



2010 ANNUAL REPORT

“OUR ASSETS DICTATE OUR STRATEGY”

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FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

	Three Months Ended			Years Ended December 31		
	Dec. 31, 2010	Sept. 30, 2010	Change %	2010	2009	Change %
FINANCIAL						
Petroleum and natural gas sales	67,033	65,586	2	290,841	236,079	23
Funds flow						
From operations ⁽¹⁾	33,975	32,428	5	151,394	112,477	35
Per share – diluted	0.29	0.28	4	1.32	1.12	18
Earnings						
(Loss) earnings before tax	(4,349)	(6,984)	(38)	12,659	(39,254)	132
Per share – diluted	(0.04)	(0.06)	(33)	0.11	(0.39)	128
Earnings (loss) after future income tax	(3,563)	(3,954)	(10)	9,432	(33,362)	128
Per share – diluted	(0.03)	(0.03)	—	0.08	(0.33)	124
Dividends declared	12,077	12,075	—	49,816	60,205	(17)
Per share	0.105	0.105	—	0.435	0.60	(28)
Capital expenditures						
Exploration and development	46,286	43,199	7	165,564	89,509	85
Acquisitions, (dispositions) and other - net	15	334	(96)	478	(42)	1,238
Net capital expenditures	46,301	43,533	6	166,042	89,467	86
Total assets	1,012,036	993,434	2	1,012,036	893,193	13
Net debt ⁽¹⁾	312,135	285,713	9	312,135	246,427	27
Shareholders' equity	434,564	449,602	(3)	434,564	434,612	—
Shares outstanding (thousands) ⁽³⁾						
- As at end of period	115,037	115,013	—	115,037	110,490	4
OPERATING						
Production						
Natural gas (MMcf/d)	101	109	(7)	109	93	17
Crude oil and natural gas liquids (Bbl/d)	4,666	4,279	9	4,642	4,237	10
Total production (Boe/d @ 6:1)	21,544	22,462	(4)	22,788	19,780	15
Average prices						
Natural gas (before financial instruments) (\$/Mcf)	3.82	3.97	(4)	4.35	4.33	—
Natural gas (\$/Mcf) ⁽²⁾	3.96	4.33	(9)	4.79	5.25	(9)
Crude oil and natural gas liquids (before financial instruments) (\$/Bbl)	73.24	65.40	12	69.51	57.37	21
Crude oil and natural gas liquids (\$/Bbl) ⁽²⁾	73.24	65.40	12	69.51	57.34	21
Drilling activity (gross)						
Gas	12	12	—	45	26	73
Oil	2	6	(67)	11	3	267
Total wells	14	18	(22)	56	29	93
Success rate	100%	100%	—	100%	100%	—

⁽¹⁾ Funds flow from operations and net debt are non-GAAP terms. Funds flow from operations represents cash flow from operating activities before net changes in operating working capital accounts. Net debt is equal to long-term debt plus/minus working capital. Please refer to the advisory on Non-GAAP measures below.

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

⁽³⁾ Comprised of 84,201,110 Common Shares and 30,835,862 Non-Voting Shares.



Message to Shareholders

Trilogy has just completed an exciting transitional year for the Company. In 2010, we converted from an energy trust to a corporation, completed a successful drilling program utilizing horizontal multi-stage fracture technology, and constructed and commissioned into service our Presley Pipeline and Kaybob North Sour Gas Plant expansion projects. In early 2011, Trilogy further capitalized on the new Presley Pipeline by entering into a strategic agreement with Aux Sable Canada LP to capture additional value from the liquids-rich natural gas produced in the Presley and Kaybob North areas and have commenced an aggressive horizontal drilling program to further increase production in 2011, including an exciting new Montney oil discovery at Kaybob.

In February of 2010, Trilogy completed its conversion from an energy trust to a growth oriented corporation and implemented a strategy of continuing to pay a meaningful dividend while at the same time growing the Company's reserves and production base. 2010 marked a very successful first step in the strategy.

During 2010, Trilogy produced 22,788 Boe/d versus initial guidance of 22,000 Boe/d. Trilogy was able to produce these reserves at a cost of \$8.49/Boe as compared to initial guidance of \$11.50/Boe, marking a substantial improvement in our cost structure. Trilogy spent \$134.0 million on its exploration and development program as compared to its initial \$120 million budget, the increase being largely a result of participating in unbudgeted third-party opportunities. Trilogy also spent \$31.5 million completing the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects during the year. Trilogy generated cash flow from operations of \$162.7 million as compared to \$120.4 million in 2009, a 35% increase year over year. Trilogy also declared \$49.8 million in dividends in 2010. Net debt increased to \$312 million at year end 2010 versus \$246 million at year end 2009.

After considerable delays in obtaining regulatory approval for the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects, Trilogy was able to complete the projects and bring the new facilities on stream in October 2010. The projects included the construction of a 12 inch, 53 km pipeline with initial capacity of approximately 100 MMcf/d, connecting Trilogy's Montney production in the Presley area to the Kaybob North Sour Gas Plant. The project also included upgrading the Plant to handle an additional 50 MMcf/d of sour gas volumes, implementing an acid gas disposal scheme and installing an acid gas disposal well. As a result of the regulatory delays which pushed us into more expensive summer construction, the entire project had a final cost of \$46.8 million as compared to the initial \$38 million estimate. However, these additional costs were more than offset by the reduction in operating costs once the projects were operational in October 2010 versus waiting for winter construction and potentially not completing the projects until mid 2011. The projects were designed to generate operating cost savings of over \$1 million per month. However, they also provided the opportunity to capitalize on the natural gas liquids in our liquids-rich gas stream at Kaybob, which resulted in the recently announced agreement with Aux Sable Canada LP.

As a result of the Presley Pipeline and newly expanded Kaybob North Sour Gas Plant bringing a large volume of liquids-rich natural gas to the Plant, Trilogy evaluated building a deep-cut natural gas liquids extraction facility at the Plant in order to maximize the recovery of liquids from our gas stream. Immediately prior to Trilogy placing the orders for the equipment necessary to construct the deep-cut facility, Trilogy negotiated an agreement with Aux Sable pursuant to which Trilogy will capture additional value from our natural gas liquids without completing the construction of our own deep-cut facility. Trilogy believes that the Aux Sable agreement achieves at least the same net present value as if we constructed our own deep-cut facility and

provides for further balance sheet opportunities. Over the next 24 months, we expect to cash flow over \$45 million and have eliminated the \$55 million capital requirement to construct our own facility; this estimated \$100 million of additional balance sheet capacity can be directed towards increasing reserves and production for the Company.

Through its 2010 capital expenditure program, Trilogy was able to add 13.1 million Boe of proved reserves and 14.4 million Boe of proved plus probable reserves, inclusive of technical revisions. This represented a replacement of 158% of proved reserves and 173% of proved plus probable reserves based on 8.3 million barrels of production in 2010. Trilogy was able to add these reserves at a very low finding and development cost of \$10.09/Boe on a proved basis, and \$9.45/Boe on proved plus probable basis excluding costs in respect of Trilogy's Presley Pipeline and Kaybob Gas Plant expansion projects. Trilogy continues to be an industry leader in this category, as the majority of Trilogy's 2011 drilling program is focused on continuing to exploit its Montney horizontal development at Presley as well as continued infill programs within its Kaybob regional Gething down-spacing play.

Trilogy was also able to test a number of different opportunities utilizing new horizontal multi-stage fracturing technology with some encouraging results. Trilogy participated in the first horizontal Duvernay Formation test. A follow-up location is currently awaiting completion by means of an improved completion program, which is expected to generate better results. In addition, Trilogy was able to achieve horizontal drilling success in the Bluesky, Spirit River and Wilrich Formations at Pine Creek.

Trilogy was also successful in testing a new horizontal Montney oil play at Kaybob, with very significant results. An initial well drilled in the fourth quarter of 2010 tested at approximately 1,800 bbl/d of oil with associated natural gas. A second well was immediately drilled into a significant Alberta Crown land posting with an even better initial test rate of 3,000 Bbl/d in early February 2011. Trilogy was then successful in acquiring what we believe to be virtually all of the remaining lands on the play at the February 9, 2011 Alberta Crown land sale. Trilogy expects to aggressively develop this pool through the remainder of 2011.

Trilogy has provided 2011 guidance, forecasting a 15% increase in production to 26,500 Boe/d based on a capital expenditure budget of \$130 million (excluding the recent land sale expenditure), with operating costs of \$8.50/Boe. Consistent with our strategy of increasing production and reserves while paying our shareholders a substantial dividend from internally generated cash flow, the aggregate of our 2011 capital budget and projected dividends of approximately \$50 million is expected to be less than anticipated annual cash flow. Any excess cash flow will be used to pay down our long-term debt. Further guidance will be provided at a later date as Trilogy is in the process of refining the exploitation strategy of its new Montney horizontal oil play in light of the successful initial Montney oil tests at Kaybob and the related acquisition of lands in this area.

The business environment in which Trilogy operates has changed dramatically in the last few years. New technologies have provided seemingly unlimited opportunities to produce natural gas and it now appears to be only the best, lowest-cost opportunities that may be pursued in the resulting price environment. Trilogy believes it is fortunate to have captured and to control some of the best and most economic natural gas prospects available in North America. Prices for oil have behaved much differently than those for natural gas, with a tightening supply demand balance and geopolitical pressures increasing crude oil market prices to almost \$100/Bbl at the time of writing. Strong liquids prices will benefit Trilogy greatly with its growing natural gas liquids production, the newly signed Aux Sable deal and the new Montney oil development. We expect that the large disparity between gas prices and oil prices will subside

with time as end-users capitalize on the low cost of natural gas, thereby increasing the demand for gas at the expense of oil and coal. This demand-based recovery will take time however Trilogly is confident that it can capitalize on its opportunities and generate high margins and returns on its invested capital in the current price environment and should prices improve, this will only serve to further Trilogly's competitive advantage.

Trilogly looks forward to delivering on its goals in 2011. We have set aggressive goals of growing production by 15% and continuing to pay a substantial dividend. We look forward to positive results from our two large new resource plays in the Duvernay Formation and the Montney oil, as well as continuing to develop our high rate Montney gas wells at Presley, where continued success will only serve to further the large inventory of low-cost opportunities which Trilogly holds.

Yours truly,

/s/ James H.T. Riddell

Jim Riddell
Chief Executive Officer
Trilogly Energy Corp.

REVIEW OF OPERATIONS



First Quarter Review

- Average production 23,079 Boe/d
- \$52.3 million of capital expenditures, after \$9.0 million of drilling credits
- 20(16.6 net) wells drilled with a 100 percent success rate
- Average operating costs \$8.96/Boe
- Operating netback of \$25.04/Boe
- \$51.2 million funds flow from operations or \$0.45 per diluted Share/Trust Unit

Second Quarter Review

- Average production of 24,087 Boe/d
- \$23.9 million of capital expenditures, after \$1.0 million of drilling credits
- 3 (0.3 net) wells drilled with a 100 percent success rate
- Average operating costs of \$8.72/Boe
- Operating netback of \$16.65/Boe
- \$33.9 million funds flow from operations or \$0.29 per diluted Share

Third Quarter Review

- Average production of 22,462 Boe/d
- \$43.2 million of capital expenditures, after \$5.1 million of drilling credits
- 18 (9.8 net) wells drilled with a 100 percent success rate
- Average operating costs of \$8.12/Boe
- Operating netback of \$16.91/Boe
- \$32.4 million funds flow from operations or \$0.28 per diluted Share

Fourth Quarter Review

- Average production of 21,544 Boe/d
- \$46.3 million of capital expenditures, after \$4.7 million of drilling credits
- 14 (8.7 net) wells drilled with a 100 percent success rate
- Average operating costs of \$8.13/Boe
- Operating netback of \$19.88/Boe
- \$34.0 million funds flow from operations or \$0.30 per diluted Share

Certain statements included in this Review of Operations constitute forward-looking statements under applicable securities legislation. Please refer to the Management's Discussion and Analysis to which this Review of Operations is attached for Advisories on forward-looking statements, the assumptions upon which such statements are made and the risks and uncertainties which could cause actual results to differ materially from those anticipated by Trilogy and described in the forward-looking statements or information.

2010 Annual Highlights

- Production averaged 22,788 Boe/d (8.3 MMBoe) for the year
- Capital expenditures totaled \$185.5 million for the year (\$165.7 million, net of \$19.8 million in drilling credits). Included in capital expenditures is \$31.5 million in costs related to the completion of the Presley Pipeline and Kaybob North Sour Gas Plant projects
- Added 13.1 MMBoe of proved reserves and 14.4 MMBoe of proved plus probable reserves (including technical revisions)
- Replaced 158 percent of produced reserves, when compared to proved reserve additions and 173 percent when compared to proved plus probable reserves
- Finding and development costs (including technical revisions and excluding Presley project costs) were \$10.09/Boe for total proved reserves and \$9.45/Boe for proved plus probable reserves
- Decreased reserve life index to 9.4 years for proved plus probable reserves in 2010 as compared to 10 years in 2009, reflecting the 15 percent growth in production over 2009 and an 8 percent growth in the proved plus probable reserve base over the same period
- Annual operating costs of \$8.49/Boe
- Annual operating netback of \$21.62/Boe (including realized gains/losses on financial instruments)
- Participated in 36 horizontal wells evaluating seven different formations using horizontal drilling: 23 Montney horizontal wells, 6 Bluesky/Gething wells, 4 Spirit River/Wilrich wells, 2 Cardium wells and 1 Duvernay well during the year
- Subsequent to the end of the year, announced a strategic natural gas liquids recovery agreement with Aux Sable Canada LP to capture additional value from the liquids-rich natural gas in the Kaybob area eliminating the need to construct a \$55 million deep-cut gas plant
- Subsequent to the end of the year Trilogy announced a Montney oil discovery in the Kaybob area and acquired additional lands on the trend at the February 9, 2011 land sale

The year provided many successes as the Company focused its capital spending plans on liquids - rich gas plays that provided the best rate of return at the lowest risk profile. The high quality prospect inventory of horizontal and vertical drilling locations that Trilogy has been accumulating will continue to be an extremely valuable asset especially during a period of low natural gas commodity prices. In 2011, Trilogy intends to build on the successful drilling and completion results from 2010 and will continue to focus all efforts on adding low cost reserve and production additions while reducing its cost structure as much as possible without impacting operational safety, the environment or Trilogy's production.

Production

Trilogy's production averaged 22,788 Boe/d (108.9 MMcf/d of natural gas and 4,642 Bbl/d of crude oil and natural gas liquids) in 2010. This represents a 15.2 percent increase over the annual production volume for the prior year, reflecting Trilogy's focused efforts on production and reserve growth. As a growth oriented energy Company, Trilogy is able to invest a higher portion of its cash flow towards developing its oil and gas assets versus the Trust model, where the strategy was to maintain the production and reserve base and distribute the remaining cash flow. At year end, Trilogy has a prospect inventory of more than 700 drilling locations that Trilogy believes can continue to provide this type of growth into the future. Trilogy is going forward with a strategy that

is expected to see year over year growth through the development of the Company's assets with horizontal drilling and completion techniques.

The following table summarizes the average daily production by Operating Area for Trilogy since inception in 2005 as an energy Trust and now as a corporation.

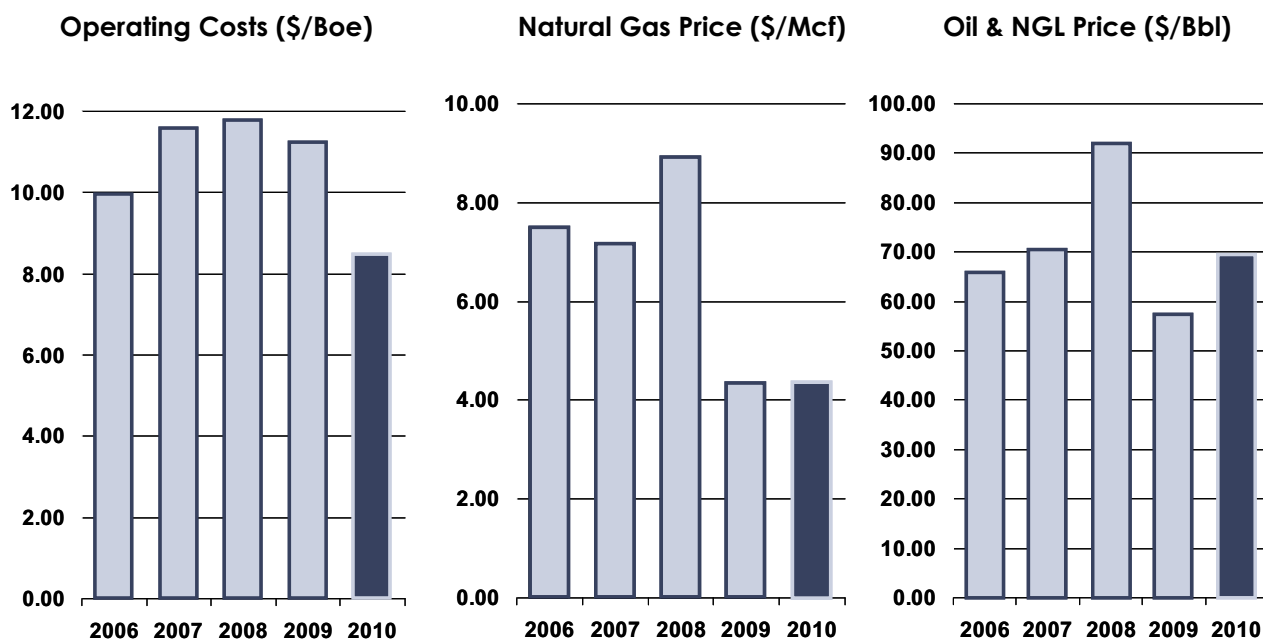
Natural Gas Production (MMcf/d)	2010	2009	2008	2007	2006	2005
Kaybob	100.9	83.6	86.4	91.5	93.3	97.3
Marten Creek	-	-	-	5.2	18.1	20.1
Grande Prairie	8.0	9.7	10.6	10.0	6.9	-
Total	108.9	93.3	97.0	106.7	118.3	117.4
Crude Oil & NGL Production (Bbl/d)						
Kaybob	4,308	3,911	4,172	4,300	4,717	4,928
Marten Creek	-	-	-	-	-	-
Grande Prairie	334	326	251	226	253	-
Total	4,642	4,237	4,423	4,526	4,970	4,928
Total Production (Boe/d)						
Kaybob	21,120	17,837	18,570	19,565	20,276	21,144
Marten Creek	-	-	-	861	3,014	3,351
Grande Prairie	1,668	1,943	2,015	1,889	1,401	-
Total	22,788	19,780	20,585	22,315	24,691	24,495

Trilogy's production volumes declined in the second half of 2010 from 23,586 Boe/d in the first half to 22,003 Boe/d in the second half due to natural declines, weather related issues, delays caused by competition for completion equipment and start up issues at the newly expanded Kaybob North Sour Gas Plant. Production volumes are expected to increase in the first quarter of 2011 to over 25,000 Boe/d in response to production additions from wells that were drilled and completed later in 2010. Certain field operations that were budgeted for early 2011 were initiated in December 2010 in order to avoid the rush for equipment at the start of the New Year.

Based on Trilogy's current portfolio of producing and non-producing assets and its proposed capital spending plans, Trilogy expects to grow 2011 production by approximately fifteen percent over 2010 volumes, to approximately 26,500 Boe/d. The nature and location of its assets provides Trilogy with the opportunity to pursue numerous play types, thereby reducing the risk of exposure to a single type or a single geographic area. The advances in horizontal drilling and completion techniques over the past few years have provided Trilogy with the opportunity to economically exploit additional tight gas reservoirs on its acreage for very attractive finding and development costs. In 2010, Trilogy targeted several different formations in its core operating areas using horizontal drilling technology. The results to date have been very positive, proving additional drilling locations that will be added to the prospect inventory and further reducing the risk as Trilogy continues to evaluate which projects provide the highest rate of return with the lowest risk profile. Given the potential for continued weak natural gas commodity prices in 2011, Trilogy plans to focus drilling and completion capital on liquids-rich gas and oil reservoirs where horizontal technology can be used to continue to provide low cost reserve additions and grow production. The core assets that Trilogy has exploited over the past six years are projected to continue to provide economic drilling opportunities with an attractive rate of return even in a low commodity price environment.

Operating Costs

Operating costs decreased 24 percent in 2010 to \$8.49/Boe, as compared to \$11.24/Boe in 2009. This reduction in operating costs can be attributed to cost cutting initiatives by Trilogy's field staff, stream lined field operations, reduction in project costs and the effect of higher production volumes diluting fixed operating costs. Trilogy anticipates that the recently completed Presley Pipeline and Kaybob North Sour Gas Plant expansion projects will result in additional cost savings as Trilogy's Presley gas production is transported and processed through Trilogy-owned and operated infrastructure. Trilogy is forecasting 2011 operating costs at \$8.50/Boe for the year.



(Before financial instruments and transportation)

Escalating costs for services and equipment over the past few years have weakened the netback on gas and oil production. The challenging economic conditions of recent years have required our employees, consultants, contractors and service providers to evaluate cost reduction opportunities in all areas of our operations. By operating the majority of the wells, gathering systems and plants that produce its gas, Trilogy believes it can control how the operating dollars are spent and how such costs can be reduced.

Trilogy's infrastructure development plans in Presley and North Kaybob are examples of investing capital to reduce operating costs over the long term production of the reserves. Trilogy invested \$46.8 million to install a pipeline, expand the Kaybob North Sour Gas Plant and implement an acid gas disposal scheme to reduce operating costs by approximately \$12 - \$15 million per year (based on 50 MMcf/d of production). The projected payout on these projects is approximately 3 to 4 years which is significantly shorter than Trilogy's 10 to 15 year development plan for the Presley area and will ultimately provide Trilogy with increased operational control over a significant portion of its asset base.

Profitability

Trilogy's average natural gas sales price (before financial instruments and transportation) has been essentially flat over the past two years, at \$4.35/Mcf in 2010 as compared to \$4.33/Mcf in 2009. Approximately 80 percent of Trilogy's 2010 production on a per barrel of oil equivalent basis (6 Mcf: 1 Bbl) is natural gas. Operating netback in 2010, including realized financial instruments, increased 7 percent to \$21.62/Boe as compared to \$20.16/Boe in 2009. The increase in net back is partly a result of operating cost savings of \$2.75/Boe in 2010 as compared to 2009.

- On a funds flow per Boe basis, Trilogy realized a 17 percent increase, from \$15.58/Boe in 2009 to \$18.20/Boe in 2010
- The funds flow from operations per diluted unit was up 18 percent, from \$1.12/unit in 2009 to \$1.32/share in 2010
- Annual operating netback was \$21.62/Boe (including realized gains/losses on financial instruments), resulting in a recycle ratio of 1.9 times for proved plus probable reserves

Funds Flow Reconciliation	2010		2009	
	\$ million	\$/Boe	\$ million	\$/Boe
Production (Boe/d)	22,788		19,780	
Gross revenue including other income and realized financial instruments	309.6	37.22	267.1	37.00
Operating cost	(70.6)	(8.49)	(81.1)	(11.24)
Transportation	(12.7)	(1.52)	(11.9)	(1.65)
Royalties	(44.7)	(5.38)	(26.9)	(3.73)
Asset retirement expenditure	(1.7)	(0.21)	(1.5)	(0.22)
Operating Netback	179.9	21.62	145.7	20.16
General and administrative expenses	(17.5)	(2.09)	(17.3)	(2.39)
Interest	(11.0)	(1.33)	(11.9)	(1.64)
Bad Debt	-	-	(4.0)	(0.55)
Funds flow	151.4	18.20	112.5	15.58
Weighted average Shares outstanding for the year (fully diluted)	114,574		100,060	
Funds flow per Share (\$/share)	1.32		1.12	

Note

i) Columns and rows may not add due to rounding

Capital Expenditures

Annual capital expenditures for 2010 were budgeted to be \$120 million, (excluding costs associated with the Presley Pipeline and Kaybob North Sour Gas Plant expansion). Actual reported capital expenditures totaled \$134.0 million for the year, after \$19.8 million in drilling credits and excluding \$31.5 million in costs related to the completion of the Presley Pipeline and Kaybob North Sour Gas Plant projects. Approximately \$10 million of the capital spending increase was related to a significant increase in third-party activity on joint-interest acreage versus the original activity budgeted by Trilogy. Trilogy participated in most third-party operations, to ensure that the Company did not forego the investment opportunity and realization of immediate

financial returns. Trilogy also spent approximately \$2 million to accelerate 2011 drilling operations by constructing leases, moving rigs and spudding wells before the new budget year began. Additional capital of approximately \$3 million was employed to procure equipment, such as casing and compression equipment to be utilized in 2011.

Trilogy's total capital expenditure integrates the Alberta Government's Drilling Incentive Plan, which effectively reduces capital expenditures by \$200 per meter for new wells drilled after April 1, 2009. Eligible drilling credits are realized by Trilogy in the form of a return of royalty payments. Trilogy then applies such amounts as a reduction of capital expenditures, further resulting in a reduced finding and development cost. Trilogy recorded \$19.8 million in drilling incentive credits for drilling operations conducted in 2010.

Trilogy incurred \$46.8 million for the construction of the Presley Pipeline and Kaybob North Sour Gas Plant expansion with a construction completion date of October 2010. Approximately \$15.3 million of the project costs were incurred in 2009 and the remaining \$31.5 were incurred in 2010. Trilogy is pleased with the results of these projects, which were essentially completed on time, notwithstanding a significant number of challenges that were presented during the construction process, including unavoidable cost over runs related to regulatory, weather and environmental conditions. The Pipeline and expanded Plant were operational at the beginning of the fourth quarter 2010.

Capital Expenditures (millions of dollars)	2010	2009
Land	3.6	2.8
Geological and geophysical	0.4	1.3
Drilling and completion	114.2	56.4
Drilling incentive credits	(19.8)	(7.4)
Production equipment, facilities and inventory	67.1	36.0
Exploration and development expenditures	165.5	89.1
Corporate office	0.2	0.4
Property acquisitions	0.4	0.4
Proceeds received on property dispositions	-	(0.4)
Net capital expenditures	166.1	89.5

Note

i) Columns and rows may not add due to rounding

Challenging economic conditions continued into 2010, forcing Trilogy and its partners to control spending while still growing daily production as well as the reserve base while not compromising safety or the environment. Continued emphasis on accountability for controlling costs and drilling results encourages Trilogy staff to ensure that our operations remain competitive and do not erode Trilogy's balance sheet during the year.

- Trilogy's staff continues to develop its expertise in drilling and completing horizontal wells, providing additional certainty in budgeting and risk analysis for the various play types Trilogy is pursuing;
- Joint venture operations allow Trilogy the opportunity to participate in partner-operated activity and to monitor and possibly improve on the execution of Trilogy-operated expenditures;
- By drilling directional and horizontal wells, Trilogy is able to utilize existing roads, surface leases and pipelines, reducing both costs and the environmental footprint;

- Trilogy continues to work with its suppliers to provide quality products and services at reasonable costs.

Drilling Activity

Trilogy participated in drilling 56 (36.1 net) wells during 2010, as compared to 29 (20.4 net) wells in 2009, with an overall success rate of 100 percent (100 percent net) for the year. The high drilling success rate in the Kaybob and Grande Prairie areas reflects Trilogy's drilling strategy and expertise in focusing on exploitation of the large, low risk, tight-gas resources on its lands as well as the conventional oil and gas formations that have multi-zone development potential. The increase in wells drilled in 2010 versus 2009 partly reflects the Company's transition from a yield-focused income trust to a growth oriented energy corporation. Trilogy continues to drill more horizontal wells each year, at a significantly higher capital cost per well as compared to vertical wells. In 2010 Trilogy participated in 36 (20.0 net) horizontal drilling operations as compared to 19 (11.9 net) horizontal wells in 2009 and 6 (4.4 net) horizontal wells in 2008.

Drilling Results	Development		Exploration	
	Gross	Net	Gross	Net
Gas	43	28.2	2	1.4
Oil	11	6.5	0	0.0
D&A	0	0.0	0	0.0
Total All Wells	54	34.7	2	1.4
Success (%)	100	100	100	100

In 2011, Trilogy plans to continue to develop and exploit play types that are similar to those drilled in 2010, and to identify and pursue other formations that may provide similar exploitation potential. The application of horizontal drilling and multi-stage fracture completions is a significant factor in Trilogy's drilling results. In addition to its own technological advancements, Trilogy continues to closely monitor industry activity, with a view to capitalizing on best practices and risk mitigation techniques in regard to these technologies. Trilogy plans to continue acquiring land in its core areas to maintain an ongoing prospect inventory of high quality/low risk development wells capable of growing the existing assets beyond current production levels, while replacing produced reserves on an annual basis.

OPERATING AREAS

As a Trust, Trilogy's strategy was to maintain a stable production profile and replace produced reserves each year. 2010 was Trilogy's first year as a growth-oriented energy Company. Trilogy tested several new plays and formations on its acreage in the Kaybob and Grande Prairie areas. By targeting different formations and geographic areas, Trilogy was able to identify additional drilling prospects that were added to the Company's growing inventory of high quality, liquids-rich gas and oil locations. The Company has always held the belief that its assets, which provided an ideal inventory under the Trust model, also provide an excellent asset base for a growth-oriented exploration company. Trilogy's management believes that investing a higher portion of its cash flow to exploit its current developed and undeveloped land base using horizontal drilling and multi stage fracturing technology will continue to add value for its shareholders for many years to come.

Kaybob

The Kaybob area accounted for approximately 93 percent of Trilogy's production and 88 percent of its capital expenditures in 2010 and will continue to be the focus of 2011 spending plans and forecasted growth. Trilogy's large portfolio of tight gas assets in this area lend themselves to continued exploitation and development using horizontal drilling and completion technology. Its large inventory of high quality drilling prospects provide Trilogy's best opportunities to grow annual production and replace produced reserves at the lowest cost, especially given the Company's success in applying existing drilling and completion technologies to new formations in this area. In addition the increased capital spending and production growth in the Kaybob area will be able leverage off of the substantial investment in production infrastructure that the Company has made over the years to ensure that the production is optimized at the lowest costs.

For the year, Trilogy produced 21,120 Boe/d in the Kaybob area as compared to 17,837 Boe/d in 2009. The 3,282 Boe/d increase in production can be attributed to the significant amount of capital the Company has invested in the Presley area of Kaybob and to the success of the drilling program in the rest of the area. Field operations were successful in ensuring that Trilogy volumes were not materially impacted by operational issues at the processing facilities and in minimizing production outages due to adverse weather conditions throughout the year.

Trilogy's 2010 capital spending in the Kaybob area totaled \$130.5 million for the year, excluding drilling credits and \$31.5 million for completion of the Presley Pipeline and North Kaybob Sour Gas Plant expansion projects. Trilogy drilled 46 (31.4 net) wells in the Kaybob area in 2010, of which 29 (17.7 net) wells were drilled horizontally. The significant increase in capital spent during the year was due to the drilling of more horizontal wells, which were drilled both deeper and with longer horizontal wellbore segments than those in previous years. Increasing the number of stages in fracture stimulations has incrementally increased completion costs. Offsetting these additional costs was a reduction in tie-in costs and was more than offset by an increase in Trilogy's production levels and reserve assignment.

Most of the horizontal drilling in the Kaybob area has been focused on the Montney formation. However, horizontal wells were also used to evaluate the development potential of the Duvernay, Bluesky, Wilrich, Spirit River and Cardium formations. In 2011 Trilogy will continue to evaluate these formations to determine which formations provide the best economic rate of return and largest development potential for the Company. Trilogy will continue to monitor horizontal drilling activity and evaluate additional formations for further exploitation.

Presley Montney Gas Development

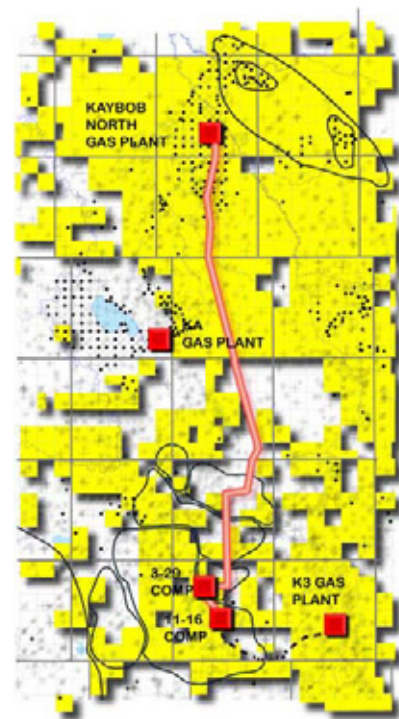
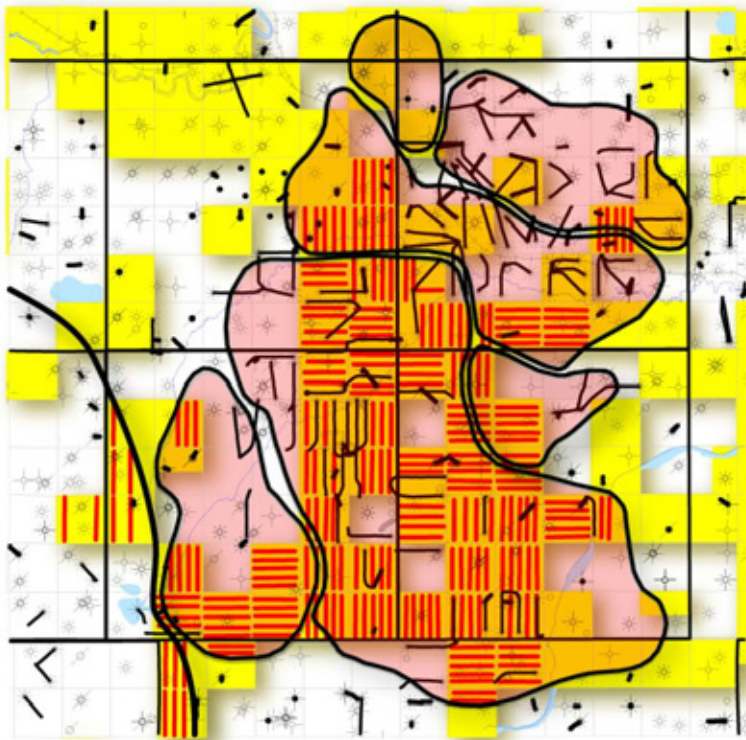
Results for the Trilogy operated horizontal well program in the Presley area of South Kaybob in 2010 were very encouraging. Since Trilogy began developing the Montney pool at Presley using horizontal drilling techniques in 2008, Trilogy has continuously improved its knowledge and expertise in this area, increasing the length of its horizontal wellbores and the number of fracture stimulations per well. Total measured depth of the wells drilled has increased from 3,500 m to up to 4,500 m, while the horizontal section has increased from 700 m to 1,700 m. The number of fracture stimulations per well has increased along with the lateral length of the wellbore, from 7 fracture stimulations in the early wells to as many as 22 fracture stimulations in recent wells. Spacing between fractures has decreased from 150 m to approximately 75 m. These developments are expected to increase the recovery factor and accelerate production, ultimately increasing the recoverable reserves per well and potentially reducing Trilogy's overall capital spending by reducing the number of wells per section required to effectively recover all of

the reserves. Montney horizontal wells currently cost approximately \$4.0 million to drill, complete and tie in.

As each additional horizontal Montney well is drilled, the risks associated with locations on undeveloped lands are further reduced. Trilogy holds approximately 50 net sections of land in the Presley area, and given an estimate of 10 to 15 Bcf of gas per section, Trilogy estimates there to be 500 - 750 Bcf of gas in place on Trilogy lands in the Montney formation. The Company has developed a plan to exploit the Montney tight gas pools at Presley over the next 10 to 15 years, which could increase natural gas production to as much as 150 MMcf/d from this area. To date, well results have been better than forecasted and Trilogy is anticipating reserve bookings of approximately 3 Bcf of natural gas plus 30 Bbl per MMcf of natural gas liquids per well. If recoverable reserves exceed this estimate, Trilogy would reduce the number of wells per section to exploit the reserves, resulting in reduced capital spending and providing better economics for the project. Reserve bookings for the Montney have been limited to the 26 wells drilled and completed as of December 31, 2010. Based on the nature of the pool and the low risk development opportunities associated with infill drilling, each horizontal Montney well could add 600 MBoe of reserves. Assuming capital costs of \$4 million to drill, complete and tie-in each well, the unrisks cost of finding and development per well is a very attractive \$6.67 per Boe. In addition to attractive finding and development costs, the Presley gas production will be transported and processed through Trilogy-operated facilities and will show a significant reduction in operating costs to approximately \$5.00 per Boe. Given the high initial production and lower operating costs, these wells have an estimated payout that is approximately six months at current commodity prices.

Regulatory approval to produce up to five horizontal wells per section has been granted for certain Montney lands within the Kaybob area. Trilogy estimates that it has an interest in 50 (43.6 net) contiguous sections of prospective land in the Presley area. The number of drilling locations Trilogy has available will be determined, in part, by the drilling density to maximize economic recovery. Trilogy will continue to evaluate the economics of increasing downspacing from 3 to 5 wells per section over the next few years, while at the same time trying to maximize return by drilling longer reach horizontals and increasing fracture density on each well. Subject to receiving regulatory approval for further downspacing, these parameters would suggest 150 - 250 locations specifically for the Montney formation in the Presley area, of which 26 have been drilled prior to the end of 2010 and approximately 15 of which will be drilled in 2011.

Trilogy completed construction of the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects in the third quarter 2010. Operational and safety checks were conducted and the projects were commissioned during the first week of October, allowing for Presley natural gas production to flow through the new Pipeline to the expanded Plant during the first week of the fourth quarter.



Presley Pipeline and Kaybob North Plant Expansion Projects

Trilogy is extremely pleased with the results of the construction of its 53 km Presley Pipeline and the expansion of the Kaybob North Sour Gas Plant, which were essentially completed on time notwithstanding a significant number of regulatory, weather and environmental obstacles. Originally budgeted at \$40 million, the costs for these projects totaled approximately \$46.8 million.

The 12 inch Presley Pipeline has the capacity to flow up to 100 MMcf/d of raw sour natural gas, providing Trilogy with an opportunity to increase production from the Presley area and fully exploit the Montney reservoir which Trilogy believes will result in significant growth in the Company's production profile. Trilogy is installing additional field compression in the Presley area to bring compression capacity to 80 MMcf/d.

The Plant expansion and related acid gas disposal projects were designed to process approximately 70 MMcf/d of raw sour gas production. Trilogy plans to further expand the Plant in 2011 to handle 100 MMcf/d of sour gas to match the maximum Presley Pipeline capacity. The further Plant expansion will require an additional acid gas disposal well and compressor as well as additional sour gas processing towers, for a total cost of approximately \$10 million in 2011. The expansion will coincide with additional drilling and compression in the Presley area.

Based on 50 MMcf/d of production, Trilogy estimates the Pipeline and Plant expansion projects will provide operating savings of approximately \$1 million per month through reduced third-party transportation and processing fees and reduced shrinkage of the natural gas stream. Monthly cost savings are expected to rise as Presley gas volumes increase, resulting in more gas being transported and processed at the Trilogy-owned and operated facility. Additional benefits of the project are expected to include: increased reliability in the processing of Trilogy's natural gas,

increased control over gas and liquids production, third-party processing revenues and reduced greenhouse gas emissions.

Natural Gas Liquids Recovery Agreement

The construction of the Presley Pipeline and the expansion of the Kaybob North Sour Gas Plant presented the opportunity to construct a deep-cut natural gas liquids extraction facility to recover additional natural gas liquids from the liquids-rich natural gas produced to the Plant. During 2010 Trilogy had completed the process design and cost estimate to construct a 150 MMcf/d deep-cut facility adjacent to the existing Kaybob North Sour Gas Plant, with the intention of procuring equipment in 2011 and working toward start-up in the second quarter of 2012.

Subsequent to the end of the year, Trilogy announced that it had entered into a commercial arrangement with Aux Sable Canada LP ("Aux Sable") pursuant to which Trilogy will receive additional economic value for the natural gas liquids in its liquids-rich natural gas stream originating from the Kaybob area. The initial term of the agreement is five years. While the agreement entered into with Aux Sable (the "NGL Agreement") does not preclude Trilogy from proceeding with its 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 Agreement is projected to provide natural gas liquids recovery values that are at least equivalent to the value Trilogy would have received if the deep-cut facility project were to proceed after factoring in the capital, operating and other costs and risks associated with a liquids extraction facility. Trilogy anticipates that a continued mutually beneficial, long term relationship with Aux Sable under the NGL Agreement will obviate the need for Trilogy to proceed with its deep-cut facility project. The expected benefits of the NGL Agreement include the following:

- the NGL Agreement is effective January 1, 2011, allowing for immediate recovery of additional value for Trilogy's natural gas liquids produced at Kaybob versus a Q2 2012 estimated completion date for the proposed deep-cut facility;
- based on the value sharing arrangement under the NGL Agreement and forward strip pricing, Trilogy anticipates that 2011 cash flow will increase by approximately \$15 Million as compared to Trilogy's current cash flow estimate. Assuming the contracted volumes increase to approximately 130 MMcf/d, cash flow under the NGL Agreement may reach \$30 to \$40 Million per year with a total of approximately \$170 Million over the initial five year term of the NGL Agreement;
- pricing under the NGL Agreement is calculated with reference to the U.S. natural gas liquids market, allowing Trilogy to access a larger, more liquid, higher priced market;
- eliminates 2011 and 2012 planned capital expenditures of approximately \$55 Million to install a new cryogenic deep-cut functional unit and related equipment at the Kaybob North Sour Gas Plant;
- operating cost savings of approximately \$2.5 Million per year at the Plant and transportation cost savings of approximately \$3.0 Million to transport dry gas as compared to constructing the deep-cut facility;
- no increase to Trilogy's long term debt for the deep-cut facility project at the Plant; and
- mitigates risks associated with constructing and operating the deep-cut facility as well as those associated with marketing the extracted natural gas liquids.

Duvernay Shale Gas Development

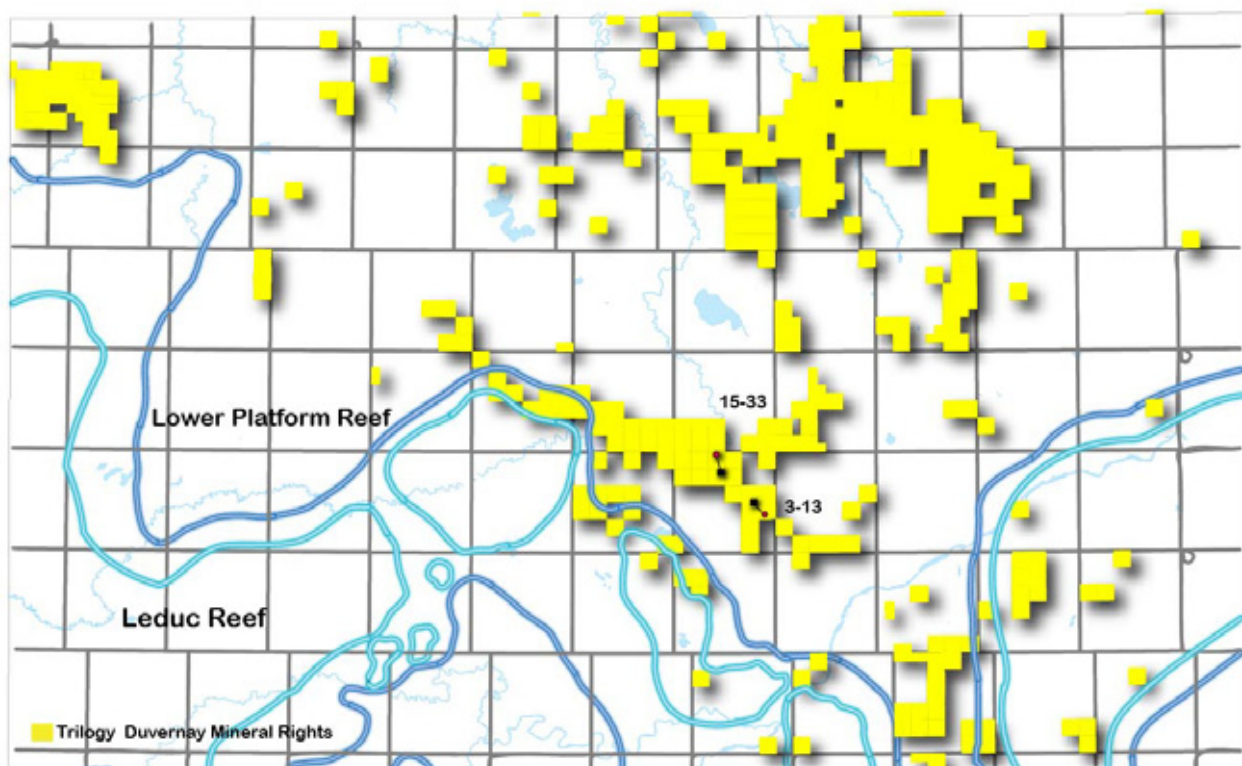
Trilogy participated in a joint-venture horizontal well at 15-33-060-20W5 targeting the Duvernay formation; this well was rig released on August 5, 2010. Completion operations and a flow test were concluded on September 14, 2010 after completion of 6 of the 13 planned fracture stimulations. Operational issues prevented the remaining 7 fractures from being completed; however the results of the first 6 stages provided encouraging results. The Duvernay shale was

shown to contain a significant amount of natural gas liquids (approximately 75 barrels of natural gas liquids per million cubic feet of natural gas) in addition to producing approximately 2 MMcf/d of sweet natural gas. The operator of the project is in the process of tying the well into the existing gathering system and initial production is anticipated before the end of Q1 2011.

Drilling operations were undertaken in the first quarter 2011 to drill a second horizontal well on the joint-venture block to further develop technical knowledge on the play and to evaluate the full-cycle economic and resource potential of the Duvernay shale in the Kaybob area. The second well was spud at a surface location at 16-14-60-20W5 and drilled to a bottomhole location of 3-13-60-20W5. The surface location of the second well is approximately three miles southeast of the surface location of the original discovery location. Drilling operations were completed on February 20, 2011 and it is anticipated that the completion operation on the second well will be finished in March and, given continued success; the well should be on production during the second quarter of 2011.

Trilogy has greater than 100 net sections of Duvernay mineral rights in the core of this emerging resource play, and a total of greater than 225 net Duvernay sections in the greater Kaybob area. Trilogy believes this area could provide significant upside to its shareholders if the play type proves to be an economic success, particularly in light of the Alberta Government's reduced royalty rates for shale gas wells (5 percent for 3 years with no volume limit).

The following map shows Trilogy's land position in the Duvernay formation. The Duvernay shales are organic-rich shales that were deposited in the off reef position of Leduc reefs (grey outline). The Duvernay is thought to be oil prone in the northeast portion of the map and liquids-rich gas in the central portion, trending toward a dry gas reservoir in the southwest area of the map.



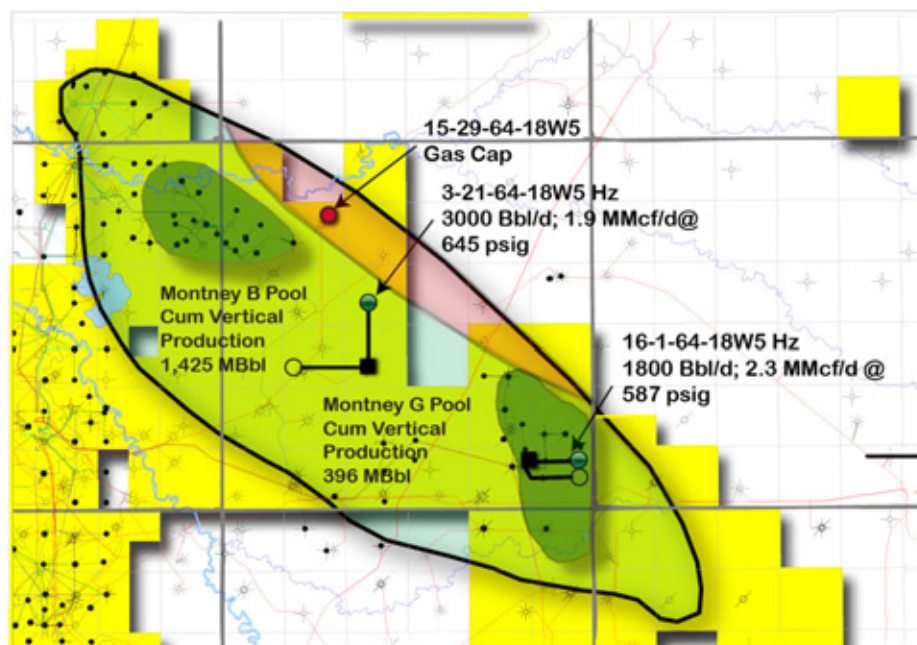
Kaybob Montney Oil Development

Trilogy has successfully applied horizontal drilling and multi-stage fracturing techniques to exploit a Montney oil pool in the Kaybob area of Alberta. In the fourth quarter of 2010, Trilogy completed drilling operations on a horizontal Montney oil well at 16-1-64-18W5 (the "16-1 Well"), and completed it using a 15 stage fracture stimulation. 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.

Trilogy followed up on the success of the 16-1 Well by drilling a confidential horizontal Montney oil well to further delineate the Montney oil pool. The 16-1 Well was assigned proved plus probable reserves of 300 MBbl and 400 MMcf of natural gas (391 MBoe), with a net present value at 10 percent of \$14.2 million (InSite Petroleum Consultants). The second 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, with a bottomhole location at 3-21-64-18W5. The lateral portion of the well was 1,158 m in length and completed with a 15 stage fracture stimulation. Trilogy was able to flow back the well immediately prior to the 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).

Based on the success of these two horizontal Montney oil wells, Trilogy acquired 28 sections of land along the Montney trend in this area at the February 9, 2011 Alberta Crown land sale at a cost of \$32.2 million. With a 100 percent working interest in 41 sections of land along the trend, Trilogy believes it now holds substantially all of the petroleum and natural gas rights associated with this Montney oil pool and will evaluate accelerating the development of this play in the second half of 2011. Trilogy anticipates drilling further delineation wells, and that the pool will require four to eight horizontal wells per section to fully exploit the Montney reservoir. Trilogy also believes that this land may also prove to be prospective in the Duvernay shale play.

The map below illustrates Trilogy's land position on the Montney oil play in the Kaybob area. The prospective lands lie between and within two existing Montney oil pools.



Grande Prairie

The Grande Prairie area accounted for approximately 7 percent of Trilogy's production and 12 percent of the capital expenditures in 2010 and will continue to receive a similar amount of capital in 2011. Production from the Grande Prairie area declined from 1,943 Boe/d in 2009 to 1,668 Boe/d in 2010. Trilogy has been impacted by the tight control on the existing infrastructure that has been exercised by the larger operators in the area. Trilogy continues to be challenged by limited access to non-operated facilities; however, Trilogy is focusing its capital spending in the Wembley area and on the Montney and Doig developing plays in the Valhalla area, where it believes a critical mass can be developed to justify expansion of the existing infrastructure in 2011.

Trilogy's 2010 capital spending in the Grande Prairie area totaled \$22.2 million for the year. Trilogy participated in the drilling of 10 (4.7 net) wells resulting in 4 (2.3 net) gas wells and 6 (2.4 net) oil wells. Of these wells, 7 (2.3 net) were drilled horizontally and 3 (2.4 net) vertically.

Trilogy remains optimistic regarding the future development of the Grande Prairie area and believes that its growing prospect inventory and land base will provide significant opportunity for future development using horizontal drilling and completion techniques on the tight oil and gas reservoirs in the area. Trilogy has budgeted capital to participate in the drilling of a number of vertical and horizontal wells in the Grande Prairie area to further develop liquids-rich gas and oil plays in the Montney, Doig, Nikanassin and Doe Creek formations in 2011.

Land

In 2010, Trilogy spent \$3.6 million to acquire 40,960 gross acres (27,800 net acres) of land at Alberta Crown land sales to prevent drainage of existing lands and to partially offset expiring acreage (43,520 gross acres and 35,214 net acres in 2010) and the categorization of lands from undeveloped to developed as a result of Trilogy's ongoing development operations. This brings Trilogy's total acreage count to 894,832 gross acres (650,543 net acres) of land as of December 31, 2010. 63 percent (409,982 net acres) of Trilogy's acreage is considered undeveloped (no reserves assigned). Trilogy's undeveloped acreage has been evaluated by Seaton-Jordan & Associates Ltd. and assigned a fair market value of \$149 million in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Trilogy's developed land base (land assigned with reserves) has considerable value that is not reflected in this report. Approximately 63 percent of the net Crown acreage purchased by Trilogy in 2010 was in the Kaybob area; the balance of the acreage was in the Grande Prairie area.

Capitalizing on its technical expertise in order to maximize value for its Shareholders, Trilogy has proven that more than one well per section will be needed to adequately develop its land base and fully exploit the underlying reserves. Trilogy intends to continue to acquire acreage that it believes has future development potential and to ensure it maintains a competitive advantage in its core operating areas.

Land Area (acres)	Gross	Net
Land assigned reserves	367,534	240,561
Undeveloped land	527,298	409,982
Total	894,832	650,543
Fair market value of undeveloped land (thousand dollars)		\$ 149,073

The value of Trilogy's undeveloped land base has increased from \$ 70.6 million in 2009 to \$149 million in 2010. This increase is largely due to the highly competitive nature of land sales in the Kaybob area during the year, particularly as a result of heightened interest in the emerging Duvernay play.

Reserves

The following is a summary of Trilogy's 2010 year-end reserves and reserves value, as evaluated and reported on by the independent engineering firm InSite Petroleum Consultants Ltd. ("InSite"). The reserves report has been prepared in accordance with National Instrument 51-101 definitions, standards and procedures.

Reserves and future net revenue disclosed herein and reported in the InSite Report incorporated recovery of natural gas liquids extracted from the natural gas delivered and to be delivered by Trilogy pursuant to the NGL Agreement dated effective January 1, 2011 assuming a renewal of the initial five year term of the NGL Agreement for an additional five year term as contemplated by such agreement.

The before tax net present value of Trilogy's proved plus probable reserves discounted at 10 percent increased six percent from \$1,129 million at the end of 2009 to \$1,195 million at the end of 2010. Trilogy's proved plus probable natural gas reserves have increased 2 percent, from 325.1 Bcf at the end of 2009 to 331.6 Bcf at the end of 2010. Proved plus probable crude oil reserves have increased 14 percent from 8,739.4 MBbl at the end of 2009 to 9,984.9 MBbl at the end of 2010. Natural gas liquids also increased 41 percent from 9,160.5 MBbl at the end of 2009 to 12,951.8 MBbl at the end of 2010. The NGL Agreement accounts for 2,364.0 MBoe of the increase in the 2010 reserves report.

The Company considers its reserves base to be very strong, with solid proven reserve additions every year and probable reserves moving to the proven category. As in the past, Trilogy was able to replace all of the produced reserves at a very attractive cost without adding reserves in the undeveloped category.

The following table summarizes Trilogy's gross reserves (before royalties and tax) and reserves value for the year ended December 31, 2010 using forecast prices and costs.

Reserve Category	Natural Gas BCF	Crude Oil MBbl	Natural Gas Liquid MBbl	Boe (6:1) MBoe	Before tax Net Present Value (\$Millions)		
					0%	5%	10%
					Proved		
Developed Producing	206.6	6,426.6	8,647.3	49,502.6	1,511.8	1,109.4	881.7
Developed Non-Producing	21.9	229.1	729.5	4,605.8	110.6	78.5	59.5
Undeveloped	2.1	0	43.1	393.7	10.6	4.8	2.4
Total Proved	230.6	6,655.7	9,420.0	54,502.1	1,633.0	1,192.7	943.7
Probable	101.0	3,329.2	3,531.9	23,694.0	831.6	412.4	251.3
Total Proved plus Probable	331.6	9,984.9	12,951.8	78,196.1	2,464.6	1,605.1	1,194.9

Notes

- i) Columns and rows may not add due to rounding
- ii) Reserve values were determined by InSite as of December 31, 2010, using the forward-pricing assumptions in effect by the firm at that date.
- iii) InSite evaluated 100 percent of Trilogy's reserves.
- iv) No value has been assigned to tangible assets other than those associated with proved producing reserves.
- v) Reserve values have been evaluated under a blow-down scenario.
- vi) Trilogy's financial instruments, which extend past January 1, 2011, have not been valued by InSite.

2010 Year-end Reserve Reconciliation

Total proved reserves were 54,502 MBoe and proved plus probable reserves were 78,196 MBoe as of December 31, 2010, which are increases of 9.7 percent and 8.5 percent respectively as compared to the reserves that were reported at the 2009 year end.

The following table sets forth the reconciliation of Trilogy's gross reserves for the year ended December 31, 2010 using forecast prices and costs:

	Total Proved Reserves				Probable Reserves				Total P+P Reserves			
	Oil	Gas	NGL	BOE	Oil	Gas	NGL	BOE	Oil	Gas	NGL	BOE
	MBbl	Bcf	MBbl	MBoe	MBbl	Bcf	MBbl	MBoe	MBbl	Bcf	MBbl	MBoe
Dec. 31, 2009	5,529	227	6,342	49,667	3,210	98	2,819	22,414	8,739	325	9,161	72,082
2010 Production	(706)	(40)	(988)	(8,317)	-	-	-	-	(706)	(40)	(988)	(8,317)
Tech. Revisions	974	9	3,304	5,761	(100)	(7)	517	(724)	875	2	3,822	5,037
Reserve Additions	858	35	762	7,384	219	10	196	2,003	1,077	44	958	9,386
Acquisition	-	-	-	9	-	-	-	6	-	-	-	15
Econ. Factors	-	-	-	(2)	-	-	(1)	(5)	-	-	(1)	(7)
Dec. 31, 2010	6,656	231	9,420	54,502	3,329	101	3,532	23,694	9,985	332	12,952	78,196

Note

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

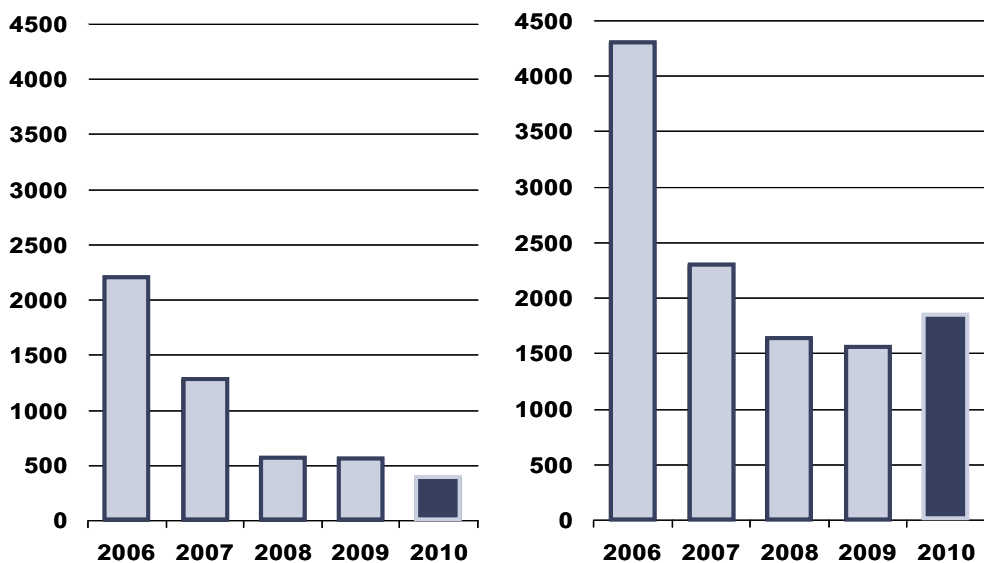
Reserve Replacement

Trilogy produced 8,317 MBoe of reserves in 2010 (22,788 Boe/d) and, through a successful drilling, completion and workover program and added a total of 13,143 MBoe of proved reserves and

14,417 MBoe of proved plus probable reserves from new additions related to capital investment and technical revisions. Based on a total proved comparison to 2009, this is a 158 percent replacement of produced reserves and a 173 percent replacement of proved plus probable reserves.

For the past five years, Trilogy's undeveloped reserves category has decreased year over year through the transfer of undeveloped reserves into the developed category and Trilogy's proved undeveloped (PUD) reserve component has now decreased to 393.7 MBoe. Proved undeveloped reserves represent only 0.7 percent of the total proved reserves and proved plus probable undeveloped reserves account for 2.3 percent of proved plus probable reserves.

Proved Undeveloped Reserves (MBoe) Proved Plus Probable Undeveloped Reserves (MBoe)



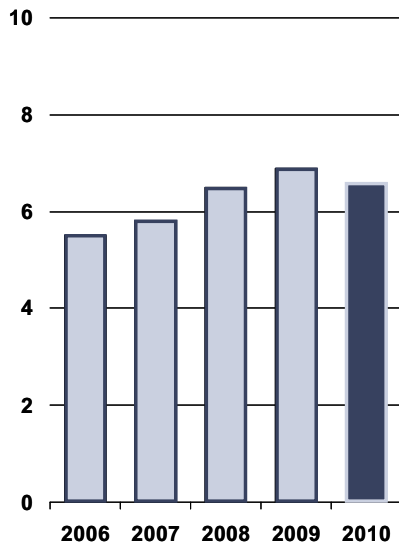
Technical Revisions

Trilogy has consistently reported positive technical revisions to its proved and probable reserve categories. These are reserves that were not assigned to wells when they are first drilled and completed because National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101) and the Canadian Oil and Gas Evaluations Handbook prescribes that the independent reserves evaluator must be at least 90 percent confident the producible reserves are present to be included as proven reserves and 50 percent certain for probable reserves. A significant portion of Trilogy's reserves are in tight reservoirs that tend to have lower decline rates over time and may typically produce more reserves than is shown when the well is first evaluated. As a result, it may take up to three years for a well's total reserve to be accurately assigned. Trilogy evaluates all of its producing assets to ensure that there is a thorough understanding of the reservoir and the production capabilities.

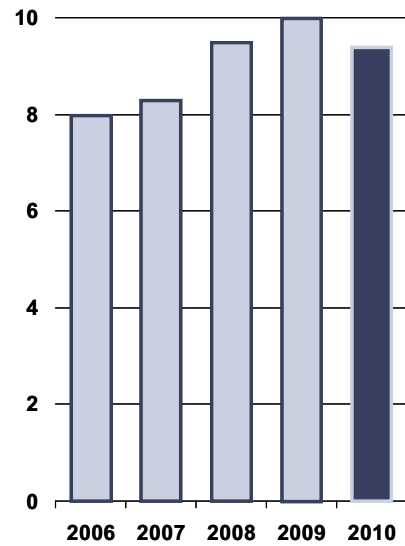
Reserves Life Index

Trilogy's Reserve Life Index (RLI), defined as year ending reserves over current year production, for total proved reserves has increased from 5.1 years at the Company's inception in 2005 to 6.6 years at the end of 2010. Based on total proved plus probable reserves, the RLI has increased from 7.3 years to 9.4 years for the same period.

Proved Reserves RLI (Years)



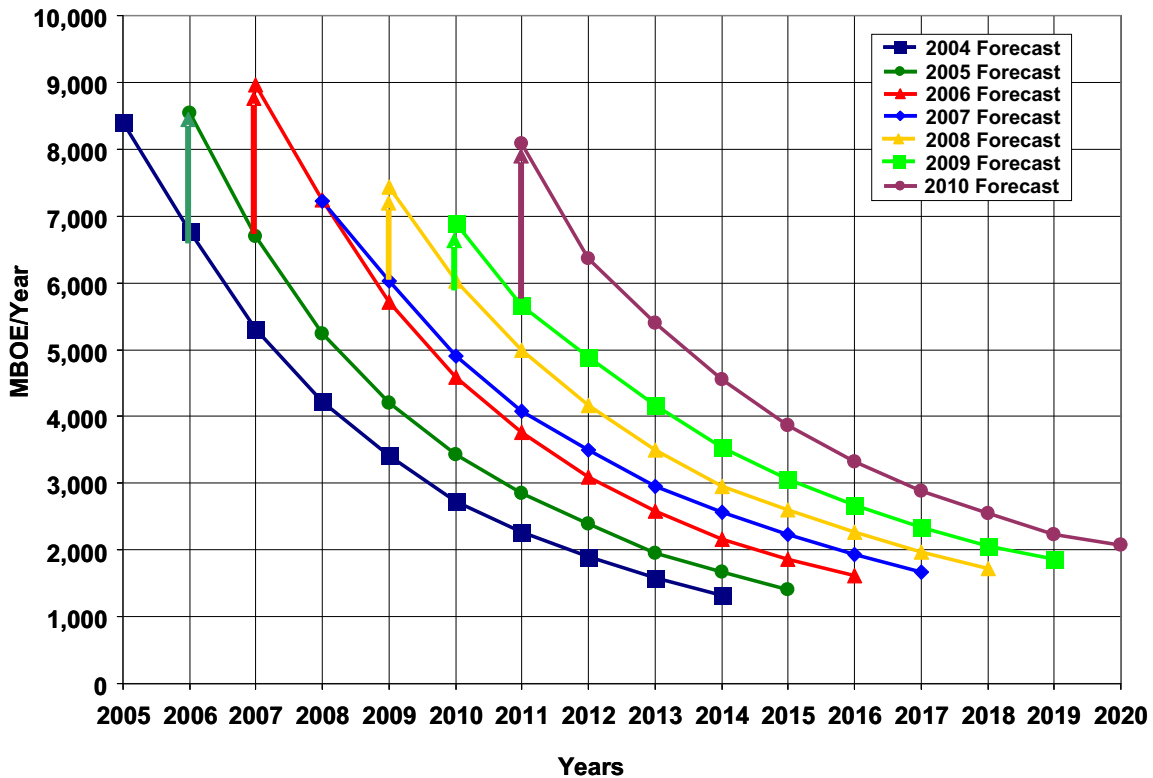
Proved Plus Probable RLI (Years)



Proved Reserve Forecast

The graph below illustrates Trilogy's annual production forecast for Total Proved Reserves from the Reserve Reports for the past seven years. Trilogy's annual production forecast increased from inception until 2007 when the annual production forecast declined due to the asset sales in Marten Creek and Southern Alberta.

Annual Production Forecasts (Total Proved Reserves, MBoe/year)

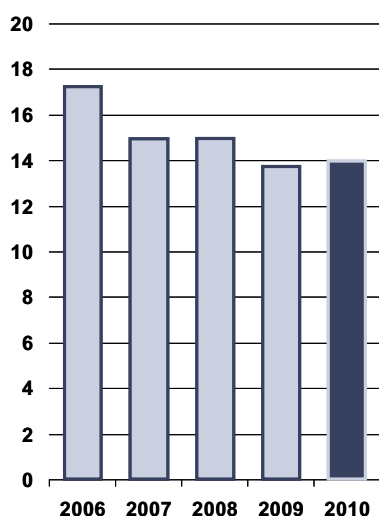


Production Decline Rate

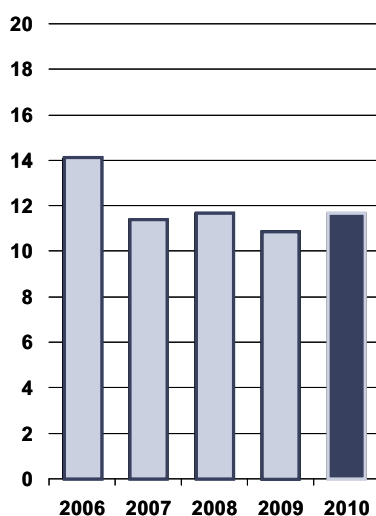
Trilogy's production decline rate has improved over the past three years due to the sale of the Marten Creek property and Southern Alberta assets. These properties had higher production declines relative to Trilogy's remaining producing properties. The dispositions resulted in an improvement in the average quality of Trilogy's reserve base, a lower production decline rate and a higher RLI. The graph below shows the annual average base production decline for a ten year period, illustrating an increase in the quality of Trilogy's assets since the Company's inception. The slight increase in the 2010 Ten Year Production Base Decline Rate is attributed to the successful horizontal well program in the Presley area.

Ten Year Base Production Decline Rate (%)

Total Proved Reserves



Proved Plus Probable Reserves



Finding and Development Costs

Trilogy's land base has provided significant drilling and completion opportunities that have been exploited since the Company's inception. The drilling success rate reflects the quality of Trilogy's prospect inventory, undeveloped land base, producing asset base and the technical expertise of Trilogy's staff. The reserve potential of these lands, both developed and undeveloped, is expected to continue to provide Trilogy with low cost reserve additions. Trilogy has continued to acquire what it considers high quality land in its core areas to maintain its prospect inventory, ensuring the Company has exposure to multiple play types and developing technology.

2010 Working Interest Capital Expenditures (millions of dollars)	Change in Future Capital Expenditures			Total F&D Capital	
	2010 Capital	Proved	P+P	Proved	P+P
Land	3.6				
Geological and geophysical	0.4				
Drilling and completion	114.2	(1.4)	2.2		
Production equipment, facilities and inventory	35.6				
Drilling Credits	(19.8)				
2010 Presley Project Capital	31.5				
Total capital expenditures	165.5	(1.4)	2.2	164.1	167.7
Total capital expenditures (excluding 2010 Presley Project Capital)	134.0	(1.4)	2.2	132.6	136.2

Using 2010 total capital expenditures including the Presley project, Trilogy's finding and development costs for reserve additions were calculated to be \$12.49/Boe for proven reserves and \$11.63/Boe for proven plus probable reserves for the year ended December 31, 2010. Excluding the Presley project capital of \$31.5 million, the finding and development costs are further reduced to \$10.09/Boe for proven reserves and \$9.45/Boe for proven plus probable reserves. Trilogy has chosen to report finding and development costs with and without the capital costs required to complete the Presley projects as the capital was employed to reduce future operating costs and not to add incremental reserves.

2010 F&D Cost	Proved Capital (\$MM)	Proved Reserves MBoe	Proved F&D \$/Boe	Proved + Probable Capital (\$MM)	Proved + Probable Reserves MBoe	Proved + Probable F&D \$/Boe
Extensions, discoveries and revisions including Presley Project Capital	164.1	13,143	12.49	167.7	14,416	11.63
Extensions, discoveries and revisions excluding Presley Project Capital	132.6	13,143	10.09	136.2	14,416	9.45

Finding and development costs when calculated over the three year period ended December 31, 2010, including the costs associated with the Presley projects in 2009 and 2010, were \$12.41/Boe for proven reserves and \$11.23/Boe for proven plus probable reserves. These numbers illustrate consistency in the cost of finding and developing the reserves on Trilogy's land base. Calculating finding and development costs over a longer period reduces the effect of spending capital in one year and booking reserves in the following year.

	Proved Capital (\$MM)	Proved Reserves MBoe	Proved F&D \$/Boe	Proved + Probable Capital (\$MM)	Proved + Probable Reserves MBoe	Proved + Probable F&D \$/Boe
3 Year Average F&D Cost						
Extensions, discoveries and revisions including Presley Project Capital	374.5	30,179	12.41	375.8	33,454	11.23
Extensions, discoveries and revisions excluding Presley Project Capital	327.7	30,179	10.86	329.0	33,454	9.83

Pre-Tax Net Asset Value

Net asset value reflects a blow down scenario and is not the true representation of the Company's value, and does not include value associated with the prospect inventory or the development potential of the developed and undeveloped land base.

Net (Appraised) Asset Value Before Tax (millions of dollars as at December 31, 2010)	NPV @ 5%	NPV @ 10%
Proved plus probable reserve value ⁽¹⁾	1,605.1	1,194.9
Undeveloped Land Value ⁽²⁾	149.1	149.1
Seismic value ⁽³⁾	26.1	26.1
Inventory ⁽³⁾	2.6	2.6
Total petroleum and natural gas assets	1,782.9	1,372.7
Net debt ⁽⁴⁾	312.1	312.1
Net (appraised) asset value	1,470.8	1,060.6
Shares outstanding at December 31, 2010 (Fully Diluted)	115,036,972	
Net (appraised) asset value per share at December 31, 2010	\$12.79	\$9.22

⁽¹⁾ Before tax net present value of proved plus probable reserve at 5% and 10% discount rates using forecast price and costs

⁽²⁾ Undeveloped land value at December 31, 2010, provided by Seaton-Jordan & Associates Ltd.

⁽³⁾ Internal evaluation

⁽⁴⁾ Net debt is a non-GAAP measure consisting of long-term debt plus (minus) working capital deficiency (surplus).

⁽⁵⁾ The above calculations may not be an indicative measure of the fair market value of a Trilogy share

⁽⁶⁾ Columns and rows may not add due to rounding

⁽⁷⁾ All shares including both common and non-voting shares

Commodity Price Forecast

InSite & Associates Ltd.
December 31, 2010 Price Forecast

Year	WTI @ Cushing	Edm. Ref. Price	Henry HUB	AECO C	CDN/US Exchange Rate
	\$US/Bbl	\$C/Bbl	US\$/MMBTU	C\$/MMBTU	
2011	88.0	87.30	4.50	4.14	0.98
2012	90.0	90.28	5.20	4.71	0.97
2013	92.0	93.83	5.75	5.29	0.96
2014	94.0	95.88	6.25	5.76	0.96
2015	96.0	97.92	6.75	6.27	0.96
Next 5 years avg.	101.9	103.95	7.63	7.14	0.96

Note

i) All prices escalated at 2% per year after 2028

STAFFING

In 2010, Trilogy continued to utilize limited services from Paramount Resources ("Paramount") under the Services Agreement ("SA") entered into with Paramount when the Trilogy was formed in April of 2005. In 2010, these services consisted mainly of gas marketing services provided by Paramount staff. The SA was further extended to March 31, 2011 and is expected to be continued for another one year term prior to the expiry of the SA.

As of December 31, 2010, Trilogy employed 222 full time and contract employees; this includes 85 full time office staff plus 10 contract employees. In the field Trilogy employs 70 full time and 57 contract personnel to operate 5 gas plants, 3 oil batteries and manage Trilogy's operated wells.

Trilogy is committed to the training and development of its employees and endeavors to recruit high quality staff that will add value to the organization and who will take an active role in executing Trilogy's strategy.

HEALTH, SAFETY AND ENVIRONMENT

Health and Safety

Trilogy's main priority is the health and safety of its employees, contractors and the public. The policies, practices and procedures associated with Trilogy's Health and Safety Management System are an integral part of its daily operations; endeavoring to make safety a guiding factor in all decisions with safety awareness, training and accountability being well established fundamentals of the corporate culture. Hazard and risk assessment, incident/accident reporting and investigation, and site inspections and audits, internally as well as by insurance companies and regulatory agencies, provide a means of measuring performance. For 2010, the Energy Resources Conservation Board (ERCB) Compliance Report Card for inspections shows that Trilogy surpassed industry in all Risk Ranking categories, demonstrating a significant improvement over 2009. Further, in 2010, Trilogy had its Health and Safety Management System evaluated through

the Certificate of Recognition (COR) Program and was recognized for implementing and maintaining a system that meets Provincial standards.

Environment

Commitment to environmental protection and stewardship is a critical aspect of our operations and a significant component of Trilogy's decision making process. Environmental pre-site assessments are conducted for soil conservation to identify natural drainage patterns and to establish baseline information. New technologies are employed to reduce the footprint on the land. Impacted material from spills are cleaned up and remediated, and other generated wastes, as a result of our business activities, are identified, processed and tracked in accordance with regulatory requirements and guidelines. This is to ensure that the land is restored to a productive state at the time of surface reclamation. An asset retirement inventory has been developed and is maintained.

Trilogy participates in voluntary and mandatory reporting of air emissions and greenhouse gases (GHG) to various regulatory agencies. Trilogy's commitment to reducing greenhouse gas emissions makes implementing economically-viable GHG emission reduction projects an important part of our operations. In 2010, Trilogy completed an acid gas injection well that will contribute to reducing GHG emissions, but also presents a potential economic benefit as an Alberta Environment-approved Protocol under the Alberta Offset System.

Trilogy also works with industry and government to ensure our water resources, including rivers, streams, lakes and wetlands, as well as the groundwater systems that are linked to them are being used in a safe and sustainable manner. Trilogy constantly monitors and reviews its operations to find new ways to improve its environmental performance.

CORPORATE GOVERNANCE

The Board of Directors of Trilogy Energy Corp. is responsible for overseeing the conduct of the business of Trilogy and the activities of Management, which is responsible for the day-to-day conduct of the business of the Company. The Board's fundamental objectives are to preserve and enhance long-term Shareholder value, to ensure Trilogy meets its obligations on an ongoing basis and that it operates its business in a reliable and safe manner. Trilogy has adopted sound principles of corporate governance so as to align the interests of its Board members and Management with those of its investors. The Board has established written charters, codes and policies that clearly define the role of the Board and Trilogy's Senior Management as stewards of the Company.

The Board of Directors is comprised of eight members, five of whom are independent in accordance with the meaning of independence set out in National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101"). A lead director has been appointed. The Board operates under a written mandate, which provides direction on the authority of the Board and its duties and responsibilities with respect to supervising the management of the business and affairs of Trilogy.

There are four standing committees of the Board: the Audit Committee, the Corporate Governance Committee, the Compensation Committee and the Environmental, Health and Safety Committee. Each committee includes directors who possess the relevant skills and knowledge needed to execute the committee's mandate. Trilogy is proud of the exceptional and committed individuals who comprise the Board and bring a wide range of experience and expertise to the task of overseeing the Company.

A majority of the members of the Corporate Governance Committee, Environmental Health & Safety Committee and the Compensation Committee are independent in accordance with the meaning of independence set out in NI 58-101. All of the members of the Audit Committee are also independent as that term is defined in Multilateral Instrument 52-110 *Audit Committees*. Each committee has a written charter that clearly defines its duties, responsibilities and the extent of its authority. The Board mandate requires that the effectiveness of the Board, each committee and each individual director be assessed regularly.

The Board has developed written position descriptions for the Chairman of the Board and the Chair of each Committee, the Lead Director and Senior Management.

Trilogy has also adopted the following codes and policies:

- Code of Business Conduct;
- Code of Ethics for the CEO, President, CFO and Senior Financial Supervisors;
- Disclosure and Insider Trading Policy and a Whistleblower Policy; and
- Environmental, Health and Safety Policy.

These policies may be viewed on Trilogy's website.

More detailed information regarding Trilogy's Board and its approach to corporate governance is set forth in the Management Information and Proxy Circular dated March 8, 2011.

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. (the "Company") as at and for the year ended December 31, 2010, and should be read in conjunction with the Company's consolidated financial statements and related notes for the years ended December 31, 2010 and 2009. The consolidated financial statements have been prepared in Canadian Dollars in accordance with Canadian generally accepted accounting principles ("GAAP").

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 March 1, 2011.

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

Trilogy's oil and gas assets are primarily high working interest properties that are geographically concentrated in areas that have multi-zone development potential. Trilogy's abundant land position provides for numerous low-risk drilling opportunities with good access to infrastructure and processing facilities. The majority of the wells and producing infrastructure are operated by Trilogy.

On December 23, 2009, Trilogy Energy Trust (the "Trust") announced that it had entered into an arrangement agreement with a private corporation providing for an arrangement under the Business Corporations Act (Alberta) and related transactions (collectively, the "Conversion") pursuant to which the Trust would convert from an income trust to a corporation to be named Trilogy Energy Corp. On January 15, 2010, the Trust announced that it had mailed to holders of Trust units and filed on SEDAR a Notice of Special Meeting of Unitholders, Notice of Joint Petition and Information Circular dated January 6, 2010 with respect to the Conversion. In addition to Trust unitholder ("Unitholder") approval, the Conversion was subject to the approval of the Court of Queen's Bench of Alberta, the approval of the Toronto Stock Exchange, competition bureau approval and the consent of the Trust's lenders. On February 4, 2010, Unitholders voted in favor of the Conversion and all required approvals were obtained by February 5, 2010. Effective February 5, 2010 Unitholders exchanged their units of the Trust for Common Shares or Non-voting Shares ("Shares") of Trilogy Energy Corp. on a one-for-one basis, as more particularly described in Trilogy's information circular dated January 6, 2010. Immediately following the Conversion, Unitholders of the Trust held approximately 96 percent of the equity of the Company and the sole shareholder of the private corporation held the residual equity interest. Trilogy's Board of Directors and management team are the former Trust's Board of Directors and management team. References to "Trilogy" in this MD&A 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.

The Conversion provided the following benefits, among others:

- a simplified and more efficient corporate structure;
- the ability to reinvest more cash flow into its business to capitalize on growth opportunities, including its extensive Kaybob Montney prospects; and
- greater access to capital and improved liquidity.

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

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

(In thousand dollars except as otherwise indicated)	2010	2009	2008
Average production (Boe/d)	22,788	19,780	20,585
Natural gas production	80%	79%	79%
Average realized prices (before financial instruments):			
Natural gas (\$/Mcf)	4.35	4.33	8.91
Oil and natural gas liquids (\$/Boe)	69.51	57.37	92.02
Average realized prices (after financial instruments):			
Natural gas (\$/Mcf)	4.79	5.25	8.96
Oil and natural gas liquids (\$/Boe)	69.51	57.34	100.97
Total assets	1,012,036	893,193	957,589
Long-term debt	279,599	236,791	307,405
Total revenues ⁽¹⁾	305,803	247,749	518,131
Average operating cost (\$/Boe)	8.49	11.24	11.80
Earnings (loss) before income tax	12,659	(39,254)	131,684
Per diluted Share (\$/Share)	0.11	(0.39)	1.37
Net earnings (loss)	9,432	(33,362)	123,353
Per Share– Basic (\$/Share) ⁽²⁾	0.08	(0.33)	1.29
Per Share – Diluted (\$/Share) ⁽²⁾	0.08	(0.33)	1.28
Cash flow from operations	162,729	120,469	243,520
Per diluted Share (\$/Share) ⁽²⁾	1.42	1.20	2.53
Dividends declared	49,816	60,205	103,530
Per Voting and Non-Voting Share (\$/Share) ⁽²⁾	0.435	0.60	1.08
Exploration and development expenditures (excluding acquisitions and dispositions)	165,734	89,509	123,721
Finding and development cost (including technical revisions):			
Proved (\$/Boe)	12.49	10.85	13.68
Proved plus probable (\$/Boe)	11.63	11.19	10.75

(1) Includes Sales from petroleum and natural gas, financial instrument gains and losses and other income

(2) Includes both Common and Non-voting shares. Refer to Shares, Options and Rights section of this MD&A

BUSINESS ENVIRONMENT

A recovery from the recent economic recession in North America is underway. However, the effects of the recession are still being felt in Canada as evidenced by cautious investor confidence, market volatility, increased cost of debt, tight credit controls and lower natural gas commodity prices, among other factors. 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 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.

During the year, Trilogy completed construction of its Presley Pipeline and Kaybob North Sour Gas Plant expansion projects. The significant cost savings, efficiencies and other benefits expected to arise from these projects demonstrate Trilogy's long-term commitment to:

- improving operational efficiencies and reducing its cost structure;
- improving control over its production through increased ownership of infrastructure; and
- reducing greenhouse gas emissions.

This MD&A does not include any adjustments that may be required should Trilogy be adversely impacted by worsening economic conditions in the foreseeable future.

The following table summarizes the key commodity price benchmarks during the last three years:

	2010	2009	2008
Crude Oil			
West Texas Intermediate monthly average (U.S.\$/Bbl)	78.39	61.67	99.65
Natural gas			
NYMEX (Henry Hub Close) monthly average (U.S.\$/MMBtu)	4.40	4.00	9.03
AECO monthly average (Cdn\$/GJ)	3.91	3.93	7.71
Canadian – U.S. Dollar Yearend Closing Exchange Rate (Cdn\$/U.S.\$)	0.99	1.05	1.22

FINANCIAL AND OPERATING HIGHLIGHTS

- Reported sales volumes for the fourth quarter of 2010 averaged 21,544 Boe/d as compared to 22,462 Boe/d for the previous quarter. On a full year basis, average sales volumes were higher at 22,788 Boe/d in 2010 as compared to 19,780 Boe/d in 2009, due to an increase in capital expenditures and Trilogy's ongoing success with its Montney horizontal drilling program.
- Capital expenditures (excluding acquisitions and dispositions) totaled \$46.3 million for the fourth quarter, bringing the year-to-date capital spending, excluding acquisitions and dispositions, to \$165.7 million for 2010 (including \$31.5 million related to Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects), as compared to total capital expenditures of \$89.5 million for 2009 (including \$15.3 million related to Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects). Completion of the construction of Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects occurred in the fourth quarter of 2010.
- Trilogy added 14.4 MMBoe of proved plus probable reserves (including technical revisions) during 2010, replacing 173 percent of produced reserves.
- Finding and development costs⁽¹⁾ (including technical revisions and excluding costs of approximately \$31.5 million in respect of Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects), were \$10.09/Boe for proved reserves (\$9.45/Boe for proved plus probable reserves). Trilogy's finding and development costs⁽¹⁾ including technical revisions and the costs associated with Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects were \$12.49/Boe for proved reserves (\$11.63/Boe for proved plus probable reserves).
- Funds flow from operations⁽¹⁾ increased to \$34.0 million for the fourth quarter of 2010 as compared to \$32.4 million for the previous quarter. Higher oil and natural gas liquids commodity prices and lower operating and royalty costs increased funds flow. These were partially offset by lower realized financial instrument gains and higher general and administrative costs. Annual funds flow from operations⁽¹⁾ totaled \$151.4 million in 2010, a 35 percent increase from the previous year principally attributable to higher commodity prices and production and lower operating costs throughout 2010, partially offset by higher royalty costs and lower realized financial instrument gains.
- Dividends declared to Shareholders of the Company for the fourth quarter of 2010 were \$12.1 million or 42 percent of cash flow from operations (\$49.8 million for year-to-date 2010 or 31 percent of cash flow from operations).
- Income before income tax in 2010 of \$12.7 million as compared to a loss before income tax of \$39.2 million in 2009 is primarily attributed to the aforementioned increase in funds flow, in addition to higher unrealized losses on financial instruments in 2009.

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

SUBSEQUENT EVENTS

- Effective January 1, 2011, Trilogy executed an agreement (the "NGL Agreement") with Aux Sable Canada LP pursuant to which Trilogy will 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 Agreement is five years. In conjunction with this announcement, Trilogy indefinitely deferred previously announced plans to construct a deep-cut liquids extraction facility at its Kaybob North Sour Gas Plant (the "Plant"). The expected benefits of the NGL Agreement include:
 - the immediate recovery of additional value for Trilogy's natural gas liquids produced at Kaybob versus a Q2 2012 estimated completion date for the proposed deep-cut facility;
 - an increase to 2011 cash flow of approximately \$15 million based on current production guidance and forward oil and gas commodity strip pricing. Assuming the contracted volumes increase to approximately 130 MMcf/d, cash flow under the NGL Agreement may reach \$30 to \$40 Million per year with a total of approximately \$170 Million over the initial five year term of the NGL Agreement;
 - access to a larger, more liquid, higher priced natural gas liquids market, as reflected in the pricing under the NGL Agreement;
 - elimination of 2011 and 2012 planned capital expenditures of approximately \$55 Million to install a new cryogenic deep-cut functional unit and related equipment at the Plant;
 - operating cost savings of approximately \$2.5 Million per year at the Plant and transportation cost savings of approximately \$3.0 Million per year to transport dry gas as compared to constructing the deep cut facility;
 - no increase to Trilogy's long term debt for the deep-cut facility project at the Plant; and
 - mitigates risks associated with constructing and operating the deep-cut facility as well as those associated with marketing the extracted natural gas liquids.
- On January 17, 2011, Trilogy announced a cash dividend for January 2011 of \$0.035 per share. The dividend was paid on February 15, 2011 to shareholders of record on January 31, 2011.
- On February 2, 2011, Trilogy entered into a financial forward swap to sell 500 Bbl/d of oil for March through December 2011 at \$97.50 USD/Bbl.
- On February 9, 2011, Trilogy announced drilling, completion and initial production results on two Montney oil wells in the Kaybob area. Trilogy also announced it was successful in acquiring twenty eight sections of land associated with this pool for \$32.2 million. Trilogy believes it holds substantially all of the petroleum and natural gas rights associated with this Montney oil pool and will be evaluating and accelerating the development of this play in the second half of 2011. Trilogy anticipates drilling further delineation wells, and that the pool will require four to eight horizontal wells per section to fully exploit the Montney reservoir. Trilogy also believes that this land may also prove to be prospective in the Duvernay shale Trilogy is currently evaluating.
- On February 15, 2011, Trilogy declared a dividend of 3.5 cents per share, payable on March 15, 2011, to shareholders of record on February 28, 2011.

RESULTS OF OPERATIONS

Operating Results Summary	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
(In thousand dollars)				
Operating income⁽¹⁾	39,403	34,949	162,841	116,098
Other income (expense)	346	368	1,613	(460)
Realized financial instruments ⁽²⁾	1,326	3,666	17,111	31,489
General and administrative expenses ⁽³⁾	(4,514)	(3,425)	(17,418)	(17,269)
Bad debt expense	—	—	—	(4,000)
Interest and financing charges	(2,409)	(2,559)	(11,036)	(11,866)
Exploration expenditures ⁽³⁾	(177)	(571)	(1,717)	(1,515)
Funds flow from operations⁽¹⁾	33,975	32,428	151,394	112,477
<i>Non-cash operating items:</i>				
Depletion and depreciation	(33,963)	(34,493)	(126,381)	(124,964)
Unrealized financial instruments ⁽²⁾	(2,020)	(2,760)	(3,473)	(19,405)
General and administrative recovery (expense)	(369)	(445)	(1,675)	(1,290)
Exploration expenditures ⁽⁴⁾	(334)	(938)	(1,133)	(543)
Gain (loss) on disposition of property, plant and equipment	—	—	(8)	228
Accretion on asset retirement obligations	(1,408)	(1,462)	(5,776)	(5,802)
Future income tax (expense) recovery ⁽⁵⁾	786	3,030	(3,227)	5,892
Other	(230)	686	(289)	45
Net earnings (loss)	(3,563)	(3,954)	9,432	(33,362)

⁽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⁾ Excluding the non-cash portion of the expenditures and including asset retirement obligations paid for exploration expenditures.

⁽⁴⁾ Net of asset retirement obligations paid.

⁽⁵⁾ See Income Taxes section below.

Cash Flow From Operations Per Unit of Sales Volume	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
(Dollar per Boe)				
Gross revenue before financial instruments ⁽¹⁾	32.54	30.44	33.64	30.99
Royalties	(4.35)	(5.22)	(5.38)	(3.73)
Operating costs	(8.13)	(8.12)	(8.49)	(11.24)
Asset retirement obligation expenditures	(0.09)	(0.28)	(0.21)	(0.22)
General and administrative expenses ⁽²⁾	(2.28)	(1.66)	(2.09)	(2.39)
Bad debt expense	—	—	—	(0.55)
Interest and financing charges	(1.22)	(1.24)	(1.33)	(1.64)
Realized gain (loss) on financial instruments	0.67	1.77	2.06	4.36
Funds flow from operations⁽³⁾	17.14	15.69	18.20	15.58
Net change in operating working capital	(2.69)	6.06	1.36	1.11
Cash flow from operating activities	14.45	21.75	19.56	16.69

⁽¹⁾ Net of transportation costs and including other income.

⁽²⁾ Excluding non-cash share and stock-based compensation expense. Includes direct and indirect Conversion costs of \$3.6 million incurred in 2009 representing a cost of \$0.49 /Boe for the year ended December 31, 2009.

⁽³⁾ Refer to the advisories on non-GAAP measures and numerical references at the end of this MD&A.

Operating Income Items

Fourth Quarter 2010 vs. Third Quarter 2010 (In thousand dollars except as otherwise indicated)	Q4 2010	Q3 2010	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	101,265	109,096	(7,831)	(7)
Oil and natural gas liquids (Bbl/d)	4,666	4,279	387	9
Total (Boe/d)	21,544	22,462	(918)	(4)
Average realized prices before financial instruments and transportation:				
Natural gas (\$/Mcf)	3.82	3.97	(0.15)	(4)
Oil and natural gas liquids (\$/Bbl)	73.24	65.40	7.84	12
Average realized prices after financial instruments but before transportation:				
Natural gas (\$/Mcf)	3.96	4.33	(0.37)	(9)
Oil and natural gas liquids (\$/Bbl)	73.24	65.40	7.84	12
Petroleum and natural gas sales before financial instruments:				
Natural gas	35,592	39,842	(4,250)	(11)
Oil and natural gas liquids	31,441	25,744	5,697	22
Total petroleum and natural gas sales before financial instruments	67,033	65,586	1,447	2
Royalties	(8,627)	(10,795)	(2,168)	(20)
Operating costs	(16,109)	(16,779)	(670)	(4)
Transportation costs	(2,894)	(3,063)	(169)	(6)
Operating income ⁽¹⁾	39,403	34,949	4,454	13

(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 \$1.5 million due to lower average prices and \$2.8 million due to lower production. Oil and natural gas liquid sales, before financial instruments, increased by \$3.1 million as a result of higher average prices and by \$2.6 million due to higher production. The decrease in average production quarter over quarter was attributed to lower production associated with colder temperatures, a compressor failure and delays associated with the startup of Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion, partially offset by production additions from new wells.

Royalties – The decrease in royalties in the fourth quarter was primarily a result of additional historical royalty credit adjustments recorded in the current period. The reduction in royalties was also, in part, attributed to lower sales volumes in the current quarter. Royalties, as a percentage of petroleum and natural gas sales, averaged 13 percent for the fourth quarter as compared to 16 percent for the third quarter. The effective royalty rate decrease was principally as a result of the aforementioned items. Crown royalties on Alberta gas are calculated based on the Alberta Reference Price, which may vary from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – Operating costs were consistent at \$8.13/Boe in the fourth quarter, from \$8.12/Boe in the previous quarter.

Annual 2010 vs. Annual 2009 (In thousand dollars except as otherwise indicated)	2010	2009	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	108,871	93,257	15,614	17
Oil and natural gas liquids (Bbl/d)	4,642	4,237	405	10
Total (Boe/d)	22,788	19,780	3,008	15
Average realized prices before financial instruments and transportation:				
Natural gas (\$/Mcf)	4.35	4.33	0.02	—
Oil and natural gas liquids (\$/Bbl)	69.51	57.37	12.16	21
Average realized prices after financial instruments but before transportation:				
Natural gas (\$/Mcf)	4.79	5.25	(0.46)	(9)
Oil and natural gas liquids (\$/Bbl)	69.51	57.34	12.19	21
Petroleum and natural gas sales before financial instruments:				
Natural gas	173,058	147,346	25,712	17
Oil and natural gas liquids	117,782	88,733	29,049	33
Total petroleum and natural gas sales before financial instruments	290,841	236,079	54,762	23
Royalties	(44,717)	(26,903)	17,814	66
Operating costs	(70,618)	(81,146)	(10,528)	(13)
Transportation costs	(12,665)	(11,932)	733	6
Operating income ⁽¹⁾	162,841	116,098	46,743	40

⁽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 slightly by \$0.7 million due to higher average prices, and by \$25.0 million as a result of higher production. Oil and natural gas liquid sales, before financial instruments, increased by \$18.8 million due to higher average prices, and by \$10.3 million as a result of higher production. Production increased in 2010 in conjunction with Trilogy's increased capital budget and the ongoing success of its Montney horizontal drilling program in the Presley area. Production increases were also assisted by the continued development of Trilogy's production and processing infrastructure.

Royalties – The increase in royalties was due, in part, to higher production volumes. The increase in royalties can also be attributed to higher oil and natural gas liquids prices and the ensuing increase in the effective royalty rate of those products. As a percentage of petroleum and natural gas sales, royalties averaged 15 percent in 2010 as compared to 11 percent in 2009. The effective royalty rate increase was principally as a result of the aforementioned items. Crown royalties on Alberta gas are calculated based on the Alberta Reference Price, which may vary from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – The decrease in operating costs in 2010 was mainly attributable to reduced project costs and regulatory compliance work performed in the current year and the effect of ongoing cost reduction efforts. On a per unit of production basis, operating costs decreased as a result of the aforementioned items, in addition to the impact of fixed costs spread over higher sales volumes.

OTHER INCOME STATEMENT ITEMS

Depletion and Depreciation Expense

	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
Reported amount (thousand dollars)	33,963	34,493	126,381	124,964
Expense per sales volume (\$/Boe)	17.14	16.69	15.20	17.31

Depletion and depreciation expense was relatively consistent in the fourth quarter compared to the previous quarter. The increase to depletion and depreciation expense on a per unit basis was, in part, attributed to the reduction in sales volumes quarter over quarter. On a year to date basis, the increase is primarily attributed to higher production volumes year over year, partially offset by lower property impairment charges \$8.9 million recorded in 2010 as compared to a charge of \$13.1 million in 2009. Reductions in the expected recoverable reserves attributable to certain petroleum and natural gas wells in conjunction with changes to forecasted oil, gas and natural gas liquids prices resulted in the impairment charges recorded in 2009 and 2010.

General and Administrative Expenses

General and administrative expenses include recoveries and share-based compensation.

(In thousand dollars except as otherwise indicated)	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
Expenses before share-based compensation and recoveries	8,202	6,803	31,693	30,875
Overhead recoveries	(3,759)	(3,378)	(14,350)	(13,606)
Expenses after recoveries and before share-based compensation	4,443	3,425	17,343	17,269
Share-based compensation	440	445	1,750	1,290
Reported amount	4,883	3,870	19,093	18,559
Expenses after recoveries and before share-based compensation per sales volume (\$/Boe)	2.24	1.66	2.09	2.39

The increase in general and administrative expenses (after recoveries and before share-based compensation) in the fourth quarter of 2010 from the prior quarter was primarily attributed to a year end accrual increase for employee benefits, partially offset by higher overhead recoveries in conjunction with an increase in capital spending in the quarter. On a year-to-date basis, general and administrative expenses (after recoveries and before share-based compensation) were relatively consistent from the prior year. On a per unit basis of production, these costs were lower for 2010 given higher average production volumes.

Share based compensation expense for 2010 relates to the amortization of the grant date fair market value of options issued under Trilogy's share option plan. For periods prior to 2010, share based compensation expense was also recorded in respect of a related party's option plan issued to Trilogy employees.

Bad Debt Expense

Trilogy recorded a bad debt expense of \$4.0 million in 2009 in respect of amounts owing from a customer that had filed for protection under the Companies Creditors Arrangement Act. No bad debt expenses were recorded in 2010.

Interest and Financing Charges

(In thousand dollars except as otherwise indicated)	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
Reported amount (thousand dollars)	2,409	2,559	11,036	11,866
Expense per sales volume (\$/Boe)	1.22	1.24	1.33	1.64

Interest and financing charges were relatively consistent between the third and the fourth quarter of 2010. Interest and financing charges for 2010 were lower relative to 2009 given reduced average debt balances partially offset by higher average interest rates and financing charges.

Exploration Expenditures and Other

(In thousand dollars)	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
Exploration expenditures	511	1,509	2,850	2,058
Loss (gain) on disposition of property, plant and equipment	—	—	8	(228)
Accretion on asset retirement obligations	1,408	1,462	5,776	5,802

Exploration expenditures consist of exploratory dry hole, costs of uneconomic exploratory wells and geological and geophysical costs. The change in exploration expenditures is due mainly to the fluctuation in dry hole costs from period to period.

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 consolidated financial statements, the Advisories and other sections of this MD&A as well as the 2010 Annual Information Form.

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

(In thousand dollars except as indicated)	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
Realized gain (loss) on financial instruments	1,326	3,666	17,111	31,489
Unrealized gain (loss) on financial instruments	(2,020)	(2,760)	(3,473)	(19,405)
Total gain (loss) on financial instruments	(694)	906	13,638	12,084
Realized gain (loss) on financial instruments (\$/Boe)	0.67	1.77	2.06	4.36

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)	Dec. 31, 2010	Dec. 31, 2009
Net current liabilities (assets)	32,536	9,636
Long-term debt	279,599	236,791
Net debt ⁽¹⁾	312,135	246,427
Shareholders' equity	434,564	434,612
Total	746,699	681,039
Committed amount that can be drawn from credit facilities	390,000	390,000
Outstanding undrawn letters of credit	(8,408)	(8,886)
Portion of credit facilities subject to draw restrictions as at the balance sheet date	—	(40,000)
Amount that can be drawn after letters of credit	381,592	341,114
Net debt above	(312,135)	(246,427)
Remaining available credit	69,457	94,687

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

Working Capital

The working capital deficit increased from \$9.6 million as at December 31, 2009 to \$32.5 million as at December 31, 2010 primarily due to the decrease in the mark-to-market valuation of financial

instruments by \$3.5 million and higher accounts payable associated with increased capital expenditure activity in the fourth quarter, partially offset by a small reduction in dividend payable.

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

Long-term Debt and Credit Facilities

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

Trilogy's bank debt outstanding under its revolving credit and working capital facility was \$280.3 million (before unamortized discount) as at December 31, 2010 (December 31, 2009 – \$237.0 million). The revolving feature of the Company's credit facility expires on March 31, 2011, if not extended. In the event the revolving period is not extended, the revolving facility would be available for a one year term on a non-revolving basis, at the end of which time amounts drawn down under the facility would be due and payable. As at the date hereof, Trilogy is in the process of extending its credit agreement and related revolving period and expects to obtain such extension subsequent to the issuance of its annual report and its related oil and gas reserve information.

The size of the committed credit facilities (\$390 million as of December 31, 2010) is based primarily on the value of Trilogy's producing petroleum and natural gas assets and related tangible assets as determined by the lenders.

In 2009 Trilogy successfully negotiated a \$40 million committed, non-revolving construction facility with its revolving and working capital facility lenders in respect of Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects. Upon construction completion in 2010, the construction facility was terminated and an additional \$40 million was extended to the revolving facility (total commitment, including the working capital facility, \$390 million). Refer to the Liquidity and Capital Resources section of this MD&A.

Given current debt levels, Trilogy is in a position to exploit its high quality asset base in order to grow production and reserves on an annual basis and to distribute excess cash flow to shareholders in the form of dividends. Relative to the prior year, increases in commodity strip prices, reserves base or decreases to Trilogy's cost structure generally would result in a related increase to lender credit facility commitments which, in turn, would provide for further capital and liquidity resources for Trilogy.

Contractual Obligations

In addition to the financial contracts disclosed in the consolidated financial statements, the Company has the following estimated contractual financial obligations (undiscounted) as at December 31, 2010:

(In thousand dollars)	Payable in				Total
	2011	2012 – 2013	2014 – 2015	After 2015	
On or partially on balance sheet:					
Long-term debt ⁽¹⁾	—	279,599	—	—	279,599
Asset retirement obligations ⁽²⁾	1,751	3,608	3,754	184,273	193,386
Off balance sheet:					
Estimated interest on long-term debt ⁽¹⁾	10,876	2,502	—	—	13,378
Pipeline transportation commitments ⁽³⁾	10,197	18,476	17,629	90	46,392
Office premises operating leases ⁽⁴⁾	2,495	5,352	5,690	4,825	18,362
Vehicle and energy service commitments	447	1,651	—	—	2,098
Total	25,766	311,188	27,073	189,188	553,215

(1) Debt has been assumed to be payable within 2 years based on the existing terms of the underlying revolving credit facility solely for purposes of this contractual obligations table. Interest on long-term debt was calculated based on an approximate interest rate of 3.89 percent per annum applied to the outstanding balance of debt as at December 31, 2010.

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

(3) Some of the pipeline transportation commitments are covered by letters of credit issued by the Company totaling \$8.4 million as at December 31, 2010.

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

Shares, Options and Rights

Trilogy had 115,036,972 Shares outstanding as at December 31, 2010, consisting of 84,201,110 Common Shares and 30,835,862 Non-Voting Shares. For a detailed account of Trilogy's share capital since December 31, 2009, refer to note 7 of the 2010 annual consolidated financial statements.

Prior to the Conversion and in connection with Trilogy's distribution reinvestment plan ("DRIP"), 403,385 units were issued for proceeds of \$3.2 million for the year ended December 31, 2010. Trilogy terminated its Distribution Reinvestment Plan ("DRIP") prior to the Conversion. Accordingly, shareholders have no further ability to reinvest dividends through any similar program post Conversion.

Prior to the Conversion and pursuant to a Normal Course Issuer Bid ("NCIB") that expired after March 23, 2010, Trilogy purchased and cancelled 144,400 Trust Units in 2010 for a total cost of \$1.1 million. On March 26, 2010, Trilogy received the necessary approvals for a NCIB to purchase up to 5,104,163 of its Common Shares (the maximum allowable number) through the facilities of the Toronto Stock Exchange. This NCIB expires after approximately one year from the date in which purchases under the NCIB can commence. There have been no purchases in respect of this NCIB as at the date hereof.

Post Conversion, an additional 4,219,653 Common Shares or 4 percent of the total Shares were issued and outstanding to the sole shareholder of the private corporation that was party to the Conversion. Voting rights are the primary difference between the Non-Voting shares and the

Common Shares. For more information regarding Share rights, please refer to Trilogy's Annual Information Form under "Description of Share Capital".

During the year, 68,000 share options were exercised for proceeds of \$0.5 million.

Outstanding share options issued under Trilogy's share option plan were 5,870,000 as at December 31, 2010 and 5,555,500 share options as at the date hereof, of which 1,799,000 share options and 1,492,500 share options were exercisable as at those dates, respectively. The options agreements outstanding and the related option plan post Conversion are substantially the same as prior to the Conversion.

Dividends

(In thousand dollars except where stated otherwise)	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
Funds flow from operations ⁽¹⁾	33,974	32,428	151,394	112,477
Net changes in operating working capital	(5,330)	12,516	11,335	7,992
Cash flow from operations	28,644	44,944	162,729	120,469
Net (loss) earnings	(3,563)	(3,954)	9,432	(33,362)
Dividends declared ⁽²⁾	12,077	12,075	49,816	60,205
Dividends declared per Share (in full amount)	0.105	0.105	0.435	0.60
Excess of cash flow from operations over dividends declared	16,567	32,869	112,913	60,264
Excess of dividends declared over net loss or earnings	(15,640)	(16,029)	(40,384)	(93,567)

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

⁽²⁾ Including amounts reinvested under the Trust's distribution reinvestment plan as disclosed in the notes to consolidated financial statements.

Trilogy's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess of cash flow from operations over dividends is not sufficient to cover capital spending, the shortfall is funded by draw downs from Trilogy's credit facilities. Trilogy intends to provide dividends to Shareholders that are sustainable to the Company considering its liquidity (refer to the discussion on long-term debt and credit facilities above) and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Trilogy's payout ratio, calculated as the percentage of dividends declared over cash flow from operations, was 31 percent for the year ended December 31, 2010. Following the Conversion, Trilogy's initial monthly dividend paid was \$0.035 per share, approximately equivalent to, for a Canadian taxable Unitholder, the historical \$0.05 per Share monthly distribution on an after-tax basis.

Dividends declared to Shareholders may exceed net earnings generated during the period. Net earnings may not be an accurate indicator of Trilogy's liquidity, as it may be comprised of significant charges not involving cash including future income tax, depletion and depreciation related expenses and mark-to-market gains or losses. In addition, dry hole costs and depletion and depreciation expense is not an appropriate measure of the cost of productive capacity

maintenance (see next paragraph). In instances where dividends exceed net earnings, a portion of the cash dividend to Shareholders may represent an economic return of capital.

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

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

Capital Expenditures

(In thousand dollars)	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
Land	1,166	1,286	3,608	2,802
Geological and geophysical	65	82	436	1,325
Drilling and completions	36,600	27,143	114,211	56,374
Drilling incentive credits	(4,711)	(5,095)	(19,795)	(7,422)
Production equipment and facilities	13,166	19,783	67,104	36,056
Exploration and development expenditures	46,286	43,199	165,564	89,135
Proceeds received from property dispositions	(50)	368	(49)	(448)
Property acquisitions	(9)	(7)	359	406
Corporate assets	74	(27)	170	374
Net capital expenditures	46,301	43,533	166,044	89,467

Capital expenditures increased during the fourth quarter as compared to the previous quarter as a result of increased drilling activity, partially offset by a reduction in facility related costs in the current quarter on Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects. On a full year basis, capital expenditures were significantly higher in 2010 as compared to 2009 given an increased 2010 capital expenditure program, joint venture projects and higher relative costs incurred in 2010 on the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects. These increased costs were partially offset by higher drilling incentive credits recorded for 2010. Costs associated with the construction and completion of Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects were \$31.5 million for the year (2009 - \$15.3 million).

Wells Drilled

(Number of wells)	Three Months Ended				Years Ended			
	Dec. 31, 2010		Sept. 30, 2010		Dec. 31, 2010		Dec. 31, 2009	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Natural gas	12	6.7	12	7.3	45	29.6	26	19.2
Oil	2	2.0	6	3.1	11	6.5	3	1.2
Total	14	8.7	18	10.4	56	36.1	29	20.4

⁽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

Pursuant to the Conversion, certain Unitholders resident in Canada obtained a full or partial deferral of any capital gain that may otherwise arise on the Conversion by making a valid tax election with Trilogy. Post Conversion, Shareholders received dividends (versus distributions) and are subject to the tax rules applicable thereon.

As at December 31, 2010, tax pools were estimated to be \$175 million for tangibles, \$173 million for intangibles and \$679 million in respect of loss carryforward balances (\$1.03 billion). Expiry of the majority of the tax loss carryforward balance is expected after December 2029.

RELATED PARTY TRANSACTIONS

As described in more detail in the notes to the Company's consolidated financial statements for the year ended December 31, 2010, the following is a summary of the Company's transactions with related parties:

- Paramount Resources, a wholly-owned subsidiary of Paramount Resources Ltd. (which owns approximately 21 percent of the outstanding Shares at December 31, 2010), provides administrative and operating services to the Company and its subsidiaries, pursuant to a Services Agreement dated April 1, 2005, as amended, to assist the Company in carrying out its duties and obligations as general partner of Trilogy Energy LP and as the administrator of the Trust and Trilogy Holding Trust. The amount of expenses paid and accrued for such services was \$0.4 million for the year ended December 31, 2010 (2009 - \$0.3 million). This Services Agreement was amended and restated as at February 5, 2010 to reflect Trilogy's post-Conversion structure.
- In addition, the Company and Paramount also had transactions with each other arising from normal business activities.

OUTLOOK INFORMATION

Trilogy is maintaining its guidance as originally provided on December 7, 2010. Further guidance will be provided at a later date as Trilogy is in the process of refining the exploitation strategy of its new Montney horizontal oil play in light of recent success on two horizontal Montney oil wells and the related acquisition of lands in this area.

Trilogy's current guidance for 2011 is as follows:

Average production	26,500 Boe/d
Average operating costs	\$8.50 /Boe
Capital expenditures, excluding property acquisitions, dispositions and Trilogy's February 9, 2011 \$32.2 million Kaybob area land purchase.	\$130 million

QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per unit amounts)	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue after financial instruments, royalties and other income	57,829	56,751	58,167	88,339
Earnings (loss) before tax	(4,349)	(6,984)	(2,731)	26,724
Net earnings (loss)	(3,563)	(3,954)	1,557	15,392
Earnings (loss) per Share (in full amounts):				
Basic	(0.03)	(0.03)	0.01	0.14
Diluted	(0.03)	(0.03)	0.01	0.14

(In thousand dollars except per unit amounts)	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Revenue after financial instruments, royalties and other income	64,911	47,790	47,561	60,584
Earnings (loss) before tax	(5,019)	(12,003)	(20,493)	(1,739)
Net earnings (loss)	(8,749)	(10,794)	(19,695)	5,876
Earnings (loss) per Share (in full amounts):				
Basic	(0.08)	(0.11)	(0.20)	0.06
Diluted	(0.08)	(0.11)	(0.20)	0.06

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 royalty, and realized and unrealized gains/losses on financial instruments and future income tax estimates. Please refer to the Results of Operations and other sections of this MD&A for the detailed discussions on changes from the third quarter of 2010 to the fourth quarter of 2010, and to Trilogy's previously issued interim and annual MD&A for changes in prior quarters.

SUPPLEMENTARY ENVIRONMENTAL DISCLOSURES

Canada's Federal and Alberta's provincial governments have in recent years developed separate plans and programs to reduce industrial greenhouse gas ("GHG") emissions. As part of such plans and programs, both governments have issued certain directives, rules, and amendments to existing laws concerning the reporting and control of industrial gas emissions.

In October 2006, the Canadian Federal Government announced its intention to regulate GHG and other air pollutants. The Turning the Corner plan to reduce GHG and air pollution was unveiled on April 26, 2007 with further details of the plan announced on March 10, 2008. The plan sets out an approach for reducing GHG and air pollution emissions from industry and set a national target of a 20% reduction in GHGs from 2006 levels by 2020 and 60% to 70% by 2050. Trilogy provided information about its emissions of air pollutants and GHGs for the year 2006 to the Canadian Federal Government as required under the plan. On January 30, 2010, the

Government of Canada submitted to the United Nations Framework on Climate Change a non-legally binding commitment under the Copenhagen Accord to reduce Canada's emissions of GHGs by 17% from 2005 emission levels by 2020. This is a significant change from previous international commitments of a 20% reduction in emissions from 2006 levels by 2020. The Government of Canada signalled that the new national emission reduction target was to be aligned with emission reduction targets of the United States. It is unclear how the new proposed national emission reduction target is to be met and whether the previous announced proposed regulatory plan will proceed or be replaced with a new regulatory framework. Trilogy believes that it is reasonably likely that new federal legislation requiring emissions reductions similar to the Framework will be enacted in Canada around the same time as similar legislation is enacted in the United States. Since there is no federal legislation at this time in respect of reducing GHG, only a plan, it is difficult to assess what the impact of any GHG legislation will have since the parameters are unknown at this time. It is not known when the federal government will enact GHG emission reduction legislation.

Commencing July 2007, Alberta's Climate Change and Emissions Management Act requires facilities that emit more than 100,000 tonnes of GHG per year to reduce their emissions intensity by 12 per cent from a 2003 to 2005 average baseline. Compliance options include: (i) making operating improvements; (ii) purchasing off set credits to apply against the emission total; (iii) contributing to the Climate Change and Emissions Management Fund for GHG emissions reduction or (iv) purchasing or using emission performance credits. Trilogy does not own any facilities that currently emit 100,000 tonnes or more of GHG and therefore is not currently financially impacted by this legislation. Accordingly, Trilogy has not incurred, nor does it anticipate incurring material costs relating to this greenhouse gas emissions reduction program. However, no certainty exists that current thresholds upon which contributions are based under existing regulations, or the regulations as a whole will not change in the future. Such changes could materially impact Trilogy.

As at December 31, 2010, Trilogy has not recorded any significant costs and liabilities relating to the above initiatives and regulations, any other environmental protection laws and regulations, or environmental disasters. However, Trilogy has recognized, in its financial statements, asset retirement obligations representing estimates of costs to retire its assets at the end of their useful lives, which include estimated abandonment, surface reclamation and groundwater protection costs. Additional information on asset retirement obligation is disclosed in Trilogy's financial statements and in other sections of this MD&A.

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 GAAP. The application of GAAP 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 is a discussion of the critical accounting estimates that are inherent in the preparation of the Company's December 31, 2010 consolidated financial statements and notes thereto.

Accounting for Petroleum and Natural Gas Properties

Under the successful efforts method of accounting, the Company capitalizes acquisition costs of oil and gas properties and the costs of drilling and equipping development wells and successful exploratory wells. Exploration expenditures, including geological and geophysical costs, lease rentals on producing properties, and exploratory dry holes are charged to earnings in the period incurred. Certain costs of exploratory wells are capitalized pending determination that proved reserves have been found. Such determination is dependent upon, among other things, the results of planned drilling and completion of additional wells and the cost of required capital expenditures to produce the reserves found.

The application of the successful efforts method of accounting requires management's judgment to determine the proper designation of wells as either developmental or exploratory, which may ultimately determine the accounting treatment of the costs incurred. The results of a drilling operation can take considerable time to analyze, and the discovery of proved reserves requires both judgment and the application of industry experience. The evaluation of petroleum and natural gas leasehold acquisition costs also requires management's judgment to evaluate the fair value of exploratory costs related to drilling activity in a given area.

Estimates of Reserves

Estimates of the Company's reserves are prepared in accordance with guidelines established by the Ontario Securities Commission. Reserve engineering is a subjective process of estimating underground accumulations of petroleum and natural gas that cannot be measured in an exact manner. The process relies on interpretations of available geological, geophysical, engineering and production data. The accuracy of a reserve estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgment of the persons preparing the estimate.

Trilogy's reserve information is based on estimates prepared by its independent petroleum evaluators. Estimates prepared by others may be different than these estimates. Because these estimates depend on many assumptions, all of which may differ from actual results, reserve estimates may be different from the quantities of petroleum and natural gas that are ultimately recovered. In addition, the results of drilling, testing and production after the date of an estimate may justify revisions to the original estimates. Trilogy intends that 100 percent of its annual reserves information is evaluated by independent petroleum evaluators.

The present value of future net revenues should not be assumed to be the current market value of the Company's estimated reserves. With highly volatile energy commodity prices, actual future prices, costs and reserves may be materially higher or lower than the prices, costs and reserves used for the future net revenue calculations.

The estimates of reserves impact depletion, dry hole expenses, future income taxes and asset retirement obligations. If reserve estimates decline, the rate at which the Company records depletion increases, reducing net earnings. In addition, changes in reserve estimates may impact the outcome of Trilogy's assessment of its petroleum and natural gas properties for impairment as discussed below.

Impairment of Petroleum and Natural Gas Properties

The Company reviews its properties for impairment annually on a field basis. For each field, an impairment provision is recorded whenever events or circumstances indicate that the carrying value of those properties may not be recoverable. The impairment provision is based on the

excess of carrying value over fair value. Fair value is determined as the present value of the estimated future net revenues from production of total proved and probable petroleum and natural gas reserves, as estimated by the Company on the balance sheet date. Reserve estimates, as well as estimates for petroleum and natural gas prices and production costs may change, and there can be no assurance that impairment provisions will not be required in the future.

Unproved leasehold costs and exploratory drilling in progress are capitalized and reviewed periodically for impairment. Costs related to impaired prospects or unsuccessful exploratory drilling are charged to earnings. Acquisition costs for leases that are not individually significant are charged to earnings as the related leases expire. Further impairment expense could result if petroleum and natural gas prices decline in the future or if negative reserve revisions are recorded, as it may no longer be economic to develop certain unproved properties. Management's assessment of, among other things, the results of exploration activities, commodity price outlooks and planned future development and sales, impacts the amount and timing of impairment provisions.

Asset Retirement Obligations

The asset retirement obligations recorded in the consolidated financial statements are based on an estimate of the fair value of the total costs for future site restoration and abandonment of the Company's petroleum and natural gas properties. This estimate is based on management's analysis of production structure, reservoir characteristics and depth, market demand for equipment, currently available procedures, the timing of asset retirement expenditures, discussions with construction and engineering consultants and estimation of applicable discount and inflation rates. Estimating these future costs requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changes in technology and political and regulatory environments. Also, discount and inflation rates may vary overtime as a result of changing economic conditions which will cause actual asset retirement expenditures to differ from what was previously estimated.

Share-Based Compensation

Trilogy accounts for its share option plan using the fair value method. The determination of the fair value of share options requires management to make assumptions about risk-free interest rates and expected volatility, and dividend level at the time of the granting of share options. Such assumptions may change from time to time and the estimated fair value of share options calculated at the grant date may differ on subsequent dates. The fair value of outstanding share options being amortized to general and administrative expense is not revised for any changes subsequent to the grant date.

Future Income Tax

The recording of future income tax for Trilogy involves the use of various assumptions to estimate the amounts and timing of the reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes. It also involves the estimation of the effective tax rates for future fiscal years. The assumptions used include, but are not limited to, estimated results of operations, the availability of tax pools and tax pool claims and are based on management's current estimates and will likely change in future periods. Accordingly, the estimate of future income tax will change in future periods and will differ from the current estimate.

NEW ACCOUNTING PRONOUNCEMENTS

Change in Accounting Policies

CICA 1582 (Business Combinations) and CICA 1601 (Consolidated Financial Statements) replace former sections CICA 1581 (Business Combinations) and CICA 1600 (Consolidated Financial Statements), respectively. CICA 1602 (Non-controlling Interests) establishes a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to IFRS 3, Business Combinations (January 2008) and IAS 27, Consolidated and Separate Financial Statements (January 2008). CICA 1582 is effective for business combinations for which the acquisition date is on/after the beginning of the first annual reporting period beginning on/after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

IFRS IMPLEMENTATION

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("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. For PAEs with a December 31 year-end, the first unaudited interim financial statements under IFRS will be for the quarter ending March 31, 2011, with comparative financial information for the quarter ending March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ending December 31, 2010. This also means that all opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited interim financial statements.

Trilogy commenced its IFRS conversion project in 2007 and has established a formal governance structure which includes the audit committee, senior management and key implementation personnel. Trilogy has also engaged, under the direction of management, an independent external advisor to assist in certain aspects of the IFRS conversion project.

Trilogy's IFRS conversion project consisted of three phases: Phase 1 involves scoping and diagnostic work which includes planning and the identification of differences between current Canadian GAAP and IFRS; Phase 2 involved the detailed evaluation of relevant IFRS and their impact to financial disclosures, internal controls and operational and other business processes. Phase 2 also involves staff training and audit committee orientation; Phase 3 involved the recommendation, approval, implementation and review of the policies selected under IFRS and the related changes in processes and controls.

The Company continues to implement plans for transitioning to IFRS and project implementation team members regularly attend and monitor IFRS educational sessions and peer group discussions in an effort to keep current on IFRS developments applicable to Trilogy. During the year Trilogy continued to perform detailed analysis of relevant IFRS standards and selection of relevant accounting policies to understand their impact on Trilogy's financial disclosures, internal controls and operational and other business processes. Approval and implementation of management's recommended policies under IFRS, finalization of Trilogy's opening balance sheet as at January 1,

2010 and compilation of additional financial statement information and disclosures will continue throughout first quarter of 2011. IFRS implementation and reporting is on-schedule for an effective implementation date of January 1, 2011.

In preparing Trilogy's opening balance sheet as at January 1, 2011, the significant accounting differences identified to date impacting Trilogy's opening balance sheet and the related disclosures under IFRS as compared to Canadian GAAP include:

- *Depletion and depreciation of property, plant and equipment "PP&E"* – certain tangible assets that would otherwise be depreciated together under a similar time horizon are "componentized" which may result in the significant components therein having differing useful lives and amortization schedules. Accordingly, amortization and the related net book value of Trilogy's PP&E may vary from the amount as computed under GAAP. Such changes are not anticipated to be significant.
- *Impairment of PP&E* – Similar to GAAP, PP&E is analyzed against fair value metrics periodically for impairment. Differences between Canadian GAAP and IFRS exist in the prescribed methodology in testing for asset impairments. Significant differences between IFRS and GAAP in testing for the existence of impairments in PP&E include: Under IFRS, assets are tested for impairment at the cash generating unit ("CGU") level. CGU's under IFRS may differ from asset groupings used for impairment testing under GAAP. The occurrence of an impairment may increase under IFRS when discounted PP&E cash flows are used to assess impairments. Under IFRS, impairments may be reversed at a later time to the extent the "fair value" of the asset increases. Under GAAP, no ability exists to reverse prior impairments. As at the date hereof, no differences have been identified in the reported PP&E, including Trilogy's exploration and evaluation assets, under IFRS. However, inherent in Trilogy's PP&E are assets recorded in conjunction with its provision for asset retirement obligations. Impairments under IFRS are therefore dependent, in part, on the value of such asset recorded in PP&E. Changes to discount rates in computing related "Decommissioning and restoration liabilities" under IFRS may impact the occurrence of an impairment under IFRS on Trilogy's opening balance sheet.
- *Accounting for stock based compensation* – As the Company existed as a Trust on January 1, 2010, option based awards are treated as a financial liability given the nature of the instrument underlying the option (namely, a trust unit). On Conversion, any such liability would be reversed, contributed surplus would be reinstated for the cumulative graded vesting amortization of the underlying share options and any difference between these amounts would impact earnings. Trilogy estimates no significant difference exist between the calculated financial liability under IFRS and the historical amortization of grant date option fair value amounts under GAAP as at January 1, 2010.
- *Decommissioning and restoration liability "DRL"* – The Company has made a preliminary decision to discount the estimated fair value of its DRL (similar term is asset retirement obligation under GAAP) and the related PP&E using a credit adjusted interest rate. Under IFRS, DRL amounts are measured as the best estimate of the expenditure to be incurred and such discount rate is applied at each re-measurement date with a corresponding adjustment to the related PP&E. Any difference between the adjustment to the PP&E asset (as calculated in accordance with IFRS 1) and the DRL is booked to retained earnings. It is expected that the DRL and related asset will decrease in conjunction with the above change in discount rate under IFRS from GAAP. However, to the extent Trilogy utilizes a discount rate below a credit adjusted rate, the DDL and related asset in PP&E will increase significantly.

- *Income taxes* – In transitioning to IFRS and based on current standards, temporary differences under a trust legal entity structure between the tax and net book value of Trilogy's assets and liabilities should be measured at a tax rate significantly higher (approximately 39 percent) than the future tax rate Trilogy used under GAAP which was reflective of the rate applicable to a Canadian corporation (approximately 25 percent). Accordingly, it is anticipated that the net future tax liability that existed under GAAP will be significantly higher under IFRS on January 1, 2010. However, upon Conversion, temporary differences and the related future tax liabilities and assets would be re-measured using the lower Canadian corporate rate, resulting in a future tax recovery recorded first quarter 2011 earnings for this rate reduction.

The adoption of IFRS will have some impact on information systems requirements. Trilogy has the accounting system functionality requirements, upgrades and modifications that IFRS requires to ensure an efficient conversion to IFRS.

In accordance with Trilogy's approach to certification of internal controls required, all entity level information technology disclosure and business process controls will require updating and testing to reflect changes arising from the conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of the conversion to IFRS.

Trilogy does not expect the adoption of IFRS to materially impact Trilogy's underlying cash flows, company profitability metrics (see Non-GAAP measures) and operating performance.

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management has assessed the effectiveness of Trilogy's internal controls over financial reporting and disclosure controls and procedures as at December 31, 2010, and has concluded that such controls and procedures were effective as at that date. In addition, there were no material changes to Trilogy's internal controls over financial reporting since the most recent interim period.

ADVISORIES

Certain statements included in this document (including this MD&A, the Message to Shareholders and Review of Operations) constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "goal", "objective", "possible", "probable", "projected", "scheduled", or state that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to statements regarding: long-term supply of and demand for petroleum and natural gas; business strategy and objectives; the anticipated benefits of the Conversion; the anticipated benefits of Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects; capital expenditures; future production levels; estimates of drilling prospect inventory and the risk and potential reserves associated therewith; development plans and the timing, cost and expected benefits thereof, including Trilogy's horizontal well program, exploration and development of the Montney and Duvernay formations and other drilling and construction plans; the location, extent, geology and potential for development of the Kaybob area Montney oil pool and the nature of Trilogy's plans to further delineate and exploit this pool; potential application of drilling technologies to other areas and geological formations and projections as to potential reserves

associated therewith; statements as to the prospective nature of the lands acquired at the February 9, 2011 Alberta Crown land sale; expectations of Trilogy's management regarding the timing and expected benefits of its natural gas liquids recovery agreement with Aux Sable Canada LP including, without limitation, pricing, projected revenue to be received by Trilogy thereunder, the resultant cash flow, anticipated cost savings and future production levels under the agreement as well as the deferral of plans to construct a natural gas liquids extraction facility at the Kaybob North Sour Gas Plant, the time it would have taken to complete such facility, the value which would have been obtained therefrom and the costs which would have been attributable thereto; net revenue and cash flow; approach to and amount of dividends; operating and other costs; royalty rates; Trilogy's ability to utilize government incentive programs; estimates of future tax amounts; applicability of income tax legislation and government incentive programs affecting Trilogy; expected counterparty risk; credit limits, the cost of borrowing and Trilogy's expectations regarding extension of its credit facility; pro-forma debt levels; projected results of hedging contracts and other financial instruments; and the expected impact of new accounting pronouncements. Statements regarding "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based estimates and assumption 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 with Aux Sable Canada LP

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

materially from those anticipated by Trilogy and described in the forward-looking statements or information. These risks and uncertainties include but are not limited to:

- fluctuations in oil, natural gas and natural gas liquids prices, foreign currency exchange rates and interest rates;
- volatile economic and business conditions
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- Trilogy's ability to secure adequate product processing, transmission and transportation;
- the ability of management to execute its business plan;
- risks and uncertainties involving geology of oil and gas deposits including, without limitation, those regarding the extent and development potential of the Kaybob 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

In this document, Trilogy uses the terms “funds flow from operations”, “operating income”, “net debt”, “Finding and Development Costs”, “Operating Netback” and “Payout Ratio” collectively the “Non-GAAP measures”, as indicators of Trilogy's financial performance. The Non-GAAP measures do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (“GAAP”) and therefore 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 GAAP 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 asset retirement obligation expenditures 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). Management believes that the Non-GAAP measures provide useful information to investors as indicative measures of performance.

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 GAAP, as set forth above, or other measures of financial performance calculated in accordance with GAAP.

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.



MANAGEMENT'S REPORT

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

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

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

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

/s/J. H. T. Riddell
J. H. T. Riddell
Chief Executive Officer

/s/ M. G. Kohut
M. G. Kohut
Chief Financial Officer

March 1, 2011

March 1, 2011

Independent Auditor's Report

To the Shareholders' of Trilog Energy Corp.

We have audited the accompanying consolidated financial statements of Trilog Energy Corp., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of (loss) earnings and other comprehensive (loss) income, shareholder's equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trilogy Energy Corp. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

TRILOGY ENERGY CORP.
Consolidated Balance Sheets

(In thousand dollars)

	As at December 31,	
	2010	2009
ASSETS		
Current Assets		
Accounts receivable (notes 10, 11 and 13)	\$ 50,837	\$ 50,797
Financial instruments (notes 10 and 11)	—	2,803
Prepaid expenses	734	546
	51,571	54,146
Property, plant and equipment (note 4)	721,652	686,736
Future income taxes (note 15)	98,342	11,840
Goodwill	140,471	140,471
	\$ 1,012,036	\$ 893,193
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (notes 10, 11 and 13)	\$ 79,391	\$ 58,257
Dividends payable (notes 8, 10, 11 and 13)	4,026	5,525
Financial instruments (notes 10 and 11)	690	—
	84,107	63,782
Long-term debt (notes 5, 10 and 11)	279,599	236,791
Asset retirement obligations (note 6)	77,525	75,355
Deferred Credit (note 15)	136,241	—
Future income taxes (note 15)	—	82,653
	493,365	394,799
Shareholders' equity		
Shareholders' capital (note 7)	864,758	825,758
Contributed surplus (note 9)	11,587	10,251
Accumulated deficit after dividends	(441,781)	(401,397)
	434,564	434,612
	\$ 1,012,036	\$ 893,193

Commitments and contingencies (notes 5, 10 and 14)

See accompanying notes to consolidated financial statements.

On behalf of the Board

/s/ R. M. MacDonald
R. M. MacDonald
 Director

/s/ M. H. Dilger
M. H. Dilger
 Director

TRILOGY ENERGY CORP.**Consolidated Statements of Earnings (Loss) and Other Comprehensive Income (Loss)**

(In thousand dollars except as otherwise indicated)

	Years Ended December 31,	
	2010	2009
Revenue		
Petroleum and natural gas sales	\$ 290,841	\$ 236,079
Realized gain on financial instruments (notes 10 and 11)	17,111	31,489
Unrealized gain (loss) on financial instruments (notes 10 and 11)	(3,473)	(19,405)
Royalties	(44,717)	(26,903)
Other income (expense)	1,324	(414)
	261,086	220,846
Expenses		
Operating	70,618	81,146
Transportation	12,665	11,933
General and administrative (notes 9 and 13)	19,093	18,559
Bad debt expense (note 10)	—	4,000
Exploration expenditures	2,850	2,058
Loss (gain) on disposition of property, plant and equipment	8	(228)
Accretion on asset retirement obligations (note 6)	5,776	5,802
Depletion and depreciation (note 4)	126,381	124,964
Interest and financing charges	11,036	11,866
	248,427	260,100
Earnings (loss) before taxes	12,659	(39,254)
Future income taxes expense (benefit) (note 15)	3,227	(5,892)
Net earnings (loss) / Total comprehensive income (loss)	\$ 9,432	\$ (33,362)
Earnings (loss) per Share (in full amounts)		
— Basic	\$ 0.08	\$ (0.33)
— Diluted	\$ 0.08	\$ (0.33)
Weighted average Shares outstanding (in thousands)		
— Basic	114,574	100,060
— Diluted (note 7)	114,574	100,060

See accompanying notes to consolidated financial statements.

TRILOGY ENERGY CORP.**Consolidated Statements of Shareholders' Equity**

(In thousand dollars except Share information)

	Year Ended December 31, 2010				
	Outstanding Shares	Paid-in Capital	Accumulated Deficit	Contributed Surplus	Shareholders' Equity
Opening balance	110,490,334	\$ 825,758	\$ (401,397)	\$ 10,251	\$ 434,612
Net earnings for the year	—	—	9,432	—	9,432
Equity on Conversion <i>(notes 1 and 7)</i>	4,219,653	36,141	—	—	36,141
Distribution reinvestment plan <i>(notes 7 and 8)</i>	403,385	3,234	—	—	3,234
Dividends declared <i>(note 8)</i>	—	—	(49,816)	—	(49,816)
Normal course issuer bid <i>(note 7)</i>	(144,400)	(1,079)	—	(145)	(1,224)
Stock option recognition <i>(notes 7 and 9)</i>	68,000	704	—	1,481	2,185
Closing balance	115,036,972	\$ 864,758	\$ (441,781)	\$ 11,587	\$ 434,564

	Year Ended December 31, 2009				
	Outstanding Shares	Paid-in Capital	Accumulated Deficit	Contributed Surplus	Shareholders' Equity
Opening balance	95,996,646	\$ 714,950	\$ (307,830)	\$ 8,977	\$ 416,097
Net loss for the year	—	—	(33,362)	—	(33,362)
Distribution reinvestment plan and other equity issuances <i>(notes 7 and 8)</i>	14,486,188	110,745	—	—	110,808
Dividends declared <i>(note 8)</i>	—	—	(60,205)	—	(60,205)
Normal course issuer bid <i>(note 7)</i>	—	—	—	—	—
Stock option recognition <i>(note 9)</i>	7,500	63	—	1,274	1,274
Closing balance	110,490,334	\$ 825,758	\$ (401,397)	\$ 10,251	\$ 434,612

See accompanying notes to consolidated financial statements.

TRILOGY ENERGY CORP.
Consolidated Statements of Cash Flows
(In thousand dollars)

	Years Ended December 31	
	2010	2009
Operating activities		
Net (loss) earnings	\$ 9,432	\$ (33,362)
Add (deduct) non-cash and other items:		
Depletion and depreciation	126,381	124,964
Loss (gain) on disposition of property, plant and equipment	8	(228)
Exploration expenditures	2,850	2,058
Asset retirement obligation expenditures (note 6)	(1,717)	(1,515)
Accretion on asset retirement obligations (note 6)	5,776	5,802
Future income tax expense (note 15)	3,227	(5,892)
Non-cash general and administrative expense (recovery)	1,675	1,290
Unrealized loss on financial instruments (note 11)	3,473	19,405
Other	289	(45)
Net changes in operating working capital	11,335	7,992
Cash flow from operating activities	162,729	120,469
Financing activities		
Credit facilities – draws	293,527	301,441
Credit facilities – repayments	(250,263)	(372,251)
Dividends to shareholders (note 8)	(48,082)	(36,092)
Shares issued	510	81,920
Purchase and cancellation of Shares under normal course issuer bid	(1,224)	—
Cash flow provided by (used in) financing activities	(5,532)	(24,982)
Investing activities		
Property, plant and equipment expenditures	(165,734)	(89,509)
Property acquisitions	(359)	(406)
Proceeds on disposition of property, plant and equipment	49	448
Change in investing working capital	8,847	(6,020)
Cash flow used in investing activities	(157,197)	(95,487)
Change in cash / cash, end of year	\$ —	\$ —
Cash interest and financing charges paid	\$ 11,492	\$ 11,976

See accompanying notes to consolidated financial statements.

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

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, primarily in the province of Alberta.

On February 5, 2010, Trilogy announced that Trilogy Energy Trust (the "Trust") had completed its previously announced conversion (the "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. 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 the Company 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.

The consolidated financial statements of Trilogy have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars.

2. ACCOUNTING CHANGES

Change in Accounting Policies

There were no changes in accounting policies in the period.

Future Accounting Changes

CICA 1582 (*Business Combinations*) and CICA 1601 (*Consolidated Financial Statements*) replace former sections CICA 1581 (*Business Combinations*) and CICA 1600 (*Consolidated Financial Statements*), respectively. CICA 1602 (*Non-controlling Interests*) establishes a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to IFRS 3, Business Combinations (January 2008) and IAS 27, Consolidated and Separate Financial Statements (January 2008). CICA 1582 is effective for business combinations for which the acquisition date is on/after the beginning of the first annual reporting period beginning on/after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

TRILOGY ENERGY CORP.

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Change in Estimate

During the year, the Company reviewed the effective useful lives of its oil and gas assets. As a result, effective July 1, 2010 the company changed the usage pattern estimates of certain tangible equipment to a unit of production calculation from a straight-line calculation to better reflect the usage and expected lives of these assets. The effect of this change in estimate was accounted for prospectively and increased the depreciation expense for 2010 by \$3.7 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company obtains all of the economic benefits of the operations of its operating subsidiaries.

Property, Plant and Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas operations. Under this method, acquisition costs of oil and gas properties and the costs of drilling and equipping development wells and successful exploratory wells are capitalized. Exploration expenses, including geological and geophysical costs, lease rentals on properties and exploratory dry hole costs, are charged to earnings as incurred. The net costs of abandoned exploratory wells and surrendered leases are charged to earnings in the year of abandonment or surrender. Gains or losses are recognized on the disposition of property, plant and equipment.

Other property, plant and equipment are recorded at cost.

The net amount at which petroleum and natural gas costs on a property or project are carried is subject to an annual cost recovery test or as economic events dictate. An impairment loss is recognized when the carrying amount of the asset is less than the sum of the expected cash flows on an undiscounted basis. The amount of the impairment loss is then calculated as the difference between the carrying amount and the fair value of the asset. Fair value is calculated as the present value of estimated future cash flows.

Depletion and Depreciation

Capitalized costs of proved oil and gas properties are depleted using the unit-of-production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis. Successful exploratory wells and development costs are depleted over proved developed reserves while acquired resource properties with proved reserves are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves.

Depreciation of production equipment is calculated using the unit of production method. Depreciation of certain tangible assets is calculated on a straight line basis over their estimated useful lives of up to 25 years. Depreciation of other property, plant and equipment is provided on a straight-line basis over the assets' estimated useful lives varying from three to 10 years.

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Joint Operations

Certain exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Asset Retirement Obligations

The fair value of an asset retirement obligation is recognized in the period in which it is incurred or when a reasonable estimate of the fair value can be made. The asset retirement costs equal to the fair value of the retirement obligations are capitalized as part of the cost of the related long-lived asset and allocated to earnings on a basis consistent with depreciation and depletion. The liability associated with the asset retirement costs which is recorded initially at its present value is subsequently adjusted for the passage of time which is recognized as accretion expense in the statement of earnings. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations reduce the asset retirement liability to the extent of the liability recorded. Differences between the actual costs incurred upon settlement of the asset retirement obligations and the liability recorded are recognized in earnings in the period in which the settlement occurs.

Goodwill

Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is not amortized and is assessed for impairment at least annually. Impairment is assessed by comparison of the fair value of the reporting unit, as to which goodwill is attributable, to the carrying value of the reporting unit's net assets, including goodwill. If the carrying value of the reporting unit's net assets exceeds the fair value of the reporting unit, the excess of the carrying value of goodwill over its fair value is the impairment amount, and is charged to earnings in the period the impairment is identified.

When a portion of a reporting unit that constitutes a business is disposed of, the goodwill associated with such business is included in the carrying amount of the disposed business in determining the gain or loss on disposal.

Revenue Recognition

Revenues associated with the sale of natural gas, crude oil, and natural gas liquids are recognized when title passes to the customer in accordance with the terms of the sales contracts. Revenues from oil and natural gas production from properties in which there is an interest with other producers are recognized on a net working interest basis.

Derivative Financial Instruments

Trilogy recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. After initial recognition, financial assets and liabilities held for trading are measured at fair value with the unrealized gains and losses recorded in income, loans and receivables are carried at amortized cost, while all other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs on financial instruments are included in the fair value assessment of each financial asset and financial liability. Trilogy does not designate derivative

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instruments as hedges and does not have available-for-sale financial assets or held-to-maturity investments.

Income Taxes

Trilogy follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized for the effect of any difference between the carrying amount of an asset or liability reported in the financial statements and its respective tax basis, using substantively enacted income tax rates. Future income tax balances are adjusted to reflect changes in substantively enacted income tax rates, with adjustments being recognized in net earnings in the period in which the change occurs.

In respect of Trilogy's deferred credit recorded in conjunction with the Conversion, accounting guidance is provided under EIC 110 – "Accounting for acquired future tax benefits in certain purchase transactions that are not business combinations" ("EIC 110") whereby excess amounts assigned to the assets (tax attributes) over the consideration (share consideration) provided is recorded as a deferred credit. As the additional tax attributes are utilized, the amortization of the deferred credit will offset, in part, any future tax expense amount.

Share-based Compensation

The Company accounts for its share option plan using the 'fair value method'. Fair values of options are determined using the Binomial model at the grant date and are amortized as compensation cost over the life of the option with a credit to contributed surplus.

Grants in respect of the Company's Stock Incentive Program are recorded at a fair value grant date amount and are amortized as a compensation cost over the vesting lives of the awards.

Foreign Currency Translation

Transactions denominated in U.S. dollars are translated to Canadian dollars at the exchange rate on the transaction date. U.S. dollar denominated monetary assets and liabilities are translated to Canadian dollar at exchange rates in effect on the balance sheet date. The resulting exchange rate differentials arising from these items are included in net earnings.

Per Share Information

The Company uses the treasury stock method whereby only "in the money" dilutive instruments impact the dilution calculations.

Measurement Uncertainty

The timely preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions and use judgment that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Actual results could materially differ from these estimates.

The amounts recorded for depletion and depreciation, purchase accounting, asset retirement obligations and related accretion, future income taxes and amortization of fair value of options are based on estimates of reserves, future costs, petroleum and natural gas prices and other relevant assumptions. By their nature, these estimates and those related to the discounted cash flow used to

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assess impairment are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

4. PROPERTY, PLANT AND EQUIPMENT

	2010			2009		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	1,705,860	(987,538)	718,322	1,551,630	(869,322)	682,308
Other	9,581	(6,251)	3,330	9,412	(4,984)	4,428
	1,715,441	(993,789)	721,652	1,561,042	(874,306)	686,736

Capital costs associated with non-producing petroleum and natural gas properties totaling approximately \$90.9 million as at December 31, 2010 (2009 - \$92.5 million) were not subject to depletion. No interest costs were capitalized for the years ended December 31, 2010 and 2009.

The costs of exploratory dry holes and uneconomic wells, amounting to \$2.4 million for the year ended December 31, 2010 (2009 - \$0.7 million), were written off and included in exploration expenditures. A property impairment loss of \$8.9 million was also recognized for the year ended December 31, 2010 (2009 - \$13.1 million) and was included as part of depletion and depreciation expense. The reduction in the expected recoverable reserves attributable to certain petroleum and natural gas wells and the decline in forecast prices used in the estimation of future cash flows resulted in the asset impairment. The fair value of these assets was determined using discounted future cash flows.

5. LONG-TERM DEBT

	2010	2009
Revolving credit and working capital facility	280,303	236,977
Less unamortized discount	(704)	(186)
Carrying value of long-term debt	279,599	236,791
Weighted average interest rate for the year	3.89%	3.81%

The Company has a \$355 million revolving credit facility and a \$35 million working capital facility with a syndicate of mostly Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions. The facilities are available on a revolving basis for a period of at least 364 days and can be extended a further 364 days upon request. The revolving phase of this credit facility expires on March 31, 2011, if not extended. In the event the revolving period is not extended, the revolving facility would be available for a one year term on a non-revolving basis, at the end of which time amounts drawn down under the facility would be due and payable. The working capital facility would continue on a revolving basis for a one year term. Advances drawn on the Company's facility are secured by a fixed and floating charge debenture over the assets of the Company. The \$390 million borrowing base is subject to semi-annual review by the lending syndicate.

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The Company has undrawn letters of credit totaling \$8.4 million as at December 31, 2010. These letters of credit reduce the amount available for draw under the Company's working capital facility.

6. ASSET RETIREMENT OBLIGATIONS

	2010	2009
Asset retirement obligations, beginning of year	75,355	75,213
Liabilities incurred	1,710	1,095
Revisions in estimate	(3,599)	(5,177)
Liabilities settled	(1,717)	(1,515)
Accretion expense	5,776	5,802
Liabilities relating to assets sold	—	(63)
Asset retirement obligations, end of year	77,525	75,355

The undiscounted asset retirement obligations at December 31, 2010 are estimated to be \$193.4 million (2009 - \$183.3 million). The credit-adjusted risk-free rates used to estimate asset retirement obligation liabilities range from 7.875 to 8.5 percent. These obligations will be settled based on the expected life of the underlying assets, the majority of which are expected to be paid after 10 to 30 years and will be funded from the general resources of the Company at the time of removal.

7. SHAREHOLDERS' 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 ("Share" or Shares)).

Issued and Outstanding

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

	Units	Amount
Trust Units – January 1, 2010	110,490,334	\$ 825,758
Issued - Distribution Reinvestment Plan	403,385	3,234
Issued - Unit Option Plan	19,000	164
Purchased and cancelled – Normal Course Issuer Bid	(144,400)	(1,079)
Trust Units – prior to Conversion	110,768,319	\$ 828,077

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

	Common Shares	Non-Voting Shares	Total	Amount
Shares outstanding in private corporation	4,219,653	—	4,219,653	\$ 36,141
Conversion – Effected through Plan of Arrangement	79,932,457	30,835,862	110,768,319	828,077
Issued - Share Option Plan	49,000	—	49,000	540
Common Shares and Non-Voting Shares as at December 31, 2010	84,201,110	30,835,862	115,036,972	\$ 864,758

Immediately prior to the Conversion, 110,768,319 Trust Units were issued and outstanding. These Trust Units were exchanged for 79,932,457 Common Shares and 30,835,862 Non-Voting Shares on Conversion. The Non-Voting Shares were issued to Paramount Resources Ltd. and Warner Investment Holdings Ltd., which are controlled, directly or indirectly, by Clayton H. Riddell, the Chairman of Trilogy's Board of Directors. Furthermore, the Conversion resulted in the former shareholder of Privateco owning 4,219,653 Trilogy Common Shares immediately after the Conversion. The equity value assigned to these shares for accounting purposes was \$36.1 million, based on a six day weighted average trading price surrounding the Conversion date.

Trilogy had 84,201,110 Common Shares and 30,835,862 Non-Voting Shares (total 115,036,972) as at December 31, 2010 (December 31, 2009 - 110,490,334 Trust Units).

In calculating Trilogy's weighted average diluted number of shares for the year ended December 31, 2010, no share options were considered in the calculation, as earnings per share were anti-dilutive given the weighted average trading price of Trilogy's stock for the year. Accordingly, all options were excluded from the diluted calculation.

Normal Course Issuer Bid

Pursuant to a Normal Course Issuer Bid ("NCIB") that expired after March 23, 2010, Trilogy purchased and cancelled 144,400 Trust Units in 2010 for a total cost of \$1.2 million.

On March 26, 2010, Trilogy received the necessary approvals for a NCIB to purchase up to 5,104,163 of its Common Shares (the maximum allowable number) through the facilities of the Toronto Stock Exchange. This NCIB expires March 29, 2011. No purchases in respect of this NCIB has occurred as at the date hereof.

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8. ACCUMULATED DIVIDENDS

	2010				2009			
	Cash	DRIP	Payable	Total	Cash	DRIP	Payable	Total
Balance, beginning of year	574,447	105,045	5,525	685,017	538,355	76,857	9,600	624,812
Dividends paid and/or reinvested	48,082	3,234	—	51,316	36,092	28,188	—	64,280
Change in year end accrual	—	—	(1,499)	(1,499)	—	—	(4,075)	(4,075)
Dividends declared	48,082	3,234	(1,499)	49,817	36,092	28,188	(4,075)	60,205
Balance, end of year	622,529	108,279	4,026	734,834	574,447	105,045	5,525	685,017

Cumulative dividends amounted to \$0.435 per Share and \$0.60 per Trust Unit for the year ended December 31, 2010 and 2009, respectively.

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

Trilogy terminated its Distribution Reinvestment Plan ("DRIP") prior to the Conversion. Accordingly, shareholders have no further ability to reinvest dividends through any similar program post Conversion.

9. SHARE BASED COMPENSATION**Share Option Plan**

The Company has a long-term incentive plan that allows management to award share options to eligible directors, officers and employees. 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. A continuity of the share option plan for the years ended December 31, 2010 and 2009 is as follows:

	2010			2009		
	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Option	No. of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Option	No. of Options
Balance, beginning of year	\$ 8.16	\$ 1.30	4,627,500	\$ 10.18	\$ 1.41	4,765,500
Granted	12.05	3.97	1,540,000	8.35	1.70	927,500
Exercised or surrendered	9.65	1.49	(221,000)	6.05	0.85	(7,500)
Cancelled	8.82	1.35	(76,500)	17.47	2.13	(1,058,000)
Balance, end of year	\$ 9.11	\$ 2.09	5,870,000	\$ 8.16	\$ 1.30	4,627,500
Exercisable, end of year	\$ 8.56	\$ 1.39	1,799,000	\$ 8.76	\$ 1.33	1,075,750

The Company recorded a compensation expense of \$1.8 million for the year ended December 31, 2010 (2009 - \$0.9 million) representing the recognition of the grant date fair value of outstanding

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share options, with a corresponding credit to contributed surplus. The fair value of options granted was determined under the binomial model using the following key assumptions:

Options Granted for the twelve months ended December 31	2010	2009
Risk-free interest rate	2.2% to 2.9%	1.6% to 3.1%
Expected life	4.4 to 5.4 years	4.5 to 5.5 years
Expected volatility	44.5% to 49%	45%
Expected dividends	3.5% to 4.6%	7.0% to 23.4%

Additional information about Trilogy's share options outstanding as at December 31, 2010 is as follows:

Exercise Price Range	Weighted Average Contractual Life Remaining	Outstanding Options		Exercisable Options	
		Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$4.85 to \$6.98	2.9	2,007,500	\$ 5.89	727,000	\$ 5.83
\$8.24 to \$10.72	2.5	1,787,000	9.47	986,000	10.25
\$11.11 to \$12.88	4.2	2,075,500	11.93	86,000	12.28
Total	3.2	5,870,000	\$ 9.11	1,799,000	\$ 8.56

The Company has a Share Incentive Plan ("SIP") that allows management to award share rights to officers and employees, subject to vesting and other restrictions as governed by the plan. As at December 31, 2010, 295,364 share rights were outstanding (December 31, 2009 - 251,431). The SIP expense recorded by the Company for the year totaled \$2.1 million (2009 - \$1.6 million).

10. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

Trilogy's principal financial instruments, other than financial derivatives, are its outstanding amounts drawn from its credit facilities. The credit facilities are the main source of Trilogy's capital after cash flow from operations. Trilogy has other financial assets and liabilities arising directly from its operations and activities, including accounts receivable, accounts payable and accrued liabilities, and dividends payable. Trilogy also enters into financial derivative transactions, the purpose of which is to mitigate the impact of market volatility.

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

Credit Risk

Under the Services Agreement described in note 13, Paramount carries out marketing functions on behalf of the Company. 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 only highly rated counterparties. Third party credit risk is mitigated with credit approvals, limits on exposures to any one counterparty, and 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

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natural gas industry and are subject to normal credit risk. As at December 31, 2010, \$1.7 million or 3 percent of the outstanding accounts receivable are outstanding for 90 days or more. No allowance for doubtful accounts or bad debt expense was recorded in the current year, as all amounts were determined collectible. Trilogy recorded in 2009 a bad debt expense for a receivable in the amount of \$4 million in respect of a customer that filed for protection under the Companies' Creditors Arrangement Act.

Liquidity Risk

Trilogy's principal sources of liquidity are its cash flow from operations and existing or new credit facilities. Trilogy mitigates liquidity risk by using forward commodity price contracts, maintaining adequate reserves and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Furthermore, Trilogy may adjust the levels of dividends to Shareholders and capital spending to maintain its liquidity (see notes 11 and 12).

A contractual maturity analysis for Trilogy's financial liabilities is as follows:

As at December 31, 2010			
	Within 1 Year	After 1 Year	Total
Accounts payable and accrued liabilities	79,391	—	79,391
Dividends payable	4,026	—	4,026
Financial instrument	690	—	690
Long-term debt and estimated interest ⁽¹⁾	10,876	290,875	301,751
Total	94,983	290,875	385,858

As at December 31, 2009			
	Within 1 Year	After 1 Year	Total
Accounts payable and accrued liabilities	58,257	—	58,257
Distributions payable	5,525	—	5,525
Long-term debt and estimated interest ⁽¹⁾	9,022	245,813	254,835
Total	72,804	245,813	318,617

⁽¹⁾ Estimated interest for future periods was calculated using the weighted average interest rate for the year ended , as applicable, and applied to the debt principal balance outstanding as at that date. Principal repayment is assumed one year after the expiry of the current revolving phase of the credit facility.

Commodity Price Risk

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

To protect cash flow against commodity price volatility, Trilogy uses from time to time forward commodity price contracts that require financial settlement between counterparties. This financial instruments program is generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production (see note 11 for details of outstanding financial instruments as at

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December 31, 2010). As at December 31 and assuming all other variables are held constant, a 10 percent increase or decrease in the applicable forward market prices would have the following impact on Trilogy's net earnings from changes in the fair value of its financial commodity contracts:

As at December 31, 2010		
	10 % increase	10 % decrease
Oil	(1,633)	1,633

As at December 31, 2009		
	10 % increase	10 % decrease
Natural gas	(6,434)	6,434

Interest Rate Risk

As described in note 5, Trilogy's credit facilities are subject to floating interest rates 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 annualized cash flow ratio, which may also be impacted by commodity price risk.

Draw-downs from Trilogy's credit facilities are generally in the form of bankers' acceptances with fixed terms ranging from 10 to 180 days which are then rolled-over if not repaid on their maturity dates. Trilogy may enter into interest rate swap contracts to mitigate the impact of interest rate fluctuations. There are no interest rate swap contracts outstanding as at December 31, 2010.

Foreign Exchange Risk

Foreign exchange rate exposure may impact the Company mainly to the extent Trilogy has outstanding U.S. dollar denominated financial instrument contracts, in addition to normal conversions of U.S. dollar denominated revenues into Canadian dollars. Approximately 11 percent of Trilogy's petroleum and natural gas sales for the year ended December 31, 2010 was denominated in U.S. dollars. Trilogy may enter into foreign currency contracts to mitigate the impact of foreign exchange rate exposure. No foreign exchange option contracts were outstanding as at December 31, 2010.

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11. 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.

	2010	2009
Financial assets		
Receivables ⁽¹⁾	50,837	50,797
Financial instruments held-for-trading ⁽³⁾	—	2,803
Financial liabilities		
Non-trading liabilities ^{(1) (2)}	(83,417)	(63,782)
Financial instruments held-for-trading ⁽³⁾	(690)	—
Indebtedness ⁽⁴⁾	(279,599)	(236,791)

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

⁽²⁾ Consists of accounts payable and accrued liabilities and dividends payable.

⁽³⁾ Carried at the estimated fair value of the related financial instruments based on third party quotations. See Forward Contracts below.

⁽⁴⁾ Carried at amortized cost which also approximates fair value, given the nature of the borrowings.

Financial instruments disclosure to classify and prioritize such instruments within a three level fair value measurement hierarchy. The hierarchy levels are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs 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 market data.

The following provides a classification summary of Trilogy's financial instruments within the fair value hierarchy as at December 31, 2010:

	Financial assts (liabilities)			
	Fair value as at December 31, 2010			
	Level 1	Level 2	Level 3	Total
Crude oil forward sale contract	—	(690)	—	(690)
	—	(690)	—	(690)
	Financial assts (liabilities)			
	Fair value as at December 31, 2009			
	Level 1	Level 2	Level 3	Total
Natural gas forward sale contract	—	2,782	—	2,782
Foreign exchange option contracts	—	21	—	21
	—	2,803	—	2,803

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Forward Contracts

At December 31, 2010, the Company had the following outstanding financial forward commodity sales contracts:

Description	Total Quantity	Average Price	Term
Sales Contracts	500 Bbl/d	\$ 89.95 USD	January - December 2011

The Company classified this financial instrument as held-for-trading and therefore has recognized the fair value of such 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 earnings. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the statement of earnings.

12. CAPITAL DISCLOSURE

The Company's capital structure currently consists of (a) revolving long-term debt pursuant to a credit facility, (b) working capital facility pursuant to a credit facility, (c) letters of credit issued as financial security to third parties, and (d) shareholders' equity.

The objectives in managing the capital structure are to:

- utilize an appropriate amount of leverage to maximize return on shareholders' equity; and
- provide for borrowing capacity and financial flexibility to maintain the petroleum and natural gas reserve base by replacing production at competitive finding and development costs.

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

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A comparison of Trilogy's debt structure against the committed amount on existing credit facilities at the balance sheet dates is as follows:

	2010	2009
Committed amount that can be drawn from credit facilities	390,000	390,000
Outstanding undrawn letters of credit	(8,408)	(8,886)
Portion of credit facilities subject to draw restrictions as at the balance sheet date	—	(40,000)
Amount that can be drawn after letters of credit	381,592	341,114
Long-term debt	(279,599)	(236,791)
Net current assets (liabilities)	(32,536)	(9,636)
Net debt ⁽¹⁾	(312,135)	(246,427)
Remaining available credit	69,457	94,687

⁽¹⁾ Net debt calculated above is not a standard term/measure used by others.

The increase in net debt from \$246.4 million at December 31, 2009 to \$312.1 million at December 31, 2010 is attributable primarily to higher drilling, completion and related facility expenditures in 2010, in addition to capital expenditures to enhance Trilogy's production and processing infrastructure.

13. RELATED PARTY TRANSACTIONS

Trilogy had the following transactions with Paramount, a significant shareholder of the Company.

- Pursuant to a Services Agreement, a Paramount subsidiary provides administrative and operating services to the Company. Under this agreement, Paramount is reimbursed at cost for all expenses it incurs in providing the services to the Company and its subsidiaries. The agreement is in effect until March 31, 2011 however may be terminated by either party with at least six months written notice. It is expected this agreement will be renewed prior to the expiry date. The amount of expenses billed and accrued as management fees under this agreement was \$0.4 million for the year ended December 31, 2010 (2009 - \$0.3 million). This amount is included as part of the general and administrative expenses in the Company's consolidated statement of earnings.
- The Company and Paramount also had transactions with each other arising from the normal course of business. These transactions were recorded at exchange amounts.

TRILOGY ENERGY CORP.**Notes to Consolidated Financial Statements****December 31, 2010 and 2009**

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

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

Presented in the Balance Sheet as	2010			2009		
	Normal Business	Services Agreement	Dividends	Normal Business	Services Agreement	Dividends
Accounts receivable	105	—	—	219	—	—
Accounts payable and accrued liabilities	(295)	(30)	—	(615)	(60)	—
Dividends payable	—	—	(846)	—	—	(1,200)

14. OFF BALANCE SHEET COMMITMENTS

In addition to items disclosed elsewhere in these financial statements, Trilogy had the following off balance sheet commitments as at December 31, 2010:

	2011	2012	2013	2014	2015 and after	Total
Pipeline transportation ⁽¹⁾	10,197	9,463	9,013	8,987	8,732	46,392
Office premises operating lease ⁽²⁾	2,495	2,507	2,845	2,845	7,670	18,362
Vehicle and energy service commitments	447	923	728	—	—	2,098
Total	13,139	12,893	12,586	11,832	16,402	66,852

⁽¹⁾ Before Trilogy's undrawn letters of credit (see note 5) issued to cover some pipeline transportation commitments.

⁽²⁾ Net of committed rental reimbursements through sub-lease arrangements.

Trilogy has outstanding the following physical fixed price power purchase contracts as at December 31, 2010:

Quantity	Price (per MWh)	Remaining Term
4 MW/h	\$53.80	January 2011 - December 2011
4 MW/h	\$58.19	January 2012 - December 2012

The amount of power purchased under the above contracts is below Trilogy's total ongoing power requirements. Trilogy does not record changes in fair value of the above contracts. Rather, the above contracts are factored in determining Trilogy's total power operating costs in the normal course of its business. The contracts will be settled upon delivery of the contracted power.

TRILOGY ENERGY CORP.**Notes to Consolidated Financial Statements****December 31, 2010 and 2009**

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

15. INCOME TAXES

The following table reconciles the income tax expense calculated using the statutory tax rates to the income tax expense per the statement of earnings (loss):

	2010	2009
Expected income tax expense (recovery) at applicable statutory tax rates	3,545	(15,309)
Income of the Company not subject to current tax	—	13,360
Amortization of deferred credit in future tax expense	(9,812)	—
Increase to future tax liability on Conversion	9,280	—
Non-deductible expenses	495	511
Benefit of statutory rate changes in year	—	(8,616)
Rate differential on current year income	(433)	—
Change in estimate of future reversals of temporary differences and other	152	4,162
Income tax expense (recovery) per statement of earnings (loss)	3,227	(5,892)

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. As a result, the Company estimates its future tax amounts on the basis of it being a corporation. 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 over the consideration provided is recorded separately as a deferred credit (\$146.1 million recorded on Conversion and \$136.2 million as at December 31, 2010). If, subsequent to the Conversion, it becomes more likely than not that some or all of the future tax assets will not be realized, the effect of such adjustment will be recognized into income as part of income tax expense. A proportionate share of the unamortized deferred credit balance is recognized as an offset to future income tax expense as such future tax asset is utilized. The composition of the net future income tax asset (liability) as at December 31, 2010 and December 31, 2009 is as follows:

Description of Temporary Differences and Carryforwards	2010	2009
Property, plant and equipment	(94,033)	(92,653)
Asset retirement obligation	19,381	18,408
Loss carryforwards and other	172,994	3,432
Net future income tax liability	98,342	(70,813)

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 ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

16. SUBSEQUENT EVENTS

On January 17, 2011, Trilogy announced a cash distribution for January 2011 of \$0.035 per share. The distribution was paid on February 15, 2011 to shareholders of record on January 31, 2011.

Trilogy executed an agreement with Aux Sable Canada LP pursuant to which Trilogy could receive additional economic value for the natural gas liquids in its liquids-rich natural gas stream originating from the Kaybob area. The initial term of the agreement is five years.

On February 2, 2011, Trilogy entered into a financial forward swap to sell 500 Bbl/d of oil for March through December 2011 at \$97.50 USD/Bbl

On February 9, 2011, Trilogy announced drilling, completion and initial production information and results on two Montney oil pool wells in the Kaybob area. Trilogy also announced it was successful in acquiring twenty eight sections of land associated with this formation for \$32.2 million.

On February 15, 2011, Trilogy declared a dividend of 3.5 cents per share, payable on March 15, 2011, to shareholders of record on February 28, 2011.

CORPORATE INFORMATION

OFFICERS

J. H. T. Riddell
Chief Executive Officer

M. G. Kohut
Chief Financial Officer

J. B. Williams
President and Chief Operating Officer

G. L. Yester
General Counsel & Corporate Secretary

DIRECTORS

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

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

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

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

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

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

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

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

Committees of the Board of Directors
(Administrator of the Trust)

⁽¹⁾ Member of the Compensation Committee

⁽²⁾ Member of the Audit Committee

⁽³⁾ Member of the Corporate Governance Committee

⁽⁴⁾ Member of the Environmental, Health & Safety Committee

⁽⁵⁾ Lead Director

HEAD OFFICE

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Calgary, Alberta

BANKERS

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

CONSULTING ENGINEERS

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

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange - "TET"

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD AT:

Centrium Place - 332 - 6 Avenue SW,
Calgary, Alberta (Mezzanine Level)
Thursday, May 19, 2011
2:00 PM (Calgary Time)



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