

TRILOGY ENERGY TRUST

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2006 AND 2005

AND FOR THE YEARS THEN ENDED

AND THE PERIOD APRIL 1, 2005 TO DECEMBER 31, 2005



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 non-management 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

March 2, 2007

AUDITORS' REPORT

To the Unitholders of Trilogy Energy Trust

We have audited the consolidated balance sheets of Trilogy Energy Trust as at December 31, 2006 and 2005 and the consolidated statements of earnings and accumulated earnings and cash flows for the year ended December 31, 2006 and for the period April 1, 2005 to December 31, 2005. 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, 2006 and 2005, and the results of its operations and its cash flows for the year ended December 31, 2006 and for the period April 1, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

/s/ Pricewaterhouse Coopers LLP

Chartered Accountants

March 2, 2007
Calgary, Alberta

TRILOGY ENERGY TRUST

Consolidated Balance Sheets

As at December 31,

(thousand dollars)

	2006	2005
ASSETS		
Current Assets		
Accounts receivable	\$ 66,992	\$ 73,001
Due from related party (note 11)	1,475	6,439
Financial instruments (note 10)	18,424	5,830
Prepaid expenses	3,061	899
	89,952	86,169
Property, plant and equipment (note 4)	842,042	672,224
Goodwill (note 3)	152,323	19,400
	\$ 1,084,317	\$ 777,793
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 72,633	\$ 78,334
Distributions payable (notes 8 and 11)	14,811	68,107
Unit-based compensation liability (note 9)	4,470	5,810
Financial instruments (note 10)	—	9,220
Current portion of long-term debt (note 5)	57,400	—
	149,314	161,471
Long-term debt – net of current portion (note 5)	356,984	108,375
Unit-based compensation liability – net of current portion (note 9)	1,171	2,876
Asset retirement obligations (note 6)	55,994	42,706
	414,149	153,957
Unitholders' equity		
Unitholders' capital (note 7)	689,816	550,144
Contributed surplus (note 9)	3,100	468
Accumulated earnings	243,379	102,516
Accumulated distribution (note 8)	(415,441)	(190,763)
	520,854	462,365
	\$ 1,084,317	\$ 777,793

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 and Accumulated Earnings

(thousand dollars except per unit information)

	Years Ended December 31		Nine Months
	2006	2005	Ended Dec. 31
	(Unaudited—Note 1)		
Revenue			
Petroleum and natural gas sales	\$ 444,208	\$ 508,881	\$ 402,913
Realized gain (loss) on financial instruments (note 10)	49,735	(18,627)	(16,341)
Unrealized gain (loss) on financial instruments (note 10)	21,814	(14,542)	393
Royalties	(100,637)	(118,251)	(92,982)
Other income	2,009	225	225
	417,129	357,686	294,208
Expenses			
Operating	89,874	68,145	52,022
Transportation	18,864	19,828	15,023
General and administrative (notes 9 and 11)	7,969	22,670	16,617
Exploration expenditures	25,142	9,444	5,437
Gain on sale of property, plant and equipment (note 4)	(12,277)	(86)	(108)
Accretion on asset retirement obligations (note 6)	3,736	4,962	3,297
Depletion and depreciation (note 4)	129,686	128,021	92,322
Interest	13,272	9,608	7,082
Other non-recurring expenses	—	16,296	—
	276,266	278,888	191,692
Earnings before taxes	140,863	78,798	102,516
Income taxes (note 13)	—	(7,649)	—
Net earnings	140,863	86,447	102,516
Accumulated earnings, beginning of period	102,516	—	—
Loss prior to April 1, 2005 allocated to Paramount Resources Ltd. (note 1)	—	16,069	—
Accumulated earnings end of period	\$ 243,379	\$ 102,516	\$ 102,516
Earnings per Trust Unit (note 2)			
— Basic	\$ 1.56	\$ 1.09	\$ 1.29
— Diluted	\$ 1.56	\$ 1.09	\$ 1.29
Weighted average Trust Units outstanding (in thousands) (note 2)			
— Basic	90,321	79,177	79,177
— Diluted	90,330	79,177	79,177

See accompanying notes to consolidated financial statements.

The financial statements for the year ended December 31, 2005 include the operating results prior to the commencement of Trilogy Energy Trust's commercial operations on April 1, 2005, and these results were prepared on a carve-out basis from Paramount Resources Ltd. As described in note 1, these financial statements may not be indicative of the results that would have been attained if the Trust had operated as a stand-alone entity prior to April 1, 2005.

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

	Years Ended December 31		Nine Months
	2006	2005	Ended Dec. 31
	(Unaudited—Note 1)		
Operating activities			
Net earnings	\$ 140,863	\$ 86,447	\$ 102,516
Add (deduct) non-cash and other items:			
Depletion and depreciation	129,686	128,021	92,322
Gain on sale of property, plant and equipment	(12,277)	(86)	(108)
Accretion on asset retirement obligations	3,736	4,962	3,297
Future income tax recovery	—	(8,059)	—
Non-cash general and administrative expenses	(412)	10,186	9,154
Non-cash loss (gain) on financial instruments	(21,814)	14,542	(393)
Exploration expenditures	24,386	8,532	4,808
Asset retirement obligation expenditures	(1,658)	(1,367)	(840)
Non-cash non-recurring expenses	—	11,586	—
Funds flow from operations	262,510	254,764	210,756
Net changes in operating working capital	(2,652)	(62,263)	(14,014)
	259,858	192,501	196,742
Financing activities			
Credit facilities – draws	948,799	659,626	659,626
Credit facilities – repayments	(643,586)	(553,135)	(553,135)
Distributions to unitholders	(261,998)	(122,656)	(122,656)
Net proceeds from issuance of Trust Units	—	140,576	140,576
Net investment by Paramount Resources Ltd. prior to April 1, 2005	—	18,270	—
Payment to Paramount Resources Ltd. in exchange for Trust assets	—	(220,000)	(220,000)
	43,215	(77,319)	(95,589)
Investing activities			
Property, plant and equipment expenditures	(171,166)	(141,701)	(87,507)
Acquisitions	(141,456)	(6,544)	(6,544)
Proceeds on sale of property, plant and equipment	12,489	193	108
Cash acquired from Redsky Energy Ltd.	6,904	—	—
Change in investing working capital	(9,844)	32,870	(7,210)
	(303,073)	(115,182)	(101,153)
Change in cash / cash, end of period	\$ —	\$ —	\$ —
Cash interest paid	\$ 14,539	\$ 9,882	\$ 7,356

See accompanying notes to consolidated financial statements.

The financial statements for the year ended December 31, 2005 include the operating results prior to the commencement of Trilogy Energy Trust's commercial operations on April 1, 2005, and these results were prepared on a carve-out basis from Paramount Resources Ltd. As described in note 1, these financial statements may not be indicative of the results that would have been attained if the Trust had operated as a stand-alone entity prior to April 1, 2005.

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

1. FORMATION OF THE TRUST

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. 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. The Trust’s consolidated statements of earnings and accumulated earnings and cash flows for the year ended December 31, 2005 include the audited consolidated results of operations and cash flows for the period from April 1, 2005 (commencement of commercial operations) to December 31, 2005, and the unaudited historic results of operations and cash flows for the three months ended March 31, 2005 which were prepared on a carve-out basis from Paramount Resources Ltd. (“Paramount”).

As a result of the basis of presentation described above, the comparative financial statements for the year ended December 31, 2005 may not be indicative of the results that would have been attained if the Trust had operated as a stand-alone entity prior to April 1, 2005.

2. 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 producing 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

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

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 five 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.

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

Financial instruments that do not qualify as hedges under Accounting Guideline 13, or are not designated as hedges, are recorded at fair value on Trilogy's consolidated balance sheet, with subsequent changes in fair value recognized in net earnings. Realized gains or losses from financial instruments are recognized in net earnings upon settlement.

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

Income Taxes

As the Trust distributes all of its taxable income to the Unitholders pursuant to its Trust Indenture and meets the requirements of the Income Tax Act (Canada) applicable to the Trust, no provision for income tax has been made in these consolidated financial statements since the commencement of the Trust's commercial operations (see note 13).

Unit-based Compensation

The Trust has a unit appreciation plan and an option plan for certain directors, officers and employees as described in note 9. 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.

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 date of the grant 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.

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. In calculating earnings per Trust Unit for the year ended December 31, 2005 which include a period before the establishment of Trilogy, the weighted average number of Trust Units (79,177,031 Trust Units) outstanding for the period from April 1, 2005 (Trilogy's date of commencement of operations) to December 31, 2005 was used.

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 and liabilities and the reported amounts of revenues and expenses during the reported periods. 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 purchase accounting, goodwill, depletion and depreciation, asset retirement obligations and related accretion, 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

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

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.

3. ACQUISITIONS

Redsky Acquisition

On March 31, 2006, Trilogy completed the acquisition of all of the shares of Redsky Energy Ltd. ("Redsky") for a consideration of 6,500,000 Trilogy Trust Units pursuant to a plan of arrangement. The consolidated financial statements include the operating results of Redsky from April 1, 2006.

The acquisition was accounted for using the purchase method. The following table summarizes the allocation of the purchase price based on the estimated fair value of the net assets acquired:

Net assets acquired	
Working capital (net of cash of \$6.9 million)	(5,461)
Petroleum and natural gas properties including undeveloped land	59,925
Asset retirement obligation	(595)
Goodwill	70,526
	124,395
Consideration	
Units issued	123,695
Acquisition costs	700
Purchase price	124,395

Blue Mountain Acquisition

On October 26, 2006, Trilogy completed the acquisition of all of the issued and outstanding shares of Blue Mountain Energy Ltd. ("Blue Mountain") for a cash purchase price of \$5.50 per Blue Mountain share plus the repayment of Blue Mountain's debt totaling approximately \$20.4 million. The consolidated financial statements include the operating results of Blue Mountain from October 26, 2006.

The acquisition was accounted for using the purchase method. The following table summarizes the preliminary allocation of the purchase price based on the estimated fair value of the net assets acquired:

Net assets acquired	
Working capital	(2,977)
Petroleum and natural gas properties including undeveloped land	87,690
Goodwill	62,397
Asset retirement obligation	(6,054)
	141,056
Consideration	
Cash (including payment of Blue Mountain debt of \$20.5 million)	140,156
Estimated acquisition costs	900
Estimated purchase price	141,056

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

4. PROPERTY, PLANT AND EQUIPMENT

	2006			2005		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	1,415,185	(575,154)	840,031	1,125,973	(454,964)	671,009
Other	2,738	(727)	2,011	1,423	(208)	1,215
	1,417,923	(575,881)	842,042	1,127,396	(455,172)	672,224

Capital costs associated with non-producing petroleum and natural gas properties totaling approximately \$144.0 million as at December 31, 2006 (2005 - \$72.1 million) were not subject to depletion. No interest costs were capitalized for the years ended December 31, 2006 and 2005.

The costs of exploratory dry holes amounting to \$22.3 million (\$5.4 million for the year and \$2.9 million for the nine months ended December 31, 2005) were written off and included in exploration expenditures. An asset impairment loss of \$2.4 million was also recognized during the year ended December 31, 2006 (2005 - \$nil) and was included as part of depletion and depreciation expense. The gain on sale of property, plant and equipment in 2006 pertains mainly to the disposition of Trilogy's 9.77 percent working interest in the Kaybob South Beaver Hill Lake Unit No. 1.

5. LONG-TERM DEBT

	2006	2005
Revolving credit and working capital facility	336,984	108,375
Non-revolving acquisition facility	77,400	—
Total debt	414,384	108,375
Less current portion	57,400	—
Long-term debt	356,984	108,375
Weighted average interest rate	5.12%	4.95%

The Trust has a \$355 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. 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 \$390 million borrowing base is subject to semi-annual review by the banks.

In conjunction with the Blue Mountain acquisition (see note 3), the Trust executed a junior secured non-revolving acquisition facility loan. The initial amount drawn was \$89.4 million and the outstanding amount as at December 31, 2006 was \$77.4 million. Subject to the revolving credit facility lenders' approval, repayment on this loan is due October 26, 2007. Borrowing under this facility bears interest at 1 to 2 percent in excess of the revolving credit facility interest rates. Advances drawn on this facility are secured by a fixed and floating charge over the assets of the Trust,

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

subordinated to the security of the revolving credit facility lenders. An amount of up to \$20.0 million outstanding from this facility can be refinanced through the revolving credit facility.

The Trust has undrawn letters of credit totaling \$9.3 million as at December 31, 2006. These letters of credit reduce the amount available for draw under the Trust's working capital facility.

6. ASSET RETIREMENT OBLIGATIONS

	2006	2005
Asset retirement obligations, beginning of year	42,706	63,674
Liabilities incurred	5,902	2,085
Revisions in estimate	—	(26,648)
Liabilities settled	(1,658)	(1,367)
Accretion expense	3,736	4,962
Liabilities relating to assets sold	(1,341)	—
Redsky acquisition (note 3)	595	—
Blue Mountain acquisition (note 3)	6,054	—
Asset retirement obligations, end of year	55,994	42,706

The undiscounted asset retirement obligations at December 31, 2006 is estimated to be \$228.2 million (2005 - \$189.1 million). The Trust's credit-adjusted risk-free rate increased in the fourth quarter of 2006 to 8.5 percent from 7.875 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 45 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.

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

Issued and Outstanding

No Special Voting Rights have been issued to date. The following is a summary of the changes in the Trust's unitholders' capital for the years ended December 31, 2006 and 2005:

	2006		2005	
	Trust Units	Amount	Trust Units	Amount
Balance at beginning of year	85,133,395	550,144	—	—
Initial Trust Unit issued upon settlement	—	—	1	1
Repurchase of initial Trust Unit	—	—	(1)	(1)
Trust Units issued in exchange for properties	6,500,051	124,396	79,133,395	618,780
Cash and other consideration paid upon the transfer of the original Trust assets	—	—	—	(205,211)
Trust Units issued under the Distribution Reinvestment Plan (note 8)	933,235	15,976	—	—
Trust Units issued for cash	—	—	6,000,000	148,500
Trust Units issuance costs	—	(700)	—	(11,925)
Balance at end of year	92,566,681	689,816	85,133,395	550,144

Redemption Right

Unitholders may redeem their Trust Units at any time by delivering their Trust Units Certificates to the 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 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

Under a normal course issuer bid through the facilities of the Toronto Stock Exchange, Trilogy may purchase up to 4,624,801 Trust Units during the period November 24, 2006 through November 23, 2007. No Trust Units were purchased through this normal course issuer bid as at December 31, 2006.

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

8. ACCUMULATED DISTRIBUTIONS

	2006				2005			
	Cash	DRIP	Accrual	Total	Cash	DRIP	Accrual	Total
Balance at beginning of year	122,656	—	68,107	190,763	—	—	—	—
Distributions paid/reinvested	261,998	15,976	—	277,974	122,656	—	—	122,656
Change in yearend accrual	—	—	(53,296)	(53,296)	—	—	68,107	68,107
Balance at end of year	384,654	15,976	14,811	415,441	122,656	—	68,107	190,763

On June 21, 2006, Trilogy adopted a Distribution Reinvestment Plan (the “DRIP”) which provides eligible unitholders with the opportunity to reinvest their cash distributions, on each distribution payment date, in 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.

On January 22, 2007, Trilogy announced its cash distribution for January 2007 at \$0.10 per Trust Unit. The distribution was paid on February 15, 2007 to Unitholders of record on January 31, 2007. On February 16, 2007, Trilogy also announced that its cash distribution for February 2007 will be \$0.10 per Trust Unit. The distribution is payable on March 15, 2007 to Unitholders of record on February 28, 2007.

9. UNIT BASED COMPENSATION

Unit Appreciation Plan

On April 1, 2005, the Trust offered certain employees, officers and directors a unit appreciation arrangement whereby such employees, officers and directors were granted appreciation units entitling the appreciation unitholders to receive cash payments calculated as the excess of the market price over the exercise price per appreciation unit on the exercise date. The exercise price per appreciation unit 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 appreciation units vest at subsequent anniversary dates with a termination date of December 15, 2008. A continuity of the unit appreciation rights for the years ended December 31, 2006 and 2005 is as follows:

	2006		2005	
	Exercise Price	No. of Unit Rights	Exercise Price	No. of Unit Rights
Balance at beginning of year	\$ 7.76	1,306,000	—	—
Granted	—	—	\$ 10.11	1,319,000
Exercised	5.90	(28,750)	\$ 8.81	(13,000)
Cancelled	5.76	(9,000)	—	—
Balance at end of year	5.28	1,268,250	\$ 7.76	1,306,000
Unit rights exercisable at end of year	5.28	506,750	\$ 7.76	230,000

A compensation recovery of \$2.7 million relating to the unit appreciation plan has been recognized in earnings for the year ended December 31, 2006 (2005 - \$8.9 million compensation expense). Of this amount, \$3.0 million compensation recovery (2005 - \$8.7 million expense) resulted from the valuation of the related unit-based compensation liability and \$0.3 million compensation expense (2005 - \$0.2 million) represented cash paid for the exercises of unit rights.

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

Unit Option Plan

The Trust has implemented a long-term incentive plan that allows management to award unit options to eligible directors, officers and employees. The majority of the outstanding options under this plan will vest in 2009 and 2010, and expire on April 30, 2011. A continuity of the unit option plan for the year ended December 31, 2006 is as follows:

	Weighted Average Exercise Price	Weighted Average Fair Value per Option	No. of Options
Balance at beginning of year	—	—	—
Granted	\$ 14.53	\$ 1.95	2,291,000
Cancelled	\$ 22.77	\$ 2.58	(30,000)
Balance at end of year	\$ 14.42	\$ 1.95	2,261,000
Unit options exercisable at end of year	\$ 14.90	\$ 1.99	45,000

The Trust has recorded a compensation expense of \$1.2 million for the year ended December 31, 2006 (2005 - \$nil) representing the amortization of the 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 4.18%
Expected life	—	4.5 years
Expected volatility	—	30% to 35%
Expected distributions	—	14% to 16%

Additional information about Trilogy's unit options outstanding as at December 31, 2006 is as follows:

Exercise Price Range	Weighted Average Contractual Life	Outstanding Options		Exercisable Options	
		Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$10.72 to \$11.89	4.3	1,175,000	10.75	25,000	10.72
\$18.03 to \$23.95	4.3	1,086,000	18.40	20,000	20.13
Total	4.3	2,261,000	14.42	45,000	14.90

Non-reciprocal Awards to Trust Employees

The Trust also recognized compensation expense of \$1.5 million for the year ended December 31, 2006 (2005 - \$0.5 million) with respect to the non-reciprocal awards of stock options to Trust employees made by Paramount. This amount was also credited to contributed surplus.

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

10. FINANCIAL INSTRUMENTS

Financial Sales Contracts

The Trust utilizes, from time to time, forward commodity price contracts that require financial settlements between counterparties. At December 31, 2006, the Trust has entered into financial forward arrangements as follows:

	Quantity	Price	Remaining Term
<i>Sales Contracts</i>			
NYMEX Fixed Price	50,000 MMBtu/d	\$ 10.51 U.S.	January 2007 – March 2007
WTI Fixed Price	2,000 Bbl/d	\$ 67.64 U.S.	January 2007 – December 2007
<i>Purchase Contract</i>			
NYMEX Fixed Price	30,000 MMBtu/d	\$ 8.19 U.S.	January 2007 – March 2007

The Trust elected not to designate the above financial instruments as hedges 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:

	2006	2005
Financial instrument asset	18,424	5,830
Financial instrument liability	—	(9,220)
Net financial instrument asset (liability)	18,424	(3,390)

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

Credit, Interest Rate and Foreign Currency Risks

Under a service 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 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 the normal conversions of U.S. Dollar denominated revenues into Canadian Dollar.

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

11. RELATED PARTY TRANSACTIONS

Paramount is a Unitholder of the Trust. On April 1, 2005, a wholly-owned subsidiary of Paramount entered into a Services Agreement with the Trust's subsidiary and administrator (Trilogy Energy Ltd.) whereby such Paramount subsidiary provides administrative and operating services to the Trust and its subsidiaries to assist Trilogy Energy Ltd. 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 shall be 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, 2007 but 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, 2008. The amount of expenses billed and accrued as management fees under this agreement was \$1.9 million for the year ended December 31, 2006 (\$4.2 million for the year ended December 31, 2005). This amount is included as part of the general and administrative expenses in the Trust's consolidated statement of earnings.

In addition, the Trust and Paramount also had transactions with each other arising from normal business activities, including a Crown royalty deposit claim of \$5.5 million. These transactions were recorded at exchange amounts.

The net amount due from Paramount arising from the above related party transactions as at December 31, 2006 was \$1.5 million (2005 - \$6.4 million). This amount consists of the royalty claim deposit described above net of \$3.7 million billings from Paramount arising from normal business activities and \$0.3 million accrued management fees.

Trilogy also had distributions payable to Paramount of \$2.4 million as at December 31, 2006 (2005 - \$12.0 million) with respect to the December distribution to Unitholders.

12. COMMITMENTS

	2007	2008	2009	2010	2011 and after	Total
Pipeline transportation	10,703	10,607	9,734	8,980	37,856	77,880
Gas processing	1,840	1,660	1,490	1,341	710	7,041
Office premises operating lease	1,630	2,196	1,896	1,596	10,374	17,692
Minimum capital expenditure	1,778	444	—	—	—	2,222
Total	15,951	14,907	13,120	11,917	48,940	104,835

Some of the above commitments on pipeline transportation are covered by undrawn letters of credit issued by the Trust as disclosed in note 5.

13. INCOME TAXES

As disclosed in note 2, no provision for income taxes has been made by the Trust since the commencement of its operations on April 1, 2005. The income taxes in 2005 were calculated for period prior to April 1, 2005 on a carve-out basis from Paramount.

On December 21, 2006, the Minister of Finance (the "Minister") released for comment draft legislation concerning the taxation of certain publicly traded trusts and partnerships. The legislation reflects proposals originally announced by the Minister on October 31, 2006. Under the proposed legislation, certain distributions will not be deductible to publicly traded income trusts and partnerships with the exception of real estate investment trusts and, as a result, these entities will, in effect, be taxed as corporations on the amount of non-deductible distributions. For entities in existence on

TRILOGY ENERGY TRUST

Notes to Consolidated Financial Statements

December 31, 2006

(tabular amounts expressed in thousand dollars except unit and per unit information)

October 31, 2006, the proposed rules, if passed into law, would not apply until 2011. Given that the legislation is not yet substantively enacted as at December 31, 2006, no adjustments have been made to reflect any impact that the proposed legislation may have on the consolidated financial statements.

As at December 31, 2006, tax pools were estimated to be \$169 million for tangibles and \$229 million for intangibles.

14. SUBSEQUENT EVENTS

The Trust entered into the following financial contracts subsequent to December 31, 2006:

	Quantity	Price	Term
Purchase Contracts			
NYMEX Fixed Price	20,000 MMBtu/d	\$ 7.695 U.S.	March 2007