



**CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010 AND 2009
AND FOR THE YEARS THEN ENDED**



MANAGEMENT'S REPORT

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

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

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

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

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

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

March 1, 2011

March 1, 2011

Independent Auditor's Report

To the Shareholders' of Trilogy Energy Corp.

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers LLP

Chartered Accountants

TRILOGY ENERGY CORP.
Consolidated Balance Sheets
(In thousand dollars)

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

Commitments and contingencies *(notes 5, 10 and 14)*

See accompanying notes to consolidated financial statements.

On behalf of the Board

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

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

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

(In thousand dollars except as otherwise indicated)

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

See accompanying notes to consolidated financial statements.

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

(In thousand dollars except Share information)

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

1. GENERAL

Trilogy Energy Corp. ("Trilogy" or the "Company") is a petroleum and natural gas-focused Canadian energy corporation that actively acquires, develops, produces and sells natural gas, crude oil and natural gas liquids, primarily in the province of Alberta.

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

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

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

2. ACCOUNTING CHANGES

Change in Accounting Policies

There were no changes in accounting policies in the period.

Future Accounting Changes

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

Change in Estimate

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Property, Plant and Equipment

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

Other property, plant and equipment are recorded at cost.

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

Depletion and Depreciation

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

Joint Operations

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

Asset Retirement Obligations

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

Goodwill

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

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

Revenue Recognition

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

Derivative Financial Instruments

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

Income Taxes

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

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

Share-based Compensation

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

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

Foreign Currency Translation

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

Per Share Information

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

Measurement Uncertainty

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

4. PROPERTY, PLANT AND EQUIPMENT

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

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

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

5. LONG-TERM DEBT

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

6. ASSET RETIREMENT OBLIGATIONS

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

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

7. SHAREHOLDERS' CAPITAL

Authorized

Trilogy is authorized to issue an unlimited number of common shares ("Common Shares") and an unlimited number of non-voting shares ("Non-Voting Shares"), together ("Share" or Shares)).

Issued and Outstanding

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

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

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

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

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

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

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

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

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

Normal Course Issuer Bid

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

8. ACCUMULATED DIVIDENDS

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

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

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

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

9. SHARE BASED COMPENSATION

Share Option Plan

The Company has a long-term incentive plan that allows management to award share options to eligible directors, officers and employees. Under this plan, holders of vested share options are able to subscribe for the equivalent number of shares at the exercise price within the contractual period prescribed in the governing option agreement. A continuity of the share option plan for the years ended December 31, 2010 and 2009 is as follows:

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

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

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

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

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

10. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

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

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

Credit Risk

Under the Services Agreement described in note 13, Paramount carries out marketing functions on behalf of the Company. The Company is exposed to credit risk from financial instruments to the extent of non-performance by third parties. Credit risks associated with the possible non-performance by financial instrument counterparties are minimized by entering into contracts with only highly rated counterparties. Third party credit risk is mitigated with credit approvals, limits on exposures to any one counterparty, and monitoring procedures.

Trilogy's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivable are from customers and joint venture partners in the Canadian petroleum and

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

Liquidity Risk

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

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

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

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

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

Commodity Price Risk

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

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

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

Interest Rate Risk

As described in note 5, Trilogy's credit facilities are subject to floating interest rates at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin. The interest rate margin is determined by the lenders based on their periodic review of the Company's results and is generally dependent upon Trilogy's debt to annualized cash flow ratio, which may also be impacted by commodity price risk.

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

Foreign Exchange Risk

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

11. FINANCIAL INSTRUMENTS

Carrying Values

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

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

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

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

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

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

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

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

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

Forward Contracts

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

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

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

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

12. CAPITAL DISCLOSURE

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

The objectives in managing the capital structure are to:

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

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

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

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

13. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

14. OFF BALANCE SHEET COMMITMENTS

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

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

⁽¹⁾ Before Trilogy's undrawn letters of credit (see note 5) issued to cover some pipeline transportation commitments.⁽²⁾ Net of committed rental reimbursements through sub-lease arrangements.

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

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

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

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

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

15. INCOME TAXES

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

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

As discussed in note 1, the Company converted to a corporation by way of a plan of arrangement and related transactions with a private company. As a result, the Company estimates its future tax amounts on the basis of it being a corporation. In accordance with EIC 110 - "Accounting for acquired future tax benefits in certain purchase transactions which are not business combinations" and in conjunction with the Conversion, Trilogy recorded a future tax asset of \$182.2 million and an increase in share capital of \$36.1 million in respect of the 4,219,653 common shares issued in conjunction with the Conversion. Under EIC 110, the excess of amounts assigned to the future tax asset over the consideration provided is recorded separately as a deferred credit (\$146.1 million recorded on Conversion and \$136.2 million as at December 31, 2010). If, subsequent to the Conversion, it becomes more likely than not that some or all of the future tax assets will not be realized, the effect of such adjustment will be recognized into income as part of income tax expense. A proportionate share of the unamortized deferred credit balance is recognized as an offset to future income tax expense as such future tax asset is utilized. The composition of the net future income tax asset (liability) as at December 31, 2010 and December 31, 2009 is as follows:

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

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

TRILOGY ENERGY CORP.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

16. SUBSEQUENT EVENTS

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

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

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

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

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