TRILOGY
ENERGY CORP.

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

	Three Months Ended			Six Months Ended June 30		
	June 30, 2012	**Mar 31, 2012**	**Change %**	**2012**	**2011**	**Change %**
FINANCIAL						
Petroleum and natural gas sales	**108,861**	108,080	1	**216,941**	174,054	25
Funds flow						
From operations[1]	**55,303**	58,933	(6)	**114,236**	97,692	17
Per share - diluted	**0.46**	0.49	(5)	**0.96**	0.83	15
Earnings						
Earnings (loss) before tax	**447**	(2,601)	117	**(2,154)**	11,239	(119)
Per share - diluted	**0.00**	(0.03)	108	**(0.02)**	0.10	(119)
Earnings (loss) after tax	**282**	(3,003)	109	**(2,721)**	7,661	(136)
Per share - diluted	**0.00**	(0.03)	108	**(0.02)**	0.07	(135)
Dividends declared	**12,242**	12,215	0	**24,458**	24,275	1
Per share	**0.105**	0.105	0	**0.210**	0.210	0
Capital expenditures						
Exploration, development, land, and facility	**30,699**	180,226	(83)	**210,925**	178,541	18
Acquisitions (dispositions) and other - net	**2,259**	188	1,101	**2,447**	(1,896)	229
Net capital expenditures	**32,958**	180,414	(82)	**213,372**	176,645	21
Total assets	**1,355,818**	1,391,120	(3)	**1,355,818**	1,118,179	21
Net debt[1]	**603,276**	625,796	(4)	**603,276**	406,409	48
Shareholders' equity	**510,958**	520,384	(2)	**510,958**	537,004	(5)
Total shares outstanding (thousands)						
- As at end of period [2]	**116,491**	116,216	0	**116,491**	115,776	1
OPERATING						
Production						
Natural gas (MMcf/d)	**125**	113	11	**119**	123	(3)
Oil (Bbl/d)	**9,788**	8,023	22	**8,905**	2,510	255
Natural gas liquids (Boe/d)	**3,948**	4,236	(7)	**4,092**	4,327	(5)
Total production (Boe/d @ 6:1)	**34,585**	31,012	12	**32,798**	27,352	20
Average prices before financial instruments						
Natural gas ($/Mcf)	**1.99**	2.49	(20)	**2.23**	3.98	(44)
Crude Oil ($/Bbl)	**76.87**	86.15	(11)	**81.05**	92.45	(12)
Natural gas liquids ($/Bbl)	**49.26**	51.16	(4)	**50.24**	55.46	(9)
Average realized price	**34.59**	38.30	(10)	**36.34**	35.16	3
Drilling activity (gross)						
Gas	**4**	17	(76)	**21**	25	(16)
Oil	**6**	14	(57)	**20**	5	300
Total wells	**10**	31	(68)	**41**	30	37

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

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

Review of Operations

Operations Update for the Second Quarter 2012

- Average production of 34,585 Boe/d
- $33.0 million net capital expenditures
- 10(6.0 net) wells drilled; all wells were drilled horizontally
- Average operating costs $7.67/Boe
- Operating netback $20.41/Boe
- $55.3 million funds flow from operations

Production

Trilogy's second quarter 2012 production was 34,585 Boe/d, including 125.1MMcf/d of natural gas, 9,788 Bbl/d of crude oil and 3,948 Boe/d of natural gas liquids. This is an increase of 12 percent over first quarter 2012 production of 31,012 Boe/d and 18 percent over second quarter 2011 production of 29,320 Boe/d. This increase in production volumes reflects the success of Trilogy's horizontal oil and gas drilling programs in the Montney oil and gas pools in the Kaybob area during the first and second quarters of the year. Crude oil production increased 22 percent to 9,788 Bbl/d in the second quarter from 8,023 Bbl/d in the first quarter and up 257 percent from second quarter 2011 volumes of 2,744 Bbl/d. Second quarter production was partially reduced by 750 Boe/d as a result of a production outage of 37 days in May and June at the third party operated Kaybob South Gas Plant No. 3. At the Trilogy operated Kaybob North Sour Gas Plant, unplanned downtime through May and June affected production from the Montney gas pool at Presley as well as the Montney oil pool. Downtime at the Plant is expected to be reduced as operating conditions in the Montney oil pool stabilize.

As a result of the operating and infrastructure challenges Trilogy experienced in the second quarter, together with wet weather to date in the third quarter, Trilogy is reducing its annual production guidance from 40,000 Boe/d to 37,000 Boe/d. The new production guidance represents a 32 percent increase over 2011 production, versus the previous estimate of 42 percent. Production growth in the second half of the year is expected to result from increased oil production from the Cardium, Dunvegan, Nikanassin and Montney formations and is expected to increase oil and natural gas liquids production to approximately 42 percent of the Company's annual production versus 29 percent in 2011. Trilogy is forecasting production to average 41,000 Boe/d for the second half of the year, with crude oil and natural gas liquids production expected to represent approximately 50 percent of the year end exit rate.

Capital Expenditures

Trilogy spent $33.0 million during the second quarter of 2012 on drilling, completions, facilities and land acquisitions, compared to $180.4 million in the first quarter of 2012. In total, Trilogy has expended $213.3 million year-to-date, representing 71 percent of its $300 million capital expenditure budget for the year. Second quarter capital included approximately $11 million to complete construction of the Montney oil pool infrastructure and approximately $7 million to complete the drilling of two operated Duvernay horizontal wells in the Kaybob area. Through the balance of the year, Trilogy plans to direct the remaining budgeted capital towards drilling, completing and tieing-in higher rate of return horizontal Dunvegan and Montney oil wells, as well as Duvernay gas condensate and oil wells. Trilogy is maintaining its capital expenditure guidance at $300 million for the year.

Operating Costs

Operating costs in the second quarter of 2012 were $7.67/Boe, down 10 percent from first quarter 2012 operating costs of $8.56/Boe and down 6 percent from $8.15/Boe as reported for the second quarter of 2011. The decrease relative to the first quarter reflects lower costs associated with transporting oil production through the Company's recently completed gathering system as compared to trucking costs in previous quarters. Also, oil and natural gas production increased through the quarter, diluting fixed operating costs over larger production volumes. With continued production growth and increased volumes through Company owned and operated facilities, Trilogy anticipates that operating costs should continue to decline over the balance of the year.

Trilogy continues to monitor capital spending and operating costs in order to realize greater efficiencies in its spending. However, given its reduced annual production forecast for the year, Trilogy is increasing its operating cost guidance to $7.50/Boe for 2012 as compared to previous guidance of $7.00/Boe.

Profitability

Operating netback in the second quarter of 2012, on a per unit of production basis, decreased 12 percent to $20.41/Boe as compared to $23.08/Boe in the first quarter of 2012. The decrease in operating netback quarter-over-quarter is attributed primarily to a significant reduction in the price for natural gas, natural gas liquids and crude oil, partially offset by lower operating costs and decreased hedging losses. The reduction in average sales prices was mitigated significantly by the impact of higher oil production on Trilogy's overall weighted average commodity price per Boe.

The aforementioned items contributed to a decrease, on a dollar-value, of one percent on operating netback, from $65.1 million in the first quarter to $64.2 million in the second quarter of 2012. Trilogy's increase in oil production relative to total production, together with the premiums associated with oil products, partially mitigated the impact of the lower realized natural gas and natural gas liquids prices.

Drilling and Land Sale Activity

During the second quarter of 2012, Trilogy participated in the drilling of 10 (6.0 net) wells, all of which were located in the Kaybob area. Second quarter results have been very positive, resulting in 4 (3.4 net) natural gas wells and 6 (2.6 net) oil wells, for an overall success rate of 100 percent. All wells rig released during the quarter were drilled horizontally, targeting the Cardium, Dunvegan, Montney and Duvernay formations.

Trilogy acquired 2,048 net hectares at Alberta Crown land sales during the second quarter of 2012, for a total expenditure of $0.76 million. Ongoing evaluation and acquisition of high quality acreage is expected to permit Trilogy to maintain its prospect inventory for future development and potential reserve additions.

Operating Area Updates

Kaybob

During the quarter, Trilogy focused much of its drilling and completion operations on Montney oil and Duvernay Shale plays in the Kaybob area. Trilogy participated in the drilling of 10 (6.0 net) wells, all of which were successfully drilled horizontally. Of these 10 wells, Trilogy operated the drilling of 5 (5.0 net) wells, resulting in 2 (2.0 net) Montney oil wells, 1 (1.0 net) Montney gas wells and 2 (2.0 net) Duvernay gas condensate/oil wells. The 5 (1.0 net) non-operated drilling operations in the quarter resulted in 1 (0.23 net) Cardium oil well, 3 (0.34 net) Dunvegan oil wells and 1 (0.38 net) Montney gas well. Trilogy plans to continue to monitor and evaluate third party activity to see how and where horizontal drilling and completion technology can be applied to develop new formations in the greater Kaybob area.

Trilogy will continue to evaluate shale and tight-sand plays in the Kaybob area, as it believes there is significant value in understanding the resource potential of each formation, to provide opportunities to exploit formations that yield higher returns for Trilogy's shareholders. Trilogy's large land base in the Kaybob area has generated a valuable producing asset base that it believes will afford further development opportunities in the undeveloped formations over the long term.

Kaybob Montney Oil Development

Trilogy completed drilling operations on one horizontal Montney oil well during the second quarter. The well was completed on June 24 with a 22 stage fracture stimulation over the 1,570 metre horizontal lateral section of the wellbore and is expected to be placed on production in the third quarter of 2012. In total, Trilogy has drilled 31 wells into the pool. All of these wells are expected to be on production during the third quarter.

During the quarter, Trilogy completed the construction of the field compression and satellite battery at 16-7-64-18W5 and the expansion of the oil treating capacity and storage tanks at the 12-10-64-19W5 central battery site. The expansion takes the treating capacity to greater than 20,000 Bbl/d of emulsion and will allow for growth in the Company's Montney oil production through the balance of the year and beyond. Production increased from 5,900 Bbl/d in the first quarter to 8,088 Bbl/d in the second quarter, while solution gas increased from 6.4 MMcf/d in the first quarter to 14.9 MMcf/d in the second quarter. Growing Montney solution gas production has resulted in two plant outages during the second quarter. Additionally, higher pipeline pressures have reduced oil production from the flowing and pumping oil wells. While these challenges have not impacted the wells or recoverable reserves, they have affected the timing of the recovery of the reserves.

Trilogy anticipates that 10 additional wells will be drilled through the balance of the year. Of these wells, 5 are planned to be drilled as down spacing locations, where the inter-well spacing will be reduced to approximately 200 metres between horizontal laterals. The remaining 5 wells will be drilled at the original spacing of 400 metres between horizontal laterals.

Given current commodity price forecast, Trilogy plans to aggressively develop the pool and will propose a drilling program to increase Montney oil production through 2013.

Fox Creek Montney Exploration Play

Trilogy drilled a third well into the Fox Creek pool at 16-1-63-19W5 ("16-1 well"), which was spud on March 22, 2012 and rig released in the second quarter on April 8, 2012. The well was drilled to a measured depth of 3,838 metres including a 1,749 metre horizontal lateral in the Montney formation. The 16-1 well was cased with a liner assembly which will allow a 24 stage fracture stimulation; however, this operation has been deferred until 2013 when the sour gas pipeline is anticipated to be constructed.

Equipment was installed at the surface location for the 13-10-63-19W5 well to chemically treat and remove sour solution gas from the gas stream. The well was provisionally tied into the existing sweet gas gathering system through these temporary facilities. However, Trilogy determined that chemical costs associated with treating the sour gas rendered the project uneconomic; further testing will be deferred until a sour gas gathering system can be built to the site.

During the remainder of the year, Trilogy will evaluate the costs associated with the construction of a new sour gas and oil gathering system so that pool development can continue in 2013. It is anticipated that additional delineation drilling on the north end of the pool would reduce the capital costs and take advantage of infrastructure built for the Kaybob Montney oil pool. The likelihood and timing of these capital expenditures will be determined following a full evaluation of all oil opportunities in the Kaybob and Grande Prairie areas.

Presley Montney Gas Development

During the second quarter, Trilogy completed drilling operations on one horizontal Montney gas well in the Presley area. The well was spud late in the first quarter, rig released early in the second quarter and is expected to be completed in August once ground conditions have improved. A second Presley Montney gas well drilled during the first quarter was completed late in the second quarter and will be tied in early in the third quarter. These two wells will replace a portion of the natural declines in the pool; however, pool production is expected to decline through the second half of the year.

Trilogy does not anticipate drilling additional wells in this area through the balance of the year. Although the wells have positive returns at current natural gas prices, Trilogy believes the economics will improve significantly as natural gas prices improve and will allocate capital to oil projects during this period.

Trilogy will continue to monitor commodity prices and evaluate drilling activity for this area when natural gas prices are over $3.00/Mcf. In addition to the Montney, the area has significant development opportunities in the Nordegg, Gething, Notikewin/Falher and Cardium formations. These formations can be evaluated as horizontal Montney wells penetrate these shallower formations.

Duvernay Shale Gas/Oil Development

The Duvernay formation continued to attract a lot of attention throughout industry during the second quarter, during which Trilogy completed drilling operations on 2 (2.0 net) horizontal Duvernay wells. The 5-3-60-19W5 well was drilled in the gas condensate window and is expected to be completed with a multi stage fracture stimulation in the third quarter. The second well at 4-3-64-21W5 was horizontally drilled in an area that is in the transition zone between the gas condensate and oil windows. This well is expected to be completed in August if ground and weather conditions permit. Both wells were drilled to validate expiring lands and are part of Trilogy's budgeted program to evaluate reservoir and production potential across the Company's Duvernay land base. Trilogy will provide additional information on these wells once the wells are off confidential status in 2013.

Trilogy expects to spud its next horizontal Duvernay well in August 2012 at 5-8-62-18W5, located on a three section expiring block in the transition area between the gas condensate and oil zones. The well is planned to be drilled in the third quarter, with completion and tie-in to occur during the fourth quarter if weather permits. Trilogy is currently in negotiations to have a partner participate in this well.

There has been a significant amount of Duvernay drilling activity throughout the Kaybob area. Trilogy has been working with its industry partners to exchange well data to help evaluate additional acreage and develop drilling, completion and production "best practices". Based on the significant amount of condensate and oil that may be produced from these wells, it is anticipated that Duvernay development will continue through the low natural gas price environment.

Dunvegan Oil Development

Through 2011 and the first quarter of 2012, Trilogy participated in the drilling of 4 (1.3 net) non-operated horizontal oil wells targeting the Dunvegan formation. During the second quarter of 2012, Trilogy participated in 3 (0.34 net) additional non-operated oil wells in this area; completion and tie in operations are expected to continue through the third quarter.

Trilogy expects to operate 2 (1.5 net) wells during the third quarter. The first well located at 4-7-61-18W5, (the "4-7 well") was spud on July 14, 2012. Drilling operations were suspended on July 17, 2012 due to severe wet weather in the area. It is anticipated that operations will resume in mid-August. The 4-7 well is expected to be completed and tied in during September 2012. With continued drilling and completion success and the construction of a centralized sweet oil battery, Trilogy anticipates the continuation of its Dunvegan development drilling program in 2013.

Grande Prairie

During the second quarter of 2012, Trilogy did not participate in the drilling of any wells in the Grande Prairie area.

At Wembley, Trilogy's Nikanassin oil production is shut in until a battery can be upgraded to handle the increased oil production. It is anticipated that construction of the battery will begin in August and be completed by the end of the third quarter.

Trilogy participated in 2 Lower Doig horizontal wells and 2 Lower Montney wells in the Valhalla area in the first quarter of 2012. The Lower Doig well test flowed at rates of 5 to 8 MMcf/d over a period of 2.5 days during the first quarter. The 2 Lower Montney wells are currently being completed. These first quarter drills will be brought on stream when compression capacity is available later in the third quarter. Trilogy currently has approximately 5 to 7 MMcf/d of shut in gas production due to capacity limitations in the Valhalla area. These restrictions are expected to be removed in the third quarter when non-operated facilities are completed by the operator of these wells.

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 approximately 3,000 Bbl/d of crude oil hedged for the balance of the year at approximately $90/Bbl and 2,500 Bbl/d of crude oil hedged at approximately $95/Bbl for calendar 2013. Trilogy will continue to evaluate opportunities to hedge oil production as exploitation of the Kaybob Montney oil pool continues, to ensure that we realize sufficient cash flow to grow this developing asset. A summary of Trilogy's hedging contracts are available in note 18 of the Interim Consolidated Financial Statements.

Outlook

Trilogy has accumulated a large inventory of high quality vertical and horizontal drilling prospects that should enable Trilogy to grow its production, replace produced reserves and maintain a dividend for its shareholders over the long term. Trilogy will continue to expand its land position in the deep basin, develop technical expertise and evaluate crude oil and liquids-rich gas plays in order to generate value for its shareholders during this low natural gas price environment.

Trilogy's net debt has traditionally peaked in the first quarter of each year due to the fact that nearly 50 percent of the Company's annual capital expenditures are incurred during the first quarter of the year as a result of winter access issues. Net debt is expected to be reduced through the balance of the year from increased cash flow derived from growing Montney and Dunvegan oil production.

Since converting from a Trust in February 2010, Trilogy has grown its average daily production from 19,800 Boe/d to 34,585 Boe/d in the second quarter of 2012. During that same period, Trilogy has also responded to the low natural gas pricing environment by increasing the crude oil and natural gas liquids component of its production from 21 percent to approximately 40 percent. Inherent in this kind of growth is the potential for significant and unpredictable operational challenges such as those outlined in this review of Trilogy's second quarter of 2012. While these challenges have not impacted the wells or recoverable reserves, they have affected the timing of the recovery of certain reserves. As a result of these challenges, together with wet weather conditions and the redirection of capital away from natural gas during continued low natural gas prices, the Company is revising its 2012 annual guidance as follows:

Average production		Total (Boe/d)		Gas (MMcf/d)	Oil (Bbl/d)	NGL (Boe/d)
H1 Actual		32,798		119	8,905	4,092
H2 Estimated		41,000		139	13,296	4,500
Annual Estimated		37,000		129	11,141	4,305
Average Operating Costs	$	7.50	/Boe			
Capital Expenditures	$	300	million			

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. Through the remainder of 2012, we anticipate natural gas prices will slowly recover as supply and demand forces in the North American natural gas markets come into balance. Trilogy believes it can manage its assets prudently through this period as its production base increasingly trends to an oil and natural gas liquids composition. Trilogy is confident in its strategy, its high quality assets and the proven expertise of its employees.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") for the three and six months ended June 30, 2012, and should be read in conjunction with the Company's June 30, 2012 interim consolidated financial statements, the ("Interim Financial Statements) and related notes and its annual consolidated financial statements and MD&A for the year-ended December 31, 2011. The Interim Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using available information as of August 7, 2012.

FINANCIAL AND OPERATING HIGHLIGHTS

- Reported sales volumes for the second quarter of 2012 averaged 34,585 Boe/d compared to 31,012 Boe/d for the previous quarter, representing a 12 percent increase over the sales volumes for the prior quarter.
- Oil sales volumes increased 22 percent quarter-over-quarter (255 percent year-to-date 2012 over year-to-date 2011). Combined oil and natural gas liquids sales volumes represented 40 percent of total sales volumes.
- Oil and natural gas liquids sales represented 79 percent of total sales revenue (before hedges), up from 76 percent in the prior quarter.
- Operating expenses on a per boe basis decreased by 10 percent quarter-over-over to $7.67 per boe.
- Net capital expenditures totaled $33.0 million for the second quarter of 2012 compared to $180.4 million for the prior quarter. In total, 10 (6.0 net) wells were drilled in the quarter. Trilogy completed the construction of its Kaybob Montney oil infrastructure towards the end of May.
- Dividends to Shareholders for the second quarter of 2012 were $12.2 million or 22 percent of cash flow from operations (prior quarter – 21 percent).

BUSINESS ENVIRONMENT AND ECONOMIC CONDITIONS

The increase in production of gas in North America and an unusually warm 2011/2012 winter resulting in reduced heating demand for gas have given rise to record gas storage levels relative to prior years. The ensuing reduction in natural gas and related natural gas liquids prices may continue through 2012. Through the remainder of 2012, Trilogy anticipates natural gas prices slowly recovering as supply and demand forces in the North American natural gas markets come into balance. Furthermore, increases to the discount differential between the Edmonton par price to world oil prices and European economic concerns are resulting in a reduction in the price for oil realized in Canada. Notwithstanding the current price challenges in both the oil and natural gas markets, Trilogy expects to continue profitably exploiting its current land base, growing production, and paying a meaningful dividend all from internally generated cash-flow. Trilogy is confident in the success of its business model and the ability to provide shareholder value over the long term.

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

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

	Q2 2012	Q1 2012	Q2 2011	YTD 2012	YTD 2011
Crude Oil					
West Texas Intermediate monthly average (U.S.$/Bbl)	**93.51**	104.38	102.55	**98.15**	98.27
Edmonton Par monthly average (Cdn$/Bbl)	**84.39**	93.48	102.06	**88.54**	95.25
Natural Gas					
NYMEX (Henry Hub close) monthly average (U.S.$/MMBtu)	**2.22**	2.51	4.32	**2.48**	4.21
AECO monthly average (Cdn$/GJ)	**1.86**	2.39	3.87	**2.05**	3.82
Canada - U.S. dollar closing exchange rate (Cdn$/U.S.$1)	**1.02**	1.00	0.96	**1.02**	0.96

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

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

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

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	Three Months Ended			Six Months Ended	
	June 30, 2012	**March 31, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Operating income[1]	**65,035**	68,382	59,325	**133,417**	112,689
Other income	**265**	274	311	**539**	106
Realized financial instruments losses [2]	**(162)**	(3,267)	(14)	**(3,429)**	(284)
Actual decommissioning and restoration costs	**(916)**	(247)	(615)	**(1,163)**	(1,353)
Operating netback[1]	**64,222**	65,142	59,007	**129,364**	111,158
Interest and financing charges	**(5,489)**	(4,294)	(3,975)	**(9,783)**	(7,290)
General and administrative expenses	**(3,430)**	(1,915)	(2,925)	**(5,345)**	(6,176)
Funds flow from operations[1]	**55,303**	58,933	52,107	**114,236**	97,692
Non-cash items:					
Depletion and depreciation	**(63,338)**	**(50,238)**	**(40,885)**	**(113,576)**	(72,862)
Gain/ (loss) on unrealized financial instruments[2]	**13,999**	**(2,110)**	**5,174**	**11,889**	2,080
Share based compensation	**(4,238)**	**(4,098)**	**(2,120)**	**(8,336)**	(5,872)
Exploration expenditures[3]	**(989)**	**(3,961)**	**(2,148)**	**(4,950)**	(8,270)
Other losses	**(123)**	**(80)**	**-**	**(203)**	**-**
Accretion on decommissioning and restoration liability[4]	**(291)**	**(940)**	**(930)**	**(1,231)**	(1,731)
Deferred income tax expense	**(165)**	**(402)**	**(3,105)**	**(567)**	(3,578)
Unrealized foreign exchange gains (losses) and other	**124**	**(107)**	**(221)**	**17**	202
Profit (loss) and comprehensive income	**282**	(3,003)	7,872	**(2,721)**	7,661

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

[2] See Risk Management section below

[3] Includes costs associated with dry-holes, geological and geophysical and expired mineral lease costs

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

FUNDS FLOW FROM OPERATIONS

Funds Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	**Three Months Ended** June 30, 2012	March 31, 2012	June 30, 2011	**Six Months Ended** June 30, 2012	June 30, 2011
Sales	**34.59**	38.30	**35.25**	**36.34**	35.16
Transportation costs	**(1.28)**	(1.40)	**(1.03)**	**(1.34)**	(1.10)
Royalties	**(4.97)**	(4.10)	**(3.83)**	**(4.56)**	(3.27)
Operating costs	**(7.67)**	(8.56)	**(8.15)**	**(8.09)**	(8.02)
Operating income(1)	**20.66**	24.23	**22.23**	**22.35**	22.76
Other income	**0.08**	0.10	**0.12**	**0.09**	0.02
Realized financial instruments losses (2)	**(0.05)**	(1.16)	**(0.01)**	**(0.57)**	(0.06)
Actual decommissioning and restoration costs	**(0.29)**	(0.09)	**(0.23)**	**(0.19)**	(0.27)
Operating netback(1)	**20.41**	23.08	**22.12**	**21.67**	22.45
Interest and financing charges	**(1.74)**	(1.52)	**(1.49)**	**(1.64)**	(1.47)
General and administrative expenses	**(1.09)**	(0.68)	**(1.10)**	**(0.90)**	(1.25)
Funds flow from operations(1)	**17.57**	20.88	**19.52**	**19.14**	19.73

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

(2) See Risk Management section below

Operating Income Items

Second Quarter 2012 vs. First Quarter 2012			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**Q2 2012**	**Q1 2012**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**125,093**	112,517	12,576	11
Oil (Bbl/d)	**9,788**	8,023	1,765	22
Natural gas liquids (Boe/d)	**3,948**	4,236	(288)	(7)
Total (Boe/d)	**34,585**	31,012	3,573	12
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**1.99**	2.49	(0.49)	(20)
Oil ($/bbl)	**76.87**	86.15	(9.28)	(11)
Natural gas liquids ($/Boe)	**49.26**	51.16	(1.90)	(4)
Average realized price	**34.59**	38.30	(3.71)	(10)
Average realized prices after financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**1.99**	2.49	(0.49)	(20)
Oil ($/bbl)	**76.14**	80.93	(4.79)	(6)
Natural gas liquids ($/Boe)	**49.26**	51.16	(1.90)	(4)
Average realized price	**34.38**	36.95	(2.56)	(7)
Operating income[(1)]				
Natural gas	**22,700**	25,464	(2,764)	(11)
Oil	**68,463**	62,897	5,566	9
Natural gas liquids	**17,698**	19,719	(2,021)	(10)
Total petroleum and natural gas sales before financial instruments	**108,861**	108,080	781	1
Royalties	**(15,640)**	(11,580)	4,060	35
Operating costs	**(24,143)**	(24,167)	(24)	-
Transportation costs	**(4,043)**	(3,951)	92	2
Operating income[(1)]	**65,035**	68,382	(3,347)	(5)

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

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

Petroleum and Natural Gas Sales Before Financial Instruments and Transportation – Oil sales increased by $5.6 million due to higher sales volumes ($12.3 million) offset by lower realized prices ($6.7 million). Oil volumes increased from the prior quarter as new wells came on production primarily from Trilogy's Kaybob Montney oil play. In addition, oil volumes increased as infrastructure was completed that increased oil production capacity in this area. Natural gas sales decreased by $2.8 million due to lower realized prices ($5.0 million) offset by higher sales volumes ($2.2 million). Gas sales volumes primarily increased in conjunction with new well production from the Montney oil play (solution gas) and the Presley area, partially offset by downtime experienced as a result of a turnaround at the third-party operated Semcams Kaybob South Gas Plant No. 3 and plant outages experienced at the Trilogy operated Kabob North Sour Gas Plant. NGL sales decreased by $2.0 million due to lower realized prices ($.7 million) and by lower sales volumes ($1.3 million). The reduction in NGL volumes and related revenue was partly attributed to lower recoveries from Trilogy's NGL Recovery Agreement with Aux Sable Canada LP.

Royalties – Royalties and Trilogy's effective rate increased in the quarter as a result of higher oil sales volumes and decreasing royalty incentives available for new wells drilled in the Kaybob Montney oil play.

Operating Costs – Second quarter operating costs remained consistent with the prior quarter. Operational efficiencies associated with constructing Trilogy's Kaybob Montney oil infrastructure, increased production allocated over fixed costs, milder weather and fewer operational field projects also contributed to lower costs on a per unit of production basis.

Second Quarter 2012 vs. Second Quarter 2011			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**Q2 2012**	**Q2 2011**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**125,093**	132,899	(7,806)	(6)
Oil (Bbl/d)	**9,788**	2,744	7,044	257
Natural gas liquids (Boe/d)	**3,948**	4,426	(478)	(11)
Total (Boe/d)	**34,585**	29,320	5,265	18
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**1.99**	3.93	(1.94)	(49)
Oil ($/Bbl)	**76.87**	96.65	(19.79)	(20)
Natural gas liquids ($/Boe)	**49.26**	55.54	(6.28)	(11)
Average realized price	**34.59**	35.25	(0.66)	(2)
Average realized prices after financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**1.99**	3.93	(1.94)	(49)
Oil ($/Bbl)	**76.14**	95.18	(19.04)	(20)
Natural gas liquids ($/Boe)	**49.26**	55.54	(6.28)	(11)
Average realized price	**34.38**	35.11	(0.73)	(2)
Operating income[(1)]				
Natural gas	**22,700**	47,552	(24,852)	(52)
Oil	**68,463**	24,136	44,327	184
Natural gas liquids	**17,698**	22,368	(4,670)	(21)
Total petroleum and natural gas sales before financial instruments	**108,861**	94,056	14,805	16
Royalties	**(15,640)**	(10,227)	5,413	53
Operating costs	**(24,143)**	(21,744)	2,399	11
Transportation costs	**(4,043)**	(2,760)	1,283	46
Operating income[(1)]	**65,035**	59,325	5,710	10

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

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

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $44.3 million due to higher volumes ($49.3 million) partially offset by lower realized prices ($5.0 million). Increased production on capital spent at Trilogy's Kaybob Montney oil play contributed primarily to the increase in production. Natural gas sales decreased by $24.8 million due to lower realized natural gas prices ($23.4 million) and lower sales volumes ($1.4 million). Natural gas volumes decreased in conjunction with downtime experienced for a turnaround at the third-party operated Semcams Kaybob South Gas Plant No. 3 and plant outages experienced at the Trilogy operated Kabob North Sour Gas Plant, partially offset by increasing solution gas from the Kabob Montney oil play. NGL sales decreased by $4.7 million due to lower sales volumes ($2.2

million), and lower realized NGL prices ($2.5 million). The reduction in NGL volumes was attributed primarily to the aforementioned turnaround and plant outage, in addition to lower recoveries from Trilogy's NGL Recovery Agreement with Aux Sable Canada LP.

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

Operating Costs – Total operating costs increased in conjunction with higher production. Operating costs on a unit of production basis decreased in comparison to the same period in 2011 as a result of the efficiencies achieved in allocating fixed operating costs over a higher production base.

Year-to-date 2012 vs Year-to-date 2011			**Increase (Decrease)**	
(In thousand dollars except as otherwise indicated)	**YTD 2012**	**YTD 2011**	**Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**118,805**	123,087	(4,282)	(3)
Oil (Bbl/d)	**8,905**	2,510	6,395	255
Natural gas liquids (Boe/d)	**4,092**	4,327	(235)	(5)
Total (Boe/d)	**32,798**	27,352	5,446	20
Average realized prices after financial instruments [2] and before transportation:				
Natural gas ($/Mcf)	**2.23**	3.98	(1.75)	(44)
Oil ($/Bbl)	**81.05**	92.45	(11.40)	(12)
Natural gas liquids ($/Boe)	**50.24**	55.46	(5.21)	(9)
Average realized price	**36.34**	35.16	1.19	3
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**2.23**	3.98	(1.75)	(44)
Oil ($/Bbl)	**78.30**	91.05	(12.75)	(14)
Natural gas liquids ($/Boe)	**50.24**	55.46	(5.21)	(9)
Average realized price	**35.60**	35.03	0.57	2
Operating income[(1)]				
Natural gas	**48,165**	88,620	(40,455)	(46)
Oil	**131,359**	42,002	89,357	213
Natural gas liquids	**37,417**	43,432	(6,015)	(14)
Total petroleum and natural gas sales before financial instruments	**216,941**	174,054	42,887	25
Royalties	**(27,220)**	(16,201)	11,019	68
Operating costs	**(48,310)**	(39,696)	8,614	22
Transportation costs	**(7,994)**	(5,468)	2,526	46
Operating income[(1)]	**133,417**	112,689	20,728	18

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

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

Petroleum and Natural Gas Sales before Financial Instruments and Transportation – Oil sales increased by $89.4 million due to higher volumes ($94.5 million) partially offset by lower realized prices ($5.1 million). Increased production on capital spent at Trilogy's Kaybob Montney oil play contributed primarily to the increase in production. Natural gas sales decreased by $40.5 million due to lower realized natural gas prices ($39.0 million), and by lower sales volumes ($1.5 million).

Natural gas volumes decreased in conjunction with downtime experienced for a turnaround at the third-party operated Semcams Kaybob South Gas Plant No. 3 and plant outages experienced at the Trilogy operated Kabob North Sour Gas Plant, partially offset by increasing solution gas from the Kabob Montney oil play. NGL sales decreased by $6.0 million on lower sales volumes ($2.0 million) and by lower realized NGL prices ($4.0 million). The reduction in NGL volumes was attributed primarily to the aforementioned turnaround and plant outage, in addition to lower recoveries from Trilogy's NGL Recovery Agreement with Aux Sable Canada LP.

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

Operating Costs – Total operating costs increased in conjunction with higher production. Operating costs on a unit of production basis decreased in comparison to the same period in 2011 as a result of the efficiencies achieved in allocating fixed operating costs over a higher production base.

OTHER INCOME STATEMENT ITEMS

Depletion and Depreciation Expense

(In thousand dollars except as otherwise indicated)

	Three Months Ended			Six Months Ended	
	June 30, 2012	**March 31, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Reported amount	**63,338**	50,238	40,885	**113,576**	72,862
Expense per sales volume ($/Boe)	**20.13**	17.80	15.32	**19.03**	14.72

Depletion and depreciation expense increased for the second quarter of 2012 relative to the prior quarters above, primarily due to higher production volumes from the Montney oil play and the depletion of the underlying historical capital costs and related oil infrastructure assets.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)

	Three Months Ended			Six Months Ended	
	June 30, 2012	**March 31, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Salaries and other benefits	**5,949**	6,216	5,416	**12,165**	11,313
Office and communications	**1,041**	1,043	1,041	**2,083**	2,023
Corporate and other	**556**	498	600	**1,054**	1,423
Recoveries and reclassifications	**(4,116)**	(5,841)	(4,133)	**(9,957)**	(8,670)
Reported amount	**3,430**	1,915	2,924	**5,345**	6,089
Expense per sales volume ($/Boe)	**1.09**	0.68	1.10	0.90	1.23

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

Share based Compensation

(In thousand dollars except as otherwise indicated)

	Three Months Ended			Six Months Ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Share Incentive Plan	**1,229**	1,089	1,044	**2,319**	3,704
Share Option Plan	**3,009**	3,009	1,076	**6,017**	2,254
Reported Amount	**4,238**	4,098	2,120	**8,336**	5,958
Expense per sales volume ($/Boe)	**1.35**	1.45	0.79	**1.40**	1.20

The increase in share based compensation expense for 2012 relative to the prior periods was attributed primarily to higher fair values associated with options granted under Trilogy's Share Option Plan. Changes to risk free interest rates, volatility assumptions, dividend yields, and expected lives of the options granted will impact the fair value attributed to any given grant.

Interest and Financing Charges

(In thousand dollars except as otherwise indicated)

	Three Months Ended			Six Months Ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Accretion on decommissioning and restoration liability	**1,207**	1,187	1,545	**2,394**	3,084
Interest and other finance costs	**5,489**	4,294	3,975	**9,783**	7,290
Expense per sales volume ($/Boe)	**1.74**	1.52	1.49	**1.64**	1.47

Accretion on the Company's decommissioning and restoration liability for three months ended June 30, 2012 was consistent with the prior quarter. Compared to the same period last year, accretion decreased as a result of changes in the assumptions used in estimating Trilogy's decommissioning and restoration liability.

Interest and financing charges increased in the second quarter of 2012 as compared to the previous quarters in conjunction with higher debt levels.

Exploration Expenditures

(In thousand dollars except as otherwise indicated)

	Three Months Ended			Six Months Ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Expired mineral leases	**858**	1,819	1,877	**2,678**	2,832
Dry-hole	**40**	188	161	**228**	4,768
Geological and geophysical	**91**	1,954	110	**2,044**	670
Exploration and evaluation expenses	**989**	3,961	2,148	**4,950**	8,270

Exploration expenditures consist of exploratory dry holes, costs of uneconomic exploratory wells, geological and geophysical costs and costs of expired leases. The change in exploration and evaluation expenditures between the above periods is due mainly to fluctuations in dry-hole costs and for expired mineral leases. Increased geological and geophysical costs were incurred in the first quarter of 2012 relative to the above comparative quarters as significant seismic work was performed in the Presley area.

RISK MANAGEMENT

Financial Risks

Trilogy's main financial risks include credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, and are discussed in detail in the notes to Trilogy's 2011 annual consolidated financial statements, the June 30, 2012 Interim Financial Statements, the Advisories and other sections of this MD&A as well as the Company's Annual Information Form.

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

	Three Months Ended			Six Months Ended	
(In thousand dollars except as indicated)	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Realized loss on financial instruments	**(162)**	(3,267)	(15)	**(3,429)**	(284)
Unrealized gain (loss) on financial instruments	**13,999**	(2,110)	5,174	**11,889**	2,080
Total gain (loss) on financial instruments	**13,837**	(5,377)	5,159	**8,460**	1,796
Realized loss on financial instruments per Boe ($/Boe)	**(0.05)**	(1.16)	(0.01)	**(0.57)**	(0.06)

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

Realized losses on derivative financial instruments for the current quarter occurred primarily as a result of an increase in the market price of oil as compared to Trilogy's hedged average price. Refer to notes 18 and 19 of the Interim Financial Statements for more information on realized and un-realized financial instruments gains and losses.

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

The following is a summary of the derivative contracts in place as at the date of this report:

Crude Oil

Term	Financial Forward Sale Volume (bbls/d)	Average WTI Price/bbl
July 1, 2012 to December 31, 2012	3,000	$ 89.46
January 1, 2013 to December 31, 2013	2,500	$ 95.08

Foreign Exchange

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

To the extent the weekly ending foreign exchange rate is:

- Above the upper range of 1.078, the Company is committed to selling $3 million dollars USD at 1.045 CAD.
- Between the payout range, the Company receives the referenced premium.
- Less then the lower range, the Company will not receive the referenced premium.

Interest Rate

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

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

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

Operational and Other Risks

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

LIQUIDITY AND CAPITAL RESOURCES

(In thousand dollars)

	Jun. 30, 2012	Dec. 31, 2011
Current liabilities net of current assets	**36,007**	77,696
Long-term debt	**567,269**	413,249
Net debt[1]	**603,276**	490,945
Shareholders' equity	**510,958**	530,445
Total	**1,114,234**	1,021,390

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

Working Capital

Trilogy's significant capital expenditure program undertaken in the first quarter of 2012 and the related increase in Trilogy's asset base were primarily responsible for the increase in net debt from $490.9 million at December 31, 2011 to $603.2 million at June 30 2012. Any working capital deficiency is funded by cash flow from operations and draw-downs from the Company's credit facility. Refer to Capital Management and Liquidity section in the Interim Financial Statements.

Long-term Debt and Credit Facilities

Long-term debt represents the outstanding draws from Trilogy's credit facility as described in the notes to Trilogy's Interim Financial Statements. Trilogy's bank debt outstanding under its credit facility was $568.8 million (before unamortized interest discount and financing costs) as at June 30, 2012.

Trilogy has a credit facility with a syndicate of Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions. The credit facility, as at June 30, 2012, has the following significant terms:

- total commitments of $600 million, consisting of a $35 million working capital, and a $565 million revolving tranche;
- a maturity date of April 30, 2014;
- the working capital and revolving tranches are subject to semi-annual borrowing base reviews, with the next scheduled review in the third quarter of 2012; and
- advances drawn on the credit facility are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facility is not extended or renewed, amounts drawn down under the facility would be due and payable on the above maturity date.

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

The increase in net debt from $490.9 million at December 31, 2011 to $603.2 million at June 30, 2012 is attributable primarily to the substantial capital spending undertaken in the first and second quarter of 2012, relative to the incremental operating income received to-date on those capital expenditures. Trilogy's exploration and development activities are conducted primarily during colder weather, as ground conditions provide improved access to leases and more efficient execution of its capital expenditure activities. Significant expenditures are made during these periods and the related benefit can be realized in future periods. These timing differences can increase Trilogy's debt levels, the repayment of which may occur over future periods. Note 17 of the Interim Financial Statements provide a discussion of liquidity and capital management.

Contractual Obligations

An increase of approximately $6 million (undiscounted) in pipeline transportation commitments existed at June 30, 2012 in respect of Trilogy's contractual financial obligations from those disclosed at December 31, 2011. For a detailed account of Trilogy's commitments since December 31, 2011, refer to note 25 of the 2011 annual consolidated financial statements and note 20 of the Interim Financial Statements.

Shares, Options and Rights

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

Outstanding share options issued under Trilogy's Share Option Plan were 5,678,000 as at June 30, 2012 and 5,676,000 share options as at the date hereof, of which 1,429,000 share options and 1,433,000 share options were exercisable as at those dates, respectively.

Dividends

(In thousand dollars except where stated otherwise)

	Three Months Ended			Six Months Ended	
	June 30, 2012	**March 31, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Funds flow from operations[1]	**55,303**	**58,933**	**52,107**	**114,236**	**97,692**
Net changes in operating working capital	**(1,888)**	(856)	(3,012)	**(2,744)**	(1,806)
Cash flow from operations	**53,415**	58,077	49,095	**111,492**	95,886
Net earnings (loss)	**282**	(3,003)	7,872	**(2,721)**	7,661
Dividends declared	**12,242**	12,215	12,172	**24,458**	24,275
Dividends declared per share (In full amount)	**0.105**	0.105	0.105	**0.210**	0.210
Excess of cash flow from operations over dividends declared	**41,173**	45,862	36,923	**87,034**	71,611
Deficiency of net earnings (loss) over dividends	**(11,960)**	(15,218)	(4,300)	**(27,179)**	(16,614)

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

Trilogy's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess of cash flow from operations over dividends is not sufficient to cover capital spending, the shortfall is funded by draw downs from Trilogy's credit facilities. Trilogy intends to provide dividends to Shareholders that are sustainable to the Company considering its liquidity (refer to the discussion on long-term debt and credit facilities above) and its long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Trilogy's payout ratio, calculated as the percentage of dividends declared over cash flow from operations, was 22 percent for the six months-ended June 30, 2012 (25 percent for the six months-ended June 30, 2011).

Capital Expenditures

(In thousand dollars except where stated otherwise)

	Three Months Ended			Six Months Ended	
	June 30, 2012	**March 31, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Land	**757**	137	1,134	**894**	37,432
Geological and geophysical	**91**	1,953	110	**2,044**	670
Drilling and completions	**7,044**	136,120	20,809	**143,164**	100,069
Drilling incentive credits	**-**	-	18	**-**	1,518
Production equipment and facilities	**22,807**	42,016	20,644	**64,823**	38,852
	30,699	180,227	42,715	**210,925**	178,541
Proceeds received from property dispositions	**(0)**	(396)	46	**(396)**	(3,794)
Property acquisitions	**(0)**	494	1,027	**494**	1,538
Corporate assets	**2,259**	90	81	**2,349**	360
Net capital expenditures	**32,958**	180,415	43,869	**213,372**	176,645

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

Wells Drilled

	Three Months Ended				Six Months Ended			
(Number of wells)	**June 30, 2012**		**June 30, 2011**		**June 30, 2012**		**June 30, 2011**	
	Gross[1]	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**	**Gross[1]**	**Net[2]**
Natural gas	**4**	**3.4**	6	3.1	**21**	**16.4**	25	16.2
Oil	**6**	**2.6**	3	2.0	**20**	**13.4**	5	4.0
Total	**10**	**6.0**	9	5.1	**41**	**29.8**	30	20.2

(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 $0.2 million in the current quarter. Refer to note 8 to the Interim Financial Statements. The Company's statutory tax rate of 25 percent is reduced to an effective tax rate of (26.3) percent. Share based compensation amounts deducted in computing net income (loss) before tax which are not deductible for tax purposes contributed primarily to the negative effective tax rate.

RELATED PARTY TRANSACTIONS

Trilogy had certain transactions with Paramount Resources ("Paramount"), a wholly-owned subsidiary of Paramount Resources Ltd. which owns approximately 16.4 percent of the equity in the Company. The amount of expenses billed and accrued in respect of services provided by Paramount to the Company under a services agreement was $0.1 million and $0.2 million for the three and six months ended June 30, 2012. The Company and Paramount also had transactions with each other arising from normal business activities. These transactions were recorded at the fair value of the transacted amount.

OUTLOOK INFORMATION

Since converting from a Trust in February 2010, Trilogy has grown its average daily production from 19,800 Boe/d to 34,585 Boe/d in the second quarter of 2012. During that same period, Trilogy has also responded to the low natural gas pricing environment by increasing the crude oil and natural gas liquids component of its production from 21 percent to approximately 40 percent. Inherent in this kind of growth is the potential for significant and unpredictable operational challenges such as those outlined in the review of Trilogy's second quarter of 2012. While these challenges have not impacted the wells or recoverable reserves, they have affected the timing of the recovery of certain reserves. As a result of these challenges, together with wet weather conditions and the redirection of capital away from natural gas during continued low natural gas prices, the Company is revising its 2012 annual guidance as follows:

Average production	Total (Boe/d)		Gas (MMcf/d)	Oil (Bbl/d)	NGL (Boe/d)
H1 Actual	32,798		119	8,905	4,092
H2 Estimated	41,000		139	13,296	4,500
Annual Estimated	37,000		129	11,141	4,305
Average Operating Costs	$ 7.50	/Boe			
Capital Expenditures	$ 300	million			

QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per share amounts)

	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Revenue after financial instruments, royalties and other income	**107,447**	91,290	82,287	95,339
Earnings (loss) before tax	**447**	(2,601)	(5,246)	19,049
Net earnings (loss)	**282**	(3,003)	(4,651)	14,404
Earnings (loss) per Share (in full amounts):				
Basic	**NIL**	(0.03)	(0.04)	0.12
Diluted	**NIL**	(0.03)	(0.04)	0.12

	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Revenue after financial instruments, royalties and other income	89,078	70,878	57,829	56,751
Income (loss) before tax	10,977	262	(9,484)	(9,705)
Net income (loss)	7,872	(211)	(7,576)	(7,748)
Income (loss) per Share (in full amounts):				
Basic	0.07	NIL	(0.07)	(0.07)
Diluted	0.07	NIL	(0.07)	(0.07)

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

CRITICAL ACCOUNTING ESTIMATES

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

Reserves Estimation

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

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

Exploration and Evaluation Expenditures

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

Impairment of Non-financial Assets

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

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

Decommissioning and Restoration Costs

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

Share-based Payments

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

Deferred Income Tax Assets

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

Financial Instruments

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

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management has assessed the effectiveness of Trilogy's internal controls over financial reporting and disclosures controls and procedures as at June 30, 2012 and has concluded that there were no material changes to Trilogy's internal controls over financial reporting since the most recent period.

ADVISORIES

Certain statements included in this document (including this MD&A and the Review of Operations) constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "goal", "objective", "possible", "probable", "projected", "scheduled", or state that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to statements regarding: long-term supply of and demand for petroleum and natural gas; future commodity prices for crude oil, natural gas and related products; business strategy and objectives; budget allocations; statements regarding providing shareholder value; capital expenditures and the timing thereof; future production levels and sales volumes and the relative content of crude oil, natural gas liquids, and natural gas therein; estimates of drilling prospect inventory, prospective geological formations and the risk and potential of reserves associated therewith; exploration and development plans and the timing, cost and expected benefits thereof, including Trilogy's horizontal well program and associated technology; exploration and development of the Montney, Duvernay, Dunvegan and other formations and other drilling, completion, construction and facility expansion plans and the timing, cost and expected benefits therefrom; the location, extent, geology and potential for development of the Kaybob and Fox Creek area Montney oil and gas pools, the Duvernay shale gas development and the Dunvegan oil program, and the nature of Trilogy's plans to further delineate and exploit these and other assets; potential application of drilling and completion technologies to other areas and geological formations and projections as to the prospectivity of Trilogy's current and future land holdings; statements as to facility capacity and expected facility downtime; net revenue and cash flow; approach to and amount of dividends; operating and other costs; royalty rates; estimates of future tax amounts, tax assets and tax pools; applicability of income tax legislation and government incentive and royalty programs affecting Trilogy; expected counterparty risk; credit limits, the cost of borrowing and Trilogy's expectations regarding the term of its credit facility; pro-forma debt levels and statements regarding reduction of net debt; projected results of hedging contracts and other financial instruments; and the expected impact of new accounting pronouncements. Statements regarding "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and can be 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 crude oil, natural gas and natural gas liquids supply and prices;
- general business, economic, and market conditions;
- 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;
- well economics;
- Trilogy's ability to obtain competitive pricing;

- the ability of Trilogy to market oil and natural gas and other products successfully to current and new customers;
- the impact of Trilogy's February 2010 conversion from a trust to a corporation on access to capital markets, liquidity, the generation of cash flow and the reinvestment thereof, credit facility and reserves;
- currency, exchange and interest rates;
- assumptions based on Trilogy's current guidance;
- cash flow consistent with expectations;
- continuity of government drilling and royalty incentive programs and their application to Trilogy's operations;
- the ability of Trilogy to obtain equipment, services and supplies in a timely manner to carry out its evaluations and activities;
- the timing and costs of plant turnaround and pipeline and storage facility construction and expansion and the ability to secure adequate product processing and transportation;
- the timely receipt of required regulatory approvals;
- the ability of Trilogy to obtain financing on acceptable terms;
- the timing and estimate of reversals of temporary differences between assets and liabilities recorded for accounting and tax purposes; and
- credit facility increases consistent with expectations
- continuity of the mutually beneficial agreement with Aux Sable Canada LP and pricing thereunder.

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

- fluctuations in crude oil, natural gas and natural gas liquids prices, foreign currency exchange rates and interest rates;
- volatile economic and business conditions
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil, natural gas and related products and market demand;
- Trilogy's ability to secure adequate product processing, transmission and transportation on a timely basis or at all;
- the ability of management to execute its business plan;
- risks and uncertainties involving geology of oil and gas deposits including, without limitation, those regarding the extent and development potential of the Kaybob Montney oil, Duvernay shale and Dunvegan oil developments;
- risks inherent in Trilogy's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- the ability to generate sufficient cash flow from operations and other sources to meet current and future obligations, including costs of anticipated projects and repayment of debt;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- potential disruptions or unexpected technical difficulties in designing, developing, or operating new, expanded, or existing facilities, including third party operated facilities;
- availability of cost effective goods and services;
- Trilogy's ability to enter into or renew leases;
- health, safety and environmental risks;

- uncertainties as to the availability and cost of financing, including Trilogy's ability to extend its credit facility on an ongoing basis;
- the ability of Trilogy to add production and reserves through development and exploration activities and establish basis for borrowing base increases;
- weather conditions;
- general economic and business conditions;
- the possibility that government policies, regulations, laws or incentive programs may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and applicability of and change to royalty regimes and incentive programs including, without limitation, the Natural Gas Deep Drilling Program and the Drilling Royalty Credit Program;
- imprecision in estimates of product sales, tax pools, tax shelter, tax deductions available to Trilogy, changes to and the interpretation of tax legislation and regulations applicable to Trilogy, and timing and amounts of reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes.
- uncertainty regarding aboriginal land claims, consultations and co-existence with local populations;
- uncertainty regarding results of third party industry participants' objections to Trilogy's development plans;
- risks associated with existing and potential future law suits and regulatory actions against Trilogy;
- hiring/maintaining staff;
- the impact of market competition; and
- other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

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

Non-GAAP Measures

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

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

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

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

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

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

Numerical References

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

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

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. For Q2 2012, the ratio between Trilogy's average realized oil price and the average realized natural gas price was approximately 39:1 ("Value Ratio"). The Value Ratio is obtained using the Q2 2012 average realized oil price of $76.87 (CAD$/Bbl) and the Q2 2012 average realized natural gas price of $1.99 (CAD$/mcf). This Value Ratio is significantly different from the energy equivalency ratio of 6:1 and using a 6:1 ratio would be misleading as an indication of value.

ADDITIONAL INFORMATION

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

TRILOGY ENERGY CORP.

Consolidated Interim Balance Sheet (unaudited)

(in thousand Canadian dollars)

	Note		June 30, 2012		December 31, 2011
ASSETS					
Current assets					
Trade and other receivables	*16, 17, 18*	$	**49,100**	$	54,686
Derivative financial instruments	*17,18,19*		**2,397**		134
Prepaids			**3,345**		489
			54,842		55,309
Non-current assets					
Property, plant and equipment	*6,7*		**972,298**		855,183
Exploration and evaluation assets	*6, 7*		**88,746**		109,373
Deferred tax asset	*8*		**99,461**		100,028
Goodwill			**140,471**		140,471
Total assets		$	**1,355,818**	$	1,260,364
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	*16, 17, 18*	$	**86,433**	$	118,974
Dividend payable	*9, 17,18*		**4,081**		4,070
Derivative financial instruments	*17,18,19*		**335**		9,961
			90,849		133,005
Non-current liabilities					
Long-term debt	*10, 17, 18*		**567,269**		413,249
Decommissioning and restoration liability	*11*		**186,742**		183,665
Total liabilities			**844,860**		729,919
Shareholders' equity					
Shareholders' capital	*12, 13*		**881,739**		877,682
Contributed surplus			**25,341**		21,706
Accumulated deficit after dividends			**(396,122)**		(368,943)
			510,958		530,445
Total shareholders' equity and liabilities		$	**1,355,818**	$	1,260,364

Commitments (Note 20)

See accompanying notes to the consolidated interim financial statements

TRILOGY ENERGY CORP.

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

(in thousand Canadian dollars except per share amounts)

	Note	Three Months ended June 30, 2012	Three Months ended June 30, 2011	Six Months ended June 30, 2012	Six Months ended June 30, 2011
Revenue and other					
Petroleum and natural gas sales	21	$ **108,861**	$ 94,056	$ **216,941**	$ 174,054
Royalties		**(15,640)**	(10,227)	**(27,220)**	(16,201)
Revenue		**93,221**	83,829	**189,721**	157,853
Other		**389**	90	**556**	307
Gain on derivative financial instruments	17, 18, 19	**13,837**	5,159	**8,460**	1,796
		107,447	89,078	**198,737**	159,956
Expenses					
Operating and production		**24,143**	21,744	**48,310**	39,696
Transportation		**4,043**	2,760	**7,994**	5,468
Depletion and depreciation	6	**63,338**	40,885	**113,576**	72,862
Exploration and evaluation	7	**989**	2,148	**4,950**	8,270
Loss on disposal of assets		**123**	-	**203**	-
General and administrative		**3,430**	2,924	**5,345**	6,089
Share-based compensation	12	**4,238**	2,120	**8,336**	5,958
Accretion on decommissioning and restoration liability	11	**1,207**	1,545	**2,394**	3,084
Interest and other finance costs	10	**5,489**	3,975	**9,783**	7,290
		107,000	78,101	**200,891**	148,717
Net income (loss) before income tax		**447**	10,977	**(2,154)**	11,239
Income tax expense					
Deferred	8	**165**	3,105	**567**	3,578
Comprehensive income (loss)		$ **282**	$ 7,872	$ **(2,721)**	$ 7,661
Earnings (loss) per share	14				
- Basic		$ **0.00**	$ 0.07	$ **(0.02)**	0.07
- Diluted		$ **0.00**	$ 0.07	$ **(0.02)**	0.07

See accompanying notes to the consolidated interim financial statements

TRILOGY ENERGY CORP.

Consolidated Interim Statement of Changes in Equity (unaudited)

(In thousand Canadian dollars except share information)

	Six Months ended June 30, 2012								
	Outstanding Common and Non-Voting Shares [(1)]		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2012	**116,118,158**	$	877,682	$	21,706	$	(368,943)	$	530,445
Net income (loss) for the period	-		-		-		(2,721)		(2,721)
Share options exercised *(note 12, 13)*	306,000		4,039		(695)		-		3,344
Dividends declared *(note 9)*	-		-		-		(24,458)		(24,458)
Share Incentive Plan purchases, net of grants vested *(note 12, 13)*	66,884		18		(4,006)		-		(3,988)
Share-based compensation *(note 12)*	-		-		8,336		-		8,336
Balance at June 30, 2012	**116,491,042**	**$**	**881,739**	**$**	**25,341**	**$**	**(396,122)**	**$**	**510,958**

	Six Months ended June 30, 2011								
	Outstanding Common and Non-Voting Shares [(1)]		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2011	**114,741,491**	**$**	**863,011**	**$**	**15,810**	**$**	**(337,702)**	**$**	**541,119**
Net income (loss) for the period	-		-		-		7,661		7,661
Share options exercised *(note 12, 13)*	907,500		10,663		(1,687)		-		8,976
Dividends declared *(note 9)*	-		-		-		(24,278)		(24,278)
Share Incentive Plan purchases, net of grants vested *(note 12, 13)*	126,667		(9)		(2,423)		-		(2,432)
Share-based compensation *(note 12)*	-		-		5,958		-		5,958
Balance at June 30, 2011	**115,775,658**	**$**	**873,665**	**$**	**17,658**	**$**	**(354,319)**	**$**	**537,004**

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

See accompanying notes to the consolidated interim financial statements

TRILOGY ENERGY CORP.

Consolidated Interim Statement of Cash Flows (unaudited)

(in thousand Canadian dollars except as otherwise indicated)

	Note	Three Months ended June 30, 2012	Three Months ended June 30, 2011	Six Months ended June 30, 2012	Six Months ended June 30, 2011
Operating activities					
Net income (loss) before income tax		**$ 447**	10,977	**$ (2,154)**	11,239
Adjustments for non-cash and other items:					
Unrealized gains on derivative financial instruments	*17, 18, 19*	**(13,999)**	(5,174)	**(11,889)**	(2,080)
Unrealized foreign exchange (gains) / losses		**(124)**	221	**(17)**	(202)
Depletion and depreciation	*6*	**63,338**	40,885	**113,576**	72,862
Exploration and evaluation	*7*	**989**	2,148	**4,950**	8,270
Losses on disposal of assets		**123**	-	**203**	-
Share based compensation	*12*	**4,238**	2,120	**8,336**	5,872
Accretion on decommissioning and restoration liability	*11*	**1,207**	1,545	**2,394**	3,084
Decommissioning and restoration costs	*11*	**(916)**	(615)	**(1,163)**	(1,353)
Net change in non-cash working capital	*15*	**(1,888)**	(3,012)	**(2,744)**	(1,806)
Net cash flow from operating activities		**53,415**	49,095	**111,492**	95,886
Investing activities					
Exploration and evaluation expenditures	*7*	**(4,702)**	(2,843)	**(10,523)**	(54,266)
Property, plant and equipment expenditures	*6*	**(28,256)**	(39,952)	**(202,751)**	(124,635)
Property acquisitions	*6*	**-**	(1,021)	**(494)**	(1,533)
Proceeds from disposition of property, plant and equipment	*6*	**-**	(46)	**396**	3,794
Net change in non-cash working capital	*15*	**(82,791)**	(49,943)	**(27,328)**	(9,762)
Net cash flow used in investing activities		**(115,749)**	(93,805)	**(240,700)**	(186,402)
Financing activities					
Proceeds on long-term debt	*10*	**76,274**	51,060	**154,298**	108,130
Dividends paid to Shareholders	*9*	**(12,235)**	(12,153)	**(24,446)**	(24,245)
Share incentive plan purchases	*12, 13*	**(3,988)**	-	**(3,988)**	(2,432)
Shares issued	*12, 13*	**2,283**	5,803	**3,344**	9,063
Net cash flow used in financing activities		**62,334**	44,710	**129,208**	90,516
Net change in cash		**-**	-	**-**	-
Cash balance, beginning of year		**-**	-	**-**	-
Cash balance, end of year		**-**	-	**-**	-
Cash interest and financing charges paid		**$ 5,581**	$ 5,028	**$ 10,043**	$ 8,236

See accompanying notes to the consolidated interim financial statements

1. GENERAL

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

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

2. BASIS OF PREPARATION

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

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

The policies applied in these Interim Financial Statements are based on IFRS issued and outstanding as of August 7, 2012, the date the Interim Financial Statements were approved by Trilogy's Audit Committee on behalf of Trilogy's Board of Directors for issuance.

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

The Interim Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value (note 18 and 19).

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

(in thousand Canadian dollars except as otherwise indicated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5. NEW ACCOUNTING PRONOUNCEMENTS

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

6. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at December 31, 2011	2,045,386	10,066	2,055,452
Additions	**200,204**	**2,347**	**202,551**
Transfers from intangible exploration and evaluation assets	**28,342**	**-**	**28,342**
Acquisitions	**-**	**-**	**-**
Disposals	**(202)**	**-**	**(202)**
Balance at June 30, 2012	**2,273,730**	**12,413**	**2,286,143**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2011	1,192,675	7,594	1,200,269
Depletion and depreciation charge	**112,872**	**704**	**113,576**
Disposals	**-**	**-**	**-**
Balance at June 30, 2012	**1,305,547**	**8,298**	**1,313,845**
Net carrying value			
At December 31, 2011	852,711	2,472	855,183
At June 30, 2012	**968,183**	**4,115**	**972,298**

(in thousand Canadian dollars except as otherwise indicated)

The cost of property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations.
Property, plant and equipment with a carrying value of $40.6 million as at June 30, 2012 (December 31, 2011: $34.7 million) include development assets under construction and tangible inventory that are not being depreciated. No borrowing costs were capitalized to property, plant and equipment in respect of the referenced periods.

7. EXPLORATION AND EVALUATION ASSETS

	Undeveloped Land	Exploratory Wells	Total Exploration and Evaluation Expenditures
Cost			
Balance at December 31, 2011	88,334	21,039	109,373
Additions	**894**	**9,629**	**10,523**
Expensed	**(2,678)**	**(228)**	**(2,906)**
Transfers to property, plant and equipment	**(11,014)**	**(17,329)**	**(28,342)**
Acquisitions	**494**	**-**	**494**
Dispositions	**(396)**	**-**	**(396)**
Balance at June 30, 2012	**75,634**	**13,111**	**88,746**

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

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Expired mineral leases	**858**	1,877	**2,678**	2,832
Dry hole	**40**	161	**228**	4,768
	898	2,038	**2,906**	7,600
Geological and geophysical costs	**91**	110	**2,044**	670
Exploration and evaluation expenditures	**989**	2,148	**4,950**	8,270

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

(in thousand Canadian dollars except as otherwise indicated)

8. INCOME TAX

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

	Property, Plant, & Equipment	Risk Management	Decommissioning Liabilities	Losses & Other	Total
At December 31, 2011	**(117,055)**	**1,476**	**45,916**	**169,692**	**100,028**
(Charge)/credited to earnings	2,872	(1,991)	769	(2,218)	(567)
At June 30, 2012	**(114,183)**	**(515)**	**46,685**	**167,474**	**99,461**

The $0.6 million deferred income tax expense was charged to the consolidated interim statement of comprehensive income. No income tax amounts were recorded directly to equity.

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

Trilogy has tax losses of $663 million that are available for carry forward against future taxable income of the entities in which the losses arose. Deferred tax assets are recognized for the carry-forward of unused tax losses to the extent that it is probable that taxable profits will be available for application against such unused tax losses.

9. DIVIDENDS PAYABLE

Dividends declared were $0.105 and $0.21 per share for three and six months ended June 30, 2012 and June 30, 2011, respectively. The dividend payable was $4.1 million ($0.035 per share) as at June 30, 2012 and $4.1 million ($0.035 per share) as at December 31, 2011.

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

10. LONG-TERM DEBT

	June 30, 2012	December 31, 2011
Long-term debt	**568,835**	414,555
Less prepaid interest and unamortized financing costs	**(1,566)**	(1,306)
Carrying value of long term debt	**567,269**	413,249

Trilogy has a credit facility with a syndicate of Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions. The credit facility, as at June 30, 2012, has the following significant terms:

(in thousand Canadian dollars except as otherwise indicated)

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

The Company has undrawn letters of credit totalling $14.2 million as at June 30, 2012 (December 31, 2011: $8.6 million). These letters of credit reduce the amount available for draw under the Company's working capital tranche.

11. DECOMMISSIONING AND RESTORATION LIABILITY

	Six months-ended June 30, 2012	Twelve months-ended December 31, 2011
Balance - beginning of period	**183,665**	177,144
Liabilities incurred	**3,739**	8,629
Liabilities settled	**(1,163)**	(1,946)
Accretion	**2,394**	5,777
Revision to estimates	**(1,893)**	(5,939)
Balance – end of period	**186,742**	183,665

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $207.4 million as at June 30, 2012 (December 31, 2011: $203.4 million).

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

12. SHARE-BASED PAYMENT PLANS

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Expense arising from:				
Share Incentive Plan	**1,229**	1,044	**2,319**	3,704
Share Option Plan	**3,009**	1,076	**6,017**	2,254
Total expense arising from share-based payment transactions	**4,238**	2,120	**8,336**	5,958

(in thousand Canadian dollars except as otherwise indicated)

The Company has a share incentive plan ("SIP") for employees and officers that annually awards rights to receive Common Shares. Common Shares are purchased in the open market and held by an independent trustee until completion of the vesting period. Generally, one third of an award vests immediately, with the remaining tranches vesting annually over two years. The fair value of the Common Shares awarded is recognized in share-based compensation over the vesting period, with a corresponding charge to equity. The Common Shares, while held in trust, are recorded as a reduction of share capital.

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

	Six months-ended June 30, 2012	Twelve months-ended December 31, 2011
Beginning	**168,814**	295,481
Purchases	**166,200**	165,000
Vested	**(233,084)**	(291,667)
Ending	**101,930**	168,814

The cost to the Company of the Common Shares held in trust as at June 30, 2012 was $2.4 million and $2.5 million at December 31, 2011 and was recorded as a reduction to Common Shares outstanding and shareholder capital. Conversely, the vesting of Share Incentive Plan awards increases Common Shares outstanding and shareholder capital, respectively.

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

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

	Six Months-ended June 30, 2012		Twelve months-ended December 31, 2011	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at January 1	**$ 16.39**	**5,984,000**	$ 9.11	5,870,000
Granted	**-**	**-**	38.57	1,512,000
Exercised	**10.93**	**(306,000)**	9.87	(1,336,000)
Forfeited	**-**	**-**	8.92	(62,000)
Outstanding at period end	**$ 16.68**	**5,678,000**	$ 16.39	5,984,000
Exercisable at period end	**$ 7.71**	**1,429,000**	$ 8.26	1,716,000

(in thousand Canadian dollars except as otherwise indicated)

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

The weighted average share price at the date of exercise for share options exercised in 2012 was $26.52 (Full Year - 2011: $24.03).

The range of exercise prices of the outstanding options and exercisable options as at June 30, 2012 are as follows:

Exercise Price Range	Weighted Average Contractual Life Remaining	Outstanding Options		Exercisable Options	
		Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$4.85 to $8.90	1.8	2,579,000	$6.69	1,109,000	$6.46
$8.97 to $12.15	3.7	1,519,000	12.05	269,000	11.91
$12.30 to $38.74	4.6	1,580,000	37.45	51,000	12.60
Total	3.4	5,678,000	$16.68	1,429,000	$7.71

13. ISSUED CAPITAL

Authorized

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

Issued and Outstanding and Fully Paid

The following provides a continuity of outstanding share capital:

	Common Shares	Non-Voting Shares	Total	Amount
Shares as at December 31, 2011	**85,282,296**	**30,835,862**	**116,118,158**	**877,682**
Issued - Share Option Plan	**306,000**	**-**	**306,000**	**4,039**
Cancellation and issuance	**5,000,000**	**(5,000,000)**	**-**	**-**
Share Incentive Plan purchases	**(166,200)**	**-**	**(166,200)**	**(3,988)**
Vesting of Share Incentive Plan awards	**233,084**	**-**	**233,084**	**4,006**
Common Shares and Non-Voting Shares as at June 30, 2012	**90,655,180**	**25,835,862**	**116,491,042**	**881,739**

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

(in thousand Canadian dollars except as otherwise indicated)

14. EARNINGS (LOSS) PER SHARE

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

Basic and Diluted Earnings per Share

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	**282**	7,872	**(2,721)**	7,661
Weighted average number of shares for the purposes of basic earnings per share	**116,414,833**	115,451,477	**116,280,004**	115,192,510
Effect of dilution	**2,701,818**	2,958,922	**-**	2,932,155
Weighted average number of shares for diluted earnings per share	**119,116,651**	118,410,400	**116,280,004**	118,124,666
Earnings (loss) per share – Basic	**-**	0.07	**(0.02)**	0.07
Earnings (loss) per share – diluted	**-**	0.07	**(0.02)**	0.06

15. RECONCILIATION OF CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Decrease (increase) in trade, other receivables and prepaids	**5,767**	(13,360)	**2,730**	(10,544)
Increase (decrease) in trade, other payables and dividends payable	**(90,446)**	(39,595)	**(32,802)**	(1,024)
	(84,679)	(52,955)	**(30,072)**	(11,568)
Changes in non-cash operating working capital	**(1,888)**	(3,012)	**(2,744)**	(1,806)
Changes in non-cash investing working capital	**(82,791)**	(49,943)	**(27,328)**	(9,762)

16. RELATED PARTY TRANSACTIONS

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

- Pursuant to an amended and restated services agreement dated February 5, 2010, a Paramount subsidiary provides limited administrative services to the Company. The agreement is in effect until March 31, 2013 however may be terminated by either party with at least six months written notice. The amount of expenses billed and accrued under this agreement was $0.1 million for the three months ended June 30, 2012 (June 30, 2011 - $0.1 million) and $0.2 million for the six months ended June 30, 2012 (June 30, 2011 - $0.2 million). Costs associated with this agreement are included as part of the general and administrative expenses in the Company's consolidated statement of comprehensive income.

(in thousand Canadian dollars except as otherwise indicated)

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

June 30, 2012 Presented in the Balance Sheet as	Normal Business	Services Agreement	Dividend
Trade and other receivables	-	-	-
Trade and other payables	-	(60)	-
Dividends payable	-	-	(671)

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

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

17. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

Credit Risk

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

	June 30, 2012	December 31, 2011
Trade and other receivables	49,100	54,686
Derivatives Financial Instruments[1]	2,397	134
	51,497	54,820

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

(in thousand Canadian dollars except as otherwise indicated)

Liquidity Risk

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

A contractual maturity analysis for Trilogy's financial liabilities as at June 30, 2012 is as follows:

	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	86,433	-	-	86,433
Dividends payable	4,081	-	-	4,081
Derivative financial instruments	335	-	-	335
Long-term debt and estimated interest[1]	22,846	586,307	-	609,153
Total	113,695	586,307	-	700,002

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

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

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

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

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

Capital Management

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

The objectives in managing the capital structure are to:

- utilize an appropriate amount of leverage to maximize return on shareholder equity; and

(in thousand Canadian dollars except as otherwise indicated)

- provide Trilogy borrowing capacity and financial flexibility for its operating and capital requirements.

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

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

	June 30, 2012	December 31, 2011
Committed amount that can be drawn from the credit facility (see note 10)	**600,000**	525,000
Outstanding undrawn letters of credit	**(14,188)**	(8,632)
Amount that can be drawn after letters of credit	**585,812**	516,368
Long-term debt	**(567,269)**	(413,249)
Current liabilities net of current assets	**(36,007)**	(77,696)
Net debt(1)	**(603,276)**	(490,945)

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

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

18. FINANCIAL INSTRUMENTS

Carrying Values

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

	June 30, 2012	December 31, 2011
Financial assets		
Receivables(1)	**49,100**	54,686
Financial instruments fair valued through profit and loss(2)	**2,397**	134
Financial liabilities		
Other liabilities - non-trading liabilities(1) (3)	**(90,514)**	(123,044)
Financial instruments fair valued through profit and loss(2)	**(335)**	(9,961)
Other liabilities - long-term debt(4)	**(567,269)**	(413,249)

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

(in thousand Canadian dollars except as otherwise indicated)

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

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

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

Commodity Contracts

At June 30, 2012 the Company had the following outstanding crude oil derivative contracts:

Crude Oil

Term	Financial Forward Sale Volume (bbls/d)	Average WTI Price/bbl
July 1, 2012 to December 31, 2012	3,000	$ 89.46

Foreign Exchange

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

To the extent the weekly ending foreign exchange rate is:

- Above the upper range of 1.078, the Company is committed to selling $3 million dollars USD at 1.045 CAD.
- Between the payout range, the Company receives the referenced premium.
- Less then the lower range, the Company will not receive a cash payment.

Interest Swap

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

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

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

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

(in thousand Canadian dollars except as otherwise indicated)

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

19. GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Realized Gains (Losses)				
Crude oil	**(645)**	(369)	**(4,456)**	(638)
Foreign exchange	**352**	354	**772**	354
Interest swaps	**131**	-	**255**	-
Sub-total	**(162)**	(15)	**(3,429)**	(284)
Unrealized Gains (Losses)				
Crude oil	**14,722**	5,066	**11,840**	1,973
Foreign exchange	**(208)**	108	**(297)**	107
Interest swaps	**(515)**	-	**346**	-
Sub-total	**13,999**	5,174	**11,889**	2,080
Gain (loss) on derivative financial intsruments	**13,837**	5,159	**8,460**	1,796

20. COMMITMENTS

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

	2012	2013	2014	2015	2016	2017 and after	Total
Pipeline transportation [1]	311	621	621	621	621	3,264	6,059
Total	311	621	621	621	621	3,264	6,059

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

(in thousand Canadian dollars except as otherwise indicated)

21. SEGMENT REPORTING

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

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Petroleum and natural gas sales:				
Natural gas	**22,700**	47,552	**48,165**	88,621
Oil	**68,463**	24,135	**131,359**	42,001
Natural gas liquids	**17,698**	22,369	**37,417**	43,432
Total petroleum and natural gas sales	**108,861**	94,056	**216,941**	174,054

22. SUBSEQUENT EVENTS

Subsequent to the quarter-end Trilogy entered into the following financial derivative contract:

Crude Oil

Term	Financial Forward Sale Volume (bbls/d)	Average WTI Price/bbl
January 1, 2013 to December 31, 2013	2,500	$ 95.08

CORPORATE INFORMATION

OFFICERS

J.H.T. Riddell
Chief Executive Officer

J.B. Williams
President and Chief Operating Officer

M.G. Kohut
Chief Financial Officer

G.L. Yester
General Counsel & Corporate Secretary

DIRECTORS

C.H. Riddell (1)
Chairman of the Board
Calgary, Alberta

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

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

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

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

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

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

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

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

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

CONSULTING ENGINEERS

InSite Petroleum Consultants Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta / Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange - "TET"