

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 (Dollar per Boe)	Three Months Ended		Years Ended	
	Dec. 31, 2010	Sept. 30, 2010	Dec. 31, 2010	Dec. 31, 2009
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

<i>Fourth Quarter 2010 vs. Third Quarter 2010</i> (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	94,667

⁽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.