TRILOGY
ENERGY TRUST

2008
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, 2008	**Sept. 30, 2008**	**Change %**	**2008**	**2007**	**Change %**
FINANCIAL						
Petroleum and natural gas sales	**87,621**	125,595	(30)	**465,297**	395,387	18
Funds flow						
From operations[1]	**79,242**	52,905	50	**253,866**	182,756	39
Per unit – diluted	**0.83**	0.55	51	**2.64**	1.96	35
Earnings						
Earnings (loss) before tax	**9,489**	137,302	(94)	**131,684**	19,305	582
Per unit – diluted	**0.10**	1.42	(93)	**1.37**	0.21	552
Earnings (loss) after future income tax	**10,342**	131,085	(92)	**123,353**	(49,750)	348
Per unit – diluted	**0.11**	1.35	(92)	**1.28**	(0.53)	342
Distributions declared	**28,633**	28,932	(1)	**103,530**	105,841	(2)
Per unit	**0.30**	0.30	—	**1.08**	1.14	(5)
Capital expenditures						
Exploration and development	**22,128**	35,733	(38)	**123,721**	101,960	21
Acquisitions, (dispositions) and other - net	**(333)**	1	—	**20,033**	(100,702)	120
Net capital expenditures	**21,795**	35,734	(39)	**143,754**	1,258	—
Total assets	**957,589**	997,882	(4)	**957,589**	928,191	3
Net debt[1]	**299,981**	318,660	(6)	**299,981**	350,415	(14)
Unitholders' equity	**416,097**	435,269	(4)	**416,097**	382,005	9
Trust Units outstanding (thousands)						
- As at end of period	**95,997**	95,940	—	**95,997**	94,609	1
OPERATING						
Production						
Natural gas (MMcf/d)	**96**	97	(1)	**97**	107	(9)
Crude oil and natural gas liquids (Bbl/d)	**4,311**	4,163	4	**4,422**	4,526	(2)
Total production (Boe/d @ 6:1)	**20,289**	20,394	(1)	**20,585**	22,315	(8)
Average prices						
Natural gas (before financial instruments) ($/Mcf)	**7.44**	9.33	(20)	**8.91**	7.16	24
Natural gas ($/Mcf)[2]	**9.29**	8.67	7	**8.96**	7.55	19
Crude oil and natural gas liquids (before financial instruments) ($/Bbl)	**55.50**	109.60	(49)	**92.02**	70.60	30
Crude oil and natural gas liquids ($/Bbl)[2]	**126.64**	95.48	33	**100.97**	68.75	47
Drilling activity (gross)						
Gas	**5**	9	(44)	**46**	52	(12)
Oil	**—**	8	(100)	**14**	7	100
D&A	**1**	—	—	**5**	4	25
Total wells	**6**	17	(65)	**65**	63	3
Success rate	**83%**	100%	—	**92%**	94%	—

(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 20,467 Boe/d
- $51.8 million capital expenditures
- 38 (25.6 net) wells drilled, 92% success rate
- Average operating costs $10.66/Boe

Second Quarter Review

- Average production 21,195 Boe/d
- $14.0 million on capital expenditures excluding acquisitions
- Drilled 3 (3.0 net) wells, 100% success rate
- Closed $20.9 million strategic acquisition of approximately 480 Boe/d in Kaybob area
- Average operating costs $10.75/Boe

Third Quarter Review

- Average production 20,394 Boe/d
- $35.7 million on capital expenditures
- Drilled 17 (10.3 net) wells, 100% success rate
- Average operating costs $12.72/Boe
- Unscheduled plant shut down at Kaybob impacted third and fourth quarter volumes

Fourth Quarter Review

- Average production 20,289 Boe/d
- $22.1 million on capital expenditures
- Drilled 6 (4.0 net) wells, 83% success rate
- Average operating costs $13.08/Boe
- Initial production on first 100% Montney horizontal in South Kaybob

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.

2008 Annual Highlights

- Production averaged 20,585 Boe/d (7.5 MMBoe) for the year
- Added 11.3 MMBoe of proved plus probable reserves (including technical revisions) reflecting adjusted capital expenditures of $122.0 million
- Replaced 151 percent of produced reserves in 2008 on a proved plus probable reserve basis
- All-in finding and development costs (including technical revisions) were $13.68/Boe for total proved reserves and $10.75/Boe for proved plus probable reserves
- All-in finding, development, acquisition and disposition net costs were $15.20/Boe for total proved reserves and $12.00/Boe for proved plus probable reserves
- Increased reserve life index to 9.5 years for proved plus probable reserves as compared to 8.3 years in 2007
- Annual operating netback of $38.25/Boe (including realized gains/losses on financial instruments), resulting in a recycle ratio of 3.6 times for proved plus probable reserves
- Participated in drilling four Montney horizontal wells during the third and fourth quarters, with positive results expected to contribute in 2009

Production

Trilogy's annual production averaged 20,585/d (97.0 MMcf/d of natural gas and 4,422 Bbl/d of crude oil and natural gas liquids) in 2008; this is 7.8 percent below the annual production volume for the prior year. The year over year decline in annual production is primarily the result of the sale of the Marten Creek and Southern Alberta assets in 2007. As well, approximately 300 Boe/d decline in the annual production rate can be attributed to the unscheduled downtime at the Kaybob South No. 3 Gas Plant, which lasted from September 20 through October 9, 2008, shutting in 6,400 Boe/d (26 MMcf/d of natural gas and approximately 2,000 Bbl/d of crude oil and natural gas liquids) while the plant was being repaired.

The following table summarizes the average daily production by Core Operating Area for the past four years.

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

By focusing on its core producing assets in Kaybob and Grande Prairie, Trilogy is able to realize operational efficiencies with existing resources. These areas provide opportunities for Trilogy's operations staff to further develop the technical expertise needed to explore for high deliverability gas wells with multi-zone development potential.

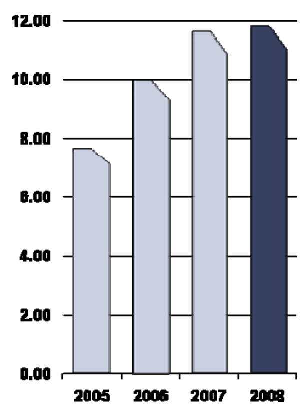
Based on its current portfolio of producing assets and its budgeted drilling program, Trilogy expects to maintain 2009 production levels at approximately the same levels as those reported in 2008 for these assets, subject to any further capital spending reductions. The nature of its assets provides Trilogy with the opportunity to pursue numerous play types, reducing the risk of being exposed to a single type. **Given the weakening in commodity prices, Trilogy plans to focus on maintaining production from its core assets by exploiting its large prospect inventory of high quality, low risk locations.**

Operating Costs

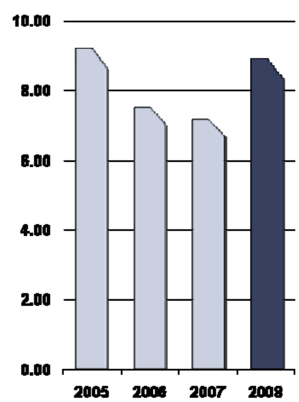
Operating costs in 2008 increased marginally to $11.80/Boe as compared to $11.61/Boe in 2007. This slight increase in operating costs can be partially attributed to the decrease in production due to the plant shut down at K3, which resulted in fixed costs being spread over a smaller production base during the period of time the plant was down.

Operating costs have increased over the past four years as pipeline, compression and processing fees at non-operated facilities have increased. Power costs increased 34 percent, to $90/megawatt hour in 2008 from $67/megawatt hour in 2007; however, power costs are projected to decline in the coming year as costs are linked in part to commodity prices. Trilogy is pursuing cost reduction initiatives in an effort to realign such historically escalating costs. Trilogy believes this low commodity price cycle will assist in reducing its operating, office and other expenditures.

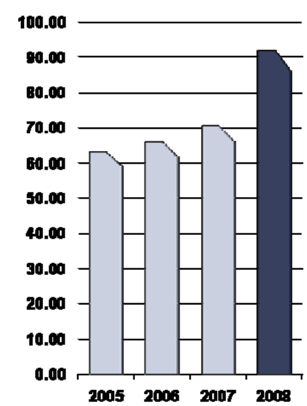
Operating Costs ($/Boe)



Natural Gas Price ($/Mcf)



Oil & NGL Price ($/Bbl)



(Before financial instruments and transportation)

Profitability

Trilogy's average natural gas sales price, before financial instruments and transportation, increased 24 percent, from $7.16/Mcf in 2007 to $8.91/Mcf in 2008 as significantly higher natural gas prices were realized in the first half of the year as compared to 2007. Trilogy is heavily weighted toward natural gas; any change in realized price has a significant impact on cash flow. Operating netback, including realized financial instruments, in 2008 increased 43 percent, to $38.25/Boe as compared to $26.80/Boe in 2007. This increase is attributed primarily to the rise in natural gas prices in the first half of the year. **The gas in Trilogy's operating areas is generally richer in liquid hydrocarbons which contribute to a higher netback due to the high heat content of the natural gas.**

- On a funds flow per Boe basis, the Trust realized a 50 percent increase, from $22.44/Boe in 2007 to $33.70/Boe in 2008.
- The funds flow from operations per diluted unit was up 35 percent, from $1.96/unit in 2007 to $2.64/unit in 2008.
- Annual operating netback of $38.25/Boe (including realized gains/losses on financial instruments), resulting in a recycle ratio of 3.6 times for proved plus probable reserves

Funds Flow Reconciliation	**2008**		**2007**	
Production (Boe/d)	**20,585**		**22,315**	
	$ million	**$/Boe**	**$ million**	**$/Boe**
Gross revenue including other income and realized financial instruments	489.0	64.90	407.8	50.06
Operating cost	(88.9)	(11.80)	(94.6)	(11.61)
Transportation	(14.1)	(1.87)	(15.6)	(1.91)
Royalties	(92.4)	(12.26)	(78.1)	(9.59)
Asset retirement expenditure	(5.4)	(0.72)	(1.2)	(0.15)
Operating Netback	**288.2**	**38.25**	**218.3**	**26.80**
General and administrative expenses	(19.3)	(2.56)	(12.3)	(1.51)
Interest	(15.0)	(1.99)	(22.2)	(2.73)
Lease rentals	-	-	(1.0)	(0.11)
Funds flow	**253.9**	**33.70**	**182.8**	**22.44**
Weighted average Trust Units outstanding for the year (fully diluted)	96,089		93,050	
Funds flow per Unit ($/unit)	**2.64**		**1.96**	

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

Capital Expenditures

Annual capital expenditures were originally budgeted to be $100 million (including land and corporate expenditures) for 2008. As commodity prices increased through the first and second quarters, Trilogy responded by increasing capital spending plans and monthly distributions. Actual capital expenditures totaled $123.7 million for the year excluding acquisitions and dispositions. The increase in actual versus budgeted expenditures occurred mainly in three areas:

- Trilogy's deep basin wells were subject to increasing cost pressures related to drilling, completing and tieing in services given the significant demand for the equipment required to do these operations in the first half of the year. These cost pressures declined through the second half of the year and by the end of the fourth quarter material savings were being realized.

- Higher utilization of horizontal drilling and completion equipment to exploit tight gas reservoirs in Trilogy's core operating areas increased costs. Trilogy has been monitoring industry activity as it relates to the development and application of this technology and as a result participated in the drilling of four horizontal Montney wells during the year. Increased costs, and benefits, associated with drilling and completing horizontal wells have inflated the average costs on a per well basis as compared to the average costs associated with drilling using conventional methods. Horizontal wells may prove to be the best method to exploit reserves in certain reservoirs and Trilogy will continue to selectively apply horizontal drilling where appropriate.

- Third party joint operations were significantly higher in 2008 than originally budgeted based on prior year activity. As a result, Trilogy participated in a number of high quality joint operations which increased capital beyond the budgeted amount.

Trilogy continues to work with its partners to reduce the amount of capital invested in pipeline infrastructure and facilities so that more capital may be allocated to drilling and completion operations. By drilling directional and horizontal wells, Trilogy is able to use existing roads and surface leases, reduce tie in costs and reduce the environmental footprint. Current economic conditions will challenge Trilogy's ability to replace produced reserves and maintain production with less capital in 2009. **Given Trilogy's high quality asset base and staff, we will continue to focus on exploiting the assets that provide the highest rate of return in order to maximize cash flow to its investors.** An increasing emphasis on accountability for controlling costs and reducing exposure to high risk prospects is expected to ensure operations remain competitive without eroding Trilogy's balance sheet.

Capital Expenditures (thousands of dollars)	**2008**	**2007**
Land	**3.1**	4.4
Geological and geophysical	**1.1**	2.2
Drilling and Completion	**85.4**	63.6
Production equipment, facilities and inventory	**34.0**	25.5
Corporate office	**0.1**	6.2
Exploration and development expenditures	**123.7**	**101.9**
Property acquisitions	**20.6**	-
Proceeds received on property dispositions	**-0.6**	-100.7
Net capital expenditures	**143.7**	**1.2**

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

Acquisitions and Dispositions

In 2008 Trilogy acquired the Kaybob assets of a private company for $20.6 million after final adjustments. The acquisition added approximately 480 Boe/d of production over the last seven months of the year and 280 Boe/d to Trilogy's annual production rate. The acquisition was strategic, as it provided approximately 31,000 net acres of undeveloped land and 5,000 net acres of developed acreage in areas that Trilogy has identified as additional development locations. These locations will be added to Trilogy's extensive prospect inventory. Proved plus probable reserves at the acquisition date totaled 0.5 MBoe, with additional potential to come from drilling, adding compression and reducing operating costs.

Proceeds of $0.6 million were received through minor asset sales of properties in the Grande Prairie area, where Trilogy did not see any additional upside or development opportunities.

Drilling Activity

Trilogy participated in the drilling of 65 (43.7 net) wells during 2008, as compared to 63 (39.1 net) wells in the previous year, with an overall success rate of 92 percent (90 percent net) for the year. The high drilling success rate in the Kaybob and Grande Prairie areas supports Trilogy's drilling strategy of exploiting the large tight-gas resource potential on its lands as well as the conventional oil and gas formations that have multi-zone development potential. 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 maintaining current production levels, while replacing produced reserves in the years to come.

Drilling Results	Development		Exploration	
	Gross	Net	Gross	Net
Gas	33	20.9	13	8.7
Oil	13	9.6	1	0.3
D&A	4	3.7	1	0.5
Total All Wells	**50**	**34.2**	**15**	**9.5**
Success (%)	**92**	**89**	**100**	**100**

In 2009, Trilogy plans to continue to develop play types similar to those drilled in 2008, as well as to identify and pursue other formations that may provide similar exploitation opportunities. 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.**

Core Operating Areas

Since inception as a Trust, Trilogy's strategy has been to maintain a high working interest in concentrated core assets with multi-zone development potential in order to control costs, risks and to maintain operational control over the assets. Selective acquisitions and dispositions of properties in the past few years have been aligned with this strategy. During this period of commodity price volatility and economic uncertainty, we expect this approach will benefit Trilogy significantly. **Trilogy's success is dependent upon several factors, including but not limited to commodity prices, its ability to maintain production at current rates and its efficiency in developing and operating its assets.**

Kaybob

The Kaybob area accounted for approximately 90 percent of Trilogy's production and 84 percent of capital expenditures in 2008. This area will continue to be the focus of 2009 spending plans given Trilogy has amassed a large portfolio of high quality drilling prospects which it believes will provide the Trust with the best opportunities to replace annual production declines and produced reserves at the lowest cost, and where a significant portion of the production is under Trilogy's operational control.

For the year, Trilogy produced 18,570 Boe/d in the Kaybob area as compared to 19,565 Boe/d of production in 2007. The 995 Boe/d decline in reported annual production is attributed primarily to the sale of the Southern Alberta assets, which had been included in previously reported Kaybob volumes, and the unscheduled K3 plant shut down, partially offset by the production that was acquired in late May. The balance of the production decline was the result of cold weather related problems and surface access restrictions.

Trilogy's 2008 capital spending in the Kaybob area totaled $103 million for the year as compared to budget of $85 million. This increase is mainly due to the rising cost of services to drill, complete and tie in wells during the first half of the year, the added costs of drilling deeper wells and the costs associated with drilling directional and horizontal wells. In addition, an increase in third party initiatives to drill and complete operations during the year necessitated additional spending in order for Trilogy to participate in the operations considered to be economic and important for future production/property gains. The added cost of drilling directional wells reduces tie-in costs and the incremental cost to drill horizontal wells was offset by an increase in production and reserve assignment. To a certain extent, the decrease in costs relating to these services in the latter half of 2008 is expected to mitigate the results of the reduction in the Trust's capital spending plans in response to the decline in commodity prices.

In 2008, Trilogy participated in the drilling of four (2.4 net) Montney horizontal wells in the Kaybob area of Alberta. Of the four wells, two (2.0 net) are operated by Trilogy and the remaining two (0.4 net) wells are operated by a joint venture partner. The four (2.4 net) wells were producing at a combined rate of 8.8 MMcf/d (6.8 MMcf/d net) in January 2009. The first Trilogy operated well was rig released on November 11, 2008 and was flow tested on November 18, 2008 at rates reaching 10.3 MMcf/d at wellhead tubing pressures of 12.6 Mpa. The second Trilogy operated well was completed December 30, 2008 and flowed at test rates of 7 MMcf/d at 10.4 Mpa. These Trilogy operated wells were placed on production at initial production rates of 5-8 MMcf/d. It is anticipated that the wells will produce at approximately 50 percent of the initial flow rate after 3 to 6 months of production. The natural gas flows to Trilogy owned and operated compression facilities at Kaybob and is then processed at the Kaybob South No. 3 Gas Plant.

Trilogy has four (4.0 net) horizontal Montney development wells planned for the Kaybob area in the first quarter of 2009 and two to four additional horizontal wells planned for the balance of the year. Trilogy has completed drilling and completion operations on the first two wells. The first well was rig released February 3, 2009, and was flow tested February 12, 2009 at a test rate of 8.7 MMcf/d at 14.3 Mpa. The second well was rig released February 7, 2009 and was flow tested February 14, 2009 at a test rate of 7.5 MMcf/d at 12.4 Mpa flowing pressure. The remaining two wells in the program were spud February 8 and 11, 2009, and should be finished drilling in early March with completion and tie-in operations to follow. The first quarter drilling program is expected to fill Trilogy's existing compression to capacity. Trilogy will be installing a fourth compressor at this site by the end of April to increase the compression capacity from this area to 34 – 40 MMcf/d, depending on the inlet pressures achieved. Trilogy is evaluating the alternatives of upgrading these compression facilities to facilitate sour gas processing, in an effort to reduce operating fees currently paid to third party processors in the area. Trilogy is also evaluating the feasibility of redirecting this production to an existing Trilogy operated sour gas plant.

Trilogy's Montney drilling program is targeting horizontal wellbore lengths from 900 to 1,500 meters. The wells drilled to date have been completed with seven stage fracture stimulations in the Montney formation. Existing surface leases and pipelines have been utilized in order to minimize the environmental footprint and provide for more efficient operations. Horizontal wells are expected to 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. These costs are approximately double the cost associated with drilling a vertical well to the same reservoir but have the potential to produce two to four times the reserves. The costs associated with drilling and completing horizontal wells should come down as drilling and completion techniques are refined. Regulatory approval to produce up to 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) sections of prospective land in the immediate area. The number of drilling locations Trilogy has available will be determined, in part, by the drilling density to maximize economic recovery. Trilogy continues to evaluate the economics of increasing the downspacing from three to five wells per section over the next few years. Subject to receiving regulatory approval for further downspacing, these parameters would suggest 150 - 250 remaining locations specifically for the Montney formation in this immediate area. No reserves have been recognized from these prospects at December 31, 2008.

Most of the horizontal drilling in the Kaybob area has been focused on the Montney formation; however there are numerous other tight gas reservoirs in the area that may benefit from horizontal drilling. The Nordegg, Bluesky, Falher and Spirit River formations are all typically tight reservoirs and may provide good opportunities for exploitation with horizontal wells. Trilogy will continue to monitor horizontal drilling activity and evaluate these formations for further exploitation.

Trilogy drilled fourteen oil wells in 2008, of which 10 (8.46 net) wells were in the Kaybob area. **Two oil wells in the Simonette area were drilled to approximately 4,000 meters in depth, with the first well producing in excess of 500 Boe/d from the Swan Hills formation and the second well planned for completion in the first quarter of 2009.** The remaining Kaybob oil wells were drilled into existing pools to capture additional reserves. These wells will be evaluated to assist with further pool exploitation when commodity prices improve. Due to declining crude oil prices, the Trust has elected to defer spending on most oil prospects in 2009; Trilogy will revisit these projects to the extent crude oil prices increase.

Trilogy has developed a strategy of exploiting reserves throughout the Kaybob area in order to utilize the entire gathering system, thereby reducing the potential for back-out of existing production that can be caused when new high pressure Mannville and Triassic gas wells are tied in to existing gathering systems. Integration of technical disciplines has allowed Trilogy to carefully plan the development of the existing pools to reduce the risk of over-developing areas. Having a large drilling inventory is expected to allow Trilogy to drill premium projects to maximize production and reserves and also minimize back–out, thereby generating a higher rate of return, and ultimately increasing the value of its assets.

Trilogy completed the construction of a sweet gas plant in the Smoky River (Waskahigan) area in 2008. The plant has 20 MMcf/d of processing capacity with 10 MMcf/d of compression installed. Existing production will be redirected to the new plant in the first quarter of 2009 to realize lower operating costs for the remaining reserves. Trilogy plans to make available any unused compression and processing capacity to third-party producers in the area; fee revenue will reduce unit operating costs for Trilogy gas.

Reducing operating costs on all of Trilogy's operations has become a top priority in 2009. Cost escalation over the past few years has eroded the netback on gas and oil production. The challenging economic conditions will require 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 gas, Trilogy believes it can control how the operating dollars are spent and how such costs can be reduced.

Grande Prairie

Production in the Grande Prairie area increased 7 percent from 1,889 Boe/d in 2007 to 2,015 Boe/d in 2008. The increase in production is attributed to the Trust's successful drilling program in 2008. The Trust remains challenged by limited access to non-operated facilities; however, it has invested capital in pipelines and compression to transport its natural gas to central processing facilities.

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. The lands that have been acquired have multi-zone potential from the Doe Creek to the Montney formation. Trilogy will be evaluating all capital expenditures to ensure that any resulting production does not get stranded due to compression or processing constraints.

Land

Trilogy spent $3.1 million in 2008 to acquire 22,392 net acres at Crown land sales, bringing the 2008 total to 651,340 net acres of land, 63 percent (409,809 acres) of which is considered undeveloped. Trilogy's undeveloped acreage (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 development potential that is not reflected in this report based on additional drilling on the developed acreage. Trilogy has proven that it will take more than one well per section to adequately develop the land base and capture the remaining reserves. As a result, Trilogy will continue to develop this acreage to add value to its Unitholders.

Approximately 70 percent of the Crown lands purchased in 2008 were in the Kaybob area and are relatively close to the Trust's recent drilling successes and facility additions; 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 the Trust 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	364,881	241,531
Undeveloped land	517,254	409,809
Total	**882,135**	**651,340**
Fair market value of undeveloped land (thousand dollars)		**$77,596**

The value of Trilogy's undeveloped land base has increased from $66.9 million in 2007 to $77.6 million in 2008. The undeveloped acreage total has declined by 3,445 net acres due to the expiry of undeveloped Crown acreage and the categorization of lands from undeveloped to developed as a result of Trilogy's ongoing operations.

Reserves

The following is a summary of Trilogy's 2008 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 increased 13 percent from $1,155 million at the end of 2007 to $1,306 million at the end of 2008. Trilogy's proved plus probable natural gas reserves have increased 5.0 percent, from 304.7 Bcf at the end of 2007 to 319.8 Bcf at the end of 2008. Proved plus probable crude oil reserves have increased 8.9 percent from 8,837.3 MBbl at the end of 2007 to 9,619.5 MBbl at the end of 2008. Natural gas liquids also increased 12.9 percent from 7,656.3 MBbl at the end of 2007 to 8,647.0 MBbl at the end of 2008.

Trilogy continues to consider the proved plus probable reserve base to be an indicative representation of Trilogy's reserve potential. Most of the probable reserves are developed or would require minimal capital to become developed. Reserves can change from probable to proved by changing the decline rate for producing wells or by adding compression to increase reserve recoveries by reducing the well abandonment pressure.

The following table summarizes Trilogy's gross reserves (before royalties and tax) and reserves value for the year ended December 31, 2008 using forecast prices and costs.

Reserve Category	Natural Gas	Crude Oil	Natural Gas Liquid	Boe	Before tax Net Present Value of Future Net Revenue ($millions)		
	BCF	MBbl	MBbl	MBoe	0%	5%	10%
Proved							
Developed Producing	195.2	5334.1	5330.0	43196.7	1556.0	1143.0	910.9
Developed Non-Producing	21.9	789.5	652.1	5094.2	172.7	121.1	91.0
Undeveloped	3.2	0.0	39.6	569.4	23.9	12.6	7.6
Total Proved	220.3	6123.6	6021.6	48860.4	1752.6	1276.7	1009.6
Probable	99.5	3495.9	2625.4	22712.7	951.1	481.1	296.6
Total Proved plus Probable	**319.8**	**9619.5**	**8647.0**	**71573.1**	**2703.7**	**1757.8**	**1306.1**

Notes

i) Columns and rows may not add due to rounding

ii) Reserve values were determined by Paddock Lindstrom as of December 31, 2008, 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, 2009, have not been valued by Paddock Lindstrom.

2008 Year-end Reserve Reconciliation

Total proved reserves were 48,860 MBoe and proved plus probable reserves were 71,573 MBoe as of December 31, 2008, which are increases of 4.1 percent and 6.4 percent respectively as compared to the reserves that were reported at the 2007 year end.

The following table sets forth the reconciliation of Trilogy's gross reserves for the year ended December 31, 2008 using forecast prices and costs:

	Total Proved Reserves				Probable Reserves				Total P+P Reserves			
	Oil	Gas	NGL	BOE	Oil	Gas	NGL	BOE	Oil	Gas	NGL	BOE
	MBbl	Bcf	MBbl	MBoe	MBbl	Bcf	MBbl	MBoe	MBbl	Bcf	MBbl	MBoe
Dec. 31, 2007	5864	213	5499	46944	2973	91	2158	20334	8837	305	7656	67278
2008 Production	-735	-35	-883	-7534	0	0	0	0	-735	-35	-883	-7534
Tech. Revisions	208	14	868	3383	27	-1	262	71	234	13	1129	3454
Reserve Additions	797	26	500	5651	501	9	193	2239	1298	35	693	7890
Acquisition	0	2	35	352	0	1	16	152	0	3	51	504
Divestments	-10	0	0	-10	-5	0	0	-5	-15	0	0	-15
Transfer	0	0	3	74	0	0	-3	-74	0	0	0	0
Econ. Factors	0	0	0	0	0	0	0	-4	0	0	0	-4
Dec. 31, 2008	**6124**	**220**	**6022**	**48860**	**3496**	**100**	**2625**	**22713**	**9619**	**320**	**8647**	**71573**

Note

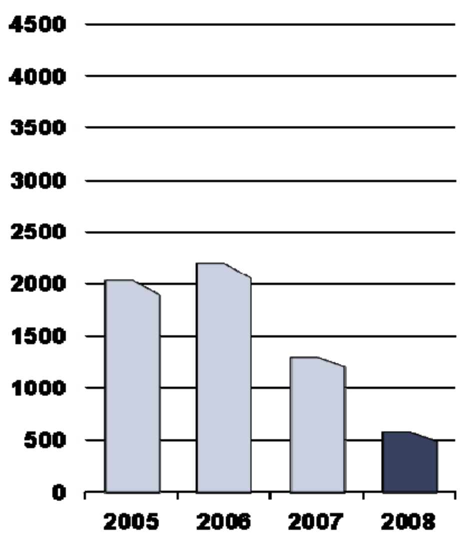
i) Columns and rows may not add due to rounding

Reserve Replacement

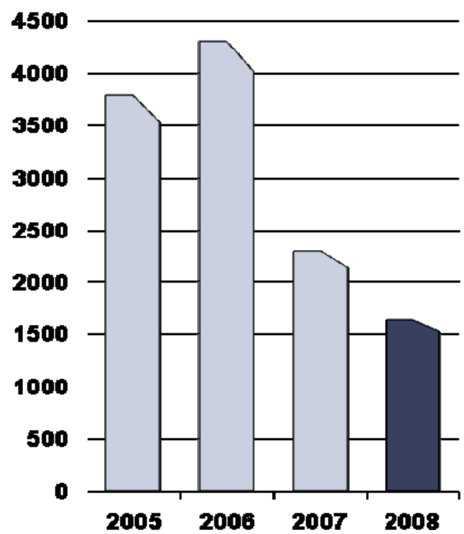
Trilogy produced 7,534 MBoe of reserves in 2008 (20,585 Boe/d, unaudited) and, through a successful drilling, completion and workover program, added a total of 9,034 MBoe of proved reserves and 11,344 MBoe of proved plus probable reserves resulting from technical revisions and new additions related to capital investment. **Based on a total proved comparison, this is a 120 percent replacement of produced reserves and a 151 percent replacement of proved plus probable reserves.** The strategy Trilogy has employed since inception has been to replace produced reserves at competitive finding and development costs. Trilogy's 2008 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.

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 declined from 1,285 MBoe at the end of 2007 to 569 MBoe at the end of 2008**. The decrease is attributed to Trilogy performing the necessary work to enable such reserves' reclassification to the developed category. Proved Undeveloped reserves represent 1.2 percent of Total Proved reserves.

Proved Undeveloped Reserves



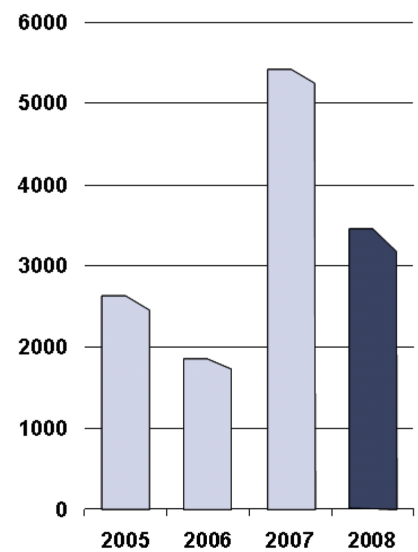
Proved Plus Probable Undeveloped Reserves



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 the 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 with time and will typically produce more reserves than expected when the well is first evaluated. As a result, it may take up to three years for a well's total reserve to be accurately assigned. Trilogy has been evaluating all of the producing assets to ensure that there is a thorough understanding of the reservoir and the production capabilities.

Technical Revisions (MBoe)

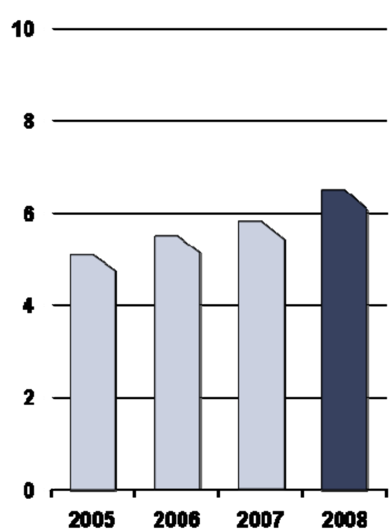


In 2007, technical revisions were higher than other years as a result of the workover and optimization of the Simonette oil pools resulting in positive technical revisions of 2,233 MBoe of proved reserves and 3,286 MBoe of proved plus probable reserves.

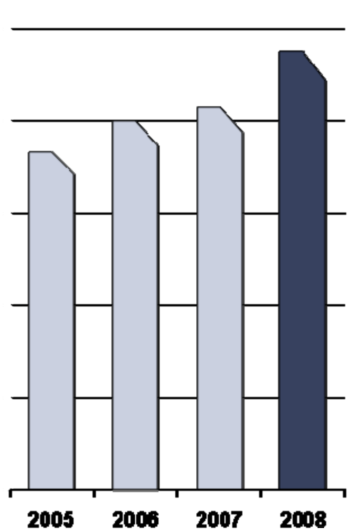
Reserves Life Index

Trilogy's Reserve Life Index (RLI) has increased from 8.3 years at the end of 2007 to 9.5 years at the end of 2008 for Total Proved plus Probable reserves. For Total Proved reserves, the RLI has increased from 5.8 years to 6.5 years for the same period.

Proved Reserves RLI (Years)



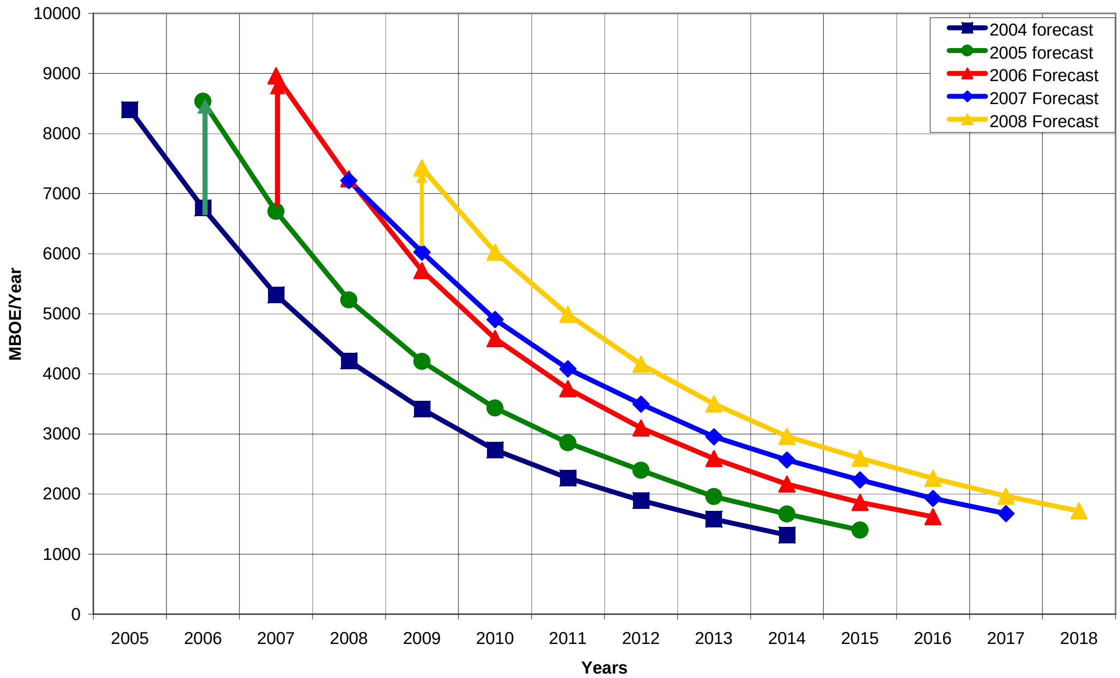
Proved Plus Probable RLI (Years)



Proved Reserve Forecast

The graph below illustrates Trilogy's annual production forecast for Total Proved Reserves from the Reserve Reports for the past five years. Trilogy's annual production forecast increased from inception until 2007 when the annual production forecast declined due to the asset sales in Marten Creek and Southern Alberta. The 2008 production forecast for total proved reserves shows Trilogy is on track for maintaining constant production in 2009.

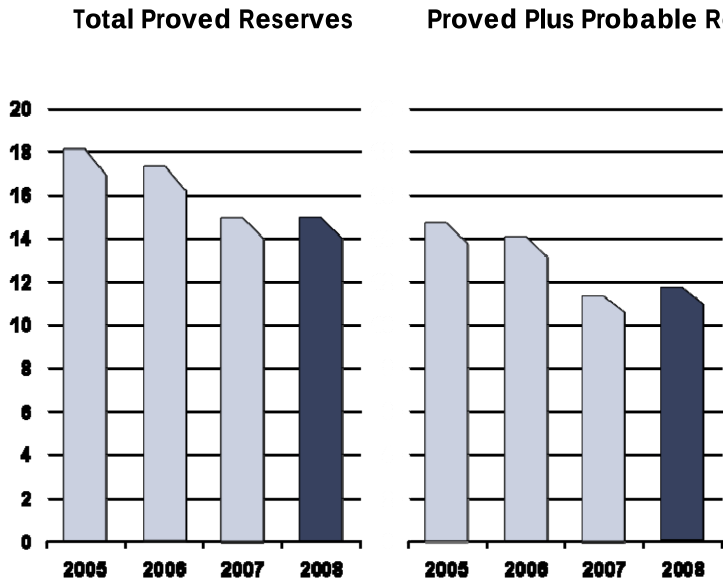
Annual Production Forecasts (Total Proved Reserves, MBoe/year)



Production Decline Rate

Trilogy's production decline rate has improved over the past three years due to the sale of the 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 the Trust's inception. The 2008 reserves report indicates virtually no change in the ten year average base production decline from 2007.

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 asset base. The reserve potential of these lands, both developed and undeveloped, is expected to continue to provide Trilogy with lower cost reserve additions. Trilogy has continued to acquire high quality land in its core area to maintain its prospect inventory, ensuring the Trust has exposure to multiple play types and developing technology.

2008 Working Interest Capital Expenditures		**Change in Future Capital Expenditures**		**Total F&D Capital**	
(millions of dollars)	**2008 Capital**	**Proved**	**P+P**	**Proved**	**P+P**
Land	3.1			3.1	3.1
Geological and geophysical	1.0			1.0	1.0
Drilling and completion	85.5	0.0	-1.6	85.5	83.9
Production equipment, facilities and inventory	34.0			34.0	34.0
Total capital expenditures	**123.6**	**0.0**	**-1.6**	**123.6**	**122.0**

Trilogy's finding and development costs for reserve additions were calculated to be $13.68/Boe for proven reserves and $10.75/Boe for proven plus probable reserves for the year ended December 31, 2008, as compared to $10.47/Boe for proven reserves and $8.31/Boe for proven plus probable reserves for the year ended December 31, 2007.

2008 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	123.6	9,034	13.68	122.0	11,344	10.75

Including the cost of acquisitions and divestments Trilogy's all in finding and development costs increased to $15.20/Boe for proven reserves and $12.00/Boe for proven plus probable reserves for the year ended December 31, 2008.

2008 FD&A 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, revisions, acquisitions and dispositions	143.6	9,450	15.20	142.20	11,829	12.00

Finding and development costs when calculated over the three-year period ended December 31, 2008 were $14.13/Boe for proven reserves and $12.04/Boe for proven plus probable reserves. These numbers illustrate some consistency in the cost of finding and developing the reserves from Trilogy's land base. Calculating finding and development costs over a longer period reduces the effect of spending capital in one year and booking 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	386.5	27349	14.13	378.4	31441	12.04

Pre-Tax Net Asset Value

Net (Appraised) Asset Value Before Tax (millions of dollars as at December 31, 2008)	NPV @ 5%	NPV @ 10%
Proved plus probable reserve value (1)	1,757.8	1,306.1
Undeveloped Land Value (2)	77.6	77.6
Seismic value (3)	26.1	26.1
Inventory (3)	9.5	9.5
Total petroleum and natural gas assets	1,871.0	1,419.3
Net debt (4)	299.9	299.9
Net (appraised) asset value	**1,571.1**	**1,119.4**
Trust Units outstanding at December 31, 2008 (Fully Diluted)	**96,861,646**	
Net (appraised) asset value per unit at December 31, 2008	**$16.22**	**$11.56**

(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, 2008, 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.

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

Commodity Price Forecast

Paddock Lindstrom & Associates Ltd.
December 31, 2008 Price Forecast

Year	WTI @ Cushing	Edm. Ref. Price	Henry HUB	AECO C	CDN/US Exchange Rate
	$US/Bbl	$C/Bbl	US$/MMBTU	C$/MMBTU	
2009	60.00	70.18	6.75	7.24	0.840
2010	67.50	77.21	7.50	7.90	0.860
2011	75.00	83.93	8.00	8.26	0.880
2012	82.50	90.34	8.50	8.60	0.900
2013	90.00	98.65	9.00	9.13	0.900
Next 5 years avg.	95.55	104.73	9.68	9.84	0.900

Note
i) All prices escalated at 2% per year after 2018

Royalties

Trilogy's royalty rate for the past two years has been relatively consistent at 20 percent. Crown royalties were 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 gas cost allowance credits can impact the overall rate. However, in 2009 the oil and gas industry in Alberta is in for some significant changes in how Crown royalties will be calculated to ensure that "Albertans get their fair share".

The New Royalty Framework ("NRF") will be calculated based on commodity price, rate and depth for each well. As an example: a 2,000 meter well with natural gas prices at $7.00/Mcf and natural gas sales of 500 Mcf/d would be subject to a 30 percent royalty rate, which is 50 percent higher than our current Corporate royalty rate.

In conjunction with Alberta's adoption of the NRF, to be in effect on January 1, 2009, the Government of Alberta announced a Transitional Royalty Rate ("TRR"), which allows oil and gas producers a one-time option of selecting the TRR or the NRF when drilling a new natural gas well or conventional oil well between 1,000 to 3,500 meters in depth. The TRR is in effect from November 19, 2008 until December 31, 2013. This option provides Trilogy with some flexibility to manage the impact of royalties on our new wells. After 2013, all wells will be subject to the NRF.

Staffing

In 2008, Trilogy continued to utilize limited services from Paramount Resources ("Paramount") under the Services Agreement ("SA") entered into with Paramount when the Trust was formed in April of 2005. In 2008, these services consisted mainly of gas marketing services provided by Paramount staff. The SA has been extended to March 31, 2009 and it is anticipated that it will be further extended to March 31, 2010.

As of December 31, 2008, Trilogy employed 227 full time and contract employees; this includes 84 full time office staff plus 10 contract employees. In the field Trilogy employs 70 full time and 63 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 the Trust'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. As well, our performance is measured through "Stewardship Benchmarking" with members of the Canadian Association of Petroleum Producers (CAPP).

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 and industry 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. Through "Stewardship Benchmarking", our environmental performance is also measured with members of CAPP. 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 Ltd., the Administrator of Trilogy Energy Trust, 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 the business of the Trust. The Board's fundamental objectives are to preserve and enhance long-term Unitholder 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 Trilogy's senior management as stewards of the Trust.

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 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 5, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Trust ("Trilogy" or the "Trust") as at and for the year ended December 31, 2008, and should be read in conjunction with the Trust's consolidated financial statements and related notes for the years ended December 31, 2008 and 2007 and MD&A for the year ended December 31, 2007. 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 3, 2009.

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.

Trilogy continues to focus on maximization of long-term value to Trilogy Unitholders by developing its extensive inventory of assets at a pace that provides sustainability through the 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 Trust's approach to managing price volatility, its ability to maintain desired levels of production, its efficiency in developing and operating properties and its ability to control costs. The Trust'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)	2008	2007	2006
Average production (Boe/d)	**20,585**	22,315	24,691
Natural gas production	**79%**	80%	80%
Average realized prices (before financial instruments):			
Natural gas ($/Mcf)	**8.91**	7.16	7.52
Oil and natural gas liquids ($/Boe)	**92.02**	70.60	65.93
Average realized prices (after financial instruments):			
Natural gas ($/Mcf)	**8.96**	7.55	8.67
Oil and natural gas liquids ($/Boe)	**100.97**	68.75	65.91
Average operating cost ($/Boe)	**11.80**	11.61	9.97
Earnings before income tax	**131,684**	19,305	140,863
Per diluted Trust Unit ($/Trust Unit)	**1.37**	0.21	1.56
Cash flow from operations	**243,520**	196,353	259,858
Per diluted Trust Unit ($/Trust Unit)	**2.53**	2.11	2.88
Distributions declared	**103,530**	105,841	224,678
Per Trust Unit ($/Trust Unit)	**1.08**	1.14	2.48
Exploration and development expenditures (excluding acquisitions)	**123,721**	95,739	170,151
Finding and development cost (including technical revisions):			
Proved ($/Boe)	**13.68**	10.47	17.63
Proved plus probable ($/Boe)	**10.75**	8.31	16.93

BUSINESS ENVIRONMENT

2008 was a challenging year for Trilogy and the oil and gas industry as a whole. The year was marked by extraordinary volatility in commodity prices and exchange rates. The first half of the year was characterized by a robust outlook for continued development of unconventional oil and natural gas resources due to the steady upward trend in energy commodity prices through the first half of 2008.

The effects of the economic instability in the United States were felt in the oil and gas industry during the second half of 2008 resulting in a year that ended with significantly lower commodity prices and numerous announcements of reduced capital spending forecast for 2009 and delays or cancellations of major projects. Trilogy's approach to manage the impact of the economic downturn and its direct effects has been to preserve its financial flexibility by reducing the level of its distribution to unitholders (see Subsequent Events section below), and continuing its emphasis on reducing its cost structure. In addition, Trilogy is taking necessary steps to reduce the current level of its capital and operating costs. These costs, which have increased over the last few years as a result of high demand for commodities and services, are anticipated to decline with a corresponding decline in demand for such commodities and services.

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

	2008	2007	2006
Crude Oil			
West Texas Intermediate monthly average (U.S.$/Bbl)	**99.65**	72.34	66.22
Natural gas			
NYMEX (Henry Hub Close) monthly average (U.S.$/MMBtu)	**9.03**	6.86	7.23
AECO monthly average (Cdn$/GJ)	**7.71**	6.26	6.62
Canadian – U.S. Dollar Yearend Closing Exchange Rate (Cdn$/U.S.$)	**1.22**	0.99	1.17

HIGHLIGHTS

- Funds flow from operations increased to $79.2 million during the fourth quarter of 2008 as compared to $52.9 million for the previous quarter, primarily as a result of higher realized gains on financial instruments and lower royalties, partially offset by decreased revenue as a result of lower commodity prices. The year-to-date funds flow from operations totaled $253.9 million in 2008, a 39 percent increase from the previous year principally attributable to higher commodity prices during the first half of 2008 and the abovementioned increase in realized gains on financial instruments.
- Reported sales volumes for the fourth quarter of 2008 averaged 20,289 Boe/d as compared to 20,394 Boe/d for the previous quarter. On a full year basis, average sales volumes were lower at 20,585 Boe/d in 2008 as compared to 22,315 Boe/d in 2007 mainly due to property dispositions during 2007.
- Distributions declared to Unitholders for the fourth quarter of 2008 were $28.6 million or 41 percent of cash flow from operations ($103.5 million for year-to-date 2008 or 43 percent of cash flow from operations).
- Capital expenditures (excluding acquisitions and dispositions) totaled $22.1 million for the fourth quarter of 2008 bringing the year-to-date capital spending to $123.7 million for 2008, as compared to $102.0 million for 2007.
- Finding and development costs of proved and probable reserves (including technical revisions) for 2008 were higher at $10.75/Boe as compared to $8.31/Boe in 2007.
- Trilogy acquired certain petroleum and natural gas assets in the Kaybob area on May 27, 2008 for approximately $20.4 million, after adjustments. The acquired assets have added production of approximately 480 Boe/d from the acquisition date to the end of 2008.
- The fourth quarter income before tax of $9.5 million was down from the $137.3 million income before tax posted in the third quarter mainly due to the lower unrealized gain on financial instruments, lower commodity prices and asset impairment write-down, offset by a higher realized gain on financial instruments and lower royalties. Earnings before income tax for the year 2008 increased to $131.7 million from $19.3 million in 2007.
- Trilogy purchased and cancelled 4,771,579 Trust Units in 2008 for a total cost of approximately $35.0 million under its normal course issuer bid program through the facilities of the Toronto Stock Exchange.

SUBSEQUENT EVENTS

Holders of 59,151,849 Trust Units have reinvested their December distributions totaling $5.9 million through Trilogy's distribution reinvestment program resulting in the issuance of additional 1,023,618 Trust Units on January 15, 2009.

On January 20, 2009, Trilogy announced its cash distribution for January 2009 at $0.05 per Trust Unit. The distribution was paid on February 17, 2009 to Unitholders of record on February 2, 2009. Holders of 60,143,617 Trust Units have reinvested their January distributions totaling $3.0 million through Trilogy's distribution reinvestment program resulting in the issuance of additional 616,946 Trust Units on February 17, 2009.

On February 17, 2009, Trilogy also announced that its cash distribution for February 2009 will be $0.05 per Trust Unit. The distribution is payable on March 16, 2009 to Unitholders of record on March 2, 2009.

RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	Three Months Ended Dec. 31, 2008	Three Months Ended Sept. 30, 2008	Years Ended Dec. 31, 2008	Years Ended Dec. 31, 2007
Operating income(1)	**45,470**	71,858	**269,907**	207,193
Other income	**934**	2,369	**7,664**	195
Realized financial instruments(2)	**44,580**	(11,321)	**16,020**	12,179
General and administrative expenses(3)	**(6,847)**	(5,628)	**(19,281)**	(12,311)
Interest and financing charges	**(3,185)**	(3,592)	**(15,003)**	(22,219)
Exploration expenditures(3)	**(1,710)**	(781)	**(5,441)**	(2,281)
Funds flow from operations(1)	**79,242**	52,905	**253,866**	182,756
Non-cash operating items:				
Depletion and depreciation	**(53,420)**	(29,934)	**(141,660)**	(123,705)
Unrealized financial instruments(2)	**(12,509)**	109,158	**29,150**	(25,387)
General and administrative recovery	**3,255**	5,888	**433**	92
Exploration expenditures(4)	**(5,542)**	553	**(5,174)**	(8,637)
Gain (loss) on disposition of property, plant and equipment	**(114)**	27	**441**	(1,223)
Accretion on asset retirement obligations	**(1,423)**	(1,295)	**(5,372)**	(4,591)
Future income tax (expense) recovery(5)	**853**	(6,217)	**(8,331)**	(69,055)
Net earnings (loss)	**10,342**	131,085	**123,353**	(49,750)

(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, 2008	Three Months Ended Sept. 30, 2008	Years Ended Dec. 31, 2008	Years Ended Dec. 31, 2007
Gross revenue before financial instruments(1)	**45.50**	66.43	**60.90**	46.65
Royalties	**(7.56)**	(14.15)	**(12.26)**	(9.59)
Operating costs	**(13.08)**	(12.72)	**(11.80)**	(11.61)
Asset retirement obligation expenditures	**(0.92)**	(0.42)	**(0.72)**	(0.27)
General and administrative expenses(2)	**(3.67)**	(3.00)	**(2.56)**	(1.51)
Interest and financing charges	**(1.71)**	(1.91)	**(1.99)**	(2.73)
Realized gain (loss) on financial instruments	**23.88**	(6.03)	**2.13**	1.50
Funds flow from operations(3)	**42.44**	28.20	**33.70**	22.44
Net change in operating working capital	**(4.89)**	9.12	**(1.37)**	1.67
Cash flow from operating activities	**37.55**	37.32	**32.33**	24.11

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

(2) Excluding non-cash unit and stock-based compensation expense but including the cash paid for the exercises of unit appreciation rights which expired on December 15, 2008.

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

Operating Income Items

Fourth Quarter 2008 vs. Third Quarter 2008 (In thousand dollars except as otherwise indicated)	**Q4 2008**	**Q3 2008**	**Increase (Decrease) Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**95,867**	97,384	(1,517)	(2)
Oil and natural gas liquids (Bbl/d)	**4,311**	4,163	148	4
Total (Boe/d)	**20,289**	20,394	(105)	(1)
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**7.44**	9.33	(1.89)	(20)
Oil and natural gas liquids ($/Bbl)	**55.50**	109.60	(54.10)	(49)
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**9.29**	8.67	0.62	7
Oil and natural gas liquids ($/Bbl)	**126.64**	95.48	31.16	33
Petroleum and natural gas sales before financial instruments:				
Natural gas	**65,608**	83,619	(18,011)	(22)
Oil and natural gas liquids	**22,013**	41,976	(19,963)	(48)
Total petroleum and natural gas sales before financial instruments	**87,621**	125,595	(37,974)	(30)
Royalties	**(14,117)**	(26,543)	(12,426)	(47)
Operating costs	**(24,406)**	(23,872)	534	2
Transportation costs	**(3,628)**	(3,322)	306	9
Operating income[1]	**45,470**	71,858	(26,388)	(37)

[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 $16.9 million due to lower average natural gas prices and $1.1 million due to lower natural gas production. Oil and natural gas liquid sales, before financial instruments, also decreased by $20.8 million as a result of lower average oil and natural gas liquid prices, partially offset by a $0.8 million increase due to slightly higher oil and natural gas liquid production. Fourth quarter production was 711 Boe/d below target as a result of unanticipated operational issues including a plant shutdown and freezing problems in December.

The slowing down of the global economy resulted in a continued decline in energy commodity prices during the second half of 2008 and, accordingly, this has impacted Trilogy's average realized prices. The impact of this decline in commodity prices on Trilogy's cash flow was mitigated by in-the-money financial instruments, some of which were settled in the fourth quarter prior to their scheduled maturity (see Risk Management section below).

Royalties – Royalties decreased in conjunction with the decrease in petroleum and natural gas sales during the fourth quarter. As a percentage of petroleum and natural gas sales, royalties averaged 16 percent for the fourth quarter as compared to 21 percent for the third quarter. The fourth quarter rate was lower than anticipated because of the adjustment for the receipt of gas cost allowance credits and an adjustment for Alberta Royalty Tax Credit relating to prior periods. 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 gas cost allowance credits, impact the overall rate.

Operating Costs – Operating costs increased to $13.08/Boe in the fourth quarter from $12.72/Boe in the previous quarter. The fourth quarter average operating cost per unit of sales volume is $2.08/Boe higher than target as a result of costs associated with various unscheduled repair works during the fourth quarter, lower production volumes and year-end fee adjustments.

Annual 2008 vs. Annual 2007 (In thousand dollars except as otherwise indicated)	**2008**	**2007**	**Increase (Decrease) Value**	**%**
Average sales volumes:				
Natural gas (Mcf/d)	**96,977**	106,733	(9,756)	(9)
Oil and natural gas liquids (Bbl/d)	**4,422**	4,526	(104)	(2)
Total (Boe/d)	**20,585**	22,315	(1,730)	(8)
Average realized prices before financial instruments and transportation:				
Natural gas ($/Mcf)	**8.91**	7.16	1.75	24
Oil and natural gas liquids ($/Bbl)	**92.02**	70.60	21.42	30
Average realized prices after financial instruments but before transportation:				
Natural gas ($/Mcf)	**8.96**	7.55	1.41	19
Oil and natural gas liquids ($/Bbl)	**100.97**	68.75	32.22	47
Petroleum and natural gas sales before financial instruments:				
Natural gas	**316,369**	278,755	37,614	13
Oil and natural gas liquids	**148,928**	116,632	32,296	28
Total petroleum and natural gas sales before financial instruments	**465,297**	395,387	69,910	18
Royalties	**(92,372)**	(78,080)	14,292	18
Operating costs	**(88,879)**	(94,560)	(5,681)	(6)
Transportation costs	**(14,139)**	(15,554)	(1,415)	(9)
Operating income(1)	**269,907**	207,193	62,714	30

(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 $68.4 million due to higher average natural gas prices, partially offset by a decrease of $30.8 million as a result of lower natural gas production. Oil and natural gas liquid sales, before financial instruments, increased by $35.5 million due to higher average oil and natural gas liquid sales prices, partially offset by a decrease of $3.1 million as a result of lower oil and natural gas liquid production. Production decreased in 2008 primarily as a result of the dispositions of the Marten Creek property and certain non-core assets in southern Alberta during 2007. In addition, natural declines and operational issues including a plant shutdown and freezing problems contributed to the decline in production, the impact of which was partially offset by an asset acquisition in the second quarter of 2008. The average annual production for 2008 was below the original target of 21,500 Boe/d partly as a result of operational issues encountered during the fourth quarter of 2008.

Royalties – The increase in royalties is in line with the increase in petroleum and natural gas sales. As a percentage of petroleum and natural gas sales, royalties averaged 20 percent in 2008 and 2007. 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 gas cost allowance credits, impact the overall rate.

Operating Costs – The decrease in operating costs in 2008 is mainly attributable to the decline in production volumes. The average operating cost per unit of production was $11.80 in 2008 as compared to $11.61 in 2007. This was higher than the annual target of $11.00 due to lower production caused by the K3 plant shutdown and weather related downtime which meant that certain costs that remained fixed were spread over lower volumes.

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 have declined significantly in the fourth quarter after reaching record highs in the earlier months of 2008.

Depletion and Depreciation Expense

	Three Months Ended		Years Ended	
	Dec. 31, 2008	**Sept. 30, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
Reported amount (thousand dollars)	**53,420**	29,934	**141,660**	123,705
Expense per sales volume ($/Boe)	**28.62**	15.95	**18.80**	15.19

Depletion and depreciation expense increased in the fourth quarter as compared to the previous quarter mainly due to a $24.1 million property impairment loss recorded during the quarter. The impairment loss recorded in 2007 was lower at $8.1 million resulting in the increase in depletion and depreciation expense in 2008 on a full year basis. 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, 2008	**Sept. 30, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
Expenses before unit-based compensation and recoveries	**7,403**	7,111	**27,684**	25,833
Overhead recoveries	**(3,549)**	(3,512)	**(14,330)**	(13,637)
Expenses after recoveries and before unit-based compensation	**3,854**	3,599	**13,354**	12,196
Unit-based compensation	**(262)**	(3,859)	**5,494**	23
Reported amount	**3,592**	(260)	**18,848**	12,219
Expenses after recoveries and before unit-based compensation per sales volume ($/Boe)	**2.06**	1.92	**1.77**	1.50

General and administrative expenses (after recoveries and before unit-based compensation) were slightly higher during the fourth quarter of 2008 compared to the previous quarter primarily due to higher employee related expenditures.

On a year-to-date basis, general and administrative expenses (after recoveries and before unit-based compensation), both on a total and per unit of sales volume, were higher in 2008 compared to 2007 due primarily to the increase in personnel and office rental costs, partially offset by higher recoveries resulting from increased capital activity.

The fluctuations in unit-based compensation expense are attributable in part to the changes in the periodic revaluation of Trilogy's unit appreciation rights liability in reference to the market price of Trust Units. Unit-based compensation expense also includes the cash paid on exercised unit appreciation rights, and 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 as described in the notes to Trilogy's consolidated financial statements. Trilogy's unit appreciation rights plan expired on December 15, 2008.

Interest and Financing Charges

	Three Months Ended		Years Ended	
	Dec. 31, 2008	**Sept. 30, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
Reported amount (thousand dollars)	**3,185**	3,592	**15,003**	22,219
Expense per sales volume ($/Boe)	**1.71**	1.91	**1.99**	2.73

Interest and financing charges decreased both on a quarter-to-quarter and a year-to-year basis as a result of reduced interest rates and average debt balances.

Exploration Expenditures and Other

	Three Months Ended		Years Ended	
(In thousand dollars)	**Dec. 31, 2008**	**Sept. 30, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
Exploration expenditures	**7,252**	228	**10,615**	10,918
Loss (gain) on disposition of property, plant and equipment	**114**	(27)	**(441)**	1,223
Accretion on asset retirement obligations	**1,423**	1,295	**5,372**	4,591

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, 2008 consolidated financial statements. To a certain extent, these financial risks have been heightened by the impact of the current 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, 2008**	**Sept. 30, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
Realized gain (loss) on financial instruments	**44,580**	(11,321)	**16,020**	12,179
Unrealized gain (loss) on financial instruments	**(12,509)**	109,158	**29,150**	(25,387)
Total gain (loss) on financial instruments	**32,071**	97,837	**45,170**	(13,208)
Realized gain (loss) on financial instruments per Boe ($/Boe)	**23.88**	(6.03)	**2.13**	1.50

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, 2008	Dec. 31, 2007
Net current liabilities (assets)	**(7,424)**	23,919
Long-term debt	**307,405**	326,496
Net debt[1]	**299,981**	350,415
Unitholders' equity	**416,097**	382,005
Total	**716,078**	732,420

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

Working Capital

Working capital increased from a deficiency of $23.9 million as at December 31, 2007 to a $7.4 million surplus as at December 31, 2008 primarily due to the increase in the mark-to-market valuation of financial instruments by $29.2 million.

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 and working capital facility described in the notes to Trilogy's consolidated financial statements.

Trilogy's bank debt outstanding from its revolving credit and working capital facility was $307.8 million (before unamortized discount) as at December 31, 2008. The revolving feature of the Trust's credit facility expires on March 27, 2009, if not extended. Pursuant to the terms of the credit agreement, Trilogy has requested a 364 days extension of the revolving phase. The Trust anticipates the request will be approved and the revolving phase of the credit facility will be extended to March 26, 2010. In the event the revolving period is not extended, the revolving facility would be available for a one year term on a non-revolving basis, at the end of which time amounts drawn down under the facility would be due and payable.

The size of this committed credit facility (at $378 million as of December 31, 2008) is based primarily on the value of Trilogy's producing petroleum and natural gas assets as determined by the lenders.

Contractual Obligations

In addition to the financial contracts disclosed in the consolidated financial statements, the Trust has the following contractual financial obligations as at December 31, 2008:

	Payable in				
(In thousand dollars)	2009	2010 – 2011	2012 – 2013	After 2013	Total
On or partially on balance sheet:					
Long-term debt(1)	—	307,405	—	—	307,405
Asset retirement obligations(2)	5,550	11,435	11,897	153,713	182,595
Off balance sheet:					
Estimated interest on long-term debt(1)	13,833	17,291	—	—	31,124
Pipeline transportation commitments(3)	11,203	21,620	19,540	18,217	70,580
Office premises operating leases(4)	2,185	6,011	6,456	11,298	25,950
Vehicle and other operating leases	978	978	—	—	1,956
Total	33,749	364,740	37,893	183,228	619,610

(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 4.5 percent per annum applied to the outstanding balance of debt as at December 31, 2008.

(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 $9.4 million as at December 31, 2008.

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

Trust Units, Options and Rights

In connection with Trilogy's distribution reinvestment plan ("DRIP"), 6,159,521 Trust Units were issued for the year ended December 31, 2008.

Trilogy Trust had 95,996,646 Trust Units and 97,637,210 Trust Units outstanding as at December 31, 2008 and March 3, 2009, respectively. To the best of Trilogy's knowledge, the foreign ownership level is approximated to be 13 percent at December 31, 2008.

Outstanding unit options issued under Trilogy's unit option plan were 4,765,500 unit options as at December 31, 2008 and 4,720,500 unit options as at March 3, 2009, of which 434,500 unit options and 421,500 unit options were exercisable as at those dates, respectively. All remaining unit appreciation rights were exercised prior to December 15, 2008.

Pursuant to a normal course issuer bid program, Trilogy purchased and cancelled 4,771,579 Trust Units through the facilities of the Toronto Stock Exchange in 2008 for a total cost of approximately $35.0 million.

Distributions

(In thousand dollars except where stated otherwise)	Three Months Ended		Years Ended	
	Dec. 31, 2008	**Sept. 30, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
Funds flow from operations[1]	**79,242**	52,905	**253,866**	182,756
Net changes in operating working capital	**(9,124)**	17,109	**(10,346)**	13,597
Cash flow from operations	**70,118**	70,014	**243,520**	196,353
Net earnings (loss)	**10,342**	131,085	**123,353**	(49,750)
Distributions declared[2]	**28,633**	28,932	**103,530**	105,841
Distributions declared per Trust Unit (in full amount)	**0.30**	0.30	**1.08**	1.14
Excess of cash flow from operations over distributions declared	**41,485**	41,082	**139,990**	90,512
Excess of net earnings over distributions (distributions declared over net loss)	**(18,291)**	102,153	**19,823**	(155,591)

(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. 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.

Trilogy's payout ratio, calculated as the percentage of distributions declared over cash flow from operations, is 41 percent for the year ended December 31, 2008. This is higher than originally anticipated primarily due to a significant decline in commodity prices in the second half of the year despite which Trilogy was able to maintain a healthy position to finance a stable monthly distribution.

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. The significant future income tax expense in 2007 is a one-time non-cash charge representing Trilogy's estimated future income tax liability. Any future income tax adjustment will result principally from changes in the tax pools versus accounting value of Trilogy's assets and liabilities in addition to changes in statutory tax rates. Trilogy will be subject to income tax in 2011 which may alter distribution levels at that time. Also, dry hole costs and depletion and depreciation expense is not an appropriate measure of 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, 2008**	**Sept. 30, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
Land	**439**	1,299	**3,102**	4,383
Geological and geophysical	**620**	159	**1,063**	2,136
Drilling	**14,909**	23,583	**85,487**	63,655
Production equipment and facilities	**6,041**	10,668	**33,991**	25,565
Exploration and development expenditures	**22,009**	35,709	**123,643**	95,739
Proceeds received from property dispositions	**36**	28	**(561)**	(100,702)
Property acquisitions	**(369)**	(27)	**20,594**	—
Corporate assets	**119**	24	**78**	6,221
Net capital expenditures	**21,795**	35,734	**143,754**	1,258

Exploration and development expenditures decreased during the fourth quarter as compared to the previous quarter as a result of fewer wells drilled during the quarter. On a full year basis, capital expenditures (excluding acquisitions) were higher in 2008 as compared to both 2007 and the 2008 guidance of $120 million, mainly as a result of drilling more wells and higher well costs associated with drilling horizontal and directional wells. Fourth quarter capital spending was $4.1 million over target mainly as a result of accelerating 2009 capital projects into late 2008.

The proceeds received from property dispositions relate principally to the sale of the southern Alberta and Marten Creek assets for the year ended December 31, 2007.

Wells Drilled

(Number of wells)	Three Months Ended Dec. 31, 2008		Three Months Ended Sept. 30, 2008		Years Ended Dec. 31, 2008		Years Ended Dec. 31, 2007	
	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
Natural gas	**5**	**3.5**	9	4.5	**46**	**29.6**	52	34.6
Oil	**—**	**—**	8	5.8	**14**	**9.9**	7	3.5
Dry	**1**	**0.5**	—	—	**5**	**4.2**	4	1.0
Total	**6**	**4.0**	17	10.3	**65**	**43.7**	63	39.1

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

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

INCOME TAXES

In 2007, the Government of Canada enacted legislation imposing trust-level income taxes on publicly traded income trusts at a rate comparable to a combined federal and provincial corporate tax rate for the taxation years commencing January 1, 2011. Under this tax legislation, distributions from publicly traded income trusts would be treated effectively as dividends to the trust unitholders and the distribution tax would apply in respect of distributions of income as opposed to returns on capital. Trilogy's effective tax rate on trust legal entities under the legislation is currently anticipated to be 29.5 percent in 2011 and 28 percent for 2012 onward. The effective tax rate of corporate entities under Trilogy is interpreted to be 25 percent.

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

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

As at December 31, 2008, tax pools were estimated to be $148.2 million for tangibles and $171 million for intangibles.

RELATED PARTY TRANSACTIONS

As described in more detail in the notes to the Trust's consolidated financial statements for the year ended December 31, 2008, the following is a summary of the Trust's transactions with related parties:

- Paramount Resources, a wholly-owned subsidiary of Paramount (which owns 23.3 percent of the outstanding Trust Units at December 31, 2008), provides administrative and operating services to the Trust and its subsidiaries, pursuant to an agreement dated April 1, 2005, 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, 2008.

- 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 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

(In thousand dollars except per unit amounts)	**Q4 2007**	**Q3 2007**	**Q2 2007**	**Q1 2007**
Revenue after financial instruments, royalties and other income	71,527	60,521	87,603	84,643
Earnings (loss) before tax	(969)	(7,811)	18,734	9,351
Net earnings (loss)	6,509	(3,483)	(62,127)	9,351
Earnings (loss) per Trust Unit (in full amounts):				
Basic	0.07	(0.04)	(0.67)	0.10
Diluted	0.07	(0.04)	(0.67)	0.10

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 2008 to the fourth quarter of 2008, 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 but increasingly coordinated plans and programs to reduce industrial greenhouse gas emissions as part of the governments' respective climate change management strategies. 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.

On March 10, 2008, the Federal government announced more details to its greenhouse gas emissions regulation under its 'Turning the Corner' plan on climate change, which requires all industrial sectors to reduce their emissions intensity from 2006 levels by 18 percent by 2010, with 2 percent continuous improvements every year thereafter. The government provides various mechanisms for companies to comply with the regulation including reducing emissions by abatement action, obtaining credits for compliance by contributing to a technology fund based on prescribed rates and thresholds, inter-firm trading, offset system and other means as prescribed by the regulation. Trilogy is studying the options available in complying with this regulation. If Trilogy opts to obtain credits by contributing to a technology fund, Trilogy estimates to pay approximately $2.5 million per year from 2010 through 2012 and $3.3 million per year thereafter.

The Alberta government has somewhat similar regulation with that of the Federal government to reduce the intensity of industrial greenhouse gas emissions by 12 percent by March 31, 2008, but it only allows three options in meeting the reduction: improve the energy efficiency of their operations, buy carbon credits in Alberta-based offset system or pay into the Climate Change and Emissions Management Fund for every ton over reduction target. Trilogy has not incurred and does not anticipate incurring material costs relating to this greenhouse gas emissions reduction program as the current emission levels at Trilogy's operated facilities are below the current emission threshold set out under the regulation. There is no guarantee that the current thresholds upon which contributions are based under existing regulations, or the regulations as a whole will not change in the future.

As at December 31, 2008, Trilogy has not recorded any significant costs and liabilities relating to the above regulations, any other environmental protection laws and regulations, or environmental disaster. Trilogy however 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, 2008 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, 2008, Trilogy adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3862 *(Financial Instruments – Disclosures)*, 3863 *(Financial Instruments – Presentation)* and 1535 *(Capital Disclosures)*. The adoption of these new accounting standards did not impact the amounts reported in the Trust's financial statements but it required the Trust to provide additional disclosures relating to financial instruments and the Trust's management of capital.

Future Accounting Changes

On March 11, 2008, the Accounting Standards Board of Canada confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will become Canadian GAAP for publicly accountable enterprises. The impact of this change to Trilogy's future consolidated financial statements is not yet reasonably determinable and estimable at this time.

In conjunction with the transition to IFRS, the CICA 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 handbooks and EIC Abstracts were amended and/or replaced as a consequence of this new standard. CICA HB 3064 is effective for Trilogy January 1, 2009.

IFRS IMPLEMENTATION

Trilogy has established a project charter with a target changeover date of January 1, 2011. Trilogy's IFRS project team includes members of financial management tasked to manage and implement the change, and individual working groups focusing on specific potential issues and potentially affected areas. The team regularly reports to the senior executive management and the Audit Committee. Trilogy personnel involved in the IFRS implementation project have also been attending IFRS training sessions with IFRS experts and industry peers to develop the appropriate knowledge base to accommodate the transition to IFRS.

Trilogy completed a preliminary diagnostic analysis of the differences between international financial reporting standards ("IFRS") and Canadian GAAP that may significantly impact Trilogy. Based on this analysis, Trilogy will be impacted by differences in accounting for impairment of assets, business combination including goodwill, provisions, income taxes and exploration and evaluation assets to a lesser extent. Trilogy is currently studying various exemptions under IFRS to allow Trilogy to adopt certain IFRS on a prospective basis. It is not possible at this time to quantify the impact of the IFRS transition on Trilogy's financial statements or determine the impact of the changeover on accounting systems, disclosure controls and procedures and internal controls over financial reporting.

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, 2008, 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

Forward-looking Statements and Information

Certain statements included in this document constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "goal", "objective", "possible", "probable", "projected", "scheduled", or state that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to statements regarding capital expenditures, business strategy and objectives, net revenue, future production levels, expected impact of lower commodity prices, development plans and the timing thereof, operating and other costs, royalty rates, and expected impact of proposed royalty changes, changes to income tax legislation and environmental legislation affecting the Trust, expected counterparty risk, the merits or anticipated outcome or timing of pending litigation, 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:

- volatile global economic conditions;
- the ability of Trilogy to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of Trilogy to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of Trilogy to obtain financing on acceptable terms;
- the timing and estimate of reversals of temporary differences between assets and liabilities recorded for accounting and tax purposes;
- currency, exchange and interest rates; and
- future oil and gas prices.

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:

- the ability of management to execute its business plan;
- 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;
- 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;
- Trilogy's ability to secure adequate product processing, transmission and transportation;
- Trilogy's ability to enter into or renew leases;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- 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 or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and change to royalty regimes;
- 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 and co-existing with local populations;
- risks associated with existing and potential future law suits and regulatory actions against Trilogy;
- hiring/maintaining staff;
- the impact of market competition; and
- other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

Additional information on these and other factors which could affect the Trust's operations or financial results are included in the Trust's most recent Annual Information Form and in other documents on file with the Canadian Securities regulatory authorities. The forward-looking statements or information contained in this document are made as of the date hereof and Trilogy undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Non-GAAP Measures

In this document, Trilogy uses the terms "funds flow from operations", "operating income" and "net debt", collectively the "Non-GAAP measures", as indicators of Trilogy's financial performance. The Non-GAAP measures do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and, therefore are unlikely to be comparable to similar measures presented by other issuers.

"Funds flow from operations" refers to the cash flow from operating activities before net changes in operating working capital. The most directly comparable measure to "funds flow from operations" calculated in accordance with GAAP is the cash flow from operating activities. "Funds flow from operations" can be reconciled to cash flow from operating activities by adding (deducting) the net change in working capital as shown in the consolidated statements of cash flows.

"Operating income" is equal to petroleum and natural gas sales before financial instruments minus royalties, operating costs, and transportation costs. "Net debt" is calculated as current liabilities minus current assets plus long-term debt and unit-based compensation liability. The components described for "operating income" and "net debt" can be derived directly from Trilogy's consolidated financial statements. Management believes that the Non-GAAP measures provide useful information to investors as indicative measures of performance.

Investors are cautioned that the Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, as set forth above, or other measures of financial performance calculated in accordance with GAAP.

Numerical References

All references in this document are to Canadian Dollars unless otherwise indicated.

The columns on some tables in this document may not add due to rounding.

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

ADDITIONAL INFORMATION

Trilogy is a petroleum and natural gas-focused Canadian energy trust. Trilogy's Trust Units are listed on the Toronto Stock Exchange under the symbol "TET.UN". Additional information about Trilogy, including Trilogy's Annual Information Form, is available at www.sedar.com or at Trilogy's website www.trilogyenergy.com.

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 3, 2009

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

March 3, 2009

To the Unitholders of Trilogy Energy Trust

We have audited the consolidated balance sheets of **Trilogy Energy Trust** as at December 31, 2008 and 2007 and the consolidated statements of earnings (loss) and other comprehensive income, unitholders' equity, and cash flows for each of the years in the two year period ended December 31, 2008. 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, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

TRILOGY ENERGY TRUST

Consolidated Balance Sheets

(In thousand dollars)

	As at December 31, 2008		2007	
ASSETS				
Current Assets				
Accounts receivable *(notes 11, 12 and 14)*	**$**	**55,149**	$	51,603
Financial instruments *(notes 11 and 12)*		**22,187**		—
Prepaid expenses		**826**		656
		78,162		52,259
Property, plant and equipment *(note 5)*		**728,207**		721,756
Future income taxes *(note 16)*		**10,749**		13,705
Goodwill		**140,471**		140,471
	$	**957,589**	$	928,191
LIABILITIES AND UNITHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities *(notes 11, 12 and 14)*	**$**	**61,138**	$	59,500
Distributions payable *(notes 9, 11, 12 and 14)*		**9,600**		6,623
Financial instruments *(notes 11 and 12)*		**—**		6,963
Unit-based compensation liability *(note 10)*		**—**		3,092
		70,738		76,178
Long-term debt *(notes 6, 11 and 12)*		**307,405**		326,496
Asset retirement obligations *(note 7)*		**75,213**		60,752
Future income taxes *(note 16)*		**88,136**		82,760
		470,754		470,008
Unitholders' equity				
Unitholders' capital *(note 8)*		**714,950**		704,100
Contributed surplus *(note 10)*		**8,977**		5,558
Accumulated deficit after distributions		**(307,830)**		(327,653)
		416,097		382,005
	$	**957,589**	$	928,191

Commitments and contingencies *(notes 6, 11 and 15)*

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 Earnings (Loss) and Other Comprehensive Income

(In thousand dollars except as otherwise indicated)

	Years Ended December 31, 2008	2007
Revenue		
Petroleum and natural gas sales	**$ 465,297**	$ 395,387
Realized gain on financial instruments *(notes 11 and 12)*	**16,020**	12,179
Unrealized gain (loss) on financial instruments *(notes 11 and 12)*	**29,150**	(25,387)
Royalties	**(92,372)**	(78,080)
Other income	**7,664**	195
	425,759	304,294
Expenses		
Operating	**88,879**	94,560
Transportation	**14,139**	15,554
General and administrative *(notes 10 and 14)*	**18,848**	12,219
Exploration expenditures	**10,615**	10,918
Loss (gain) on disposition of property, plant and equipment	**(441)**	1,223
Accretion on asset retirement obligations *(note 7)*	**5,372**	4,591
Depletion and depreciation *(note 5)*	**141,660**	123,705
Interest and financing charges	**15,003**	22,219
	294,075	284,989
Earnings before taxes	**131,684**	19,305
Future income taxes *(note 16)*	**8,331**	69,055
Net earnings (loss) / Total comprehensive income (loss)	**$ 123,353**	$ (49,750)
Earnings (loss) per Trust Unit (in full amounts)		
— Basic	**$ 1.29**	$ (0.54)
— Diluted	**$ 1.28**	$ (0.53)
Weighted average Trust Units outstanding (in thousands)		
— Basic	**95,715**	92,832
— Diluted	**96,089**	93,050

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, 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 8 and 9)*	**6,159,521**		**46,597**		**—**		**—**		**46,597**
Distributions declared *(note 9)*	**—**		**—**		**(103,530)**		**—**		**(103,530)**
Normal course issuer bid *(note 8)*	**(4,771,579)**		**(35,747)**		**—**		**762**		**(34,985)**
Unit/stock option recognition *(note 10)*	**—**		**—**		**—**		**2,657**		**2,657**
Closing balance	**95,996,646**	**$**	**714,950**	**$**	**(307,830)**	**$**	**8,977**	**$**	**416,097**

	Year Ended December 31, 2007								
	Outstanding Trust Units		Paid-in Capital		Accumulated Deficit		Contributed Surplus		Unitholders' Equity
Opening balance	92,566,681	$	689,816	$	(172,062)	$	3,100	$	520,854
Net loss for the year	—		—		(49,750)		—		(49,750)
Distribution reinvestment plan *(notes 8 and 9)*	2,042,023		14,284		—		—		14,284
Distributions declared *(note 9)*	—		—		(105,841)		—		(105,841)
Unit/stock option recognition *(note 10)*	—		—		—		2,458		2,458
Closing balance	94,608,704	$	704,100	$	(327,653)	$	5,558	$	382,005

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31	
	2008	**2007**
Operating activities		
Net earnings (loss)	**$ 123,353**	$ (49,750)
Add (deduct) non-cash and other items:		
Depletion and depreciation	**141,660**	123,705
Loss (gain) on disposition of property, plant and equipment	**(441)**	1,223
Exploration expenditures	**10,615**	9,903
Asset retirement obligation expenditures *(note 7)*	**(5,441)**	(1,266)
Accretion on asset retirement obligations *(note 7)*	**5,372**	4,591
Future income tax expense *(note 16)*	**8,331**	69,055
Non-cash general and administrative recovery	**(433)**	(92)
Unrealized loss (gain) on financial instruments *(note 12)*	**(29,150)**	25,387
Net changes in operating working capital	**(10,346)**	13,597
Cash flow from operating activities	**243,520**	196,353
Financing activities		
Credit facilities – draws	**505,530**	377,309
Credit facilities – repayments	**(524,398)**	(465,039)
Distributions to unitholders *(note 9)*	**(53,956)**	(99,745)
Purchase and cancellation of Trust Units under normal course issuer bid	**(34,985)**	—
Cash flow provided by (used in) financing activities	**(107,809)**	(187,475)
Investing activities		
Property, plant and equipment expenditures	**(123,721)**	(101,960)
Property acquisitions	**(20,594)**	—
Proceeds on disposition of property, plant and equipment	**561**	100,702
Change in investing working capital	**8,043**	(7,620)
Cash flow used in investing activities	**(135,711)**	(8,878)
Change in cash / cash, end of year	**$ —**	$ —
Cash interest and financing charges paid	**$ 15,226**	$ 20,837

See accompanying notes to consolidated financial statements.

1. GENERAL

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

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

2. CURRENT ECONOMIC CONDITIONS

The economic recession that commenced in the United States (U.S.) has significantly impacted the global economy. In Canada, the effects of the economic downturn have been felt as evidenced by the loss of investors' confidence, limited access to capital, tight credit controls, an increased unemployment rate and declining commodity prices, among other factors. Canada's Federal government has implemented certain measures designed to help stimulate the economy, including a significant reduction in interest rates.

The significant decline in energy commodity prices has impacted Trilogy's operations, resulting in reductions to cash flow, distributions to unitholders and forecast capital spending, and heightened risks on financial instruments.

It is uncertain how long these current economic conditions will exist or what the future impact on Trilogy will be. These financial statements do not include any adjustments that may be required should Trilogy be adversely impacted by a worsening economic condition in the foreseeable future.

3. ACCOUNTING CHANGES

Change in Accounting Policies

On January 1, 2008, Trilogy adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3862 *(Financial Instruments – Disclosures)*, 3863 *(Financial Instruments – Presentation)* and 1535 *(Capital Disclosures)*. The adoption of these new accounting standards did not impact the amounts reported in the Trust's financial statements but it required the Trust to provide additional disclosures relating to financial instruments (note 11) and the Trust's management of capital (note 13).

Future Accounting Changes

On March 11, 2008, the Accounting Standards Board of Canada confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will become Canadian GAAP for publicly accountable enterprises. The impact of this change to Trilogy's future consolidated financial statements is not yet reasonably determinable and estimable at this time.

In conjunction with the transition to IFRS, the CICA 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 handbooks and EIC Abstracts were amended and/or replaced as a consequence of this new standard. CICA HB 3064 is effective January 1, 2009 for Trilogy but did not impact its financial statements.

4. 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 reversed and 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 terminated 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.

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

Measurement Uncertainty

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

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

5. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	**1,477,303**	**(754,669)**	**722,634**	1,334,534	(619,817)	714,717
Other	**9,038**	**(3,465)**	**5,573**	8,959	(1,920)	7,039
	1,486,341	**(758,134)**	**728,207**	1,343,493	(621,737)	721,756

Capital costs associated with non-producing petroleum and natural gas properties totaling approximately $112.5 million as at December 31, 2008 (2007 - $125.6 million) were not subject to depletion. No interest costs were capitalized for the years ended December 31, 2008 and 2007.

The costs of exploratory dry holes and uneconomic wells, amounting to $9.6 million for the year ended December 31, 2008 (2007 - $7.8 million), were written off and included in exploration expenditures. A property impairment loss of $24.1 million was also recognized for the year ended December 31, 2008 (2007 - $8.1 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 oil 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.

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

6. LONG-TERM DEBT

	2008	2007
Revolving credit and working capital facility	**307,787**	326,655
Less unamortized discount	**(382)**	(159)
Carrying value of long-term debt	**307,405**	326,496
Weighted average interest rate for the year	**4.46%**	5.62%

The Trust has a $343 million revolving credit facility and a $35 million working capital facility with a syndicate of mostly Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions. The facilities are available on a revolving basis for a period of at least 364 days and can be extended a further 364 days upon request. The revolving phase of this credit facility expires on March 27, 2009, 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 $378 million borrowing base is subject to semi-annual review by the banks.

The Trust has undrawn letters of credit totaling $9.4 million as at December 31, 2008. These letters of credit reduce the amount available for draw under the Trust's working capital facility.

7. ASSET RETIREMENT OBLIGATIONS

	2008	2007
Asset retirement obligations, beginning of year	**60,752**	55,994
Liabilities incurred	**2,370**	946
Revisions in estimate	**12,353**	5,062
Liabilities settled	**(5,441)**	(1,266)
Accretion expense	**5,372**	4,591
Liabilities relating to assets sold	**(193)**	(4,575)
Asset retirement obligations, end of year	**75,213**	60,752

The undiscounted asset retirement obligations at December 31, 2008 is estimated to be $182.6 million (2007 - $156.4 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.

8. UNITHOLDERS' CAPITAL

Authorized

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

Issued and Outstanding

Trilogy had 95,996,646 Trust Units and 94,608,704 Trust Units outstanding at December 31, 2008 and 2007, respectively. No Special Voting Rights have been issued to date.

For the year ended December 31, 2008, 6,159,521 Trust Units (2007 – 2,042,023 Trust Units) were issued under Trilogy's Distribution Reinvestment Plan ("DRIP") (see note 9).

Redemption Right

Unitholders may redeem their Trust Units at any time 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 is equal to the lesser of 95 percent of the market price of the Trust Units on the principal market on which the Trust Units are 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 are 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 may not apply if the outstanding Trust Units tendered for redemption are not listed for trading, the normal trading of the Trust Units is suspended or halted on any stock exchange or the redemption of Trust Units will result in the delisting of the Trust Units. In such cases, the fair market value of the Trust Units shall be 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, Trilogy purchased and cancelled 4,771,579 Trust Units through the facilities of the Toronto Stock Exchange in 2008 for a total cost of approximately $35.0 million.

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

9. ACCUMULATED DISTRIBUTIONS

	2008				2007			
	Cash	**DRIP**	**Payable**	**Total**	**Cash**	**DRIP**	**Payable**	**Total**
Balance, beginning of year	**484,399**	**30,260**	**6,623**	**521,282**	384,654	15,976	14,811	415,441
Distributions paid and/or reinvested	**53,956**	**46,597**	**—**	**100,553**	99,745	14,284	—	114,029
Change in year end accrual	**—**	**—**	**2,977**	**2,977**	—	—	(8,188)	(8,188)
Distributions declared	**53,956**	**46,597**	**2,977**	**103,530**	99,745	14,284	(8,188)	105,841
Balance, end of year	**538,355**	**76,857**	**9,600**	**624,812**	484,399	30,260	6,623	521,282

Cumulative distributions amounted to $1.08 per Trust Unit and $1.14 per Trust Unit for the year ended December 31, 2008 and 2007, 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.

10. 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, 2008 and 2007 is as follows:

	2008			2007		
	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	**$ 11.52**	**$ 1.64**	**4,106,500**	$ 14.42	$ 1.95	2,261,000
Granted	**5.90**	**0.66**	**1,131,000**	8.06	1.28	1,875,500
Exercised	**10.54**	**1.59**	**(7,500)**	—	—	—
Cancelled	**11.61**	**1.66**	**(464,500)**	13.72	1.92	(30,000)
Balance, end of year	**$ 10.18**	**$ 1.41**	**4,765,500**	$ 11.52	$ 1.64	4,106,500
Exercisable, end of year	**$ 11.97**	**$ 1.65**	**434,500**	$ 14.72	$ 1.92	176,500

The Trust recorded a compensation expense of $2.0 million for the year ended December 31, 2008 (2007 - $1.3 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	2008	2007
Risk-free interest rate	2.07% to 3.08%	4.00% to 4.25%
Expected life	4.5 to 5.6 years	4.5 to 5.5 years
Expected volatility	35%	30% to 35%
Expected distributions	9.5% to 23.4%	12% to 13.5%

Additional information about Trilogy's unit options outstanding as at December 31, 2008 is as follows:

		Outstanding Options		Exercisable Options	
Exercise Price Range	Weighted Average Contractual Life Remaining	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$4.85 to $8.90	4.7	2,144,000	$ 5.94	141,500	$ 6.67
$9.25 to $12.88	2.7	1,668,500	10.93	175,500	10.96
$18.03 to $23.95	2.2	953,000	18.41	117,500	19.88
Total	3.5	4,765,500	$ 10.18	434,500	$ 11.97

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 remaining unit appreciation rights were paid as at the expiry date of December 15, 2008. The Unit Option Plan replaced the Unit Appreciation Plan in 2006. There is no current intention to make further grants of unit appreciation rights. A continuity of the unit appreciation rights for the years ended December 31, 2008 and 2007 is as follows:

	2008		2007	
	Exercise Price	No. of Unit Rights	Exercise Price	No. of Unit Rights
Balance, beginning of year	**$ 4.14**	**1,232,250**	$ 5.28	1,268,250
Exercised	**3.35**	**(1,215,250)**	4.43	(30,000)
Cancelled	**3.88**	**(17,000)**	4.63	(6,000)
Balance, end of year	—	—	$ 4.14	1,232,250
Unit rights exercisable, end of year	—	—	$ 4.14	828,250

A compensation expense of $2.8 million relating to the unit appreciation plan has been recognized in earnings for the year ended December 31, 2008 (2007 - $2.4 million recovery) with respect to the unit appreciation plan. Cash paid for the exercise of unit rights amounted to $5.9 million for the year ended December 30, 2008 (2007 - $0.1 million).

Non-reciprocal Awards to Trust Employees

The Trust also recognized compensation expense of $0.7 million for the year ended December 31, 2008 (2007 - $1.2 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.

11. 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, unit-based compensation liability and distributions payable. Trilogy also enters into financial derivative transactions, the purpose of which is to mitigate the impact of market volatility.

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

Credit Risk

Under the Services Agreement described in note 14, 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, 2008, $8.2 million or 14.9 percent of the outstanding accounts receivable are outstanding for 90 days or more. Also included in accounts receivable at December 31, 2008 is a $4.7 million receivable (of which $3.6 million is outstanding for more than 90 days) from a customer which has filed for protection under the Companies' Creditors Arrangement Act. Trilogy believes it has the ability to set off certain amounts payable to this customer against the outstanding receivable.

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 2, 12 and 13).

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

A contractual maturity analysis for Trilogy's financial liabilities as at December 31, 2008 is as follows:

	Within 1 Year	After 1 Year	Total
Accounts payable and accrued liabilities	61,138	—	61,138
Distributions payable	9,600	—	9,600
Long-term debt and estimated interest[1]	13,345	311,219	324,564
Total	84,083	311,219	395,302

[1] Estimated interest for future periods was calculated using the weighted average interest rate for the year ended December 31, 2008 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.

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 12 for details of outstanding financial instruments as at December 31, 2008).

Interest Rate Risk

As described in note 6, 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, 2008.

Foreign Exchange Risk

Foreign exchange rate exposure may impact the Trust mainly due to the outstanding U.S. Dollar denominated financial instrument contracts mentioned in note 12, in addition to normal conversions of U.S. Dollar denominated revenues into Canadian Dollars. Approximately 15 percent of Trilogy's petroleum and natural gas sales for the year ended December 31, 2008 was denominated in U.S. Dollars. Trilogy may enter into foreign currency contracts to mitigate the impact of foreign exchange rate exposure. There are no outstanding fixed forward currency contracts as at December 31, 2008.

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

Market Risk Sensitivity Analysis

A sensitivity analysis showing how net earnings for the year ended December 31, 2008 would have been affected by changes in commodity prices, and interest and exchange rates is set out below.

Risk Variations	Estimated Effect on Net Earnings[1]
Natural gas price change of $0.10/Mcf	2,195
Oil and natural gas liquids price change of U.S.$1.00/Bbl	917
U.S. Dollar to Canadian Dollar exchange rate fluctuation of $0.01	694
Average interest rate change of 1 percent	3,170

(1) The effect of each risk variation is mutually exclusive.

In deriving the above analysis, specific exposures to each risk were quantified based on the risk variations described. The historical information for the year ended December 31, 2008, which were used as key inputs in the sensitivity analysis above, are as follows:

Average production:	
Natural gas	97 MMcf/d
Crude oil and natural gas liquids	4,422 Bbl/d
Average royalty as a percentage of sales	20 percent
Average exchange rate (U.S.$/Cdn$)	Cdn$1.07/U.S.$1.00
Income tax	Nil
Forward pricing of outstanding financial contracts	As at December 31, 2008

12. 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.

	2008	2007
Financial assets		
Receivables[1]	**55,149**	51,603
Financial instruments held-for-trading[3]	**22,187**	—
Financial liabilities		
Non-trading liabilities[1] [2]	**(70,738)**	(69,215)
Financial instruments held-for-trading[3]	**—**	(6,963)
Indebtedness[4]	**(307,405)**	(326,496)

(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, distributions payable and unit-based compensation liability for 2007.

(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.

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

Forward Contracts

At December 31, 2008, the Trust had the following outstanding financial forward commodity sales contracts:

Description	Quantity	Price	Remaining Term
Purchase Contract			
NYMEX Fixed Price	10,000 MMBtu/d	U.S.$6.63/MMBtu	January 2009 – March 2009
Sales Contracts			
NYMEX Fixed Price	10,000 MMBtu/d	U.S.$9.94/MMBtu	January 2009 – March 2009
NYMEX Collar	10,000 MMBtu/d	Floor – U.S.$9.50 Ceiling – U.S.$13.00	April 2009 – October 2009
AECO Fixed Price	30,000 GJ/d	$9.50/GJ	January 2009 – March 2009

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.

13. 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) letters of credit issued as financial security to third parties, and (d) 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. As discussed in note 2, Trilogy has already made certain changes in response to the current economic conditions.

(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:

	2008	2007
Committed amount that can be drawn from credit facilities	**378,000**	370,000
Outstanding undrawn letters of credit	**(9,373)**	(8,232)
Amount that can be drawn after letters of credit	**368,627**	361,768
Long-term debt	**(307,405)**	(326,496)
Net current assets (liabilities)	**7,424**	(23,919)
Net debt(1)	**(299,981)**	(350,415)
Mark-to-market valuation of financial instruments	**(22,187)**	6,963
Adjusted net debt(1)	**(322,168)**	(343,452)
Remaining available credit	**46,459**	18,316

(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 $343.5 million at December 31, 2007 to $322.2 million at December 31, 2008 is attributable primarily to higher cash flow from operations and Trilogy's DRIP, partially offset by an asset acquisition and the purchase of Trilogy's Trust Units through its normal course issuer bid program.

14. RELATED PARTY TRANSACTIONS

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

- Pursuant to a Services Agreement dated April 1, 2005, 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, 2009 however may be terminated by either party with at least six months written notice. It is anticipated that the Services Agreement will be extended until March 31, 2010. The amount of expenses billed and accrued as management fees under this agreement was $0.3 million for the year ended December 31, 2008 (2007 - $0.8 million). This amount is included as part of the general and administrative expenses in the Trust's consolidated statement of earnings.

- The Trust and Paramount also had transactions with each other arising from the normal course of business. These transactions were recorded at exchange amounts.

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

Presented in the Balance Sheet as	2008 Normal Business	2008 Services Agreement	2008 Trust Distribution	2007 Normal Business	2007 Services Agreement	2007 Trust Distribution
Accounts receivable	**222**	**—**	**—**	441	—	—
Accounts payable and accrued liabilities	**(159)**	**(120)**	**—**	(3,220)	(60)	—
Distributions payable	**—**	**—**	**(2,234)**	—	—	(1,168)

15. 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, 2008:

(In million dollars)	2009	2010	2011	2012	2013 and after	Total
Pipeline transportation[(1)]	11,203	10,944	10,676	9,991	27,766	70,580
Office premises operating lease[(2)]	2,185	2,783	3,228	3,228	14,526	25,950
Vehicle and other operating leases	978	978	—	—	—	1,956
Total	14,366	14,705	13,904	13,219	42,292	98,486

(1) Before Trilogy's undrawn letters of credit (see note 6) issued to cover some pipeline transportation commitments.
(2) Net of committed rental reimbursements through sub-lease arrangements.

16. INCOME TAXES

In 2007, Bill C-52 Budget Implementation Act, 2007 was enacted by the Canadian federal government. This Bill contains legislation to tax publicly traded trusts in Canada. As a result, income tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to the Trust until 2011 given a transition period that applies to publicly traded trusts in existence prior to November 1, 2006. As a result of the enactment of this legislation, the Trust recorded a net future income tax liability of $77.4 million as at December 31, 2008 (2007 - $69.1 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 29.5 per cent, which is the rate that is currently anticipated to be applicable beginning 2011, and 28 percent thereafter. It also includes the differences between current book and tax basis of Trilogy corporate entities, tax effected at 25 percent.

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):

	2008	2007
Expected income tax expense at statutory tax rate of 39 percent	**51,357**	7,529
Allocation of earnings to the Trust Unitholders	**(42,324)**	(8,488)
Non-deductible expenses	**1,083**	959
Change in estimate of future reversals of temporary differences	**(1,785)**	—
Future income taxes recognized as a result of new legislation	—	69,055
Income tax expense per statement of earnings (loss)	**8,331**	69,055

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

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, 2008 and 2007 are as follows:

Description of Temporary Differences and Carryforwards	2008	2007
Property, plant and equipment	**(101,150)**	(90,436)
Asset retirement obligation	**20,536**	16,096
Loss carryforwards and other	**3,227**	5,285
Net future income tax liability	**(77,387)**	(69,055)

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.

17. SUBSEQUENT EVENTS

Holders of 59,151,849 Trust Units have reinvested their December distributions totaling $5.9 million through Trilogy's DRIP resulting in the issuance of additional 1,023,618 Trust Units on January 15, 2009.

On January 20, 2009, Trilogy announced its cash distribution for January 2009 at $0.05 per Trust Unit. The distribution was paid on February 17, 2009 to Unitholders of record on February 2, 2009. Holders of 60,143,617 Trust Units have reinvested their January distributions totaling $3.0 million through Trilogy's DRIP resulting in the issuance of an additional 616,946 Trust Units on February 17, 2009.

On February 17, 2009, Trilogy also announced that its cash distribution for February 2009 will be $0.05 per Trust Unit. The distribution is payable on March 16, 2009 to Unitholders of record on March 2, 2009.

CORPORATE INFORMATION

OFFICERS

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

M.G. Kohut
Chief Financial Officer

J.B. Williams
Chief Operating Officer

G.L. Yester
General Counsel & Corporate Secretary

DIRECTORS

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

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

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

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

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

R.M. MacDonald (2)(3)(5)
Independent Businessman and Corporate Director
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E.M. Shier (3)(4)
General Counsel, Corporate Secretary & Manager,
Land, Paramount Resources Ltd.
Counsel to Heenan Blaikie LLP
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ATB Financial
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Paddock Lindstrom and Associates Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
"TET.UN"

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