2009
Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS TABLE

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

	Three Months Ended			Years Ended December 31		
	Dec. 31, 2009	**Sept. 30, 2009**	**Change %**	**2009**	**2008**	**Change %**
FINANCIAL						
Petroleum and natural gas sales	**66,428**	49,073	35	**236,079**	465,297	(49)
Funds flow						
From operations[1]	**29,378**	24,894	18	**112,477**	253,866	(56)
Per unit – diluted	**0.28**	0.25	12	**1.12**	2.64	(58)
Earnings						
Earnings (loss) before tax	**(5,019)**	(12,003)	(58)	**(39,254)**	131,684	(130)
Per unit – diluted	**(0.05)**	(0.12)	(58)	**(0.39)**	1.37	(128)
Earnings (loss) after future income tax	**(8,749)**	(10,794)	(19)	**(33,362)**	123,353	(127)
Per unit – diluted	**(0.08)**	(0.11)	(27)	**(0.33)**	1.28	(126)
Distributions declared	**16,005**	14,812	8	**60,205**	103,530	(42)
Per unit	**0.15**	0.15	—	**0.60**	1.08	(44)
Capital expenditures						
Exploration and development	**28,204**	14,699	92	**89,509**	123,721	(28)
Acquisitions, (dispositions) and other - net	**112**	(97)	(215)	**(42)**	20,033	(100)
Net capital expenditures	**28,316**	14,602	94	**89,467**	143,754	(38)
Total assets	**893,193**	896,082	—	**893,193**	957,589	(7)
Net debt[1]	**246,427**	328,778	(25)	**246,427**	299,981	(18)
Unitholders' equity	**434,612**	366,804	18	**434,612**	416,097	4
Trust Units outstanding (thousands)						
- As at end of period	**110,490**	99,194	11	**110,490**	95,997	15
OPERATING						
Production						
Natural gas (MMcf/d)	**94**	92	2	**93**	97	(4)
Crude oil and natural gas liquids (Bbl/d)	**4,457**	3,740	19	**4,237**	4,422	(4)
Total production (Boe/d @ 6:1)	**20,086**	19,033	6	**19,780**	20,585	(4)
Average prices						
Natural gas (before financial instruments) ($/Mcf)	**4.60**	3.28	40	**4.33**	8.91	(51)
Natural gas ($/Mcf)[2]	**5.08**	4.02	26	**5.25**	8.96	(41)
Crude oil and natural gas liquids (before financial instruments) ($/Bbl)	**65.32**	62.03	5	**57.37**	92.02	(38)
Crude oil and natural gas liquids ($/Bbl)[2]	**65.32**	62.03	5	**57.34**	100.97	(43)
Drilling activity (gross)						
Gas	**5**	9	(44)	**26**	46	(43)
Oil	**1**	1	—	**3**	14	(79)
D&A	—	—	—	**—**	5	(100)
Total wells	**6**	10	(40)	**29**	65	(55)
Success rate	**100%**	100%	—	**100%**	92%	—

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

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

REVIEW OF OPERATIONS

First Quarter Review

- Average production 20,211 Boe/d
- $37.2 million capital expenditures
- 11(9.3 net) wells drilled with a 100 percent success rate
- Average operating costs $13.39 /Boe
- $37.2 million funds flow from operations

Second Quarter Review

- Average production of 19,800 Boe/d
- $9.4 million of capital expenditures
- 2 (1.25 net) wells drilled, resulting in 1 (0.25 net) gas well and 1 acid gas disposal well
- Average operating costs of $12.71/Boe
- $21.0 million funds flow from operations

Third Quarter Review

- 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

Fourth Quarter Review

- Average production of 20,086 Boe/d
- $28.6 million of capital expenditures, after $3.0 million of drilling credits
- 6(4 net) wells drilled with a 100 percent success rate
- Average operating costs of $8.78/Boe
- $29.4 million funds flow from operations
- Announced restructuring plan to convert from an income trust structure to a growth-oriented corporate structure

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

2009 Annual Highlights

- Production averaged 19,780 Boe/d (7.2 MMBoe) for the year
- Capital expenditures (excluding acquisitions, dispositions and corporate assets) totaled \$96.6 million and before drilling credits of \$7.4 million. Included in this total is \$15.3 million in costs related to Trilogy's proposed Presley Pipeline and Kaybob North Sour Gas Plant expansion projects
- Added 8.0 MMBoe of proved reserves and 7.7 MMBoe of proved plus probable reserves (including technical revisions)
- Replaced 111 percent of produced reserves, when compared to proved reserve additions, and 107 percent when compared to proved plus probable reserves
- Finding and development costs (including technical revisions) were \$10.85/Boe for total proved reserves (\$8.94/Boe excluding the costs of the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects)
- Finding and development costs (including technical revisions) were \$11.19/Boe for proved plus probable reserves (\$9.20/Boe excluding the costs of the Presley Pipeline and Kaybob North Sour Gas Plant expansion projects)
- Increased reserve life index to 10 years for proved plus probable reserves in 2009 as compared to 9.5 years in 2008
- Annual operating netback of \$20.16/Boe (including realized gains/losses on financial instruments)
- Participated in drilling 17 Montney horizontal wells and two Bluesky wells during the year; these positive drilling and completion results will further support Trilogy's development and growth strategy in 2010
- Trilogy Energy Trust announced its restructuring plans for conversion from a distribution-paying income trust to a corporation to be known as Trilogy Energy Corp. Trilogy subsequently completed its conversion (the "Conversion") and internal reorganization ("Reorganization") effective February 5, 2010
- Trilogy announces a ten percent growth in forecast production for 2010 and an anticipated \$0.035 per share dividend post-Conversion

The year provided many challenges as Trilogy was forced to respond to the uncertainties and volatility caused by the global recession. In response to a drop in demand for commodities and the resulting decline in commodity prices, Trilogy reduced its capital spending program and focused all efforts on adding low cost reserve and production additions while reducing the cost structure as much as possible without impacting safety, the environment or production.

Production

Trilogy's production averaged 19,780Boe/d (93.3 MMcf/d of natural gas and 4,237 Bbl/d of crude oil and natural gas liquids) in 2009; this is four percent below the annual production volume for the prior year. The year over year decline in annual production is primarily a function of reduced capital spending in 2009. Production operations were generally in line with expectations. However, reduced oil production at the Kaybob North oil pool, operational issues at the SemCAMS operated K3 Gas Plant, plant turnarounds and a one month delay in the start up of the new Montney horizontal wells also contributed to the reduction in production volumes for the year.

The following table summarizes the average daily production by core operating area for the past five years.

Natural Gas Production (MMcf/d)	2009	2008	2007	2006	2005
Kaybob	**83.6**	**86.4**	91.5	93.3	97.3
Marten Creek	**-**	**-**	5.2	18.1	20.1
Grande Prairie	**9.7**	**10.6**	10.0	6.9	-
Total	**93.3**	**97.0**	106.7	118.3	117.4
Crude Oil & NGL Production (Bbl/d)					
Kaybob	**3,911**	**4,172**	4,300	4,717	4,928
Marten Creek	**-**	**-**	0	0	0
Grande Prairie	**326**	**251**	226	253	-
Total	**4,237**	**4,423**	4,526	4,970	4,928
Total Production (Boe/d)					
Kaybob	**17,837**	**18,570**	19,565	20,276	21,144
Marten Creek	**-**	**-**	861	3,014	3,351
Grande Prairie	**1,943**	**2,015**	1,889	1,401	-
Total	**19,780**	**20,585**	22,315	24,691	24,495

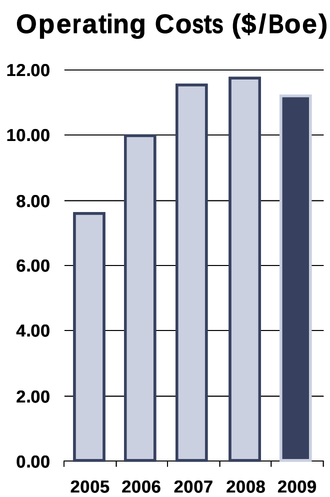
Fourth quarter 2009 production increased to 20,086 Boe/d from 19,033 Boe/d in the third quarter as a result of a successful drilling program in the third quarter in the Kaybob and Grande Prairie areas. Drilling operations continued through the fourth quarter and we anticipate a similar increase in the first quarter 2010 production as a result of positive drilling and completion results.

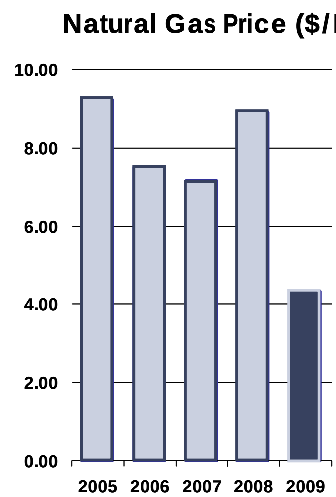
With Trilogy's current portfolio of producing and non-producing assets and proposed increases in capital spending, we expect to grow 2010 production volumes by approximately ten percent from the prior year. The nature and location of its assets provide Trilogy with the opportunity to pursue numerous play types, thereby reducing the risk of being over-exposed to a single type or a single geographic area. The advances made in horizontal drilling and completion techniques over the past year have provided Trilogy with the opportunity to confidently exploit additional tight gas reservoirs on its acreage at very attractive finding and development costs. Given the potential for continued weak natural gas commodity prices in 2010, Trilogy plans to continue to focus its drilling and completion capital on tight gas reservoirs where the horizontal technology can be used to add low cost reserves and grow production efficiently. The core assets that Trilogy has exploited over the past five years will continue to provide economic drilling opportunities even in the presence of low commodity prices. Trilogy has forecast 2010 production to average 22,000 Boe/d; this would represent a production increase of approximately ten percent as compared to 2009.

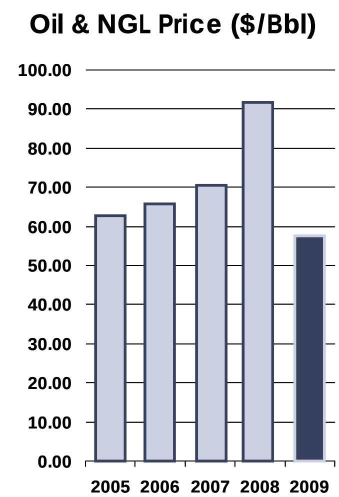
Operating Costs

Operating costs in 2009 decreased to $11.24/Boe for the year, as compared to $11.80/Boe in 2008. This five percent reduction in operating costs can be attributed partially to cost reduction initiatives implemented by Trilogy's field staff over the past year. The benefits of these cost reduction measures were offset, in part, by a decrease in production due to the shut down of the lean oil extraction unit at the SemCAMS operated K3 gas plant and the two plant turnarounds in the Kaybob area, as fixed costs were spread over a smaller production base during the period. Cost reduction measures will continue in 2010 to further reduce operating expenses.

Operating costs were also partially reduced in response to a 46 percent decrease in Trilogy's power costs, which were $48.68/megawatt hour in 2009, down from $90.00/megawatt hour in 2008. We expect power costs to increase in the coming year as these costs are linked, in part, to commodity prices. Trilogy has hedged six megawatt hours, or approximately 75 percent of its forecast power consumption for 2010, at $50.82/megawatt hour, and four megawatt hours for 2011 and 2012 at $53.80/megawatt hour and $58.19/megawatt hours respectively. Over the next three years, these hedges should help to reduce the effect that volatile power prices have had on Trilogy's operating costs.







(Before financial instruments and transportation)

Reducing operating costs was a top priority for Trilogy in 2009. Cost escalations over the past few years have eroded netbacks on gas and oil production. The challenging economic conditions required our employees, consultants, contractors and service providers to evaluate cost reduction opportunities in all areas of our operations. By operating the majority of wells, gathering systems and plants that produce its gas, Trilogy believes it can influence the operating dollars spent and how such costs can be reduced.

Trilogy's infrastructure development plan for Presley and North Kaybob is an example of a capital investment to reduce operating costs over the long term production of the reserves. These plans involve the investment of $38 million to install a pipeline from the Presley area in South Kaybob (the "Presley Pipeline"), expand the Kaybob North Sour Gas Plant ("Kaybob North Plant") and install an acid gas disposal scheme to reduce operating costs by approximately $12-$15 million per year. The payout on these projects is approximately three years, which is significantly shorter than Trilogy's 10 to 15 year development plan for the area.

Profitability

Trilogy's average natural gas sales price, before financial instruments and transportation, decreased 51 percent from $8.91/Mcf in 2008 to $4.33/Mcf in 2009. Approximately 80 percent of Trilogy's production on a per barrel of oil equivalent basis (6 Mcf: 1 Bbl) is natural gas and any change in the realized price has a significant impact on cash flow. Operating netback in 2009, including realized financial instruments, decreased 47 percent to $20.16/Boe as compared to $38.25/Boe in 2008. This decline in natural gas prices was partially offset by the high liquids content in Trilogy's gas stream, which resulted in a higher realized price given the increased heat content, as compared to low heat content gas in other parts of Alberta.

- On a funds flow per Boe basis, Trilogy realized a 54 percent decrease, from $33.70/Boe in 2008 to $15.58/Boe in 2009.

- Funds flow from operations per diluted unit was down 58 percent, from $2.64/unit in 2008 to $1.12/unit in 2009.
- Annual operating netback was $20.16/Boe (including realized gains/losses on financial instruments), resulting in a recycle ratio of 1.8 times for proved plus probable reserves, including the capital related to the Presley Projects.

Funds Flow Reconciliation	**2009**		**2008**	
Production (Boe/d)	**19,780**		**20,585**	
	$ million	**$/Boe**	**$ million**	**$/Boe**
Gross revenue including other income and realized financial instruments	267.1	37.00	489.0	64.90
Operating cost	(81.1)	(11.24)	(88.9)	(11.80)
Transportation	(11.9)	(1.65)	(14.1)	(1.87)
Royalties	(26.9)	(3.73)	(92.4)	(12.26)
Asset retirement expenditure	(1.5)	(0.22)	(5.4)	(0.72)
Operating Netback	**145.7**	**20.16**	**288.2**	**38.25**
General and administrative expenses	(17.3)	(2.39)	(19.3)	(2.56)
Interest	(11.9)	(1.64)	(15.0)	(1.99)
Bad Debt	(4.0)	(0.55)	-	-
Funds flow	**112.5**	**15.58**	**253.9**	**33.70**
Weighted average Trust Units outstanding for the year (fully diluted)	100,060		96,089	
Funds flow per Unit ($/unit)	**1.12**		**2.64**	

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

Capital Expenditures

Annual capital expenditures were originally budgeted to be $100 million for 2009 (including land and corporate expenditures). As commodity prices declined through the first quarter, Trilogy responded by decreasing its capital spending plans and revised its budget to $80 million in the first quarter. Actual capital expenditures totaled $89.5 million for the year including land, drilling credits, corporate expenditures, acquisitions and dispositions. The increase in actual versus budgeted expenditures occurred as a result of Trilogy's decision to move ahead with the procurement of materials and equipment for the proposed Presley Projects, which totaled $15.3 million as of the end of 2009.

Trilogy's total capital expenditures are net of the Alberta Government's drilling incentive plan that reduces capital expenditures by $200 per meter for new wells drilled after April 1, 2009. During the second half of the year, Trilogy was active in drilling horizontal Montney wells, which attracted drilling credits of approximately $800,000 per well (4,000 meters measured depth), The resulting reduction in capital expenditures is further reflected in reduced finding and development costs. Trilogy will receive approximately $7.4 million in drilling incentive credits for 2009.

Capital Expenditures (millions of dollars)	**2009**	**2008**
Land	**2.8**	**3.1**
Geological and geophysical	**1.3**	**1.1**
Drilling and Completion	**56.4**	**85.4**
Drilling incentive credits	**(7.4)**	**-**
Production equipment, facilities and inventory	**36.0**	**34.0**
Exploration and development expenditures	**89.1**	**123.6**
Corporate office	**0.4**	**0.1**
Property acquisitions	**0.4**	**20.6**
Proceeds received on property dispositions	**(0.4)**	**(0.6)**
Net capital expenditures	**89.5**	**143.7**

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

The economic conditions experienced in 2009 challenged Trilogy's ability to replace produced reserves and maintain production with less capital. The majority of the $80 million capital budget was allocated toward drilling and completion operations. Trilogy worked with its partners to reduce and control costs in order to execute operations on budget. An increasing emphasis on accountability for controlling costs and drilling results has pushed Trilogy staff to ensure our operations remain competitive and to maximize Trilogy's profitability during the year.

- Trilogy has continued to develop its expertise in drilling and completing horizontal wells, resulting in more consistent budgeting and risk analysis specific to the various play types Trilogy is pursuing.

- Joint venture operations provide an opportunity to participate in partner-operated activity, enabling Trilogy to monitor and potentially improve on executing its operations on budget.

- Drilling and completion operations realized substantial savings as compared to 2008. The number of active drilling rigs in Canada was down significantly from 2008, resulting in very competitive pricing during the second half of the year. In addition, rig contractors were able to provide experienced crews that helped control costs and ensure operations were carried out safely and efficiently.

- By drilling directional and horizontal wells, Trilogy is able to utilize common surface sites for multiple wells, thereby using existing roads and surface leases, reducing tie in costs and the environmental footprint of its operations.

Drilling Activity

Trilogy participated in drilling 29 (20.4 net) wells during 2009, as compared to 65 (43.7 net) wells in 2008, with an overall success rate of 100 percent (100 percent net) for the year. This high drilling success rate in Kaybob and Grande Prairie reflects Trilogy's drilling strategy of focusing on exploiting the large tight-gas resources on its lands as well as conventional oil and gas formations that have multi-zone development potential. The reduction in wells drilled in 2009 versus 2008 reflects a move toward drilling and completing more horizontal wells at a significantly higher per well capital cost as compared to vertical wells. In 2009 Trilogy participated in 19 (11.9 net) horizontal drilling operations as compared to 6 (4.4 net) horizontal wells in 2008.

Drilling Results	Development		Exploration	
	Gross	**Net**	**Gross**	**Net**
Gas	24	17.9	2	1.3
Oil	2	0.9	1	0.3
D&A	0	0	0	0
Total All Wells	**26**	**18.8**	**3**	**1.6**
Success (%)	**100**	**100**	**100**	**100**

In 2010, Trilogy will continue to develop and exploit play types that are similar to those drilled in 2009, as well as identifying and pursuing other formations that may provide similar exploitation potential. The application of horizontal drilling and multi-stage fracture completions is expected to become an increasing factor in Trilogy's drilling results. Trilogy continues to closely monitor industry activity with a view to capitalizing on its analysis of best practices and risk mitigation techniques in regard to these technologies. Trilogy plans to continue to acquire land in these areas to maintain an ongoing prospect inventory of high quality/low risk development wells capable of growing its existing assets beyond current production levels, while replacing produced reserves on an annual basis.

CORE OPERATING AREAS

As a Trust, Trilogy's strategy was to maintain a stable production profile and replace produced reserves year over year. By focusing exploitation efforts on high working interest assets with multi-zone development potential, Trilogy was able to control costs and risk, while maintaining operational control over the assets. During this period of commodity price volatility and economic uncertainty, we were able to control capital spending to provide our unitholders with attractive metrics that demonstrate Trilogy's ability to replace production declines and produced reserves. In 2010, as Trilogy emerges as a growth oriented oil and gas production company, we will reinvest a larger portion of the annual cash flow back into the asset base to increase value for the shareholders .

Kaybob

The Kaybob area accounted for approximately 90 percent of Trilogy's production and capital expenditures in 2009 and will continue to be the focus of its 2010 spending plans. Trilogy has a large portfolio of tight-gas assets in this area that we expect will lend themselves to further exploitation through ongoing development using horizontal drilling and completion technology. These high quality drilling prospects will provide Trilogy with continued opportunities to grow annual production and replace produced reserves at lower costs.

For the year, Trilogy produced 17,838 Boe/d in the Kaybob area as compared to 18,570 Boe/d of production in 2008. The 732 Boe/d decline in reported annual production can be partly attributed to the plant turnarounds at the SemCAMS operated KA Plant in May and the Trilogy operated Kaybob North Plant in June, reducing second quarter volumes by 1,000 Boe/d (250 Boe/d for 2009). Production volumes were also reduced when the lean oil extraction unit at the SemCAMS K3 Plant was offline. The lean oil unit and related pipelines were out of service from late May until the end of August. The lean oil unit shutdown resulted in a greater heat content in the natural gas being processed through the plant, given that the liquids were left in the gas stream, and as a result, Trilogy realized a slightly higher price for the inherently liquids rich gas produced during the period.

Trilogy's 2009 capital spending in the Kaybob area totaled $89.7 million (before drilling credits) for the year, including $15.3 million used to plan, design and procure equipment for the proposed Presley Pipeline and Kaybob North Plant projects. Trilogy drilled 25 (18.6 net) wells in the Kaybob area in 2009, of which 17 (11.4 net) wells were drilled horizontally. This increase in capital is mainly due to the added costs of drilling deeper, directional and horizontal wellbores. The additional costs incurred in drilling directional wells were partially offset by reduced tie in costs, and the incremental costs to drill horizontal wells were offset by an increase in production and reserve assignment.

Most of the horizontal drilling in the Kaybob area has been focused on the Montney formation; however we believe strongly that there are numerous other tight gas reservoirs in the area that may benefit from horizontal drilling. In 2010 Trilogy will apply horizontal drilling technology to the Bluesky, Wilrich and Spirit River formations. These tight gas reservoirs may provide opportunities for further exploitation through drilling horizontal wells on Trilogy's existing land base. Trilogy will continue to monitor industry-wide horizontal drilling activity and evaluate additional formations for further exploitation.

Presley Montney Development

Results for the Trilogy operated horizontal wells drilled in the Presley area of South Kaybob in 2009 were very encouraging. Capitalizing on recent developments in drilling technology, Trilogy increased the measured depth of its wells drilled as well as the length of the horizontal sections of the wellbores in its operated wells. First quarter 2009 wells were drilled to 3,500 meters measured depth and completed with seven stage fracture stimulations, whereas third and fourth quarter wells were drilled to a maximum depth between 4,000 and 4,500 meters and completed with twelve to sixteen-stage fracture stimulations. Montney horizontal wells currently cost \$3.5 to \$4.0 million to drill, complete and tie in if there are no operational issues and the well is drilled from an existing surface lease. Third and fourth quarter wells flowed back natural gas at test rates of 8 to 15 MMcf/d with flowing pressures between 10 to 15 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. Given the success in the third and fourth quarter, Trilogy made plans to expand current compression capacity by installing a fifth compressor at the 3-29 compressor site to increase capacity to 50 MMcf/d. This project received regulatory approval and was constructed during February 2010. Trilogy intends to pursue a development drilling plan in 2010 that will fully utilize available compression and maintain rates at maximum capacity. Given continued encouraging drilling results on the eight horizontal wells being drilled in the first quarter 2010 Trilogy will be evaluating the option of installing a sixth compressor before the end of the year.

The following table updates and summarizes the well data, test results and costs for Trilogy operated horizontal Montney wells drilled and completed in the Presley area of South Kaybob during the third and fourth quarters

	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	1,269	13	8.3	13.5	3.5
6.	100	4,329	1,698	14	10.5	12.9	4.1
7.	100	4,140	1,410	13	14.8	14.5	3.7
8.	100	4,462	1,559	16	19.1	13.4	4.0

Regulatory approval to produce as many as five horizontal wells per section has been granted for the Montney in certain lands within the Kaybob area. Trilogy estimates that it has an interest in 50

(43.6 net) contiguous sections of prospective land in the Presley area. The number of drilling locations Trilogy has available will be determined, in part, by the drilling density to maximize economic recovery. Trilogy will continue to evaluate the economics of increasing downspacing from three to five wells per section over the next few years, while at the same time trying to maximize return by drilling longer reach horizontals and increasing fracture density on each well. Subject to receiving regulatory approval for further downspacing, these parameters would suggest 150 - 250 locations specifically for the Montney formation in the Presley area, of which twelve were drilled prior to the end of 2009.

Through the end of 2009, Trilogy continued the engineering, design and procurement of material for its proposed Presley Pipeline and Kaybob North Plant projects pending regulatory approval. The Presley Pipeline project involves the construction of a 12-inch pipeline running 53 kilometers from Trilogy's Montney gas development project at Presley, in South Kaybob, to the Trilogy-operated Kaybob North Plant. The existing Kaybob North Plant would be expanded to include a functional unit designed to process approximately 50 to 60 MMcf/d of raw sour gas production from the Montney development at Presley. The proposed pipeline and sour gas processing unit would work in conjunction with a new acid gas disposal system to reduce greenhouse gas emissions generated during the sweetening process. The project is estimated to cost approximately $38 million, of which $15.3 million was incurred in 2009. Anticipated start-up of these projects has been delayed while Trilogy continues to pursue regulatory approval. Trilogy estimates the proposed projects will provide cost savings of up to $12 million per year through reduced operating expense over the life of the reserves, 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 control over gas and liquids production, a reduction in green house gas emissions and potential third party processing revenues. Trilogy believes that a further opportunity may exist to expand the Kaybob North Plant by an additional 50 MMcf/d of sour gas processing capacity to match the pipeline capacity of 100 MMcf/d.

Grande Prairie

The Grande Prairie area accounted for approximately 10 percent of Trilogy's production and capital expenditures in 2009 and will continue to receive a proportionate amount of capital in 2010. Production from the Grande Prairie area decreased three percent from 2,015 Boe/d in 2008 to 1,943 Boe/d in 2009. This marginal drop in production was attributed to the decision to defer capital spending until later in the year. Trilogy continues to be challenged by limited access to non-operated facilities; however, we believe reduced capital spending by the industry in 2009 and natural declines in production may provide some access to these facilities in 2010.

Trilogy's 2009 capital spending in the Grande Prairie area totaled $7.2 million (before drilling credits) for the year. Trilogy participated in the drilling of 3 (1.8 net) wells resulting in two gas wells and one oil well. One additional location was farmed out, resulting in a horizontal oil well from which Trilogy will receive a gross over-riding royalty on production. Trilogy participated in the drilling of one horizontal Montney gas well during the third quarter, resulting in a successful well that has proved out a play type that will be further exploited in 2010.

Trilogy remains optimistic regarding the future development of the Grande Prairie area and believes that its growing prospect inventory and land base will provide significant opportunity for future development using horizontal drilling and completion techniques on tight oil and gas reservoirs. Trilogy has budgeted capital to participate in drilling a number of horizontal wells in the area in 2010, to test various play types and develop further exploitation plans for the area.

Land

Trilogy spent $2.8 million in 2009 to acquire 50,049 net acres at Crown land sales, bringing the 2009 yearend total to 663,628 net acres of land, 63 percent (418,811 net acres) of which is considered undeveloped. Trilogy's undeveloped acreage (acreage with no reserves assigned) has been evaluated by Seaton-Jordan & Associates Ltd. and assigned a fair market value in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Trilogy's developed land base (land assigned with reserves) has considerable value that is not reflected in this report. Trilogy has proven that it will take more than one well per section to adequately develop its land base and capture the remaining reserves. As a result, Trilogy will continue to develop this acreage to add value to its Shareholders.

Approximately 90 percent of the Crown lands purchased in 2009 were in the Kaybob area; the balance of the acreage was in the Grande Prairie area. Trilogy intends to capitalize on its technical expertise and to continue to acquire acreage that it believes has future development potential and to ensure it maintains a competitive advantage in its core operating areas.

Land Area (acres)	Gross	Net
Land assigned reserves	368,014	244,817
Undeveloped land	521,605	418,811
Total	**889,619**	**663,628**
Fair market value of undeveloped land (thousand dollars)		**$70,636**

The value of Trilogy's undeveloped land base has decreased from $77.6 million in 2008 to $70.6 million in 2009. The value of Trilogy's undeveloped land has declined in response to the decline in land sale activity in Alberta during the period of weak commodity prices. The fair market price of this acreage is anticipated to increase when commodity prices increase. The undeveloped net acreage total has increased by 9,002 net acres due to the purchase of new Crown acreage, more than offsetting expired acreage and the re-categorization of lands from undeveloped to developed as a result of Trilogy's ongoing operations.

Reserves

The following is a summary of Trilogy's 2009 year end reserves and reserves value, as evaluated and reported on by the independent engineering firm Paddock Lindstrom & Associates Ltd. ("Paddock Lindstrom"). The reserves report has been prepared in accordance with the National Instrument 51-101 definitions, standards and procedures.

The before-tax net present value of Trilogy's proved plus probable reserves discounted at 10 percent decreased 14 percent from $1,306 million at the end of 2008 to $1,129 million at the end of 2009. The decrease is primarily attributed to changes in forecast commodity prices from the prior year. Trilogy's proved plus probable natural gas reserves have increased 1.7 percent, from 319.8 Bcf at the end of 2008 to 325.1 Bcf at the end of 2009. Proved plus probable crude oil reserves have decreased 9 percent from 9,619.5 MBbl at the end of 2008 to 8,739.4 MBbl at the end of 2009. Natural gas liquids increased 6 percent from 8,647.0 MBbl at the end of 2008 to 9,160.5 MBbl at the end of 2009.

Trilogy's reserves base is considered very strong, with solid proven reserves additions every year and probable reserves moving to the proven category. As in the past, Trilogy was able to replace all of the produced reserves at a very attractive cost without adding reserves in the undeveloped category. Proved reserves constitute 69 percent of the total booked reserves, the value has been evaluated using a conservative blow-down scenario and do not include any of the development locations that Trilogy's has identified on known or emerging resource plays on Trilogy acreage.

The following table summarizes Trilogy's gross reserves (before royalties and taxes) and reserves value for the year ended December 31, 2009 using forecast prices and costs.

Reserve Category	Natural Gas	Crude Oil	Natural Gas Liquid	Boe (6:1)	Before tax Net Present Value ($millions)		
	BCF	MBbl	MBbl	MBoe	0%	5%	10%
Proved							
Developed Producing	204.8	5,070.6	5,777.7	44,985.8	1,430.1	1,041.6	822.7
Developed Non-Producing	18.8	458.4	523.7	4,119.1	121.9	81.3	58.9
Undeveloped	3.1	—	40.4	562.3	19.9	9.9	5.7
Total Proved	226.8	5,529.0	6,341.8	49,667.2	1,571.9	1,132.8	887.3
Probable	98.3	3,210.4	2,818.6	22,414.3	854.1	406.4	241.5
Total Proved plus Probable	**325.1**	**8,739.4**	**9,160.4**	**72,081.6**	**2,426.1**	**1,539.2**	**1,128.9**

Notes

i) Columns and rows may not add due to rounding

ii) Reserve values were determined by Paddock Lindstrom & Associates Ltd. as of December 31, 2009, using the forward-pricing assumptions in effect by the firm at that date.

iii) Paddock Lindstrom evaluated 100 percent of Trilogy's reserves.

iv) No value has been assigned to tangible assets other than those associated with proved producing reserves.

v) Reserve values have been evaluated under a blow-down scenario.

vi) Trilogy's financial instruments, which extend past January 1, 2010, have not been valued by Paddock Lindstrom.

2009 Yearend Reserve Reconciliation

Total proved reserves were 49,667 MBoe and proved plus probable reserves were 72,082 MBoe as of December 31, 2009, representing increases of 1.6 percent and 0.7 percent respectively as compared to reserves reported as at the 2008 year end.

The following table sets forth the reconciliation of Trilogy's gross reserves for the year ended December 31, 2009 using forecast prices and costs:

	Total Proved Reserves				Probable Reserves				Total P+P Reserves			
	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe
Dec. 31, 2008	6,124	220	6,022	48,860	3,496	100	2,625	22,713	9,619	320	8,647	71,573
2009 Production	(675)	(34)	(872)	(7,220)	—	—	—	—	(675)	(34)	(872)	(7,220)
Tech. Revisions	2	13	502	2,630	(326)	(13)	(104)	(2,519)	(325)	0	399	111
Reserve Additions	78	28	677	5,372	41	11	292	2,199	119	39	969	7,570
Acquisition	—	—	13	25	—	—	5	9	—	—	18	34
Econ. Factors	—	—	—	—	—	—	—	13	—	—	—	13
Dec. 31, 2009	5,529	227	6,342	49,667	3,211	98	2,819	22,414	8,739	325	9,161	72,082

Note

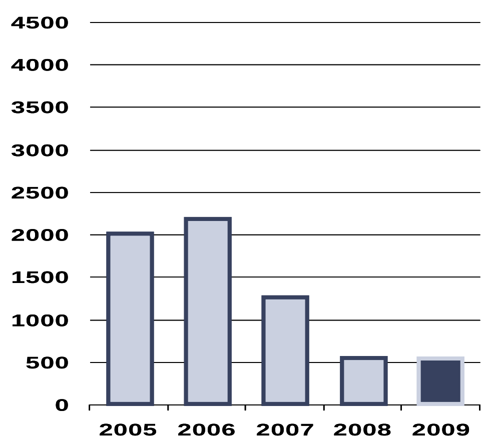
i) Columns and rows may not add due to rounding

Reserve Replacement

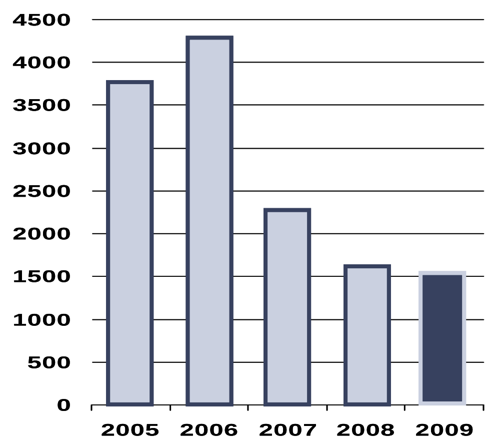
Trilogy produced 7,220 MBoe of reserves in 2009 (19,780 Boe/d) and, through a successful drilling, completion and workover program and added a total of 8,002 MBoe of proved reserves and 7,694 MBoe of proved plus probable reserves from new additions related to capital investment and technical revisions (excluding acquisitions). Based on a total proved comparison, this is a 111 percent replacement of produced reserves and a 107 percent replacement of proved plus probable reserves. Since inception, Trilogy has strived to replace produced reserves at competitive finding and development costs. Trilogy's 2009 results reflect the high quality of Trilogy's assets and staff. Year over year reserve replacement will continue to be a top priority in Trilogy's strategy.

For the past four years, Trilogy's undeveloped reserves category has decreased year over year through the transfer of undeveloped reserves into the developed category. Trilogy's proved undeveloped (PUD) reserve component has remained essentially unchanged at 569 MBoe at the end of 2008 versus 562 MBoe at the end of 2009. Trilogy does not book undeveloped locations as part of its reserves booking strategy. Reserves are booked after capital has been spent to prove the reserves, reducing the risk of negative reserve revisions in the future should the necessary work to enable such reserves' reclassification to the developed category not occur. Proved undeveloped reserves represent only one percent of the total proved reserves and proved plus probable undeveloped reserves account for two percent of proved plus probable reserves.

Proved Undeveloped Reserves (MBoe)



Proved Plus Probable Undeveloped Reserves (MBoe)



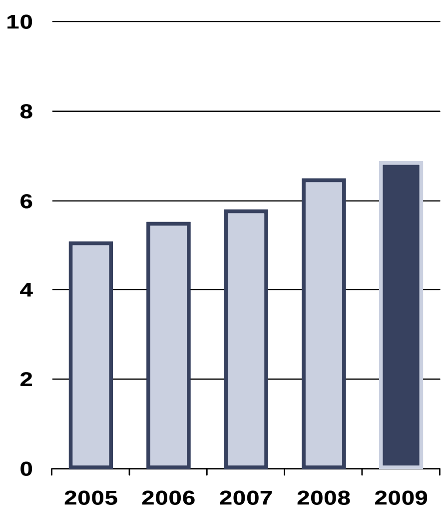
Technical Revisions

Trilogy has consistently reported positive technical revisions to its proved and probable reserve categories. These are reserves that could have been assigned to the well when it was first drilled and completed, however National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101) and the Canadian Oil and Gas Evaluations Handbook dictate that the evaluator must be at least 90 percent confident the producible reserves are present to be included as proven and 50 percent certain for probable reserve assignment. A significant portion of Trilogy's reserves are in tight reservoirs that tend to have lower decline rates over time and will typically produce more reserves than expected on first evaluation. As a result, it may take up to three years for a well's total reserves to be accurately assigned. Trilogy has been evaluating all of the producing assets to ensure that there is a thorough understanding of the associated reservoir and the production capabilities.

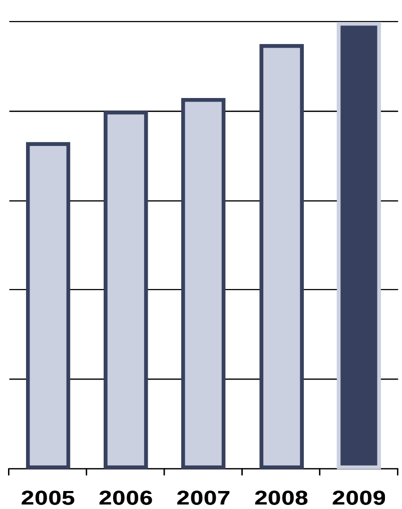
Reserves Life Index

Trilogy's Reserve Life Index (RLI) for Total Proved reserves, has increased from 6.5 years to 6.9 years at the end of 2009. Based on total Proved plus Probable reserves the RLI has increased from 9.5 years at the end of 2008 to 10.0 years for the same period.

Proved Reserves RLI (Years)



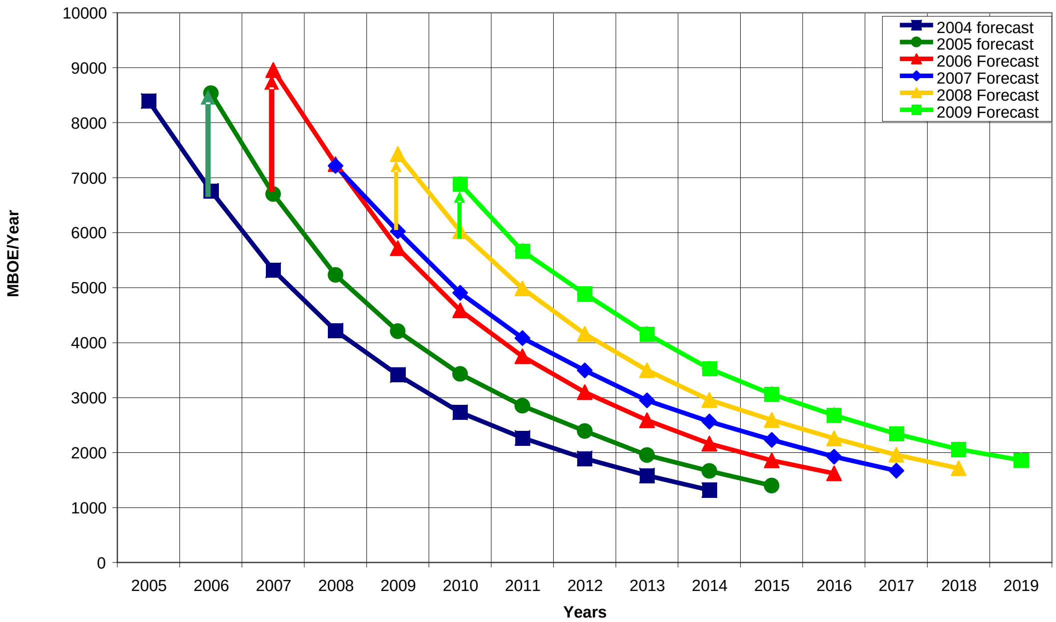
Proved Plus Probable RLI (Years)



Proved Reserve Forecast

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

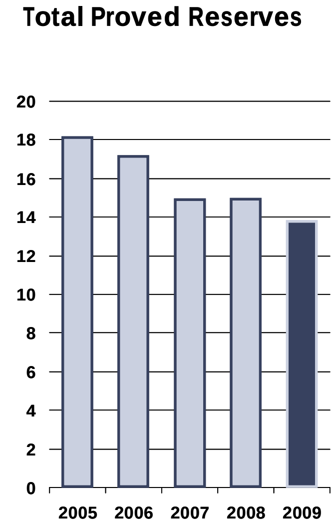
Annual Production Forecasts (Total Proved Reserves, MBoe/year)

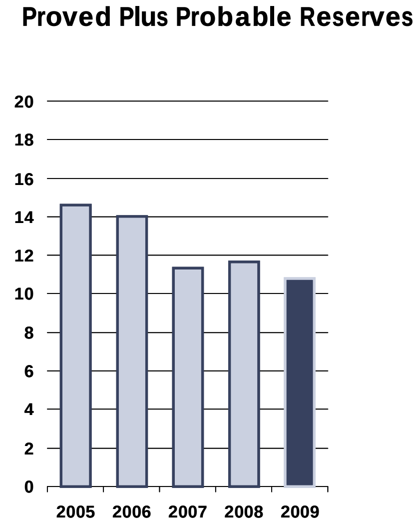


Production Decline Rate

Trilogy's production decline rate has improved over the past three years due to the sale of Trilogy's Marten Creek property and Southern Alberta assets. These properties had higher production declines relative to Trilogy's remaining producing properties. The dispositions resulted in an improvement in the average quality of Trilogy's reserve base, a lower production decline rate and a higher RLI. The graph below shows the annual average base production decline for a ten year period, illustrating an increase in the quality of Trilogy's assets since its inception.

Ten Year Base Production Decline Rate (%)





Finding and Development Costs

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

2009 Working Interest Capital Expenditures		Change in Future Capital Expenditures		Total F&D Capital	
(millions of dollars)	**2009 Capital**	**Proved**	**P+P**	**Proved**	**P+P**
Land	2.8				
Geological and geophysical	1.3				
Drilling and completion	56.4	(2.3)	(3.0)		
Production equipment, facilities and inventory	20.7				
Drilling Credits	(7.4)				
2009 Presley Project Capital	15.3				
Total capital expenditures	**89.1**	**(2.3)**	**(3.0)**	**86.8**	**86.1**
Total capital expenditures (excluding 2009 Presley Project Capital)	**73.8**			**71.5**	**70.8**

Based on 2009 total capital expenditures, including the Presley Pipeline and Kayob North Plant projects, Trilogy's finding and development costs for reserve additions were $10.85/Boe for proven reserves and $11.19/Boe for proven plus probable reserves for the year ended December 31, 2009. Excluding the Presley project capital of $15.3 million, finding and development costs are further reduced to $8.94/Boe for proven reserves and $9.20/Boe for proven plus probable reserves.

2009 F&D Cost	Proved Capital ($MM)	Proved Reserves MBoe	Proved F&D $/Boe	Proved + Probable Capital ($MM)	Proved + Probable Reserves MBoe	Proved + Probable F&D $/Boe
Extensions, discoveries and revisions including Presley project capital	86.8	8,002	10.85	86.1	7,694	11.19
Extensions, discoveries and revisions excluding Presley project capital	71.5	8,002	8.94	70.8	7,694	9.20

It is important to note that infrastructure development such as the Presley Pipeline and Kaybob North Plant expansion capital projects provide enduring benefit to Trilogy's existing reserve base, in addition to future reserve additions.

Finding and development costs when calculated over the three-year period ended December 31, 2009, including the costs associated with the Presley projects were $11.73/Boe for proven reserves and $10.04/Boe for proven plus probable reserves. These numbers illustrate consistency in the cost of finding and developing the reserves on Trilogy's land base. Calculating finding and development costs over a longer period reduces the effect of spending capital in one year and booking the related reserves in the following year.

3 Year Average F&D Cost	Proved Capital ($MM)	Proved Reserves MBoe	Proved F&D $/Boe	Proved + Probable Capital ($MM)	Proved + Probable Reserves MBoe	Proved + Probable F&D $/Boe
Extensions, discoveries and revisions including Presley project capital	298.1	25,415	11.73	288.9	28,764	10.04
Extensions, discoveries and revisions excluding Presley project capital	282.8	25,415	11.13	273.6	28,764	9.51

Pre-Tax Net Asset Value

Net (Appraised) Asset Value Before Tax (millions of dollars as at December 31, 2009)	NPV @ 5%	NPV @ 10%
Proved plus probable reserve value (1)	1,539.2	1,128.9
Undeveloped Land Value (2)	70.6	70.6
Seismic value (3)	26.1	26.1
Inventory (3)	4.2	4.2
Total petroleum and natural gas assets	1,640.1	1,229.8
Net debt (4)	246.4	246.4
Net (appraised) asset value	**1,393.7**	**983.4**
Trust Units outstanding at December 31, 2009 (Fully Diluted)	**113,493,834**	
Net (appraised) asset value per unit at December 31, 2009	**$12.28**	**$8.66**

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

(2) Undeveloped land value at December 31, 2009, provided by Seaton Jordan & Associates Ltd.

(3) Internal evaluation

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

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

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

Commodity Price Forecast

Paddock Lindstrom & Associates Ltd.
December 31, 2009 Price Forecast

Year	WTI @ Cushing	Edm. Ref. Price	Henry HUB	AECO C	CDN/US Exchange Rate
	$US/Bbl	$C/Bbl	US$/MMBTU	C$/MMBTU	
2010	**80.0**	**82.43**	**6.00**	**5.82**	**0.95**
2011	**82.5**	**85.02**	**6.50**	**6.29**	**0.95**
2012	**85.0**	**87.62**	**7.00**	**6.77**	**0.95**
2013	**90.0**	**92.84**	**7.50**	**7.28**	**0.95**
2014	**95.0**	**98.07**	**8.00**	**7.80**	**0.95**
Next 5 years avg.					

Note
i) All prices escalated at 2% per year after 2027

STAFFING

In 2009, Trilogy continued to utilize limited services from Paramount Resources ("Paramount") under the Services Agreement entered into with Paramount when the Trust was formed in April of 2005. In 2009, these services consisted primarily of gas marketing services provided by Paramount staff. The Services Agreement was amended and restated as of February 5, 2010, to reflect Trilogy's corporate structure following its Conversion and Reorganization. The amended and restated Services Agreement expires March 31, 2011 subject to early termination in accordance with the terms of the agreement.

As of December 31, 2009, Trilogy employed 224 full time and contract employees; this includes 84 full time office staff plus 11 contract employees. In the field Trilogy employs 70 full time and 56 contract personnel to operate five gas plants, three oil batteries and manage Trilogy's operated wells.

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

HEALTH, SAFETY AND ENVIRONMENT

Health and Safety

Trilogy's main priority is the health and safety of its employees, contractors and the public. The policies, practices and procedures associated with Trilogy's Health and Safety Management System are an integral part of its daily operations; endeavoring to make safety a guiding factor in all decisions with safety awareness, training and accountability being well established fundamentals of the corporate culture. Hazard and risk assessment, incident/accident reporting and investigation, and site inspections and audits, internally as well as by insurance companies and regulatory agencies, provide a means of measuring performance.

Environment

Commitment to environmental protection and stewardship is an integral aspect of our operations and a significant component of Trilogy's decision making process. Through proactive planning, environmental pre-site assessments are conducted for soil conservation, to identify natural drainage patterns and to establish baseline information. New technologies are employed to reduce the foot print on the land, impacted material from spills are cleaned up and remediated, and other generated wastes as a result of our business activities are identified, processed and tracked in accordance with regulatory requirements and guidelines. All this is to ensure that the land is restored to a productive state at the time of surface reclamation. An asset retirement inventory has been developed and is maintained. Trilogy participates in voluntary and mandatory reporting of air emissions and contaminants to various regulatory agencies. Trilogy also works with industry and government to ensure our water resources, including rivers, streams, lakes and wetlands, as well as the groundwater systems that are linked to them are being used in a safe and sustainable manner. Trilogy constantly monitors and reviews its operations to find new ways to improve its environmental performance.

CORPORATE GOVERNANCE

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

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

There are four standing committees of the Board: the Audit Committee, the Corporate Governance Committee, the Compensation Committee and the Environmental, Health and Safety Committee. Each committee includes directors who possess the relevant skills and knowledge needed to execute the committee's mandate. A majority of the members of the Corporate Governance Committee, Environmental Health and Safety Committee and the Compensation Committee are independent in accordance with the meaning of independence set out in NI 58-101. All of the members of the Audit Committee are also independent as that term is defined in Multilateral Instrument 52-110 *Audit Committees*. Each committee has a written charter that clearly defines its duties, responsibilities and the extent of its authority. The Board mandate requires that the effectiveness of the Board, each committee and each individual director be assessed regularly.

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

Trilogy has also adopted the following codes and policies:

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

These policies may be viewed on Trilogy's website.

More detailed information regarding Trilogy's Board and its approach to corporate governance is set forth in the Management Information and Proxy Circular dated March 4, 2010.

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 (the "Trust") as at and for the year ended December 31, 2009, and should be read in conjunction with the Trust's consolidated financial statements and related notes for the years ended December 31, 2009 and 2008 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 March 2, 2010.

BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

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

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

Management anticipates the following benefits will exist post Conversion:

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

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

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

(In thousand dollars except as otherwise indicated)	**2009**	**2008**	**2007**
Average production (Boe/d)	**19,780**	20,585	22,315
Natural gas production	**79%**	79%	80%
Average realized prices (before financial instruments):			
Natural gas ($/Mcf)	**4.33**	8.91	7.16
Oil and natural gas liquids ($/Boe)	**57.37**	92.02	70.60
Average realized prices (after financial instruments):			
Natural gas ($/Mcf)	**5.25**	8.96	7.55
Oil and natural gas liquids ($/Boe)	**57.34**	100.97	68.75
Average operating cost ($/Boe)	**11.24**	11.80	11.61
Earnings (loss) before income tax	**(39,254)**	131,684	19,305
Per diluted Trust Unit ($/Trust Unit)	**(0.39)**	1.37	0.21
Cash flow from operations	**120,469**	243,520	196,353
Per diluted Trust Unit ($/Trust Unit)	**1.20**	2.53	2.11
Distributions declared	**60,205**	103,530	105,841
Per Trust Unit ($/Trust Unit)	**0.60**	1.08	1.14
Exploration and development expenditures (excluding acquisitions and dispositions)	**89,509**	123,721	95,739
Finding and development cost (including technical revisions):			
Proved ($/Boe)	**10.85**	13.68	10.47
Proved plus probable ($/Boe)	**11.19**	10.75	8.31

BUSINESS ENVIRONMENT

In 2009, reduced demand for natural gas, caused by a world-wide recession, combined with increased supply of natural gas, caused by above average levels of drilling, resulted in record high natural gas storage levels in North America. These storage levels produced extremely low natural gas spot prices for much of the year. In addition, significant strength in the Canadian dollar relative to the United States dollar negatively impacted Trilogy's revenues. In contrast, relatively lower oil prices existing at the start of the year continued to increase through the year, partially mitigating the impact of low natural gas prices.

The significant decline in natural gas commodity prices in 2009 impacted Trilogy's operations, resulting in reductions to cash flow from operating activities, delays in capital expenditure projects, and heightened counterparty risk. Trilogy continues its emphasis to improve its cash flow through a focus on reducing its cost structure and increasing its operating efficiencies.

Positive economic indicators are suggesting a cessation of the economic recession in North America going into 2010. However, the effects of the recession are still being felt in Canada as evidenced by cautious investor confidence, commodity and market volatility, an increased cost of debt, tight credit controls, higher unemployment rates and lower natural gas commodity prices, among other factors.

To date, current natural gas prices have recovered in part from prices experienced through much of 2009. Trilogy remains optimistic in the long term supply and demand fundamentals for natural gas. This MD&A does not include any adjustments that may be required should Trilogy be adversely impacted by worsening economic conditions in the foreseeable future.

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

	2009	2008	2007
Crude Oil			
West Texas Intermediate monthly average (U.S.$/Bbl)	**61.67**	99.65	72.34
Natural gas			
NYMEX (Henry Hub Close) monthly average (U.S.$/MMBtu)	**4.00**	9.03	6.86
AECO monthly average (Cdn$/GJ)	**3.93**	7.71	6.26
Canadian – U.S. Dollar Yearend Closing Exchange Rate			
(Cdn$/U.S.$)	**1.05**	1.22	0.99

HIGHLIGHTS

- Reported sales volumes for the fourth quarter of 2009 averaged 20,086 Boe/d as compared to 19,033 Boe/d for the previous quarter. On a full year basis, average sales volumes were lower at 19,780 Boe/d in 2009 as compared to 20,585 Boe/d in 2008 mainly due to reductions in capital expenditures.
- Capital expenditures (excluding acquisitions and dispositions) totaled $28.2 million for the fourth quarter of 2009 bringing the year-to-date capital spending to $89.5 million for 2009 (of which $15.3 million was related to Trilogy's proposed Presley Pipeline and Kaybob North Sour Gas Plant expansion projects), as compared to $123.7 million for 2008.
- Trilogy added 7.7 MMBoe of proved plus probable reserves during 2009 (excluding acquisitions), replacing 107 percent of produced reserves.
- Finding and development costs (including technical revisions) were $10.85/Boe for proved reserves ($11.19/Boe for proved plus probable reserves). Excluding costs of approximately $15.3 million in respect of Trilogy's proposed Presley Pipeline and Kaybob North Sour Gas Plant expansion projects, Trilogy's finding and development costs would have been $8.94/Boe for proved reserves ($9.20/Boe for proved plus probable reserves.
- Funds flow from operations increased to $29.4 million during the fourth quarter of 2009 as compared to $24.9 million for the previous quarter. Increased production, higher prices and lower operating costs increased funds flow. These were offset by higher royalties, reduced realized financial instrument gains, the recording of a bad debt expense of $4 million and increased G&A costs relating to the Conversion. The year-to-date funds flow from operations totaled $112.5 million in 2009, a 56 percent decrease from the previous year principally attributable to lower commodity prices throughout 2009.
- Distributions declared to Unitholders of the Trust for the fourth quarter of 2009 were $16 million or 55 percent of cash flow from operations ($60.2 million for

year-to-date 2009 or 50 percent of cash flow from operations).

- The loss before income tax in 2009 of $39.2 as compared to earnings before income tax of $131.7 million in 2008 is primarily attributed to the decline in natural gas prices.

SUBSEQUENT EVENTS

On January 13, 2010, Trilogy purchased for cancellation under its NCIB 144,400 Trust Units at a cost of approximately $1.2 million.

Holders of 64,661,077 Trust Units reinvested their December distributions totaling $3.2 million through Trilogy's DRIP resulting in the issuance of additional 403,385 Trust Units on January 15, 2010.

On January 15, 2010, the Trust announced that it had mailed to holders of Trust Units and filed on SEDAR a Notice of Special Meeting of Unitholders, Notice of Joint Petition and Information Circular, dated January 6, 2010, with respect to the Conversion. In addition to Unitholder approval, the Conversion was subject to the approval of the Court of Queen's Bench of Alberta, the approval of the Toronto Stock Exchange, competition bureau approval and the consent of Trilogy's lenders. On February 4, 2010, Trust unitholders voted in favor of the Conversion and all required approvals had been received. Accordingly, the Conversion occurred and Unitholders exchanged their Units of the Trust for shares of Trilogy Energy Corp. on a one-for-one basis, as more particularly described in Trilogy's information circular dated January 6, 2010.

On January 15, 2010, Trilogy announced its cash distribution for January 2010 of $0.05 per Trust Unit. The distribution was paid on February 16, 2010 to Unitholders of record on February 1, 2010. In this same announcement, the Trust also suspended its DRIP. Accordingly, no further participation in the DRIP occurred beyond the December 2009 distribution month. Trilogy also announced its intention to terminate the DRIP concurrent with the completion of the Conversion.

On February 5, 2010, Trilogy Energy Corp. and Paramount Resources, a related party, entered into an Amended and Restated Services Agreement to reflect Trilogy's post-Conversion structure. The services agreement is in effect until March 31, 2011 unless terminated prior thereto by either party upon six months' notice.

On February 18, 2010, Trilogy declared a dividend of 3.5 cents per share to shareholders of record on March 1, 2010.

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	Three Months Ended Dec. 31, 2009	 Sept. 30, 2009	Years Ended Dec. 31, 2009	 Dec. 31, 2008
Operating income[1]	**40,199**	25,780	**116,098**	269,907
Other income (expense)	**31**	(191)	**(460)**	7,664
Realized financial instruments[2]	**4,149**	6,198	**31,489**	16,020
General and administrative expenses[3]	**(7,318)**	(3,203)	**(17,269)**	(19,281)
Bad debt expense	**(4,000)**	—	**(4,000)**	—
Interest and financing charges	**(3,459)**	(3,652)	**(11,866)**	(15,003)
Exploration expenditures[3]	**(224)**	(38)	**(1,515)**	(5,441)
Funds flow from operations[1]	**29,378**	24,894	**112,477**	253,866
Non-cash operating items:				
Depletion and depreciation	**(38,657)**	(29,014)	**(124,964)**	(141,660)
Unrealized financial instruments[2]	**1,431**	(4,524)	**(19,405)**	29,150
General and administrative recovery (expense)	**(362)**	(389)	**(1,290)**	433
Provision for doubtful debt	**4,300**	(1,300)	—	—
Exploration expenditures[4]	**137**	(270)	**(543)**	(5,174)
Gain on disposition of property, plant and equipment	**88**	96	**228**	441
Accretion on asset retirement obligations	**(1,381)**	(1,477)	**(5,802)**	(5,372)
Future income tax (expense) recovery[5]	**(3,730)**	1,209	**5,892**	(8,331)
Other	**47**	(19)	**46**	—
Net earnings (loss)	**(8,749)**	(10,794)	**(33,362)**	123,353

(1) Operating income and funds flow from operations are non-GAAP terms. Operating income is equal to petroleum and natural gas sales minus royalties, operating costs and transportation costs, while funds flow from operations represents cash flow from operating activities before net changes in working capital accounts. Refer to the advisory on Non-GAAP measures at the end of this MD&A.

(2) See Risk Management section below.

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

(4) Net of asset retirement obligations paid.

(5) See Income Taxes section below.

Cash Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended Dec. 31, 2009	 Sept. 30, 2009	Years Ended Dec. 31, 2009	 Dec. 31, 2008
Gross revenue before financial instruments[1]	**34.43**	26.27	**30.99**	60.90
Royalties	**(3.88)**	(1.57)	**(3.73)**	(12.26)
Operating costs	**(8.78)**	(10.08)	**(11.24)**	(11.80)
Asset retirement obligation expenditures	**(0.12)**	(0.02)	**(0.22)**	(0.72)
General and administrative expenses[2]	**(3.96)**	(1.83)	**(2.39)**	(2.56)
Bad debt expense	**(2.16)**	—	**(0.55)**	—
Interest and financing charges	**(1.87)**	(2.09)	**(1.64)**	(1.99)
Realized gain (loss) on financial instruments	**2.25**	3.54	**4.36**	2.13
Funds flow from operations[3]	**15.91**	14.22	**15.58**	33.70
Net change in operating working capital	**(0.22)**	3.96	**1.11**	(1.37)
Cash flow from operating activities	**15.69**	18.18	**16.69**	32.33

(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. Includes direct and indirect Conversion costs of $3.6 million incurred in the fourth quarter of 2009 representing a cost of $1.95 and $0.49 /Boe for the three months and year ended December 31, 2009, respectively.

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

Operating Income Items

Fourth Quarter 2009 vs. Third Quarter 2009 (In thousand dollars except as otherwise indicated)	**Q4 2009**	**Q3 2009**	**Increase (Decrease)** **Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**93,767**	91,759	2,008	2
Oil and natural gas liquids (Bbl/d)	**4,457**	3,740	717	19
Total (Boe/d)	**20,086**	19,033	1,053	6
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**4.60**	3.28	1.32	40
Oil and natural gas liquids ($/Bbl)	**65.32**	62.03	3.29	5
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**5.08**	4.02	1.06	26
Oil and natural gas liquids ($/Bbl)	**65.32**	62.03	3.29	5
Petroleum and natural gas sales before financial instruments:				
Natural gas	**39,642**	27,731	11,911	43
Oil and natural gas liquids	**26,786**	21,342	5,444	26
Total petroleum and natural gas sales before financial instruments	**66,428**	49,073	17,355	35
Royalties	**(7,175)**	(2,747)	(4,428)	161
Operating costs	**(16,217)**	(17,659)	1,442	(8)
Transportation costs	**(2,837)**	(2,887)	50	(2)
Operating income[1]	**40,199**	25,780	14,419	56

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

Petroleum and Natural Gas Sales – Natural gas sales, before financial instruments, increased by $11.1 million due to higher average prices and $0.8 million due to higher production. Oil and natural gas liquid sales, before financial instruments, also increased by $1.1 million as a result of higher average prices and by $4.3 million due to higher production. Third quarter production had been reduced due to the outage of a lean oil extraction unit at a third party plant.

Royalties – Royalties increased in conjunction with the increase in petroleum and natural gas sales during the fourth quarter. As a percentage of petroleum and natural gas sales, royalties averaged 11 percent for the fourth quarter as compared to 6 percent for the third quarter. The effective royalty rates rose principally as a result of the increase in prices. Crown royalties on Alberta gas are calculated based on the Alberta Reference Price, which may vary from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – Operating costs decreased to $8.78/Boe in the fourth quarter from $10.08/Boe in the previous quarter. Per unit costs decreased as a result of adjustments related of third party plants, cost savings initiatives and increased production volumes for the fourth quarter.

Annual 2009 vs. Annual 2008 (In thousand dollars except as otherwise indicated)	**2009**	**2008**	**Increase (Decrease) Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**93,257**	96,977	(3,720)	(4)
Oil and natural gas liquids (Bbl/d)	**4,237**	4,422	(185)	(4)
Total (Boe/d)	**19,780**	20,585	(805)	(4)
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**4.33**	8.91	(4.58)	(51)
Oil and natural gas liquids ($/Bbl)	**57.37**	92.02	(34.65)	(38)
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**5.25**	8.96	(3.71)	(41)
Oil and natural gas liquids ($/Bbl)	**57.34**	100.97	(43.63)	(43)
Petroleum and natural gas sales before financial instruments:				
Natural gas	**147,346**	316,369	(169,023)	(53)
Oil and natural gas liquids	**88,733**	148,928	(60,195)	(40)
Total petroleum and natural gas sales before financial instruments	**236,079**	465,297	(229,218)	(49)
Royalties	**(26,903)**	(92,372)	65,469	(71)
Operating costs	**(81,146)**	(88,879)	7,733	(9)
Transportation costs	**(11,932)**	(14,139)	2,207	(16)
Operating income[1]	**116,098**	269,907	(153,809)	(57)

[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 $162.7 million due to lower average prices, and by $6.3 million as a result of lower production. Oil and natural gas liquid sales, before financial instruments, decreased by $56.1 million due to lower average prices, and by $4.1 million as a result of lower production. Production decreased in 2009 primarily as a result of Trilogy's reduction in capital expenditures in response to the decline in commodity prices.

Royalties – The reduction in royalties was due to the decline in revenue. As a percentage of petroleum and natural gas sales, royalties averaged 11 percent in 2009 as opposed to 20 percent in 2008. The decline in commodity prices, various royalty incentive programs and the Alberta Governments new royalty regime, together gave rise overall to lower effective royalty rates. Crown royalties on Alberta gas are calculated based on the Alberta Reference Price, which may vary from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including cost of service credits and other royalty credit programs impact the overall rate.

Operating Costs – The decrease in operating costs in 2009 is mainly attributable to the impact of Trilogy's cost reduction efforts, in addition to a general decline in power and industry costs in the latter part of 2009. The average operating cost per unit of production was $11.24 in 2009 as compared to $11.80 in 2008. On a per unit basis, the reduction in operating costs was somewhat diluted given the reduced production volumes attributed, in part, to plant turnarounds and the outage of a lean oil extraction unit.

OTHER INCOME STATEMENT ITEMS

Other Income

Other income includes revenue from the sale of sulphur of $0.6 million and $6.0 million for the three and twelve months ended December 31, 2008, respectively. Sulphur prices declined significantly in the fourth quarter of 2008 to the extent that such revenues were minimal throughout 2009.

Depletion and Depreciation Expense

	Three Months Ended		Years Ended	
	Dec. 31, 2009	**Sept. 30, 2009**	**Dec. 31, 2009**	**Dec. 31, 2008**
Reported amount (thousand dollars)	**38,657**	29,014	**124,964**	141,660
Expense per sales volume ($/Boe)	**20.92**	16.57	**17.31**	18.80

Depletion and depreciation expense increased in the fourth quarter compared to the previous quarter mainly due to a $13.1 million property impairment loss recorded during the quarter. The decline in expense for 2009 against 2008 is attributable to lower production and a higher impairment loss of $24.1 million in 2008. The reduction in the expected recoverable reserves attributable to certain petroleum and natural gas wells and the decline in forecast oil prices used to estimate future cash flows resulted in the impairment.

General and Administrative Expenses

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

(In thousand dollars except as otherwise indicated)	Three Months Ended		Years Ended	
	Dec. 31, 2009	**Sept. 30, 2009**	**Dec. 31, 2009**	**Dec. 31, 2008**
Expenses before unit-based compensation and recoveries	**10,990**	6,331	**30,875**	27,684
Overhead recoveries	**(3,672)**	(3,128)	**(13,606)**	(14,330)
Expenses after recoveries and before unit-based compensation	**7,318**	3,203	**17,269**	13,354
Unit-based compensation	**362**	389	**1,290**	5,494
Reported amount	**7,680**	3,592	**18,559**	18,848
Expenses after recoveries and before unit-based compensation per sales volume ($/Boe)	**3.96**	1.83	**2.39**	1.77

General and administrative expenses (after recoveries and before unit-based compensation) in the fourth quarter of 2009 include direct and indirect costs of $3.6 million related to the Conversion. These costs were also the primary reason for the full year variance. Excluding such conversion costs, general and administrative expenses on a per unit basis for the three months and year ended December 31, 2009 would have been $2.01 and $1.90, respectively.

Unit based compensation expense for 2009 relates to the amortization of the grant date fair market value of options issued under Trilogy's unit option plan and a related party's option plan issued to Trilogy employees. In addition, in 2008 Trilogy recorded an expense of $2.8 million in respect of its' unit appreciation rights plan which expired on December 15, 2008.

Bad Debt Expense

During the first 9 months of 2009 Trilogy recorded a provision of $4.3 million related to amounts owing from a customer that had filed for protection under the Companies Creditors Arrangement Act. Trilogy unsuccessfully appealed the initial ruling denying its ability to set off receivable amounts owing to it by the customer, and a bad debt expense of $4.0 million was recorded in the fourth quarter and the prior provision was reversed.

Interest and Financing Charges

	Three Months Ended		Years Ended	
	Dec. 31, 2009	**Sept. 30, 2009**	**Dec. 31, 2009**	**Dec. 31, 2008**
Reported amount (thousand dollars)	**3,459**	3,652	**11,866**	15,003
Expense per sales volume ($/Boe)	**1.87**	2.09	**1.64**	1.99

Interest and financing charges were slightly lower during the fourth quarter of 2009 as compared to the third quarter of 2009 due to lower average debt balances in conjunction with the Trust's equity issuance on November 4, 2009. Interest and financing charges for 2009 were lower relative to 2008 given slightly reduced average debt balances, lower average interest rates, partially offset by the amortization of financing charges in 2009.

Exploration Expenditures and Other

	Three Months Ended		Years Ended	
(In thousand dollars)	**Dec. 31, 2009**	**Sept. 30, 2009**	**Dec. 31, 2009**	**Dec. 31, 2008**
Exploration expenditures	**87**	308	**2,058**	10,615
Loss (gain) on disposition of property, plant and equipment	**(88)**	(96)	**(228)**	(441)
Accretion on asset retirement obligations	**1,381**	1,477	**5,802**	5,372

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

RISK MANAGEMENT

Financial Risks

Trilogy's main financial risks include credit risk, liquidity risk, commodity price risk, interest rate risk and foreign exchange risk, and are discussed in detail in the notes to Trilogy's December 31, 2009 consolidated financial statements, the Advisories and other sections of this MD&A as well as the 2009 Annual Information Form. To a certain extent, these financial risks have been heightened by the impact of the past year's economic downturn.

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

	Three Months Ended		Years Ended	
(In thousand dollars except as indicated)	**Dec. 31, 2009**	**Sept. 30, 2009**	**Dec. 31, 2009**	**Dec. 31, 2008**
Realized gain (loss) on financial instruments	**4,149**	6,198	**31,489**	16,020
Unrealized gain (loss) on financial instruments	**1,431**	(4,524)	**(19,405)**	29,150
Total gain (loss) on financial instruments	**5,580**	1,674	**12,084**	45,170
Realized gain (loss) on financial instruments per Boe ($/Boe)	**2.25**	3.54	**4.36**	2.13

The realized gains on financial instruments in 2008 include a $31.1 million (U.S. $24.3 million) gain from the settlement in October 2008 of certain financial instruments prior to their scheduled maturity.

The fair value accounting of financial instruments causes significant fluctuations in the unrealized gain (loss) on financial instruments due to the volatility of energy commodity prices, interest and foreign exchange rates and new contracts entered into during the period, if any. In addition, the fair value of financial instruments as at the balance sheet date may change in the future as a result of changes in these economic benchmarks upon which the fair value is primarily based, and therefore the amount actually realized from financial instruments may vary from such fair value.

Operational and Other Risks

Trilogy is subject to various risks and uncertainties including those relating to its operations, environment, and other risks as discussed in the Advisories and other sections of this MD&A. 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)	**Dec. 31, 2009**	**Dec. 31, 2008**
Net current liabilities (assets)	**9,636**	(7,424)
Long-term debt	**236,791**	307,405
Net debt[1]	**246,427**	299,981
Unitholders' equity	**434,612**	416,097
Total	**681,039**	716,078

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

Working Capital

Working capital decreased from a surplus of $7.4 million as at December 31, 2008 to a $9.6 million deficit as at December 31, 2009 primarily due to the decrease in the mark-to-market valuation of financial instruments by $19.3 million, partially offset by a reduction in distribution payable.

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

Long-term Debt and Credit Facilities

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

Trilogy's bank debt outstanding under its revolving credit and working capital facility was $237.0 million (before unamortized discount) as at December 31, 2009. The revolving feature of the Trust's credit facility expires on March 26, 2010, if not extended. Pursuant to the terms of credit facility agreement, Trilogy has applied for the annual extension of its credit facilities and expects to obtain such extension to March 25, 2011, subsequent to the issuance of this annual report and its related oil and gas reserve information. 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.

Trilogy successfully negotiated a $40 million committed, non-revolving construction facility with its revolving and working capital facility lenders. Borrowing under this facility bears interest at a premium relative to the above revolving and working capital facilities. The ability to draw from the construction facility is contingent on the receipt of certain regulatory approvals which were not obtained as at year end. Borrowings from the construction facility are to be used to construct Trilogy's proposed Presley Pipeline and Kaybob North Sour Gas Plant expansion project. Expiry of this construction facility occurs on earlier of construction project completion and April 30, 2010.

The size of the committed credit facilities ($390 million as of December 31, 2009) is based primarily on the value of Trilogy's producing petroleum and natural gas assets and related tangible assets as determined by the lenders.

On February 5, 2010 and in conjunction with the Conversion, Trilogy executed an amended and restated credit facility agreement with substantially the same terms as described above and in note 5 of the financial statement notes.

Given current debt levels, Trilogy expects to be in a better position to exploit its high quality asset base in order to grow production and reserves on an annual basis and to distribute excess cash flow to shareholders in the form of dividends. The Conversion should enable Trilogy to reinvest additional cash flow into its business and capitalize on future growth opportunities, including its extensive Kaybob Montney prospects. To the extent its reserves base increases, Trilogy would generally expect a related increase to its credit facility commitments which, in turn, would provide further capital and liquidity resources.

Contractual Obligations

In addition to the financial contracts disclosed in the consolidated financial statements, the Trust has the following estimated contractual financial obligations (undiscounted) as at December 31, 2009:

	Payable in				
(In thousand dollars)	2010	2011 – 2012	2013 – 2014	After 2014	Total
On or partially on balance sheet:					
Long-term debt(1)	—	236,791	—	—	236,791
Asset retirement obligations(2)	1,582	3,260	3,391	175,053	183,286
Off balance sheet:					
Estimated interest on long-term debt(1)	9,022	2,075	—	—	11,097
Pipeline transportation commitments(3)	10,263	18,877	16,871	7,554	53,565
Office premises operating leases(4)	2,375	5,766	6,569	8,802	23,512
Vehicle and energy service commitments	3,509	4,768	—	—	8,277
Total	26,751	271,537	26,831	191,409	516,528

(1) Debt has been assumed to be payable within 2 years based on the existing terms of the underlying revolving credit facility solely for purposes of this contractual obligations table. Interest on long-term debt was calculated based on an approximate interest rate of 3.81 percent per annum applied to the outstanding balance of debt as at December 31, 2009.

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

(3) Some of the pipeline transportation commitments are covered by letters of credit issued by the Trust totaling $8.9 million as at December 31, 2009.

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

Trust Units, Options and Rights

In connection with Trilogy's distribution reinvestment plan ("DRIP"), 4,486,188 Trust Units were issued for proceeds of $28.2 million for the year ended December 31, 2009. In addition, Trilogy issued 10,000,000 units for gross proceeds of $86.5 million ($81.9 million after commissions and related expenditures) pursuant to its equity offering. 7,500 units were issued in conjunction with exercises under Trilogy's unit option plan.

Trilogy had 110,490,334 Trust Units as at December 31, 2009. In conjunction with the Conversion, an additional 4,219,653 shares of Trilogy Energy Corp. were issued and outstanding. Including Trust unit option exercises, Trust units issued after yearend but before Conversion and these additional shares existing pursuant to the Conversion, 114,997,972 shares of Trilogy Energy Corp. are issued and outstanding as of March 2, 2010. Post Conversion, Trilogy Unitholders own approximately 96 percent of the equity of the Company with the residual 4 percent being owned by the sole shareholder of the private corporation. To the best of Trilogy's knowledge, the foreign ownership level is approximated to be 6.5 percent as at December 31, 2009.

Outstanding unit options issued under Trilogy's unit option plan were 4,627,500 unit options as at December 31, 2009 and 4,593,500 share options as at March 2, 2010, of which 1,075,750 unit options and 1,040,750 share options were exercisable as at those dates, respectively. The options agreements outstanding and the related option plan post Conversion are substantially the same as prior to the Conversion.

Pursuant to a normal course issuer bid program ("NCIB"), 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 NCIB for the year-ended December 31, 2009 (refer to the note 16 for NCIB activity subsequent to December 31, 2009). Trilogy purchased and cancelled 4,771,579 Trust Units (the maximum allowable number) through the facilities of the Toronto Stock Exchange in 2008 for a total cost of approximately $35.0 million in conjunction with Trilogy's previous NCIB.

Trilogy anticipates that the Conversion may yield greater access to capital and improved liquidity resulting in higher share trading volumes.

Distributions

(In thousand dollars except where stated otherwise)	Three Months Ended		Years Ended	
	Dec. 31, 2009	**Sept. 30, 2009**	**Dec. 31, 2009**	**Dec. 31, 2008**
Funds flow from operations[1]	**29,378**	24,894	**112,477**	253,866
Net changes in operating working capital	**(414)**	6,941	**7,992**	(10,346)
Cash flow from operations	**28,964**	31,835	**120,469**	243,520
Net earnings (loss)	**(8,749)**	(10,794)	**(33,362)**	123,353
Distributions declared[2]	**16,005**	14,812	**60,205**	103,530
Distributions declared per Trust Unit (in full amount)	**0.15**	0.15	**0.60**	1.08
Excess of cash flow from operations over distributions declared	**12,959**	17,023	**60,264**	139,990
Excess of net earnings over distributions (distributions declared over net loss)	**(24,754)**	(25,606)	**(93,567)**	19,823

(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 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 draw downs from Trilogy's credit facilities. Trilogy intends to provide distributions to Unitholders that are sustainable to the Trust considering its liquidity *(refer to the discussion on long-term debt and credit facilities above)* and long-term operational strategy. In addition, since the level of 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. Trilogy's payout ratio, calculated as the percentage of distributions declared over cash flow from operations, is 50 percent for the year ended December 31, 2009. 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. Following the Conversion, Trilogy's initial monthly dividend paid was $0.035 per share, approximately equivalent to, for a Canadian taxable Unitholder, the historical $0.05 per Trust unit monthly distribution on an after-tax basis.

Distributions declared to Unitholders may exceed net earnings generated during the period. Net earnings may not be an accurate indicator of Trilogy's liquidity, as it may be comprised of significant charges not involving cash including future income tax, depletion and depreciation related expenses and mark-to-market gains or losses. In addition, dry hole costs and depletion and depreciation expense is not an appropriate measure of the cost of productive capacity maintenance (see next paragraph). In instances where distributions exceed net earnings, a portion of the cash distribution to Unitholders may represent an economic return of capital.

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

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

Capital Expenditures

	Three Months Ended		Years Ended	
(In thousand dollars)	**Dec. 31, 2009**	**Sept. 30, 2009**	**Dec. 31, 2009**	**Dec. 31, 2008**
Land	**616**	854	**2,802**	**3,102**
Geological and geophysical	**21**	172	**1,325**	**1,063**
Drilling	**14,486**	15,331	**56,374**	**85,487**
Drilling incentive credits	**(3,002)**	(4,420)	**(7,422)**	—
Production equipment and facilities	**16,024**	2,592	**36,056**	**33,991**
Exploration and development expenditures	**28,145**	14,529	**89,135**	**123,643**
Proceeds received from property dispositions	**(289)**	—	**(448)**	**(561)**
Property acquisitions	**401**	(97)	**406**	**20,594**
Corporate assets	**59**	170	**374**	**78**
Net capital expenditures	**28,316**	14,602	**89,467**	**143,754**

Capital expenditures increased during the fourth quarter as compared to the previous quarter as a result of costs incurred in conjunction with Trilogy's proposed Presley Pipeline and Kaybob North Sour Gas Plant expansion project amounting to $15.3 million. On a full year basis, capital expenditures (excluding acquisitions) were lower in 2009 as compared to 2008 as a result of targeted deferrals in capital spending in conjunction with the low natural gas price environment. The reduction can also be attributed to the recording of drilling incentives from the Alberta Government for wells drilled after April 1, 2009. This decline was partially offset by expenditures of $15.3 million for the full year on the pipeline and plant expansion project in Kaybob North.

Regulatory approval to construct and install Trilogy's Presley Pipeline and Kaybob North Sour Gas Plant expansion projects have not been received as at the date hereof. Trilogy has procured significant equipment and materials to date, however, the installation of this project cannot commence until such approvals have been obtained. Trilogy expects to receive such approvals in 2010.

Trilogy acquired a significant property at South Kaybob in 2008. No significant acquisitions or dispositions occurred in 2009.

Wells Drilled

	Three Months Ended				Years Ended			
(Number of wells)	Dec. 31, 2009		Sept. 30, 2009		Dec. 31, 2009		Dec. 31, 2008	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
Natural gas	**5**	**4.0**	9	5.0	**26**	**19.2**	46	29.6
Oil	**1**	**—**	1	0.9	**3**	**1.2**	14	9.9
Dry	**—**	**—**	—	—	**—**	**—**	5	4.2
Total	**6**	**4.0**	10	5.9	**29**	**20.4**	65	43.7

(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

On October 31, 2006, the Department of Finance announced changes to Canadian federal income tax legislation relating to specified investment flow-through ('SIFT") trusts and partnerships (the "SIFT Rules"). The legislation was enacted into law in June 2007 (as amended). In the case of a SIFT trust, the SIFT Rules impose a tax at the trust level on distributions of certain income from the SIFT trust at rates of tax comparable to the combined federal and provincial corporate tax rate and treat such distributions as dividends to the unitholders of the SIFT trust. SIFT trusts that were publicly traded at the time of the announcement by the Department of Finance (Canada), such as the Trust, are generally entitled to a four year transition period and are not subject to the SIFT Rules until 2011, provided such SIFT trust experiences only "normal growth" and no "undue expansion" before that time. Accordingly, as a result of the SIFT Rules, commencing in 2011 (provided the Trust only experiences "normal growth" before that time) the Trust would be required to pay income tax on distributions of certain income from the Trust at rates of tax comparable to the combined federal and provincial corporate tax rate if it were a SIFT at such time.
Trilogy's effective future tax rate under the legislation is currently anticipated to be 26.5 percent in 2011 and 25 percent for 2012 onward. The effective tax rate of corporate entities under Trilogy's structure as at December 31, 2009 is interpreted to be 25 percent.

Trilogy recognizes a provision for future income tax in its financial statements pursuant to the enactment of the SIFT Rules. 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 on the balance sheet date. Accordingly, any impact that the Conversion may have on Trilogy has not been factored into its future tax provision.

Post Conversion, the SIFT rules and any normal growth restrictions, as referred to above, will not apply to the Company. To the extent Trilogy has taxable income, such income will be taxable at the applicable federal and provincial corporate tax rates at that time.

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

As at December 31, 2009, tax pools were estimated to be $147 million for tangibles and $149 million for intangibles. Post Conversion, Trilogy's aggregate tax pools for tangibles and intangibles are estimated to be in excess of $1 billion.

RELATED PARTY TRANSACTIONS

As described in more detail in the notes to the Trust's consolidated financial statements for the year ended December 31, 2009, the following is a summary of the Trust's transactions with related parties:

- Paramount Resources, a wholly-owned subsidiary of Paramount Resources Ltd. (which owns 21.7 percent of the outstanding Trust Units at December 31, 2009), provides administrative and operating services to the Trust and its subsidiaries, pursuant to a Services 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 $0.3 million for the year ended December 31, 2009. This Services Agreement was subsequently amended and restated as at February 5, 2010 to reflect Trilogy's post-Conversion structure.

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

(In thousand dollars except per unit amounts)	**Q4 2008**	**Q3 2008**	**Q2 2008**	**Q1 2008**
Revenue after financial instruments, royalties and other income	106,509	199,258	50,044	69,948
Earnings (loss) before tax	9,489	137,302	(19,250)	4,143
Net earnings (loss)	10,342	131,085	(18,974)	900
Earnings (loss) per Trust Unit (in full amounts):				
Basic	0.11	1.36	(0.20)	0.01
Diluted	0.11	1.35	(0.20)	0.01

The fluctuations in Trilogy's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact on royalty, and realized and unrealized gains/losses on financial instruments. In addition, future income tax estimates and changes in estimates contributed to the changes in net earnings commencing from the second quarter of 2007. Please refer to the Results of Operations and other sections of this MD&A for the detailed discussions on changes from the third quarter of 2009 to the fourth quarter of 2009, and to Trilogy's previously issued interim and annual MD&A for changes in prior quarters.

SUPPLEMENTARY ENVIRONMENTAL DISCLOSURES

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

In October 2006, the Canadian Federal Government announced its intention to regulate industrial GHG and air pollutant emissions. The 'Turning the Corner' plan to reduce greenhouse gases and air pollution was unveiled on April 26, 2007 with further details of the plan announced on March 10, 2008. The plan sets out an approach for reducing GHG and air pollution emissions from industry and sets a national target of a 20 percent reduction in GHGs from 2006 levels by 2020 and 60 percent to 70 percent by 2050. Proposed greenhouse gas regulations were expected to be finalized in 2009 and to come into force on January 1, 2010. Recently the Canadian federal government announced that it would be modifying its plan to soften the impact of GHG regulation on Canadian industry. Since there is no federal legislation at this time in respect of reducing GHG, only a plan, it is difficult to assess what the impact of any GHG legislation will have on Trilogy since the parameters are unknown at this time.

Commencing July 2007, Alberta's Climate Change and Emissions Management Act required facilities that emit more than 100,000 tonnes of GHG per year to reduce their emissions intensity by 12 per cent from a 2003 to 2005 average baseline. If the emissions intensity limit is not met, companies have four choices to be in compliance: implement GHG emission improvements in their operations; purchase Alberta-based offset credits; contribute to the Climate Change and Emissions Management Fund; and/or purchase or use Emission Performance Credits. Trilogy does not own any facilities that currently emit 100,000 tonnes or more of GHG and therefore is not currently impacted by this legislation. Accordingly, Trilogy has not incurred, nor does it anticipate incurring material costs relating to this greenhouse gas emissions reduction program. However, no certainty exists that current thresholds upon which contributions are based under existing regulations, or the regulations as a whole will not change in the future. Such changes could materially impact Trilogy.

As at December 31, 2009, Trilogy has not recorded any significant costs and liabilities relating to the above initiatives and regulations, any other environmental protection laws and regulations, or environmental disasters. However, Trilogy has recognized, in its financial statements, asset retirement obligations representing estimates of costs to retire its assets at the end of their useful lives, which include estimated abandonment, surface reclamation and groundwater protection costs. Additional information on asset retirement obligation is disclosed in Trilogy's financial statements and in other sections of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

The historical information in this MD&A is based primarily on the 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 following is a discussion of the critical accounting estimates that are inherent in the preparation of the Trust's December 31, 2009 consolidated financial statements and notes thereto.

Accounting for Petroleum and Natural Gas Properties

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

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

Estimates of Reserves

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

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

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

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

Impairment of Petroleum and Natural Gas Properties

The Trust reviews its proved properties for impairment annually on a field basis. For each field, an impairment provision is recorded whenever events or circumstances indicate that the carrying value of those properties may not be recoverable. The impairment provision is based on the excess of carrying value over fair value. Fair value is determined as the present value of the estimated future net revenues from production of total proved and probable petroleum and natural gas reserves, as estimated by the Trust on the balance sheet date. Reserve estimates, as well as estimates for petroleum and natural gas prices and production costs may change, and there can be no assurance that impairment provisions will not be required in the future.

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

Asset Retirement Obligations

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

Unit-Based Compensation

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

Future Income Tax

The recording of future income tax for Trilogy involves the use of various assumptions to estimate the amounts and timing of the reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes before and after January 1, 2011. It also involves the estimation of the effective tax rates for future fiscal years. The assumptions used (which include, but are not limited to, estimated results of operations, tax pool claims, accounting deductions and cash distributions) are based on management's current estimates and will likely change in future periods. Accordingly, the estimate of future income tax will change in future periods and will differ from the current estimate.

NEW ACCOUNTING PRONOUNCEMENTS

Change in Accounting Policies

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.

IFRS IMPLEMENTATION

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

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

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

The following provides a summary of significant standards under IFRS that may impact the financial statements of Trilogy. It is intended to highlight those areas Trilogy believes to be the most significant. However, analysis is still in process and not all decisions have been made where choices of accounting policies are available. The future impacts of IFRS will also depend on the particular circumstances prevailing in those years. The differences, which include, but are not limited to as described below, are those existing based on Canadian GAAP and IFRS today. Until the adoption date is finalized, Trilogy is not able at this time to reasonably quantify the impact expected on its consolidated financial statements for these differences.

- IFRS 1 - *First-Time Adoption of International Financial Reporting Standards* provides the framework for the first time adoption of IFRS and specifies in general that an entity will apply IFRS principles retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS should be recognized directly in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided under IFRS 1. Analysis of the various accounting policy choices are in progress. Trilogy expects that key IFRS 1 exemption decisions will be selected and approved in the first half of 2010. A significant exemption available under IFRS 1 applies to business combinations whereby an entity could elect to remove the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS as required under the existing IFRS business combination standard (IFRS 3). IFRS 1 also permits an entity to set its book value of property, plant and equipment under IFRS to its historical book value under Canadian GAAP (subject to the additional IFRS as described below). In absence of this election, the entity would reset such assets to their fair value amounts;
- Under IFRS, the accounting for activities of the extractive industry (including oil and gas exploration) is governed by IFRS 6 (for the exploration and evaluation phase) and IAS 16 (for development and production phase). Trilogy's current accounting practices under the successful efforts method generally conform with these international standards (subject to the specific potential difference(s) identified below);
- Trilogy charges overhead and recoveries (i.e. charging a small percentage of G&A) to all operated wells. This process goes through an allocation mechanism whereby the portion relating to wells in progress are capitalized and the portion relating to producing wells are charged to or recovered from production expenses. Under IFRS, Trilogy would recognize general overhead expenses and overhead fee/recoveries in the income statement as an expense or income item, respectively;
- IFRS requires capitalization of major inspections and plant turnarounds, with such costs generally requiring depreciation over the period until such inspections or turnarounds are again required. Trilogy has historically expensed such costs in the period of incurrence. The impact of this change may serve to reduce volatility in operating costs while increasing capital expenditure amounts;
- Trilogy generally depreciates tangible oil and gas equipment over 12 years on a straight line basis. IAS 16 (property plant and equipment) requires an allocation be made on certain significant assets initially into components and requires the depreciation of such parts separately. The method of componentizing property, plant and equipment may result in an increase in the number of and change in the useful life of the component parts recorded and related depreciated and, as a result, may impact the calculation of depreciation expense;
- Trilogy reviews asset impairment on its oil and gas assets on a property/field basis using undiscounted and, where applicable, discounted cash flows. Under IFRS, the asset impairment test is carried out by comparing the asset's carrying amount with its recoverable amount – being the higher of (1) the asset's or cash generating unit's fair value less costs to sell and (2) its value in use (generally, using discounted cash flows), with the excess of carrying value being recorded as impairment loss. The sole use of discounted cash flows may result in more frequent write-downs than under Canadian GAAP. Furthermore, the value of any goodwill and corporate assets is allocated directly to the oil and gas assets and compared

against the recoverable amount. Under Canadian GAAP, goodwill generally is written off where permanent indicators exist that would not support the value of goodwill recorded. However, under IFRS, previous impairment losses (including those on goodwill) may be reversed where circumstances change and the original impairment charge is no longer supported. This also differs from Canadian GAAP which precludes the reversal of previously recognized impairment losses;

- Under Canadian GAAP, an entity can choose to expense or capitalize borrowing costs, whereas IFRS requires qualifying borrowing costs to be capitalized. This may impact the interest and financing costs and related capital expenditure amounts in property, plant and equipment than as otherwise calculated under Canadian GAAP;
- Under IFRS, the underlying asset retirement obligation liability may vary from Canadian GAAP given potential variances in the rates used to present value such liabilities. In addition, the unwinding of any present value discount generally will be reflected as a cost of financing under IFRS versus as accretion expenses under Canadian GAAP. Such differences may materially impact the value of the obligation and disclosure of financing costs than as calculated under Canadian GAAP;
- The threshold for recognition under GAAP is generally higher than as required under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. Accordingly, there may be some contingent liabilities that may require recognition that otherwise may not have been required under GAAP;

It is anticipated that the adoption of IFRS will have some impact on information systems requirements. Trilogy continues to assess its systems and implement the functionality requirements, upgrades and modifications that IFRS requires and to ensure an efficient conversion to IFRS.

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

Many of the differences identified between IFRS and Canadian GAAP are not expected to have a material impact on Trilogy's reported results and financial position. However, there may be significant changes as a result of IFRS accounting principles and provisions for first time adoption. The company has not determined the full accounting effects of adopting IFRS, since some key accounting policy alternatives and implementation decisions are still being evaluated. However, Trilogy does not expect the adoption of IFRS to materially impact its the underlying cash flows, profitability and operating performance.

FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management has assessed the effectiveness of Trilogy's internal controls over financial reporting and disclosure controls and procedures as at December 31, 2009, and has concluded that such controls and procedures were effective as at that date. In addition, there were no material changes to Trilogy's internal controls over financial reporting since the most recent interim period.

ADVISORIES

Certain statements included in this document (including this MD&A, the Message to Unitholders and Review of Operations) constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "goal", "objective", "possible", "probable", "projected", "scheduled", or state that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to statements regarding: business strategy and objectives; the anticipated benefits of the Conversion; capital expenditures; future production levels; development plans and the timing, cost and expected benefits thereof, including Trilogy's Montney horizontal well program, proposed Presley Pipeline and Kaybob North Sour Gas Plant expansion project and other drilling and construction plans; potential application of drilling technologies to other areas and geological formations; net revenue and cash flow; approach to distributions/dividends; 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 Trilogy; expected counterparty risk; credit limits and the cost of borrowing; pro-forma debt levels; projected results of hedging contracts and other financial instruments; and the expected impact of new accounting pronouncements. Statements regarding "reserves" or "resources" are forward-looking statements, as they involve the implied assessment, based estimates and assumption that the reserves and resources described exist in the quantities predicted or estimated, and can be profitable produced in the future.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified in this document, assumptions have been made regarding, among other things:

- future oil 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;
- the impact of the Conversion on access to capital markets, liquidity and reinvestment of cash flow;
- 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;
- 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-existence with local populations;
- uncertainty regarding results of third party industry participants' objections to Trilogy's development plans;
- risks associated with existing and potential future law suits and regulatory actions against Trilogy;
- hiring/maintaining staff;
- the impact of market competition; and
- other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

Additional information on these and other factors which could affect the 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 and bad debt expenses 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 Energy Corp. is a petroleum and natural gas-focused Canadian energy corporation that actively acquires, develops, produces and sells natural gas, crude oil and natural gas liquids. Trilogy's common shares are listed on the Toronto Stock Exchange under the symbol "TET". Prior to the Conversion Trilogy's Trust Units were 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.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009 AND 2008
AND FOR THE YEARS THEN ENDED

MANAGEMENT'S REPORT

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

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

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

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

/s/J. H. T. Riddell	*/s/ M. G. Kohut*	
J. H. T. Riddell	**M. G. Kohut**	
President and Chief Executive Officer	Chief Financial Officer	March 2, 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
111 5 Avenue SW, Suite 3100
Calgary, Alberta
Canada T2P 5L3
Telephone +1 (403) 509 7500
Facsimile +1 (403) 781 1825

AUDITORS' REPORT

March 2, 2010

To the Shareholders of Trilogy Energy Corp.

We have audited the consolidated balance sheet of **Trilogy Energy Trust** as at December 31, 2009 and 2008 and the consolidated statements of (loss) / earnings and other comprehensive (loss) / income, unitholders' equity, and cash flows for each of the years in the two year period ended December 31, 2009. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta

TRILOGY ENERGY TRUST
Consolidated Balance Sheets
(In thousand dollars)

	As at December 31, 2009	2008
ASSETS		
Current Assets		
Accounts receivable *(notes 10, 11 and 13)*	**$ 50,797**	$ 55,149
Financial instruments *(notes 10 and 11)*	**2,803**	22,187
Prepaid expenses	**546**	826
	54,146	78,162
Property, plant and equipment *(note 4)*	**686,736**	728,207
Future income taxes *(note 15)*	**11,840**	10,749
Goodwill	**140,471**	140,471
	$ 893,193	$ 957,589
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *(notes 10, 11 and 13)*	**$ 58,257**	$ 61,138
Distributions payable *(notes 8, 10, 11 and 13)*	**5,525**	9,600
	63,782	70,738
Long-term debt *(notes 5, 10 and 11)*	**236,791**	307,405
Asset retirement obligations *(note 6)*	**75,355**	75,213
Future income taxes *(note 15)*	**82,653**	88,136
	394,799	470,754
Unitholders' equity		
Unitholders' capital *(note 7)*	**825,758**	714,950
Contributed surplus *(note 9)*	**10,251**	8,977
Accumulated deficit after distributions	**(401,397)**	(307,830)
	434,612	416,097
	$ 893,193	$ 957,589

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

See accompanying notes to consolidated financial statements.

On behalf of the Board

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

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

TRILOGY ENERGY TRUST

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

(In thousand dollars except as otherwise indicated)

	Years Ended December 31, 2009	2008
Revenue		
Petroleum and natural gas sales	**$ 236,079**	$ 465,297
Realized gain on financial instruments *(notes 10 and 11)*	**31,489**	16,020
Unrealized gain (loss) on financial instruments *(notes 10 and 11)*	**(19,405)**	29,150
Royalties	**(26,903)**	(92,372)
Other (expense) income	**(414)**	7,664
	220,846	425,759
Expenses		
Operating	**81,146**	88,879
Transportation	**11,933**	14,139
General and administrative *(notes 9 and 13)*	**18,559**	18,848
Bad debt expense *(note 10)*	**4,000**	—
Exploration expenditures	**2,058**	10,615
Loss (gain) on disposition of property, plant and equipment	**(228)**	(441)
Accretion on asset retirement obligations *(note 6)*	**5,802**	5,372
Depletion and depreciation *(note 4)*	**124,964**	141,660
Interest and financing charges	**11,866**	15,003
	260,100	294,075
(Loss) earnings before taxes	**(39,254)**	131,684
Future income taxes *(note 15)*	**(5,892)**	8,331
Net (loss) earnings / Total comprehensive (loss) income	**$ (33,362)**	$ 123,353
Earnings (loss) per Trust Unit (in full amounts)		
— Basic	**$ (0.33)**	$ 1.29
— Diluted	**$ (0.33)**	$ 1.28
Weighted average Trust Units outstanding (in thousands)		
— Basic	**100,060**	95,715
— Diluted *(note 7)*	**100,060**	96,089

See accompanying notes to consolidated financial statements.

TRILOGY ENERGY TRUST

Consolidated Statements of Unitholders' Equity

(In thousand dollars except Trust Unit information)

	Year Ended December 31, 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 for the year	**—**	**—**	**(33,362)**	**—**	**(33,362)**
Distribution reinvestment plan and other equity issuances *(notes 7 and 8)*	**14,493,688**	**110,808**	**—**	**—**	**110,808**
Distributions declared *(note 8)*	**—**	**—**	**(60,205)**	**—**	**(60,205)**
Normal course issuer bid *(note 7)*	**—**	**—**	**—**	**—**	**—**
Unit/stock option recognition *(note 9)*	**—**	**—**	**—**	**1,274**	**1,274**
Closing balance	**110,490,334**	**$ 825,758**	**$ (401,397)**	**$ 10,251**	**$ 434,612**

	Year Ended December 31, 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 for the year	—	—	123,353	—	123,353
Distribution reinvestment plan *(notes 7 and 8)*	6,159,521	46,597	—	—	46,597
Distributions declared *(note 8)*	—	—	(103,530)	—	(103,530)
Normal course issuer bid *(note 7)*	(4,771,579)	(35,747)	—	762	(34,985)
Unit/stock option recognition *(note 9)*	—	—	—	2,657	2,657
Closing balance	95,996,646	$ 714,950	$ (307,830)	$ 8,977	$ 416,097

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31	
	2009	**2008**
Operating activities		
Net (loss) earnings	**$ (33,362)**	$ 123,353
Add (deduct) non-cash and other items:		
Depletion and depreciation	**124,964**	141,660
Gain on disposition of property, plant and equipment	**(228)**	(441)
Exploration expenditures	**2,058**	10,615
Asset retirement obligation expenditures *(note 6)*	**(1,515)**	(5,441)
Accretion on asset retirement obligations *(note 6)*	**5,802**	5,372
Future income tax expense *(note 15)*	**(5,892)**	8,331
Non-cash general and administrative expense (recovery)	**1,290**	(433)
Unrealized loss (gain) on financial instruments *(note 11)*	**19,405**	(29,150)
Other	**(45)**	—
Net changes in operating working capital	**7,992**	(10,346)
Cash flow from operating activities	**120,469**	243,520
Financing activities		
Credit facilities – draws	**301,441**	505,530
Credit facilities – repayments	**(372,251)**	(524,398)
Distributions to unitholders *(note 8)*	**(36,092)**	(53,956)
Trust Units issued	**81,920**	—
Purchase and cancellation of Trust Units under normal course issuer bid	**—**	(34,985)
Cash flow provided by (used in) financing activities	**(24,982)**	(107,809)
Investing activities		
Property, plant and equipment expenditures	**(89,509)**	(123,721)
Property acquisitions	**(406)**	(20,594)
Proceeds on disposition of property, plant and equipment	**448**	561
Change in investing working capital	**(6,020)**	8,043
Cash flow used in investing activities	**(95,487)**	(135,711)
Change in cash / cash, end of year	**$ —**	$ —
Cash interest and financing charges paid	**$ 11,976**	$ 15,226

See accompanying notes to consolidated financial statements.

1. GENERAL

Prior to February 5, 2010, Trilogy Energy Trust ("Trilogy" or the "Trust") was 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 was managed by Trilogy Energy Ltd., the administrator of the Trust. The beneficiaries of the Trust were the holders of Trust Units (the "Unitholders").

On December 23, 2009, Trilogy announced that it had entered into an arrangement agreement with a private corporation providing for an arrangement under the Business Corporations Act (Alberta) and related transactions (collectively, the "Conversion") pursuant to which Trilogy will convert from an income trust to a corporation to be named Trilogy Energy Corp. (the "Company"). On February 5, 2010, the Trust completed the Conversion and Unitholders became shareholders of the Company, owning approximately 96 percent of the equity with the residual equity owned by the private corporation's sole shareholder as more particularly described in Trilogy's information circular dated January 6, 2010.

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

2. ACCOUNTING CHANGES

Change in Accounting Policies

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.

Future Accounting Changes

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Property, Plant and Equipment

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

Other property, plant and equipment are recorded at cost.

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

Depletion and Depreciation

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

Depreciation of production equipment, gas plants and gathering systems is calculated using the straight-line method over their estimated useful life of 12 years. Depreciation of other property, plant and equipment is provided on a straight-line basis over the assets' estimated useful lives varying from three to 10 years.

Joint Operations

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

Asset Retirement Obligations

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

Goodwill

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

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

Revenue Recognition

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

Derivative Financial Instruments

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

Income Taxes

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

Unit-based Compensation

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

Non-reciprocal awards of stock options to Trust employees made by a significant unitholder are fair valued using the Black Scholes model and are amortized to compensation expense over their contractual life of two to four years, with a credit to contributed surplus.

The Trust measured compensation cost under the unit appreciation plan (that expired on December 15, 2008) as the amount by which the quoted market value of Trust Units covered by the grants exceeded the exercise price and adjusted by unit distributions. Compensation cost under the unit appreciation plan was recognized over the appreciation units' vesting period.

Foreign Currency Translation

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

Per Trust Unit Information

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

Measurement Uncertainty

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

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

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

4. PROPERTY, PLANT AND EQUIPMENT

	2009			2008		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	**1,551,630**	**(869,322)**	**682,308**	1,477,303	(754,669)	722,634
Other	**9,412**	**(4,984)**	**4,428**	9,038	(3,465)	5,573
	1,561,042	**(874,306)**	**686,736**	1,486,341	(758,134)	728,207

Capital costs associated with non-producing petroleum and natural gas properties totaling approximately $92.5 million as at December 31, 2009 (2008 - $112.5 million) were not subject to depletion. No interest costs were capitalized for the years ended December 31, 2009 and 2008.

The costs of exploratory dry holes and uneconomic wells, amounting to $0.7 million for the year ended December 31, 2009 (2008 - $9.6 million), were written off and included in exploration expenditures. A property impairment loss of $13.1 million was also recognized for the year ended December 31, 2009 (2008 - $24.1 million) and was included as part of depletion and depreciation expense. The reduction in the expected recoverable reserves attributable to certain petroleum and natural gas wells and the decline in forecast prices used in the estimation of future cash flows resulted in the asset impairment. The fair value of these assets was determined using discounted future cash flows.

5. LONG-TERM DEBT

	2009	2008
Revolving credit and working capital facility	**236,977**	307,787
Less unamortized discount	**(186)**	(382)
Carrying value of long-term debt	**236,791**	307,405
Weighted average interest rate for the year	**3.81%**	4.46%

The Trust has a $315 million revolving credit facility and a $35 million working capital facility with a syndicate of mostly Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions. The facilities are available on a revolving basis for a period of at least 364 days and can be extended a further 364 days upon request. The revolving phase of this credit facility expires on

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

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 a 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. The $350 million borrowing base is subject to semi-annual review by the banks.

The Trust also has a $40 million committed, non-revolving construction facility with the above lenders. Borrowing under this facility bears interest at a premium relative to the above revolving and working capital facilities. The ability to draw from the construction facility is contingent on the receipt of certain regulatory approvals. Borrowings from the construction facility are to be used to construct a specific proposed pipeline and plant upgrade project. Expiry of this construction facility occurs on the earlier of construction project completion and April 30, 2010.

The Trust has undrawn letters of credit totaling $8.9 million as at December 31, 2009. These letters of credit reduce the amount available for draw under the Trust's working capital facility.

6. ASSET RETIREMENT OBLIGATIONS

	2009	**2008**
Asset retirement obligations, beginning of year	**75,213**	60,752
Liabilities incurred	**1,095**	2,370
Revisions in estimate	**(5,177)**	12,353
Liabilities settled	**(1,515)**	(5,441)
Accretion expense	**5,802**	5,372
Liabilities relating to assets sold	**(63)**	(193)
Asset retirement obligations, end of year	**75,355**	75,213

The undiscounted asset retirement obligations at December 31, 2009 are estimated to be $183.3 million (2008 - $182.6 million). The credit-adjusted risk-free rates used to estimate asset retirement obligation liabilities range from 7.875 to 8.5 percent. These obligations will be settled based on the expected life of the underlying assets, the majority of which are expected to be paid after 10 to 30 years and will be funded from the general resources of the Trust at the time of removal.

7. UNITHOLDERS' CAPITAL

Authorized

The authorized capital of the Trust prior to the Conversion was 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 were 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 110,490,334 Trust Units and 95,996,646 Trust Units outstanding at December 31, 2009 and 2008, respectively. No Special Voting Rights have been issued to date.

For the year ended December 31, 2009, 4,486,188 Trust Units (2008 – 6,159,521 Trust Units) were issued for proceeds of $28.2 million under Trilogy's Distribution Reinvestment Plan ("DRIP") (see note 8); 10,000,000 Trust Units were issued for gross proceeds of $86.5 million (net proceeds of $81.9 million after commissions and related expenses) pursuant to an equity offering of the Trust; and 7,500 Trust Units were issued pursuant to Trilogy's unit option plan, as more fully described below.

In calculating Trilogy's 2009 weighted average diluted number of units, 3,003,500 unit options were considered in the calculation. Accordinlgy, 1,621,500 options were excluded from the diluted calculation. Options excluded include those where the option exercise price is less than the unit price as at the balance sheet date.

Redemption Right

Prior to the Conversion, Unitholders could redeem their Trust Units by delivering their Trust Unit Certificates to Trilogy's transfer agent together with a duly completed and properly executed notice. The redemption price per Trust Unit was equal to the lesser of 95 percent of the market price of the Trust Units on the principal market on which the Trust Units were quoted for trading during the 10-trading day period commencing immediately after the date on which the Trust Units were tendered for redemption, and the closing market price on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units were tendered for redemption. Cash payments for Trust Units tendered for redemption were limited, subject to the administrator's sole discretion, to $50,000 per month with redemption requests in excess of this amount eligible to receive notes from the holding trust or other assets held by the Trust. In addition, cash redemption did not apply if the outstanding Trust Units tendered for redemption were not listed for trading, the normal trading of the Trust Units were suspended or halted on any stock exchange or the redemption of Trust Units would have resulted in the delisting of the Trust Units. In such cases, the fair market value of the Trust Units would have been determined by the administrator and be paid and satisfied by way of asset distribution.

Normal Course Issuer Bid

Pursuant to a normal course issuer bid program ("NCIB") and prior to the Conversion, Trilogy was able to 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 NCIB for the year-ended December 31, 2009 (refer to note 16 for NCIB activity subsequent to December 31, 2009) . Trilogy purchased and cancelled 4,771,579 Trust Units (the maximum allowable number) through the facilities of the Toronto Stock Exchange in 2008 for a total cost of approximately $35.0 million in conjunction with Trilogy's previous NCIB.

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

8. ACCUMULATED DISTRIBUTIONS

	2009				2008			
	Cash	DRIP	Payable	Total	Cash	DRIP	Payable	Total
Balance, beginning of year	**538,355**	**76,857**	**9,600**	**624,812**	484,399	30,260	6,623	521,282
Distributions paid and/or reinvested	**36,092**	**28,188**	**—**	**64,280**	53,956	46,597	—	100,553
Change in year end accrual	**—**	**—**	**(4,075)**	**(4,075)**	—	—	2,977	2,977
Distributions declared	**36,092**	**28,188**	**(4,075)**	**60,205**	53,956	46,597	2,977	103,530
Balance, end of year	**574,447**	**105,045**	**5,525**	**685,017**	538,355	76,857	9,600	624,812

Cumulative distributions amounted to $0.60 per Trust Unit and $1.08 per Trust Unit for the year ended December 31, 2009 and 2008, respectively.

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 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. Refer to note 16 for subsequent event information.

9. UNIT BASED COMPENSATION

Unit Option Plan

The Trust has a long-term incentive plan that allows management to award unit options to eligible directors, officers and employees. Under this plan, holders of vested unit options are able to subscribe for the equivalent number of Trust Units at the exercise price within the contractual period prescribed in the governing option agreement. A continuity of the unit option plan for the years ended December 31, 2009 and 2008 is as follows:

	2009			2008		
	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Option	No. of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Option	No. of Options
Balance, beginning of year	**$ 10.18**	**$ 1.41**	**4,765,500**	$ 11.52	$ 1.64	4,106,500
Granted	**8.35**	**1.70**	**927,500**	5.90	0.66	1,131,000
Exercised	**6.05**	**0.85**	**(7,500)**	10.54	1.59	(7,500)
Cancelled	**17.47**	**2.13**	**(1,058,000)**	11.61	1.66	(464,500)
Balance, end of year	**$8.16**	**$1.30**	**4,627,500**	$ 10.18	$ 1.41	4,765,500
Exercisable, end of year	**$8.76**	**$1.33**	**1,075,750**	$ 11.97	$ 1.65	434,500

The Trust recorded a compensation expense of $0.9 million for the year ended December 31, 2009 (2008 - $2.0 million) 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 granted was determined under the binomial model using the following key assumptions:

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

Options Granted in	2009	2008
Risk-free interest rate	1.60% to 3.10%	2.07% to 3.08%
Expected life	4.5 to 5.5 years	4.5 to 5.6 years
Expected volatility	45%	35%
Expected distributions	7.0% to 23.4%	9.5% to 23.4%

Additional information about Trilogy's unit options outstanding as at December 31, 2009 is as follows:

	Weighted Average Contractual	Outstanding Options		Exercisable Options	
Exercise Price Range	Life Remaining	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$4.85 to $6.98	3.9	2,074,500	$ 5.89	456,500	$5.97
$8.24 to $10.72	3.2	1,955,500	9.58	562,250	10.68
$11.11 to $12.88	2.4	597,500	11.37	57,000	12.28
Total	3.4	4,627,500	$8.16	1,075,750	$8.76

Unit Appreciation Rights Plan

In 2005, the Trust offered certain employees, officers and directors a unit appreciation arrangement whereby such employees, officers and directors were granted unit appreciation rights entitling the right holders to receive cash payments calculated as the excess of the market price over the exercise price per unit on the exercise date. The exercise price per unit appreciation right was reduced by the aggregate unit distributions paid or payable on the Trust Units to Unitholders of record from the grant date to the exercise date. The Unit Option Plan replaced the Unit Appreciation Plan in 2006. All remaining unit appreciation rights were paid as at the expiry date of December 15, 2008 and no further amounts will be recorded under this plan. In respect of the 2008 prior year, a compensation expense was recorded of $2.8 million and cash paid for the exercise of unit rights amounted to $5.9 million.

Non-reciprocal Awards to Trust Employees

The Trust also recognized compensation expense of $0.4 million for the year ended December 31, 2009 (2008 - $0.7 million) with respect to the non-reciprocal awards of stock options to Trust employees made by Paramount Resources Ltd. ("Paramount"), a related party. This amount was credited to contributed surplus. No further costs will be recorded with respect to these awards after 2009.

10. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

Trilogy's principal financial instruments, other than financial derivatives, are its outstanding amounts drawn from its credit facilities. The credit facilities are the main source of Trilogy's 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, and distributions payable. Trilogy also enters into financial derivative transactions, the purpose of which is to mitigate the impact of market volatility.

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

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

Credit Risk

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

Trilogy's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivable are from customers and joint venture partners in the Canadian petroleum and natural gas industry and are subject to normal credit risk. As at December 31, 2009, $2.9 million or 5.7 percent of the outstanding accounts receivable are outstanding for 90 days or more. Trilogy recorded in 2009 a bad debt expense for a receivable in the amount of $4 million in respect of a customer that filed for protection under the Companies' Creditors Arrangement Act. Trilogy originally set off certain amounts payable to this customer in sufficiency to offset the original receivable amount. Trilogy unsuccessfully appealed the initial ruling denying its ability to set off receivable amounts owing to it by the customer and has now written off the related receivable amount.

Liquidity Risk

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

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2009 is as follows:

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

(1) Estimated interest for future periods was calculated using the weighted average interest rate for the year ended December 31, 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.

Commodity Price Risk

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

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

To protect cash flow against commodity price volatility, Trilogy uses from time to time forward commodity price contracts that require financial settlement between counterparties. This financial instruments program is generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production (see note 11 for details of outstanding financial instruments as at December 31, 2009). As at December 31, 2009, assuming all other variables are held constant, a 10 percent increase or decrease in the applicable forward market prices would have the following impact on Trilogy's net earnings from changes in the fair value of its financial commodity contracts:

	10 % increase	**10 % decrease**
Natural gas	(6,434)	6,434

Interest Rate Risk

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

Draw-downs from Trilogy's credit facilities are generally in the form of bankers' acceptances with fixed terms ranging from 10 to 180 days which are then rolled-over if not repaid on their due dates. Trilogy may enter into interest rate swap contracts to mitigate the impact of interest rate fluctuations. There are no interest rate swap contracts outstanding as at December 31, 2009.

Foreign Exchange Risk

Foreign exchange rate exposure may impact the Trust mainly to the extent Trilogy has outstanding U.S. Dollar denominated financial instrument contracts, in addition to normal conversions of U.S. Dollar denominated revenues into Canadian Dollars. Approximately 13 percent of Trilogy's petroleum and natural gas sales for the year ended December 31, 2009 was denominated in U.S. Dollars. Trilogy may enter into foreign currency contracts to mitigate the impact of foreign exchange rate exposure. Trilogy had the following foreign Canadian Dollar / U.S. Dollar exchange option contracts outstanding as at December 31, 2009:

Option Payout Range CAD/US Dollar	**Weekly premium receipt (CAD)**	**Weekly U.S. dollar commitment above upper range**	**Term**
$0.97 to $1.12	$10	$1,000	January – May 2010
$0.95 to $1.10	$10	$1,000	January – May 2010
$0.965 to $1.115	$10	$1,000	January – May 2010

Where the weekly average spot foreign exchange rate exceeds the payout range, the weekly premium is forfeited and Trilogy is committed to selling the above listed U.S. Dollars at the upper payout range value for such week. To the extent the weekly average spot foreign exchange rate is below the payout range, the weekly premium is forfeited, however Trilogy is not committed to sell the above listed U.S. Dollars. Trilogy recorded premium receipts of $0.2 million for 2009 in respect of the above contracts.

(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.

	2009	2008
Financial assets		
Receivables(1)	**50,797**	55,149
Financial instruments held-for-trading(3)	**2,803**	22,187
Financial liabilities		
Non-trading liabilities(1) (2)	**(63,782)**	(70,738)
Financial instruments held-for-trading(3)	**—**	—
Indebtedness(4)	**(236,791)**	(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 and accrued liabilities and distributions payable.

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

(4) Carried at amortized cost.

During 2009, CICA Handbook section, *3862 - Financial Instruments – Disclosures*, was amended to require disclosures regarding the inputs to fair value measurements, including their classification within a hierarchy that priortitizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

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

The following provides a classification summary of Trilogy's financial instruments within the fair value hierarchy as at December 31, 2009:

	Financial assts - fair value as at December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Natural gas forward sale contracts	—	2,782	—	2,782
Foreign exchange option contracts	—	21	—	21
	—	2,803	—	2,803

Forward Contracts

At December 31, 2009, the Trust had the following outstanding financial forward commodity sales contracts:

Description	Total Quantity	Average Price	Remaining Term
Sales Contracts			
AECO Fixed Price	40,000 GJ/d	$5.52/GJ	January 2010 – October 2010

The Trust classified 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.

12. CAPITAL DISCLOSURE

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

The objectives in managing the capital structure are to:

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

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

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

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

	2009	2008
Committed amount that can be drawn from credit facilities	**390,000**	378,000
Outstanding undrawn letters of credit	**(8,886)**	(9,373)
Portion of credit facilities subject to draw restrictions as at the balance sheet date	**(40,000)**	—
Amount that can be drawn after letters of credit	**341,114**	368,627
Long-term debt	**(236,791)**	(307,405)
Net current assets (liabilities)	**(9,636)**	7,424
Net debt[(1)]	**(246,427)**	(299,981)
Mark-to-market valuation of financial instruments	**(2,803)**	(22,187)
Adjusted net debt[(1)]	**(249,230)**	(322,168)
Remaining available credit	**91,884**	46,459

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

The decrease in adjusted net debt from $322.2 million at December 31, 2008 to $249.2 million at December 31, 2009 is attributable primarily to equity proceeds received pursuant to Trilogy's DRIP and the November 4th issuance of 10,000,000 units pursuant to Trilogy's equity offering, lower capital expenditures incurred in the year, partially offset by lower cash flow from operations generated in the year in conjunction with lower average realized gas commodity prices.

13. RELATED PARTY TRANSACTIONS

Trilogy had the following transactions with Paramount, a significant Unitholder of the Trust.

- Pursuant to a Services Agreement dated April 1, 2005, as amended, a Paramount subsidiary provides administrative and operating services to the Trust and its subsidiaries to assist a Trust subsidiary in carrying out its duties and obligations as general partner of Trilogy's main operating entity and as the administrator of the Trust and its holding trust. Under this agreement, Paramount is reimbursed at cost for all expenses it incurs in providing the services to the Trust and its subsidiaries. The agreement is in effect until March 31, 2011 however may be terminated by either party with at least six months written notice. The amount of expenses billed and accrued as management fees under this agreement was $0.3 million for the year ended December 31, 2009 (2008 - $0.3 million). This amount is included as part of the general and administrative expenses in the Trust's consolidated statement of earnings. Refer to note 16 for subsequent event information as it relates to the Services Agreement.

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

	2009			**2008**		
Presented in the Balance Sheet as	**Normal Business**	**Services Agreement**	**Trust Distribution**	**Normal Business**	**Services Agreement**	**Trust Distribution**
Accounts receivable	**219**	**—**	**—**	222	—	—
Accounts payable and accrued liabilities	**(615)**	**(60)**	**—**	(159)	(120)	—
Distributions payable	**—**	**—**	**(1,200)**	—	—	(2,234)

14. OFF BALANCE SHEET COMMITMENTS

In addition to items disclosed elsewhere in these financial statements, Trilogy had the following off balance sheet commitments as at December 31, 2009:

	2010	**2011**	**2012**	**2013**	**2014 and after**	**Total**
Pipeline transportation(1)	10,263	9,932	8,945	8,448	15,977	53,565
Office premises operating lease(2)	2,375	2,883	2,883	3,221	12,150	23,512
Vehicle and energy service commitments	3,509	2,724	2,044	—	—	8,277
Total	16,147	15,539	13,872	11,669	28,127	85,354

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

Trilogy entered into the following significant physical fixed price power purchase contracts in the year:

Quantity	**Price (per MWh)**	**Remaining Term**
6 MW/h	$50.82	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)

15. INCOME TAXES

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

	2009	2008
Expected income tax expense (recovery) at statutory tax rate of 39 percent	**(15,309)**	51,357
Income of the Trust not subject to current tax	**13,360**	(42,324)
Non-deductible expenses	**511**	1,083
Benefit of statutory rate changes in year	**(8,616)**	—
Change in estimate of future reversals of temporary differences and other	**4,162**	(1,785)
Income tax expense (recovery) per statement of earnings (loss)	**(5,892)**	8,331

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

Description of Temporary Differences and Carryforwards	2009	2008
Property, plant and equipment	**(92,653)**	(101,150)
Asset retirement obligation	**18,408**	20,536
Loss carryforwards and other	**3,432**	3,227
Net future income tax liability	**(70,813)**	(77,387)

In conjunction with its issuance of 10,000,000 units in 2009, Trilogy recorded a future tax asset and corresponding increase to unitholder capital of $0.7 million in respect of the issuance costs associated with the offering.

On October 31, 2006, the Department of Finance (Canada) announced changes to Canadian federal income tax legislation relating to specified investment flow-through ("SIFT") entities (the "SIFT Rules"), including SIFT trusts and partnerships. Such changes were enacted into legislation by the Government of Canada in June 2007 (as amended). In the case of a SIFT trust, the SIFT Rules impose a tax at the trust level on distributions of certain income from the SIFT trust at rates of tax comparable to the combined federal and provincial corporate tax rate and treat such distributions as dividends to the unitholders of the SIFT trust.

SIFT trusts that were publicly traded at the time of the announcement by the Department of Finance (Canada), such as the Trust, are generally entitled to a four year transition period and are not subject to the SIFT Rules until 2011, provided such SIFT trust experiences only "normal growth" and no "undue expansion" before that time. As a result of the enactment of this legislation, the Trust recorded an initial net future income tax liability in 2007. As at December 31, 2009, the Trust's net future tax liability is $70.8 million (2008 - $77.4 million). The future income tax adjustment represents management's estimate of the differences between the book and tax basis of trust entity assets and liabilities ("temporary differences") anticipated to exist in 2011 under current legislation, tax-effected at 26.5 per cent, which is the rate that is currently anticipated to be applicable beginning 2011, and 25 percent thereafter. It also includes the differences between current book and tax basis of Trilogy corporate entities, tax effected at 25 percent.

Future changes in tax rates and technical interpretations of the new 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.

16. SUBSEQUENT EVENTS

On January 13, 2010, Trilogy purchased for cancellation under its NCIB 144,400 Trust Units at a cost of approximately $1.2 million.

Holders of 64,661,077 Trust Units have reinvested their December distributions totaling $3.2 million through Trilogy's DRIP resulting in the issuance of additional 403,385 Trust Units on January 15, 2010.

On January 15, 2010, the Trust announced that it has mailed to holders of Trust Units and filed on SEDAR a Notice of Special Meeting of Unitholders, Notice of Joint Petition and Information Circular dated January 6, 2010 with respect to the Trust's announced proposed Conversion. In addition to Unitholder approval, the Conversion was subject to the approval of the Court of Queen's Bench of Alberta, the approval of the Toronto Stock Exchange, competition bureau approval and the consent of Trilogy's lenders. On February 4, 2010, Trust unitholders voted in favor of the Conversion. Accordingly, on February 5, 2010, the Trust completed the Conversion and Unitholders became shareholders of Trilogy Energy Corp., owning approximately 96 percent of the equity of the Company with the residual equity owned by the private corporation's sole shareholder as more particularly described in Trilogy's information circular dated January 6, 2010.

On January 15, 2010, Trilogy announced its cash distribution for January 2010 of $0.05 per Trust Unit. The distribution was paid on February 16, 2010 to Unitholders of record on February 1, 2010. In this same announcement, the Trust also suspended its DRIP. Accordingly, no further participation in the DRIP occurred after the December 2009 distribution month. Trilogy also terminated the DRIP concurrent with the completion of the Conversion.

On February 5, 2010, Trilogy Energy Corp. and Paramount Resources entered into an Amended and Restated Services Agreement to reflect Trilogy's post-Conversion structure. The services agreement is in effect until March 31, 2011 unless terminated prior thereto by either party upon six months' notice.

On February 18, 2010, Trilogy Energy Corp. declared a dividend of 3.5 cents per share to shareholders of record on March 1, 2010.

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
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

Committees of the Board of Directors
(1) Member of the Compensation Committee
(2) Member of the Audit Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Environmental, Health & Safety Committee
(5) Lead Director

HEAD OFFICE

1400, 332 6th Avenue SW
Calgary, Alberta, Canada T2P 0B2

Telephone: (403) 290-2900
Facsimile: (403) 263-8915
www.trilogyenergy.com

AUDITORS

PricewaterhouseCoopers LLP
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
The Toronto-Dominion Bank
Calgary, Alberta

CONSULTING ENGINEERS

Paddock Lindstrom and Associates Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta / Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange - "TET"

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD AT:

Centrium Place - 332 – 6 Avenue SW,
Calgary, Alberta (Mezzanine Level)
Thursday, May 13, 2010
2:00 PM (Calgary Time)