Q2

2011 SECOND QUARTER REPORT

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, 2011	**March 31, 2011**	**Change %**	**2011**	**2010**	**Change %**
FINANCIAL						
Petroleum and natural gas sales	**94,056**	79,998	18	**174,054**	158,222	10
Funds flow						
From operations[1]	**52,107**	45,586	14	**97,692**	85,939	14
Per share – diluted	**0.44**	0.39	13	**0.83**	0.75	11
Earnings						
Earnings (loss) before tax	**10,977**	262	100	**11,239**	164,812	(93)
Per share – diluted	**0.09**	—	100	**0.10**	1.44	(93)
Earnings (loss) after deferred income tax	**7,872**	(211)	100	**7,661**	193,567	(96)
Per share – diluted	**0.07**	—	100	**0.07**	1.69	(96)
Dividends declared	**12,172**	12,105	1	**24,275**	25,663	(5)
Per share	**0.105**	0.105	—	**0.210**	0.225	(7)
Capital expenditures						
Exploration, development and land	**42,715**	135,826	(69)	**178,541**	76,079	135
Acquisitions, (dispositions) and other - net	**1,154**	(3,050)	100	**(1,896)**	129	(100)
Net capital expenditures	**43,869**	132,776	(67)	**176,645**	76,208	132
Total assets	**1,188,179**	1,175,054	1	**1,188,179**	1,044,016	14
Net debt[1]	**406,409**	413,233	(2)	**406,409**	261,671	55
Shareholders' equity	**537,004**	533,384	1	**537,004**	577,794	(7)
Total shares outstanding (thousands)						
- As at end of period[2]	**115,776**	114,925	1	**115,776**	114,706	1
OPERATING						
Production						
Natural gas (MMcf/d)	**133**	113	18	**123**	113	9
Oil (Bbl/d)	**2,744**	2,273	21	**2,510**	1,826	37
Natural gas liquids (Boe/d)	**4,426**	4,228	5	**4,327**	2,989	45
Total production (Boe/d @ 6:1)	**29,320**	25,362	16	**27,352**	23,586	16
Average prices						
Natural gas (before financial instruments) ($/Mcf)	**3.93**	4.03	(2)	**3.98**	4.79	(17)
Crude Oil (before financial instruments) ($/Bbl)	**96.65**	87.34	11	**92.45**	80.23	15
Natural gas liquids ($/Bbl)	**55.54**	55.36	—	**55.46**	62.99	(12)
Drilling activity (gross)						
Gas	**6**	19	(68)	**25**	21	19
Oil	**3**	2	50	**5**	2	150
D&A	**—**	—	—	**—**	—	—
Total wells	**9**	21	(57)	**30**	23	30
Success rate	**100%**	100%	—	**100%**	100%	—

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

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

Review of Operations

Operations Update for the Second Quarter 2011

- Average production of 29,320 Boe/d
- $43.9 million net capital expenditures
- 9(5.1 net) wells drilled, with a 100 percent success rate
- Average operating costs $8.15/Boe
- Operating netback $22.12/Boe
- $52.1 million funds flow from operations

Production

Trilogy's second quarter 2011 production was 29,320 Boe/d, (132.9 MMcf/d of natural gas, 2,744 Bbl/d of crude oil and 4,426 Bbl/d of natural gas liquids), an increase of 16 percent over first quarter 2011 production of 25,362 Boe/d and 22 percent over second quarter 2010 production of 24,087 Boe/d. This significant increase in production volumes reflects the success of Trilogy's horizontal oil and gas drilling programs as well as an increase in the natural gas liquids recovered from Trilogy's natural gas pursuant to its previously announced Natural Gas Liquids Recovery Agreement with Aux Sable Canada LP (the "NGL Recovery Agreement"). Second quarter production was partially reduced by production outages of 10 days in April and 15 days in May at the Kaybob South Gas Plant No. 3, which reduced Trilogy's second quarter production by approximately 900 Boe/d. Severe wind storms in May caused power outages and forest fires in central Alberta, further reducing production in the quarter by approximately 300 Boe/d. However, in light of ongoing operational successes in the first half of the year and its planned drilling program for the second half of 2011, Trilogy is maintaining its 2011 production guidance at 30,000 Boe/d.

Capital Expenditures

In total, Trilogy spent $43.9 million during the second quarter of 2011 on drilling, completions, production facilities and land acquisitions, compared to $132.8 million in the first quarter of 2011. This includes approximately $21 million on drilling and completion operations and $21 million on construction of new production facilities and pipelines in the Kaybob area. These capital expenditures reflect Trilogy's ongoing efforts to develop the Montney gas and oil pools in the Kaybob area through the second quarter and include capital allocated to drilling two additional horizontal Montney oil wells as well as completing and tying in wells drilled in prior quarters. The remaining budgeted capital will be directed towards drilling and completing higher rate of return horizontal Montney gas and oil wells, primarily in the Kaybob area.

Operating Costs

Operating costs in the second quarter of 2011 were $8.15/Boe, up 4 percent from first quarter 2011 operating costs of $7.86/Boe and down 6 percent from the $8.72/Boe reported for the

second quarter of 2010. Second quarter operating costs were up relative to the first quarter as oil production was temporarily being trucked from Trilogy's new Montney oil wells while new production facilities and pipelines were being constructed. Trilogy expects these production facilities and pipelines, to be completed in the third quarter, will contribute to its continued success in reducing operating costs by increasing Trilogy production flowing through Trilogy-owned and operated pipelines and gas plants.

Trilogy continues to monitor capital and operating spending in order to realize greater efficiencies in its spending. Access to quality equipment, services and contractors will be a primary concern as industry activity increases in the future. Trilogy is maintaining its operating cost guidance of $7.75/Boe for 2011.

Drilling and Land Sale Activity

During the second quarter 2011, Trilogy participated in the drilling of 9 (5.1 net) wells, of which 8 (4.6 net) were located in the Kaybob area and 1 (0.5 net) in the Grande Prairie area. Trilogy has progressed to drilling an increasing percentage of its wells as horizontals; in the second quarter, 8 (5.0 net) of the wells drilled were drilled horizontally and 1 (0.1 net) well was drilled as a vertical well. The second quarter results have been very positive, resulting in 3.1 net gas wells and 2.0 net oil wells, for an overall success rate of 100 percent.

Trilogy acquired 1,067 net hectares at Alberta Crown land sales during the second quarter of 2011, for a total expenditure of $1.1 million. Ongoing evaluation and acquisition of high quality acreage will permit Trilogy to maintain its prospect inventory for future development and potential reserve additions.

Operating Area Updates

Kaybob

During the quarter, Trilogy focused drilling and completion operations on its Montney oil and gas plays in the Kaybob area, where Trilogy participated in the drilling of 8 (4.6 net) wells. Of these 8 wells, Trilogy operated the drilling of 5 (4.5 net) wells, which were all successfully drilled horizontally, resulting in 2 (2.0 net) Montney oil wells and 3 (2.5 net) Montney gas wells. Trilogy participated in 1 (0.1 net) non-operated drilling operation, resulting in a Swan Hills gas well. Trilogy farmed out its working interest for a non convertible gross over-riding royalty interest in two horizontal wells targeting Cardium and Wilrich sands. Trilogy will continue to monitor and evaluate how horizontal drilling and completion technology can be applied towards the successful development of new formations in the greater Kaybob area. Drilling and completion results from its second quarter operations have further supported Trilogy's development strategy of exploiting crude oil and natural gas liquids rich gas plays in the area.

Through the balance of the year, Trilogy will be performing technical work to evaluate shale and tight-sand plays in the Kaybob area. Trilogy believes there is significant value in understanding the resource potential of each formation, providing an opportunity to exploit formations that yield the greatest return for Trilogy's shareholders. Trilogy's large land base and producing infrastructure in the Kaybob area has generated a significant asset base that we believe will afford development opportunities for the next decade.

Presley Montney Gas Development

Trilogy completed the drilling of three horizontal Montney gas wells in the Presley area during the second quarter and the results continue to be very encouraging. Trilogy has increased the fracture density in its horizontal well completions, utilizing up to 22 fracture stages per well. Trilogy believes this level of fracture density will result in a greater recovery factor and will accelerate production of the ultimate recoverable reserves in each well. As a result, drilling and completion costs have risen over the prior year to approximately $4.75 million per well, reflecting the additional costs associated with oil-based completion fluids, additional components in the liner assembly used to stimulate horizontal wells and higher day rates for services, partially offset by improvements in operating these activities.

In 2011, Trilogy has drilled a total of 11 (10.5 net) horizontal Montney gas wells, bringing the total to 37 wells drilled to date into the Trilogy-operated portion of the Montney gas pool. Trilogy has completed 10 of the 11 wells drilled; operations on the remaining well will be completed once access into the area improves. Trilogy anticipates drilling 3 additional wells on this property in the second half of the year, with operations commencing in early August once wet field conditions improve.

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

Kaybob Montney Oil Development

The first horizontal Montney oil well drilled into the Kaybob Montney B Pool was drilled in the fourth quarter of 2010, at 16-1-64-18W5 (the "16-1 well"), and was completed using a 15-stage fracture stimulation over the 1,504 m horizontal length of the wellbore. Following recovery of the completion load fluid, the 16-1 well flowed crude oil at 1,800 Bbl/d. During the first full month of production, this well produced at average rates of 500 Bbl/d of crude oil and 1 MMcf/d of natural gas. The well has produced approximately 30,700 barrels of crude oil over the initial seven month production period; it only produced for a total of 93 days due to facility construction and pipeline limitations. The 16-1 well was placed back on production on July 23, 2011 and is pumping at rates of approximately 200 Bbl/d of crude oil with a 25 percent water cut. In Trilogy's 2010 year end reserve report, the 16-1 well was assigned proved plus probable reserves of 300 MBbl of oil and 400 MMcf of natural gas (391 MBoe), with a net present value at 10 percent of $14.2 million (InSite Petroleum Consultants Ltd.).

Trilogy followed up on the success of the 16-1 well by drilling two additional wells that were rig released in the first quarter to further delineate the Montney oil pool. The second Montney oil well (the "3-21 well") was drilled as a vertical well at 6-16-64-18W5 in order to core the Montney formation; it was subsequently plugged back to a kick off point and drilled horizontally through the Montney to a total depth of 3,120 m at a bottomhole location of 3-21-64-18W5. The lateral portion of the well was 1,158 m in length and was completed with a 15-stage fracture stimulation. Trilogy was able to flow the well immediately prior to the February 9, 2011 Crown land sale, recovering all 3,650 barrels of completion fluid and 1,600 barrels of oil in the first 24 hours of production. The final rate during flow back was 1.9 MMcf/d and 3,000 Bbl/d of crude oil

(40 degree API) at a flowing pressure of 4,450 kPa (645 psi). The well recovered 12,450 barrels of fluid, 3,650 barrels of completion fluid and 8,800 barrels of new oil during a three day flow period before being suspended upon reaching its maximum permitted flare volume. The well was placed on production May 3, 2011, through an existing oil and gas gathering system at restricted rates while additional gathering and processing infrastructure was constructed to handle additional production from the new Montney oil wells. The 3-21 well has produced a total of 83,700 barrels of oil in the first 61 days of production (including the test period). The well is currently flowing at approximately 900 Bbl/d of oil with a 19 percent water cut.

The 16-2-64-18W5 surface lease used to drill the original 16-1 horizontal Montney oil well was used to drill the third Montney oil well to a bottom hole location at 9-1-64-18W5 (the "9-1 well"). The 9-1 well was rig released on March 27, 2011 and the horizontal section was fracture stimulated in 22 separate intervals over the 1,546 meter horizontal section. The well flowed at average rates of 1,300 barrels of crude oil and 2.0 MMcf/d of natural gas at 2,700 kPa (392 psi) over the first 6 days of production. Until Trilogy's new oil handling facilities were completed in July 2011, crude oil was trucked to central processing facilities and solution gas was produced through the existing gas gathering system. The 9-1 well has produced a total of 14,100 barrels of oil in 19 producing days, and is flowing at approximately 500 Bbl/d of oil with a 24 percent water cut.

During the second quarter, Trilogy rig released two wells to further evaluate the pool. The first such well was spud from the surface lease used to drill the 3-21 well and drilled horizontally to a bottom hole location at 5-17-64-18W5 ("5-17 well"), to evaluate Montney petroleum and natural gas rights Trilogy acquired at the February 9, 2011 Crown land sale. The well was rig released on April 1, 2011; however, extremely wet weather through the spring delayed completion operations. The 5-17 well was fracture stimulated on July 29 and 30, 2011. The well was competed with 22-stage fracture stimulations over the 1,555 meter horizontal wellbore length. Preliminary flow back information is very encouraging and supports the interpretation of the pool extension to the west of the 3-21 well. After 2.4 days of production, the well flowed at an average rate of 3,700 Bbl/d, which includes 5,100 barrels of completion fluid and 3,780 barrels of new crude oil. Approximately 2 MMcf/d of solution gas is currently being conserved through the newly constructed gas and oil gathering system.

The second well in the second quarter was drilled from the same surface lease used to drill the 16-1 and 9-1 horizontal Montney oil wells, to a bottom hole location at 13-2-64-18W5 (the "13-2 well"). The 13-2 well was rig released on April 20, 2011 and completed on May 13, 2011, in 20 intervals over the 1,381 meter horizontal length. The 13-2 well flowed at average rates of 2,400 Bbl/d of crude oil and 1.1 MMcf/d of natural gas in the first day of production following recovery of load fluid at 2,200 kPa (319 psi). Until Trilogy's new oil handling facilities were completed in July 2011, crude oil from the 13-2 well was trucked to central processing facilities and solution gas was produced through the existing gas gathering system. The 13-2 well has produced approximately 25,600 barrels of oil in 25 days of production, and is currently flowing 900 Bbl/d of oil with a 5 percent water cut.

During the second quarter, Trilogy completed the expansion of two oil satellites at 10-2-64-18W5 and 10-4-64-18W5 to handle the separation and compression of solution gas in the field. The Trilogy-operated central oil processing battery at 12-10-64-19W5 was also expanded from 2,000 to 10,000 Bbl/d of fluid by adding a larger treater at the site. Expansion of the field satellites and central battery was required to handle new volumes from the wells drilled earlier in the year as well as the volumes expected to be produced from Trilogy's 14 well drilling program planned for the second half of 2011. Trilogy also intends to expand the Kaybob North Sour Gas Plant to handle the additional sour solution gas volumes that will be produced with the Montney oil and

the Presley Montney gas. The battery is expected to be fully operational in the third quarter of 2011 to coincide with incremental production from the drilling program.

As noted, Trilogy has planned a 14 well horizontal drilling program to follow up on the success of the horizontal wells drilled into the Kaybob Montney oil play to date. This drilling program will commence in early August following the end of spring breakup and an extended rainy period at the start of the third quarter. Four drilling rigs will be moved into the area to execute the program, the first well in the program spud in late July with the remaining three rigs expecting to spud the next three wells in the first week of August. Trilogy is forecasting capital spending of approximately $138 million on its Montney oil pool assets in 2011, including costs associated with its related Crown land sale acquisitions ($36 million), four wells drilled to date ($20 million), pipeline and batteries ($12 million) and 14 wells ($70 million) to be drilled in the second half of the year. The additional capital is expected to increase production from this oil property to over 5,000 Bbl/d of oil and 6 MMcf/d of solution gas by the end of the year. Initial production rates from these new wells are expected to decline over the first 6 to 12 months of production. Trilogy has not established long term production trends for these wells and will closely monitor them to better understand their long term deliverability. Individual well results are expected to vary across the pool as it is further delineated, ultimately providing the data required to fully exploit the Montney oil reservoir.

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

	W.I. (%)	Horizontal Length (m)	Frac stages in well bore	Current production Rate (Bbl/d)	Cumulative Production (MBbls)	Producing Days
16-1	100	1,504	15	~200	33,589	105
3-21	100	1,158	15	~900	93,267	70
9-1	100	1,546	22	~500	17,034	29
13-2	100	1,381	20	~900	39,372	40
5-17	100	1,555	22	~3,700	3,800	1

Duvernay Shale Gas Development

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

The well (the "3-13 well") was drilled from a surface location at 16-14-60-20W5 to a bottom hole location at 03-13-060-20W5, with a total depth of 4,866 meters. The horizontal lateral was 1,391 metres in length within the Duvernay formation. Completion operations began March 8, 2011 and were concluded in late April. The well was fracture stimulated in 31 perforated intervals in 12 separate stages along the length of the horizontal wellbore. In total, approximately 2,300 tonnes of sand and 138,600 barrels of slick water were used to stimulate the well. The well was completed using a staged "plug and perf" horizontal completion technique, incorporating perforation clusters (2 and 3 per stage) to stimulate the well. Following the fracture stimulation, the plugs were drilled out to permit the well to flow without obstruction in the horizontal portion of the well.

The 3-13 well was tied-in April 10, 2011 and was flowing up 7 inch casing and had initial production of approximately 1,250 Boe/d. Production tubing was installed in the well and the

well has been placed on production to evaluate the longer-term production performance of the play. Additional analysis is required to determine the production composition, including the natural gas liquid content, from this Duvernay shale exploration play. However, initial production to date has indicated that the natural gas liquids content is higher than originally expected and may contain up to 90 barrels per MMcf of condensate plus additional associated natural gas liquids recovered at the gas plant. Additional work is required to further understand the reservoir to optimize natural gas liquids recovery and maximize the rate of return for the wells.

Trilogy is encouraged by the results from these two horizontal Duvernay shale wells and particularly the high liquids content. Trilogy is evaluating opportunities to further evaluate its Duvernay land holdings in the Kaybob area and will continue to monitor industry activity directed towards the exploitation of the Duvernay shale. Trilogy currently owns approximately 163,129 gross acres and 132,813 net acres (255 gross sections and 207 net sections) of land with Duvernay rights at Kaybob and surrounding areas.

Natural Gas Liquids Recovery Agreement

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

The NGL Recovery Agreement was effective January 1, 2011, allowing for immediate recovery of additional value for Trilogy's natural gas liquids produced at Kaybob versus a second quarter 2012 estimated completion date for the proposed deep-cut facility. Based on the value sharing arrangement under the Recovery Agreement, Trilogy recognized revenue of $3.8 million in the first quarter and $6.0 million in the second quarter.

Grande Prairie

During the second quarter of 2011, Trilogy participated in the drilling of 1 (0.5 net) horizontal well in the Grande Prairie area, resulting in 1 (0.5 net) gas wells. The well was drilled to evaluate the Lower Doig formation, and preliminary results from the 13-stage fracture stimulation are very encouraging. Additional information will be released after a complete evaluation has been prepared. Trilogy and its partners expect to have 4 (2.0 net) wells tied in before the end of the third quarter to provide the information required to support its 2012 drilling program for the Grande Prairie area. Trilogy is evaluating all opportunities to bring new gas wells on production, while developing a plan for future production growth in the area. Trilogy anticipates drilling three additional wells in this area during the balance of the year.

Risk Management

Trilogy's management and Board of Directors believe that hedging a portion of production is prudent to support the Corporation's dividend policy and capital spending programs. Trilogy currently has 2,000 Bbl/d of crude oil hedged for the balance of the year at approximately $100/ Bbl. Trilogy will continue to evaluate opportunities to hedge oil production as we begin to exploit the Kaybob Montney oil pool to ensure that we realize sufficient cash flow to grow this developing asset. A summary of Trilogy's hedging contracts are available in note 19 of the Interim Consolidated Financial Statements.

Outlook

Trilogy continues to expand its land position and technical expertise in order to further develop the liquid rich gas and oil resource plays in the deep basin. This has resulted in the accumulation of a large inventory of high quality vertical and horizontal drilling prospects that should enable Trilogy the opportunity to grow its production, replace produced reserves and maintain a dividend for its shareholders over the long term.

In response to the encouraging results Trilogy has achieved in the Kaybob area, Trilogy is maintaining its 2011 production guidance at 30,000 Boe/d. The capital spending program for the year was increased in May 2011 from $130 million to $285 million (also maintained) to accelerate the development of its new Kaybob Montney oil play. Trilogy will fund the increased capital expenditure program with forecasted cash flow resulting from incremental production additions and, should it be necessary, increased borrowings from its existing credit facility.

In the current commodity price environment, Trilogy plans to manage its balance sheet through production replacement, prudent asset management and continued control over operations. As a growth-oriented corporation, Trilogy will remain flexible in order to respond to volatility in commodity prices and take advantage of government incentive programs. The remainder of 2011 may prove to be volatile as commodity prices fluctuate based on speculative demand and supply forces in the North American natural gas markets. Trilogy believes it can manage its assets prudently through this potentially difficult period and is confident in its strategy, its high quality assets and the proven expertise of its employees.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") as at and for the three and six months ended June 30, 2011, and should be read in conjunction with the Company's condensed interim consolidated financial statements and related notes for the three and six months then ended and its annual consolidated financial statements and MD&A for the year ended December 31, 2010. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") while the 2010 annual consolidated financial statements and MD&A were prepared under Canadian generally accepted accounting principles in effect prior to January 1, 2010.

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using currently available information as of August 2, 2011.

SECOND QUARTER 2011 HIGHLIGHTS

- Sales volumes for the second quarter of 2011 averaged 29,320 Boe/d as compared to 25,362 Boe/d for the previous quarter, representing a 16 percent increase quarter over quarter. Increased oil and natural gas liquids production to 25 percent of total production.
- Capital expenditures (excluding acquisitions and dispositions) totaled $42.8 million for the second quarter of 2011 versus $136.1 million (inclusive of $36.3 million of undeveloped Crown land purchases) in the prior quarter. In total, 9 (5.1 net) wells were drilled in the quarter.
- Funds flow from operations increased 14 percent to $52.1 million during the second quarter of 2011 as compared to $45.6 million for the previous quarter. The increase was attributed primarily to higher production levels and oil commodity prices, increased revenue associated with the previously announced Natural Gas Liquids Recovery Agreement with Aux Sable Canada LP (the "NGL Recovery Agreement") offset, in part, by increased royalties and operating costs on the higher volumes.
- Dividends to Shareholders for the second quarter of 2011 were $12.2 million (25 percent of cash flow from operations) as compared to $12.1 million in the prior quarter (26 percent of cash flow from operations).
- Income before tax for the second quarter was $11.0 million as compared to the prior quarter's income of $0.3 million. The positive change was primarily a function of the aforementioned increase in funds flow and a reduction in exploration expenditures and share based compensation expense, offset, in part, by a reduction of unrealized derivative gains recorded and increased depletion and depreciation on higher production volumes in the current quarter.
- Completed the expansion of two oil satellites to handle growing oil production from the new Montney oil play and commenced production from three new Montney oil wells.
- Initiated production from the Duvernay shale play with encouraging results.

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

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

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

Trilogy's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, the effectiveness of the Company's approach to managing price volatility, capital spending allocations, 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.

BUSINESS ENVIRONMENT AND ECONOMIC CONDITIONS

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

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

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

	Q2 2011	Q1 2011	Q2 2010
Crude Oil			
West Texas Intermediate monthly average (U.S.$/Bbl)	**102.56**	94.10	76.29
Natural gas			
NYMEX (Henry Hub Close) monthly average (U.S.$/MMBtu)	**4.32**	4.13	4.13
AECO monthly average (Cdn$/GJ)	**3.55**	3.58	3.66
Canadian – U.S. Dollar Closing Exchange Rate (Cdn$/U.S.$)	**0.96**	0.97	1.06

RESULTS OF OPERATIONS

Operating Results Summary	Three Months Ended			Six Months Ended	
(In thousand dollars)	**June 30, 2011**	**March 31, 2011**	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Operating income[1]	**59,325**	53,364	36,485	**112,689**	88,490
Other income and (expenses)	**311**	(205)	554	**106**	898
Realized financial instruments[2]	**(14)**	(270)	3,388	**(284)**	12,119
General and administrative expenses	**(2,925)**	(3,252)	(3,455)	**(6,176)**	(8,532)
Interest and financing charges	**(3,975)**	(3,315)	(2,554)	**(7,290)**	(6,068)
Decommissioning and restoration costs	**(615)**	(737)	(241)	**(1,353)**	(968)
Funds flow from operations[1]	**52,107**	45,585	34,177	**97,692**	85,939
Non-cash items:					
Gain on conversion [3]	**—**	—	—	**—**	146,053
Depletion and depreciation (including impairment)	**(40,885)**	(31,977)	(30,590)	**(72,862)**	(59,514)
Unrealized financial instruments[2]	**4,960**	(3,093)	(3,937)	**1,867**	1,307
Stock based compensation	**(2,120)**	(3,751)	(1,104)	**(5,872)**	(2,561)
Exploration expenditures[4]	**(2,148)**	(6,122)	(1,683)	**(8,270)**	(3,604)
Accretion on decommissioning and restoration liability[5]	**(930)**	(802)	(1,282)	**(1,731)**	(2,059)
Deferred income tax (expense) recovery	**(3,105)**	(473)	2,640	**(3,578)**	28,755
Unrealized foreign exchange gains (losses) and other	**(7)**	422	(885)	**415**	(749)
Profit (loss) and comprehensive income	**7,872**	(211)	(2,664)	**7,661**	193,567

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

(2) See Risk Management section below

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

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

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

Cash Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended			Six Months Ended	
	June 30, 2011	**March 31, 2011**	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Gross revenue before financial instruments[1]	**34.33**	33.77	31.51	**34.07**	35.70
Royalties	**(3.83)**	(2.62)	(5.89)	**(3.27)**	(5.93)
Operating costs	**(8.15)**	(7.86)	(8.72)	**(8.02)**	(8.84)
Decommissioning and restoration costs	**(0.23)**	(0.32)	(0.11)	**(0.27)**	(0.23)
General and administrative expenses[2]	**(1.10)**	(1.42)	(1.58)	**(1.25)**	(2.00)
Interest and financing charges	**(1.49)**	(1.45)	(1.17)	**(1.47)**	(1.42)
Realized gain (loss) on financial instruments[3]	**(0.01)**	(0.12)	1.55	**(0.06)**	2.84
Funds flow from operations[4]	**19.52**	19.98	15.59	**19.73**	20.12
Net change in operating working capital	**(1.13)**	0.53	(0.95)	**(0.36)**	1.29
Cash flow from operating activities	**18.39**	20.51	14.64	**19.37**	21.41

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

[2] Includes direct and indirect Conversion and internal reorganization costs of $1.2 incurred in the first half of 2010 representing a cost of $0.28 /Boe for the six months ended June 30, 2010.

[3] The realized gains on derivative financial instruments for the six months ended June 30, 2010 include a $7.1 million gain from the settlement of certain derivative financial instruments prior to their scheduled maturity.

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

Operating Income Items

Second Quarter 2011 vs. First Quarter 2011 (In thousand dollars except as otherwise indicated)	Q2 2011	Q1 2011	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**132,899**	113,167	19,732	17
Oil (Bbl/d)	**2,744**	2,273	471	21
Natural gas liquids (Boe/d)	**4,426**	4,228	198	5
Total (Boe/d)	**29,320**	25,362	3,958	16
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.93**	4.03	(0.10)	(2)
Oil ($/bbl)	**96.65**	87.34	9.31	11
Natural gas liquids ($/Boe)	**55.54**	55.36	0.18	—
Average realized prices after financial instruments and before transportation:				
Natural gas ($/Mcf)	**3.93**	4.03	(0.10)	(2)
Oil ($/bbl)	**95.18**	86.01	9.17	11
Natural gas liquids ($/Boe)	**55.54**	55.36	0.18	—
Petroleum and natural gas sales before financial instruments:				
Natural gas	**47,552**	41,068	6,484	16
Oil	**24,135**	17,866	6,269	35
Natural gas liquids	**22,368**	21,064	1,304	6
Total petroleum and natural gas sales before financial instruments	**94,055**	79,998	14,057	18
Royalties	**(10,227)**	(5,974)	4,253	71
Operating costs	**(21,744)**	(17,952)	3,792	21
Transportation costs	**(2,760)**	(2,708)	52	2
Operating income[1]	**59,324**	53,364	5,960	11

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

Petroleum and Natural Gas Sales – Natural gas sales, before financial instruments, increased $7.5 million due to higher sales volumes offset, in part, by a decrease of $1.0 million due to lower natural gas prices. Oil sales, before financial instruments, increased by $1.9 million due to higher average oil realized prices and $4.4 million due to higher sales volumes. NGL sales increased by $0.1 million due to slightly higher realized NGL prices and by $1.2 million on higher sales volumes. Sales volumes were impacted in the quarter by third party processing outages and power failures arising from wind storms and northern Alberta forest fires in the quarter. Despite these adversities, sales volumes increased from the prior quarter primarily as a result of the ongoing success of Trilogy's Montney horizontal drilling program and development in the Kaybob area.

Royalties – Royalties increased in the quarter as a result of fewer deductions recorded from Alberta's Natural Gas Deep Drilling Program. In addition, increased oil volumes and prices contributed to higher royalties in the quarter. Crown Royalties on Alberta gas are calculated based on the Alberta reference price, which may vary from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – Second quarter operating costs have increased from the prior quarter, in part, due to higher costs associated with Montney oil production. In particular, additional costs were associated with trucking oil production volumes in this area while the additional facility infrastructure is under construction.

Second Quarter 2011 vs. Second Quarter 2010 (In thousand dollars except as otherwise indicated)	Q2 2011	Q2 2010	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**132,899**	115,552	17,347	15
Oil (Bbl/d)	**2,744**	1,744	1,000	57
Natural gas liquids (Boe/d)	**4,426**	3,084	1,342	44
Total (Boe/d)	**29,320**	24,087	5,233	22
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.93**	4.12	(0.19)	(5)
Oil ($/Bbl)	**96.65**	79.87	16.78	21
Natural gas liquids ($/Boe)	**55.54**	56.98	(1.44)	(3)
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**3.93**	4.44	(0.51)	(11)
Oil ($/Bbl)	**95.18**	79.87	15.31	19
Natural gas liquids ($/Boe)	**55.54**	56.98	(1.44)	(3)
Petroleum and natural gas sales before financial instruments:				
Natural gas	**47,552**	43,288	4,264	10
Oil	**24,135**	12,675	11,460	90
Natural gas liquids	**22,368**	15,990	6,378	40
Total petroleum and natural gas sales before financial instruments	**94,055**	71,954	22,101	31
Royalties	**(10,227)**	(12,914)	(2,687)	(21)
Operating costs	**(21,744)**	(19,111)	2,633	14
Transportation costs	**(2,760)**	(3,444)	(684)	(20)
Operating income[1]	**59,324**	36,485	22,839	63

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

Petroleum and natural gas sales – Natural gas sales, before financial instruments, decreased by $1.9 million due to lower natural gas prices offset by an increase of $6.2 million due to higher sales volumes. Oil sales, before financial instruments, increased by $2.7 million due to higher average realized prices and by $8.8 million due to increased sales volumes. NGL sales decreased by $0.4 million due to slightly lower realized NGL prices and increased by $6.8 million on higher sales volumes. Sales volumes were higher primarily as a result of the ongoing success of Trilogy's Montney horizontal drilling program and development in the Kaybob area, in addition to the presence of volumes recorded in conjunction with the NGL Recovery Agreement beginning in 2011.

Royalties – In comparison to last year, royalties are lower as a result of the new royalty regime and, in particular, the Natural Gas Deep Drilling Royalty Program. Various other items, including cost of service credits, prior period adjustments and other royalty credit programs impact the overall rate.

Operating Costs – Operating costs in 2011 have decreased on a per Boe basis in comparison to the same period in 2010 as a result of the impact of allocating fixed operating costs over a higher production base. In addition, Trilogy's has reduced its cost structure in 2011 relative to 2010, particularly in conjunction with the savings associated with redirecting production to Trilogy operated facilities and processing and pipeline fees recovered from third party volumes. Operating costs in absolute dollar terms have increased slightly in conjunction with the higher sales volumes, partially offset by the aforementioned cost reductions.

Year-to-date 2011 vs Year-to-date 2010 (In thousand dollars except as otherwise indicated)	YTD 2011	YTD 2010	Increase (Decrease) Value	%
Average sales volumes:				
Natural gas (Mcf/d)	**123,087**	112,625	10,462	9
Oil (Bbl/d)	**2,510**	1,826	684	37
Natural gas liquids (Boe/d)	**4,327**	2,989	1,338	45
Total (Boe/d)	**27,352**	23,586	3,766	16
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**3.98**	4.79	(0.81)	(17)
Oil ($/Bbl)	**92.45**	80.23	12.22	15
Natural gas liquids ($/Boe)	**55.46**	62.99	(7.53)	(12)
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**3.98**	5.38	(1.40)	(26)
Oil ($/Bbl)	**91.05**	80.23	10.82	13
Natural gas liquids ($/Boe)	**55.46**	62.99	(7.53)	(12)
Petroleum and natural gas sales before financial instruments:				
Natural gas	**88,620**	97,625	(9,005)	(9)
Oil	**42,001**	26,518	15,483	58
Natural gas liquids	**43,432**	34,079	9,353	27
Total petroleum and natural gas sales before financial instruments	**174,053**	158,222	15,831	10
Royalties	**(16,201)**	(25,295)	(9,094)	(36)
Operating costs	**(39,696)**	(37,730)	1,966	5
Transportation costs	**(5,468)**	(6,707)	(1,239)	(18)
Operating income(1)	**112,688**	88,490	24,198	27

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

Petroleum and natural gas sales – Natural gas sales, before financial instruments, decreased by $16.5 million on lower natural gas prices offset, in part, by an increase of $7.5 million on higher sales volumes. Oil sales, before financial instruments, increased by $4.0 million on higher average oil realized prices and by an increase of $11.4 million on increased sales volumes. NGL sales decreased by $4.1 million due to lower realized NGL prices offset by an increase of $13.4 million due to higher sales volumes. Sales volumes were higher primarily as a result of the ongoing success of Trilogy's Montney horizontal drilling program and development in the Kaybob area, in addition to the presence of volumes recorded in conjunction with the NGL Recovery Agreement beginning in 2011.

Royalties – In comparison to last year, royalties are lower as a result of the new royalty regime and, in particular, the Natural Gas Deep Drilling Royalty Program. Various items, including cost of service credits, prior period adjustments and other royalty credit programs impact the overall rate.

Operating Costs – Operating costs in 2011 have decreased on a per Boe basis in comparison to the same period in 2010 as a result of the impact of allocating fixed operating costs over a higher production base. In addition, Trilogy's has reduced its cost structure in 2011 relative to 2010, particularly in conjunction with the savings associated with redirecting production to Trilogy operated facilities and processing and pipeline fees recovered from to third party volumes. Operating costs in absolute dollar terms have increased slightly in conjunction with the higher sales volumes, partially offset by the aforementioned cost reductions.

OTHER INCOME STATEMENT ITEMS

Depletion and Depreciation Expense

(In thousand dollars except as otherwise indicated)	Three Months Ended			Six Months Ended	
	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Reported amount	**40,885**	**31,977**	30,590	**72,862**	59,514
Expense per sales volume ($/Boe)	**15.32**	**14.01**	14.11	**14.72**	13.94

Depletion and depreciation expense increased for the second quarter of 2011 relative to the prior quarters above primarily as a result of higher production volumes and amortization for a full quarter of significant capital expenditures incurred for the three months ended March 31, 2011. The increase for the six months ended June 30, 2011 as compared to the same period in 2010 can be attributed to the aforementioned items as well.

General and Administrative Expenses

(In thousand dollars except as otherwise indicated)	Three Months Ended			Six Months Ended	
	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Expenses before recoveries	**7,077**	7,704	6,993	14,781	15,752
Overhead recoveries	**(4,153)**	(4,539)	(3,530)	(8,692)	(7,216)
Reported amount	**2,924**	3,165	3,463	**6,089**	8,536
Expense per sales volume ($/Boe)	**1.10**	1.39	1.60	1.23	2.00

General and administrative expenses (before recoveries) for the second quarter of 2011 were lower than previous quarter primarily as a result of lower costs associated with employees and consultants. General and administrative expenses were consistent with the same quarter in 2010. On a year-to-date basis, relative to 2010, costs prior to recoveries were lower as they exclude direct and indirect costs recorded in the prior year of $1.2 million related to the Conversion and a related internal reorganization representing $0.28/Boe.

Overhead recoveries on general and administrative expenditures correlate, in part, with capital expenditure activity. Accordingly, overhead recoveries were higher in 2011 given Trilogy's increased capital spending relative to 2010.

Stock based Compensation

(In thousand dollars except as otherwise indicated)	Three Months Ended			Six Months Ended	
	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Reported Amount	**2,120**	3,838	1,104	**5,958**	2,561
Expense per sales volume ($/Boe)	**0.79**	1.68	0.50	**1.20**	0.60

The increase in stock based compensation expense for the first quarter of 2011 and for 2011 year-to-date, relative to the three and six months ended June 30, 2010 was attributed, in part, to a larger grant of awards under Trilogy's Share Incentive Plan then as originally accrued in 2010.

Interest and Financing Charges

(In thousand dollars except as otherwise indicated)	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Accretion on decommissioning and restoration liability	**1,545**	**1,539**	1,522	**3,084**	3,027
Finance costs	**3,975**	**3,315**	2,554	**7,290**	6,068
Expense per sales volume ($/Boe)	**1.49**	**1.45**	1.17	**1.47**	1.42

Accretion on the Company's decommissioning and restoration liability was relatively consistent through the above periods.

Interest and financing charges were higher in the second quarter of 2011 as compared to the first quarter of 2011 due to higher average debt levels and the absence of Crown interest refunds that were recorded in the first quarter. Interest expense for the six months ended June 30, 2011 relative to the same period in 2010 was higher as a result of increased debt levels, partially offset by lower effective interest rates on borrowings in 2011.

Exploration Expenditures and Other

(In thousand dollars)	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Three Months Ended June 30, 2010	Six Months ended June 30, 2011	Six Months ended June 30, 2010
Exploration expenditures	**2,148**	6,122	1,683	**8,270**	3,604

Exploration expenditures consist of exploratory dry holes, costs of uneconomic exploratory wells, geological and geophysical costs and costs of expired leases. The change in exploration expenditures for the second quarter from the prior quarter is due mainly to fluctuations in dry hole costs from period to period (Q2 2011 - $0.2 million, Q1 2010 – $4.6 million, Q2 2010 - $nil).

RISK MANAGEMENT

Financial Risks

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

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

(In thousand dollars except as indicated)	Three Months Ended June 30, 2011	March 31, 2011	June 30, 2010	Six Months Ended June 30, 2011	June 30, 2010
Realized gain (loss) on financial instruments	**(14)**	**(270)**	3,388	**(284)**	12,119
Unrealized gain (loss) on financial instruments	**4,960**	**(3,093)**	(3,937)	**1,867**	1,307
Total gain (loss) on financial instruments	**4,946**	**(3,363)**	(549)	**1,583**	13,426
Realized gain (loss) on financial instruments per Boe ($/Boe)	**(0.01)**	**(0.12)**	1.55	**(0.06)**	2.84

The realized gains on derivative financial instruments for the six months ended June 30, 2010 include a $7.1 million gain from the settlement of certain derivative financial instruments prior to their scheduled maturity.

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

Operational and Other Risks

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

LIQUIDITY AND CAPITAL RESOURCES

(In thousand dollars)	June 30, 2011	Dec. 31, 2010
Net current liabilities (assets)	**19,828**	32,496
Long-term debt	**386,581**	279,599
Net debt[1]	**406,409**	312,095
Shareholders' equity	**537,004**	541,119
Total	**943,413**	853,214

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

Working Capital

The increase in Trilogy's capital expenditure program for 2011 from 2010 was primarily responsible for the increase in net debt from $312.1 million at December 31, 2010 to $406.4 million at June 30 2011.

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

Long-term Debt and Credit Facilities

Long-term debt represents the outstanding draws from Trilogy's credit facility as described in the notes to Trilogy's condensed consolidated interim unaudited financial statements.

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

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

Trilogy's bank debt outstanding under its credit facility was $387.6 million (before unamortized interest discount) as at June 30, 2011. The revolving feature of the Company's credit facility expires on April 30, 2014. In the event the credit facility is not extended or renewed, amounts drawn down under the facility would be due and payable on expiry.

The size of the committed credit facilities is based primarily on the value of Trilogy's producing petroleum and natural gas assets and related tangible assets as determined by the lenders.

Note 18 of the interim financial statements provides a comparison of Trilogy's debt structure against the committed amount on existing credit facilities at the listed balance sheet dates therein. The increase in net debt from $312.1 million at December 31, 2010 to $406.4 million at June 30, 2011 is attributable primarily to the substantial increase in capital spending undertaken in the first half of 2011.

Contractual Obligations

No material change occurred as at June 30, 2011 in respect of Trilogy's estimated contractual financial obligations from those as disclosed at December 31, 2010.

Shares, Options and Rights

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

Outstanding share options issued under Trilogy's share option plan were 4,814,500 as at June 30, 2011 and 4,817,500 as at August 2, 2011, of which 830,500 and 809,500 share options were exercisable as at those dates, respectively.

Dividends

(In thousand dollars except where stated otherwise)	Three Months Ended June 30, 2011	March 31, 2011	June 30, 2010	Six Months Ended June 30, 2011	June 30, 2010
Funds flow from operations[1]	**52,107**	45,586	34,177	**97,692**	85,939
Net changes in operating working capital	**(3,012)**	1,206	(2,090)	**(1,806)**	5,515
Cash flow from operations	**49,095**	46,792	32,087	**95,886**	91,454
Net earnings (loss)	**7,872**	(211)	(2,664)	**7,661**	193,567
Dividends declared[2]	**12,172**	12,105	12,075	**24,275**	25,663
Dividends declared per share (in full amount)	**0.105**	0.105	0.105	**0.21**	0.225
Excess of cash flow from operations over dividends declared	**36,923**	34,687	20,012	**71,611**	65,791
Excess (Deficiency) of net earnings (loss) over dividends	**(4,300)**	(12,316)	(14,739)	**(16,614)**	167,904

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

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

Trilogy's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and debt repayments. To the extent that the excess of cash flow from operations over dividends is not sufficient to cover capital spending, the shortfall is funded by draw downs from Trilogy's credit facilities. Trilogy intends to provide dividends to Shareholders that are sustainable to the Company considering its liquidity and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Trilogy's payout ratio, calculated as the percentage of dividends declared over cash flow from operations, is 25 percent for the six months ended June 30, 2011 (28 percent for the six months ended June 30, 2010).

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

Capital Expenditures

(In thousand dollars)	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Land	**1,134**	36,298	540	**37,432**	1,156
Geological and geophysical	**110**	560	111	**670**	289
Drilling	**20,809**	79,260	5,475	**100,069**	50,468
Drilling incentive credits	**18**	1,500	(985)	**1,518**	(9,989)
Production equipment and facilities	**20,644**	18,208	18,686	**38,852**	34,155
	42,715	135,826	23,827	**178,541**	76,079
Proceeds received from property dispositions	**46**	(3,840)	8	**(3,794)**	8
Property acquisitions	**1,027**	511	-	**1,538**	-
Corporate assets	**81**	279	56	**360**	121
Net capital expenditures	**43,869**	132,776	23,891	**176,645**	76,208

Capital expenditures decreased in the quarter as compared to the previous quarters due to a reduction of activity during spring breakup and the absence of the prior quarter's substantial land purchases. Production equipment and facility work in the current quarter and year to date increased from prior periods in conjunction with building infrastructure, including batteries and gathering systems, to bring Montney oil on production.

Wells Drilled

	Three Months Ended				Six Months Ended			
(Number of wells)	June 30, 2011		June 30, 2010		June 30, 2011		June 30, 2010	
	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
Natural gas	**6**	**3.1**	**2**	**0.3**	**25**	**16.2**	21	16.4
Oil	**3**	**2.0**	**1**	**-**	**5**	**4.0**	2	0.5
Total	**9**	**5.1**	**3**	**0.3**	**30**	**20.2**	23	16.9

[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 $3.1 million in the current quarter and a year to date expense of $3.6 million. Refer to note 9 and 20 of Trilogy's interim consolidated financial statements in respect of additional comparative information regarding future tax expense and a related gain on conversion recorded in conjunction with the Conversion in the first half of 2010.

RELATED PARTY TRANSACTIONS

Trilogy had certain transactions with Paramount Resources, a wholly-owned subsidiary of Paramount Resources Ltd. which owns 21 percent of the equity in the Company. The amount of expenses billed and accrued in respect of services provided under a services agreement was $0.1 and $0.2 million for the three and six months ended June 30, 2011. The Company and Paramount also had transactions with each other arising from normal business activities.

OUTLOOK INFORMATION

Trilogy reaffirms its guidance for 2011 as follows:

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

QUARTERLY FINANCIAL INFORMATION

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

(In thousand dollars except per unit amounts)	Q2 2010	Q1 2010	Q4 2009[(1)]	Q3 2009[(1)]
Revenue after financial instruments, royalties and other income	58,167	88,339	64,911	47,790
Income (loss) before tax	(5,304)	170,116	(5,019)	(12,003)
Net income (loss)	(2,664)	196,231	(8,749)	(10,794)
Income (loss) per Share (in full amounts):				
Basic	(0.02)	1.74	(0. 08)	(0.11)
Diluted	(0.02)	1.73	(0. 08)	(0.11)

(1) Quarterly information as prepared under Canadian GAAP.

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

CRITICAL ACCOUNTING ESTIMATES

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

results could differ materially from these estimates under different assumptions or conditions. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements:

Reserves Estimation

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

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

Exploration and Evaluation Expenditures

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

Impairment of Non-financial Assets

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

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

Decommissioning and Restoration Costs

Decommissioning and restoration costs will be incurred by Trilogy at the end of the operating lives of Trilogy's oil and gas properties. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including assumptions in the cost of inflation, present value discount rates on future liabilities and changes to relevant legal

requirements and the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future results as disclosed in note 12.

Share-based Payments

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

Deferred Income Tax Assets

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

IFRS IMPLEMENTATION

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

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

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

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

A significant gain and related future tax recovery was recorded on Conversion under IFRS relative to the accounting for the Conversion under Canadian GAAP in the first quarter of 2010 (refer to notes 9 and 20 of the interim consolidated financial statements for further discussion). This

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

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

There were no material changes to Trilogy's financial reporting disclosure controls and procedures and internal controls over financial reporting for the three and six months ended June 30, 2011.

ADVISORIES

Certain statements included in this document (including this MD&A and the Review of Operations) constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "goal", "objective", "possible", "probable", "projected", "scheduled", or state that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to statements regarding: long-term supply of and demand for petroleum and natural gas; business strategy and objectives; statements regarding providing shareholder value; capital expenditures; future production levels; estimates of drilling prospect inventory and the risk and potential reserves associated therewith; development plans and the timing, cost and expected benefits thereof, including Trilogy's horizontal well program and associated technology, exploration and development of the Montney and Duvernay formations and other drilling, construction and facility expansion plans; the location, extent, geology and potential for development of the Kaybob area Montney oil pool and the nature of Trilogy's plans to further delineate and exploit this pool; potential application of drilling technologies to other areas and geological formations and projections as to potential reserves associated therewith; statements as to the prospective nature of Trilogy's lands including those lands acquired at the February 9, 2011 Alberta Crown land sale; expectations of Trilogy's management regarding the timing and expected benefits of its natural gas liquids recovery agreement with Aux Sable Canada LP including, without limitation, pricing, projected revenue to be received by Trilogy thereunder, the resultant cash flow, anticipated cost savings and future production levels under the agreement as well as the deferral of plans to construct a natural gas liquids extraction facility at the Kaybob North Sour Gas Plant, the time it would have taken to complete such facility, the value which would have been obtained therefrom and the costs which would have been attributable thereto; net revenue and cash flow; approach to and amount of dividends; operating and other costs; royalty rates; estimates of future tax amounts, tax assets and tax pools; applicability of income tax legislation and government incentive and royalty programs affecting Trilogy; expected counterparty risk; credit limits, the cost of borrowing and Trilogy's expectations regarding the term of its credit facility; pro-forma debt levels; projected results of hedging contracts and other financial instruments; and the expected impact of new accounting pronouncements. Statements regarding "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitable produced in the future.

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

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

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

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

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

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

Non-GAAP Measures

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

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

"Operating income" is equal to petroleum and natural gas sales before financial instruments and bad debt expenses minus royalties, operating costs, and transportation costs. "Operating netback" refers to petroleum and natural gas sales plus realized financial instrument gains and

losses and other income minus royalties, operating costs, transportation costs and actual decommissioning and restoration costs incurred in the year. "Net debt" is calculated as current liabilities minus current assets plus long-term debt. The components described for "operating income", "operating netback" and "net debt" can be derived directly from Trilogy's consolidated financial statements.

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

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

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

Numerical References

All references in this document are to Canadian Dollars unless otherwise indicated.

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

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

ADDITIONAL INFORMATION

Trilogy Energy Corp. is a petroleum and natural gas-focused Canadian energy corporation that actively acquires, develops, produces and sells natural gas, crude oil and natural gas liquids. Trilogy's geographically concentrated assets are primarily low-risk, high working interest, lower-decline properties that provide abundant infill drilling opportunities and good access to infrastructure and processing facilities, many of which are operated and controlled by Trilogy. Trilogy's common shares are listed on the Toronto Stock Exchange under the symbol "TET". Additional information about Trilogy, including Trilogy's Annual Information Form, is available at www.sedar.com or at Trilogy's website www.trilogyenergy.com.

TRILOGY ENERGY CORP.

Condensed Consolidated Interim Balance Sheet (unaudited)

(in thousand Canadian dollars)

	Note		June 30, 2011		December 31, 2010
ASSETS					
Current assets					
Trade and other receivables	*18*	$	**58,139**	$	50,837
Derivative financial instruments	*18, 19*		**1,390**		—
Prepaids			**3,495**		253
			63,024		51,090
Non-current assets					
Property, plant and equipment	*6, 8*		**782,234**		711,973
Exploration and evaluation assets	*7*		**98,372**		70,258
Goodwill			**140,471**		140,471
Deferred tax asset	*9*		**104,078**		107,656
Total assets		$	**1,188,179**	$	1,081,448
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	*18*	$	**78,794**	$	78,870
Dividend payable	*10, 18*		**4,058**		4,026
Derivative financial instruments	*18, 19*		**—**		690
			82,852		83,586
Non-current liabilities					
Long term debt	*11, 18*		**386,581**		279,599
Decommissioning and restoration liability	*12*		**181,742**		177,144
Total liabilities			**651,175**		540,329
Shareholders' equity					
Shareholders' capital	*14*		**873,665**		863,011
Contributed surplus			**17,658**		15,810
Accumulated deficit after dividends			**(354,319)**		(337,702)
			537,004		541,119
Total shareholders' equity and liabilities		$	**1,188,179**	$	1,081,448

See accompanying notes to the consolidated financial statements.

TRILOGY ENERGY CORP.

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

(in thousand Canadian dollars except per share amounts)

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2011	2010	**2011**	2010
Revenue and other					
Petroleum and natural gas sales		**$ 94,056**	$ 71,954	**$ 174,054**	$ 158,222
Royalties		**(10,227)**	(12,914)	**(16,201)**	(25,295)
Revenue		**83,829**	59,040	**157,853**	132,927
Other		**303**	(324)	**520**	153
Gain / (loss) on derivative financial instruments	*18, 19*	**4,946**	(549)	**1,583**	13,426
		89,078	58,167	**159,956**	146,506
Expenses					
Operating and production costs		**21,744**	19,111	**39,696**	37,730
Transportation		**2,760**	3,444	**5,468**	6,707
Depletion and depreciation	*6*	**40,885**	30,590	**72,862**	59,514
Exploration and evaluation expenditures	*7*	**2,148**	1,683	**8,270**	3,604
General and administrative expenses		**2,924**	3,463	**6,089**	8,536
Share-based compensation	*13*	**2,120**	1,104	**5,958**	2,561
		72,581	59,395	**138,343**	118,652
Operating (loss) earnings		**16,497**	(1,228)	**21,613**	27,854
Gain on conversion to a corporation	*9*	**—**	—	**—**	(146,053)
Accretion on decommissioning and restoration liability	*12*	**1,545**	1,522	**3,084**	3,027
Other finance costs	*11*	**3,975**	2,554	**7,290**	6,068
Net (loss) income before income tax		**10,977**	(5,304)	**11,239**	164,812
Income tax expense (recovery)					
Current		**—**	—	**—**	—
Deferred	*9*	**3,105**	(2,640)	**3,578**	(28,755)
Net income (loss) and comprehensive income (loss)		**$ 7,872**	$ (2,664)	**$ 7,661**	$ 193,567
Earnings per share	*15*				
- Basic		**$ 0.07**	$ (0.02)	**$ 0.07**	$ 1.70
- Diluted		**$ 0.07**	$ (0.02)	**$ 0.07**	$ 1.69

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP

Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

(In thousand Canadian dollars except share information)

	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 for the period	—		—		—		7,661		7,661
Other equity issances *(note 14)*	907,500		10,663		(1,687)		—		8,976
Dividends declared *(note 10)*	—		—		—		(24,278)		(24,278)
Share Incentive Plan purchases, net of grants vested *(note 14)*	126,667		(9)		(2,423)		—		(2,432)
Share-based compensation	—		—		5,958		—		5,958
Balance at June 30, 2011	**115,775,658**	**$**	**873,665**	**$**	**17,658**	**$**	**(354,319)**	**$**	**537,004**

	Six Months Ended June 30, 2010								
	Outstanding Common and Non-Voting Shares[1]		Share Capital		Contributed Surplus		Accumulated Deficit		Shareholders' Equity
Balance at January 1, 2010	110,238,903	$	824,273	$	4,918	$	(466,128)	$	363,063
Net income for the period	—		—		—		193,567		193,567
Conversion from a trust to a corporation *(note 14)*	4,219,653		36,141		8,228		—		44,369
Distribution reinvestment plan and other equity issuances *(note 10, 14)*	435,385		3,523		(87)		—		3,523
Dividends declared *(note 10)*	—		—		—		(25,663)		(25,663)
Normal course issuer bid *(note 14)*	(144,400)		(1,079)		(145)		—		(1,224)
Share Incentive Plan purchases net of grants vested *(note 14)*	(44,050)		(261)		(2,050)		—		(2,311)
Share-based compensation	—		—		2,557		—		2470
Balance at June 30, 2010	**114,705,491**	**$**	**862,597**	**$**	**13,421**	**$**	**(298,224)**	**$**	**577,794**

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

See accompanying notes to the consolidated financial statements

TRILOGY ENERGY CORP.

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

(In thousand Canadian dollars)

		Three Months Ended June 30		Six Months Ended June 30	
	Note	2011	2010	2011	2010
Operating activities					
Net income (loss) before income tax		**$ 10,977**	$ (5,304)	**$ 11,239**	$ 164,812
Adjustments for non-cash and other items:					
Gain on conversion to corporation	*9*	**—**	—	**—**	(146,053)
Unrealized (gain) losses of derivative financial instruments	*19*	**(4,960)**	3,937	**(1,867)**	(1,307)
Unrealized foreign exchange losses (gains) and other		**7**	886	**(415)**	753
Depletion and depreciation	*6*	**40,885**	30,590	**72,862**	59,514
Exploration and evaluation expenditures	*7*	**2,148**	1,683	**8,270**	3,604
Stock based compensation	*13*	**2,120**	1,104	**5,872**	2,557
Finance costs on decommissioning and restoration liability	*12*	**1,545**	1,522	**3,084**	3,027
Decommissioning and restoration costs		**(615)**	(241)	**(1,353)**	(968)
Net change in non-cash working capital	*16*	**(3,012)**	(2,090)	**(1,806)**	5,515
Net cash flow from operating activities		**49,095**	32,087	**95,886**	91,454
Investing activities					
Exploration and evaluation expenditures	*7*	**(2,843)**	(1,027)	**(54,266)**	(2,238)
Property, plant and equipment expenditures	*6*	**(39,952)**	(22,856)	**(124,635)**	(73,962)
Property acquisitions		**(1,021)**	—	**(1,533)**	—
Proceeds from disposition of property, plant and equipment	*6*	**(46)**	(8)	**3,794**	(8)
Net change in non-cash working capital	*16*	**(49,943)**	(19,068)	**(9,762)**	(2,153)
Net cash flow used in investing activities		**(93,805)**	(42,959)	**(186,402)**	(78,361)
Financing activities					
Proceeds on long-term debt	*11*	**51,060**	22,933	**108,130**	14,170
Purchase and cancellation of shares under normal course issuer bid	*14*	**—**	—	**—**	(1,225)
Dividends to Shareholders	*10*	**(12,153)**	(12,075)	**(24,245)**	(23,930)
Share incentive plan purchases	*13, 14*	**—**	—	**(2,432)**	(2,312)
Shares issued	*14*	**5,803**	14	**9,063**	204
Net cash flow used in financing activities		**44,710**	10,872	**90,516**	(13,093)
Change in cash		**—**	—	**—**	—
Cash interest and financing charges paid		**$ 5,028**	$ 2,226	**$ 8,236**	$ 6,803

See accompanying notes to the consolidated financial statements

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

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

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 – *Interim financial reporting ("IAS 34")* and IFRS 1 – *First time adoption of International Financial Reporting Standards ("IFRS 1")*. Subject to certain transition elections disclosed in note 20, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the periods presented herein. The impact on the Company's previously reported financial statements for the year ended December 31, 2010 and the opening balance sheet as at January 1, 2010 are disclosed in the Company's consolidated interim financial statements for the three-months ended March 31, 2011 (the "Unaudited Q1, 2011 Financial Statements").

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of August 2, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could

result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions concerning the future that may, by definition, differ from actual results. The 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; decommissiong and restoration costs, share-based payments; and deferred income taxes. 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 Unaudited Q1, 2011 Financial Statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the Unaudited Q1, 2011 Financial Statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements of the Company follow the same accounting policies and basis or presentation as the Unaudited Q1, 2011 Financial Statements. These interim financial statement note disclosures do not include all of those required by IFRS applicable for annual financial statements. Accordingly, these unaudited interim consolidated financial statements for the three and six months ended June 30, 2011 should be read in conjunction with the Unaudited Q1, 2011 Financial Statements.

5. CHANGES IN ACCOUNTING POLICIES

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

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

IFRS 9, as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 9 is not expected to have a significant impact on the financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements ("IFRS 10"); IFRS 11, Joint Arrangements ("IFRS 11"); IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"); IAS 27, Separate Financial Statements ("IAS 27"); IFRS 13, Fair Value Measurement ("IFRS 13"); and, amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). The following provides a summary of selected standards:

IFRS 10

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 - Consolidation-Special Purpose Entities and parts of IAS 27 - Consolidated and Separate Financial Statements.

IFRS 11

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31 - Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities, Non-Monetary Contributions by Venturers.

IFRS 12

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and in many cases does not reflect a clear measurement basis or consistent disclosures.

Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact, if any, that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

6. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost:			
Balance at January 1, 2010	1,563,777	9,412	1,573,189
Additions	172,677	165	172,842
Transfers from intangible exploration and evaluation assets	8,219	—	8,219
Acquisitions	359	—	359
Disposals	(432)	—	(432)
Balance at December 31, 2010	1,744,600	9,577	1,754,177
Additions	126,433	399	126,832
Transfers from intangible exploration and evaluation assets	18,552	—	18,552
Acquisitions	1,533	—	1,533
Disposals	(500)	—	(500)
Balance at June 30, 2011	**1,890,618**	**9,976**	**1,900,594**

	Oil and Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at January 1, 2010	906,261	4,984	911,245
Depletion and depreciation charge	118,923	1,266	120,189
Impairment charge, net of reversals	11,145	—	11,145
Disposals	(375)	—	(375)
Balance at December 31, 2010	1,035,954	6,250	1,042,204
Depletion and depreciation charge	72,089	773	72,862
Impairment charge, net of reversals	—	—	—
Disposals	3,294	—	3,294
Balance at June 30, 2011	**1,111,337**	**7,023**	**1,118,360**
Net carrying value			
At January 1, 2010	657,516	4,428	661,944
At December 31, 2010	708,646	3,327	711,973
At June 30, 2011	**779,281**	**2,953**	**782,234**

The cost of additions, acquisitions and disposals of oil and gas property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations on such assets and dispositions. Trilogy's cost of property, plant and equipment as at June 30, 2011 includes amounts totalling $152 million in respect of decommissioning and restoration obligations (December 31, 2010 $149 million).

Property, plant and equipment with a carrying value of $25.8 million as at June 30, 2011 (December 31, 2010: $11.6 million) include development assets under construction and tangibile 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 AND OTHER INTANGIBLE ASSETS

	Exploration and Evaluation Expenditures
Cost	
Balance at January 1, 2010	72,564
Additions	14,167
Expensed	(8,254)
Transfers to property, plant and equipment	(8,219)
Balance at December 31, 2010	70,258
Additions	54,266
Expensed	(7,600)
Transfers to property, plant and equipment	(18,552)
Balance at June 30, 2011	98,372

Exploration and evaluation expenditures on the statement of comprehensive income for the three and six months ended June 30, 2011 include costs associated with geological and geophysical costs of $0.1 and $0.7 million which are immediately expensed and not reflected in the expensed amounts above.

8. IMPAIRMENT LOSS/ (RECOVERY)

	Six months-ended June 30, 2011	Twelve months-ended December 31, 2010
Impairment Losses		
Property, plant and equipment	—	11,145
Reversal of Previously Booked Impairments		
Property, plant and equipment	—	—
Total impairment losses (recovery)	—	11,145

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

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

9. INCOME TAX

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

Description of Temporary Differences	June 30, 2011	December 31, 2010
Property, plant and equipment	**(113,714)**	(109,178)
Asset retirement obligation	**45,436**	44,285
Loss carry forwards and other	**172,356**	172,549
Net future income tax asset	**104,078**	107,656

As discussed in note 1, the Trust converted to a corporation by way of a plan of arrangement and related transactions with a private company effective February 5, 2010. In conjunction with the arrangement, Trilogy recorded a future tax asset of $182.2 million and an increase in share capital of $36.1 million related to the fair value of the 4,219,653 common shares issued in conjunction with the Conversion. The $146.1 million excess of amounts assigned to the future tax asset, measured on an undiscounted basis, over the consideration provided was recorded as a gain in the statement of comprehensive income.

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

Trilogy has tax losses of $685 million that are available for carry forward against future taxable income of the entities in which the losses arose. Deferred tax assets are recognized for the carry-forward of unused tax losses to the extent that it is probable that taxable profits will be available against which the unused tax losses can be utilized.

10. DIVIDENDS PAYABLE

Dividends declared were $0.105 and $0.21per share for the three and six months ended June 30, 2011($0.105 and $0.225 for the same periods in 2010, respectively). Dividends payable were $4.1 million ($0.035 per share) as at June 30, 2011 (December 31, 2010: $4.0 million or $0.035 per share).

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

11. LONG-TERM DEBT

	June 30, 2011	December 31, 2010
Revolving credit and working capital facility, net of unamortized financing costs	**387,572**	280,303
Less unamortized discount of interest on borrowings	**(991)**	(704)
Carrying value of long term debt	**386,581**	279,599

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

- Total commitments under the New Facility increased to $470 million (previously $390 million), consisting of a $35 million working capital, a $385 million revolving, and a non-revolving $50 million development tranche.
- A maturity date of April 30, 2014 in respect of the working capital and revolving tranche and August 31, 2012 in respect of the non-revolving development tranche.
- Proceeds from the $50 million development tranche will be used exclusively for the development of Trilogy's Montney oil play in the Kaybob area of Alberta.
- The working capital and revolving tranche are subject to semi-annual borrowing base reviews and borrowings from these tranches can be used to repay amounts borrowed under the development tranche.

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

The Company has undrawn letters of credit totalling $8.5 million as at June 30, 2011 (December 31, 2010: $8.4 million). These letters of credit reduce the amount available for draw under the Company's working capital tranche.

12. DECOMMISSIONING AND RESTORATION LIABILITY

	Six months-ended June 30,2011	Twelve months-ended December 31, 2010
Decommissioning and restoration obligation		
Balance - beginning of period	**177,144**	150,331
Liabilities incurred	**2,867**	22,396
Liabilities settled	**(1,353)**	(1,717)
Finance cost expense for accretion	**3,084**	6,134
Balance – end of period	**181,742**	177,144

The Company has estimated the undiscounted value of the decommissioning and restoration obligation to be $196.5 million as at June 30, 2011 (December 31, 2010: $193.4 million). Settlement of this obligation is expected to be paid after 10 to 30 years and will be funded from the general resources of the Company.

13. SHARE-BASED PAYMENT PLANS

The expense recognized for employee services received during the six months ended June 30 is shown in the following table:

	2011	2010
Expense arising from:		
Share Option Plan	**2,254**	1,615
Share Incentive Plan	**3,704**	946
Total expense arising from share-based payment transactions	**5,958**	2,561

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

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

	June 30, 2011		December 31, 2010	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at January 1	**$9.11**	**5,870,000**	$8.16	4,627,500
Granted [1]	—	—	12.05	1,540,000
Exercised	**10.07**	**(993,500)**	9.65	(221,000)
Forfeited and Expired	**8.92**	**(62,000)**	8.82	(76,500)
Outstanding at period end[2,3]	**$8.91**	**4,814,500**	$9.11	5,870,000
Exercisable at period end	**$6.78**	**830,500**	$8.56	1,799,000

[1]The weighted average fair value of options granted during the period was $NIL per option (December 31, 2010: $3.97 per option)

[2]The weighted average remaining contractual life for options outstanding at the end of the period was 3.2 years (December 31, 2010: 3.2 years)

[3]The range of exercise prices for options outstanding at the end of the period was $4.85 to $12.88 (December 31, 2010: $4.85 to $12.88).

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

14. ISSUED CAPITAL

Authorized

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

Issued and Outstanding and Fully Paid

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

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

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

The following provides a continuity of outstanding share capital from the Conversion date on February 5, 2010 through to June 30, 2011:

	Common Shares	Non-Voting Shares	Total	Amount
February 5, 2010 - Shares outstanding in private corporation	4,219,653	—	4,219,653	$ 36,141
Conversion – Effected through Plan of Arrangement	79,409,726	30,835,862	110,245,588	824,280
Vesting of Share Incentive Plan awards	227,250	—	227,250	2,050
Issued - Share Option Plan	49,000	—	49,000	540
Common Shares and Non-Voting Shares as at December 31, 2010	83,905,629	30,835,862	114,741,491	$ 863,011
Issued - Share Option Plan	**907,500**	**—**	**907,500**	**10,663**
Share Incentive Plan purchases	**(165,000)**	**—**	**(165,000)**	**(2,432)**
Vesting of Share Incentive Plan awards	**291,667**		**291,667**	**2,423**
Common Shares and Non-Voting Shares as at June 30, 2011	**84,939,796**	**30,835,862**	**115,775,658**	**873,665**

168,814 and 295,364 Common Shares were held in trust for the benefit of Trilogy employees under the Company's Share Incentive Plan as at June 30, 2011 and December 31, 2010, respectively. The cost to the Company of the Common Shares held in trust as at both June 30, 2011 and December

31, 2010 was $2.5 million, and was recorded as a reduction to Common Shares outstanding and shareholder capital. Conversely, the vesting of Share Incentive Plan awards increase Common Shares outstanding and shareholder capital, respectively.

15. EARNINGS PER SHARE

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

Basic and Diluted Earnings per Share

	June 30, 2011		June 30, 2010	
	Three months ended	Six months ended	Three months ended	Six months ended
Net earnings used in the calculation of total basic and diluted earnings per share	**7,872**	**7,661**	(2,664)	193,567
Weighted average number of Shares for the purposes of basic earnings per share	**115,451,477**	**115,192,510**	114,570,892	113,732,552
Share based compensation awards	**4,983,314**	**4,983,314**	3,289,364	3,289,364
Effect of dilution	**(2,179,441)**	**(2,493,960)**	(2,779,608)	(2,817,887)
Weighted average number of Shares for diluted earnings per Share	**118,255,350**	**117,681,864**	115,080,648	114,204,029
Earnings per share – Basic	**0.07**	**0.07**	(0.02)	1.70
Earnings per share – diluted	**0.07**	**0.07**	(0.02)	1.69

16. RECONCILIATION OF CHANGES IN NON-CASH WORKING CAPITAL

	June 30, 2011		June 30, 2010	
	Three months ended	Six months ended	Three months ended	Six months ended
Decrease (increase) in trade and other receivables	**(13,360)**	**(10,544)**	4,227	4,625
Increase (decrease) in trade, other payables and dividends payable	**(39,595)**	**(1,024)**	(25,385)	(1,263)
	(52,955)	**(11,568)**	(21,158)	3,362
Changes in non-cash operating working capital	**(3,012)**	**(1,806)**	(2,090)	5,515
Changes in non-cash investing working capital	**(49,943)**	**(9,762)**	(19,068)	(2,153)

17. RELATED PARTY TRANSACTIONS

Transactions with an entity having significant influence over Trilogy

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

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

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

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

June 30, 2011 Presented in the Balance Sheet as	Normal Business	Services Agreement	Dividend
Trade and other receivables	1,566	—	—
Trade and other payables	(234)	(60)	—
Dividends payable	—	—	(845)

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

18. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

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

Credit Risk

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

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

	Carrying Amount	
	June 30, 2011	**December 31, 2010**
Trade and other receivables	**$58,139**	$50,837
Derivatives Financial Instruments[1]	**1,390**	—
	$59,529	$50,837

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

Liquidity Risk

Trilogy's principal sources of liquidity are its cash flow from operations and its existing credit facility. The variability of market benchmarks as noted below provides uncertainty as to the level of Trilogy's cash flow from operations. As a result, Trilogy may adjust the levels of dividends declared to Shareholders and capital spending to maintain its liquidity. A contractual maturity analysis for Trilogy's financial liabilities as at June 30, 2011 is as follows:

	Within 1 Year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued liabilities	$78,794	—	—	$78,794
Dividends payable	4,058	—	—	4,058
Long-term debt and estimated interest[1]	15,115	429,509	—	444,624
Total	$97,967	$429,509	—	$527,476

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

Commodity Price Risk

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

To protect cash flow against commodity price volatility, Trilogy uses from time to time derivative commodity price contracts that require financial settlement between counterparties. This financial instrument program is generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production (see note 19 for details of outstanding financial instruments as at June 30, 2011).

Interest Rate Risk

As described in note 11, Trilogy's credit facility is subject to floating interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The interest rate margin is determined by the lenders based on their periodic review of the Company's results and is generally dependent upon Trilogy's debt to cash flow ratio as defined in the credit facility agreement, which may also be impacted by commodity price and capital expenditure volatility.

Borrowings on Trilogy's credit facility is primarily in the form of bankers' acceptances with fixed terms ranging from 10 to 180 days which are then rolled-over if not repaid on their due dates. Trilogy may enter into interest rate derivative contracts to mitigate the impact of interest rate fluctuations. There are no interest rate swap contracts outstanding at June 30, 2011.

Foreign Currency Risk

Foreign currency rate fluctuations may impact the Company mainly due to the outstanding U.S. Dollar denominated financial instrument contracts, in addition to normal conversions of U.S. dollar denominated revenues into the Canadian dollar. Approximately 14 percent of Trilogy's petroleum and natural gas sales for the six months ended June 30, 2011 were denominated in the U.S. dollars. Trilogy may enter into derivative currency contracts to mitigate the impact of foreign currency fluctuations.

Capital Management

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

The objectives in managing the capital structure are to:

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

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

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

	June 30, 2011	December 31, 2010
Committed amount that can be drawn from credit facility (see note 11)	470,000	390,000
Outstanding undrawn letters of credit	(8,460)	(8,408)
Amount that can be drawn after letters of credit	461,540	381,592
Long-term debt	(386,581)	(279,599)
Net current liabilities (working capital)	(19,828)	(32,496)
Net debt[1]	(406,409)	(312,095)

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

The increase in net debt to June 30, 2011 can be attributed to the significant capital expenditures incurred in the first half of the year relative to cash flow from operations for the same period.

19. FINANCIAL INSTRUMENTS

Carrying Values

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

	As at June 30, 2011	As at December 31, 2010
Financial assets		
Receivables[1]	58,139	50,837
Financial instruments held-for-trading[2]	1,390	—
Financial liabilities		
Other liabilities - non-trading liabilities[1] [3]	(82,852)	(82,896)
Financial instruments held-for-trading[2]	—	(690)
Other liabilities - long-term debt[4]	(386,581)	(279,599)

[1] Carried at cost which approximates the fair value of the assets or liabilities due to the short-term nature of the accounts.
[2] Carried at the estimated fair value of the related financial instruments based on third party quotations. See Forward Contracts below.
[3] Consists of accounts payable and accrued liabilities, dividends payable.
[4] Carried at amortized cost which approximates the fair value of the liability.

The three levels of the fair value hierarchy are:

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

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

December 31, 2010

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

June 30, 2011

	Financial assets (liabilities) – fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
Foreign exchange derivative contracts	**—**	**107**	**—**	**107**
Crude oil derivative pricing contracts	**—**	**1,283**	**—**	**1,283**
		1,390		**1,390**

Commodity Contracts

At June 30, 2011, the Company had the following outstanding derivative commodity sales contracts (also see note 18):

Description	Quantity	Price	Term
Crude oil forward sale contracts	1,500 Bbl/d	$99.22 USD/Bbl	July – December 2011
Crude oil forward sale contract	500 Bbl/d	$101.07 USD/Bbl	July – May,2012
Crude oil price collar contract	500 Bbl/d	$85 to $116.50 USD/Bbl	July 2011 – May 2012

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

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

20. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements under IFRS. These interim financial statements were prepared as described in Note 2, including the application of IFRS 1. Prior to the adoption of IFRS, the Company followed Canadian GAAP. A reconciliation of the impact to equity between Caandain GAAP and IFRS as at June 30 and December 31, 2010 is provided herein.

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

The Company has applied the optional exemptions:

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

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

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

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

Reconciliation of Equity

		December 31, 2010			June 30, 2010		
	Note	Cdn GAAP	IFRS Adj	IFRS	Cdn GAAP	IFRS Adj	IFRS
ASSETS							
Current Assets							
Trade and other receivables		50,837	—	50,837	41,433	—	41,433
Derivative financial instruments		—	—	—	4,089	—	4,089
Prepaid expenses	*E*	734	(481)	253	5,991	(1,013)	4,978
		51,571	(481)	51,090	51,513	(1,013)	50,500
Non-current Assets							
Property, plant and equipment	*B, C*	721,652	(9,679)	711,973	704,960	(20,380)	684,580
Intangible exploration and evaluation assets	*C*	—	70,258	70,258	—	64,672	64,672
Goodwill		140,471	—	140,471	140,471	—	140,471
Deferred tax asset	*D*	98,342	9,314	107,656	96,023	7,769	103,792
		960,465	69,893	1,030,358	941,454	52,061	993,515
Total Assets		1,012,036	69,412	1,081,448	992,967	51,048	1,044,015
EQUITY AND LIABILITIES							
Current Liabilities							
Trade and other payables	*E*	79,391	(521)	78,870	56,648	127	56,775
Dividend payable		4,026	—	4,026	4,025	—	4,025
Derivative financial instruments		690	—	690	720	—	720
		84,107	(521)	83,586	61,393	127	61,520
Non-current Liabilities							
Long-term debt		279,599	—	279,599	250,651	—	250,651
Decommissioning and restoration liability	*B*	77,525	99,619	177,144	78,072	75,978	154,050
Deferred credit	*D*	136,241	(136,241)	—	137,738	(137,738)	—
		493,365	(36,622)	456,743	466,461	(61,760)	404,701
Total Liabilities		577,472	(37,143)	540,329	527,854	(61,633)	466,221
Shareholders' Equity							
Shareholders' capital	*E*	864,758	(1,747)	863,011	864,344	(1,747)	862,597
Contributed surplus	*A, E*	11,587	4,223	15,810	10,880	2,541	13,421
Accumulated deficit after dividends		(441,781)	104,079	(337,702)	(410,111)	111,887	(298,224)
		434,564	106,555	541,119	465,113	112,681	577,794
Total Shareholders' Equity and Liabilities		1,012,036	69,412	1,081,448	992,967	51,048	1,044,015

Reconciliation of comprehensive income

	Note	Three months ended June 30, 2010			Six months ended June 30, 2010		
Revenue and Other		**Cdn GAAP**	**IFRS Adj**	**IFRS**	**Cdn GAAP**	**IFRS Adj**	**IFRS**
Petroleum and natural gas sales		71,954	—	71,954	158,222	—	158,222
Royalties		(12,914)	—	(12,914)	(25,295)	—	(25,295)
Revenue		59,040	—	59,040	132,927	—	132,927
Other		(324)	—	(324)	153	—	153
Realized gain/ (loss) on derivative financial instruments		3,388	—	3,388	12,119	—	12,119
Unrealized gain/ (loss) on derivative financial instruments		(3,937)	—	(3,937)	1,307	—	1,307
		58,167	—	58,167	146,506	—	146,506
Expenses							
Operating costs		19,111	—	19,111	37,730	—	37,730
Transportation		3,444	—	3,444	6,707	—	6,707
General and administrative expenses	*A*	3,744	(289)	3,455	9,474	(946)	8,528
Share-based compensation	*A*	471	633	1,104	865	1,696	2,561
Exploration and evaluation expenditures	*C*	113	1,570	1,683	830	2,774	3,604
Depletion and depreciation	*B C*	29,992	598	30,590	57,925	1,589	59,514
Other gains / (losses)		8	—	8	8	—	8
		56,883	2,512	59,395	113,539	5,113	118,652
Operating earnings (loss)		1,284	(2,512)	(1,228)	32,967	(5,113)	27,854
Gain on conversion to corporation	*D*	—	—	—	—	(146,053)	(146,053)
Accretion on decommissioning and restoration liability	*B*	1,461	61	1,522	2,906	121	3,027
Finance costs		2,554	—	2,554	6,068	—	6,068
Net (loss) Earnings before income tax		(2,731)	(2,573)	(5,304)	23,993	140,819	164,812
Income tax expense (recovery)							
Current		—	—	—	—	—	—
Deferred	*D*	(4,288)	1,648	(2,640)	7,044	(35,799)	(28,755)
Net income (loss) and comprehensive income		1,557	(4,221)	(2,664)	16,949	176,618	193,567

Notes to the Reconciliation of Equity and Comprehensive Income.

The impact on the Company's previously reported financial statements for the year ended December 31, 2010 and the opening balance sheet as at January 1, 2010 is disclosed in the Company's Unaudited Q1, 2011 Financial Statements. The following provides a summary of significant adjustments to shareholder's equity as at December 31, 2010 and to comprehensive income for the three and six months ended June 30, 2010:

A. Share Based Compensation - Share incentive plan and share option plan

Trilogy recorded an increase to share based compensation expense of $1.7 million for the six-month period ended June 30, 2010 under IFRS relative to Canadian GAAP. $0.7 million of this amount related to increased amortization on Trilogy's share option plan pursant to the remeasurement of such awards on Conversion to a corporation. An additional $1.0 million was reclassified to share based compensation from general and administrative expenses in respect of amounts amortized to income under Trilogy's share incentive plan.

B. Decommissioning and restoration liability

Under Canadian GAAP, Trilogy utilized a credit adjusted interest rate in calculating the net present value of cash outflows expected to arise from future decommissioning and reclamation activities. Under IFRS, Trilogy utilizes a reduced discount rate reflective of a long-term risk-free rate of which the maturity date approximates the anticipated timing of the underlying liability settlement dates. The reduced rate resulted in an increase to Trilogy's decommissioning and restoration liability of $99.6 million as at December 31, 2010 (June 30, 2010: $76.0 million) with a corresponding increase to property plant and equipment of $62.7 million (June 30, 2010: $44.3 million) for the amortized value of the related asset. A related increase in depletion and depreciation expense was recorded to amortize the additional property, plant and equipment amount recorded above for the three and six months ended June 30, 2010. Additonally, an increase was recorded to the accretion expense on the liability for these same periods.

C. *Exploration and Evaluation Assets*

Trilogy recorded a reduction of $70.3 million to its property plant and equipment as at December 31, 2010 with a corresponding increase to exploration and evaluation assets in respect of its undeveloped land and costs associated with its exploration and evaluation activities (June 30, 2010 - $64.7 million).

Costs of $2.8 million for the six months ended June 30, 2010 ($1.5 million for the three months then ended) associated with the expiry of undeveloped lands have been reclassified from depletion and depreciation to exploration and evaluation expenditures.

An additional impairment of $2.2 million was recorded under IFRS as at December 31, 2010. IFRS has specific provisions in calculating a recoverable amount which resulted in differences in calculations of net future cash flows under Canadian GAAP and IFRS.

D. Deferred income taxes and Gain on conversion to corporation

As discussed in note 1, the Company converted to a corporation by way of a plan of arrangement and related transactions with a private company. Under Canadian GAAP, in accordance with EIC 110 - "Accounting for acquired future tax benefits in certain purchase

transactions which are not business combinations" and in conjunction with the Conversion, Trilogy recorded a future tax asset of $182.2 million and an increase in share capital of $36.1 million in respect of the 4,219,653 common shares issued in conjunction with the Conversion. Under EIC 110, the excess of amounts assigned to the future tax asset recorded on the acquisition over the consideration provided was recorded separately as a deferred credit ($146.1 million recorded on Conversion, $137.7 million as at June 30, 2010 and $136.2 million as at December 31, 2010). Under IFRS, the excess amount of $146.1 million has been recognized directly as a gain in the statement of comprehensive income on Conversion as reflected for the six months ended June 30, 2010.

Under Canadian GAAP, temporary differences between Trilogy's book and tax basis were recorded calculated at a corporate rate of approximately 25%. Under IFRS, the temporary differences of Trilogy as a trust prior to the Conversion were considered undistributed income and measured at the highest Alberta individual tax rate of 39%. In conjunction with the Conversion to a corporation, Trilogy re-measured all temporary differences back to a corporate rate of approximately 25%, resulting in a deferred tax recovery as reflected for the six months ended June 30, 2010.

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

E. Reclassifications

Amounts recorded in conjunction with Trilogy's share incentive plan were reclassified to contributed surplus and share capital, as applicable, in accordance with IFRS 2 – Share Based Compensation. Under IFRS, shares held for the benefit of Trilogy's officers and employees are reflected as a reduction of Trilogy's share capital outstanding and the grant date fair value of the awards are amortized to contributed surplus as the awards vest. Vested awards subsequently increase share capital with a corresponding decrease to contributed surplus.

F. Cash flow statement

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

CORPORATE INFORMATION

OFFICERS

J.H.T. Riddell
Chief Executive Officer

J.B. Williams
President and Chief Operating Officer

M.G. Kohut
Chief Financial Officer

G.L. Yester
General Counsel & Corporate Secretary

DIRECTORS

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

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

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

D.A. Garner (2)(4)
Independent Businessman
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W.A. Gobert (1)(3)
Independent Businessman
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R.M. MacDonald (2)(3)(5)
Independent Businessman and Corporate Director
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Counsel to Heenan Blaikie LLP
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D.F. Textor (1)
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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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CONSULTING ENGINEERS

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REGISTRAR AND TRANSFER AGENT

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange - "TET"