loss) (unaudited)

(in thousand Canadian dollars except per share amounts)

	Notes	Three months ended March 31, 2011	2010
Revenue and other			
Petroleum and natural gas sales		$ **79,998**	$ 86,268
Royalties		**(5,974)**	(12,381)
Revenue		**74,024**	73,887
Other		**217**	477
Gain / (loss) on derivative financial instruments	*18, 19*	**(3,363)**	13,975
		70,878	88,339
Expenses			
Operating and production costs		**17,952**	18,619
Transportation		**2,708**	3,263
Depletion and depreciation	*6*	**31,977**	28,924
Exploration and evaluation expenditures	*7*	**6,122**	1,921
General and administrative expenses		**3,165**	5,073
Share-based compensation	*13*	**3,838**	1,457
		65,762	59,257
Operating earnings		**5,116**	29,082
Gain on conversion to a corporation	*9*	—	(146,053)
Accretion on decommissioning and restoration liability	*12*	**1,539**	1,505
Other finance costs	*11*	**3,315**	3,514
Net income (loss) before income tax		**262**	170,116
Income tax expense (recovery)			
Current		—	—
Deferred	*9*	**473**	(26,115)
Net income (loss) and comprehensive income (loss)		$ **(211)**	$ 196,231
Earnings per share (in full amounts)	*15*		
- Basic		$ —	$ 1.74
- Diluted		$ —	$ 1.73

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

(In thousand Canadian dollars except share information)

	Outstanding Common and Non-Voting Shares[1]	Share Capital	Contributed Surplus	Retained Earnings	Shareholders' Equity
Balance at January 1, 2010	110,238,903	$ 824,273	$ 4,918	$ (466,128)	$ 363,063
Net income for the period	—	—	—	196,231	196,231
Conversion from a trust to a corporation *(note 14)*	4,219,653	36,141	8,228	—	44,369
Distribution reinvestment plan and other equity issuances *(note 10, 14)*	432,385	3,496	—	—	3,496
Dividends declared *(note 10)*	—	—	—	(13,588)	(13,588)
Normal course issuer bid *(note 14)*	(144,400)	(1,079)	(145)	—	(1,224)
Share Incentive Plan purchases *(note 14)*	(271,300)	(2,312)	—	—	(2,312)
Share-based compensation	—	—	1,379	—	1,379
Balance at March 31, 2010	**114,475,241**	**$ 860,519**	**$ 14,380**	**$ (283,485)**	**$ 591,414**
Balance at January 1, 2011	**114,741,491**	**$ 863,011**	**$ 15,810**	**$ (337,702)**	**$ 541,119**
Net loss for the period	**—**	**—**	**—**	**(211)**	**(211)**
Other equity issuances *(note 14)*	**348,500**	**4,105**		**—**	**4,105**
Dividends declared *(note 10)*	**—**	**—**	**—**	**(12,105)**	**(12,105)**
Share Incentive Plan purchases *(note 14)*	**(165,000)**	**(2,431)**	**—**	**—**	**(2,431)**
Share-based compensation	**—**	**—**	**2,907**	**—**	**2,907**
Balance at March 31, 2011	**114,924,991**	**$ 864,685**	**$ 18,717**	**$ (350,018)**	**$ 533,384**

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

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

(In thousand Canadian dollars)

	Notes	Three months ended March 31 2011	2010
Operating activities			
Net income (loss) before income tax		**$ 262**	$ 170,116
Adjustments for non-cash and other items:			
Gain on conversion to corporation	*9*	—	(146,053)
Unrealized (gain) losses of derivative financial instruments	*19*	**2,880**	(5,244)
Unrealized (gain) losses on foreign exchange		**(208)**	(135)
Depletion and depreciation	*6*	**31,977**	28,924
Exploration and evaluation expenditures	*7*	**6,122**	1,921
Stock based compensation	*13*	**3,751**	1,453
Finance costs on decommissioning and restoration liability	*12*	**1,539**	1,505
Decommissioning and restoration costs		**(737)**	(727)
Net change in non-cash working capital	*16*	**1,206**	7,605
Net cash flow from operating activities		**46,792**	59,365
Investing activities			
Exploration and evaluation expenditures	*7*	**(51,422)**	(1,212)
Property, plant and equipment expenditures	*6*	**(84,683)**	(51,106)
Property acquisitions		**(511)**	—
Proceeds from disposition of property, plant and equipment	*6*	**3,840**	—
Net change in non-cash working capital	*16*	**40,178**	16,918
Net cash flow used in investing activities		**(92,598)**	(35,400)
Financing activities			
Proceeds (repayments) on long-term debt	*11*	**57,069**	(8,763)
Purchase and cancellation of shares under normal course issuer bid	*14*	—	(1,225)
Dividends to Shareholders	*10*	(12,092)	(11,855)
Share incentive plan purchases	*13, 14*	(2,431)	(2,312)
Shares issued	*14*	3,260	190
Net cash flow used in financing activities		**45,806**	(23,965)
Change in cash		—	—
Cash interest and financing charges paid		$ 3,208	$ 4,577

See accompanying notes to the consolidated financial statements

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

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

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 – *Interim financial reporting ("IAS 34")* and IFRS 1 – *First time adoption of International Financial Reporting Standards ("IFRS 1")*. Subject to certain transition elections disclosed in note 20, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of May 19, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

The condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 19). All values are rounded to the nearest thousand except where otherwise indicated.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Reserves Estimation

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

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

Exploration and Evaluation Expenditures

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Company is required to make estimates and judgment 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, 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 the higher of value-in-use calculations and fair values less costs to sell. These calculations require 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 in the cost of inflation, present value discount rates on future liabilities and changes to relevant legal requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future results as disclosed in note 12.

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, 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 in each tax jurisdiction. 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 could be impacted.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jointly Controlled Operations

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

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

Foreign Currency Translation

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

Goodwill

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

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

Oil and Natural Gas Exploration and Development Expenditures

Exploration and Evaluation Costs

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

Mineral leases that are subsequently found to have proved reserves are transferred to property, plant and equipment.

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

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

Impairment

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

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

Development Costs

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

Asset Exchanges

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

Property, Plant and Equipment

Carrying Value

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

Depreciation and Depletion

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

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

To the extent assets have been identified as having a number of significant parts with differing depreciation patterns, such parts are depreciated in separate components.

Impairment

At the end of each quarter, the Company reviews the property, plant and equipment for circumstances that indicate that the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing, which is the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less selling costs and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down.

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

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

Maintenance and Repairs

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

Borrowing Costs

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

Financial Instruments

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

Financial Assets and Liabilities at Fair Value through Profit or Loss

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

Loans and Receivables

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

Financial liabilities at amortized cost

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

Fair Value

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

Provisions

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

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

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

Decommissioning and Restoration

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

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax

laws used to compute the amount of income taxes are those that are enacted or substantively enacted at the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred Income Tax

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

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

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

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

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

Revenue Recognition

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

Share-based Payments and Management Compensation

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date. The fair value of share options is determined using a binomial model (see note 13).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on

the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting periods have accrued and Trilogy's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized from the beginning to the end of that period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 15).

Dividends

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

Share Capital

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

Earnings per Share

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

5. CHANGES IN ACCOUNTING POLICIES

The following standards and interpretations have not been in effect as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures.

International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9")

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

6. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost or deemed cost:			
Balance at January 1, 2010	1,563,777	9,412	1,573,189
Additions	172,677	165	172,842
Transfers from intangible exploration and evaluation assets	8,219	—	8,219
Acquisitions	359	—	359
Disposals	(432)	—	(432)
Balance at December 31, 2010	1,744,600	9,577	1,754,177
Additions	85,847	281	86,128
Transfers from intangible exploration and evaluation assets	10,830	—	10,830
Acquisitions	511	—	511
Disposals	(500)	—	(500)
Balance at March 31, 2011	**1,841,288**	**9,858**	**1,851,146**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at January 1, 2010	906,261	4,984	911,245
Depletion and depreciation charge	118,923	1,266	120,189
Impairment charge, net of reversals	11,145	—	11,145
Disposals	(375)	—	(375)
Balance at December 31, 2010	1,035,954	6,250	1,042,204
Depletion and depreciation charge	31,578	399	31,977
Impairment charge, net of reversals	—	—	—
Disposals	3,340	—	3,340
Balance at March 31, 2011	**1,070,872**	**6,649**	**1,077,521**
Net carrying value			
At January 1, 2010	657,516	4,428	661,944
At December 31, 2010	708,646	3,327	711,973
At March 31, 2011	**770,416**	**3,209**	**773,625**

The cost of additions, acquisitions and disposals of oil and gas property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations on such assets and dispositions. Property, plant and equipment with a carrying value of $0.8 million at March 31, 2011 (December 31, 2010: $0.7 million) include development assets under construction that are not being depreciated. No borrowing costs were capitalized to property, plant and equipment in respect of the referenced periods.

7. EXPLORATION AND EVALUATION ASSETS AND OTHER INTANGIBLE ASSETS

	Exploration and Evaluation Expenditures
Cost	
Balance at January 1, 2010	72,564
Additions	14,167
Expensed	(8,254)
Transfers to property, plant and equipment	(8,219)
Balance at December 31, 2010	70,258
Additions	51,422
Expensed	(5,561)
Transfers to property, plant and equipment	(10,830)
Balance at March 31, 2011	105,289

Exploration and evaluation expenditures on the statement of comprehensive income include costs associated with geological and geophysical costs which are immediately expensed and that are not reflected in the expensed amounts above. Refer to note 4 for the details of impairment testing of intangible exploration and evaluation assets.

8. IMPAIRMENT LOSS/ (RECOVERY)

	Three months-ended March 31, 2011	Twelve months-ended December 31, 2010
Impairment Losses		
Property, plant and equipment	—	11,145
Reversal of Previously Booked Impairments		
Property, plant and equipment	—	—
Total impairment losses (recovery)	—	11,145

In 2010, the Company recorded an impairment charge of $11.1 million in relation to a natural gas CGU. The impairment charge related primarily to a reversal of reserves recorded in the prior year as a result of a change in future development plans in the CGU. The decrease was also, in part, a result of declining forecasted natural gas prices as at December 31, 2010.

The Company determined the recoverable amount using the fair value less costs to sell method and based on internally generated cash flow projections. In determining fair value less costs to sell, the Company considered recent transactions within the industry, long-term views of natural gas prices, externally evaluated reserve volumes, and discount rates specific to the asset. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates and commodity prices. In computing the recoverable amount, future cash flows were adjusted for risks specific to the asset and discounted using a post-tax discount rate of 10 percent (2010: 10 percent).

9. INCOME TAX

The composition of the net future income tax asset (liability) is as follows for the applicable balance sheet dates:

Description of Temporary Differences	March 31, 2011	December 31, 2010	January 1, 2010
Property, plant and equipment	**(110,393)**	(109,178)	(169,148)
Asset retirement obligation	**44,987**	44,285	57,958
Loss carry forwards and other	**172,588**	172,549	4,032
Net future income tax asset (liability)	**107,182**	107,656	(107,158)

As discussed in note 1, the Company converted to a corporation by way of a plan of arrangement and related transactions with a private company. In conjunction with the arrangement, Trilogy recorded a future tax asset of $182.2 million and an increase in share capital of $36.1 million related to the fair value of the 4,219,653 common shares issued in conjunction with the Conversion. The $146.1 million excess of amounts assigned to the future tax asset, measured on an undiscounted basis, over the consideration provided is recorded as a gain in the statement of comprehensive income.

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

Trilogy has tax losses of $676 million that are available for carry forward against future taxable income of the entities in which the losses arose. Deferred tax assets are recognized for the carry-forward of unused tax losses to the extent that it is probable that taxable profits will be available against which the unused tax losses can be utilized.

10. DIVIDENDS PAYABLE

Dividends declared were $0.12 and $.105 per share in the three months ended March 31, 2010 and 2011, respectively, and $0.435 per share in the year ended December 31, 2010.

Trilogy intends to make cash dividends to Shareholders at a level that supports the sustainability of the Company. Such dividends are at the sole discretion of the Company and its Board of Directors 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.

11. LONG-TERM DEBT

	Three months ended March 31, 2011	Twelve months ended December 31, 2010	As at January 1, 2010
Revolving credit and working capital facility	**337,617**	280,303	236,977
Less unamortized discount	**(842)**	(704)	(186)
Carrying value of long term debt	**336,775**	279,599	236,791
Weighted average interest rate for the period	**3.90%**	3.89%	N/A

As at March 31, 2011, the Company has a secured $355 million (December 31 and January 1, 2010 - $355 million) revolving credit facility and a $35 million (December 31 and January 1, 2010: $35 million) working capital facility (total $390 million) with a syndicate of Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions.

The facilities are available on a revolving basis for a period of at least 364 days and can be extended a further 364 days upon the Company's request and as approved by the lenders. The revolving phase of this credit facility expires on June 6, 2011, if not extended. In the event the revolving period is not extended, the revolving facility would be available for a one year term on a non-revolving basis; at the end of which time amounts drawn down under the facility would be due and payable. The working capital facility would continue on a revolving basis for a one year term. Advances drawn on the Company's facility are secured by a fixed and floating charge debenture over the assets of the Company. The $390 million borrowing base is subject to semi-annual review by the banks.

On May 17, 2011, Trilogy executed an amended and restated credit facility agreement with its lenders. Commitments under this credit facility total $470 million. Refer to note 18 for additional information.

The Company has undrawn letters of credit totalling $8.5 million as at March 31, 2011 (2010: $8.4 million). These letters of credit reduce the amount available for draw under the Company's working capital facility.

12. DECOMMISSIONING AND RESTORATION LIABILITY

	Three months-ended March 31,2011	Twelve months-ended December 31, 2010
Decommissioning and restoration obligation		
Balance - beginning of period	**177,144**	150,331
Liabilities incurred	**2,004**	22,396
Liabilities settled	**(737)**	(1,717)
Finance cost expense for accretion	**1,539**	6,134
Balance – end of period	**179,950**	177,144

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $195.5 million as at March 31, 2011 (December 31 and January 1, 2010: $193.4 and

$183.3 million, respectively). 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.

13. SHARE-BASED PAYMENT PLANS

The expense recognized for employee services received during the three months ended March 31 is shown in the following table:

	2011	2010
Expense arising from:		
Share Option Plan	**1,178**	800
Share Incentive Plan	**2,660**	657
Total expense arising from share-based payment transactions	**3,838**	1,457

The Company has a long-term incentive plan that allows management to award share options to eligible directors, officers and employees (the "Share Option Plan") . Under this plan, holders of vested share options are able to subscribe for the equivalent number of shares at the exercise price within the contractual period prescribed in the governing option agreement. The exercise price of the options is equal to the market price of the shares at the date of the grant. The contractual life of each option granted is 4.5 to 5.5 years.

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

	March 31, 2011		December 31, 2010	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at January 1	**$9.11**	**5,870,000**	$8.16	4,627,500
Granted [1]	—	—	12.05	1,540,000
Exercised	**9.67**	**(434,500)**	9.65	(221,000)
Forfeited and Expired	—	—	8.82	(76,500)
Outstanding at period end[2,3]	**$9.07**	**5,435,500**	$9.11	5,870,000
Exercisable at period end	**$8.22**	**1,375,500**	$8.56	1,799,000

[1]The weighted average fair value of options granted during the period was $NIL per option (2010: $3.97 per option)
[2]The weighted average remaining contractual life for options outstanding at the end of the period was 3.2 years (2010: 3.2 years)
[3]The range of exercise prices for options outstanding at the end of the period was $4.85 to $12.88 (2010: $4.85 to $12.88).

The Company also has a share incentive plan for employees, officers and directors that annually awards rights to receive Common Shares. Common Shares are purchased in the open market and held by an independent trustee until the 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.

14. ISSUED CAPITAL

Authorized

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

Issued and Outstanding and Fully Paid

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

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

251,431 Trust Units were held in trust for the benefit of Trilogy employees under the Company's share incentive plan as at January 1, 2010. The average cost to the Company of these units was $1.5 million and was recorded as a reduction to shareholder capital.

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

	Common Shares	Non-Voting Shares	Total		Amount
February 5, 2010 - Shares outstanding in private corporation	4,219,653	—	4,219,653	$	36,141
Conversion – Effected through Plan of Arrangement	79,409,726	30,835,862	110,245,588		824,280
Share incentive plan – adjustment to share capital for Common Shares vested	227,250	—	227,250		2,050
Issued - Share Option Plan	49,000	—	49,000		540
Common Shares and Non-Voting Shares as at December 31, 2010	83,905,629	30,835,862	114,741,491	$	863,011
Issued - Share Option Plan	348,500	—	348,500		4,105
Share Incentive Plan purchases	(165,000)	—	(165,000)		(2,431)
Common Shares and Non-Voting Shares as at March 31, 2011	84,089,129	30,835,862	114,924,991		864,685

295,481 and 460,481 Common Shares were held in trust for the benefit of Trilogy employees under the Company's Share Incentive Plan as at December 31, 2010 and March 31, 2011, respectively.

The cost to the Company of the Common Shares was $2.4 million and $4.9, respectively and was recorded as a reduction to Common Shares outstanding and shareholder capital.

15. EARNINGS PER SHARE

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

Basic and Diluted Earnings per Share

Three months ended:	March 31, 2011	March 31, 2010
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**(211)**	196,231
Weighted average number of Shares for the purposes of basic earnings per share	**114,808,130**	112,789,477
Outstanding options – in the money	**5,435,500**	2,952,000
Effect of dilution	**(3,316,878)**	(2,515,682)
Weighted average number of Shares for diluted earnings per Share	**116,926,752**	113,225,795
Earnings per share – Basic	—	1.74
Earnings per share – diluted	—	1.73

16. RECONCILIATION OF CHANGES IN NON-CASH WORKING CAPITAL

Three months ended:	March 31, 2011	March 31, 2010
Decrease (increase) in trade and other receivables	**2,816**	(553)
Increase (decrease) in trade, other payables and dividends payable	**38,568**	25,076
	41,384	24,523
Changes in non-cash operating working capital	**1,206**	7,605
Changes in non-cash investing working capital	**40,178**	16,918

17. RELATED PARTY TRANSACTIONS

Transactions with an Entity with Significant Influence over Trilogy

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

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

- The Company and Paramount also had transactions with each other arising from the normal course of business. These transactions were recorded at the exchanged amounts.

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

	March 31, 2011		
Presented in the Balance Sheet as	Normal Business	Services Agreement	Dividend
Trade and other receivables	802	—	—
Trade and other payables	(240)	(111)	—
Dividends payable	—	—	(846)

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

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

18. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

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

Credit Risk

The Company is exposed to credit risk from financial instruments to the extent of non-performance by third parties. Credit risks associated with the possible non-performance by financial instrument counterparties are minimized by entering into contracts with highly rated counterparties, initial credit due diligence procedures, limits on exposures to any one counterparty and ongoing credit monitoring procedures.

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

		Carrying Amount	
	March 31, 2011	**December 31, 2010**	**January 1, 2010**
Trade and other receivables	**$47,957**	$50,837	$50,797
Derivatives Financial Instruments	**213**	—	2,803
	$48,170	$50,837	$53,600

Liquidity Risk

Trilogy's principal sources of liquidity are its cash flow from operations and existing credit facilities. 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 adjust the levels of dividends declared to Shareholders and capital spending to maintain its liquidity. A contractual maturity analysis for Trilogy's financial liabilities as at March 31, 2011 is as follows:

March 31, 2011	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	$117,124	—	—	$117,124
Financial instruments[(1)]	3,783	—	—	3,783
Dividends payable	4,038	—	—	4,038
Long-term debt and estimated interest[(2)]	13,134	349,909	—	363,043
Total	$138,079	$349,909	—	$487,988

(1) Estimated settlement on fixed forward commodity contracts using forecast prices and exchange rates at March 31, 2011.

(2) Estimated interest for future periods was calculated using the weighted average interest rate for the period ended March 31, 2011 applied to the debt principal balance outstanding as at that date. Principal repayment is assumed one year after the expiry of the current revolving phase of the credit facility.

Commodity Price Risk

Inherent to Trilogy's business of producing petroleum and natural gas is the commodity price risk where fluctuations in the market price of crude oil, natural gas and natural gas liquids significantly impact the Company's cash flow from operations. As numerous items, including but not limited to the amount of dividends declared to Shareholders and capital expenditures and debt repayments or draw-downs, are dependent upon the level of cash flow generated from operations, the fluctuation in petroleum and natural gas prices (in addition to normal operational and external risks) impacts Trilogy's liquidity.

To protect cash flow against commodity price volatility, Trilogy uses from time to time forward commodity price contracts that require financial settlement between counterparties. This financial instrument program is generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production (see note 19 for details of outstanding financial instruments as at March 31, 2011).

Interest Rate Risk

As described in note 11, Trilogy's credit facilities are subject to floating interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The interest rate margin is determined by the lenders based on their periodic review of the Company's results and is generally

dependent upon Trilogy's debt to cash flow ratio, which may also be impacted by commodity price volatility.

The draw-downs from Trilogy's credit facilities are generally in the form of bankers' acceptances with fixed terms ranging from 10 to 180 days which are then rolled-over if not repaid on their due dates. Trilogy may enter into interest rate swap contracts to mitigate the impact of interest rate fluctuations. There are no interest rate swap contracts outstanding at March 31, 2011.

Foreign Currency Risk

Foreign currency rate fluctuations may impact the Company mainly due to the outstanding U.S. Dollar denominated financial instrument contracts, in addition to normal conversions of U.S. dollar denominated revenues into the Canadian dollar. Approximately 15 percent of Trilogy's petroleum and natural gas sales for the three months ended March 31, 2011 was denominated in the U.S. dollar. Trilogy may enter into fixed forward currency contracts to mitigate the impact of foreign currency fluctuations.

Capital Management

The Company's capital structure currently consists of (a) revolving long-term debt pursuant to a credit facility, (b) working capital facility pursuant to a credit facility, (c) letters of credit issued as financial security to third parties and (d) 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 long-term debt and working capital facilities, (4) enter into new agreements establishing new credit facilities, (5) adjust the amount of dividends declared to shareholders, (6) adjust capital spending, and/or (7) sell non-core and/or non-strategic assets.

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

	March 31, 2011	December 31, 2010	January 1, 2010
Committed amount that can be drawn from credit facilities (see note 11)	**390,000**	**390,000**	390,000
Outstanding undrawn letters of credit	**(8,462)**	**(8,408)**	(8,408)
Amount that can be drawn after letters of credit	**381,538**	**381,592**	381,592
Long-term debt	**(336,775)**	**(279,599)**	(236,791)
Net current liabilities (working capital)	**(76,458)**	**(32,496)**	(9,408)
Net debt(1)	**(413,233)**	**(312,095)**	**(246,199)**

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

On May 17, 2011, Trilogy executed an amended and restated credit facility agreement with its lending syndicate (the "New Facility"). The New Facility replaces and is similar in nature to the terms and conditions of Trilogy's credit facility outstanding as at March 31, 2011, with the exception of the following significant differences:

- Total commitments under the New Facility increased to $470 million, consisting of a $35 million working capital, a $385 million revolving, and a non-revolving $50 million development tranche.
- A maturity date of April 30, 2014 in respect of the working capital and revolving tranche and August 31, 2012 in respect of the development tranche.
- Proceeds from the $50 million development tranche will be used exclusively for the development of Trilogy's Montney oil play in the Kaybob area of Alberta.
- The working capital and production facilities are subject to semi-annual borrowing base reviews and borrowings from these facilities can be used to repay amounts borrowed under the development tranche.

19. FINANCIAL INSTRUMENTS

Carrying Values

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

	As at March 31, 2011	As at December 31, 2010
Financial assets		
Receivables(1)	**47,957**	50,837
Financial instruments held-for-trading(2)	**213**	—
Financial liabilities		
Other liabilities - non-trading liabilities(1) (3)	**(121,162)**	(82,896)
Financial instruments held-for-trading(2)	**(3,783)**	(690)
Other liabilities - long-term debt(4)	**(336,775)**	(279,599)

(1) Carried at cost which approximates the fair value of the assets or 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 Forward Contracts below.

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

(4) Carried at amortized cost which approximates the fair value of the liability.

The three levels of the fair value hierarchy are:

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

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

December 31, 2010

	Financial assets (liabilities) – fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
Foreign exchange option contracts	—	—	—	—
Crude oil forward sale contracts	—	(690)	—	(690)

March 31, 2011

	Financial assets (liabilities) – fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
Foreign exchange option contracts	—	213	—	213
Crude oil forward sale contracts	—	(3,783)	—	(3,783)

Forward Contracts

At March 31, 2011, the Company had the following outstanding financial forward commodity sales contracts (also see note 18):

Description	Quantity	Price	Term
Crude oil forward sale contracts	1,000 Bbl/d	$93.73USD/Bbl	April – December 2011

The Company classified these financial instruments as held-for-trading 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 statement of comprehensive income. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the statement of comprehensive income.

20. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements under IFRS. These interim financial statements were prepared as described in Note 2, including the application of IFRS 1. Prior to the adoption of IFRS, the Company followed Canadian GAAP.

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

The Company has applied the optional exemptions:

- IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries that occurred before January 1, 2010.

- IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted after November 7, 2002 that vested before January 1, 2010. In addition, IFRS 2 has not been applied to liabilities arising from cash-settled share-based payment arrangements that were settled before January 1, 2010.

- Trilogy has elected to apply the exemption from full retrospective application of decommissioning and restoration provisions in accordance with IFRIC1. As such Trilogy has re-measured the provisions as at January 1, 2010 under IAS 37, estimated the amounts to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using the best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation and depletion under IFRS.

- Trilogy has also elected to apply the borrowing cost exemption. This election allows the Company to commence capitalization of borrowing costs relating to qualifying assets prospectively from January 1, 2010. The Company did not capitalize borrowing costs under Canadian GAAP and did not identify any qualifying expenditures in 2010.

Reconciliation of Equity

		December 31, 2010			March 31, 2010			January 1, 2010		
	Note	Cdn GAAP	IFRS Adj	IFRS	Cdn GAAP	IFRS Adj	IFRS	Cdn GAAP	IFRS Adj	IFRS
ASSETS										
Current Assets										
Trade and other receivables		50,837	—	50,837	50,638	—	50,638	50,797	—	50,797
Derivative financial instruments		—	—	—	8,229	—	8,229	2,803	—	2,803
Prepaid expenses	C	734	(481)	253	1,259	(1,259)	—	546	(307)	239
		51,571	(481)	51,090	60,126	(1,259)	58,867	54,146	(307)	53,839
Non-current Assets										
Property, plant and equipment	A, E	721,652	(9,679)	711,973	711,172	(20,462)	690,710	686,736	(24,792)	661,944
Intangible exploration and evaluation assets	E	—	70,258	70,258	—	66,912	66,912	—	72,564	72,564
Goodwill		140,471	—	140,471	140,471	—	140,471	140,471	—	140,471
Deferred tax asset	D	98,342	9,314	107,656	94,380	6,772	101,152	11,840	—	11,840
		960,465	69,893	1,030,358	946,023	53,222	999,245	839,047	47,772	886,819
Total Assets		1,012,036	69,412	1,081,448	1,006,149	51,963	1,058,112	893,193	47,465	940,658
EQUITY AND LIABILITIES										
Current Liabilities										
Trade and other payables	C	79,391	(521)	78,870	82,121	169	82,290	58,257	(535)	57,722
Dividend payable		4,026	—	4,026	4,025	—	4,025	5,525	—	5,525
Derivative financial instruments		690	—	690	—	—	—	—	—	—
		84,107	(521)	83,586	86,146	169	86,315	63,782	(535)	63,247
Non-current Liabilities										
Long-term debt		279,599	—	279,599	227,633	—	227,633	236,791	—	236,791
Decommissioning and restoration liability	B	77,525	99,619	177,144	76,842	75,909	152,751	75,355	74,976	150,331
Share-based payment liability	C	—	—	—	—	—	—	—	8,228	8,228
Deferred credit	D	136,241	(136,241)	—	140,383	(140,383)	—	—	—	—
Deferred tax liability	D	—	—	—	—	—	—	82,653	36,345	118,998
		493,365	(36,622)	456,743	444,858	(64,474)	380,384	394,799	119,549	514,348
Total Liabilities		577,472	(37,143)	540,329	531,004	(64,305)	466,699	458,581	119,014	577,595
Shareholders' Equity										
Shareholders' capital	C	864,758	(1,747)	863,011	864,316	(3,797)	860,519	825,758	(1,485)	824,273
Contributed surplus	C	11,587	4,223	15,810	10,422	3,958	14,380	10,251	(5,333)	4,918
Accumulated deficit after dividends		(441,781)	104,079	(337,702)	(399,593)	116,107	(283,486)	(401,397)	(64,731)	(466,128)
		434,564	106,555	541,119	475,145	116,268	591,413	434,612	(71,549)	363,063
Total Shareholders' Equity and Liabilities		1,012,036	69,412	1,081,448	1,006,149	51,963	1,058,112	893,193	47,465	940,658

Reconciliation of comprehensive income

	Note	Year ended December 31, 2010			Three months ended March 31, 2010		
Revenue and Other		Cdn GAAP	IFRS Adj	IFRS	Cdn GAAP	IFRS Adj	IFRS
Petroleum and natural gas sales		290,841	—	290,841	86,268	—	86,268
Royalties		(44,717)	—	(44,717)	(12,381)	—	(12,381)
Revenue		246,124	—	246,124	73,887	—	73,887
Other		1,324	—	1,324	477	—	477
Realized gain/ (loss) on derivative financial instruments		17,111	—	17,111	8,731	—	8,731
Unrealized gain/ (loss) on derivative financial instruments		(3,473)	—	(3,473)	5,244	—	5,244
		261,086	—	261,086	88,339	—	88,339
Expenses							
Operating costs		70,618	—	70,618	18,619	—	18,619
Transportation		12,665	—	12,665	3,263	—	3,263
General and administrative expenses	*C, E*	17,343	(2,125)	15,218	5,730	(657)	5,073
Share-based compensation	*C, E*	1,750	3,378	5,128	394	1,063	1,457
Exploration and evaluation expenditures	*E*	2,850	5,840	8,690	717	1,204	1,921
Depletion and depreciation	*A, E*	117,454	3,420	120,874	27,933	991	28,924
Impairment (loss) / recovery	*A, E*	8,927	2,218	11,145	—	—	—
Other gains / (losses)		8	—	8	—	—	—
		231,615	12,731	244,346	56,656	2,601	59,257
Operating earnings		29,471	(12,731)	16,740	31,683	(2,601)	29,082
Gain on conversion to corporation	*D*	—	(146,053)	146,053	—	(146,053)	(146,053)
Accretion on decommissioning and restoration liability	*B*	5,776	358	6,134	1,445	60	1,505
Finance costs		11,036	—	11,036	3,514	—	3,514
Net Earnings (loss) before income tax		12,659	132,964	145,623	26,724	143,392	170,116
Income tax							
Current		—	—	—	—	—	—
Deferred	*D*	3,227	(35,846)	(32,619)	11,332	(37,447)	(26,115)
Net income and comprehensive income		9,432	168,810	178,242	15,392	180,839	196,231

Notes to the Reconciliation of Equity as at January 1, 2010, March 31, 2010 and December 31, 2010, and Comprehensive Income for the three and twelve months-ended March 31, 2010 and December 31, 2010

A. Property, plant and equipment and impairment thereon

As discussed below under decommissioning and restoration liability, an additional asset of $47.8 million was recorded in property, plant and equipment in respect of the increased value of the related liability on transition to IFRS and in respect of the assets recorded under Canadian GAAP in 2010. Accordingly, additional depletion and depreciation of $2.2 million was recorded on these amounts for the three-month period ended March 31, 2010 (December 31, 2010 - $9.3 million).

As discussed below under Reclassifications -*Exploration and Evaluation*, as at January 1, 2010 $72.6 million (March 31, 2010 - $66.9 million; December 31, 2010 - $70.3 million) of costs in respect of exploration and evaluation activities were reclassified from property plant and equipment into a separate category "Exploration and Evaluation Assets".

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

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

B. Decommissioning and restoration liability

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

C. Equity-settled share-based awards

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

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

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

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

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

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

An increase to share based compensation expense of $0.4 million was recorded in the three-month period ended March 2010 (December 31, 2010 - $1.3 million) under IFRS relative to Canadian GAAP in respect of the increase in the option value requiring measurement at fair value on transition under IFRS relative to the original option value recorded under Canadian GAAP. In addition, $0.7 million of expense related to the Company's Share Incentive Plan has been included in share based compensation expense under IFRS for the period ended March 31, 2010 (December 31, 2010 – $2.1 million). This amount was previously included in general and administrative expenses under Canadian GAAP.

D. Deferred income taxes and Gain on conversion to corporation

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

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

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

E. Reclassifications

Exploration and Evaluation
Trilogy recorded a reduction of $72.6 million to its property plant and equipment as at January 1, 2010 (December 31, 2010 - $70.3 million; March 31, 2010 - $66.9 million) with a corresponding increase to exploration and evaluation assets in respect of its undeveloped land and costs associated with its exploration and evaluation activities. Costs associated with the expiry of undeveloped lands have been reclassified from depletion and depreciation to exploration and evaluation expenditures.

Impairment
Impairments under Canadian GAAP recorded in 2010 were included in depletion and depreciation. Under IFRS, impairments have been disclosed as a separate line item on the statement of income.

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

F. Cash flow statement

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

21. EVENTS AFTER THE BALANCE SHEET DATE

In April 2011, Trilogy executed a forward sales contract for 500 Bbl/d from May 2011 through to December, 2011 at a price of $110.22 USD/Bbl.

On May 17, 2011, Trilogy executed an amended and restated credit facility agreement with its lenders. Commitments under this credit facility total $470 million. Refer to note 18 for additional information.

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)
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

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Royal Bank of Canada
Calgary, Alberta
ATB Financial
Calgary, Alberta
The Toronto-Dominion Bank
Calgary, Alberta

CONSULTING ENGINEERS
InSite Petroleum Consultants Ltd.
(formerly Paddock Lindstrom and Associates Ltd.)
Calgary, Alberta

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

STOCK EXCHANGE LISTING
The Toronto Stock Exchange - "TET"