
TRILOGY
ENERGY TRUST

2009 THIRD QUARTER REPORT

**FINANCIAL AND OPERATING HIGHLIGHTS**
(In thousand Canadian dollars except per unit amounts and where stated otherwise)

| | Three Months Ended | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **Sept 30, 2009** | June 30, 2009 | **Change %** | **2009** | **2008** | **Change %** |
| **FINANCIAL** | | | | | | |
| Petroleum and natural gas sales | **49,073** | 53,924 | (9) | **169,651** | 377,676 | (55) |
| Funds flow | | | | | | |
| From operations[(1)] | **24,894** | 21,011 | 18 | **83,099** | 174,624 | (52) |
| Per unit – diluted | **0.25** | 0.21 | 19 | **0.85** | 1.81 | (53) |
| Earnings | | | | | | |
| Earnings (loss) before tax | **(12,003)** | (20,493) | (41) | **(34,235)** | 122,195 | (128) |
| Per unit – diluted | **(0.12)** | (0.21) | (43) | **(0.35)** | 1.27 | (128) |
| Earnings (loss) after future income tax | **(10,794)** | (19,695) | (45) | **(24,613)** | 113,011 | (122) |
| Per unit – diluted | **(0.11)** | (0.20) | (45) | **(0.25)** | 1.17 | (121) |
| Distributions declared | **14,812** | 14,743 | — | **44,200** | 74,898 | (41) |
| Per unit | **0.15** | 0.15 | — | **0.45** | 0.78 | (42) |
| Capital expenditures | | | | | | |
| Exploration and development | **14,699** | 9,429 | 56 | **61,304** | 101,593 | (40) |
| Acquisitions, (dispositions) and other - net | **(97)** | (109) | (11) | **(154)** | 20,366 | (101) |
| Net capital expenditures | **14,602** | 9,320 | 57 | **61,150** | 121,959 | (50) |
| Total assets | **896,082** | 925,240 | (3) | **896,082** | 997,882 | (10) |
| Net debt[(1)] | **328,778** | 324,778 | 1 | **328,778** | 318,660 | 3 |
| Unitholders' equity | **366,804** | 385,658 | (5) | **366,804** | 435,269 | (16) |
| Trust Units outstanding (thousands) | | | | | | |
| - As at end of period | **99,194** | 98,295 | 1 | **99,194** | 95,940 | 3 |
| **OPERATING** | | | | | | |
| Production | | | | | | |
| Natural gas (MMcf/d) | **92** | 93 | (1) | **93** | 97 | (4) |
| Crude oil and natural gas liquids (Bbl/d) | **3,740** | 4,234 | (12) | **4,163** | 4,459 | (7) |
| Total production (Boe/d @ 6:1) | **19,033** | 19,800 | (4) | **19,677** | 20,684 | (5) |
| Average prices | | | | | | |
| Natural gas (before financial instruments) ($/Mcf) | **3.28** | 3.82 | (14) | **4.24** | 9.40 | (55) |
| Natural gas ($/Mcf)[(2)] | **4.02** | 4.56 | (12) | **5.32** | 8.84 | (40) |
| Crude oil and natural gas liquids (before financial instruments) ($/Bbl) | **62.03** | 55.69 | 11 | **54.51** | 103.88 | (48) |
| Crude oil and natural gas liquids ($/Bbl)[(2)] | **62.03** | 55.69 | 11 | **54.48** | 92.65 | (41) |
| Drilling activity (gross) | | | | | | |
| Gas | **9** | 2 | 350 | **21** | 41 | (49) |
| Oil | **1** | — | — | **2** | 14 | (86) |
| D&A | — | — | — | — | 3 | — |
| Total wells | **10** | 2 | 400 | **23** | 58 | (60) |
| Success rate | **100%** | 100% | | **100%** | 95% | |

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

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

TRILOGY ENERGY TRUST

# MESSAGE TO UNITHOLDERS

November 9, 2009

## Operations Review for the Third Quarter 2009

- Average production of 19,033 Boe/d
- $14.7 million of capital expenditures, after $4.4 million of drilling credits
- 10 (5.9 net) wells drilled with a 100 percent success rate
- Average operating costs of $10.08/Boe
- $24.9 million funds flow from operations or $0.25 per diluted Trust Unit
- 46.5 percent payout ratio based on cash flow from operations (48.3 percent for the year to date)
- 59.5 percent payout ratio based on funds flow from operations

Trilogy's third quarter 2009 production was 19,033 Boe/d, down four percent from the 19,800 Boe/d reported in the second quarter. Third quarter volumes decreased due to natural declines over the period as well as the shut-down of the lean oil extraction unit at the non-operated K3 sour gas plant. Natural gas and crude oil volumes were essentially flat over the past two quarters, 93.4 MMcf/d of natural gas and 1,868 Bbl/d of crude oil in the second quarter and 91.8 MMcf/d of natural gas and 1,815 Bbl/d in the third quarter. When the lean oil extraction unit at K3 plant was offline, there was a significant drop in natural gas liquids recovered compared to when the unit was fully operational. Trilogy produced 2,517 Bbl/d of natural gas liquids in the first quarter, reducing to 2,366 Bbl/d in the second quarter and 1,925 Bbl/d in the third quarter. The lean oil unit and related pipelines were back in service at the end of August and natural gas liquids production has resumed its more stable profile in recent months. The lean oil unit shutdown resulted in increased heat content of the natural gas being processed through the plant given that the liquids were left in the gas stream and thus Trilogy realized a slightly higher price for the inherently liquids rich gas.

In response to lower natural gas commodity prices, Trilogy curtailed capital spending and shut in production with higher associated operating costs during the second quarter. This was a contributing factor to the third-quarter production declines. Production for the year to date averaged 19,677 Boe/d (93.1 MMcf/d natural gas, 4,163 Boe/d of oil and natural gas liquids) which is slightly below the annual guidance provided of 20,000 Boe/d. Trilogy is maintaining its annual production guidance of 20,000 Boe/d.

During the quarter, Trilogy participated in the drilling of 10 (5.9 net) wells; seven in the Kaybob area and three in the Grande Prairie area. Nine of these wells were cased and completed for gas production and one was completed for oil production. Trilogy anticipates an increase in fourth quarter production as compared to the third quarter due to the high success rate experienced during the third quarter drilling program. Drilling operations in the third quarter are expected to receive the benefit of a five percent royalty on the first 0.5 Bcf of natural gas production or 50 MBbl of oil production in addition to drilling credits of $200 per meter drilled. Royalty reductions and drilling credits will complement what we believe will be a significant drilling program in the fourth quarter 2009 and into 2010.

The Trust's total capital outlay during the quarter was $19.1 million inclusive of land acquisitions, drilling, completion and facility construction projects. Capital spending was reduced by $4.4 million for drilling credits earned since the inception of the Drilling Royalty Credit program in April 2009. Year-to-date capital expenditures are $65.4 million (prior to reduction due to drilling credits) representing approximately 82 percent of the original $80 million of capital budgeted for 2009.

The Trust's third quarter capital program concentrated on its South Kaybob Montney horizontal development drilling program as well as incurring certain costs that are associated with Trilogy's proposed Presley pipeline and plant expansion project.

Operating costs for the third quarter were $10.08 per Boe, down 21 percent from $12.71 per Boe in the second quarter of 2009. Costs related to the Kaybob North Gas Plant turnaround and reduced production from the Kaybob Amalgamated and Kaybob North plant turnarounds have masked some of the cost reductions that Trilogy realized during the prior quarters. Operating costs year to date have averaged $12.09 per Boe. Continued efforts to reduce costs should provide additional benefits for the remainder of the year and beyond. For example, Trilogy has reduced its exposure to the variability in power costs by fixing approximately 50 percent of its anticipated power consumption from 2010 through 2012 at an average price of $54.66 per MWH. This compares to $47.47 per MWH in 2009 year-to-date, $92.01 per MWH in 2008 and $67.09 per MWH in 2007. We anticipate that operating costs for the remainder of the year will approximate $11.50 per Boe.

Funds flow from operations increased 19 percent in the third quarter to $24.9 million from $21.0 million in the second quarter of 2009, mainly due to the rise in oil and natural gas liquids prices and a reduction in operating costs and royalties, which more than offset the decrease in third quarter production and in realized natural gas prices. Monthly distributions to Unitholders were maintained at $0.05 per unit during the quarter. Distributions declared to Unitholders totaled $14.8 million for the quarter, representing 59.5 percent of funds flow from operations (46,5 percent of cash flow from operations).

## Kaybob

Production volumes in the Kaybob area decreased to 17,123 Boe/d in the third quarter from 17,829 Boe/d in the second quarter. This quarter over quarter production decline of 706 Boe/d (1.4 MMcf/d and 467 Bbl/d in oil and natural gas liquids) can be attributed to natural declines, the down time related to the maintenance of the lean oil extraction unit at the non-operated K3 sour gas plant and the shut-in of high operating expense gas in South Kaybob.

Over the past several months Trilogy has evaluated the changes to the Alberta Royalty Regime implemented by the Alberta Government to determine the optimum strategy in electing between the various programs. Trilogy will continue to maximize the measured depth of the wells drilled in order realize the maximum benefit under the Natural Gas Deep Drilling Program ("NGDDP") and the Drilling Royalty Credit program. Of the seven horizontal wells drilled in the third quarter, the three Trilogy operated wells qualified for the royalty credits under the NGDDP, where total lengths reach 4,000 to 4,500 meters measured depth. Wells drilled to this depth will qualify for approximately $2.8 to $4.0 million in royalty relief per well.

Trilogy drilled seven (4.1 net) wells in the third quarter; all have been cased and completed for gas production. Five (2.9 net) wells were drilled horizontally targeting the Montney formation and one (0.25 net) well was drilled horizontally into the Bluesky formation. The seventh well was drilled vertically in North Kaybob targeting Gething production.

Results for the Trilogy operated horizontal wells drilled in the third quarter of 2009 have been very encouraging. Trilogy has increased the depth of the wells drilled and the length of the horizontal section of the well bores on its operated wells. First quarter 2009 wells were drilled to 3,500 meters measured depth and completed with seven stage fracture stimulations, whereas the third and fourth quarter wells are being drilled to a maximum depth between 4,000 and 4,500 meters and completed with twelve- to sixteen-stage fracture stimulations. Recent wells have flowed back natural gas at test rates between 8 and 12 MMcf/d with flowing pressures of 10 to 14 Mpa. The additional horizontal fractures have provided increased reservoir contact, which we anticipate will provide incremental reserves and deliverability at costs similar to those associated with wells drilled in the first quarter. Trilogy anticipates having 3 (2.5 net) operated wells tied in and on production by mid November. Three (0.6 net) additional non-operated wells in the south Kaybob area will be tied in and producing during the fourth quarter. Trilogy anticipates there will be two additional wells producing by the end of the year. Initial production rates from these Montney wells will be less than initial test rates due to surface restrictions and the net production increase may be further reduced due to back out of existing production. Decline rates for tight gas are typically around 50 percent in the first six months. Given the success in the third quarter, Trilogy plans to expand current compression capacity by installing a fifth compressor at the 3-29 compressor site to increase capacity to 50 MMcf/d. We expect this additional compression capacity will be available in the first quarter 2010. Trilogy intends to pursue a development drilling plan in the fourth quarter of 2009 and first quarter of 2010 that will fully utilize the additional compression.

The following table summarizes the well data, test results and costs for the Trilogy operated horizontal Montney wells drilled and completed in the Kaybob area during the third quarter and prior to November 9, 2009 in the fourth quarter.

| | W.I. (%) | Measured Depth (m) | Horizontal Length (m) | Frac stages in well bore | Test Rate (MMcf/d) | Flowing Pressure (Mpa) | Est. Drilling and Compl. Costs ($MM) |
|---|---|---|---|---|---|---|---|
| 1. | 100 | 4,440 | 1,435 | 12 | 9.0 | 14.7 | 3.7 |
| 2. | 100 | 4,415 | 1,549 | 12 | 8.7 | 12.1 | 3.7 |
| 3. | 50 | 4,440 | 1,546 | 16 | 9.5 | 10.5 | 3.9 |
| 4. | 50 | 4,030 | 1,327 | 12 | 10.0 | 13.4 | 3.5 |
| 5. | 50 | 4,045 | 1,284 | 13 | 12.0 | 12.0 | 3.5 |

Throughout the third quarter 2009, Trilogy continued the engineering, design and limited procurement of material for its proposed sour gas gathering pipeline and the expansion of the Trilogy operated Kaybob North Gas Plant. The pipeline project would involve the construction of a 12 inch pipeline that would run 53 kilometers from Trilogy's Montney gas development project at Presley, in South Kaybob, to the Trilogy-operated Kaybob North Gas Plant. The existing plant would be expanded to include a functional unit designed to process approximately 50 MMcf/d of raw sour gas production. The proposed pipeline and sour gas processing unit would also aid in the economic justification for the proposed installation of an acid gas disposal system to reduce greenhouse gas emissions that are generated during the sweetening process. The project is estimated to cost approximately $38 million. If this project proceeds Trilogy estimates cost savings of approximately $12 million per year, through reduced operating expense, and a reduction in the shrinkage of the natural gas stream as compared to the current process. Additional benefits of the project are expected to include increased reliability in the processing of Trilogy's natural gas, increased accountability for gas and liquids production, potential third party processing revenue and a reduction in green house gas emissions. Trilogy believes that a further opportunity may exist to expand the Kaybob North Gas Plant by an additional 50 MMcf/d of sour gas processing capacity to match the pipeline capacity of 100 MMcf/d.

Fourth quarter 2009 drilling activity could see as many as 5 Montney horizontal wells drilled in the Presley area. Additional production and reserves from this area are projected to further complement the economic benefits of the proposed Presley pipeline and plant expansion projects and related cost savings.

In addition to its Montney drilling activity, Trilogy will continue to manage and exploit its remaining high quality assets in the Kaybob area.

## Grande Prairie

Grand Prairie production decreased from 1,970 Boe/d in the second quarter to 1,910 Boe/d in the third quarter of 2009 due to natural production declines and the deferral of drilling until the second half of the year. Third quarter operations in the Grande Prairie area included the horizontal re-entry of a suspended Montney well, the drilling of a vertical Montney well and a vertical Nikanassin well. The horizontal re-entry into the Montney, 50 percent working interest, was completed with a seven stage fracture stimulation and resulted in a test rate of 3.9 MMcf/d at a flowing pressure of 7 Mpa. This successful discovery potentially establishes a new inventory of Montney horizontal wells, although production performance will be evaluated prior to undertaking the additional capital projects. Trilogy does not anticipate drilling additional Grande Prairie area wells during the remainder of the year. We will continue to evaluate drilling and completion results to date and develop a budget for 2010 that will capitalize on this year's success and continue to exploit the resource opportunities on the Trust's lands. Year-to-date production for the Grande Prairie area is 1,991 Boe/d, with production anticipated to remain in this range for the balance of 2009.

## Risk Management

Trilogy has hedged approximately forty percent of its current natural gas production from November 2009 through October 2010 at an average price of $5.52 per gigajoule. Trilogy continues to remain optimistic regarding future natural gas prices and believes that the decline in drilling activity over the past twelve months will have a significant impact on future gas supply and natural gas commodity prices. A summary of Trilogy's hedging contracts is available in the Trust's interim consolidated financial statements.

## Outlook

Trilogy has continued to develop its land position and technical expertise on its large, tight gas resource plays in the deep basin, resulting in the accumulation of a significant inventory of high quality vertical and horizontal drilling prospects that should enable the Trust to maintain production at its forecasted rate and also to replace produced reserves on an annual basis. Trilogy believes it has high quality producing and non-producing assets and is confident in its strategy to generate significant value for its Unitholders

***Certain statements included in this report constitute forward-looking statements under applicable securities legislation. Please refer to the Management's Discussion and Analysis for advisories on forward-looking statements and the assumptions, risks and uncertainties related to forward-looking information.***

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Trust ("Trilogy" or the "Trust") as at and for the three and nine months ended September 30, 2009, and should be read in conjunction with the Trust's interim consolidated financial statements for the three and nine months then ended and its annual consolidated financial statements and MD&A for the year ended December 31, 2008. The consolidated financial statements have been prepared in Canadian Dollars in accordance with Canadian generally accepted accounting principles ("GAAP").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using currently available information as of November 9, 2009.

## THIRD QUARTER 2009 HIGHLIGHTS

- Sales volumes averaged 19,033 Boe/d for the third quarter, down 4 percent from the average sales volume of 19,800 Boe/d for the previous quarter. The decrease in production was attributable largely to an unexpected lean oil unit outage at a third party operated plant.
- Funds flow from operations increased to $24.9 million during the third quarter in comparison to $21.0 million for the previous quarter. Lower average realized sales prices for natural gas and the decline in sales volumes were offset by higher prices for liquids and reductions in royalty and operating costs.
- The third quarter loss before tax of $12.0 million was down from the $20.5 million loss before tax posted in the previous quarter primarily due to the factors discussed in the preceding paragraph, in addition to a reduction in the current charge for a bad debt, a decrease in depletion expense and a decline in the unrealized loss on financial instruments.
- Capital expenditures, prior to the application of drilling credits of $4.4 million, including land acquisitions, the installation of additional compression and the drilling of 5.9 net wells totaled $19.1 million for the third quarter.
- Distributions declared to Unitholders for the third quarter were $14.8 million or $0.15 per Trust Unit, representing a 46.5 percent payout ratio based on cash flow from operations (48.3 percent for the year to date).
- Flow tested natural gas rates from recently drilled Trilogy operated Montney horizontal wells were between 8 and 12 MMcf/d per well.
- Trilogy continues to advance its application for the installation of its proposed Presley Pipeline and Kaybob North Plant expansion project.
- Subsequent to the quarter, Trilogy completed an issuance of 10 million units at a price of $8.65 per Trust Unit for net proceeds after commissions of $82.2 million. Trilogy's pro-forma net debt, based on the third quarter's balance sheet, is estimated at $247 million.

## BUSINESS ENVIRONMENT

Positive early economic indicators are suggesting a cessation of the economic recession that commenced in the United States (U.S.) and that has significantly impacted the Canadian and global economies. However, the effects of the recession are still being felt in Canada as evidenced by cautious investor confidence, an increased cost of debt, tight credit controls, higher unemployment rates and low natural gas commodity prices, among other factors.

The significant decline in natural gas commodity prices has impacted Trilogy's operations, resulting in reductions to cash flow from operating activities, distributions to unitholders, forecast capital spending, and heightened counterparty risk. Current natural gas prices have increased significantly from those experienced during the third quarter of 2009. These financial statements do 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 for the comparative quarters:

| | Q3 2009 | Q2 2009 | Q1 2009 |
|---|---|---|---|
| **Crude Oil** | | | |
| West Texas Intermediate monthly average (U.S.$/Bbl) | **69.25** | 59.62 | 43.23 |
| **Natural gas** | | | |
| NYMEX (Henry Hub Close) monthly average (U.S.$/MMBtu) | **3.41** | 3.60 | 4.89 |
| AECO monthly average (Cdn$/GJ) | **2.88** | 3.47 | 5.34 |
| **Canadian – U.S. Dollar Quarter-end Closing Exchange Rates** (Cdn$/U.S.$1) | **1.07** | 1.16 | 1.26 |

## SUBSEQUENT EVENTS

Subsequent to September 30, 2009, Trilogy entered into the following financial forward commodity sales contract:

| Description | Quantity | Price | Remaining Term |
|---|---|---|---|
| AECO Fixed Price | 10,000 GJ/d | $5.565 | November 2009 – October 2010 |
| AECO Fixed Price | 10,000 GJ/d | $5.60 | November 2009 – October 2010 |

Holders of 63,201,261 Trust Units have reinvested their September 2009 distributions totaling $3.2 million through Trilogy's distribution reinvestment program, resulting in the issuance of an additional 410,862 Trust Units on October 15, 2009.

On October 20, 2009, Trilogy announced its cash distribution for October 2009 at $0.05 per Trust Unit. Holders of 64,626,526 Trust Units have reinvested their October distributions totaling $3.2 million through Trilogy's distribution reinvestment program.

On November 4, 2009 Trilogy issued 10 million Trust Units at a price of $8.65 per trust unit, representing gross proceeds of $86.5 million ($82.2 million after commissions). The net proceeds of the offering reduced outstanding indebtedness and will be used for ongoing capital expenditures and general corporate purposes.

## RESULTS OF OPERATIONS

| **Operating Results Summary** (In thousand dollars) | Three Months Ended Sept. 30, 2009 | June 30, 2009 | Sept. 30, 2008 | Nine Months Ended Sept. 30, 2009 | Sept. 30, 2008 |
|---|---|---|---|---|---|
| **Operating income**(1) | **25,780** | 23,219 | 71,858 | **75,898** | 224,437 |
| Other income (expenses) | **(191)** | (1,162) | 2,369 | **(491)** | 6,730 |
| Realized financial instruments(2) | **6,198** | 6,282 | (11,321) | **27,340** | (28,560) |
| General and administrative expenses (3) | **(3,203)** | (3,466) | (5,628) | **(9,950)** | (12,434) |
| Interest and financing charges | **(3,652)** | (3,019) | (3,592) | **(8,407)** | (11,818) |
| Exploration expenditures(3) | **(38)** | (843) | (781) | **(1,291)** | (3,731) |
| **Funds flow from operations**(1) | **24,894** | 21,011 | 52,905 | **83,099** | 174,624 |
| *Non-cash operating items:* | | | | | |
| Depletion and depreciation | **(29,014)** | (30,520) | (29,934) | **(86,307)** | (88,240) |
| Unrealized financial instruments(2) | **(4,524)** | (6,687) | 109,158 | **(20,836)** | 41,659 |
| General and administrative expenses | **(389)** | (402) | 5,888 | **(928)** | (2,822) |
| Provision for doubtful debt | **(1,300)** | (3,000) | — | **(4,300)** | — |
| Exploration expenditures(4) | **(270)** | 469 | 553 | **(680)** | 368 |
| Gain on disposition of property, plant and equipment | **96** | 95 | 27 | **139** | 555 |
| Accretion on asset retirement obligations | **(1,477)** | (1,477) | (1,295) | **(4,421)** | (3,949) |
| Future income tax recovery (expense)(5) | **1,209** | 798 | (6,217) | **9,622** | (9,184) |
| Other | **(19)** | 18 | — | **(1)** | — |
| **Net earnings (loss)** | **(10,794)** | (19,695) | 131,085 | **(24,613)** | 113,011 |

(1) Operating income and funds flow from operations are non-GAAP terms. Operating income is equal to petroleum and natural gas sales minus royalties, operating costs and transportation costs, while funds flow from operations represents cash flow from operations before net changes in operating working capital accounts. Refer to the advisory on non-GAAP measures at the end of this MD&A.
(2) See Risk Management section below.
(3) Excluding the non-cash portion of the expenditures, and including asset retirement obligations paid for exploration expenditures.
(4) Net of asset retirement obligations paid.
(5) See Income Taxes section below.

| **Cash Flow From Operations Per Unit of Sales Volume** (Dollars per Boe) | Three Months Ended Sept. 30, 2009 | June 30, 2009 | Sept. 30, 2008 | Nine Months Ended Sept. 30, 2009 | Sept. 30, 2008 |
|---|---|---|---|---|---|
| Gross revenue before financial instruments(1) | **26.27** | 27.63 | 66.43 | **29.80** | 65.98 |
| Royalties | **(1.57)** | (2.67) | (14.15) | **(3.67)** | (13.81) |
| Operating costs | **(10.08)** | (12.71) | (12.72) | **(12.09)** | (11.38) |
| Asset retirement obligation expenditures | **(0.02)** | (0.47) | (0.42) | **(0.24)** | (0.66) |
| General and administrative expenses(2) | **(1.83)** | (1.92) | (3.00) | **(1.85)** | (2.19) |
| Interest expense | **(2.09)** | (1.68) | (1.91) | **(1.57)** | (2.09) |
| Realized gain (loss) on financial instruments | **3.54** | 3.49 | (6.03) | **5.08** | (5.04) |
| **Funds flow from operations**(3) | **14.22** | 11.67 | 28.20 | **15.46** | 30.81 |
| Net change in operating working capital | **3.96** | (2.83) | 9.12 | **1.57** | (0.22) |
| **Cash flows from operating activities** | **18.18** | 8.84 | 37.32 | **17.03** | 30.60 |

(1) Net of transportation costs and including other income.
(2) Excluding non-cash unit and stock-based compensation expense but including the cash paid for the exercises of unit appreciation rights which expired on December 15, 2008.
(3) Refer to the advisories on non-GAAP measures and numerical references at the end of this MD&A.

## Operating Income Items

| *Third Quarter 2009 vs. Second Quarter 2009* (In thousand dollars except as otherwise indicated) | Q3 2009 | Q2 2009 | Increase (Decrease) Value | % |
|---|---|---|---|---|
| Average sales volumes: | | | | |
| Natural gas (Mcf/d) | **91,759** | 93,398 | (1,639) | (2) |
| Oil and natural gas liquids (Bbl/d) | **3,740** | 4,234 | (494) | (12) |
| Total (Boe/d) | **19,033** | 19,800 | (767) | (4) |
| Average realized prices before financial instruments and transportation: | | | | |
| Natural gas ($/Mcf) | **3.28** | 3.82 | (0.54) | (14) |
| Oil and natural gas liquids ($/Bbl) | **62.03** | 55.69 | 6.34 | 11 |
| Average realized prices after financial instruments but before transportation: | | | | |
| Natural gas ($/Mcf) | **4.02** | 4.56 | (0.54) | (12) |
| Oil and natural gas liquids ($/Bbl) | **62.03** | 55.69 | 6.34 | 11 |
| Petroleum and natural gas sales before financial instruments: | | | | |
| Natural gas | **27,731** | 32,468 | (4,737) | (15) |
| Oil and natural gas liquids | **21,342** | 21,456 | (114) | (1) |
| Total | **49,073** | 53,924 | (4,851) | (9) |
| Royalties | **(2,747)** | (4,814) | 2,067 | (43) |
| Operating costs | **(17,659)** | (22,909) | 5,250 | (23) |
| Transportation costs | **(2,887)** | (2,982) | 95 | (3) |
| Operating income[1] | **25,780** | 23,219 | 2,561 | 11 |

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

**Petroleum and Natural Gas Sales** – Natural gas sales, before financial instruments, decreased $4.6 and $0.1 million due to lower natural gas prices and decreased sales volumes, respectively. Oil and natural gas liquid sales increased by $2.5 million due to higher realized sales prices, offset by a $2.6 million decrease due to lower sales volumes. Sales volumes overall were lower in the third quarter primarily as a result of an outage of the lean oil unit extraction unit at a third party plant. This had the effect of reducing natural gas liquids recoveries. The outage was rectified in the quarter.

**Royalties** – Royalties, as a percentage of petroleum and natural gas sales, were 6 percent for the third quarter as compared to 9 percent for the previous quarter. Royalties decreased in the quarter primarily as a result of the decline in natural gas prices giving rise to lower effective royalty rates and adjustments in respect of cost of service credits. Crown royalties on Alberta gas are calculated based on the Alberta reference price, which may vary significantly from Trilogy's realized corporate price. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

**Operating Costs** – On a per unit basis, operating costs were $10.08/Boe in the third quarter and $12.71/Boe in the previous quarter. Operating costs were lower in the third quarter primarily as a result of decreases in field projects, power costs, and plant turnarounds which increased per unit costs in the second quarter.

| ***Third Quarter 2009 vs. Third Quarter 2008*** (In thousand dollars except as otherwise indicated) | **Q3 2009** | **Q3 2008** | **Increase (Decrease) Value** | **%** |
|---|---|---|---|---|
| Average sales volumes: | | | | |
| Natural gas (Mcf/d) | **91,759** | 97,384 | (5,625) | (6) |
| Oil and natural gas liquids (Bbl/d) | **3,740** | 4,163 | (423) | (10) |
| Total (Boe/d) | **19,033** | 20,394 | (1,361) | (7) |
| Average realized prices before financial instruments and transportation: | | | | |
| Natural gas ($/Mcf) | **3.28** | 9.33 | (6.05) | (65) |
| Oil and natural gas liquids ($/Bbl) | **62.03** | 109.60 | (47.57) | (43) |
| Average realized prices after financial instruments but before transportation: | | | | |
| Natural gas ($/Mcf) | **4.02** | 8.67 | (4.65) | (54) |
| Oil and natural gas liquids ($/Bbl) | **62.03** | 95.48 | (33.45) | (35) |
| Petroleum and natural gas sales before financial instruments: | | | | |
| Natural gas | **27,731** | 83,619 | (55,888) | (67) |
| Oil and natural gas liquids | **21,342** | 41,976 | (20,634) | (49) |
| Total | **49,073** | 125,595 | (76,522) | (61) |
| Royalties | **(2,747)** | (26,543) | 23,796 | (90) |
| Operating costs | **(17,659)** | (23,872) | 6,213 | (26) |
| Transportation costs | **(2,887)** | (3,322) | 435 | (13) |
| Operating income[1] | **25,780** | 71,858 | (46,078) | (64) |

(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 $54.2 million due to significantly lower average realized natural gas prices during the current quarter, in addition to a $1.7 million decrease due to lower sales volumes. Oil and natural gas liquid sales, before financial instruments, decreased by $18.2 million due to lower oil and natural gas liquid sales prices during the current quarter, in addition to a $2.4 million decrease due to lower oil and natural gas liquids sales volumes. Sales volumes decreased in the third quarter of 2009 mainly as a result of Trilogy's reduced 2009 capital expenditure program in conjunction with the low natural gas commodity price environment, in addition to the lean oil extraction unit outage as discussed previously.

**Royalties** – Royalties, as a percentage of petroleum and natural gas sales, were 6 percent for the third quarter as compared to 21 percent for the same quarter of the prior year. Royalties decreased in the quarter primarily as a result of the decline in commodity prices giving rise to lower effective royalty rates. Crown royalties on Alberta gas are calculated based on the Alberta reference price, which may vary significantly from Trilogy's realized corporate price. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

**Operating Costs** – On a per unit basis, operating costs were $10.08/Boe in the third quarter and $12.72/Boe for the same quarter of the previous year. Operating costs in the current quarter decreased relative to the same quarter in the prior year primarily as a result of a reduction in field projects and a lower cost environment.

| ***Year-to-date 2009 vs. Year-to-date 2008***<br>(In thousand dollars except as otherwise indicated) | **YTD 2009** | **YTD 2008** | **Increase (Decrease)**<br>**Value** | **%** |
|---|---|---|---|---|
| Average sales volumes: | | | | |
| Natural gas (Mcf/d) | **93,085** | 97,350 | (4,265) | (4) |
| Oil and natural gas liquids (Bbl/d) | **4,163** | 4,459 | (296) | (7) |
| Total (Boe/d) | **19,677** | 20,684 | (1,007) | (5) |
| Average realized prices before financial instruments and transportation: | | | | |
| Natural gas ($/Mcf) | **4.24** | 9.40 | (5.16) | (55) |
| Oil and natural gas liquids ($/Bbl) | **54.51** | 103.88 | (49.37) | (48) |
| Average realized prices after financial instruments but before transportation: | | | | |
| Natural gas ($/Mcf) | **5.32** | 8.84 | (3.52) | (40) |
| Oil and natural gas liquids ($/Bbl) | **54.48** | 92.65 | (38.17) | (41) |
| Petroleum and natural gas sales before financial instruments: | | | | |
| Natural gas | **107,703** | 250,762 | (143,059) | (57) |
| Oil and natural gas liquids | **61,948** | 126,914 | (64,966) | (51) |
| Total | **169,651** | 377,676 | (208,025) | (55) |
| Royalties | **(19,728)** | (78,255) | 58,527 | (75) |
| Operating costs | **(64,929)** | (64,473) | (456) | 1 |
| Transportation costs | **(9,096)** | (10,511) | 1,415 | (13) |
| Operating income[1] | **75,898** | 224,437 | (148,539) | (66) |

[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 $137.6 million during the first nine months of 2009, as a result of lower average realized natural gas prices, in addition to a decrease of $5.4 million due to lower natural gas sales volume. Oil and natural gas liquid sales, before financial instruments, decreased in 2009 by $60.3 million due to lower average oil and natural gas liquid sales prices, in addition to a decrease of $4.6 million due to lower oil and natural gas liquids sales volumes. Sales volumes were lower in 2009 primarily as a result of Trilogy's reduced 2009 capital expenditure program in conjunction with the low natural gas commodity price environment.

**Royalties** – Royalties, as a percentage of petroleum and natural gas sales, were 12 percent for the year-to-date as compared to 21 percent for same period of the prior year. Royalties year-to-date decreased primarily as a result of the decline in commodity prices giving rise to lower effective royalty rates. Crown royalties on Alberta gas are calculated based on the Alberta reference price, which may vary significantly from Trilogy's realized corporate price. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

**Operating Costs** – On a per unit basis, operating costs were $12.09/Boe year-to-date and $11.38/Boe for the same period of the previous year. In response to the decline in commodity prices, Trilogy reduced its capital expenditures for 2009, however did allocate additional funds to projects undertaken for the purpose of maintaining production. Such expenditures, in addition to certain regulatory and compliance work carried out in the first quarter of 2009 and lower production volumes in 2009, contributed to higher operating expenditures on a per unit basis.

## OTHER INCOME STATEMENT ITEMS

### Other Income (Expense)

Trilogy incurred realized foreign exchange currency losses in the third and second quarters of 2009 of $0.2 million and $0.9 million respectively, as opposed to gains of $0.7 million in the third quarter of 2008. Gains and losses on foreign currency generally arise in conjunction with the conversion of Trilogy's revenue denominated in USD into Canadian funds.

Other income for the three and nine months ended September 30, 2008 also included sulphur revenues of $1.3 million and $5.4 million, respectively. Prices and Trilogy sales volumes for sulphur increased significantly during the first part of 2008 but then declined dramatically with the result that sulphur revenues were minimal during the first nine months of 2009.

### Depletion and Depreciation Expense

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **Sept. 30, 2009** | **June 30, 2009** | **Sept. 30, 2008** | **Sept. 30, 2009** | **Sept. 30, 2008** |
| Reported amount (thousand dollars) | **29,014** | 30,520 | 29,934 | **86,307** | 88,240 |
| Expense per sales volume ($/Boe) | **16.57** | 16.94 | 15.95 | **16.07** | 15.57 |

Depletion and depreciation expense decreased in the third quarter of 2009 as compared to the previous quarter mainly due to a reduction in expired mineral leases. Compared to the same quarter in 2008, depletion and depreciation expense was consistent. The decrease in sales volume is the primary factor for the reduction in reported depletion and depreciation expense for the three and nine months ended September 30, 2009 as compared to the same periods in 2008.

### General and Administrative Expenses

General and administrative expenses include overhead recoveries and unit-based compensation.

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| (thousand dollars except as otherwise indicated) | **Sept. 30, 2009** | **June 30, 2009** | **Sept. 30, 2008** | **Sept. 30, 2009** | **Sept. 30, 2008** |
| Expenses before unit-based compensation and recoveries | **6,331** | 6,666 | 7,111 | **19,884** | 20,281 |
| Overhead recoveries | **(3,128)** | (3,200) | (3,512) | **(9,934)** | (10,781) |
| Expenses after recoveries and before unit-based compensation | **3,203** | 3,466 | 3,599 | **9,950** | 9,500 |
| Unit-based compensation expense (recovery) | **389** | 402 | (3,859) | **928** | 5,756 |
| **Reported amount** | **3,592** | **3,868** | **(260)** | **10,878** | **15,256** |
| Expenses after recoveries and before unit-based compensation per sales volume ($/Boe) | **1.83** | 1.92 | 1.92 | **1.85** | 1.68 |

General and administrative expenses (after recoveries and before unit-based compensation expense) were relatively consistent for the three months ended September 30, 2009 as compared to the second quarter in 2009 and the same quarter of 2008. General and administrative costs for the nine months ended September 30, 2009 were higher as compared to the same periods in 2008 due to lower overhead recoveries in conjunction with Trilogy's reduced 2009 capital expenditure program.

The significant decrease in unit based compensation expense in 2009 relative to amounts recorded in 2008 is attributed primarily to the changes in the periodic revaluation of Trilogy's unit appreciation rights liability in reference to the market price of Trust Units. Unit-based compensation expense in 2008 also included the cash paid on exercised unit appreciation rights. All outstanding unit appreciation rights expired on December 15, 2008 and there is no current intention to make further grants under this plan. Unit based compensation expense in 2009 consisted of the amortization of the grant date fair market value of options issued under Trilogy's unit option plan, in addition to amortization on a related party's option plan issued to Trilogy employees.

### Interest and Financing Charges

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | Sept. 30, 2009 | June 30, 2009 | Sept. 30, 2008 | Sept. 30, 2009 | Sept. 30, 2008 |
| Reported amount (thousand dollars) | **3,652** | 3,019 | 3,592 | **8,407** | 11,818 |
| Expense per sales volume ($/Boe) | **2.09** | 1.68 | 1.91 | **1.57** | 2.09 |

Interest and financing charges were higher during the third quarter of 2009 as compared to the second quarter of 2009. The increase is attributed to: a higher weighted average interest rate for the third quarter, reflecting lender margin increases in conjunction with the extension of Trilogy's credit facility agreement; and increased average credit facility debt balances over the third quarter as compared to the second quarter. Interest and financing charges for the nine months ended September 30, 2009 were lower relative to the same period in 2008 given slightly reduced average debt balances and lower average interest rates, partially offset by the amortization of financing charges.

### Provision for doubtful debt

Year-to-date, Trilogy recorded a provision for a bad debt of $4.3 million in respect of amounts owing from a customer that filed for protection under the Companies' Creditors Arrangement Act. Trilogy unsuccessfully appealed the initial ruling that denied Trilogy's ability to set off receivable amounts owing to it by the customer. Any recoveries as a result of ongoing arrangements will be recorded when received.

### Exploration Expenditures and Other

| (thousand dollars) | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **Sept. 30, 2009** | **June 30, 2009** | **Sept. 30, 2008** | **Sept. 30, 2009** | **Sept. 30, 2008** |
| Exploration expenditures | **308** | 374 | 228 | **1,971** | 3,363 |
| Gain on sale of property, plant and equipment | **(96)** | (95) | (27) | **(139)** | (555) |
| Accretion on asset retirement obligations | **1,477** | 1,477 | 1,295 | **4,421** | 3,949 |

Exploration expenditures consist of exploratory dry hole costs and geological and geophysical costs. Exploration expenditures between the third quarters of 2008 and 2009 and second quarter of 2009 were relatively consistent. The variance in exploration expenditures between the nine months ended September 30, 2009 and 2008 is attributed, in part, to varying levels of geological and geophysical expenditures. Dry-hole costs for the nine months ended September 30, 2009 decreased $2.3 million as compared to the same period in 2008, offset by an increase in geological and geophysical expenses of $0.9 million.

## 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, 2008 consolidated financial statements, the Advisories and other sections of that MD&A, as well as the Trust's 2008 Annual Information Form.

The Trust had the following financial forward sales contract outstanding as at September 30, 2009:

| Description | Quantity | Price | Remaining Term |
|---|---|---|---|
| NYMEX Collar | 10,000 MMBtu/d | Floor – U.S.$9.50<br>Ceiling – U.S.$13.00 | October 2009 |
| AECO Fixed Price | 10,000 GJ/d | $5.46 | November 2009 – November 2010 |
| AECO Fixed Price | 10,000 GJ/d | $5.47 | November 2009 – November 2010 |

(1) Refer to subsequent events section for information after to September 30, 2009 to the date of this MD&A

Financial instruments outstanding as at the balance sheet date 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:

| (thousand dollars except as indicated) | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | Sept. 30, 2009 | June 30, 2009 | Sept. 30, 2008 | Sept. 30, 2009 | Sept. 30, 2008 |
| Realized gain (loss) on financial instruments | **6,198** | 6,282 | (11,321) | **27,340** | (28,560) |
| Unrealized gain (loss) on financial instruments | **(4,524)** | (6,687) | 109,158 | **(20,836)** | 41,659 |
| Total gain (loss) on financial instruments | **1,674** | (405) | 97,837 | **6,504** | 13,099 |
| Realized gain (loss) on financial instruments per Boe ($/Boe) | **3.54** | 3.49 | (6.03) | **5.09** | (5.04) |

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. Accordingly, the amount actually realized from financial instruments may vary from such fair value estimation.

### 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 Trust's Annual Information Form. Trilogy mitigates these risks through the development of plans, processes and policies, and executing such plans, processes and policies as necessary.

## LIQUIDITY AND CAPITAL RESOURCES

| (In thousand dollars) | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Net current liabilities (assets) | **12,066** | (7,424) |
| Long-term debt | **316,712** | 307,405 |
| Net debt[1] | **328,778** | 299,981 |
| Unitholders' equity | **366,804** | 416,097 |
| Total | **695,582** | 716,078 |

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

### Working Capital

The decrease in working capital from December 31, 2008 to September 30, 2009 was primarily the result of the realization of financial instrument contracts outstanding as at December 31, 2008. In addition, the decrease can be attributed to lower receivable balances for revenue, as well as the provision for a doubtful account, offset partially by lower accounts payable balances as a result of reduced capital expenditures and royalty charges, a decrease in distributions payable and an increase in prepaid amounts as at September 30, 2009.

Any working capital deficiency is funded by cash flow from operations (see additional comments under "Distributions") and draws from the Trust'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 described in the notes to Trilogy's interim consolidated financial statements. Financing fees incurred in conjunction with the credit facility extension have been applied against the long-term debt amount and are being amortized to income over a one year period.

Trilogy's bank debt outstanding from its revolving credit and working capital facility was $317.5 million (before unamortized discount and financing fees) as at September 30, 2009. The revolving feature of the Trust's credit facility expires on March 26, 2010, 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 size of this committed credit facility ($358 million as of September 30, 2009, decreasing to $350 million on October 31, 2009) is based primarily on the value of Trilogy's producing petroleum and natural gas assets as determined by the lenders. Trilogy's borrowing base is subject to semi-annual review by the banks. Trilogy continues to monitor its cash flow requirements in conjunction with the scheduled reductions to its credit facilities. Such requirements will likely be managed through monitoring its Distribution Reinvestment Plan participation and adjusting its capital expenditure program and/or distribution levels, as required.

In conjunction with the annual credit facility extension at the end of the first quarter of 2009, Trilogy's applicable interest rate margins were increased by its lenders. The margin increase, ranging from 1.5 percent to 3 percent, is dependent on certain financial ratios computed quarterly. The increase in margins is offset, in part, by a decrease in the base market interest rate currently applicable on Trilogy's borrowings.

## Contractual Obligations

There were no material changes to the Trust's contractual obligations as disclosed at December 31, 2008, with the exception of the following power purchase contracts executed in the third quarter:

| Quantity | Price (per MWh) | Remaining Term |
|---|---|---|
| 4 MW/h | $51.99 | January 2010 - December 2010 |
| 4 MW/h | $53.80 | January 2011 - December 2011 |
| 4 MW/h | $58.19 | January 2012 - December 2012 |

The above contracts represent approximately 50 percent of Trilogy's average power consumption.

## Off-balance Sheet Arrangements

No off-balance sheet arrangements were outstanding as at September 30, 2009.

### Trust Units and Options

Trilogy had 99,194,383 Trust Units and 109,609,745 Trust Units outstanding as at September 30, 2009 and November 9, 2009, respectively.

In connection with Trilogy's distribution reinvestment plan ("DRIP"), for the three and nine months ended September 30, 2009, 899,621 ($6.4 million) Trust Units and 3,197,737 ($18.6 million) Trust Units were issued.

Outstanding unit options issued under Trilogy's unit option plan were 3,783,500 and 3,762,000 unit options as at September 30, 2009 and November 9, 2009, of which 360,250 and 1,062,750 unit options were exercisable as at those dates, respectively.

In 2009, Trilogy received necessary approvals for a normal course issuer bid through the facilities of the Toronto Stock Exchange. Under the normal course issuer bid, Trilogy may purchase up to 4,912,483 Trust Units during the period March 24, 2009 through March 23, 2010. No Trust Units were purchased through this normal course issuer bid as at September 30, 2009.

Please refer to the subsequent events disclosure for information regarding Trilogy's issuance of Trust Units on November 4, 2009.

### Distributions

| (In thousand dollars except where stated otherwise) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Funds flow from operations[1] | **24,894** | 52,905 | **83,099** | 174,624 |
| Net changes in operating working capital | **6,941** | 17,109 | **8,407** | (1,222) |
| Cash flow from operations | **31,835** | 70,014 | **91,506** | 173,402 |
| Net earnings (loss) | **(10,794)** | 131,085 | **(24,613)** | 113,011 |
| Distributions declared[2] | **14,812** | 28,932 | **44,199** | 74,898 |
| Distributions declared per Trust Unit (in full amount) | **0.15** | 0.30 | **0.45** | 0.78 |
| Excess of cash flow from operations over distributions declared | **17,023** | 41,082 | **47,306** | 98,504 |
| Deficiency of net earnings over distributions (distributions declared over net earnings) | **(25,606)** | 102,153 | **(68,812)** | 38,113 |

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

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

Trilogy's distributions to its Unitholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and debt (including any working capital deficiency) repayments. To the extent that the excess of cash flow from operations over distributions is not sufficient to cover capital spending, the shortfall is funded by draws from Trilogy's credit facilities. Trilogy intends to provide distributions to Unitholders that are sustainable to the Trust considering its liquidity and long-term operational strategy. The level of distributions 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 distributions cannot be assured (refer to Trilogy's 2008 annual MD&A and 2008 Annual Information Form for additional discussion on distributions). As a result of a continued decline in energy commodity prices, Trilogy reduced its monthly distributions to Unitholders to $0.05 per Trust Unit commencing for the January 2009 distribution month and continues to review the level of its monthly distributions.

Trilogy's payout ratio, calculated as a percentage of distributions declared over cash flow from operations, was 48 percent for the nine months ended September 30, 2009 (43 percent for the nine months ended September 30, 2008).

Trilogy's 2008 annual MD&A includes additional disclosures regarding a comparison of distributions to net earnings and its productive capacity and the management thereof.

**Capital Expenditures**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (In thousand dollars) | 2009 | 2008 | 2009 | 2008 |
| Land | **854** | 1,299 | **2,186** | 2,663 |
| Geological and geophysical | **172** | 159 | **1,304** | 443 |
| Drilling | **15,331** | 23,583 | **41,887** | 70,578 |
| Drilling incentive credits | **(4,420)** | — | **(4,420)** | — |
| Production equipment and facilities | **2,592** | 10,668 | **20,032** | 27,950 |
| **Exploration and development expenditures** | **14,529** | 35,709 | **60,989** | 101,634 |
| Property acquisitions | — | 28 | **5** | 20,963 |
| Proceeds received from property dispositions | **(97)** | (27) | **(159)** | (597) |
| Corporate assets | **170** | 24 | **315** | (41) |
| Net capital expenditures | **14,602** | 35,734 | **61,150** | 121,959 |

Trilogy recorded in the quarter $4.4 million in respect of drilling incentives from the Alberta Government for wells drilled after April 1, 2009. Exploration and development expenditures were lower during the three and nine months ended of 2009 as compared to the same periods in 2008. The reduction is attributed to Trilogy's reduced 2009 capital expenditure program in conjunction with the current low natural gas commodity price environment.

**Wells Drilled**

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| (Number of wells) | 2009 | | 2008 | | 2009 | | 2008 | |
| | Gross(1) | Net(2) | Gross(1) | Net(2) | Gross(1) | Net(2) | Gross(1) | Net(2) |
| Natural gas | **9** | **5.0** | 9 | 4.5 | **21** | **15.2** | 41 | 25.9 |
| Oil | **1** | **0.9** | 8 | 5.8 | **2** | **1.2** | 14 | 10.0 |
| Dry | — | — | — | — | — | — | 3 | 3.0 |
| Total | **10** | **5.9** | 17 | 10.3 | **23** | **16.4** | 58 | 38.9 |

(1) "Gross" wells means the number of wells in which Trilogy has a working interest or a royalty interest.

(2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Trilogy's percentage of working interest.

## INCOME TAXES

In 2007, the Government of Canada enacted legislation imposing trust-level income taxes on publicly traded income trusts at a rate comparable to a combined federal and provincial corporate tax rate for the taxation years commencing January 1, 2011. Under this tax legislation, distributions from publicly traded income trusts would be treated effectively as dividends to the trust unitholders and the distribution tax would apply in respect of distributions of income as opposed to returns on capital. During the first quarter of 2009, the Government of Canada substantively enacted legislation reducing Trilogy's trust entity's effective future provincial tax rate from 13 percent to 10 percent, resulting in a reduction in the estimated liability. The intention of the enacted legislation was to better align the effective provincial tax rate with the provincial rate in which business activities are conducted. Based on substantively enacted future income tax rates, Trilogy's effective future tax rate on trust legal entities under the legislation is currently anticipated to be 26.5 percent in 2011 and 25 percent for 2012 onward. The effective future tax rate of corporate entities under Trilogy is estimated to be 25 percent.

Trilogy recognizes a provision for future income tax in its financial statements pursuant to the enactment of the above tax legislation. The provision represents management's estimate of the difference between the book and tax basis of trust entity assets and liabilities anticipated to exist in 2011 under current legislation, in addition to the Trust's corporate subsidiary current book and tax basis, tax effected at the above tax rates. The provision is adjusted from time to time for changes in estimates and tax rates.

Trilogy has estimated its future income taxes based on future assumptions including: operational estimates, accounting and tax pool claims and cash distributions assuming no material change to its current organizational structure is to be made prior to January 1, 2011. As currently interpreted, Canadian GAAP does not permit the incorporation of any assumptions related to a change in organizational structure into Trilogy's estimate of future income taxes until such structures are given legal effect.

## RELATED PARTY TRANSACTIONS

As described in more detail in the notes to the Trust's interim consolidated financial statements for the nine months ended September 30, 2009, the following is a summary of the Trust's transactions with related parties:

- Paramount Resources ("Paramount"), a wholly-owned subsidiary of Paramount Resources Ltd. (which owns 23.7 percent of the outstanding Trust Units at September 30, 2009), provides administrative and operating services to the Trust and its subsidiaries, pursuant to an agreement dated April 1, 2005 (as amended), to assist Trilogy Energy Ltd. 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 \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2009, respectively.

- In addition, the Trust and Paramount also had transactions with each other arising from normal business activities.

## QUARTERLY FINANCIAL INFORMATION

| (In thousand dollars except per unit amounts) | Q3 2009 | Q2 2009 | Q1 2009 | Q4 2008 |
|---|---|---|---|---|
| Revenue after financial instruments, royalties and other income | **47,790** | 47,561 | 60,584 | 106,509 |
| Earnings (loss) before tax | **(12,003)** | (20,493) | (1,739) | 9,489 |
| Net earnings (loss) | **(10,794)** | (19,695) | 5,876 | 10,342 |
| Earnings (loss) per Trust Unit (in full amounts): | | | | |
| Basic | **(0.11)** | 0.20 | 0.06 | 0.11 |
| Diluted | **(0.11)** | 0.20 | 0.06 | 0.11 |

| (In thousand dollars except per unit amounts) | Q3 2008 | Q2 2008 | Q1 2008 | Q4 2007 |
|---|---|---|---|---|
| Revenue after financial instruments, royalties and other income | 199,258 | 50,044 | 69,948 | 71,527 |
| Earnings (loss) before tax | 137,302 | (19,250) | 4,143 | (969) |
| Net earnings (loss) | 131,085 | (18,974) | 900 | 6,509 |
| Earnings (loss) per Trust Unit (in full amounts): | | | | |
| Basic | 1.36 | (0.20) | 0.01 | 0.07 |
| Diluted | 1.35 | (0.20) | 0.01 | 0.07 |

The fluctuations in Trilogy's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, commodity prices and the related impact on royalties, and realized and unrealized gains/losses on financial instruments. In addition, future income tax estimates and changes in estimates contributed to the changes in net earnings. Please refer to the Results of Operations and other sections of this MD&A for detailed discussions on changes from the second quarter of 2009 to the third quarter of 2009, and to Trilogy's previously issued interim and annual MD&A for changes in prior quarters.

## CRITICAL ACCOUNTING ESTIMATES

The historical information in this MD&A is primarily based on the Trust'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 critical accounting estimates that are inherent in the preparation of the Trust's consolidated financial statements pertain to the accounting for petroleum and natural gas properties, estimates of reserves, impairment of petroleum and natural gas properties, asset retirement obligations, unit-based compensation, the provision for doubtful accounts and future income tax. These are discussed in the Trust's annual consolidated financial statements and MD&A as at and for the year ended December 31, 2008.

Certain of these estimates have been impacted by the current economic condition. Trilogy continues to consider the impact of these conditions as at September 30, 2009 and beyond.

## NEW ACCOUNTING PRONOUNCEMENTS

### Change in Accounting Policies

On January 1, 2009, Trilogy adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3064 (Goodwill and Intangible Assets). CICA HB 3064 replaces CICA HB 3062 and establishes new standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA HB 3064's provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Accounting Standards ("IAS") 38, Intangible Assets. A number of CICA handbooks and EIC Abstracts were amended and/or replaced as a consequence of this new standard.

## FINANCIAL REPORTING AND DISCLOSURE CONTROLS

There were no material changes to Trilogy's financial reporting disclosure controls and procedures and internal controls over financial reporting for the three and nine months ended September 30, 2009.

## 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.

While at this time the impact of adopting IFRS cannot be reasonably quantified, Trilogy has developed and commenced implementing its plan for the changeover to IFRS. The IFRS changeover plan ensures that Trilogy addresses matters such as accounting policies, information technology systems, internal controls, disclosure controls and procedures, staffing requirements, and business activities impacted by accounting processes and measures.

The impact of converting to IFRS may be material. Current accounting under GAAP may materially differ from IFRS, with IFRS generally requiring analysis and computation at a greater level of detail than current GAAP. Further differences are anticipated to be in note disclosures, which are more onerous under IFRS than current GAAP.

## ADVISORIES

### Forward-looking Statements and Information

Certain statements included in this document (including the Message to Unitholders) 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: capital expenditures; business strategy and objectives; net revenue; approach to distributions; future production levels; timing and duration of plant turnarounds; expected impact of industry drilling declines; development plans and the timing, cost and expected benefits thereof, including Trilogy's Montney horizontal well program, proposed Presley Pipeline and Kaybob North Gas Plant expansion projects and other drilling and construction plans; operating and other costs; royalty rates, and expected impact of royalty programs and incentives including, without limitation, the Natural Gas Deep Drilling Program with the Drilling Royalty Credit Program; changes to income tax legislation and government incentive programs affecting the Trust; expected counterparty risk; credit limits and the cost of borrowing; pro-forma debt levels; projected results of hedging contracts and other financial instruments; the merits or anticipated outcome or timing of pending litigation and accounts receivable collection; DRIP participation estimates 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 and gas supply and prices;
- future power prices;
- drilling and operational results 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;
- 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 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; and
- the timing and estimate of reversals of temporary differences between assets and liabilities recorded for accounting and tax purposes;

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 and gas prices, foreign currency exchange rates and interest rates;
- 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;
- 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;
- Trilogy's ability to monitor and react to fluctuations in DRIP participation;
- the ability of Trilogy to add production and reserves through development and exploration activities;
- 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 tax legislation and regulation 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-existing 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 Trust's operations or financial results are included in the Trust'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" and "net debt", 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 minus royalties, operating costs, and transportation costs. "Net debt" is calculated as current liabilities minus current assets plus long-term debt. The components described for "operating income" and "net debt" can be derived directly from Trilogy's consolidated financial statements. 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 is a petroleum and natural gas-focused Canadian energy trust. Trilogy's Trust Units are listed on the Toronto Stock Exchange under the symbol "TET.UN". Additional information about Trilogy, including Trilogy's Annual Information Form, is available at www.sedar.com or at Trilogy's website www.trilogyenergy.com.

# UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## TRILOGY ENERGY TRUST

**Interim Consolidated Balance Sheets (Unaudited)**

(In thousand dollars)

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Accounts receivable *(notes 10, 11 and 13)* | $ 37,344 | $ 55,149 |
| Financial instruments *(notes 10 and 11)* | 1,831 | 22,187 |
| Prepaid expenses | 2,146 | 826 |
| | 41,321 | 78,162 |
| **Property, plant and equipment** *(note 4)* | 701,989 | 728,207 |
| **Future income taxes** *(note 14)* | 12,301 | 10,749 |
| **Goodwill** | 140,471 | 140,471 |
| | $ 896,082 | $ 957,589 |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities *(notes 10, 11 and 13 )* | $ 47,947 | $ 61,138 |
| Distributions payable *(notes 8, 10, 11 and 13)* | 4,960 | 9,600 |
| Financial instruments *(notes 10 and 11)* | 480 | — |
| | 53,387 | 70,738 |
| **Long-term debt** *(notes 5, 10 and 11)* | 316,712 | 307,405 |
| **Asset retirement obligations** *(note 6)* | 79,114 | 75,213 |
| **Future income taxes** *(note 14)* | 80,065 | 88,136 |
| | 475,891 | 470,754 |
| **Unitholders' equity** | | |
| Unitholders' capital *(note 7)* | 733,540 | 714,950 |
| Contributed surplus *(note 9)* | 9,906 | 8,977 |
| Accumulated deficit after distributions | (376,642) | (307,830) |
| | 366,804 | 416,097 |
| | $ 896,082 | $ 957,589 |

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

See accompanying notes to interim consolidated financial statements.

**TRILOGY ENERGY TRUST**

**Interim Consolidated Statements of Earnings (Loss) and Other Comprehensive Income (Loss)**

**(Unaudited)**

(In thousand dollars except as otherwise indicated)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **Revenue** | | | | |
| Petroleum and natural gas sales | **$ 49,073** | $ 125,595 | **$ 169,651** | $ 377,676 |
| Realized gain (loss) on financial instruments *(notes 10 and 11)* | **6,198** | (11,321) | **27,340** | (28,560) |
| Unrealized loss on financial instruments *(notes 10 and 11)* | **(4,524)** | 109,158 | **(20,836)** | 41,659 |
| Royalties | **(2,747)** | (26,543) | **(19,728)** | (78,255) |
| Other income (expenses) | **(210)** | 2,369 | **(492)** | 6,730 |
| | **47,790** | 199,258 | **155,935** | 319,250 |
| **Expenses** | | | | |
| Operating | **17,659** | 23,872 | **64,929** | 64,473 |
| Transportation | **2,887** | 3,322 | **9,096** | 10,511 |
| General and administrative *(notes 9 and 13)* | **3,592** | (260) | **10,878** | 15,256 |
| Provision for bad debt *(note 10 )* | **1,300** | — | **4,300** | — |
| Exploration expenditures *(note 4)* | **308** | 228 | **1,971** | 3,363 |
| Gain on disposition of property, plant and equipment | **(96)** | (27) | **(139)** | (555) |
| Accretion on asset retirement obligations *(note 6)* | **1,477** | 1,295 | **4,421** | 3,949 |
| Depletion and depreciation *(note 4)* | **29,014** | 29,934 | **86,307** | 88,240 |
| Interest and financing charges | **3,652** | 3,592 | **8,407** | 11,818 |
| | **59,793** | 61,956 | **190,170** | 197,055 |
| **Earnings (loss) before taxes** | **(12,003)** | 137,302 | **(34,235)** | 122,195 |
| **Future income taxes expense (recovery)** *(note 14)* | **(1,209)** | 6,217 | **(9,622)** | 9,184 |
| **Net earnings (loss) / Total comprehensive income (loss)** | **$ (10,794)** | $ 131,085 | **$ (24,613)** | $ 113,011 |
| **Loss per Trust Unit** (in full amounts) | | | | |
| — Basic | **$ (0.11)** | $ 1.36 | **$ (0.25)** | $ 1.18 |
| — Diluted | **$ (0.11)** | $ 1.35 | **$ (0.25)** | $ 1.17 |
| **Weighted average Trust Units outstanding** (in thousands) | | | | |
| — Basic | **98,595** | 96,372 | **98,048** | 95,845 |
| — Diluted | **98,883** | 96,850 | **98,083** | 96,263 |

See accompanying notes to interim consolidated financial statements.

## TRILOGY ENERGY TRUST

**Interim Consolidated Statements of Unitholders' Equity (Unaudited)**

(In thousand dollars except Trust Unit information)

| | Nine Months Ended September 30, 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Outstanding Trust Units** | | **Paid-in Capital** | | **Accumulated Deficit** | | **Contributed Surplus** | | **Unitholders' Equity** |
| Opening balance | **95,996,646** | **$** | **714,950** | **$** | **(307,830)** | **$** | **8,977** | **$** | **416,097** |
| Net loss | **—** | | **—** | | **(24,613)** | | **—** | | **(24,613)** |
| Distribution reinvestment plan *(notes 7 and 8)* | **3,197,737** | | **18,590** | | **—** | | **—** | | **18,590** |
| Distributions declared *(note 8)* | **—** | | **—** | | **(44,199)** | | **—** | | **(44,199)** |
| Unit/stock option recognition *(note 9)* | **—** | | **—** | | **—** | | **929** | | **929** |
| Closing balance | **99,194,383** | **$** | **733,540** | **$** | **(376,642)** | **$** | **9,906** | **$** | **366,804** |

| | Nine Months Ended September 30, 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Outstanding Trust Units** | | **Paid-in Capital** | | **Accumulated Deficit** | | **Contributed Surplus** | | **Unitholders' Equity** |
| Opening balance | 94,608,704 | $ | 704,100 | $ | (327,653) | $ | 5,558 | $ | 382,005 |
| Net earnings | — | | — | | 113,011 | | — | | 113,011 |
| Distribution reinvestment plan *(notes 7 and 8)* | 3,117,385 | | 29,066 | | — | | — | | 29,066 |
| Distributions declared *(note 8)* | — | | — | | (74,898) | | — | | (74,898) |
| Normal course issuer bid *(note 7)* | (1,786,200) | | (13,384) | | | | (2,566) | | (15,950) |
| Unit/stock option recognition *(note 9)* | — | | — | | — | | 2,035 | | 2,035 |
| Closing balance | 95,939,889 | $ | 719,782 | $ | (289,540) | $ | 5,027 | $ | 435,269 |

See accompanying notes to interim consolidated financial statements.

**TRILOGY ENERGY TRUST**
**Interim Consolidated Statements of Cash Flows, (Unaudited)**
**September 30, 2009**
(Tabular amounts expressed in thousand dollars except as otherwise indicated)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **Operating activities** | | | | |
| Net earnings (loss) | **$ (10,794)** | $ 131,085 | **$ (24,613)** | $ 113,011 |
| Add (deduct) non-cash and other items: | | | | |
| Depletion and depreciation | **29,014** | 29,934 | **86,307** | 88,240 |
| Gain on disposition of property, plant and equipment | **(96)** | (27) | **(139)** | (555) |
| Exploration expenditures | **308** | 228 | **1,971** | 3,363 |
| Asset retirement obligation expenditures *(note 6)* | **(38)** | (781) | **(1,291)** | (3,731) |
| Accretion on asset retirement obligations *(note 6)* | **1,477** | 1,295 | **4,421** | 3,949 |
| Future income tax expense (recovery) *(note 14)* | **(1,209)** | 6,217 | **(9,622)** | 9,184 |
| Provision for doubtful debt | **1,300** | — | **4,300** | — |
| General and administrative expense *(note 9)* | **389** | (5,888) | **928** | 2,822 |
| Unrealized loss on financial instruments *(note 11)* | **4,524** | (109,158) | **20,836** | (41,659) |
| Other | **19** | — | **1** | — |
| Net changes in operating working capital | **6,941** | 17,109 | **8,407** | (1,222) |
| **Cash flow from operating activities** | **31,835** | 70,014 | **91,506** | 173,402 |
| **Financing activities** | | | | |
| Credit facilities – draws | **46,202** | 167,370 | **236,066** | 340,429 |
| Credit facilities – repayments | **(52,474)** | (183,802) | **(226,959)** | (341,106) |
| Distributions to unitholders *(note 8)* | **(8,404)** | (13,552) | **(30,250)** | (42,861) |
| Purchase and cancellation of Trust Units *(note 7)* | **—** | (15,950) | **—** | (15,950) |
| **Cash flow provided by (used in) financing activities** | **(14,676)** | (45,934) | **(21,143)** | (59,488) |
| **Investing activities** | | | | |
| Property, plant and equipment expenditures | **(14,699)** | (35,733) | **(61,304)** | (101,593) |
| Property acquisitions | **—** | (28) | **(5)** | (20,963) |
| Proceeds on disposition of property, plant and equipment | **97** | 27 | **159** | 597 |
| Net change in investing working capital | **(2,557)** | 11,654 | **(9,213)** | 8,045 |
| **Cash flow used in investing activities** | **(17,159)** | (24,080) | **(70,363)** | (113,914) |
| **Net change in cash / cash, end of period** | **$ —** | $ — | **$ —** | $ — |
| Cash interest and financing charges | **$ 2,873** | $ 3,479 | **$ 8,820** | $ 12,658 |

See accompanying notes to interim consolidated financial statements.

## 1. GENERAL

Trilogy Energy Trust ("Trilogy" or the "Trust") is an open-ended unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to its Trust Indenture dated February 25, 2005, as amended and restated from time to time. The Trust is managed by Trilogy Energy Ltd., the administrator of the Trust. The beneficiaries of the Trust are the holders of Trust Units (the "Unitholders").

The interim 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

In conjunction with the transition to IFRS (as discussed below), the CICA has issued several new standards that harmonize Canadian GAAP to IFRS, including Handbook Section 3064 *(Goodwill and Intangible Assets)*. CICA HB 3064 replaces CICA HB 3062 and establishes new standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA HB 3064's provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Accounting Standards ("IAS") 38, *Intangible Assets*. A number of CICA handbook and EIC Abstracts were amended and/or replaced as a consequence of this new standard. CICA HB 3064 was effective January 1, 2009 for Trilogy, however did not impact its financial statements.

### International Financial Reporting Standards

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 intends to adopt these requirements as set out by the AcSB and other regulatory bodies. While at this time the impact of adopting IFRS cannot be reasonably quantified, Trilogy has developed and commenced implementing its plan for the changeover to IFRS. The IFRS changeover plan ensures that Trilogy addresses matters such as accounting policies, information technology systems, internal controls, disclosure controls and procedures, staffing requirements, and business activities impacted by accounting processes and measures.

The impact of converting to IFRS may be material. Current accounting under GAAP may materially differ from IFRS, with IFRS generally requiring analysis and computation at a greater level of detail than current GAAP. Further differences are anticipated to be in note disclosures, which are more onerous under IFRS than current GAAP.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of the Trust follow the same accounting policies and basis of presentation as the audited consolidated financial statements as at and for the year ended December 31, 2008 (the "Audited Financial Statements"), except as disclosed in note 2. These interim financial statement note disclosures do not include all of those required by Canadian GAAP applicable for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Audited Financial Statements.

Trilogy's consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. The timely preparation of these interim consolidated financial statements in conformity with Canadian GAAP requires that management make estimates and assumptions and use judgment that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, including those relating to the accounting for petroleum and natural gas properties, estimates of reserves, impairment of petroleum and natural gas properties, asset retirement obligations, unit-based compensation and future income tax. Such estimates primarily relate to unsettled transactions and events as of the date of the interim consolidated financial statements. Actual results could differ materially from those estimates.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | September 30, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Depletion and Depreciation | Net Book Value | Cost | Accumulated Depletion and Depreciation | Net Book Value |
| Petroleum and natural gas properties | **1,529,785** | **(832,510)** | **697,275** | 1,477,303 | (754,669) | 722,634 |
| Other | **9,352** | **(4,638)** | **4,714** | 9,038 | (3,465) | 5,573 |
| | **1,539,137** | **(837,148)** | **701,989** | 1,486,341 | (758,134) | 728,207 |

Capital costs associated with non-producing petroleum and natural gas properties totaling approximately $97.8 million as at September 30, 2009 (December 31, 2008 - $112.5 million) were not subject to depletion. No interest costs were capitalized for the three and nine months ended September 30, 2009 and 2008.

The costs relating to exploratory dry holes amounted to $0.2 and $0.7 million for the three and nine months ended September 30, 2009, respectively ($0.1 and $2.9 million for the three and nine months ended September 30, 2008, respectively) and are included in exploration expenditures.

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

## 5. LONG-TERM DEBT

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Revolving credit and working capital facility | **317,507** | 307,787 |
| Less unamortized discount and financing fees | **(795)** | (382) |
| Carrying value of long-term debt | **316,712** | 307,405 |
| Weighted average interest rate for the period/year (excluding amortization of financing fees) | **3.36%** | 4.46% |

The Trust has a $323 million revolving credit facility (decreasing to $315 million on October 31, 2009, respectively) 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 26, 2010, 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 the one year term. Advances drawn on the Trust's facility are secured by a fixed and floating charge debenture over the assets of the Trust. Trilogy's borrowing base is subject to semi-annual review by the banks.

The Trust has undrawn letters of credit totaling $8.9 million as at September 30, 2009. These letters of credit reduce the amount available for draw under the Trust's working capital facility.

## 6. ASSET RETIREMENT OBLIGATIONS

| | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2009 |
|---|---|---|
| Asset retirement obligations, beginning of period | 77,414 | 75,213 |
| Liabilities incurred | 261 | 771 |
| Liabilities settled | (38) | (1,291) |
| Accretion expense | 1,477 | 4,421 |
| Asset retirement obligations, end of period | 79,114 | 79,114 |

The undiscounted asset retirement obligations at September 30, 2009 is estimated to be $184.6 million (December 31, 2008 - $182.6 million). The credit-adjusted risk-free rate used to estimate asset retirement obligation liability ranges 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 Trust at the time of incurrence.

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

## 7. UNITHOLDERS' CAPITAL

### Authorized

The authorized capital of the Trust is comprised of an unlimited number of Trust Units and an unlimited number of Special Voting Rights. Compared to the holders of the Trust Units, holders of Special Voting Rights are not entitled to any distributions of any nature from the Trust nor have any beneficial interest in any property or assets of the Trust on termination or winding-up of the Trust.

### Issued and Outstanding

Trilogy had 99,194,383 Trust Units outstanding as at September 30, 2009 (95,996,646 Trust Units as at December 31, 2008). No Special Voting Rights have been issued to date.

For the three and nine months ended September 30, 2009, 899,621 ($6.4 million) Trust Units and 3,197,737 ($18.6 million) Trust Units were issued, respectively, under Trilogy's Distribution Reinvestment Plan ("DRIP") (see note 8).

### Normal Course Issuer Bid

Pursuant to a normal course issuer bid program, Trilogy may purchase and cancel up to 4,912,483 Trust Units during the period March 24, 2009 through March 23, 2010. No Trust Units were purchased through this normal course issuer bid as at September 30, 2009.

## 8. ACCUMULATED DISTRIBUTIONS

| | Three Months Ended September 30, 2009 | | | | Nine Months Ended September 30, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash | DRIP | Accrual | Total | Cash | DRIP | Accrual | Total |
| Balance at beginning of period | 560,201 | 89,084 | 4,915 | 654,200 | 538,355 | 76,857 | 9,600 | 624,812 |
| Distributions paid/reinvested | 8,404 | 6,363 | — | 14,767 | 30,250 | 18,590 | — | 48,840 |
| Change in distribution accrual | — | — | 45 | 45 | — | — | (4,640) | (4,640) |
| Distributions declared | 8,404 | 6,363 | 45 | 14,812 | 30,250 | 18,590 | (4,640) | 44,200 |
| Balance at end of period | 568,605 | 95,447 | 4,960 | 669,012 | 568,605 | 95,447 | 4,960 | 669,012 |

The Trust intends to make cash distributions to Unitholders at a level that supports the sustainability of the Trust. Such distributions are at the sole discretion of the Trust and are subject to numerous factors including, but not limited to, the financial performance of the Trust, debt covenants and obligations including credit availability, and the working capital and future capital requirements of the Trust.

Trilogy's DRIP program provides eligible Unitholders with the opportunity to reinvest their cash distributions, on each distribution payment date, for additional Trust Units at a price equal to 95 percent of the average market price as defined by the plan.

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

## 9. UNIT BASED COMPENSATION

### Unit Option Plan

A continuity of the unit option plan for the three and nine months ended September 30, 2009 is as follows:

| | Three Months Ended September 30, 2009 | | | Nine Months Ended September 30, 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 period | $ 8.10 | $ 1.20 | 3,783,500 | $ 10.18 | $ 1.41 | 4,765,500 |
| Granted | — | — | — | $ 6.00 | $ 0.91 | 16,000 |
| Exercised | — | — | — | — | — | — |
| Cancelled | — | — | — | $ 18.00 | $ 2.17 | (998,000) |
| Balance, end of period | $ 8.10 | $ 1.20 | 3,783,500 | $ 8.10 | $ 1.20 | 3,783,500 |
| Exercisable at end of period | $ 9.24 | $ 1.45 | 360,250 | $ 9.24 | $ 1.45 | 360,250 |

The Trust has recorded a compensation expense of $0.3 million and $0.6 million for the three and nine months ended September 30, 2009, respectively ($0.6 million and $1.5 million for the three and nine months ended September 30, 2008, respectively) representing the recognition of the grant date fair value of outstanding unit options, with a corresponding credit to contributed surplus. The fair value of options issued in the current year were determined under the binomial model using the following key assumptions:

| | | |
|---|---|---|
| Risk-free interest rate | — | 1.6% to 3.1% |
| Expected life | — | 4.5 to 5.5 years |
| Expected volatility | — | 30% to 35% |
| Expected distributions | — | 9.5% to 23.4% |

Additional information about Trilogy's unit options outstanding as at September 30, 2009 is as follows:

| Exercise Price Range | Weighted Average Contractual Life (years) | Outstanding Options: Number of Options | Outstanding Options: Weighted Average Exercise Price | Exercisable Options: Number of Options | Exercisable Options: Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $4.85 to $6.98 | 4.1 | 2,109,000 | $ 5.89 | 140,500 | $ 6.67 |
| $8.38 to $10.72 | 1.6 | 1,066,000 | $ 10.61 | 182,750 | $ 10.62 |
| $11.11 to $12.88 | 2.7 | 608,500 | $ 11.37 | 37,000 | $ 12.21 |
| Total | 3.2 | 3,783,500 | $ 8.10 | 360,250 | $ 9.24 |

### Unit Appreciation Rights Plan

All remaining unit appreciation rights were paid as at the expiry date of December 15, 2008 and no further amounts are anticipated to be recorded under this plan as there is no current intention to make further grants of unit appreciation rights. In respect of prior periods, a compensation recovery of $4.6 million and compensation expense of $3.7 million was recorded for the three and nine months ended September 30, 2008, respectively. Cash paid for the exercise of unit rights for these prior periods amounted to $2.0 million and $2.9 million, respectively.

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

## 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, and the the issuance of equity are the main source of Trilogy's finances after cash flow from operations. Trilogy has other financial assets and liabilities arising directly from its operations and trust activities, including accounts receivable, accounts payable and accrued liabilities, unit-based compensation liability and distributions 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. These risks are explained in detail in the notes to the consolidated financial statements as at December 31, 2008. The following disclosure provides updated information to September 30, 2009:

### Credit Risk

As at September 30, 2009, $7.3 million or 19.5 percent of the accounts receivable are outstanding for 90 days or more (December 31, 2008, $8.2 million or 14.9%). Included within accounts receivable is a receivable of approximately $4.3 million (of which $4.3 million is outstanding for more than 90 days) from a customer which has filed for protection under the Companies' Creditors Arrangement Act. Trilogy originally set off certain amounts payable to this customer in sufficiency to offset this receivable amount. Trilogy unsuccessfully appealed the initial ruling that denied Trilogy's ability to set off receivable amounts owing to it by the customer. Given the above, Trilogy recorded in the second quarter a $3 million provision for a bad debt in respect of this customer. An additional $1.3 million was recorded in the current quarter to fully provide for all receivable amounts. Any recoveries as a result of ongoing arrangements will be recorded when received.

### Liquidity Risk

A contractual maturity analysis for Trilogy's financial liabilities as at September 30, 2009 is as follows:

| | Within 1 Year | After 1 Year | Total |
|---|---|---|---|
| Accounts payable and accrued liabilities | $ 47,947 | $ — | $ 47,947 |
| Distributions payable | 4,960 | — | 4,960 |
| Long-term debt and estimated interest[1] [2] | 10,642 | 327,354 | 337,996 |
| Total | $ 63,549 | $327,354 | $ 390,903 |

[1] Estimated interest for future periods was calculated using the weighted average interest rate for the nine months ended September 30, 2009 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.

[2] Refer to Note 5 (Long-Term Debt).

(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.

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Financial assets** | | |
| Receivables[1] | **37,344** | 55,149 |
| Financial instruments held-for-trading[3] | **1,831** | 22,187 |
| **Financial liabilities** | | |
| Non-trading liabilities[1] [2] | **(52,907)** | (70,738) |
| Financial instruments held-for-trading[3] | **(480)** | — |
| Indebtedness[4] | **(316,712)** | (307,405) |

(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, accrued liabilities and distributions payable.
(3) Carried at the estimated fair value of the related financial instruments. See Forward Contracts below.
(4) Carried at amortized cost.

### Forward Contracts

At September 30, 2009, the Trust had the following outstanding financial forward commodity sales contracts:

| Description | Quantity | Price | Remaining Term |
|---|---|---|---|
| NYMEX Collar | 10,000 MMBtu/d | Floor – U.S.$9.50<br>Ceiling – U.S.$13.00 | October 2009 |
| AECO Fixed Price | 10,000 GJ/d | $5.46 | November 2009 – October 2010 |
| AECO Fixed Price | 10,000 GJ/d | $5.47 | November 2009 – October 2010 |

The Trust classifies these financial instruments 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.

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

## 12. CAPITAL DISCLOSURE

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

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Committed amount that can be drawn from credit facilities | **358,000** | 378,000 |
| Outstanding undrawn letters of credit | **(8,944)** | (9,373) |
| **Amount that can be drawn after letters of credit** | **349,056** | 368,627 |
| Long-term debt (note 5) | **(316,712)** | (307,405) |
| Net current assets (liabilities) | **(12,066)** | 7,424 |
| Net debt(1) | **(328,778)** | (299,981) |
| Mark-to-market valuation of financial instruments | **(1,351)** | (22,187) |
| **Adjusted net debt**(1) (2) | **(330,129)** | (322,168) |
| Remaining available credit | **18,927** | 46,459 |

(1) Net debt and adjusted net debt as calculated above are non-GAAP measures and are not standard terms/measures used by others.

(2) Refer to note 16 for additional capital disclosure related information.

The increase in adjusted net debt from $322.2 million at December 31, 2008 to $330.1 million at September 30, 2009 is attributable primarily to lower cash flow from operations in conjunction with the current low gas commodity price environment. To the extent capital resources are insufficient to fund Trilogy's ongoing expenditure commitments, Trilogy may consider, among other things, reducing its capital expenditure budget and/or adjusting its distribution level on Trust Units.

## 13. RELATED PARTY TRANSACTIONS

Trilogy had the following transactions with Paramount Resources Ltd. ("Paramount"), a significant Unitholder of the Trust.

- Under the Services Agreement, Paramount provides certain limited services to Trilogy. The amount of expenses billed and accrued as fees from Paramount to Trilogy was $0.1 million and $0.2 million for the three and nine months ended September 30, 2009 ($0.1 million and $0.2 for the three and nine months ended September 30, 2008). This amount is included as part of the general and administrative expenses in the Trust's interim consolidated statement of earnings.

- The Trust and Paramount also had transactions with each other arising from the normal course of business.

All of the above transactions were recorded at exchange amounts.

(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:

| | September 30, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| Presented in the Balance Sheet as | Normal Business | Services Agreement | Trust Distribution | Normal Business | Services Agreement | Trust Distribution |
| Accounts receivable | **672** | **—** | **—** | 222 | — | — |
| Accounts payable and accrued liabilities | **(982)** | **(60)** | **—** | (159) | (120) | — |
| Distributions payable | **—** | **—** | **(1,176)** | — | — | (2,234) |

## 14. INCOME TAXES

The nature and tax effect of temporary differences and unused carryforwards that give rise to future income tax assets and liabilities as at September 30, 2009 and December 31, 2008 are as follows:

| Description of Temporary Differences and Carryforwards | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Property, plant and equipment | **(90,984)** | (101,150) |
| Asset retirement obligation | **19,367** | 20,536 |
| Loss carryforwards and other | **3,853** | 3,227 |
| Net future income tax liability | **(67,764)** | (77,387) |

Future changes in tax rates and the technical interpretation of tax legislation could materially affect management's estimate of the Trust's future income tax liability. The amount and timing of reversals of temporary differences will be dependent upon, among other things, the Trust's future operating results, acquisitions and dispositions of assets and liabilities, and its distribution policy. A change in the assumptions on the preceding items could materially affect the Trust's estimated future income tax liability.

## 15. COMMITMENTS

In addition to the commitments as disclosed in the Audited Financial Statements, Trilogy entered into the following significant physical fixed price power purchase contracts in the quarter:

| Quantity | Price (per MWh) | Remaining Term |
|---|---|---|
| 4 MW/h | $51.99 | January 2010 - December 2010 |
| 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.

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

## 16. SUBSEQUENT EVENTS

Trilogy entered into the following financial forward commodity sales contract:

| Description | Quantity | Price | Remaining Term |
|---|---|---|---|
| AECO Fixed Price | 10,000 GJ/d | $5.565 | November 2009 – October 2010 |
| AECO Fixed Price | 10,000 GJ/d | $5.60 | November 2009 – October 2010 |

Holders of 63,201,261 Trust Units have reinvested their September distributions totaling $3.2 million through Trilogy's distribution reinvestment program, resulting in the issuance of an additional 410,862 Trust Units on October 15, 2009.

On October 20, 2009, Trilogy announced its cash distribution for October 2009 at $0.05 per Trust Unit. Holders of 64,626,526 Trust Units have reinvested their October distributions totaling $3.2 million through Trilogy's distribution reinvestment program.

On November 4, 2009 Trilogy issued 10 million Trust Units at a price of $8.65 per trust unit, representing gross proceeds of $86.5 million ($82.2 million after commissions).  The net proceeds of the offering reduced outstanding indebtedness and will be used for ongoing capital expenditures and general corporate purposes.

# CORPORATE INFORMATION

## OFFICERS

**J.H.T. Riddell**
President and Chief Executive Officer

**M.G. Kohut**
Chief Financial Officer

**J.B. Williams**
Chief Operating Officer

**G.L. Yester**
General Counsel & Corporate Secretary

## DIRECTORS

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

**J.H.T. Riddell** (4)
President and Chief Executive Officer
Calgary, Alberta

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

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

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

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

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

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

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## AUDITORS

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Calgary, Alberta

## BANKERS

**Bank of Montreal**
Calgary, Alberta

**The Bank of Nova Scotia**
Calgary, Alberta

**Canadian Imperial Bank of Commerce**
Calgary, Alberta

**Royal Bank of Canada**
Calgary, Alberta

**ATB Financial**
Calgary, Alberta

**Société Général**
Calgary, Alberta

## CONSULTING ENGINEERS

**Paddock Lindstrom and Associates Ltd.**
Calgary, Alberta

## REGISTRAR AND TRANSFER AGENT

**Computershare Investor Services Inc.**
Calgary, Alberta
Toronto, Ontario

## STOCK EXCHANGE LISTING

**The Toronto Stock Exchange**
"TET.UN"

**Committees of the Board of Directors of Trilogy Energy Ltd. (Administrator of the Trust)**
(1) Member of the Compensation Committee
(2) Member of the Audit Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Environmental, Health & Safety Committee
(5) Lead Director