



**NOTICE OF MEETING**

**AND**

**MANAGEMENT INFORMATION AND PROXY  
CIRCULAR**

**MEETING TO BE HELD AT:**

FIRST CANADIAN CENTRE  
350 – 7<sup>th</sup> AVENUE SOUTH WEST  
CALGARY, ALBERTA

IN THE

DISCOVERY ROOM

ON THURSDAY, MAY 17, 2007  
AT 2:00 PM (CALGARY TIME)

**March 5, 2007**



## NOTICE OF ANNUAL MEETING OF UNITHOLDERS

The annual meeting (the "Meeting") of the holders of units ("Unitholders") of Trilogy Energy Trust (the "Trust") will be held in the Discovery Room, First Canadian Centre, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, on Thursday, May 17, 2007, at 2:00 pm Calgary time, for the following purposes:

1. to receive the consolidated financial statements of the Trust for the year ended December 31, 2006, together with the report of the auditor thereon;
2. to elect the directors of Trilogy Energy Ltd. (the "Administrator");
3. to appoint the auditor of the Trust including all direct and indirect subsidiaries of the Trust for the ensuing year; and
4. to transact such other business as may properly come before the Meeting and any adjournment or adjournments thereof.

Unitholders who are unable to attend the Meeting in person are requested to date and sign the enclosed form of proxy and return it in the envelope provided for that purpose to Computershare Trust Company of Canada, the transfer agent for the Trust ("Computershare"), in person or by mail to 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department. To be valid, Unitholders' proxies must be deposited with Computershare at least 48 hours (excluding Saturdays and holidays) prior to the commencement of the Meeting or any adjournment or adjournments thereof.

Unitholders of record as at the close of business on March 28, 2007 will be entitled to receive notice of and to vote at the Meeting.

DATED at Calgary, Alberta, this 5th day of March, 2007.

BY ORDER OF THE BOARD OF DIRECTORS  
OF TRILOGY ENERGY LTD.  
In its capacity as Administrator of  
TRILOGY ENERGY TRUST

(signed) *Gail L. Yester*  
Corporate Secretary

## MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

### Solicitation of Proxies

**This Management Information and Proxy Circular (the "Circular") is furnished in connection with the solicitation of proxies by the management ("Management") of Trilogy Energy Ltd. (the "Administrator") for Trilogy Energy Trust (the "Trust"), for use at the annual meeting and any adjournment of the meeting (the "Meeting") of the holders (the "Unitholders") of trust units of the Trust ("Trust Units") to be held at the time and place and for the purposes set out in the notice of annual meeting of Unitholders ("Notice of Meeting") to which this Circular is attached.**

The Notice of Meeting and Circular are accompanied by a form of proxy. Proxies are solicited by Management to be used at the Meeting or any adjournment thereof. Solicitations will be primarily by mail but also may be by newspaper publication, in person or by telephone, fax or oral communication by directors, officers, employees or agents of the Administrator. All costs of the solicitation by Management will be paid by the Trust.

### Appointment and Revocation of Proxies

The persons named in the enclosed form of proxy are directors of the Administrator. **A Unitholder desiring to appoint some other person (who need not be a Unitholder) to represent such Unitholder at the Meeting may do so by striking out the designated names and inserting such person's name in the blank space provided in the enclosed form of proxy or by completing another form of proxy** and, in either case, delivering the completed proxy to the Trust's transfer agent, Computershare Trust Company of Canada ("Computershare"), in person or by mail to 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department. To be valid, Unitholders' proxies must be deposited with Computershare at least 48 hours (excluding Saturdays and holidays) prior to the commencement of the Meeting or any adjournment or adjournments thereof. Failure to so deposit a form of proxy shall result in its invalidation.

A Unitholder who has signed and returned the enclosed form of proxy may revoke it (a) by signing a proxy bearing a later date and delivering same to the Trust's transfer agent, Computershare, at the address set out above at least 48 hours (excluding Saturdays and holidays) prior to the commencement of the Meeting or any adjournment thereof, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by depositing written notice of revocation at the registered office of the Administrator at 4100, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9, or with the Trust's transfer agent, Computershare, at the address set out above at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof or by delivering it to the Chairman of the Meeting, or (c) by attending and voting at the Meeting.

### Voting of Proxies

**The Trust Units represented by the form of proxy will be voted or withheld from voting in accordance with the instructions of the Unitholder on any ballot that may be called for. If the Unitholder specifies a choice with respect to any matter to be acted upon the Trust Units will be voted accordingly.** If a choice is not specified, the person designated by Management in the accompanying form of proxy will vote the Trust Units represented by the form of proxy in favour of each matter identified.

## Exercise of Discretion by Proxyholders

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and to any other matters which may properly come before the Meeting. At the date of this Circular, Management knows of no such amendment, variation or matter to come before the Meeting other than the matters referred to in the enclosed Notice of Meeting. If other matters do properly come before the Meeting, it is the intention of the persons named in the enclosed form of proxy to vote such proxy in their best judgment.

## Notice to Beneficial Holders of Trust Units

The information in this section is of significant importance to many Unitholders, as a substantial number of Unitholders do not hold Trust Units in their own name. Unitholders who do not hold their Trust Units in their own name (referred to in this Circular as "Beneficial Unitholders") should note that only proxies deposited by Unitholders whose names appear on the records as the registered holders of Trust Units can be recognized and acted upon at the Meeting. If Trust Units are listed in an account statement provided to a Unitholder by a broker, then in almost all cases those Trust Units will not be registered in the Unitholder's name on the records. Such Trust Units will more likely be registered under the name of the Unitholder's broker or an agent of that broker. In Canada, the vast majority of such Trust Units are registered under the name of CDS & Co. (the registration name for CDS Clearing and Depository Services Inc., a wholly-owned subsidiary of The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms). The Trust does not know for whose benefit the Trust Units registered in the name of CDS & Co. are held. Trust Units held by brokers or their nominees can only be voted upon the instructions of the Beneficial Unitholder. Without specific instructions, brokers and their agents are prohibited from voting Trust Units for the broker's clients. **Therefore, Beneficial Unitholders should ensure that instructions respecting the voting of their Trust Units are communicated to the appropriate person.**

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Unitholders in advance of Unitholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to clients. These instructions should be carefully followed by Beneficial Unitholders in order to ensure that their Trust Units are voted at the Meeting. The form of proxy supplied to a Beneficial Unitholder by its broker (or the agent of that broker) is similar to the form of proxy provided to registered Unitholders. However, its purpose is limited to instructing the registered Unitholder (the broker or agent of the broker) how to vote on behalf of the Beneficial Unitholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to ADP Investor Communications Inc. (formerly Independent Investor Communications Corporation) ("ADP"). ADP typically mails a scannable voting instruction form ("Voting Instruction Form") in lieu of the form of proxy. The Beneficial Holder is requested to complete and return the Voting Instruction Form to ADP by mail. Alternatively, the Beneficial Unitholder can call a toll-free telephone number to convey his or her voting instructions for the Trust Units held by the Beneficial Unitholder or vote on-line over the Internet. ADP then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Trust Units to be represented at the Meeting. **A Beneficial Unitholder receiving a Voting Instruction Form cannot use that Voting Instruction Form to vote Trust Units directly at the Meeting as the Voting Instruction Form must be returned as directed by ADP well in advance of the Meeting in order to have the Trust Units voted.**

Although a Beneficial Unitholder may not be recognized directly at the Meeting for the purposes of voting Trust Units registered in the name of a broker (or agent of the broker) a Beneficial Unitholder may attend at the Meeting as proxyholder for the registered Unitholder and vote the beneficially owned Trust Units in that capacity. Beneficial Unitholders who wish to attend the Meeting and indirectly vote their

Trust Units as proxyholder for the registered Unitholder should enter their own names in the blank space on the instrument of proxy provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.

### **Record Date and Voting of Trust Units**

The record date for the Meeting is March 28, 2007. Unitholders of record at the close of business on the record date are entitled to receive notice of and to attend and vote at the Meeting. No person acquiring Trust Units after the record date shall be entitled to vote those Trust Units at the Meeting. Each Trust Unit entitles the holder thereof to one vote at the Meeting.

When any Trust Unit is held jointly by several persons, any one of them may vote at the Meeting in person or by proxy in respect of the Trust Unit. If, however, more than one of them shall be present at the Meeting, in person or by proxy, and such joint owners disagree as to any vote to be cast, the joint owner whose name appears first in the register of Unitholders maintained by the transfer agent of the Trust shall be entitled to cast the vote in person or by proxy.

### **Outstanding Trust Units and Principal Holders**

As at March 5, 2007, 92,566,681 Trust Units were issued and outstanding. To the knowledge of the directors and officers of the Administrator, no person or company beneficially owns, directly or indirectly, or has control or direction over Trust Units carrying more than ten percent (10%) of the voting rights attached to all of the issued and outstanding Trust Units as of March 5, 2007 other than: (1) Paramount Resources Ltd. which as of that date owned 15,035,345 Trust Units or approximately 16.24% of the then outstanding Trust Units, and (2) Clayton H. Riddell who as of that date beneficially owned or exercised control or direction over, directly or indirectly, 31,930,281 Trust Units representing 34.49% of the then outstanding Trust Units.

The information as to Trust Units beneficially owned is not within the knowledge of the Trust or the Administrator and has been derived from sources available to the Trust and the Administrator.

## **BUSINESS OF THE MEETING**

The trust indenture establishing the Trust (the "Trust Indenture") provides for annual meetings of Unitholders, the business of which shall include the election of the board of directors of the Administrator (the "Board"), the appointment of the auditor of the Trust including the direct and indirect subsidiaries of the Trust, to hold office until the next annual meeting, the placing before the Unitholders of the financial statements of the Trust for the previous financial year and any other business to be considered. Management knows of no other business to be considered at the Meeting.

### **Financial Statements**

The consolidated financial statements of the Trust for the year ended December 31, 2006, together with the auditors' report on those statements, will be placed before the Meeting and are contained in the Trust's 2006 Annual Report to Unitholders.

### **Election of Directors**

Unitholders will be asked at the Meeting to pass a resolution electing the directors of the Administrator. Management intends to nominate, and the persons named in the accompanying form of proxy intend to vote for election as directors of the Administrator, the persons whose names are set forth below. Management does not contemplate that any of the proposed nominees will be unable to serve as a

director. However, if for any reason any of the proposed nominees withdraw from standing for election or are unable to serve, proxies in favour of Management designees will be voted for another nominee in their discretion unless the Unitholder has specified in his or her proxy that his or her Trust Units are to be withheld from voting on the election of directors.

All proposed nominees have consented to be named in this Circular to stand for election and to serve as directors if elected. Each director elected will hold office until the close of the next annual meeting of Unitholders.

The following table sets out the name and principal occupation for the past five years of each proposed nominee. In addition, the table shows the period during which each proposed nominee has served as a director of the Administrator and the number of Trust Units that each proposed nominee has advised the Trust and the Administrator that he beneficially owns, directly or indirectly, or over which he exercises control or direction.

| <b>Name and Province/State and Country of Residence</b>              | <b>Director Since</b> | <b>Principal Occupation for Past Five Years</b>   | <b>Trust Units Beneficially Owned or Over Which Control or Direction is Exercised</b> |
|--|-----------------------|---|---|
| Clayton H. Riddell <sup>(1)(6)</sup><br>Calgary, Alberta, Canada     | April 1, 2005         | Chairman of the Board and Chief Executive Officer of Paramount Resources Ltd. (a petroleum and natural gas exploration company) ("Paramount").  | 31,930,281 <sup>(7)</sup>   |
| James H. T. Riddell <sup>(4)(5)(6)</sup><br>Calgary, Alberta, Canada | February 25, 2005     | President and Chief Operating Officer of Paramount since June 2002. Prior thereto, Mr. Riddell held various positions with Paramount.   | 381,506   |
| M. H. (Mick) Dilger <sup>(2)(4)</sup><br>Calgary, Alberta, Canada    | May 18, 2005          | Vice President, Business Development of Pembina Pipeline Corporation (a Canadian energy infrastructure corporation) since March 2005. Prior thereto, Mr. Dilger was the Chief Financial Officer of VISTA Midstream Solutions Ltd. (a Canadian energy infrastructure corporation) from 1999 until July 2003. | 6,000   |
| Wilfred A. Gobert <sup>(1)(3)</sup><br>Calgary, Alberta, Canada      | November 15, 2006     | Independent Businessman. Vice Chairman of Peters & Co. Limited (an investment firm specializing in the Canadian oil and gas industry) from September 2002 until May 2006. Prior thereto, Mr. Gobert was Managing Director, Research with Peters & Co. Limited since August 1979.                            | 11,300  |

| <u>Name and Province/State and Country of Residence</u>               | <u>Director Since</u> | <u>Principal Occupation for Past Five Years</u>   | <u>Trust Units Beneficially Owned or Over Which Control or Direction is Exercised</u> |
|---|-----------------------|---|---|
| Robert M. MacDonald <sup>(2)(3)(8)</sup><br>Calgary, Alberta, Canada  | April 1, 2005         | Independent Businessman and Corporate Director. Mr. MacDonald was the Director, Oil & Gas, Commercial Banking with CIBC World Markets Inc. (a global investment banking firm) from 1998 to 2003.  | 2,000   |
| E. Mitchell Shier <sup>(3)(4)</sup><br>Calgary, Alberta, Canada       | April 1, 2005         | A lawyer who has practised oil and gas and commercial law as a partner with Heenan Blaikie LLP (a national law firm) in Calgary since 2002. Prior thereto, Mr. Shier practiced oil and gas and commercial law as a partner with other major firms in Calgary. | 2,200   |
| Donald F. Textor <sup>(1)</sup><br>Locust Valley, New York,<br>U.S.A. | April 1, 2005         | Portfolio Manager, Dorset Energy Fund (an investment company) and Partner, Knott Partners Management LLC (an investment advisory firm). Mr. Textor was a partner and managing director at Goldman Sachs (a global investment banking firm) until 2001.        | 170,950   |
| John G. (Jack) Williams <sup>(1)(2)</sup><br>Calgary, Alberta, Canada | May 18, 2005          | President and Chief Executive Officer of Adeco Exploration Company Ltd. (a petroleum and natural gas exploration and development company).  | 2,000   |

**Notes:**

- (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 and Safety Committee.
- (5) Mr. J. H. T. Riddell was a director of Jurassic Oil and Gas Ltd. ("Jurassic"), a private oil and gas company, within one year prior to such company becoming bankrupt. Jurassic's bankruptcy was subsequently annulled.
- (6) While Messrs C. H. Riddell and J. H. T. Riddell hold executive offices with the Administrator and devote substantial time to the Administrator's business, they are not paid a salary by the Administrator for their services. Accordingly, their offices with the Administrator are not considered their principal occupation.
- (7) Of these 31,930,281 Trust Units, 23,424,506 are held by Warner Investment Holdings Ltd., 7,188,020 are held by Dreamworks Investment Holdings Ltd. and 485,700 are held by Paramount Oil & Gas Ltd., in all of which C.H. Riddell is the controlling shareholder. Paramount Resources Ltd., an associate of C. H. Riddell, owns 15,035,345 of the Trust Units.
- (8) Lead Director.

## Appointment of Auditor

The persons named in the accompanying form of proxy intend to vote for the appointment of PricewaterhouseCoopers LLP as the auditor of the Trust including the direct and indirect subsidiaries of the Trust until the next annual meeting of Unitholders. PricewaterhouseCoopers LLP has been the auditor of the Trust and certain of its direct and indirect subsidiaries since February 25, 2005.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets out information concerning the compensation earned by the Chief Executive Officer, the Chief Financial Officer and the three other executive officers of the Administrator who received the highest compensation for services performed for the Administrator in the year ended December 31, 2006, (collectively the "Named Executive Officers" or "NEOs").

| Name  | Year | Annual Compensation |                          |   | Long-Term Compensation Awards             |
|---|------|---------------------|--------------------------|---|---|
|   |      | Salary (\$)         | Bonus (\$)               | Other Annual Compensation <sup>(1)</sup> (\$) | Securities Under Options/SARs Granted (#) |
| Clayton H. Riddell <sup>(2)</sup><br>Chairman of the Board                  | 2006 | -                   | -                        | -   | 200,000 <sup>(7)</sup>                    |
|   | 2005 | -                   | -                        | -   | 200,000 <sup>(8)</sup>                    |
| James H. T. Riddell <sup>(2)</sup><br>President and Chief Executive Officer | 2006 | -                   | \$195,490 <sup>(9)</sup> | -   | 250,000 <sup>(7)</sup>                    |
|   | 2005 | -                   | -                        | -   | 250,000 <sup>(8)</sup>                    |
| Michael G. Kohut <sup>(3)</sup><br>Chief Financial Officer                  | 2006 | \$137,333           | -                        | -   | 250,000 <sup>(7)</sup>                    |
| Bernard K. Lee <sup>(4)</sup><br>Former Chief Financial Officer             | 2006 | \$60,583            | -                        | -   | -   |
|   | 2005 | \$91,558            | -                        | -   | 50,000 <sup>(8)</sup>                     |
| John B. Williams <sup>(5)</sup><br>Chief Operating Officer                  | 2006 | \$244,104           | \$190,733 <sup>(9)</sup> | -   | 200,000 <sup>(7)</sup>                    |
|   | 2005 | \$169,125           | -                        | -   | 140,000 <sup>(8)</sup>                    |
| Gail L. Yester <sup>(6)</sup><br>General Counsel and Corporate Secretary    | 2006 | \$174,263           | \$18,831 <sup>(9)</sup>  | -   | 60,000 <sup>(7)</sup>                     |

#### Notes:

- (1) The value of any additional compensation paid to the NEOs and not properly categorized as salary or bonus, including perquisites or other personal benefits, is less than \$50,000 and 10% of their annual salary.
- (2) Messrs. C. H. Riddell and J. H. T. Riddell hold executive offices with the Administrator and devote substantial time to the Trust's business, but they are not paid a salary by the Administrator for their services.
- (3) Mr. Kohut was appointed Chief Financial Officer on June 1, 2006. If he had held this position for the full year, his salary in 2006 would have been \$229,000.
- (4) Mr. Lee was appointed Chief Financial Officer on February 28, 2005 and resigned from this position on June 1, 2006. If he had held this position for the full year in 2005, his allocated salary in 2005 would have been \$122,077. If he had held this position for the full year in 2006, his allocated salary in 2006 would have been \$145,399. The amount shown as salary for Mr. Lee represents an allocation of a portion of the total salary paid by Paramount Resources Ltd. to Mr. Lee, (as an officer and employee of Paramount Resources Ltd.), which amount has been allocated to, and reimbursed by, the Administrator for services rendered by Mr. Lee as an officer of the Administrator pursuant to a Services Agreement dated April 1, 2005 between Paramount Resources, a wholly-owned subsidiary of Paramount Resources

- Ltd., and the Administrator, under which Paramount Resources provides administrative and operating services to the Trust and its subsidiaries.
- (5) Mr. Williams was appointed Chief Operating Officer on April 1, 2005. If he had held this position for the full year, his salary in 2005 would have been \$225,500.
- (6) Ms. Yester was appointed General Counsel and Corporate Secretary on June 1, 2006, prior to which she was Associate General Counsel and Assistant Corporate Secretary. Her salary for all of 2006 has been included.
- (7) Options to acquire Trust Units.
- (8) Appreciation Units. See the footnote to the table entitled “Aggregated SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End SAR Values for a description of Appreciation Units.”
- (9) The amounts included represent the value of the vested one-third of Trust Units granted in 2006 under the Trust Unit Incentive Plan; however, Mr. Williams’ bonus amount includes a cash payment of \$165,000. See “Trust Unit Incentive Plan” in the Executive Compensation Section for a description of the Trust Unit Incentive Plan.

### Option Grants During the Most Recently Completed Financial Year

| Name  | Securities under Options Granted (#) | Percent of Total Options Granted to Employees in 2006 | Exercise or Base Price (\$/Trust Unit) | Market Value of Securities Underlying Options on the Date of Grant (\$/Trust Unit) | Expiration Date                        |
|---|--------------------------------------|---|--|--|--|
| <b>Clayton H. Riddell</b><br>Chairman of the Board                  | 100,000<br>100,000                   | 11.70%  | 18.03<br>10.72                         | 18.03<br>10.72   | April 30, 2011<br>April 30, 2011       |
| <b>James H. T. Riddell</b><br>President and Chief Executive Officer | 125,000<br>125,000                   | 14.63%  | 18.03<br>10.72                         | 18.03<br>10.72   | April 30, 2011<br>April 30, 2011       |
| <b>Michael G. Kohut</b><br>Chief Financial Officer                  | 125,000<br>125,000                   | 14.63%  | 19.65<br>10.72                         | 19.65<br>10.72   | November 30, 2010<br>November 30, 2010 |
| <b>Bernard K. Lee</b><br>Former Chief Financial Officer             | -                                    | -   | -                                      | -  | -                                      |
| <b>John B. Williams</b><br>Chief Operating Officer                  | 100,000<br>100,000                   | 11.70%  | 18.03<br>10.72                         | 18.03<br>10.72   | April 30, 2011<br>April 30, 2011       |
| <b>Gail L. Yester</b><br>General Counsel and Corporate Secretary    | 30,000<br>30,000                     | 3.51%   | 18.03<br>10.72                         | 18.03<br>10.72   | April 30, 2011<br>April 30, 2011       |

### Aggregated Option Exercises During the Most Recently Completed Financial Year and Financial Year-End Option Values

| Name  | Trust Units Acquired on Exercise (#) | Aggregate Value Realized (\$) | Unexercised Options at December 31, 2006 |                    | Value of Unexercised in-the-Money Options at December 31, 2006 <sup>(1)</sup> |                    |
|---|--------------------------------------|-------------------------------|--|--------------------|---|--------------------|
|   |                                      |                               | Exercisable (#)                          | Unexercisable (#)  | Exercisable (\$)  | Unexercisable (\$) |
| <b>Clayton H. Riddell</b><br>Chairman of the Board                  | -                                    | -                             | -  | 100,000<br>100,000 | -   | \$68,000<br>Nil    |
| <b>James H. T. Riddell</b><br>President and Chief Executive Officer | -                                    | -                             | -  | 125,000<br>125,000 | -   | \$85,000<br>Nil    |

| Name  | Trust Units Acquired on Exercise (#) | Aggregate Value Realized (\$) | Unexercised Options at December 31, 2006 |                   | Value of Unexercised in-the-Money Options at December 31, 2006 <sup>(1)</sup> |                    |
|---|--------------------------------------|-------------------------------|--|-------------------|---|--------------------|
|   |                                      |                               | Exercisable (#)                          | Unexercisable (#) | Exercisable (\$)  | Unexercisable (\$) |
| <b>Michael G. Kohut</b><br>Chief Financial Officer                  | -                                    | -                             | -  | 125,000           | -   | \$85,000<br>Nil    |
| <b>Bernard K. Lee</b><br>Former Chief Financial Officer             | -                                    | -                             | -  | -                 | -   | -                  |
| <b>John B. Williams</b><br>Chief Operating Officer                  | -                                    | -                             | -  | 100,000           | -   | \$68,000<br>Nil    |
| <b>Gail L. Yester</b><br>General Counsel and<br>Corporate Secretary | -                                    | -                             | -  | 30,000            | -   | \$20,400<br>Nil    |

**Note:**

(1) Based upon the trading price of \$11.40 for a Trust Unit on the Toronto Stock Exchange on Friday, December 29, 2006, the last trading day prior to December 31, 2006.

**Aggregated SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End SAR Values**

| Name  | Trust Units Acquired on Exercise (#) | Aggregate Value Realized (\$) | Unexercised SARs <sup>(1)</sup> at December 31, 2006 |                   | Value of Unexercised in-the-Money SARs at December 31, 2006 <sup>(2)</sup> |                    |
|---|--------------------------------------|-------------------------------|--|-------------------|--|--------------------|
|   |                                      |                               | Exercisable (#)                                      | Unexercisable (#) | Exercisable (\$)   | Unexercisable (\$) |
| <b>Clayton H. Riddell</b><br>Chairman of the Board                  | -                                    | -                             | 100,000  | 100,000           | \$612,000  | \$612,000          |
| <b>James H. T. Riddell</b><br>President and Chief Executive Officer | -                                    | -                             | 125,000  | 125,000           | \$765,000  | \$765,000          |
| <b>Michael G. Kohut</b><br>Chief Financial Officer                  | -                                    | -                             | -  | -                 | -  | -                  |
| <b>Bernard K. Lee</b><br>Former Chief Financial Officer             | -                                    | \$97,100                      | -  | 40,000            | -  | \$244,800          |
| <b>John B. Williams</b><br>Chief Operating Officer                  | -                                    | -                             | 70,000   | 70,000            | \$428,400  | \$428,400          |
| <b>Gail L. Yester</b><br>General Counsel and<br>Corporate Secretary | -                                    | -                             | 20,000   | 20,000            | \$122,400  | \$122,400          |

**Notes:**

(1) In 2005, the Trust granted Appreciation Units to its directors, officers and certain employees. Appreciation Units entitle the holder to receive, for each Appreciation Unit vested and exercised, a cash payment equal to the excess of the market price of a Trust Unit on the day preceding the exercise date over the base price of Appreciation Units as reduced. The base price of the

Appreciation Units is \$10.11 but is reduced by the aggregate distributions paid or payable on the Trust Units from the date of the grant to the exercise date. As of December 31, 2006, the reduced base price was \$5.28. No Trust Units are issued on exercise of Appreciation Units. No further grants of Appreciation Units are currently intended as this compensation program has been replaced by the Trust's Trust Unit Option Plan. See "Report on Executive Compensation – Trust Unit Appreciation Program".

(2) Based upon the trading price of \$11.40 for a Trust Unit on the Toronto Stock Exchange on Friday, December 29, 2006, the last trading day prior to December 31, 2006.

## **Composition of the Compensation Committee**

The Compensation Committee is comprised of Wilfred A. Gobert (Chair), Clayton H. Riddell, Donald F. Textor and J. G. (Jack) Williams. Clayton H. Riddell is the Chairman of the Board of the Administrator. He is also a member of the Compensation Committee of Paramount Energy Operating Corp., a wholly-owned subsidiary of Paramount Energy Trust and Chair of the Compensation Committee of Paramount Resources Ltd.

## **Report on Executive Compensation**

The role of the Board is to assess the performance, and review succession plans, of key executive positions. It is the responsibility of the Compensation Committee of the Board to make recommendations on executive compensation.

The compensation philosophy of the Trust is to be competitive with other natural resource and energy trusts in order to attract, retain and motivate a highly qualified workforce and provide career opportunities within the Trust. The compensation practice for executives is built around reward systems that recognize financial results and individual performance. Currently, three primary components comprise the compensation program: base salary, a unit incentive plan and long-term incentives provided through periodic trust unit option grants.

### ***Base Salary***

The charter of the Compensation Committee provides that the base salary for the Chief Executive Officer shall be approved by the Board. However, the Chief Executive Officer currently does not receive a salary from the Trust. Base salaries for all other designated officers are approved by the Compensation Committee. The base rates are intended to be competitive in the market applicable to the Trust's business and are intended to allow the organization to recruit and retain qualified employees. The Trust subscribes to a compensation survey prepared by an independent consultant to provide data to assist the Trust in maintaining competitive compensation plans.

### ***Trust Unit Appreciation Program***

The Board adopted a Trust Unit Appreciation program in 2005 and granted 1,319,000 appreciation units ("Appreciation Units") to directors, officers and certain employees of the Trust's subsidiaries effective April 1, 2005. Appreciation Units entitle the holder to receive, for each Appreciation Unit vested and exercised, a cash payment equal to the excess of the market price of a Trust Unit on the day preceding the exercise date over the base price of Appreciation Units as reduced. The base price of the Appreciation Units is \$10.11 but is reduced by the aggregate distributions paid or payable on the Trust Units from the date of the grant to the exercise date. As of December 31, 2006, the reduced base price was \$5.28. As of March 5, 2007, 41,750 Appreciation Units had been exercised. The Appreciation Units currently outstanding have various vesting terms. All Appreciation Units expire on December 15, 2008. No securities of the Trust are issuable pursuant to the Trust Unit Appreciation program.

The Trust Unit Option Plan replaced the Trust Unit Appreciation program in the spring of 2006. There is no current intention to make further grants of Appreciation Units.

### ***Trust Unit Incentive Plan***

The Trust adopted a Trust Unit Incentive Plan ("UIP") on April 10, 2006. The UIP is administered by the Compensation Committee and the Chief Executive Officer of Trilogy Energy Ltd. The intent of the UIP is to reward employees and officers of affiliates of the Trust who have met or exceeded their goals and shown exceptional performance contributing to the success of the Trust, as well as to encourage long-term investment and ownership of Trust Units. The awards are made annually, subject to specified performance targets being met, and are at the discretion of the Chief Executive Officer. Each employee and officer also has an individual target as determined by the Chief Executive Officer. The monetary value of the award is determined and divided by the fair market value of a Trust Unit, calculated as the five-day weighted average trading price for a Trust Unit on the Toronto Stock Exchange for the five trading days immediately preceding the grant, in order to determine the number of units an employee or officer is granted. The awarded units are purchased on the open market by a trustee on behalf of the grantees. One-third of the Trust Units granted vest immediately; one-third vest one year later and the final third vests two years later.

### ***Trust Unit Option Plan***

The Trust has a Trust Unit Option Plan (the "Plan"). The Plan was adopted by the Board on September 21, 2005 and was adopted by the Unitholders on May 9, 2006. The Plan is administered by the Board and the Compensation Committee or, at the discretion of the Board, any other duly authorized committee of the Board. Directors, officers and employees of the Administrator and the Trust's other subsidiaries may be granted options ("Options") to purchase Trust Units under the Plan. The purpose of the Plan is to provide effective long-term incentives to the directors, officers and employees of the Trust's subsidiaries and to reward them on the basis of the long-term Trust Unit trading price performance. Options hold no value if the trading price of the Trust Units does not appreciate. By this approach, executive and Unitholder interests are closely aligned.

The aggregate number of Trust Units that may be subject to all outstanding Options at the time of the grant, together with the aggregate number of Trust Units issuable by the Trust in connection with any other compensation arrangement involving the issuance of Trust Units from the treasury of the Trust, shall not exceed 10% of the outstanding Trust Units at that time. In addition, the aggregate number of Trust Units issued by the Trust in connection with exercises of Options, together with the aggregate number of Trust Units issued by the Trust in connection with any other compensation arrangement involving the issuance of Trust Units from the treasury of the Trust, in any one year period shall not exceed 10% of the outstanding Trust Units at the beginning of such one year period.

Because the Plan provides that a fixed percentage of issued and outstanding Trust Units can be reserved for issuance under the Plan rather than a fixed maximum number of Trust Units, the Toronto Stock Exchange requires Unitholders to approve the Plan every three years after it is instituted. Accordingly, Unitholder approval of the Plan will be sought again at the Trust's annual meeting in 2009.

The Board, the Compensation Committee or any other duly authorized committee of the Board shall determine the number of Trust Units subject to each Option, the exercise price of each Option, the expiration date of each Option and the extent to which each Option is exercisable from time to time during the term of the Option. The exercise price of any Option shall not be lower than the closing trading price of a Trust Unit on the Toronto Stock Exchange on the day immediately prior to the date of the grant of the Option. No financial assistance is provided by the Trust or any of its subsidiaries to facilitate the exercise of Options by holders. An Option will not be exercisable for a period exceeding ten years. Options are non-transferrable and non-assignable.

Vested Options may be surrendered for an amount equal to the excess, if any, net of any amounts required to be withheld under applicable legislation, of the volume weighted average trading price of the Trust Units on the Toronto Stock Exchange for the five trading days immediately prior to the date the Options are surrendered (the "VWAP") multiplied by the number of Trust Units represented by the Options surrendered, over the aggregate exercise price of the surrendered Options (the "Cash Settlement Amount"). Alternatively, vested Options may be surrendered for the number of Trust Units determined by dividing the net Cash Settlement Amount by the VWAP, and rounding down to the next highest whole number. In no circumstances will either the optionholder or the Trust, at any time, be obligated to surrender Options or accept the surrender of Options, as the case may be.

Under the Plan, Options are granted by the Trust's subsidiaries to their respective directors, officers and employees. Pursuant to an option support agreement among the Trust and its subsidiaries, upon the exercise of an Option or the surrender of rights under an Option in consideration for Trust Units as provided for in the Plan, the Trust will issue Trust Units to the applicable subsidiary to enable the subsidiary to satisfy its obligation to deliver Trust Units to the holder of such Option.

The Plan may be amended, suspended or discontinued by the Board at any time provided that no such amendment may adversely alter or impair any Option previously granted without the consent of the holder thereof. Any amendment to the Plan is subject to the approval of the Toronto Stock Exchange and Unitholders. However, amendments relating to the following matters may be approved by the Board without the approval of Unitholders, provided that such amendments do not contravene the requirements of the Toronto Stock Exchange or applicable securities law: (a) altering, extending or accelerating the terms of vesting applicable to any Option or group of Options; (b) altering the terms and conditions of vesting applicable to an Option or group of Options; (c) changing the termination provisions of an Option, provided that the change does not entail an extension beyond the original expiry date of such Option; (d) accelerating the expiry date of an Option; (e) determining the adjustment provisions pursuant to the Plan; (f) amending the definitions in the Plan and other amendments of a "housekeeping" nature; and (g) amending or modifying the mechanics of exercise of Options.

As of the date hereof, no Trust Units have been issued upon exercise of Options granted under the Plan and a total of 2,828,500 Trust Units are issuable upon exercise of currently outstanding Options, representing 3.06% of the issued and outstanding Trust Units as of the date hereof. These Options vest at various times over a four-year period.

#### ***Compensation of the Chief Executive Officer***

On an annual basis, the Compensation Committee reviews the compensation of J.H.T. Riddell, the Chief Executive Officer, and makes a recommendation to the Board for approval. In evaluating the compensation of Mr. Riddell, the Committee will consider his general management expertise and experience and his performance in light of the relevant goals and objectives. In addition to financial results, the Committee will consider factors relevant to the natural resource industry and the overall public image of the Trust. The evaluation against these criteria is directly related to the incentives and compensation awarded.

### **Summary**

In summary, the philosophy of the Compensation Committee is to administer an executive compensation plan that provides a competitive base salary together with performance awards that the Compensation Committee believes are in the best interests of Trilogy.

Submitted on behalf of the Compensation Committee

W. A. Gobert, Chair  
C. H. Riddell  
D. F. Textor  
J. G. (Jack) Williams

### **Equity Compensation Plan Information<sup>(1)</sup>**

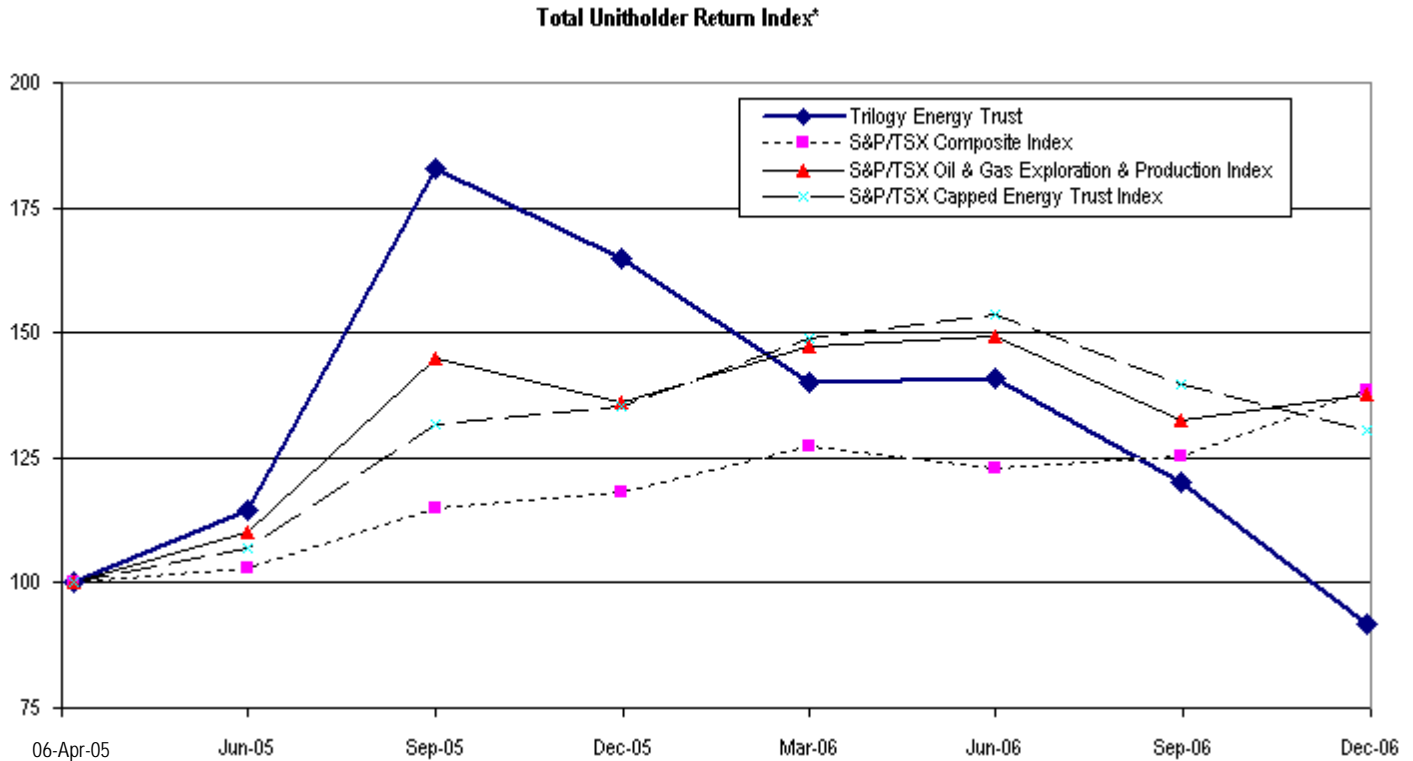
| <b>Plan Category</b>                                       | <b>Number of Trust Units to be issued upon exercise of outstanding Options</b> | <b>Weighted average exercise price of outstanding Options</b> | <b>Number of Trust Units remaining available for future issuance under the Trust Unit Option Plan</b> |
|--|--|---|---|
| <b>Trust Unit Option Plan approved by security holders</b> | 2,261,000  | \$14.423  | 6,995,668   |

**Note:**

(1) All information is as at December 31, 2006.

## Performance Graph

The following graph illustrates changes from April 6, 2005, the day the Trust Units began trading on the Toronto Stock Exchange, to December 31, 2006, in cumulative Unitholder return, assuming an initial investment of \$100 in Trust Units with all distributions on Trust Units reinvested in additional Trust Units, compared to the S&P/TSX Composite Index, the S&P/TSX Oil & Gas Exploration & Production Index and the S&P/TSX Capped Energy Trust Index, with all dividends and/or distributions reinvested



|  | 06-Apr-05 | Jun-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 | Sep-06 | Dec-06 |
|--|-----------|--------|--------|--------|--------|--------|--------|--------|
| Trilogy Energy Trust                             | 100.00    | 114.36 | 182.68 | 165.03 | 139.96 | 140.79 | 120.02 | 91.63  |
| S&P/TSX Composite Index                          | 100.00    | 102.84 | 114.80 | 118.09 | 127.51 | 123.04 | 125.40 | 138.47 |
| S&P/TSX Oil & Gas Exploration & Production Index | 100.00    | 110.18 | 144.98 | 136.06 | 147.09 | 149.36 | 132.34 | 137.85 |
| S&P/TSX Capped Energy Trust Index                | 100.00    | 106.79 | 131.57 | 135.35 | 148.70 | 153.84 | 139.86 | 130.31 |

\*prepared by Hay Group Limited

## **Compensation of Directors**

The aggregate cash compensation paid or payable, before deductions, to the eight directors, other than the non-independent directors, in the year ended December 31, 2006 was \$158,000. Independent directors receive \$1,000 for each meeting attended, including regular Board meetings, special Board meetings and committee meetings, as well as \$1,000 for each Unitholder meeting attended and for each attendance to sign resolutions or by-laws from time to time. They are also entitled to annual compensation in the amount of \$10,000. Annual compensation for the year ended December 31, 2006 is anticipated to be paid in May 2007. Independent directors were also granted an aggregate of Options to acquire 144,000 Trust Units for the year ended December 31, 2006 pursuant to the Trust Unit Option Plan. See "Report on Executive Compensation – Trust Unit Option Plan".

## **CORPORATE GOVERNANCE**

The Trust is committed to implementing best practices in corporate governance. The Corporate Governance Committee provides a focus on corporate governance that seeks to enhance the Trust's performance and ensure, on behalf of all stakeholders, that the Trust has an effective corporate governance regime.

The Corporate Governance Committee is presently comprised of E. M. Shier (Chair), R. M. MacDonald and W. A. Gobert. All members are independent within the meaning of independence set out in National Instrument 58-101.

In developing its approach to governance, the Committee has given consideration to applicable legislation, the Trust Indenture, the Administrator's by-laws, the organization, structure and ownership of the Trust as well as to existing policies reflecting the Trust's values.

The Trust was established during a period of significant regulatory focus on corporate governance and developed its approach to corporate governance with a view to ensuring compliance with the regulatory initiatives that have been adopted recently. The information required by National Instrument 58-101 *Disclosure of Corporate Governance Practices* is set out in Schedule A to this Circular, and the Mandate of the Board is set out in Schedule B. The information required by Multilateral Instrument 52-110 *Audit Committees* is included in the Trust's Annual Information Form dated March 2, 2007 (the "AIF") under the heading "Audit Committee Information" and the Audit Committee Charter is set out in Appendix C to the AIF.

## **ADDITIONAL INFORMATION**

Additional information about the Trust, including financial information, is provided in the Trust's financial statements and management's discussion and analysis for the year ended December 31, 2006, which can be found, along with all other publicly filed documents, on the Trust's website at [www.trilogyenergy.com](http://www.trilogyenergy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

For additional copies of this Circular or the financial statements and management's discussion and analysis for the year ended December 31, 2006, please contact Gail L. Yester, the Corporate Secretary of the Administrator, at 4100, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3N9.

## SCHEDULE A

### Trilogy Energy Trust<sup>1</sup>

#### Statement of Corporate Governance Practices

| Disclosure Requirement  | Our Corporate Governance Practices   |
|---|--|
| <b>1. Board of Directors</b>  |  |
| a. Disclose the identity of directors who are independent.  | R. M. MacDonald, D. F. Textor, E. M. Shier, M. H. Dilger, J. G. (Jack) Williams and W. A. Gobert are independent, in accordance with the meaning of independence set out in National Instrument 58-101 <i>Disclosure of Corporate Governance Practices</i> ("NI 58-101"). R. M. MacDonald, M. H. Dilger and J. G. (Jack) Williams, all of the members of the Audit Committee, are also independent as that term is defined in Multilateral Instrument 52-110 <i>Audit Committees</i> . |
| b. Disclose the identity of directors who are not independent, and describe the basis for that determination.   | C. H. Riddell and J. H. T. Riddell are not independent. C. H. Riddell is not independent because he is the Chairman of the Board and he has a familial relationship with the President and Chief Executive Officer (the "CEO") of the Administrator. J. H. T. Riddell is not independent because he is the President and CEO of the Administrator.   |
| c. Disclose whether or not a majority of directors is independent. If a majority of directors is not independent, describe what the board of directors does to facilitate its exercise of independent judgement in carrying out its responsibilities. | A majority of the directors are independent.   |
| d. If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.   | The following directors are also directors or trustees of the reporting issuers (or the equivalent) set out beneath their names:<br><br><b>C. H. Riddell</b><br><br>Paramount Energy Operating Corp., Administrator of<br>Paramount Energy Trust<br>Paramount Resources Ltd.<br>Newalta Income Fund<br>MGM Energy Corp.<br>Duvernay Oil Corp.  |

<sup>1</sup> Trilogy Energy Trust (the "Trust") has delegated the responsibility for the overall stewardship of the conduct of the business of the Trust and its subsidiaries and the activities of management to its Administrator, Trilogy Energy Ltd. Accordingly, this statement of corporate governance practices describes the corporate governance practices of Trilogy Energy Ltd. However, where the context requires, references to the Trust refer collectively to the Trust and Trilogy Holding Trust, Trilogy Energy LP, Trilogy Energy Ltd. and all other direct and indirect subsidiaries of the Trust.

## Disclosure Requirement

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- e. Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.
- f. Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead director that is independent, describe what the board does to provide leadership for its independent directors.

## Our Corporate Governance Practices

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### **J.H.T. Riddell**

Paramount Resources Ltd.  
MGM Energy Corp.  
Big Rock Brewery Income Trust

### **Robert M. MacDonald**

Newalta Income Fund

### **Donald F. Textor**

EOG Resources, Inc.

### **M.H. Dilger**

Mahalo Energy Ltd.

### **Wilfred A. Gobert**

Gluskin Sheff + Associates Inc.  
Saxon Energy Services Inc.  
Catapult Energy 2006 Inc. (General Partner of  
Catapult Energy Small Cap FTS Limited  
Partnership)  
Catapult Energy Management 2007 Inc. (General  
Partner of Catapult Energy Small Cap 2007 FTS  
Limited Partnership)

Trilogy recently instituted regularly scheduled meetings of independent directors. One such meeting has been held since the beginning of the Trust's most recently completed financial year. In 2006, both the Corporate Governance Committee and the Audit Committee met without management being present.

C. H. Riddell, the Chairman of the Board, is not an independent director. Mr. R. M. MacDonald has been appointed Lead Director, to assist the Board in fulfilling its duties effectively, efficiently and, when necessary, independently of management of Trilogy. The Lead Director's responsibilities include, among other things, ensuring that the differences between the responsibilities of the Board and management are understood by the Board and management, ensuring the Board has adequate resources to support its decision-making requirements, ensuring a process is in place to monitor legislation and best practices, assisting and providing input to the Chairman of the Board on preparation of agendas for Board meetings as required, ensuring that independent directors have adequate opportunities to meet to discuss issues without management present, acting as a liaison between the independent directors and management as required, and chairing meetings as required.

- g. Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year.

|                       | <u>Board Meetings<br/>Attended</u> |
|-----------------------|------------------------------------|
| C. H. Riddell         | 10 of 10                           |
| J.H.T. Riddell        | 10 of 10                           |
| M.H. Dilger           | 9 of 10                            |
| W.A. Gobert           | 1 of 1                             |
| R.M. MacDonald        | 9 of 10                            |
| E.M. Shier            | 10 of 10                           |
| D.F. Textor           | 10 of 10                           |
| J.G. Williams         | <u>8 of 10</u>                     |
| Total Attendance Rate | 94.4%                              |

**2. Board Mandate**

- a. Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.

The Mandate of the Board is attached as Schedule B.

**3. Position Descriptions**

- a. Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.

The Board has developed position descriptions for the Chairman of the Board and the chair of each Board committee.

- b. Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO.

The Board and CEO have developed a position description for the CEO.

**4. Orientation and Continuing Education**

- a. Briefly describe what measures the board takes to orient new directors regarding:

A Corporate Governance Manual is provided to assist new and existing Board members in understanding the role of the Board, its committees and the contribution individual Board members are

- (i) the role of the board, its committees and its

directors, and

(ii) the nature and operation of the issuer's business.

- b. Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.

expected to make. New directors will be made aware of the nature and operation of the business of the Trust through interviews with the Chairman and management during which they are briefed on the Trust and its current business issues, and also through a review of operations which is presented to the Board semi-annually. In addition, the Trust plans to arrange field trips to the Trust's operations as appropriate.

An orientation program for new directors will be provided as required. Directors are provided with any available information that will facilitate the maintenance of their industry knowledge and professional skills. Directors are continuously updated on the business operations of the Trust through the semi-annual sessions to review operations. The Trust intends to facilitate directors' field trips to the Trust's areas of operation as appropriate. Directors are also updated on developments in best corporate governance practices through reports from the Corporate Governance Committee and on changes to financial reporting requirements through presentations from the auditors of the Trust.

## 5. Ethical Business Conduct

- a. Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code:

(i) disclose how a person or company may obtain a copy of the code;

The Board has adopted a written Code of Business Conduct for all directors, officers, employees and consultants and a Code of Ethics for the CEO, President, CFO and senior financial supervisors. Both documents are available on the Trust's website at [www.trilogyenergy.com](http://www.trilogyenergy.com) and on SEDAR. In addition, each director has a copy of the Corporate Governance Manual which sets out the standard of conduct expected of directors as does the Disclosure and Insider Trading Policy of the Trust. The Board has also adopted a Whistleblower Policy.

Should anyone wish a hard copy of the Code of Business Conduct or the Code of Ethics, they may be obtained on request from G. L. Yester, Corporate Secretary, at 4100, 350 7<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3N9.

(ii) describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and

Each director, officer, employee and consultant receives a copy of the Code of Business Conduct on commencing his or her association with the Trust and is asked to certify that the Code of Business Conduct has been read and has and will be complied with. Currently, the Trust monitors compliance by receiving, annually, certificates from the officers of the Trust confirming their compliance with the Code of Business Conduct and, to their knowledge,

compliance by employees and consultants under their direct supervision.

(iii) provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.

No material change reports have been filed by the Trust during the 2006 financial year relating to a director's or executive officer's departure from either the Code of Business Conduct or the Code of Ethics.

b. Describe any steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.

Directors and officers must disclose all interests and relationships of which the director or officer is aware which may give rise to a conflict of interest. Directors are also required to disclose any actual or potential personal interest in a matter on which the Board is making a decision and withdraw from the deliberations. In addition, the Board Mandate provides that directors have the responsibility to act honestly and in good faith with a view to the best interests of the Trust.

c. Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.

All directors, officers, employees and consultants are provided with a copy of the Code of Business Conduct which stresses that employees and consultants are expected and required to adhere to the highest ethical standards. Directors, officers, employees and consultants are asked to certify their review of and compliance with the provisions of the Code of Business Conduct and, both initially and on an ongoing basis, any actual or potential conflict of interest situations they are in. The Trust has also adopted a Disclosure and Insider Trading Policy which provides additional guidance on legal and ethical conduct required of all directors, officers, employees and consultants of the Trust and its affiliates. This Policy is available on the Trust's website at [www.trilogyenergy.com](http://www.trilogyenergy.com) or may be requested from G. L. Yester, General Counsel and Corporate Secretary at 4100, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9.

## 6. Nomination of Directors

a. Describe the process by which the board identifies new candidates for board nomination.

The Corporate Governance Committee is responsible, in conjunction with the Chairman of the Board, for identifying new candidates for nomination to the Board and recommending them to the Board when appropriate. Upon there being a vacancy on the Board or a determination having been made that the Board should be expanded, the Corporate Governance Committee will meet to review whether there are particular competencies needed by the

Board and to set forth the criteria in the selection process. The Committee will also determine whether any of the members are aware of potential candidates and will also review the advisability of securing independent consultants to assist in the search. Once a suitable candidate or candidates are identified, the Committee will meet with the Chairman for input, after which time, the candidate or candidates will be presented to the Board. The Board will discuss the competencies of the various candidates and, if applicable, identify one or more to be approached. The Board will also determine which Board member should make the contact after which that member will report back to the Board.

- b. Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process.
  
- c. If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.

The nominating function is performed by the Corporate Governance Committee. The Corporate Governance Committee is composed entirely of independent directors within the meaning of independence set out in NI 58-101.

The Corporate Governance Committee is responsible for considering the appropriate size of the Board, establishing the criteria for Board membership, assessing the competencies and skills of each existing director and any new nominees with a view to achieving competencies and skills that the Board as a whole should possess, proposing candidates for election or re-election and ensuring there is an orientation program in place for new Board members and a continuing education program in place for all directors.

## 7. Compensation

- a. Describe the process by which the board determines the compensation for the issuer's directors and officers.

The Corporate Governance Committee Charter provides that the Corporate Governance Committee will periodically review the adequacy and form of compensation of directors to ensure that the level of compensation realistically reflects the responsibilities and risks involved in being an effective director and reports and make recommendations to the Board accordingly.

The annual bonus and other benefits, direct and indirect, of the CEO is approved by the Compensation Committee. The Compensation Committee also approves the compensation for all other designated officers after considering the recommendations of the CEO, all within the compensation policies and general human resources policies and guidelines concerning employee compensation and benefits approved by the Board.

b. Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation.

The Compensation Committee is composed of three independent members, and one member who is not independent within the meaning of independence set out in NI 58-101. The Chairman of the Compensation Committee is independent. The Trust participates in an annual compensation survey conducted by independent consultants encompassing, *inter alia*, executive compensation. This survey examines the salary, benefits and other incentive programs in effect with other oil and gas issuers operating in Canada.

c. If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.

In addition to the Compensation Committee's responsibilities discussed in 7 a. above, the Compensation Committee also ensures that the Trust has programs in place to attract and develop management of the highest caliber and to ensure orderly succession of management; implements and administers compensation and general human resources policies and guidelines concerning executive compensation, contracts, stock option and other incentive plans, and proposed personnel changes involving officers reporting to the CEO; reviews the Trust's policies and programs relating to benefits; receives the CEO's recommendations relating to annual compensation policies and budgets for all employees, reviews the Trust's compensation policies and overall labour relations strategy; reports to the Board on the Committee's recommendations with regard to compensation of the CEO; and develops a calendar of annual activities to be undertaken by the Committee.

d. If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.

No compensation consultant or advisor has, at any time since the beginning of the 2006 financial year, been retained to assist in determining compensation for any of the directors and officers.

## 8. Other Board Committees

a. If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

The nominating function is performed by the Corporate Governance Committee as described above. The Board's fourth standing committee is the Environmental, Health and Safety Committee. The Committee's purpose is to review and monitor the environmental and employee health and safety policies and activities of the Trust and its subsidiaries.

In addition, the Audit Committee is responsible for, inter alia, reviewing the Trust's procedures relating to the disclosure of information with respect to oil and gas activities, including its procedures for complying with the requirements of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. The Audit Committee also reviews the appointment of the independent engineering firm responsible for evaluating the Trust's reserves and reviews the reserves data and the report of the reserves evaluator prior to making recommendations to the Board with respect thereto.

## 9. Assessments

- a. Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.

The Board is responsible for making regular assessments of its effectiveness as well as the effectiveness and contribution of each Board committee and each individual director. The Corporate Governance Committee establishes and administers a process (including a review by the full Board and discussion with management) for assessing the effectiveness of the Board as a whole and the Board committees. A Board assessment and evaluation questionnaire is included in the Corporate Governance Manual and each director, as part of the overall assessment process, completes a questionnaire on an annual basis.

In addition, each Board committee conducts an annual review and assessment of its performance, including compliance with its charter and its role, duties and responsibilities and submits a report to the Board for consideration and recommendations.

## **SCHEDULE B**

### **TRILOGY ENERGY LTD. BOARD OF DIRECTORS MANDATE**

#### **A. INTRODUCTION**

Trilogy Energy Ltd. (the "Corporation") is the Administrator of Trilogy Energy Trust (the "Trust") and Trilogy Holding Trust ("Holding Trust") and is the general partner of Trilogy Energy LP (the "Partnership"), an Alberta limited partnership indirectly owned by the Trust. Pursuant to the Trust Indenture of the Trust dated February 25, 2005, as amended and restated from time to time, and pursuant to an Administration Agreement dated February 25, 2005 among the Corporation, the Trust and Holding Trust, the Board of Directors of the Corporation (the "Board") has the responsibility for the overall stewardship of the conduct of the business of the Trust and its subsidiaries and the activities of management of the Corporation, which is responsible for the day-to-day conduct of the business of the Trust. Where the context requires, references to the "Trust" refer collectively to the Trust, Holding Trust, the Partnership, the Corporation and all other direct and indirect subsidiaries of the Trust.

The Board's fundamental objectives are to enhance and preserve long-term unitholder value, to ensure the Trust meets its obligations on an ongoing basis and that the Trust operates its business in a reliable and safe manner. In performing its functions, the Board should also consider the legitimate interests other stakeholders such as employees, customers and communities may have in the Trust. In overseeing the conduct of the business, the Board, through the Chief Executive Officer, shall set the standards of conduct for the Trust.

#### **B. PROCEDURES AND ORGANIZATION**

The Board operates by delegating certain of its powers to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting its Chair, nominating candidates for election to the Board, constituting committees of the Board and determining Director compensation. Subject to the Articles and By-Laws of the Corporation, the *Business Corporations Act* (Alberta) (the "Act") and the terms of the Trust Indenture and the Administration Agreement, the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

#### **C. DUTIES AND RESPONSIBILITIES**

The Board's principal duties and responsibilities fall into a number of categories which are outlined below.

##### **1. Legal Requirements**

- (a) The Board has the responsibility to ensure that legal requirements have been met and documents and records have been properly prepared, approved and maintained;
- (b) The Board has the responsibility to:
  - (i) manage the business and affairs of the Corporation, the Partnership and the Trust;
  - (ii) act honestly and in good faith with a view to the best interests of the Corporation, the Partnership and the Trust;

- (iii) in its capacity as administrator of the Trust, to exercise the care, diligence and skill that a reasonable, prudent trustee would exercise in comparable circumstances; and
  - (iv) act in accordance with its obligations contained in the Trust Indenture and the Administration Agreement, the *Business Corporations Act* (Alberta) and the regulations thereto, the Corporation's Articles and By-Laws, securities legislation of each province and territory of Canada, and other relevant legislation and regulations;
- (c) The Board has the responsibility for considering the following matters as a full Board which shall not be delegated to management or to a committee of the Board:
  - (i) any submission to the unitholders of the Trust of a question or matter requiring the approval of the unitholders;
  - (ii) the filling of a vacancy among the directors or in the office of auditor;
  - (iii) the issuance of securities of the Trust or the Corporation;
  - (iv) the declaration of distributions of the Trust;
  - (v) the purchase, redemption or any other form of acquisition of securities issued by the Trust;
  - (vi) the payment of a commission to any person in consideration of his/her purchasing or agreeing to purchase securities of the Trust from the Trust or from any other person, or procuring or agreeing to procure purchasers for any such shares;
  - (vii) the approval of management proxy circulars of the Trust;
  - (viii) the approval of the annual financial statements of the Trust, the Trust's management discussion and analysis and annual information form; and
  - (ix) the adoption, amendment or repeal of By-Laws of the Corporation.

## **2. Independence**

The Board has the responsibility to ensure that appropriate structures and procedures are in place to facilitate the Board to function independently of management. In this regard, the Board shall consist of a majority of "independent directors"<sup>i</sup>, as that term is defined in Section 1.4 of Multilateral Instrument 52-110, *Audit Committees* or such guidelines as may hereafter replace the same. The independent board members should hold separate, regularly scheduled meetings at which non-independent directors and members of management are not in attendance.

## **3. Strategy Determination**

The Board has the responsibility to ensure there are long-term goals and a strategic planning process in place for the Trust and to participate with management directly or through its committees in developing and approving, as required, the mission of the business of the Trust and

the strategic plan by which it proposes to achieve its goals, which strategic plan takes into account, among other things, the opportunities and risks of the Trust's business.

#### **4. Managing Risk**

The Board has the responsibility to understand the principal risks of the business in which the Trust is engaged, to achieve a proper balance between risks incurred and the potential return to unitholders, and to ensure there are appropriate systems in place which effectively monitor and manage those risks with a view to the long-term viability of the Trust.

#### **5. Division of Responsibilities**

The Board has the responsibility to:

- (a) appoint and delegate responsibilities to committees where appropriate to do so; and
- (b) develop position descriptions for:
  - (i) the Chair of the Board;
  - (ii) the President and Chief Executive Officer;
  - (iii) the Chief Operating Officer; and
  - (iv) the Chief Financial Officer.

#### **6. Appointment, Training and Monitoring Senior Management**

The Board has the responsibility:

- (a) to appoint the Chief Executive Officer, to monitor and assess the Chief Executive Officer's performance, to determine and approve the Chief Executive Officer's compensation, and to provide advice and counsel in the execution of the Chief Executive Officer's duties;
- (b) to approve the appointment and remuneration of all other designated corporate officers, acting upon the advice of the Chief Executive Officer;
- (c) to the extent feasible, to satisfy itself as to the integrity of the Chief Executive Officer and other corporate officers and that the Chief Executive Officer and other corporate officers create a culture of integrity throughout the organization;
- (d) to ensure that adequate provision has been made to train and develop management and for the orderly succession of management; and
- (e) to ensure that management is aware of the Board's expectations of management.

## **7. Policies, Procedures and Compliance**

The Board has the responsibility:

- (a) to ensure that the Trust and its affiliates operate at all times within applicable laws and regulations and to the highest ethical and moral standards;
- (b) to approve and monitor compliance with significant policies and procedures by which the Trust and its affiliates are operated;
- (c) to ensure the Trust and its affiliates sets high environmental standards in its operations and is in compliance with environmental laws and legislation; and
- (d) to ensure the Trust and its affiliates has in place appropriate programs and policies for the health and safety of its employees in the workplace.

## **8. Reporting and Communication**

The Board has the responsibility:

- (a) to ensure the Trust has in place policies and programs to enable the Trust to communicate effectively with its unitholders, other stakeholders and the public generally;
- (b) to ensure that the financial performance of the Trust is adequately reported to unitholders, other security holders and regulators on a timely and regular basis;
- (c) to ensure that the financial results are reported fairly and in accordance with generally accepted accounting standards;
- (d) to ensure the timely reporting of any other developments that have a significant and material impact on the value of the Trust;
- (e) to report annually to unitholders on its stewardship of the affairs of the Trust for the preceding year; and
- (f) to develop appropriate measures for receiving unitholder feedback.

## **9. Monitoring and Acting**

The Board has the responsibility:

- (a) to monitor the Trust's progress towards its goals and objectives and to revise and alter its direction through management in response to changing circumstances;
- (b) to take action when performance falls short of its goals and objectives or when other special circumstances warrant;
- (c) to ensure that the Trust has implemented adequate internal control and management information systems which ensure the effective discharge of its responsibilities; and

- (d) to make regular assessments of the Board's effectiveness, as well as the effectiveness and contribution of each Board Committee and each individual director, which responsibility has been delegated to the Corporate Governance Committee in conjunction with the Chairman of the Board.

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<sup>1</sup> 1.4 **Meaning of Independence --**

- (1) An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
- (2) For the purposes of subsection (1), a "material relationship" means a relationship which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgment.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
  - (a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
  - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
    - (c) an individual who:
      - (i) is, a partner of a firm that is the issuer's internal or external auditor;
      - (ii) is an employee of that firm; or
      - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time.
  - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
    - (i) is a partner of the firm that is the issuer's internal or external auditor;
    - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice; or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;
  - (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer's current executive officers serves or served at the same time on the entity's compensation committee; and
  - (f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.
- (4) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because:
  - (a) he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or
  - (b) he or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- (6) For the purposes of clause (3)(f), direct compensation does not include:
  - (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer; and
  - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
- (7) Despite subsection (3) an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member: (a) has previously acted as an interim chief executive officer of the issuer; or (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.
- (8) For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.