

Q3



2010 THIRD QUARTER REPORT

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

	Three Months Ended			Nine Months Ended September 30		
	September 30, 2010	June 30, 2010	Change %	2010	2009	Change %
FINANCIAL						
Petroleum and natural gas sales	65,586	71,954	(9)	223,808	169,651	32
Funds flow						
From operations ⁽¹⁾	32,428	33,888	(4)	117,420	83,099	41
Per share – diluted	0.28	0.29	(3)	1.02	0.85	20
Earnings						
Earnings (loss) before tax	(6,984)	(2,731)	156	17,009	(34,235)	150
Per share – diluted	(0.06)	(0.02)	200	0.15	(0.35)	143
Earnings (loss) after future income tax	(3,954)	1,557	(354)	12,995	(24,613)	153
Per share – diluted	(0.03)	0.01	(400)	0.11	(0.25)	144
Dividends/distributions declared	12,075	12,075	—	37,738	44,200	(15)
Per share	0.105	0.105	—	0.33	0.45	(27)
Capital expenditures						
Exploration and development	43,199	23,883	81	119,278	61,304	95
Acquisitions, (dispositions) and other - net	334	8	4,075	463	(154)	401
Net capital expenditures (surplus)	43,533	23,891	82	119,741	61,150	96
Total assets	993,434	992,967	—	993,434	896,082	11
Net debt ⁽¹⁾	285,713	260,531	10	285,713	328,778	(13)
Shareholders' equity	449,602	465,113	(3)	449,602	366,804	23
Shares outstanding (thousands)						
- As at end of period	115,013	115,001	—	115,013	99,194	16
OPERATING						
Production						
Natural gas (MMcf/d)	109	116	(6)	111	93	19
Crude oil and natural gas liquids (Bbl/d)	4,279	4,828	(11)	4,634	4,163	11
Total production (Boe/d @ 6:1)	22,462	24,087	(7)	23,207	19,677	18
Average prices						
Natural gas (before financial instruments) (\$/Mcf)	3.97	4.12	(4)	4.52	4.24	7
Natural gas (\$/Mcf) ⁽²⁾	4.33	4.44	(2)	5.04	5.32	(5)
Crude oil and natural gas liquids (before financial instruments) (\$/Bbl)	65.40	65.23	—	68.25	54.51	25
Crude oil and natural gas liquids (\$/Bbl) ⁽²⁾	65.40	65.23	—	68.25	54.48	25
Drilling activity (gross)						
Gas	13	2	550	34	21	62
Oil	5	1	400	7	2	250
D&A	—	—	—	—	—	—
Total wells	18	3	500	41	23	78
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.



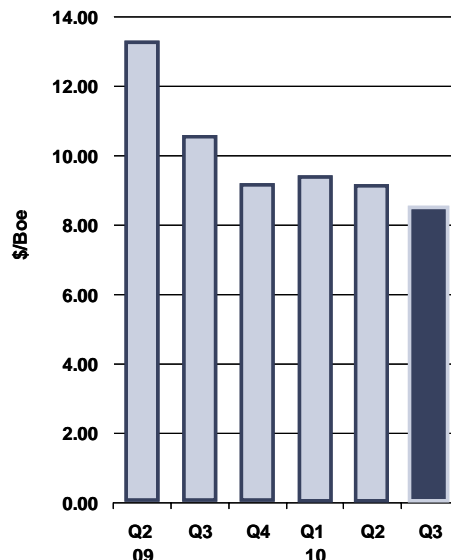
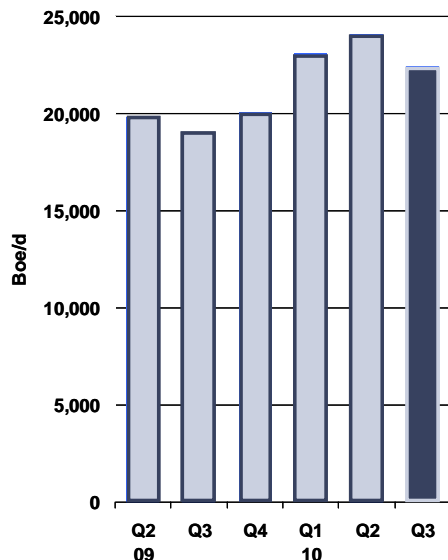
Review of Operations

Operations Update for the Third Quarter 2010

- Average production 22,462 Boe/d
- \$43.2 million net capital expenditures before acquisitions
- 18(9.8 net) wells drilled, with a 100 percent success rate
- Average operating costs \$8.12/Boe
- Operating netback \$16.91/Boe
- \$32.4 million funds flow from operations
- Completed construction of Presley Pipeline and Kaybob North Sour Gas Plant expansion projects

Trilogy's third quarter 2010 production was 22,462 Boe/d, (109.1 MMcf/d of natural gas and 4,279 Bbl/d of crude oil and natural gas liquids), down 7 percent from 24,087 Boe/d in the second quarter of 2010 and 18 percent higher than 19,033 Boe/d in the third quarter 2009. Third quarter production volumes were lower than second quarter volumes, reflecting limited capital spending and production tie-ins during the second quarter. Production was also down versus the prior quarter as a result of wet weather preventing completion of scheduled third quarter drilling, completion and tie-in operations. Trilogy anticipates these projects will be completed during the fourth quarter and will partially offset third quarter production declines. Additionally, production at Presley was shut in for 5 days during the quarter to facilitate the tie-in of the gathering systems as well as compression modifications. The significant increase in production during the third quarter 2010 as compared to the same period in 2009 is a result of the ongoing success of Trilogy's Montney horizontal drilling program in Presley and the further development of its production infrastructure in this area. Year-to-date average production is 23,207 Boe/d and Trilogy is maintaining its annual production guidance of 23,000 Boe/d.

The following graphs illustrate changes to Trilogy's production and operating costs over the past six quarters.



Trilogy spent \$48.3 million during the third quarter on drilling, completion, production facilities and land acquisitions, including \$15.2 million in capital costs related to the Presley Pipeline ("Pipeline") and Kaybob North Sour Gas Plant ("Plant") expansion projects. These capital costs are partially offset by drilling incentive credits on wells drilled during the quarter, reducing third quarter capital by \$5.1 million to \$43.2 million. Year-to-date capital spending totaled \$93.4 million inclusive of drilling incentive credits and excluding \$25.9 million related the Presley Pipeline and Plant expansion projects.

During the third quarter, Trilogy participated in the drilling of 18 (9.8 net) wells; 13 (6.9 net) wells were cased for gas and 5 (2.9 net) for oil production, resulting in a 100 percent success rate. During the quarter, Trilogy participated in the drilling of 13 horizontal wells to evaluate the Duvernay, Montney, Gething, Bluesky, Spirit River and Cardium formations. The 5 remaining wells were vertical wells, drilled to evaluate the Swan Hills, Montney, Nikanassin and Gething formations. Trilogy retained a royalty interest in 2 wells that were rig released during the quarter. Trilogy anticipates drilling approximately 12 (9.3 net) wells in the fourth quarter.

Trilogy acquired 3,669 net hectares at Crown land sales for a total expenditure of \$1.3 million in the third quarter. Trilogy expects that ongoing evaluation and acquisition of acreage on existing and emerging plays will permit it to maintain its prospect inventory for future development and potential reserve additions.

Operating costs continued to decline in the third quarter of the year to \$8.12/Boe, down 19 percent from \$10.08/Boe in the third quarter of 2009. Year-to-date operating costs of \$8.60/Boe are down 23 percent from \$11.24/Boe as reported for the full year 2009. Higher production volumes and diligent field operations have significantly reduced operating costs on a per barrel of oil equivalent basis as compared to prior periods. Trilogy anticipates its recent completion of the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects will result in additional cost savings of approximately \$1.0 million per month as Trilogy's Presley gas production is transported and processed through Trilogy-owned and operated infrastructure. Trilogy is reducing its full year operating cost guidance from \$10.00/Boe to \$8.50/Boe in response to current actual costs and anticipated cost savings from the new Pipeline and Plant expansion.

Kaybob

Third quarter field operations in the Kaybob area were limited due to above average rainfall during the period. In the Kaybob area, Trilogy participated in the drilling of 12 wells during the quarter, including 6 Trilogy-operated wells and 6 non-operated wells. Nine of these wells drilled during the quarter were drilled horizontally to evaluate the Cardium, Spirit River, Gething, Montney and Duvernay formations.

Trilogy's 00/15-33-060-20W5M joint venture horizontal well targeting the Duvernay formation 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. Additional drilling operations are being considered on joint venture acreage for the fourth quarter 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. Trilogy has greater than 100 net sections of Duvernay mineral rights in the core of this emerging resource play, with a total of approximately 197 net sections in Kaybob and surrounding areas. 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).

During the fourth quarter of the year, Trilogy expects to further evaluate the Montney, Spirit River and Duvernay formations for development potential using horizontal wells. Understanding the gas and natural gas liquids potential of these formations will provide Trilogy with the information required to exploit formations that provide the greatest return for its shareholders. Trilogy's large land base and producing infrastructure in the Kaybob area has proved to be a significant asset that is expected to provide Trilogy with development opportunities for the next decade.

Presley Montney Development

In the third quarter of 2010, Trilogy drilled 3 (2.5 net) horizontal wells in the Presley area, targeting the Montney formation. Drilling operations were completed on 2 wells in late August. However, due to significant rainfall during the summer, area access roads and surface leases were extremely muddy, preventing the drilling rigs from moving to the next scheduled location and necessitating a deferral of completion operations on the standing wells. Wet weather further delayed the tie-in of another well that was drilled and completed during the first quarter of the year. These wells are expected to be completed and on production in November.

Drilling and completion operations during and subsequent to the end of the third quarter have further supported Trilogy's estimates of the ultimate reservoir development opportunity available on Trilogy's land base. Well results have continued to exceed preliminary expectations, providing Trilogy with the confidence to move ahead with the remainder of its 2010 capital program and to develop a significant drilling program for 2011. These plans include the drilling of 4 (2.75 net) horizontal Montney wells into the Presley Montney pools in the fourth quarter.

At the end of the third quarter, the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects were completed pending commissioning. 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.

Trilogy is extremely pleased with the results of these projects, which were essentially completed on time and on budget. Notwithstanding a significant number of regulatory, weather and environmental obstacles, the Pipeline and expanded Plant were ready for production at the beginning of the fourth quarter. Originally budgeted at \$38.4 million, the current cost estimate for the projects is approximately \$41 million, a positive outcome in light of the adverse weather conditions and delays that Trilogy faced.

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.

The Plant expansion and acid gas disposal projects were designed to process approximately 70 MMcf/d of raw sour gas production. Opportunity exists to further expand the Plant to handle 100 MMcf/d of sour gas to match the maximum Presley Pipeline capacity; this is expected to coincide with additional drilling and compression in the Presley area over the next few years. In addition to the Plant expansion, Trilogy is evaluating the costs and benefits of drilling a second acid gas disposal well and installing a second acid gas injection compressor in order to dispose

of additional acid gas that would be generated when the Plant is expanded to match Pipeline capacity, and as a contingency plan in the event the first compressor requires maintenance.

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 as compared to the current process. 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.

To date, Trilogy is very pleased with the drilling and completion results obtained from its horizontal Montney wells in the Presley area. 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 may be in excess of 500 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 would require increasing 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 better economics for the project. Reserve bookings for the Montney have been limited to the 14 wells drilled and completed as of December 31, 2009. 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 less than one year at current commodity prices.

Grande Prairie

During the third quarter, Trilogy participated in the drilling of 6 (3.0 net) wells in the Grande Prairie area, resulting in 2 (1.1 net) wells being cased for gas and 4 (1.9 net) for oil production, at a 100 percent success rate. Of these wells, 4 were horizontal wells and 2 were vertical wells evaluating the Montney, Gething and Nikanassin formations. Trilogy retained a royalty interest on 2 wells that were cased for oil production during the quarter.

Trilogy is pleased with the results of its horizontal Montney gas well drilled in the Valhalla area. Completion results were significantly better than expected and provided Trilogy the support to look at expanding production infrastructure in the area with its partners. These plans will be further developed and incorporated into the 2011 budget, with the expectation that these wells could be on production before the end of 2011.

In the Wembley area, Trilogy drilled two Nikanassin oil wells to expand the pool boundaries. Currently, 4 wells are producing from the pool and Trilogy will be evaluating pressure maintenance requirements to further increase recoveries.

Trilogy anticipates drilling approximately 2 (1.4 net) horizontal wells targeting Montney gas during the fourth quarter. Horizontal drilling and completion technology has significantly changed the Company's exploitation and development strategy for the Grande Prairie area. Trilogy is currently monitoring industry operations and results from various plays developing around its land position. Trilogy anticipates this information will result in reduced risk when Trilogy develops its own land base in the area.

Risk Management

Trilogy's management and Board of Directors currently believe there to be upside to current commodity prices and has therefore chosen to remain unhedged after the October 2010 natural gas hedge expire.

Outlook

The conversion from an energy trust to an exploration and production company in February 2010 has complemented Trilogy's asset base and resulted in a sustainable, long term growth strategy. Trilogy's asset base is well suited to take advantage of the technological advances being made in horizontal drilling and completion operations. Developing technology and resource plays are expected to support Trilogy's growth through the drill bit, as Trilogy plans to increase its production considerably over the next three to five years.

Trilogy has continued to expand its technical expertise in large, tight gas and shale resource plays in the deep basin, resulting in the accumulation of a large inventory of high quality vertical and horizontal drilling prospects that should enable Trilogy to grow production year over year and replace its produced reserves even in a low natural gas price environment.

As a growth-oriented corporation, Trilogy must remain flexible in order to respond to volatility in commodity prices and take advantage of government incentive programs. The remainder of 2010 may continue to see low commodity prices as unconventional resource plays are being evaluated and speculative demand and supply forces in the North American natural gas markets create market volatility. Trilogy believes it can manage its assets prudently through this potentially difficult period and is confident in its strategy, its high quality assets and the proven expertise of its employees.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Corp. ("Trilogy" or the "Company") as at and for the three and nine months ended September 30, 2010, and should be read in conjunction with the Company's interim consolidated financial statements and related notes for the three and nine months then ended and its annual consolidated financial statements and MD&A for the year ended December 31, 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 November 2, 2010.

THIRD QUARTER 2010 HIGHLIGHTS

- Sales volumes for the third quarter of 2010 averaged 22,462 Boe/d. Year to date production averaged 23,207, an 18 percent increase from the same period in 2009. The increase was primarily attributed to an increase in the number of wells drilled in 2010, combined with successful results achieved from Trilogy's Montney horizontal drilling program. Trilogy is maintaining its annual production guidance of 23,000 Boe/d.
- Capital expenditures (excluding acquisitions and dispositions) totaled \$43.2 million for the third quarter of 2010 (of which \$15.2 million was related to Trilogy's Presley Pipeline and Kaybob North Plant expansion projects) versus \$23.9 million in the prior quarter (\$6.0 million therein was related to the same projects).
- Operating costs for the quarter were lower at \$8.12 /Boe relative to the previous quarter at \$8.72 /Boe. Year to date operating costs averaged \$8.60 /Boe as compared to 12.09 /Boe for same period in 2009. Trilogy's is revising its annual average operating cost guidance to \$8.50 /Boe.
- Funds flow from operations decreased to \$32.4 million during the third quarter of 2010 as compared to \$33.9 million for the previous quarter. The decrease was attributed primarily to a reduction in sales volumes, partially offset by lower operating costs and royalties.
- Dividends to Shareholders for the third quarter of 2010 were \$12.1 million (27 percent of cash flow from operations) as compared to \$12.1 million (38 percent of cash flow from operations) for the second quarter.
- Loss before tax for the third quarter was \$7.0 million as compared to a loss before tax in the prior quarter of \$2.7 million. The decrease in earnings was primarily a function of the aforementioned decrease in funds flow, in addition to higher depreciation on tangible assets in the quarter.
- Encouraging drilling and completion results from a Duvernay horizontal well drilled in the quarter. Trilogy has over 100 net sections of Duvernay mineral rights in this emerging resource play.
- Substantial completion of the Presley Pipeline and Kaybob North Plant expansion projects.

CORPORATE

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

Management believes that the Conversion is providing Trilogy with 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; and
- greater access to capital and improved liquidity.

Readers are referred to Trilogy Energy Trust's information circular dated January 6, 2010 for additional information in respect of the Conversion.

BUSINESS ENVIRONMENT

A modest 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, higher unemployment rates, market volatility, an 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 quarter, Trilogy continued construction of its Presley Pipeline and Kaybob North Plant expansion projects. The significant cost savings, efficiencies and other benefits that are 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 summarizes the key commodity price benchmarks for the comparative quarters:

	Q3 2010	Q2 2010	Q1 2010
Crude Oil			
West Texas Intermediate monthly average (U.S.\$/Bbl)	77.81	76.29	78.71
Natural gas			
NYMEX (Henry Hub Close) monthly average (U.S.\$/MMBtu)	4.38	4.13	5.29
AECO monthly average (Cdn\$/GJ)	3.52	3.66	5.08
Canadian – U.S. Dollar Quarter-end Closing Exchange Rates (Cdn\$/U.S.\$1)	1.03	1.06	1.02

SUBSEQUENT EVENTS

Subsequent to the quarter, Trilogy completed construction and commissioning of its Presley Pipeline and Kaybob North Plant expansion projects. In conjunction with this, lender commitments of \$40 million under Trilogy's construction facility were transferred under its revolving credit facility. Additionally, Trilogy and its lenders completed a mid-year review of its borrowing base. Total lender commitments under its revolving and working capital facility equaled \$390 million as at the date hereof.

On October 21, 2010 Trilogy declared a dividend per share of \$0.035. The dividend is payable on November 15, 2010 to shareholders on record as of November 1, 2010. The ex-dividend date was October 28, 2010.

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2010	June 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Operating income⁽¹⁾	34,949	36,485	25,780	123,439	75,898
Other income (expenses)	368	554	(191)	1,266	(491)
Realized financial instruments ⁽²⁾	3,666	3,388	6,198	15,785	27,340
General and administrative expenses ⁽³⁾	(3,425)	(3,744)	(3,203)	(12,902)	(9,950)
Interest and financing charges	(2,559)	(2,554)	(3,652)	(8,627)	(8,407)
Exploration expenditures ⁽³⁾	(571)	(241)	(38)	(1,540)	(1,291)
Funds flow from operations⁽¹⁾	32,428	33,888	24,894	117,421	83,099
<i>Non-cash operating items:</i>					
Depletion and depreciation	(34,493)	(29,992)	(29,014)	(92,418)	(86,307)
Unrealized financial instruments ⁽²⁾	(2,760)	(3,937)	(4,524)	(1,453)	(20,836)
General and administrative expenses	(445)	(472)	(389)	(1,307)	(928)
Provision for doubtful debt	—	—	(1,300)	—	(4,300)
Exploration expenditures ⁽⁴⁾	(938)	128	(270)	(799)	(680)
Gain (loss) on disposition of property, plant and equipment	—	(8)	96	(8)	139
Accretion on asset retirement obligations	(1,462)	(1,461)	(1,477)	(4,368)	(4,421)
Future income tax recovery (expense) ⁽⁵⁾	3,030	4,288	1,209	(4,014)	9,622
Other income (expense)	686	(877)	(19)	(59)	(1)
Net earnings (loss)	(3,954)	1,557	(10,794)	12,995	(24,613)

⁽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 operations before net changes in operating 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 (Dollars per Boe)	Three Months Ended			Nine Months Ended	
	Sept. 30, 2010	June 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Gross revenue before financial instruments ⁽¹⁾	30.44	31.51	26.27	33.99	29.80
Royalties	(5.22)	(5.89)	(1.57)	(5.70)	(3.67)
Operating costs	(8.12)	(8.72)	(10.08)	(8.60)	(12.09)
Asset retirement obligation expenditures	(0.28)	(0.11)	(0.02)	(0.24)	(0.24)
General and administrative expenses ⁽²⁾	(1.66)	(1.71)	(1.83)	(2.04)	(1.85)
Interest expense	(1.24)	(1.17)	(2.09)	(1.36)	(1.57)
Realized gain on financial instruments	1.77	1.55	3.54	2.49	5.08
Funds flow from operations⁽³⁾	15.69	15.46	14.22	18.54	15.46
Net change in operating working capital	6.06	(0.82)	3.96	2.63	1.57
Cash flows from operating activities	21.75	14.64	18.18	21.17	17.03

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

⁽²⁾ Excluding non-cash stock-based compensation expense.

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

Operating Income Items

<i>Third Quarter 2010 vs. Second Quarter 2010</i> (In thousand dollars except as otherwise indicated)	Q3 2010	Q2 2010	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	109,096	115,552	(6,456)	(6)
Oil and natural gas liquids (Bbl/d)	4,279	4,828	(549)	(11)
Total (Boe/d)	22,462	24,087	(1,625)	(7)
Average realized prices before financial instruments and transportation:				
Natural gas (\$/Mcf)	3.97	4.12	(0.15)	(4)
Oil and natural gas liquids (\$/Bbl)	65.40	65.23	0.17	—
Average realized prices after financial instruments but before transportation:				
Natural gas (\$/Mcf)	4.33	4.44	(0.11)	(2)
Oil and natural gas liquids (\$/Bbl)	65.40	65.23	0.17	—
Petroleum and natural gas sales before financial instruments:				
Natural gas	39,842	43,288	(3,446)	(8)
Oil and natural gas liquids	25,744	28,666	(2,922)	(10)
Total	65,586	71,954	(6,368)	(9)
Royalties	(10,795)	(12,914)	(2,119)	(16)
Operating costs	(16,779)	(19,111)	(2,332)	(12)
Transportation costs	(3,063)	(3,444)	(381)	(11)
Operating income ⁽¹⁾	34,949	36,485	(1,536)	(4)

⁽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 and \$1.9 million due to lower natural gas prices and decreased sales volumes, respectively. Oil and natural gas liquid sales increased by \$0.1 million due to higher realized sales prices, offset by a \$3.1 million decrease due to lower sales volumes. Sales volumes overall were lower in the third quarter primarily as a result of wet conditions that delayed bringing on production from new wells. Additionally, production in the Presley area at Kaybob was shut-in for 5 days during the quarter to facilitate the tie-in of gathering systems as well as compression modifications.

Royalties – Royalties, as a percentage of petroleum and natural gas sales, were 16 percent for the third quarter as compared to 18 percent for the previous quarter. Royalties decreased in the quarter primarily as a result of the decline in natural gas prices giving rise to lower effective royalty rates, in addition to lower sales volumes. Crown royalties on Alberta gas are calculated based on the Alberta reference price, which may vary significantly from Trilogy's realized corporate price. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – On a per unit basis, operating costs were \$8.12/Boe in the third quarter and \$8.72/Boe in the previous quarter. The reduction in operating costs is due to reduced project costs and the recording of prior period equalization receipts in the current quarter.

Third Quarter 2010 vs. Third Quarter 2009 (In thousand dollars except as otherwise indicated)	Q3 2010	Q3 2009	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	109,096	91,759	17,337	19
Oil and natural gas liquids (Bbl/d)	4,279	3,740	539	14
Total (Boe/d)	22,462	19,033	3,429	18
Average realized prices before financial instruments and transportation:				
Natural gas (\$/Mcf)	3.97	3.28	0.69	21
Oil and natural gas liquids (\$/Bbl)	65.40	62.03	3.37	5
Average realized prices after financial instruments but before transportation:				
Natural gas (\$/Mcf)	4.33	4.02	0.31	8
Oil and natural gas liquids (\$/Bbl)	65.40	62.03	3.37	5
Petroleum and natural gas sales before financial instruments:				
Natural gas	39,842	27,731	12,111	44
Oil and natural gas liquids	25,744	21,342	4,402	21
Total	65,586	49,073	16,513	34
Royalties	(10,795)	(2,747)	8,048	293
Operating costs	(16,779)	(17,659)	(880)	(5)
Transportation costs	(3,063)	(2,887)	176	6
Operating income ⁽¹⁾	34,949	25,780	9,169	36

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

Petroleum and natural gas sales – Natural gas sales, before financial instruments, increased by \$5.8 and \$6.3 million due to higher average realized natural gas prices during the current quarter and higher sales volumes, respectively. Oil and natural gas liquid sales, before financial instruments, increased by \$1.2 million and \$3.2 million due to higher oil and natural gas liquid sales prices and increased sales volumes, respectively, during the current quarter. Sales volumes were higher in 2010 as a result of an increase in the number of, and production volumes from, wells drilled in 2010.

Royalties – Royalties, as a percentage of petroleum and natural gas sales, were 16 percent for the third quarter as compared to 6 percent for the same quarter of the prior year. Royalties increased in the quarter primarily as a result of higher sales volumes and an increase in commodity prices giving rise to higher effective royalty rates. In addition, the comparative quarter received the benefit of adjustments in respect of cost of service credits. Crown royalties on Alberta gas are calculated based on the Alberta reference price, which may vary significantly from Trilogy's realized corporate price. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – On a per unit basis, operating costs were \$8.12/Boe in the third quarter in comparison to \$10.08/Boe for the same quarter of the previous year. The decrease in operating costs in the current quarter is primarily attributed to reduced project costs. On a per unit of production basis, operating costs decreased as a result of fixed costs spread over higher sales volumes.

<i>Year-to-date 2010 vs. Year-to-date 2009</i> (In thousand dollars except as otherwise indicated)	YTD 2010	YTD 2009	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	111,436	93,085	18,351	20
Oil and natural gas liquids (Bbl/d)	4,634	4,163	471	11
Total (Boe/d)	23,207	19,677	3,530	18
Average realized prices before financial instruments and transportation:				
Natural gas (\$/Mcf)	4.52	4.24	0.28	7
Oil and natural gas liquids (\$/Bbl)	68.25	54.51	13.74	25
Average realized prices after financial instruments but before transportation:				
Natural gas (\$/Mcf)	5.04	5.32	(0.28)	(5)
Oil and natural gas liquids (\$/Bbl)	68.25	54.48	13.77	25
Petroleum and natural gas sales before financial instruments:				
Natural gas	137,467	107,703	29,764	28
Oil and natural gas liquids	86,341	61,948	24,393	39
Total	223,808	169,651	54,157	32
Royalties	(36,090)	(19,728)	16,362	83
Operating costs	(54,509)	(64,929)	(10,420)	(16)
Transportation costs	(9,770)	(9,096)	674	7
Operating income ⁽¹⁾	123,439	75,898	47,541	63

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

Petroleum and natural gas sales – Natural gas sales, before financial instruments, increased by \$7.1 million and \$22.6 million during the first nine months of 2010, as a result of higher average realized natural gas prices and an increase in sales volumes, respectively. Oil and natural gas liquid sales, before financial instruments, increased in 2010 by \$15.6 million due to higher average oil and natural gas liquid sales prices, in addition to an increase of \$8.8 million due to higher oil and natural gas liquids sales volumes. Sales volumes were higher in 2010 primarily as a result of an increase in the number of, and production volumes from, wells drilled in 2010.

Royalties – Royalties, as a percentage of petroleum and natural gas sales, were 16 percent for the year-to-date as compared to 12 percent for same period of the prior year. Royalties year-to-date increased primarily as a result of the increase in commodity prices giving rise to higher effective royalty rates. Royalties also increased, in total, as a result of higher sales volumes year over year. Crown royalties on Alberta gas are calculated based on the Alberta reference price, which may vary significantly from Trilogy's realized corporate price. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – On a per unit basis, operating costs were \$8.60/Boe year-to-date and \$12.09/Boe for the same period of the previous year. The decrease in operating costs year to date is primarily attributed to reduced project costs and regulatory compliance work performed and the effect of cost reduction efforts. On a per unit of production basis, operating costs decreased as a result of fixed costs spread over higher sales volumes.

