CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2007 AND 2006
AND FOR THE YEARS THEN ENDED

MANAGEMENT'S REPORT

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

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

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

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

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

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

February 29, 2008

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AUDITORS' REPORT

February 29, 2008

To the Unitholders of Trilogy Energy Trust

We have audited the consolidated balance sheets of **Trilogy Energy Trust** as at December 31, 2007 and 2006 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, 2007. 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, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants

TRILOGY ENERGY TRUST
Consolidated Balance Sheets
(In thousand dollars)

	As at December 31, 2007	2006
ASSETS		
Current Assets		
Accounts receivable (note 11)	**$ 51,603**	$ 68,732
Financial instruments (note 10)	**—**	18,424
Prepaid expenses	**656**	1,213
	52,259	88,369
Property, plant and equipment (note 4)	**721,756**	842,042
Future income taxes (note 13)	**13,705**	—
Goodwill (note 4)	**140,471**	152,323
	$ 928,191	$ 1,082,734
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	**$ 59,500**	$ 72,898
Distributions payable (notes 8 and 11)	**6,623**	14,811
Financial instruments (note 10)	**6,963**	—
Unit-based compensation liability (note 9)	**3,092**	4,470
Current portion of long-term debt (note 5)	**—**	57,400
	76,178	149,579
Long-term debt – net of current portion (note 5)	**326,496**	355,136
Unit-based compensation liability – net of current portion (note 9)	**—**	1,171
Asset retirement obligations (note 6)	**60,752**	55,994
Future income taxes (note 13)	**82,760**	—
	470,008	412,301
Unitholders' equity		
Unitholders' capital (note 7)	**704,100**	689,816
Contributed surplus (note 9)	**5,558**	3,100
Accumulated deficit after distributions	**(327,653)**	(172,062)
	382,005	520,854
	$ 928,191	$ 1,082,734

Commitments and contingencies (notes 10 and 12)

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, 2007	2006
Revenue		
Petroleum and natural gas sales	**$ 395,387**	$ 444,208
Realized gain on financial instruments (note 10)	**12,179**	49,735
Unrealized gain (loss) on financial instruments (note 10)	**(25,387)**	21,814
Royalties	**(78,080)**	(100,637)
Other income	**195**	2,009
	304,294	417,129
Expenses		
Operating	**94,560**	89,874
Transportation	**15,554**	18,864
General and administrative (notes 9 and 11)	**12,219**	7,969
Exploration expenditures	**10,918**	25,142
Loss (gain) on disposition of property, plant and equipment (note 4)	**1,223**	(12,277)
Accretion on asset retirement obligations (note 6)	**4,591**	3,736
Depletion and depreciation (note 4)	**123,705**	129,686
Interest and financing charges	**22,219**	13,272
	284,989	276,266
Earnings before taxes	**19,305**	140,863
Future income taxes (note 13)	**69,055**	—
Net earnings (loss) / Total comprehensive income (loss)	**$ (49,750)**	$ 140,863
Earnings (loss) per Trust Unit (in full amounts)		
— Basic	**$ (0.54)**	$ 1.56
— Diluted	**$ (0.53)**	$ 1.56
Weighted average Trust Units outstanding (in thousands)		
— Basic	**92,832**	90,321
— Diluted	**93,050**	90,330

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, 2007					
	Opening Balance	**Net Loss**	**DRIP** (Note 7)	**Distributions Declared** (Note 8)	**Unit/Stock Option Amortization**	**Closing Balance**
No. of Trust Units	92,566,681	—	2,042,023	—	—	**94,608,704**
Unitholders' capital (note 7)	$ 689,816	$ —	$ 14,284	$ —	$ —	**$ 704,100**
Accumulated earnings	243,379	(49,750)	—	—	—	**193,629**
Accumulated distributions	(415,441)	—	—	(105,841)	—	**(521,282)**
Accumulated other comprehensive income	—	—	—	—	—	**—**
Subtotal	(172,062)	(49,750)	—	(105,841)	—	**(327,653)**
Contributed surplus (note 9)	3,100	—	—	—	2,458	**5,558**
Total unitholders' equity	$ 520,854	$ (49,750)	$ 14,284	$ (105,841)	$ 2,458	**$ 382,005**

	Year Ended December 31, 2006					
	Opening Balance	**Net Earnings**	**Issuance of Trust Units and DRIP** (Note 7)	**Distributions Declared** (Note 8)	**Unit/Stock Option Amortization**	**Closing Balance**
No. of Trust Units	85,133,395	—	7,433,286	—	—	92,566,681
Unitholders' capital (note 7)	$ 550,144	$ —	$ 139,672	$ —	$ —	$ 689,816
Accumulated earnings	102,516	140,863	—	—	—	243,379
Accumulated distributions	(190,763)	—	—	(224,678)	—	(415,441)
Accumulated other comprehensive income	—	—	—	—	—	—
Subtotal	(88,247)	140,863	—	(224,678)	—	(172,062)
Contributed surplus (note 9)	468	—	—	—	2,632	3,100
Total unitholders' equity	$ 462,365	$ 140,863	$ 139,672	$ (224,678)	$ 2,632	$ 520,854

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31 2007	2006
Operating activities		
Net earnings (loss)	**$ (49,750)**	$ 140,863
Add (deduct) non-cash and other items:		
Depletion and depreciation	**123,705**	129,686
Loss (gain) on disposition of property, plant and equipment	**1,223**	(12,277)
Exploration expenditures	**9,903**	24,386
Asset retirement obligation expenditures	**(1,266)**	(1,658)
Accretion on asset retirement obligations (note 6)	**4,591**	3,736
Future income tax expense (note 13)	**69,055**	—
Non-cash general and administrative recovery (note 9)	**(92)**	(412)
Unrealized loss (gain) on financial instruments (note 10)	**25,387**	(21,814)
Funds flow from operations	**182,756**	262,510
Net changes in operating working capital	**13,597**	(2,652)
Cash flow from operating activities	**196,353**	259,858
Financing activities		
Credit facilities – draws	**377,309**	948,799
Credit facilities – repayments	**(465,039)**	(643,586)
Distributions to unitholders (note 8)	**(99,745)**	(261,998)
Cash flow provided by (used in) financing activities	**(187,475)**	43,215
Investing activities		
Property, plant and equipment expenditures	**(101,960)**	(171,166)
Acquisitions	**—**	(141,456)
Proceeds on disposition of property, plant and equipment	**100,702**	12,489
Cash balance of acquired entity	**—**	6,904
Change in investing working capital	**(7,620)**	(9,844)
Cash flow used in investing activities	**(8,878)**	(303,073)
Change in cash / cash, end of year	**$ —**	$ —
Cash interest and financing charges paid	**$ 20,837**	$ 14,539

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 as of April 1, 2005 and May 9, 2006 and as amended 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 and are expressed in Canadian Dollar.

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments, Other Comprehensive Income and Equity

On January 1, 2007, the Trust adopted the recommendations of the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 3855 *(Financial Instruments – Recognition and Measurement)* setting out comprehensive requirements for the recognition and measurement of financial instruments. Under this standard, the Trust recognizes a financial asset or liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are, with certain exceptions, initially measured at fair value. After initial recognition, the measurement of financial assets vary depending on the category of the asset: financial assets held for trading (at fair value with the unrealized gains and losses on assets recorded in income), held-to-maturity investments (at amortized cost), loans and receivables (at amortized cost), and available-for-sale financial assets (at fair value with the unrealized gains or losses on assets recorded in other comprehensive income). Financial liabilities held for trading are subsequently measured at fair value 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 may choose to designate derivative instruments as hedges. To date, the Trust has not elected to apply hedge accounting. The Trust also adopted CICA Handbook Section 3861 *(Financial Instruments – Disclosure and Presentation)* governing the presentation and disclosure of financial instruments to complement Section 3855.

In conjunction with the adoption of the new standards on financial instruments described above, the Trust adopted on January 1, 2007 the recommendations of the CICA Handbook Section 1530 *(Comprehensive Income)* in respect of the reporting and display of comprehensive income. Comprehensive income is defined as the change in equity (net assets) of an enterprise during a period, from transactions and other events and circumstances, from non-owner sources. A statement of comprehensive income that presents net earnings and each component recognized in other comprehensive income is now included as part of the full set of financial statements for both interim and annual periods. Likewise, the Trust adopted the recommendations of the CICA Handbook Section 3251 *(Equity)* requiring the presentation of the components of equity and the changes in equity arising from each of the components. Trilogy now includes a separate statement of unitholders' equity as part of its full set of consolidated financial statements.

Accounting Changes

The Trust adopted the CICA's revised Handbook Section 1506 *(Accounting Changes)* which establishes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Effective January 1, 2007, Trilogy is now subject to the following recommendations for changes in accounting policies, changes in accounting estimates and correction of errors:

- Changes in accounting policy are applied retroactively unless doing so is impracticable, or the change in accounting policy is made on initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source of GAAP. A change in accounting estimate is generally recognized prospectively.
- Voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information. Material prior period errors are corrected retrospectively.
- New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The adoption of the new accounting standards described above did not affect Trilogy's consolidated financial statements for the year ended December 31, 2007 and the related comparative financial statements, other than the change in and/or new presentation of consolidated statements of earnings (loss) and other comprehensive income and unitholders' equity.

Future Accounting Changes

The CICA issued Handbook Sections 3862 *(Financial Instruments – Disclosures)*, 3863 *(Financial Instruments – Presentation)* and 1535 *(Capital Disclosures)*, which will be effective January 1, 2008. These new accounting standards will require the Trust to provide additional disclosures relating to financial instruments, including hedging instruments, and the Trust's capital. Handbook Section 3863 does not change the presentation provided in Section 3861 *(Financial Instruments – Disclosure and Presentation)* which it replaces. It is anticipated that the adoption of these new accounting standards will not impact the amounts reported in the Trust's financial statements as these standards primarily relate to disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Property, Plant and Equipment

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

Other property, plant and equipment are recorded at cost.

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

Depletion and Depreciation

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

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

Joint Operations

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

Asset Retirement Obligations

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

Goodwill

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

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

Revenue Recognition

Revenue 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 nor held-to-maturity investments.

Income Taxes

Prior to 2007, Trilogy did not recognize any provision for income tax on the basis that it distributes all its taxable income to the Unitholders. As a result of the enactment of legislation imposing income taxes on income trusts, Trilogy commenced the recognition of future income taxes in its 2007 financial statements.

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. Accumulated 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.

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

The Trust measures compensation cost under the unit appreciation plan as the amount by which the quoted market value of Trust Units covered by the grants exceeds the exercise price adjusted by unit distributions. Compensation cost under the unit appreciation plan is accrued over the appreciation units' vesting period. The recorded liability is revalued at the end of each reporting period to reflect changes in the market price of the Trust Units with the net change recognized in earnings. When appreciation rights are exercised, the accrued liability is reduced. The accrued compensation for a right that is forfeited or cancelled is adjusted by decreasing compensation cost in the period of forfeiture or cancellation.

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.

Foreign Currency Translation

Transactions denominated in the United States ("U.S.") Dollar are translated to Canadian Dollar 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 diluted calculations.

Measurement Uncertainty

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

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

4. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	**1,334,534**	**(619,817)**	**714,717**	1,415,185	(575,154)	840,031
Other	**8,959**	**(1,920)**	**7,039**	2,738	(727)	2,011
	1,343,493	**(621,737)**	**721,756**	1,417,923	(575,881)	842,042

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

Capital costs associated with non-producing petroleum and natural gas properties totaling approximately $125.6 million as at December 31, 2007 (2006 - $144.0 million) were not subject to depletion. No interest costs were capitalized for the years ended December 31, 2007 and 2006.

The costs of exploratory dry holes amounting to $7.8 million for the year ended December 31, 2007 (2006 - $22.3 million) were written off and included in exploration expenditures. An asset impairment loss of $8.1 million was also recognized during the year ended December 31, 2007 (2006 - $2.4 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 resulted in the asset impairment. The fair value of these assets was determined using discounted future cash flows.

In 2007, Trilogy disposed of its Marten Creek property and other non-core properties in southern Alberta with a total carrying value of $100.4 million, including attributable goodwill of $11.8 million. These asset sales, together with other minor dispositions, resulted in a loss on disposal of $1.2 million.

5. LONG-TERM DEBT

	2007	2006
Revolving credit and working capital facility	**326,655**	336,984
Non-revolving acquisition facility	**—**	77,400
Total maturity value of debt	**326,655**	414,384
Less unamortized discount	**(159)**	(1,848)
Carrying value of debt	**326,496**	412,536
Less current portion	**—**	(57,400)
Long-term debt	**326,496**	355,136
Weighted average interest rate for the year	**5.62%**	5.12%

The Trust has a $335 million revolving credit facility and a $35 million working capital facility with a syndicate of 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 28, 2008, 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 $370 million borrowing base is subject to semi-annual review by the banks.

In conjunction with an acquisition during the fourth quarter of 2006, the Trust entered into a junior secured non-revolving acquisition facility loan agreement. The initial amount drawn was $89.4 million. This loan was fully paid in conjunction with the Marten Creek and southern Alberta asset dispositions. Borrowing under this facility was subject to interest at 1 to 2 percent in excess of the revolving credit facility interest rates.

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

The Trust has undrawn letters of credit totaling $8.2 million as at December 31, 2007. These letters of credit reduce the amount available for draw under the Trust's working capital facility.

6. ASSET RETIREMENT OBLIGATIONS

	2007	2006
Asset retirement obligations, beginning of year	**55,994**	42,706
Liabilities incurred	**946**	5,902
Revisions in estimate	**5,062**	—
Liabilities settled	**(1,266)**	(1,658)
Accretion expense	**4,591**	3,736
Liabilities relating to assets sold	**(4,575)**	(1,341)
Liabilities assumed through acquisition	**—**	6,649
Asset retirement obligations, end of year	**60,752**	55,994

The undiscounted asset retirement obligations at December 31, 2007 is estimated to be $156.4 million (2006 - $228.2 million). The credit-adjusted risk-free rates used to estimate asset retirement obligation liability range from 7.875 to 8.5 percent. These obligations will be settled based on the expected life of the underlying assets, the majority of which are expected to be paid after 10 to 30 years and will be funded from the general resources of the Trust at the time of removal.

7. UNITHOLDERS' CAPITAL

Authorized

The authorized capital of the Trust 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 94,608,704 Trust Units and 92,566,681 Trust Units outstanding at December 31, 2007 and 2006, respectively. No Special Voting Rights have been issued to date.

For the year ended December 31, 2007, 2,042,023 Trust Units (2006 – 933,235 Trust Units) were issued under Trilogy's Distribution Reinvestment Plan ("DRIP") (see note 8). No other additional Trust Units were issued in 2007 while 6,500,051 Trust Units were issued in 2006 in conjunction with an acquisition.

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.

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

8. ACCUMULATED DISTRIBUTIONS

	2007				2006			
	Cash	**DRIP**	**Payable**	**Total**	**Cash**	**DRIP**	**Payable**	**Total**
Balance, beginning of year	**384,654**	**15,976**	**14,811**	**415,441**	122,656	—	68,107	190,763
Distributions paid and/or reinvested	**99,745**	**14,284**	**—**	**114,029**	261,998	15,976	—	277,974
Change in yearend accrual	**—**	**—**	**(8,188)**	**(8,188)**	—	—	(53,296)	(53,296)
Distributions declared	**99,745**	**14,284**	**(8,188)**	**105,841**	261,998	15,976	(53,296)	224,678
Balance, end of year	**484,399**	**30,260**	**6,623**	**521,282**	384,654	15,976	14,811	415,441

Trilogy has a Distribution Reinvestment Plan (the "DRIP") which 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. The DRIP was suspended effective for the November 2006 distribution and was reinstated effective for the September 2007 distribution.

On January 15, 2008, Trilogy announced its cash distribution for January 2008 at $0.07 per Trust Unit. The distribution was paid on February 15, 2008 to Unitholders of record on January 31, 2008. On February 15, 2008, Trilogy also announced that its cash distribution for February 2008 will be $0.07 per Trust Unit. The distribution is payable on March 17, 2008 to Unitholders of record on February 29, 2008.

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

9. UNIT BASED COMPENSATION

Unit Option Plan

The Trust has a long-term incentive plan that allows management to award unit options to eligible directors, officers and employees. Under this plan, holders of vested unit options are able to subscribe for the equivalent number of Trust Units at the exercise price within the contractual period prescribed in the governing option agreement. The majority of the outstanding options under this plan will vest in 2009 through 2012. A continuity of the unit option plan for the years ended December 31, 2007 and 2006 is as follows:

	2007 Weighted Average Exercise Price	2007 Weighted Average Grant Date Fair Value per Option	2007 No. of Options	2006 Weighted Average Exercise Price	2006 Weighted Average Grant Date Fair Value per Option	2006 No. of Options
Balance, beginning of year	**$ 14.42**	**$ 1.95**	**2,261,000**	$ —	$ —	—
Granted	**8.06**	**1.28**	**1,875,500**	14.53	1.95	2,291,000
Cancelled	**13.72**	**1.92**	**(30,000)**	22.77	2.58	(30,000)
Balance, end of year	**$ 11.52**	**$ 1.64**	**4,106,500**	$ 14.42	$ 1.95	2,261,000
Exercisable, end of year	**$ 14.72**	**$ 1.92**	**176,500**	$ 14.90	$ 1.99	45,000

The Trust has recorded a compensation expense of $1.3 million for the year ended December 31, 2007 (2006 - $1.2 million) representing the amortization of the grant date fair value of outstanding unit options, with a corresponding credit to contributed surplus. The fair value of options was determined under the binomial model using the following key assumptions:

Risk-free interest rate	—	3.9% to 4.25%
Expected life	—	4.5 to 5.5 years
Expected volatility	—	30% to 35%
Expected distributions	—	12% to 16%

Additional information about Trilogy's unit options outstanding as at December 31, 2007 is as follows:

Exercise Price Range	Weighted Average Contractual Life	Outstanding Options Number of Options	Outstanding Options Weighted Average Exercise Price	Exercisable Options Number of Options	Exercisable Options Weighted Average Exercise Price
$6.65 to $9.25	5.5	1,296,000	$ 6.70	—	$ —
$10.25 to $11.89	3.6	1,736,500	10.87	100,250	10.81
$18.03 to $23.95	3.3	1,074,000	18.40	76,250	19.86
Total	4.1	4,106,500	$ 11.52	176,500	$ 14.72

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

Unit Appreciation 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 shall be reduced by the aggregate unit distributions paid or payable on the Trust Units to Unitholders of record from the grant date to the exercise date. The unit appreciation rights vest at subsequent anniversary dates with an 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, 2007 and 2006 is as follows:

	2007		2006	
	Exercise Price	No. of Unit Rights	Exercise Price	No. of Unit Rights
Balance, beginning of year	**$ 5.28**	**1,268,250**	$ 7.76	1,306,000
Exercised	**4.43**	**(30,000)**	5.90	(28,750)
Cancelled	**4.63**	**(6,000)**	5.76	(9,000)
Balance, end of year	**$ 4.14**	**1,232,250**	$ 5.28	1,268,250
Unit rights exercisable, end of year	**$ 4.14**	**828,250**	$ 5.28	506,750

A compensation recovery of $2.4 million relating to the unit appreciation plan has been recognized in earnings for the year ended December 31, 2007 (2006 - $2.7 million). Of this amount, $2.5 million compensation recovery (2006 - $3.0 million) resulted from the valuation of the related unit-based compensation liability and $0.1 million compensation expense (2006 - $0.3 million) represented cash paid for the exercises of unit rights.

Non-reciprocal Awards to Trust Employees

The Trust also recognized compensation expense of $1.2 million for the year ended December 31, 2007 (2006 - $1.5 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.

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

10. FINANCIAL INSTRUMENTS

Carrying Values of Financial Assets and Liabilities

	2007 Held-for-Trading	2007 Loans and Receivables / (Non-Trading Liabilities)	2007 Total	2006 Held-for-Trading	2006 Loans and Receivables / (Non-Trading Liabilities)	2006 Total
Financial assets						
Accounts receivable(1)	—	51,603	51,603	—	68,732	68,732
Financial instruments(2)	—	—	—	18,424	—	18,424
Financial liabilities						
Accounts payable and accrued liabilities(1)	—	(59,500)	(59,500)	—	(72,898)	(72,898)
Distributions payable(1)	—	(6,623)	(6,623)	—	(14,811)	(14,811)
Financial instruments(2)	(6,963)	—	(6,963)	—	—	—
Unit-based compensation liability(3)	—	(3,092)	(3,092)	—	(5,641)	(5,641)
Indebtedness(3)	—	(326,496)	(326,496)	—	(412,536)	(412,536)

(1) Carried at cost which approximates the fair value of the assets or liabilities due to the short-term nature of the accounts.
(2) Carried at the estimated fair value of the related financial instruments based on third party quotations. See Financial Contracts below.
(3) Carried at amortized cost/value of the liabilities. See notes 5 and 9 for Indebtedness and Unit-based compensation liability, respectively.

Financial Contracts

The Trust utilizes, from time to time, forward commodity price contracts that require financial settlements between counterparties to mitigate commodity price volatility. This program is generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production. At December 31, 2007, the Trust had outstanding financial forward arrangements to sell 1,000 Bbl/d of oil at a WTI Fixed Price of U.S.$73.48/Bbl from January to December 2008 (also see note 15).

The Trust designated these financial instruments as held-for-trading and therefore has recognized the fair value of these 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 fair values of forward financial contracts recognized as at the balance sheet dates are as follows:

	2007	2006
Financial instrument asset	—	18,424
Financial instrument liability	(6,963)	—
Net financial instrument asset (liability)	(6,963)	18,424

The changes in the fair value associated with the above financial instruments 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.

Credit, Interest Rate and Foreign Currency Risks

Under the Services Agreement described in note 11, 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 and third party credit risk with credit approvals, limits on exposures to any one counterparty, and monitoring procedures.

Production is sold to a variety of purchasers under normal industry sale and payment terms. The Trust's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal credit risk.

The Trust is also exposed to fluctuations in interest rates relative to its credit facilities as disclosed in note 5. In addition, foreign currency rate fluctuations may impact the Trust mainly due to the U.S. Dollar denominated financial instrument contracts mentioned above, in addition to normal conversions of U.S. Dollar denominated revenues into Canadian Dollar.

11. 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 operating entities 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, 2008 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, 2009. The amount of expenses billed and accrued as management fees under this agreement was $0.8 million for the year ended December 31, 2007 (2006 - $1.9 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:

	2007			2006		
Presented in the Balance Sheet as	**Normal Business**	**Services Agreement**	**Trust Distribution**	**Normal Business**	**Services Agreement**	**Trust Distribution**
Accounts receivable	**441**	**—**	**—**	1,740	—	—
Accounts payable and accrued liabilities	**(3,220)**	**(60)**	**—**	—	(265)	—
Distributions payable	**—**	**—**	**(1,168)**	—	—	(2,405)

12. 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, 2007:

(In million dollars)	2008	2009	2010	2011	2012 and after	Total
Pipeline transportation(1)	8,820	7,918	7,486	7,372	29,123	60,719
Office premises operating lease(2)	2,218	2,196	2,783	3,228	17,754	28,179
Vehicle and other operating leases	1,133	1,133	164	—	—	2,430
Minimum capital expenditure	444	—	—	—	—	444
Total	12,615	11,247	10,433	10,600	46,877	91,772

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

13. INCOME TAXES

On June 12, 2007, Bill C-52 Budget Implementation Act, 2007 was substantively 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 and future income tax expense of $69.1 million as at and for the period ended December 31, 2007. The future income tax adjustment represents management's estimate of the differences between the book and tax basis of the Trust's 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.

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):

	2007	2006
Expected income tax expense at statutory tax rate of 39 percent	**7,529**	54,937
Allocation of earnings to the Trust Unitholders	**(8,488)**	(55,963)
Non-deductible expenses	**959**	1,026
Future income taxes recognized as a result of new legislation	**69,055**	—
Income tax expense per statement of earnings (loss)	**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, 2007 are as follows:

Description of Temporary Differences and Carryforwards	Tax Effect
Differences between the book and tax basis of the following accounts which are expected to reverse commencing January 1, 2011:	
Property, plant and equipment	**(90,436)**
Asset retirement obligation	**16,096**
Loss carryforwards and other	**5,285**
Net future income tax liability	**(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 used on the preceding items could materially affect the Trust's estimated future income tax liability.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

15. SUBSEQUENT EVENTS

Subsequent to December 31, 2007, Trilogy entered into financial forward contracts to sell 50,000 MMBtu/d of natural gas from April to October 2008 at an average fixed NYMEX price of U.S.$8.99/MMBtu, and 20,000 MMBtu/d of natural gas from November 2008 to March 2009 at a fixed NYMEX price of U.S.$10.02/MMBtu.

On February 29, 2008, Trilogy's Board of Directors approved a normal course issuer bid through the facilities of the Toronto Stock Exchange (TSX). If such normal course issuer bid is approved by the TSX, Trilogy expects to be entitled to purchase up to 4,771,579 Trust Units during the one year period commencing on the date of approval of the normal course issuer bid by the TSX.