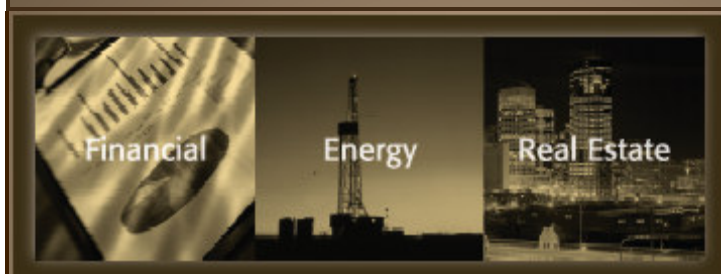


## Avenir Diversified Income Trust



### THIRD QUARTER 2007 FINANCIAL HIGHLIGHTS & REVIEW

<b>TOTAL CONSOLIDATED FINANCIAL SUMMARY</b>						
<i>(in thousands except for per unit amounts)</i>	<b>For the three months ended Sept 30</b>			<b>For the nine months ended Sept 30</b>		
	<b>2007</b>	<b>2006<sup>3</sup></b>	<b>% Change</b>	<b>2007</b>	<b>2006<sup>3</sup></b>	<b>% Change</b>
Total Revenue	\$188,481	\$211,784	(11)%	\$650,584	\$545,883	19%
Funds From Continuing Operations (FFCO) <sup>1</sup>	\$12,389	\$14,000	(12)%	\$41,694	\$40,635	3%
FFCO <sup>1</sup> Per Unit - Basic	\$0.30	\$0.34	(12)%	\$1.00	\$1.00	0%
Funds From Operations (FFO) <sup>1</sup>	\$13,212	\$14,328	(8)%	\$44,055	\$50,671	(13)%
FFO Per Unit <sup>1</sup> - Basic	\$0.32	\$0.35	(9)%	\$1.06	\$1.24	(15)%
Distributions <sup>4</sup>	\$10,422	\$10,401	0%	\$31,230	\$38,586	(19)%
Distributions Per Unit - Basic <sup>4</sup>	\$0.25	\$0.25	0%	\$0.75	\$0.95	(21)%
Distribution Payout Ratio <sup>2</sup>	79%	73%	(8)%	71%	76%	7%
Net Income from continuing operations (NICO)	\$4,248	\$7,555	(44)%	\$16,510	\$24,310	(32)%
NICO Per Unit - Basic	\$0.10	\$0.18	(44)%	\$0.40	\$0.60	(33)%
Net Income	\$4,479	\$7,594	(41)%	\$17,481	\$28,009	(38)%
Net Income Per Unit - Basic	\$0.11	\$0.18	(39)%	\$0.42	\$0.69	(39)%
Total Assets	\$533,739	\$489,014	9%	\$533,739	\$489,014	9%
Working Cap. (Net Debt) including notes payable <sup>1</sup> (not incl. Assets held for sale)	\$(38,641)	\$(38,838)	1%	\$(38,641)	\$(38,838)	1%
Wtd. Avg. Units Outstanding - Basic	41,721,239	41,094,054	2%	41,530,800	40,753,161	2%
Units Outstanding (including escrowed units)	41,885,916	41,773,367	0%	41,885,916	41,773,367	0%

<sup>1</sup> Funds from continuing operations, Funds from continuing operations per unit, Funds from operations, Funds from operations per unit and working capital (net debt) including notes payable are not recognized measures under Canadian generally accepted accounting principles (GAAP). Funds from operations is calculated by taking cash provided by operating activities on the statement of cash flows adjusted for the effect of changes in non-cash working capital and asset retirement costs incurred. Working capital (net debt) is calculated by taking current assets less current liabilities less notes payable. Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the Funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that "Funds from operations" and "Funds from operations per unit" should not be construed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP.

<sup>2</sup> Distribution Payout Ratio is not a recognized measure under GAAP. It is calculated by dividing the Distributions by the Funds from Operations.

<sup>3</sup> Comparative periods have been restated to conform to current period presentation – specifically relating to the reclassification of the assets of the Real Estate Division of the Trust as held for sale.

<sup>4</sup> The distributions for 2007 are lower than those in 2006 purely as a result of the spin out of the Energy Services Division in May of 2006 to Essential Energy Services Trust ("Essential"). The unitholders of the Trust who continue to hold the Essential Trust Units distributed on the spin-out receive a distribution from Essential which when combined with the Trust's distribution more that makes up the difference.

#### **Forward Looking Statements**

Except for historical financial and operating information contained herein, the matters discussed in this document may be considered forward-looking statements. Such statements include declarations regarding management's intent, belief or current expectations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties; actual results could differ materially from those indicated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is of a preliminary nature and may be subject to further adjustment, (ii) the possible unavailability of financing, (iii) risks related to the exploration and development of oil and gas properties, (iv) the impact of price fluctuations and the demand and pricing for oil and natural gas, (v) the seasonal nature of the business, (vi) start-up risks, (vii) general operating risks, (viii) dependence on third parties, (ix) changes in government regulation, (x) the effects of competition, (xi) dependence on senior management, (xii) financial condition of real estate tenants and financial services counterparts, (xiii) impact of the Canadian economic conditions or the demand for real estate leasing opportunities, (xiv) fluctuations in currency exchange rates and interest rates.

## President's Message

The Trust's diversification model continued to perform very well with funds from operations 9.5% ahead of expectations and a third quarter payout ratio of 79% in what is traditionally one of the Trust's weaker quarters. On a year to date basis, the Trust had a 71% payout ratio which is below our target payout ratio of 75% to 80%.

On an operational basis the Trust's strategy of diversification across multiple businesses and a balanced product mix in its Oil and Gas Division, continues to support the sustainability of the Trust's distributions.

### Quarterly Results Summary:

- Diversified business mix based on cash flows of 54% Financial Services; 40% Oil and Gas production and 6% Real Estate.
- Year to date payout ratio of 71% versus a target payout ratio of 75% to 80%.
- Balanced Q3 oil and gas product mix of 49% oil and 51% natural gas. High oil prices continue to offset weaker natural gas prices.
- Results of our internal review of the Alberta royalty rate changes are neutral to slightly positive as the Trust is not exposed to the high volume oil and gas wells most affected by the proposed changes.
- Despite dealing with abnormally high power prices in July, Q3 operating costs came in less than forecast in our Q2 outlook and we expect lower fourth quarter operating expenses in our Oil and Gas Division.
- Elbow River, although down from last year's third quarter, is well ahead of last year on a year to date basis. Timing differences in contract settlements and lower ethanol sales impacted the third quarter 2007 slightly, but we are well positioned for the fourth quarter 2007 and first quarter 2008, our strongest quarters.
- EnerVest's performance was very good early in the quarter, but was impacted at the end of the third quarter and into October and November with a sell off in the trust sector and yield products in general as a result of a sub-prime credit crunch fallout.
- Subsequent to the quarter, EnerVest completed a \$200 million exchange offering in EnerVest Diversified Income Trust ("the Fund"). They were very selective as to the securities exchanged in recognition of the discount to net asset value at which the Fund is currently trading.
- The Trust has had no exposure to the payday loan business since the first quarter of 2007.
- The decision was made to dispose of the Real Estate Division through a national realty broker. A sale is expected in mid first quarter 2008. Any sale will free up approximately \$30 million or more in proceeds and gain which we currently expect to reinvest in accretive opportunities to grow the Trust.

Operationally, the Trust continues to perform well. Our stock price has held up until recently when the impact of the sub prime credit crunch, and market uncertainty seemed to migrate down to Avenir Trust and the smaller trusts. We continue to be very confident in the sustainability of our distributions as evidenced by our continued strong results. Further, we believe that our business model will provide a number of growth opportunities across our business lines for the balance of the year and beyond.



William M. Gallacher  
President & CEO

## REVIEW OF FINANCIAL RESULTS

The Trust had net income from continuing operations for the quarter ended September 30, 2007 of \$4.2 million down 44% over the \$7.6 million for the quarter ended September 30, 2006. Net income for the nine months ended September 30, 2007 was \$17.5 million or \$0.42 per unit versus \$28.0 million or \$0.69 per unit for the first nine months of 2006. Net income from continuing operations for the three and nine months of 2007 were down from 2006 as a result of new legislation regarding the taxation of income trusts and higher future crude oil prices causing an unrealized hedging loss versus an unrealized hedging gain in the previous year's quarter. A future income tax expense was recorded for the nine months ended September 30, 2007 versus a future tax recovery as a result of 2006 rate reductions for the same period in 2006. Both the three and nine month 2007 net income figures were also negatively impacted by the recognition of unrealized losses on financial instruments on financial hedges of \$0.7 million and \$0.8 million, respectively. This compares to an unrealized gain of \$2.2 million and \$4.2 million in the comparable periods in 2006. The comparatively lower nine month 2007 net income figure was also impacted by the spin-off of the Energy Services Division in the second quarter of 2006.

Funds from continuing operations were \$12.4 million for the third quarter ended September 30, 2007 down 12% from \$14.0 million in the comparable quarter of 2006. The decrease in funds from continuing operations for the quarter is primarily due to the redeployment of the financial services payday loan portfolio to lower yielding real estate investments. Elbow River's results, although slightly ahead of internal expectations, were down from the third quarter of 2006 due to reduced ethanol sales in 2007 and timing of product sales between the two years. The funds from operations for the third quarter 2007 were \$13.2 million or \$0.32 per unit versus \$14.3 million or \$0.35 per unit for the third quarter 2006. Funds from continuing operation for the nine months ended September 30, 2007 were \$41.7 million versus \$40.6 million in the same period in 2006. Higher year to date results in Elbow contributed to the increase. For the nine months ended September 30, 2007, funds from operations were \$44.1 million compared to \$50.7 million for the same period in 2006. The decrease in the nine month funds from operations numbers was primarily due to the spin out of the Energy Services Division in the second quarter of 2006 and the reclassification of the Real Estate Division as discontinued operations.

The Trust distributed \$10.4 million or \$0.25 per unit for the quarter ended September 30, 2007 versus \$10.4 or \$0.25 per unit distributed for the quarter ended September 30, 2006, distributions were flat reflecting the continued steady distributions of the Trust. For the quarter ended September 30, 2007 the payout ratio of 79% of funds from operations. For the nine months ended September 30, 2007 the payout ratio was 71% versus 76% for the first nine months of 2006 and a target payout ratio of 75% to 80%.

## REVIEW OF OPERATIONS

### 1. FINANCIAL SERVICES

At September 30, 2007 the Trust's Financial Services Division consisted of:

#### i. ENERVEST LIMITED PARTNERSHIP ("EnerVest") – MANAGEMENT CONTRACT

The income trust market closed the quarter on a negative note with investors concerned over the sub prime lending issues in the United States and the problems associated with asset backed securities in Canada. As a result of these issues and a tighter world credit market, the takeover activity in the income trust market that was prevalent earlier in the year has slowed. Assets under management for EnerVest declined during the quarter to \$2.02 billion; however, revenues were actually higher as average assets under management were up during July and August 2007.

During the quarter, the EnerVest Diversified Income Trust ("EDIT") announced an exchange offering which was marketed during September and October 2007. The offering closed after the quarter, on October 22, 2007, and raised approximately \$200.0 million. EnerVest, the manager of the EDIT, has agreed to reimburse all expenses related to the Exchange Offer incurred by EnerVest Diversified Income Trust. This will result in a delay in receiving any new cash flow from the closed offering. As well, in October, EnerVest closed a flow through offering raising \$9.0 million.

Finally, as required by the Canadian Security regulators, the Independent Review Committee established for EnerVest was formally activated on October 30, 2007.

## **ii. ELBOW RIVER MARKETING LIMITED PARTNERSHIP (“Elbow River”)**

The third quarter of 2007 was ahead of internal expectations due to solid pre-sales and reasonable spot sales activity. Bio-diesel continued to experience a slow domestic market due to high feedstock prices relative to diesel pricing, while the European market maintained its steady demand. Propane was slow as high product prices resulted in limited winter pre-buying. Butane was steady through the end of the summer-excess season as refiners tried to place barrels prior to switching into winter blending. Ethanol activity also picked up but was still behind 2006 levels, as excess production from new plants resulted in a market imbalance which led to increased opportunities.

The remainder of 2007 should be ahead of our third quarter numbers due to reasonable pre-sales and the normal fourth quarter pick-up in opportunities in the propane and butane areas. If winter weather materializes, propane sales should benefit from limited pre-buy activity as well as low U.S. and Eastern Canadian inventories. Butane demand is uncertain due to a heavy refinery turnaround scheduled in the fourth quarter which could moderate buying. Ethanol demand appears steady due to strong blending margins as a result of production over-supply combined with strong gasoline pricing. Bio-diesel should benefit from some new terminalling positions which will allow us to increase Elbow's overall volumes. Elbow will continue to closely monitor the potential changes to the U.S. Biofuels regulations to see how the company can best position themselves for the long-term.

## **iii. FINANCIAL SERVICE CONTRACTS**

Avenir Financial Services Limited Partnership has redeemed all of its financial services contracts that were outstanding leaving the Trust with no further exposure to the payday loan/cheque cashing industry.

## **2. ENERGY - Oil & Gas Operations**

For the third quarter of 2007, the Oil and Gas Division continued to focus on maintaining production volumes through internally generated development programs. The oil and gas production averaged 3,392 BOE per day up 4% from the second quarter of 2007 despite turnaround curtailments at 3rd party processing plants. Production restrictions for the third quarter were estimated at 98 BOE per day resulting in a producing capability of 3,450 BOE per day at the end of the third quarter. In comparison to the second quarter of 2007, reported oil and natural gas liquid sales for the third quarter averaged 1,671 barrels per day up 7% while natural gas sales were up 1% to 10,321 Mcf per day.

Total gross revenue from petroleum and natural gas sales in the third quarter was \$14.7 million up 7% from \$13.7 million in the second quarter of 2007 due to higher production volumes and higher oil and natural gas liquids pricing. The average price received for crude oil and natural gas liquids during the third quarter was \$57.35 per barrel after hedging representing a 10% increase over second quarter pricing. Natural gas pricing for the third quarter of 2007 was \$6.21 per Mcf versus \$6.78 per Mcf in the second quarter of 2007 representing a decrease of 8%.

As anticipated, oil and gas operating expenses increased in the third quarter of 2007 due to abnormally higher power pricings in the month of July. Total operating expenses were \$5.2 million resulting in a unit operating expense of \$16.82 per BOE up from \$15.94 per BOE in the second quarter of 2007. This is slightly better than the \$17.25 forecast in our August 2007 second quarter write-up. The entire increase in unit operating expenses is attributable to the 167% spike in power prices for the month of July. The Trust continues to actively hedge a portion of the power consumption costs for the remainder of 2007 and 2008 to minimize the impacts of these power pool fluctuations. With the return of stable power pricing in August, the unit operating expense is estimated to be \$15.85 per BOE for the fourth quarter of 2007.

The total third quarter net capital expenditure by the Trust was \$3.6 million spent primarily on development drilling and recompletion activity. Drilling activity in the third quarter of 2007 totaled 11 gross (2.2 net) wells highlighted by the drilling of a second Cadomin horizontal development well and the drilling of two farmout exploration wells in Noel. The non-operated Cadomin gas well produced 900 Mcf per day net to the Trust for the first month of

production commencing mid August 2007. The two exploration wells were drilled through a farmout with an industry partner whereby the Trust has elected to participate post-completion for a working interest position. The two wells combined tested at rates of 7,300 Mcf per day after completion. The net impact to the Trust is expected to be 1,500 Mcf per day under rate restriction through 3rd party processing facilities beginning in late November. Both wells are expected to be on stream by the end of 2007. For the remainder of 2007, the Trust plans to participate in 7 gross (1.5 net) wells bringing the total drilling activity on Trust lands for the year to 27 gross (6.6 net) wells. The capital programs are currently budgeted to total \$11.4 million in 2007.

Based on the remaining development activity and tie-in schedules for the fourth quarter, the Trust anticipates sales volumes to average 3,420 BOE per day for the fourth quarter of 2007.

### **3. ASSETS HELD FOR SALE - Real Estate**

The third quarter results for the Real Estate Division were as expected. The real estate portfolios' gross leasable area as at September 30, 2007 was 670,075 square feet compared to 430,000 square feet in June of 2006. The increase is a direct result of acquisitions completed in 2006. The portfolio is currently 100% leased.

On November 6, 2007, the Trust announced that it had formally engaged a national real estate brokerage firm to market the sale of the Trust's Real Estate Division. As previously advised in the second quarter's report, the Trust was undertaking an internal evaluation process to determine the best course of action for this division. The review determined that, in view of the significantly lower cost of capital of the REIT and Pension Fund sectors, it was increasingly difficult to acquire suitable real estate properties that met the investment criteria of the Trust. It was decided that a sale process was the best course of action, especially in view of the advantages that a standalone REIT received in the trust tax legislation. Any sale of the Real Estate Division would be expected to take place by mid-first quarter 2008.

At this time it is expected that funds from any real estate disposition will be reinvested into active businesses which will be accretive to the Trust's cash flow and that the Trust feels has greater growth potential. The Real Estate Division has provided cash flow of approximately \$2.4 million over the first nine months of 2007 or approximately 5.4% of the Trust's funds from operations.

The completion of the Landmark development in Red Deer has been delayed two months until the end of January 2008 due to the delays in the local utility being unable to provide permanent power to the cinema. The Trust is covered for overages and delays but will not book revenues until the cinema is operating.

**The Trust's Management Discussion and Analysis follows.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS** for the three and nine months ended September 30, 2007 should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2007 and the audited consolidated financial statements for the year ended December 31, 2006 and the management discussion and analysis thereto. This management discussion and analysis relates to events up to November 12, 2007.

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Except for historical financial information contained herein, the matters discussed in this document may be considered forward-looking statements. Such statements include declarations regarding management's intent, belief or current expectations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties; actual results could differ materially from those indicated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is of a preliminary nature and may be subject to further adjustment, (ii) the possible unavailability of financing, (iii) risks related to the exploration and development of oil and gas properties, (iv) the impact of price fluctuations and the demand and pricing for oil and natural gas, (v) the seasonal nature of the business, (vi) start-up risks, (vii) general operating risks, (viii) dependence on third parties, (ix) changes in government regulation, (x) the effects of competition, (xi) dependence on senior management, (xii) financial condition of real estate tenants and financial services counterparts, (xiii) impact of the Canadian economic conditions or the demand for real estate leasing opportunities, and (xiv) fluctuations in currency exchange rates and interest rates.

Funds from operations, funds from operations per unit, net back and working capital (net debt) are not recognized measures under Canadian generally accepted accounting principles (GAAP). Funds from operations is calculated by taking cash provided by operating activities on the statement of cash flows adjusted for the effect of changes in non-cash working capital and asset retirement costs incurred. See page 9 for the quantitative reconciliation of funds from operations. Working capital (net debt) is calculated by taking current assets less current liabilities less notes payable. Operating netbacks per BOE equal total petroleum and natural gas revenue net of transportation expenses and realized gains on commodity contracts per BOE less royalties per BOE and operating expenses per BOE. Operating netbacks as used in the MD&A do not have any standardized meaning under GAAP and therefore may not be comparable with the calculation of similar measures of other entities. Operating netbacks are a useful measure to compare the Trust's operations with those of its peers). Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that "Funds from operations" and "Funds from operations per unit" should not be construed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Distribution Payout Ratio is not a recognized measure under GAAP, it is calculated by dividing the Distributions by the Funds from operations.

***Comparative periods have been restated to conform to current period presentation – specifically relating to the reclassification of the assets of the Real Estate Division of the Trust as held for sale.***

The Trust's strategy is comprised of having three distinct business divisions: Financial Services, Energy and Real Estate. These three units combine the stability of cash flows from both financial services and real estate with a higher variability in the cash flow stream from the energy sector.

### **Subsequent Events to the Third Quarter Ended September 30, 2007**

- **Avenir Diversified Income Trust Undertakes Sale Process of its Real Estate Division**

On November 6, 2007, the Trust announced that it had formally engaged a national real estate brokerage firm to market the sale of the Trust's Real Estate Division. In view of the significantly lower cost of capital of the REIT and Pension Fund sectors, it was increasingly difficult to acquire suitable real estate properties that met the investment criteria of the Trust. It was decided that a sale process was the best course of action, especially in view of the advantages that a standalone REIT received in the trust tax legislation. Funds from any real estate disposition will be reinvested into active businesses which will be accretive to the Trust's cash flow and that the Trust feels has greater growth potential. The Real Estate Division has provided cash flow of approximately \$2.4 million over the first nine months of 2007 or approximately 5.4% of the Trust's funds from operations.

- **Alberta Royalty Structure Review**

On October 25, 2007, Alberta's provincial government unveiled its plan to update the province's royalty structure. The government has indicated that all changes to the royalty structure are intended to take effect January 1, 2009. The Trust had conducted a preliminary review based on the proposed legislation and have concluded that using the Trust's January 1, 2007 reserve report the impact of these changes on our existing operations would be neutral to slightly better on both a cash flow and a net asset value basis. The Trust will continue to analyze the information that becomes available with respect to the new crown royalty framework, and a final assessment of the impact of the new royalty structure will be completed once the full details of the new program are released.

- **EnerVest Limited Partnership Note Payable**

Subsequent to September 30, 2007, EnerVest Limited Partnership ("EnerVest") a wholly owned subsidiary of the Trust, entered into an unsecured promissory note with EnerVest Diversified Income Trust ("EDIT"), an investment vehicle that EnerVest manages, for the reimbursement of offering costs of approximately \$10,500,000 paid by EDIT in relation to its exchange offer on October 22, 2007. The note requires the offering costs to be repaid in equal quarterly payments plus interest over a seven year period ending October 1, 2014 and bears interest at a rate per annum equal to the interest rate charged under EDITs' credit facility.

### Selected Quarterly Information

<i>(in thousands of dollars except per unit amounts)</i>	Sep 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006	Sep 30, 2006	Jun 30, 2006	Mar 31, 2006	Dec 31, 2005
Total Revenue	188,481	225,338	236,764	216,743	211,784	168,137	165,961	183,505
Net Income from continuing operations	4,248	5,274	6,988	9,204	7,555	9,644	7,111	13,396
Net Income from continuing operations per unit - basic	0.10	0.13	0.17	0.22	0.18	0.23	0.18	0.34
Net Income	4,479	5,671	7,331	9,390	7,594	10,310	10,105	14,207
Net Income per unit - basic	0.11	0.14	0.18	0.23	0.18	0.25	0.25	0.36
Funds from continuing operations	12,389	12,350	16,955	13,682	14,000	13,307	13,327	19,608
Fund from continuing operations per unit - basic	0.30	0.30	0.41	0.33	0.34	0.32	0.33	0.49
Funds from Operations	13,212	13,167	17,678	14,334	14,328	15,747	20,595	23,153
Funds from Operations per unit - basic	0.32	0.32	0.43	0.35	0.35	0.38	0.51	0.58
Cash Distributions paid	10,422	10,413	10,395	10,397	10,401	13,449	14,737	13,941
Cash Distributions per unit - basic	0.25	0.25	0.25	0.25	0.25	0.33	0.37	0.35
Special Distribution per unit (Energy Services)	--	--	--	--	--	4.445	--	--
Total Assets	533,739	526,536	545,517	530,551	489,014	476,205	567,628	583,627

Real Estate Division has been reclassified as assets held for sale and Energy Services Division was spun-off in May 2006.

## Net Income

Net income for each of the Trust's business divisions are as follows:

<i>(in thousands of dollars)</i>	For the three months ended		For the nine months ended	
	Sept 30, 2007 \$	Sept 30, 2006 \$	Sept 30, 2007 \$	Sept 30, 2006 \$
Net Income (loss)				
Financial Services	4,991	7,478	23,508	21,421
Oil and Gas	(352)	1,655	(1,866)	7,105
Corporate	(391)	(1,578)	(5,132)	(4,216)
<b>Net Income from continuing operations</b>	<b>4,248</b>	<b>7,555</b>	<b>16,510</b>	<b>24,310</b>
Discontinued Ops. – Real Estate	231	39	971	182
Discontinued Ops. – Energy Services	--	--	--	3,517
<b>Net Income</b>	<b>4,479</b>	<b>7,594</b>	<b>17,481</b>	<b>28,009</b>

The Trust had net earnings from continuing operations for the quarter ended September 30, 2007 of \$4.2 million down 44% over the \$7.6 million for the quarter ended September 30, 2006. Net income for the nine months ended September 30, 2007 was \$17.5 million or \$0.42 per unit versus \$28.0 million or \$0.69 per unit for the first nine months of 2006. Net income from continuing operations for the three and nine months of 2007 was down from 2006 as a result of new legislation regarding the taxation of income trusts and higher future crude oil prices causing an unrealized hedging loss versus an unrealized hedging gain in the previous year's quarter. A future income tax expense was recorded for the nine months ended September 30, 2007 versus a future tax recovery as a result of 2006 rate reductions for the same period in 2006. Both the three and nine month 2007 net income figures were negatively impacted by the recognition of \$0.7 million and \$0.8 million, respectively, in unrealized losses on financial instruments on financial hedges, this compares to an unrealized gain of \$2.2 million and \$4.2 million in the comparable periods in 2006. In its Oil and Gas Division, consistent with most oil and gas firms of the Trust's size, the Trust does not follow hedge accounting for those contracts due to the onerous monitoring and regulatory requirements. The comparatively lower nine month 2007 net income figure was also impacted by the spin-off of the Energy Services Division in the second quarter of 2006.

### 1. Financial Services

Net income in the Financial Services Division decreased from \$7.5 million in the third quarter of 2006 to \$5.0 million in the third quarter of 2007, as the Trust no longer receives income from its payday loan portfolio and due to the lower quarter-over-quarter ethanol sales in Elbow River. For the nine months ended September 30, 2007 the net income for this business unit was \$23.5 million up 10% compared to \$21.4 million for the first nine months of 2006. The 10% increase is due to stronger results in Elbow River over the first two quarters of 2007. For the quarter ended September 30, 2007, net income from EnerVest totaled \$3.8 million, net loss from financial service contracts totaled \$0.2 million, while Elbow River recorded net income of \$1.4 million.

### 2. Energy - Oil & Gas Division

The Oil and Gas Division had a net loss of \$0.4 million for the quarter ended September 30, 2007 versus net income of \$1.7 million in income for the quarter ended September 30, 2006. For the nine months ended September 30, 2007 Oil and Gas had a net loss of \$1.9 million compared to net income of \$7.1 million for the first nine months of 2006. The difference is largely due to the future income tax expense that was recorded in 2007 compared to a future income tax recovery in 2006. The recovery in 2006 related to changes that were enacted in the future income tax rates. The decrease is also a result of the recognition of a non-cash mark-to-market hedging loss on its financial instruments of \$0.8 million for the nine months ended September 30, 2007 compared to a gain of \$4.2 million for the same period in 2006.

### 3. Real Estate - Assets Held for Sale

The Real Estate Division had net income for the third quarter ended September 30, 2007 totaled \$0.2 million compared to net income of \$0.04 million in the third quarter of 2006. The 2007 third quarter was slightly higher with a larger real estate portfolio beginning in late August 2006. For the nine months ended September 30, 2007 net income was \$1.0 million compared to \$0.2 million in the first nine months of 2006. The nine month 2007 net income is in line with expectations.

#### Assets Held for Sale – Real Estate Division

During the second quarter, the Trust made the decision to dispose of the Real Estate Division assets by way of sale or spin-out. In meeting the criteria for classification as assets held for sale under CICA Handbook Section 3475, the disposition process is currently underway and the Trust expects to have completed a transaction before the end of the first quarter of 2008. Subsequent to September 30, 2007, the Trust formally engaged a national real estate brokerage firm to market the sale of the Real Estate Division.

As such, for the nine months ended September 30, 2007, the Real Estate Division assets and liabilities and results from operations have been reclassified as assets held for sale. Comparative periods have been restated.

The following table represents the balances that have been reclassified on the balance sheet as assets held for sale:

<i>(in thousands of dollars)</i>	<b>Sept 30, 2007</b> \$	<b>Dec 31, 2006</b> \$
Cash	260	68
Accounts receivable and prepaid expenses	1,333	768
<b>Current assets held for sale</b>	<b>1,593</b>	<b>836</b>
Property and equipment	58,246	52,142
Intangible and other assets	2,493	3,103
<b>Long-term assets held for sale</b>	<b>60,739</b>	<b>55,245</b>
Accounts payable and accrued liabilities	1,327	1,300
Deferred revenue	291	372
Current portion of mortgages (i)	24,045	18,534
<b>Current liabilities of assets held for sale</b>	<b>25,663</b>	<b>20,206</b>
Mortgages (i)	14,679	14,315
Future income tax	481	634
<b>Long-term liabilities of assets held for sale</b>	<b>15,160</b>	<b>14,949</b>

- (i) In relation to the Real Estate Division, the Trust has various mortgages outstanding with interest rates ranging from 4.85% to 7.25% with a weighted average rate of 5.81%. The maturities range from November 2007 to July 2014 and all mortgages are collateralized by a first charge over the related properties. The current portion of the mortgages as at September 30, 2007 was \$24.0 million. The Trust also provides guarantees to third party mortgagors for a maximum of the total value of the mortgages outstanding on behalf of its Real Estate Division. The guarantees require the Trust to be responsible for the mortgage principal and interest payments if its Real Estate Division is unable to do so.

Subsequent to September 30, 2007, the mortgage which matures in November 2007 was renewed for a total amount of \$3.7 million at a rate of 5.73% for a term of 1 year.

The Trust has entered into an agreement with a third party to lease a building that the Trust is going to construct on land which is adjacent to the land that is currently being developed for the Landmark Theatre in Red Deer.

The results of operations for the assets held for sale are as follows:

<i>(in thousands of dollars)</i>	For the three months ended		For the nine months ended	
	Sept 30, 2007	Sept 30, 2006	Sept 30, 2007	Sept 30, 2006
	\$	\$	\$	\$
<b>REVENUE</b>				
Real estate revenue	1,716	1,051	5,504	2,780
	<b>1,716</b>	<b>1,051</b>	<b>5,504</b>	<b>2,780</b>
<b>EXPENSES</b>				
Real estate operating	252	410	1,283	973
General and administrative (i)	143	84	398	255
Interest on long-term debt	491	223	1,435	591
Capital taxes	7	6	27	18
Depreciation and amortization	514	319	1,544	897
	<b>1,407</b>	<b>1,042</b>	<b>4,687</b>	<b>2,734</b>
Income before taxes	309	9	817	46
Future income tax recovery (expense)	(78)	30	154	136
Net income	<b>231</b>	<b>39</b>	<b>971</b>	<b>182</b>

- (i) During the three and nine months ended September 30, 2007, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions and mortgage financing of \$0.2 million and \$0.5 million, respectively (three and nine months ended September 30, 2006 - \$0.2 million and \$0.2 million) payable to a company with a shareholder who is also a director of the Trust.

## Funds from Operations

<i>(in thousands of dollars)</i>	For the three months ended		For the nine months ended	
	Sept 30, 2007	Sept 30, 2006	Sept 30, 2007	Sept 30, 2006
	\$	\$	\$	\$
Funds from Operations				
Financial Services	7,053	9,370	26,688	24,168
Oil and Gas	5,846	5,011	16,468	17,237
Corporate	(510)	(381)	(1,462)	(770)
<b>Funds from continuing operations</b>	<b>12,389</b>	<b>14,000</b>	<b>41,694</b>	<b>40,635</b>
Discontinued Ops. – Real Estate	823	328	2,361	942
Discontinued Ops. – Energy Services	--	--	--	9,094
<b>Funds from Operations</b>	<b>13,212</b>	<b>14,328</b>	<b>44,055</b>	<b>50,671</b>

Funds from continuing operations were \$12.4 million for the third quarter ended September 30, 2007 down 12% from \$14.0 million in the comparable quarter of 2006. The decrease in funds from continuing operations for the quarter is primarily due to the redeployment of the financial services payday loan portfolio to lower yielding real estate investments. Elbow River's results, although slightly ahead of internal expectations, were down from the third quarter of 2006 due to reduced ethanol sales in 2007 and timing of product sales between the two years. The funds from operations for the third quarter 2007 were \$13.2 million or \$0.32 per unit versus \$14.3 million or \$0.35 per unit for the third quarter 2006. Funds from continuing operation for the nine months ended September 30, 2007 were \$41.7 million versus \$40.6 million in the same period in 2006. Higher year to date results in Elbow contributed to the increase. For the nine months ended September 30, 2007, funds from operations were \$44.1 million compared to \$50.7 million for the same period in 2006. The decrease in the nine month funds from operations numbers was primarily due to the spin out of the Energy Services Division in the second quarter of 2006 and the reclassification of the Real Estate Division as discontinued operations.

## Cash Distributions

The Trust distributed \$10.4 million or \$0.25 per unit for the quarter ended September 30, 2007 versus \$10.4 million or \$0.25 per unit for the quarter ended September 30, 2006. On a per unit basis distributions were flat reflecting the continued steady distributions of the Trust. For the quarter ended September 30, 2007 the payout ratio was of 79% of funds from operations was inline with expectations, but slightly higher than 2006 largely due to timing between second and third quarter product sales at Elbow River. For the nine months ended September 30, 2007 the payout ratio was 71% versus 76% for the first nine months of 2006 and a target payout ratio of 75% to 80%.

<i>(in thousands of dollars)</i>	For the three months ended		For the nine months ended	
	Sept 30, 2007	Sept 30, 2006	Sept 30, 2007	Sept 30, 2006
	\$	\$	\$	\$
Cash provided by operating activities	4,533	6,252	47,025	53,777
Funds from operations (refer to table below for reconciliation)	13,212	14,328	44,055	50,671
Net Income	4,479	7,594	17,481	28,009
Distributions declared	10,422	10,401	31,230	38,586
Excess (shortfall) of cash flows from operating activities over distributions declared	(5,889)	(4,149)	15,795	15,191
Excess (shortfall) of funds from operations over distributions declared	2,790	3,927	12,825	12,085
Excess (shortfall) of net income over distributions declared	(5,943)	(2,807)	(13,749)	(10,577)

Distributions typically exceed net income as a result of non-cash expenses such as unrealized losses on financial instruments, depletion, depreciation and amortization, accretion, future income tax expense, and stock-based compensation. These non-cash expenses result in a reduction to net income, with no impact to cash flow from operating activities. Accordingly, we expect that distributions will exceed net income in most periods. In assessing the level of distribution to be paid to the unitholders the Trust will review the cash provided by operating activities prior to the adjustment for non-cash working capital and asset retirement costs incurred during the period, which is referred to as Funds from Operations. The Trust's policy is to distribute approximately 75% to 80% of total Funds from operations. As such, when comparing the distributions declared to the cash flow from operating activities it could be in a shortfall or an excess position largely depending on the changes in non-cash working capital. Changes in non-cash working capital are funded by available bank facilities and all distributions declared are funded by the cash flow generated by the Trust. Changes in non-cash working capital vary based on seasonality, timing of development activities and form of debt used in our operating activities. Refer to the section below for a reconciliation of the cash flow from operating activities to the distributions declared.

### i. Distributable Cash from Operations

Distributable cash from operations is not a measure under GAAP and there is no standard measure of distributable cash from operations. Distributable cash from operations, as presented, may not be comparable to similar measures presented by other trusts.

Distributable cash from operations for the three and nine months ended September 30, 2007 and 2006 are calculated as follows:

<i>(in thousands of dollars)</i>	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>Sept 30, 2007</b>	<b>Sept 30, 2006</b>	<b>Sept 30, 2007</b>	<b>Sept 30, 2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash provided by operating activities	4,533	6,252	47,025	53,777
Settlement of asset retirement obligations	295	64	761	200
Changes in non-cash working capital relating to operating activities	8,384	8,012	(3,731)	(3,306)
Funds from operations	13,212	14,328	44,055	50,671
Cash available to fund capital expenditures and growth	(2,790)	(3,927)	(12,825)	(12,085)
<b>Distributable cash from operations</b>	<b>10,422</b>	<b>10,401</b>	<b>31,230</b>	<b>38,586</b>
Cash distributions declared and payable	3,477	3,465	3,477	3,465
Cash distributions paid in period	6,945	6,936	27,753	35,121
<b>Accumulated cash distributions paid and payable for the period</b>	<b>10,422</b>	<b>10,401</b>	<b>31,230</b>	<b>38,586</b>

## ii. Cash Distribution Policy

The amount of cash available for distribution is proposed by management and approved by the Board of Directors. Distribution levels are continually assessed with respect to forecasted funds from operations, debt levels and capital spending plans. Variations in economic factors, operational performance, capital market interest and government regulatory changes all impact each of our operating divisions and their ability to fund distributions. That said the Trust believes that its diversification model across multiple business lines including Energy and Financial Services, provides additional distribution support by balancing risk across a portfolio of business sectors. The level of cash withheld can vary and is dependent upon numerous factors, although the Trust intends to continue to make cash distributions to unitholders, these distributions are not guaranteed.

On June 22, 2007, the Government of Canada passed legislation to apply a tax, at the trust level, on distributions of certain income from publicly traded mutual fund trusts, at rates of tax comparable to the combined federal and provincial corporate tax rates and to treat such distributions as dividends to the unitholders. This legislation does not take effect until January 1, 2011 for trusts that commenced trading prior to November 2006, providing that Trust only experiences "normal growth" and no "undue expansion" before then. Implementation of this legislation is expected to result in adverse tax consequences to the Trust and certain unitholders (most particularly unitholders that are tax deferred or non-residents of Canada). Cash distributions from the Trust may also be impacted due to the requirement of the Trust to pay a 31.5 percent tax on distributions paid.

## iii. Cash Distributions Declared

Monthly cash distributions declared per Trust unit issued and outstanding for the period were as follows:

<b>Period covered</b>	<b>Date of Distribution</b>	<b>Per Unit \$</b>
January 1, 2007 to January 31, 2007	15/02/2007	0.083
February 1, 2007 to February 28, 2007	15/03/2007	0.083
March 1, 2007 to March 31, 2007	16/04/2007	0.083
April 1, 2007 to April 30, 2007	15/05/2007	0.083
May 1, 2007 to May 31, 2007	15/06/2007	0.083
June 1, 2007 to June 30, 2007	16/07/2007	0.083
July 1, 2007 to July 31, 2007	15/08/2007	0.083
August 1, 2007 to August 31, 2007	17/09/2007	0.083
September 1, 2007 to September 30, 2007	15/10/2007	0.083

## Revenue

### 1. Financial Services

#### i. Revenue

The Trust recognized revenue in the financial services business unit of \$176.5 million for the quarter ended September 30, 2007 and \$614.6 million for the nine months ended September 30, 2007, down 11% and up 21% respectively over the comparative third quarter and nine months of 2006 of \$198.1 million and \$506.3 million. Elbow River is down for the quarter due to lower ethanol sales on the quarter and the timing of slightly slower inventory sales heading into winter as customers held off purchases until winter due to high product prices. Revenues are also down due to the redemption of the payday loan portfolio in early 2007 versus 2006. On a year to date basis, Elbow is well ahead of last year due to stronger butane and bio-diesel sales.

#### ii. Operating Costs

The Trust's operating costs for Financial Services for the quarter ended September 30, 2007 was \$166.5 million compared to \$186.3 million for the quarter ended September 30, 2006. The decrease in quarterly operating costs is almost entirely due to the matching of operating and product costs, to the lower quarterly revenue at Elbow River.

### 2. Oil & Gas

	For the three months ended			For the nine months ended		
	Sept 30, 2007	Sept 30, 2006	% Change	Sept 30, 2007	Sept 30, 2006	% Change
<b>OIL &amp; GAS OPERATIONS</b>						
Production						
Oil and NGL's – bbls per day	1,671	1,643	2%	1,643	1,670	(2)%
Gas – mcf per day	10,321	10,240	1%	10,116	10,093	0%
Total BOE per day	3,392	3,350	1%	3,329	3,352	(1)%
Average Pricing						
Oil & NGL (\$/Bbl) before hedging	\$59.31	\$57.61	3%	\$55.23	\$57.05	(3)%
Oil & NGL (\$/Bbl) after hedging	\$57.35	\$51.98	10%	\$54.01	\$51.27	5%
Natural Gas (\$/mcf)	\$6.21	\$6.27	(1)%	\$6.83	\$6.80	0%
Average Price Per BOE before hedging	\$47.19	\$46.60	1%	\$47.08	\$48.15	(2)%
Average Price Per BOE after hedging	\$46.23	\$43.83	5%	\$46.48	\$45.26	3%

#### i. Revenue and Production

For the quarter ended September 30, 2007, oil and gas gross revenue was \$14.7 million compared to \$13.8 million for the same period in 2006, up 7%, attributable in most part to the 10% increase in realized after hedge oil pricing during the third quarter of 2007 and slightly higher sales volumes. The oil and gas revenue for the nine month period ending September 30, 2007 was up 2% to \$43.1 million from \$42.1 million in the same period in 2006 primary due to higher oil and gas pricing.

Transportation costs for the nine months ended September 30, 2007 were \$0.8 million versus \$0.7 million for the nine months ended September 30, 2006. The increase is a result of inflationary impacts on transportation costs through 2007.

Revenue from petroleum and natural gas sales (net of royalties and unrealized losses on financial instruments) for the quarter ended September 30, 2007 was \$12.0 million down 12% compared to \$13.7 million for the quarter ended September 30, 2006 due to lower unrealized hedging gains in 2007 versus 2006. The average price received for crude oil and natural gas liquids during the quarter ended September 30, 2007 was \$57.35 per barrel, an increase of 10% versus \$51.98 per bbl which was received for the quarter ended September 30, 2006 and \$6.21 per mcf for natural gas, down slightly from the 2006 third quarter average of \$6.27 per mcf.

For the nine months ending September 30, 2007, revenue from petroleum and natural gas sales (net of royalties and unrealized losses on financial instruments) was \$35.9 million compared to \$39.5 million for the same period

in 2006. The revenue difference between the two periods is a result of an unrealized gain on financial instruments for the hedging of oil and gas at the end of the third quarter of 2006. The average price received for petroleum and natural gas sales during the nine months ended September 30, 2007 was \$46.48 per BOE an increase of 3% versus \$45.26 per BOE received in Q3 of 2006. The average price received for crude oil and natural gas liquids during the nine months ended September 30, 2007 was \$54.01 per barrel an increase of 5% over the \$51.27 per barrel received for the same period of 2006. Natural gas pricing for the nine months ended September 30, 2007 was \$6.83 per mcf versus \$6.80 per mcf for 2006.

Although the Trust's Oil and Gas Division hedges a portion of its production to add stability to its distributions, to guard against fluctuations in commodity prices and to support acquisition economics, it has been determined that its oil and gas swap transactions do not qualify under new hedge accounting guidelines. Accordingly, the Trust recorded a hedging cost of \$0.3 million for the quarter ended September 30, 2007. In addition, the accounting treatment requires the Trust to recognize an unrealized loss of \$0.7 million for the change in the mark to market position on existing contracts at September 30, 2007. This compares to a non-cash mark-to-market gain of \$2.2 million in the third quarter of 2006.

Average daily sales volume for the quarter ended September 30, 2007 was 3,392 BOE per day up 1% over the third quarter 2006 production of 3,350 BOE per day while the sales volume for the first nine months of 2007 was down 1% to 3,329 BOE per day compared to 3,352 BOE per day in the same period of 2006. Third quarter 2007 production consisted of 1,671 bbls per day of crude oil and natural gas liquids and 10,321 mcf per day of natural gas compared to 1,643 bbls per day and 10,240 mcf per day for the third quarter 2006. Natural gas production in the nine months of 2007 was consistent with the first nine months of 2006 at 10,116 mcf per day versus 10,093 mcf per day. Oil and natural gas liquids sales were down 2% in the first nine months of 2007 at 1,643 bbls per day as compared to 1,670 bbls per day for the same period in 2006.

## ii. Royalties

The Trust's royalty costs net of ARTC for the quarter ended September 30, 2007 were \$1.7 million or 12% of revenue, versus third quarter 2006 of \$2.0 million or 14.0% of revenue. On a BOE basis, royalty costs averaged \$5.53 per BOE in the period, which is down 15% over the third quarter 2006 cost of \$6.50 per BOE as a result of prior period royalty production volumes being recognized in the third quarter of 2007 offsetting the cancellation of the ARTC program for 2007.

## iii. Operating Expenses

The Trust's operating costs, net of processing income, for the quarter ended September 30, 2007 were \$5.2 million or \$16.82 per BOE up 9% on a per BOE basis from \$4.8 million or \$15.47 per BOE compared to the third quarter 2006. For the nine month period ended September 30, 2007 operating costs totaled \$15.1 million or \$16.60 per BOE versus \$13.3 million and \$14.51 per BOE in the same period in 2006. This increase reflects the overall inflationary impacts to costs in the oil and gas industry as well as the abnormally high power pool prices in July 2007. In 2006, the Trust incurred large power spikes in the fourth quarter versus 2007 where the spike occurred in the third quarter.

## iv. Netbacks

	2007			2006			
	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE
Gross revenue after hedging	46.23	45.17	48.05	42.25	43.83	47.93	43.98
Royalties	5.53	6.62	6.16	5.49	6.50	5.49	8.01
Operating costs	16.82	15.94	17.03	20.21	15.47	14.89	13.37
Operating netback	23.88	22.61	24.86	16.55	21.86	27.55	22.60

### **3. Real Estate – Assets Held for Sale**

#### **i. Revenue**

The revenue from the Real Estate Division for the quarter ended September 30, 2007 was \$1.7 million compared to \$1.1 million for the third quarter of 2006. For the nine months period ended September 30, 2007 revenue totaled \$5.5 million compared to \$2.8 million for the first nine months of 2006. The increase is primarily due to the KFC and Landmark acquisitions completed in Q3 and Q4 of 2006. Currently the Real Estate portfolio is 100% leased.

#### **ii. Operating Costs**

The Trust's operating costs for Real Estate for the quarter ended September 30, 2007 were \$0.3 million compared to \$0.4 million for the quarter ended September 30, 2006. For the nine month period ended September 30, 2007 operating costs totaled \$1.3 million compared to \$1.0 million for the first nine months of 2006. The increase is a result of higher electricity costs compared to 2006, additional repairs and maintenance on the properties and only one month of operating expenses for the KFC portfolio acquisition in 2006.

#### **iii. Interest**

There are various mortgages with interest rates ranging from 4.85% to 7.25% (weighted average 5.81%), maturities from November 2007 to July 2014.

### **General and Administrative Expenses**

General and administrative ("G&A") expenses for the quarter ended September 30, 2007 were \$3.9 million (which included corporate costs of \$0.9) compared to \$4.4 million (which included corporate costs of \$1.4) for the quarter ended September 30, 2006. For the nine months ended September 30, 2007 G&A expenses totaled \$15.3 million (which included corporate costs of \$4.0 million) compared to \$12.6 million (which included corporate costs of \$3.9) for the first nine months of 2006. G&A expenses for the respective division for the third quarter 2007 were: \$2.1 million for Financial Services (Q3 2006 - \$2.0 million), and \$0.8 million for Oil and Gas (Q3 2006 - \$1.0 million). The decrease in G&A expense is the result of higher capital recoveries in 2007 and the lower level of corporate acquisition activity this year.

### **Interest and Bank Fees**

Interest expense and bank fees were \$1.6 million for the three months and \$4.2 million for the nine months ended September 30, 2007 reflecting higher debt levels and the notes payable outstanding in 2007. For the three and nine months ended September 30, 2006, interest expense and bank fees were \$1.2 million and \$2.3 million. Interest expense for the third quarter of 2007 includes bank fees of \$0.02 million compared to fees of \$0.1 million for the third quarter of 2006. For the nine months ended September 30, 2007, the Financial Services Division accounted for \$1.8 million of the interest expense, the majority of which relates to the outstanding balance on the banking facility for Elbow River and the notes payable in EnerVest, and the Oil and Gas Division accounted for \$1.9 million of interest expense. The remaining interest expense of \$0.5 million relates to the note payable outstanding of \$5.0 million.

### **Depletion, Depreciation and Amortization**

Provision for depletion, depreciation and amortization was \$7.3 million in the quarter ended September 30, 2007, compared to \$6.6 million for the third quarter of 2006 and \$21.2 million for the nine months ended September 30, 2007 versus \$19.5 million for the nine months ended September 30, 2006. The Trust's depletion and depreciation rate in its Oil and Gas Division was \$19.05 per BOE during the third quarter 2007 up from the \$17.03 per BOE rate in the third quarter of 2006. The depletion rate continues to reflect the historically high cost per BOE of acquisitions and capital expenditures in the current market. For the nine months ended September 30,

2007, \$4.0 million for amortization of intangibles related to the Financial Services Division, and \$17.2 million of the depletion and depreciation cost was on oil and gas assets.

### Asset Retirement Obligation

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$13.1 million as at September 30, 2007 based on a total future liability of \$27.2 million. These figures compare to \$12.0 million at September 30, 2006 with a total future liability of \$25.4 million.

These payments are expected to be made over the next 29 years. The Trust's credit adjusted risk free rate of 8.5% and an inflation rate of 2% were used to calculate the present value of the asset retirement obligation.

### Income Taxes

On June 22, 2007, the federal government passed and enacted legislation eliminating the deduction of distributions from taxable income for certain publicly traded mutual fund trusts. This legislation does not take effect until January 1, 2011 for trusts that commenced trading prior to November 2006, providing the Trust only experiences "normal growth" and no "undue expansion" before then. This legislation also introduced a reduction in federal corporate tax rates by 0.05 percent starting in 2011. For the third quarter of 2007, the consolidated interim financial statements of the Trust reflect the impact of this legislation, resulting in an increase of \$0.6 million in future income taxes. This adjustment is directly attributable to applying the 31.5 percent tax rate to temporary differences which are expected to reverse in 2011 and beyond.

The Trust did not provide for current income taxes, as it expects that all taxable income will be passed to Unitholders in the form of distributions. The future income tax recovery totaled \$1.5 million for the three months ended September 30, 2007 and the future income tax expense totaled \$0.1 million for the nine months ended September 30, 2007, compared to \$nil and a recovery of \$1.8 million for the three and nine months ended September 30, 2006. The future income tax expense for the period largely resulted from the change in the tax legislation noted above and from the change in the recognition of the future tax liabilities mainly relating to the Oil and Gas Division's tax pools from the previous quarter.

On October 30, 2007, the Federal Government announced that it intends to reduce corporate tax rates starting in 2008 through to 2012. The Trust intends to reflect the impact of these changes in its financial statements once these laws become substantively enacted.

### Risk Management and Financial Instruments

The summary of the Trust's Risk Management Asset, as at September 30, 2007, under the CICA guidelines for hedge accounting is new for 2007.

<i>(in thousands of dollars)</i>	\$
<b>Risk management asset, December 31, 2006</b>	46
Transition adjustment on adoption of new standards	<b>4,640</b>
Transition adjustment to retained earnings for hedges no longer qualifying for hedge accounting	258
Change in mark-to-market for hedges not qualifying for hedge accounting – oil & gas (i)	(784)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	23
Change in mark-to-market of cash flow hedge contracts (iii)	(2,711)
<b>Net risk management asset, September 30, 2007</b>	<b>1,472</b>
Reclassified to risk management liability, September 30, 2007	4,911
<b>Risk management asset, September 30, 2007</b>	<b>6,383</b>

Fair values of commodity and foreign exchange derivatives are based on pricing models using forward curves as at September 30, 2007. The fair values of other financial instruments approximate their carrying values.

(i) The Trust has the following forward contracts outstanding as at September 30, 2007 relating to its Oil and Gas Division:

- A fixed price AECO natural gas swap for the period November 1, 2006 to October 31, 2007 on 700 GJ/day of gas at a price of \$6.64 Cdn/GJ
- A fixed price WTI collar for the period November 1, 2004 to October 31, 2007 on 70 barrels/day of crude oil with a floor price of \$38.00 US/Bbl and a ceiling price of \$44.65 US/Bbl
- A fixed price WTI floor for the period December 1, 2004 to November 30, 2007 on 170 barrels/day of crude oil with a floor price of \$40.00 US/Bbl
- A fixed price WTI floor for the period from August 1, 2006 to December 31, 2007 on 200 barrels/day of crude oil with a floor of \$65.00 and the Trust participates in 77% of the upside above the floor price
- A fixed price WTI floor for the period August 1, 2007 to July 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.50 US/Bbl
- A fixed price WTI floor for the period November 1, 2007 to October 31, 2008 on 200 barrels/day of crude oil with a floor price of \$71.40 US/Bbl
- A fixed price WTI collar for the period January 1, 2008 to December 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.00 US/Bbl and a ceiling price of \$82.93 US/Bbl

The mark-to-market value of these contracts as at September 30, 2007 was an unrealized loss of \$1.1 million (December 31, 2006 – an unrealized loss of \$0.3 million), resulting in the recognition of an unrealized loss on the income statement for the nine months ended September 30, 2007 of \$0.8 million when compared to the December 31, 2006 mark-to-market.

(ii) The following tables detail those transactions in the Elbow River Marketing group that do not qualify for hedge accounting, which resulted in a risk management asset of \$0.6 million (December 31, 2007 – an unrealized gain of \$0.6 million), resulting in the recognition of an unrealized gain on the income statement for the nine months ended September 30, 2007 of \$0.02 million when compared to the December 31, 2006 mark-to-market.

<b>Forward exchange contracts:</b>		<b>September 30, 2007</b>	
<b>Term Due</b>	<b>Forward Rates CDN \$</b>	<b>Unrealized gain \$</b>	
October 2007	0.9959 – 1.1279	92,853	
November 2007	0.9955 – 1.1270	91,861	
December 2007	0.9951 – 1.1262	90,020	
January 2008	0.9949 – 1.1597	306,438	
February 2008	0.9948 – 1.1587	302,234	
March 2008	0.9947 – 1.1578	298,648	
	Total CDN dollars	<u>1,182,054</u>	

<b>Commodities hedging contracts:</b>			<b>September 30, 2007</b>	
<b>Settlement dates</b>	<b>Volume (bbl)</b>	<b>Prices US \$/(bbl)</b>	<b>Unrealized gain (loss) \$</b>	
November 2007	36,750	70.05 – 75.16	(299,833)	
December 2007	20,000	72.00 – 72.78	(144,530)	
January 2008	20,000	73.25 – 74.66	106,171	
	<u>76,750</u>		<u>(338,192)</u>	
		Exchange rate	0.9963	
		Total CDN dollars	<u>(336,941)</u>	

Futures contracts involve bio-fuels transactions done at fixed volume and fixed price.

<b>Futures contracts:</b>			<b>September 30, 2007</b>
<b>Settlement dates</b>	<b>Volume (bbl)</b>	<b>Prices US \$/(bbl)</b>	<b>Unrealized gain (loss) \$</b>
November 2007	17,000	95.32 – 93.47	30,996
December 2007			
	56,000	90.00 – 94.33	(230,786)
	73,000		(199,790)
		Exchange rate	0.9963
		Total CDN dollars	(199,051)

<b>Futures contracts:</b>			<b>September 30, 2007</b>
<b>Settlement dates</b>	<b>Volume (lbs)</b>	<b>Prices US \$/(lbs)</b>	<b>Unrealized gain (loss) \$</b>
October 2007	3,000,000	0.3960 – 0.3949	3,283
November 2007			
	3,000,000	0.4019 – 0.4000	(5,612)
	6,000,000		(2,329)
		Exchange rate	0.9963
		Total CDN dollars	(2,320)

(iii) The Elbow River Marketing group of the Trust sells natural gas liquids product in the United States and Canada, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, low sulphur diesel, unleaded gasoline, heating oil, soy bean oil, and crude. The following table details those transactions that qualify for hedge accounting that are outstanding resulting in a risk management asset of \$1.9 million (January 1, 2007 – a risk management asset of \$4.6 million), resulting in the recognition of other comprehensive loss of \$2.7 million when compared to the January 1, 2007 mark-to-market:

<b>Commodities hedging contracts:</b>			<b>September 30, 2007</b>
<b>Settlement dates</b>	<b>Volume (bbl)</b>	<b>Prices US \$/(bbl)</b>	<b>Unrealized gain (loss) \$</b>
October 2007	315,251	45.57 - 101.66	198,724
November 2007	670,933	45.57 - 94.19	(1,059,264)
December 2007	390,108	45.57 -94.67	127,926
January 2008	468,120	45.57 -94.67	(42,306)
February 2008	336,620	45.57 - 94.19	427,363
March 2008	335,895	45.57- 92.95	474,074
April 2008	21,713	47.46 -91.77	38,203
May 2008	17,262	85.68 -87.57	31,228
June 2008	17,262	85.68 -87.57	31,066
July 2008	17,262	85.68 -87.57	30,905
August 2008	17,262	85.68 -87.57	30,745
September 2008	17,262	85.68 -87.57	30,745
October 2008	17,262	85.68 -87.57	30,585
November 2008	17,262	85.68 -87.57	30,269
December 2008	17,262	85.68 -87.57	30,113
	2,676,736		410,376
		Exchange rate	0.9963
		Total CDN dollars	408,858

Forward exchange contracts:			September 30, 2007
Term Due	Amount \$	Forward Rates CDN \$	Unrealized Gain \$
October, 2007	5,720,000	1.0045 – 1.0966	288,502
November, 2007	5,735,000	0.9955 – 1.0958	469,989
December, 2007	1,555,000	1.0502 – 1.0951	92,080
April, 2008	1,795,000	1.0269 – 1.0929	117,794
October, 2007	5,720,000	1.0045 – 1.0966	288,502
November, 2007	5,735,000	0.9955 – 1.0958	469,989
December, 2007	1,555,000	1.0502 – 1.0951	92,080
Total US dollars	22,365,000		1,520,003
Exchange rate	0.9963		
Total CDN dollars	22,282,250		

## Credit Risk

The Trust's financial instruments that are exposed to credit risk consist primarily of trade accounts receivable, and risk management assets (liabilities). Although a substantial portion of trade receivables is dependant upon the strength of the Canadian oil and gas industry, management considers credit risk to be minimal. Management routinely assesses the financial strength of partners and customers, and monitors the exposure for credit losses.

With respect to derivative financial instruments, the Trust could be exposed to losses if the counter party fails to perform in accordance with the terms of the contract. This risk is managed by diversifying the portfolio among counter parties meeting certain financial criteria.

The Trust is exposed to interest rate fluctuations on its bank indebtedness, which is tied to Canadian bank prime rate.

## Liquidity and Debt

In relation to its Oil and Gas Division, as at September 30, 2007, the Trust had a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$50.5 million (December 31, 2006 - \$50.5 million) bearing interest ranging from prime to prime plus one percent depending on the debt to cash flow ratio of the Trust (as defined by the banking agreement). The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. As at September 30, 2007, \$39.6 million (December 31, 2006 - \$45.9 million) was drawn on the revolving demand facility. Subsequent to September 30, 2007, this banking agreement was updated resulting in the revolving demand facility being changed to \$45.5 million bearing the same interest as above and a new development facility in the amount of \$5.0 million, bearing interest ranging from prime plus one-quarter of one percent to prime plus one and one-quarter percent, was put into place.

The Trust has a demand revolving loan facility with a Canadian bank in the amount of \$70.0 million (December 31, 2006 - \$70.0 million) bearing interest as follows; for advances of \$50.0 or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50.0 million a 0.125% premium shall apply to applicable interest rates. The facility is primarily used to provide credit for natural gas liquids inventory purchases through the Trust's subsidiary Elbow River Marketing Limited Partnership ("Elbow River"). These facilities are collateralized by a charge over Elbow River's assets. As at September 30, 2007, \$28.2 million (December 31, 2006 - \$23.3 million) was drawn on the demand loan facility.

The average effective interest rate on borrowings under the above lines for the nine months ended September 30, 2007, including service fees, was 6.99% (period ended September 30, 2006 – 5.58%).

As at September 30, 2007, the Trust had nineteen letters of credit outstanding in the aggregate amount of \$6.6 million. The Trust also has guarantees to third parties for an amount up to \$53.3 million to provide Elbow River additional credit on natural gas liquids inventory purchases.

The Trust borrowed \$10.0 million, in two equal amounts of \$5.0 million on July 28, 2006 and September 25, 2006, from a third party. The Trust is responsible for interest at 12.5% per annum on the drawn portion of the notes and

a standby fee of 2% on any unused portion, for a minimum period of six months. The notes payable matured July 24, 2007 with the option to extend the due date based on mutual agreement of both parties. The note payable is collateralized by a guarantee provided by the Trust. \$5.0 million of the note payable was repaid on November 29, 2006. As at September 30, 2007, \$5.0 million (December 31, 2006 - \$5.0 million) of this note payable is outstanding. The Trust has extended the notes payable under similar terms to the previous agreement for a period of one year. Subsequent to September 30, 2007 the Trust drew an additional \$2.0 million on the note payable bringing the current balance outstanding to \$7.0 million.

EnerVest Limited Partnership (“EnerVest”) a wholly owned subsidiary of the Trust, entered into an unsecured promissory note with EnerVest Diversified Income Trust (“EDIT”), an investment vehicle that EnerVest manages, for the reimbursement of offering costs paid by EDIT in relation to its exchange offer on October 24, 2006. The note requires the offering costs to be repaid in equal quarterly payments plus interest over a six year period ending October 1, 2012 and bears interest at a rate per annum equal to the interest rate charged under EDITs’ credit facility, which is bank prime less 0.5%. On December 28, 2006, EnerVest paid EDIT \$2.0 million for the four principal payments required in 2007 and interest accrued to date. As at September 30, 2007, \$9.4 million (December 31, 2006 - \$9.4 million) of this note payable is outstanding, with \$1.4 million classified as current notes payable.

The average effective interest rate on borrowings under the above notes payables for the nine months ended September 30, 2007, including service fees, was 9.74% (period ended September 30, 2006 – 8.91%).

<i>(in thousands of dollars)</i>	Total	Payments due by period		
		Less than 1 Year	1 – 3 Years	4+ Years
Notes Payable	14,434	6,415	4,245	3,774
Lease Commitments	13,748	3,901	6,375	3,472
Total Contractual Obligations	28,182	10,316	10,620	7,246

Ongoing operations and capital expenditures will be provided by existing funds from operations and the availability of the Trust’s current revolving demand facility and future financings.

## Investment and Capital Expenditures

<i>(in thousands of dollars)</i>	Three months ended		Nine months ended	
	Sept 30, 2007 \$	Sept 30, 2006 \$	Sept 30, 2007 \$	Sept 30, 2006 \$
<b>Financial Services</b>				
Financial Services development expenditures	456	27	768	52
Sub-Total	456	27	768	52
<b>Oil and Gas</b>				
Land	143	133	351	562
Drilling	440	2,762	3,364	6,015
Production equipment and facilities	2,892	687	5,052	3,079
Other	150	200	326	474
Oil and gas property acquisitions	151	--	7,363	--
Proceeds received on oil and gas property dispositions	(31)	139	(54)	(1,500)
Sub-Total	3,745	3,921	16,402	8,630
<b>Assets held for sale - Real Estate</b>				
Real estate acquisitions	--	--	810	--
Real estate development expenditures	4,720	4,290	6,221	5,516
Sub-Total	4,720	4,290	7,031	5,516
<b>Discontinued Operations – Energy Services</b>				
Energy services acquisitions	--	--	--	30,995
Sub-Total	--	--	--	30,995
<b>Other assets</b>	12	38	130	79
<b>Net capital expenditures</b>	<b>8,933</b>	<b>8,276</b>	<b>24,331</b>	<b>45,272</b>

As a rule the Trust funds its ongoing development and maintenance capital out of funds retained for growth while acquisitions and real estate development are generally funded by equity or increased debt.

## Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas as at September 30, 2007 are as follows:

- A physical fixed price sale for the period November 1, 2004 to October 31, 2007 on 1,050 gigajoules/day of gas at a price of \$6.55/gigajoule.
- A physical fixed price AECO natural gas swap for the period April 1, 2007 to October 31, 2007 on 1,000 gigajoules/day of gas with a floor price of \$6.75/gigajoule and a ceiling price of \$7.60/gigajoule.
- A physical fixed price sale for the period March 1, 2007 to April 30, 2008 on 1,000 gigajoules/day of gas at a price of \$7.00/gigajoule.
- A physical fixed price AECO natural gas swap for the period April 1, 2007 to April 1, 2008 on 1,000 gigajoules/day of gas with a floor price of \$6.75/gigajoule and a ceiling price of \$7.60/gigajoule.
- A physical fixed price sale for the period April 1, 2008 to October 31, 2008 on 1,000 gigajoules/day of gas at a price of \$7.12/gigajoule.
- A physical fixed price sale for the period May 1, 2008 to October 31, 2008 on 1,000 gigajoules/day of gas at a price of \$7.10/gigajoule.
- A physical fixed price sale for the period January 1, 2008 to December 31, 2008 on 1,000 gigajoules/day of gas at a price of \$7.35/gigajoule.

The mark-to-market value of these contracts as at September 30, 2007 was an unrealized gain of \$1.0 million.

At September 30, 2007, the following contract was outstanding with respect to the physical purchase of power:

- A physical fixed price purchase of real electrical power for the period October 1, 2007 to December 31, 2007 of 2.5 megawatts per month at a price of \$79.90/megawatt hour

The mark-to-market value of this contract as at September 30, 2007 was an unrealized loss of \$0.02 million.

The Trust has various long-term lease commitments with respect to its premises, equipment and rail car leases, with lease terms ranging from one to eleven years.

The payments over the remaining terms are as follows:	\$ <i>(in thousands of dollars)</i>
2007	1,074
2008	3,769
2009	2,858
2010	2,575
2011	1,673
2012	549
2013	337
2014	281
2015	281
2016	281
2017	70
<b>Total</b>	<b>13,748</b>

## Unitholders' Capital

<b>Trust Units</b>	<b>Number of Units</b>	<b>Amount \$ (in thousands)</b>
<b>Balance at December 31, 2006</b>	<b>41,196,885</b>	<b>413,731</b>
Units issued on exercise of stock options	3,333	26
Units released from escrow – Energy Services Division	3,891	36
<b>Balance March 31, 2007</b>	<b>41,204,109</b>	<b>413,793</b>
Units issued on exercise of stock options	78,331	588
Units released from escrow – Energy Services Division	16,894	157
Units released from escrow – Elbow River	397,554	4,333
<b>Balance June 30, 2007</b>	<b>41,696,888</b>	<b>418,871</b>
Units issued on exercise of stock options	<b>59,722</b>	<b>492</b>
<b>Balance September 30, 2007</b>	<b>41,756,610</b>	<b>419,363</b>

For the three and nine months ended September 30, 2007, the Trust had a weighted average number of trust units outstanding of 41,721,239 and 41,530,800, respectively (three and nine months ended September 30, 2006 – 41,094,054 and 40,753,161, respectively). The diluted per unit amounts were calculated assuming the exercise of outstanding in-the-money options of an additional 425,304 and 658,914 Trust Units for the three and nine months ended September 30, 2007, respectively, resulting in a diluted weighted average number of Trust Units outstanding for the three and nine months ended September 30, 2007 of 42,146,543 and 42,189,714 respectively (three and nine months ended September 30, 2006 – 41,233,207 and 41,269,561, respectively). At September 30, 2007 there were 197,000 in anti-dilutive options that were not part of the dilutive per unit calculation.

As at September 30, 2007, the Trust had a total of 3,154,074 options which represents 75% of the options available for issuance.

## Related Party Transactions

During the three and nine months ended September 30, 2007, the Trust paid \$0.05 million and \$0.1 million, respectively (three and nine months ended September 30, 2006 - \$0.04 million and \$0.1 million, respectively) to Avenir Capital Corporation (“Avenir”), a significant unitholder of the Trust, for rent, administration and advisory services. Included in accounts payable and accrued liabilities is \$0.02 million (December 31, 2006 - \$0.01 million) owing to Avenir relating to administration and advisory services.

During the three and nine months ended September 30, 2007, the Trust incurred marketing fees of \$0.02 million and \$0.05 million, respectively (three and nine months ended September 30, 2006 - \$0.02 million and \$0.05 million, respectively) payable to a company with a director who is also a unitholder of the Trust. Of this balance \$0.02 million is included in accounts payable and accrued liabilities as at September 30, 2007 (December 31, 2006 - \$0.02 million).

In the normal course of joint venture activities, the Trust's Oil and Gas Division from time to time, engages in business transactions with companies having directors in common with the Trust. In this regard, during the nine months ended September 30, 2007, the Trust purchased minor producing property interests from a publicly traded corporation with certain directors in common for \$7.2 million.

## **Recent Accounting Pronouncements**

Effective January 1, 2007, the Trust adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”).

### ***Financial instruments***

Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*, prescribe the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. These Sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Trust is required to designate its financial instruments into 1 of the following 5 categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in net earnings. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net earnings.

### ***Comprehensive income***

Section 1530, *Comprehensive Income*, introduces a new financial statement “Statement of Comprehensive Income” and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments.

As required, prior periods have not been restated as a result of implementing Section 1530. As required upon initial application of Section 3855, all adjustments to the carrying amount of financial instruments are recognized as an adjustment to the opening balance of accumulated other comprehensive income.

### ***Hedges***

Section 3865, *Hedges*, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon sale or early termination of the hedged item. All hedges entered into by the Trust that qualify for hedge accounting are cash flow hedges.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income while the ineffective portion is recognized in net earnings. When hedge accounting is discontinued, the amounts previously recognized in accumulated other comprehensive income are reclassified to net earnings during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to net earnings when the hedge item is settled or terminated early.

### ***Impact upon adoption of Sections 1530, 3855, 3861 and 3865***

The transition adjustments attributable to the re-measurement of financial assets and liabilities at fair value were recognized in opening retained earnings as at January 1, 2007. Adjustments arising from re-measuring financial assets classified as available-for-sale at fair value were recognized in opening accumulated other comprehensive income as at January 1, 2007. For cash flow hedging relationships existing prior to adopting section 2865 that continue to qualify for hedge accounting under the new standard, the transition adjustment being the effective

portion of any gain or loss on the hedging instrument was recognized in accumulated other comprehensive income.

<i>(in thousands of dollars)</i>	Accumulated retained earnings adjustment \$	Accumulated other comprehensive income adjustment \$
Transition adjustment on adoption of Financial Instrument standards:		
Fair value of derivative instruments designated as cash flow hedges as at January 1, 2007	--	4,640
Fair value of marketable securities as at January 1, 2007	--	1,748
Fair value of hedges no longer qualifying for hedge accounting as at January 1, 2007	258	--
Adjustment to opening balances as at January 1, 2007	258	6,388

### **Accounting Changes**

Section 1506, Accounting Changes, relates to changes in accounting policies, changes in accounting estimates and errors. Under the revised section, voluntary changes in accounting policies are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the Trust has not applied a new primary source of generally accepted accounting principles that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. Adoption of this revised standard had no impact on the Trust's unaudited interim consolidated financial statements.

### **Equity**

Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements under this Section have been presented in these unaudited interim consolidated financial statements.

### **Future Accounting Pronouncements**

On December 1, 2006 the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These new standards will be effective beginning on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Trust is currently assessing the impact of these new standards.

### **Disclosure Controls and Internal Controls over Financial Reporting**

For the nine months ended September 30, 2007, no changes were made in the Trust's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

### **Risks & Uncertainties and Critical Accounting Estimates**

For a discussion of Risks and Uncertainties and Critical Accounting Estimates, please refer to the audited consolidated financial statements for the year ended December 31, 2006 available on SEDAR ([www.sedar.com](http://www.sedar.com)) and our website ([www.avenirtrust.com](http://www.avenirtrust.com)).

## Outlook

The Trust looks forward to continued good results over the next six months in what traditionally are our strongest quarters, due primarily to the seasonality in Elbow River's business. Despite mild winters over the past two years, Elbow River performed very well and is again well positioned with strong company pre-sales and low industry inventory levels. EnerVest has just completed a \$200 million exchange offering and will look to continue to rationalize its portfolio and weather the current weakness in the yield market due to the fall-out from the sub-prime credit crunch worldwide. The Trust's balanced oil and gas portfolio of 49% oil and 51% natural gas allows the Trust's Oil and Gas Division to continue to take advantage of high oil prices while offsetting the weak Canadian natural gas price. Finally, it is expected that the Trust will dispose of its Real Estate Division in the mid first quarter of 2008. Currently the view is to redeploy the gain and sales proceeds into an active business that can provide greater growth and cash flow than the real estate assets. The Trust will continue the same diversified business model we have employed since inception with a target payout ratio of 75% to 80%. Currently our payout ratio for the year is 71%.

For additional information on the Trust, including the Annual Information Form (AIF), please go to the company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) or the Trust's website at [www.avenirtrust.com](http://www.avenirtrust.com).

Submitted on behalf of:



William M. Gallacher  
President & CEO



Gary Dundas  
Vice President Finance & CFO

## CONSOLIDATED BALANCE SHEETS

(unaudited)

<i>(in thousands of dollars)</i>	September 30, 2007 \$	December 31, 2006 \$ <i>(restated – note 3a)</i>
<b>ASSETS [note 4]</b>		
<b>Current</b>		
Cash	914	441
Marketable securities	1,510	13
Accounts receivable and prepaid expenses	61,463	75,634
Inventory	45,115	39,949
Risk management assets [note 9]	6,383	46
Assets held for sale [note 3a]	1,593	836
	116,978	116,919
<b>Property and equipment</b>	151,956	151,681
<b>Investment in financial services contracts</b>	—	3,265
<b>Intangibles and other assets</b>	147,191	150,899
<b>Goodwill</b>	56,875	52,541
<b>Assets held for sale [note 3a]</b>	60,739	55,245
	533,739	530,550
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness [note 4]	67,863	69,240
Accounts payable and accrued liabilities [note 10]	63,341	67,782
Distributions payable	3,477	3,465
Risk management liability [note 9]	4,911	—
Notes payable [note 5]	6,415	5,000
Liabilities of assets held for sale [note 3a]	25,663	20,206
	171,670	165,693
<b>Notes payable [note 5]</b>	8,019	9,434
<b>Asset retirement obligation [note 6]</b>	13,139	12,799
<b>Future income taxes [note 11]</b>	15,728	15,608
<b>Liabilities of assets held for sale [note 3a]</b>	15,160	14,949
<b>Unitholders' equity</b>		
Unitholder capital [note 7a]	419,363	413,731
Contributed surplus [note 7c]	6,733	4,344
Accumulated earnings	82,761	65,022
Accumulated other comprehensive income [notes 2 and 7d]	3,426	—
Accumulated distributions	(202,260)	(171,030)
	310,023	312,067
	533,739	530,550

*See accompanying notes to the interim consolidated financial statements*

## CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS

(unaudited)

For the	Three months ended		Nine months ended	
<i>(in thousands of dollars)</i>	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	\$	\$	\$	\$
		<i>(restated-note 3a)</i>		<i>(restated-note 3a)</i>
<b>REVENUE</b>				
Financial services revenue	176,603	198,125	614,634	506,324
Unrealized gain (loss) on financial instruments <i>[note 9]</i>	(111)	—	23	—
Total financial services revenue	176,492	198,125	614,657	506,324
Oil and gas revenue	14,712	13,764	43,083	42,118
Oil and gas transportation costs	(286)	(254)	(835)	(694)
Royalties, net of ARTC	(1,725)	(2,004)	(5,538)	(6,084)
Unrealized gain (loss) on financial instruments <i>[note 9]</i>	(713)	2,153	(784)	4,151
Total oil and gas revenue	11,988	13,659	35,926	39,491
Interest and other income	1	—	1	68
Total revenue	188,481	211,784	650,584	545,883
<b>EXPENSES</b>				
Financial services operating	166,513	186,265	574,890	474,911
Oil and gas operating	5,247	4,767	15,088	13,280
General and administrative <i>[notes 8 and 10]</i>	3,868	4,387	15,267	12,576
Foreign exchange	839	560	2,211	(310)
Interest and bank fees	1,494	1,169	3,898	2,327
Interest on long-term debt	131	—	351	—
Capital taxes	102	198	281	353
Depletion, depreciation and amortization	7,321	6,644	21,174	19,494
Asset retirement obligation accretion <i>[note 6]</i>	262	239	794	692
	185,777	204,229	633,954	523,323
Income from continuing operations before income tax	2,704	7,555	16,630	22,560
Future income tax recovery (expense) <i>[note 11]</i>	1,544	—	(120)	1,750
Net income from continuing operations	4,248	7,555	16,510	24,310
Net income from discontinued operations – Real Estate <i>[note 3a]</i>	231	39	971	182
Net income from discontinued operations – Energy Services <i>[note 3b]</i>	—	—	—	3,517
Net income for the period	4,479	7,594	17,481	28,009
Accumulated earnings, beginning of period	78,282	48,039	65,022	27,624
Change in accounting policy <i>[note 2]</i>	—	—	258	—
Accumulated earnings, end of period	82,761	55,633	82,761	55,633
Net income from continuing operations per unit <i>[note 7b]</i>				
Basic	0.10	0.18	0.40	0.60
Diluted	0.10	0.18	0.39	0.59
Net income from discontinued operations per unit <i>[note 7b]</i>				
Basic	0.01	0.00	0.02	0.09
Diluted	0.01	0.00	0.02	0.09
Net income per unit <i>[note 7b]</i>				
Basic	0.11	0.18	0.42	0.69
Diluted	0.11	0.18	0.41	0.68

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

For the	Three months ended		Nine months ended	
<i>(in thousands of dollars)</i>	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	\$	\$	\$	\$
Net income for the period	4,479	—	17,481	—
Change in derivative instruments designated as cash flow hedges <i>[notes 2 and 9]</i>	(651)	—	(2,711)	—
Change in fair value of marketable securities <i>[note 2]</i>	(580)	—	(250)	—
Other comprehensive income	(1,231)	—	(2,961)	—
Comprehensive income for the period	3,248	—	14,520	—

*See accompanying notes to the interim consolidated financial statements*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the

(in thousands of dollars)	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	\$	\$	\$	\$
		(restated—note 3a)		(restated—note 3a)
<b>OPERATING ACTIVITIES</b>				
Net income from continuing operations	4,248	7,555	16,510	24,310
Add (deduct) non-cash items:				
Non-cash general and administrative <i>[note 8]</i>	665	1,239	3,113	3,342
Depletion, depreciation and amortization	7,321	6,644	21,174	19,494
Asset retirement obligation accretion	262	239	794	692
Unrealized (gain) loss on foreign exchange	613	476	(778)	(1,302)
Unrealized (gain) loss on financial instruments	824	(2,153)	761	(4,151)
Future income tax expense (recovery)	(1,544)	—	120	(1,750)
Funds from continuing operations	12,389	14,000	41,694	40,635
Funds from discontinued operations – Real Estate	823	328	2,361	942
Funds from discontinued operations – Energy Services	—	—	—	9,094
	13,212	14,328	44,055	50,671
Asset retirement costs incurred during period <i>[note 6]</i>	(295)	(64)	(761)	(200)
Change in non-cash working capital	(8,384)	(8,012)	3,731	3,306
Cash provided by operating activities	4,533	6,252	47,025	53,777
<b>FINANCING ACTIVITIES</b>				
Issue of trust units, net of issue costs	300	(24)	586	1,125
Cash settlement of options	(5)	—	(11)	—
Distributions to unitholders	(10,417)	(10,400)	(31,218)	(40,002)
Increase (decrease) in bank indebtedness	11,553	(2,099)	(1,377)	20,368
Increase (decrease) in notes payable	—	10,000	—	2,500
Decrease in note receivable	—	—	—	1,050
Increase in mortgages	2,844	—	6,484	—
Repayment of mortgages	(210)	(123)	(608)	(386)
Repayment of long-term debt	—	—	—	(2,994)
Repayments of capital lease obligations	—	—	—	(51)
Change in non-cash working capital	—	(18)	—	(59)
Cash provided by (used in) financing activities	4,065	(2,664)	(26,144)	(18,449)
<b>INVESTING ACTIVITIES</b>				
Energy Services Division acquisitions	—	—	—	(30,995)
Disposition of Energy Services Division <i>[note 3b]</i>	—	—	—	(2,383)
Financial services development expenditures	(456)	(27)	(768)	(52)
Redemption of financial services contracts	—	5,605	3,265	6,635
Oil and gas property acquisitions	(151)	—	(7,363)	—
Oil and gas property disposals	31	(139)	54	1,499
Oil and gas development expenditures	(3,625)	(3,782)	(9,093)	(10,130)
Purchase of other assets	(12)	(38)	(130)	(79)
Purchase of real estate properties	—	—	(810)	—
Real estate development expenditures	(4,720)	(4,290)	(6,221)	(5,516)
Change in restricted cash	—	203	—	366
Change in non-controlling interest	—	—	—	(524)
Changes in non-cash working capital	408	115	850	318
Cash used in investing activities	(8,525)	(2,353)	(20,216)	(40,861)
<b>Increase (decrease) in cash during the period</b>	<b>73</b>	<b>1,235</b>	<b>665</b>	<b>(5,533)</b>
Cash, beginning of period	776	—	441	6,768
Cash of assets held for sale	65	—	(192)	—
<b>Cash, end of period</b>	<b>914</b>	<b>1,235</b>	<b>914</b>	<b>1,235</b>
<b>Cash interest paid</b>	<b>1,953</b>	<b>1,096</b>	<b>5,407</b>	<b>3,167</b>
<b>Cash taxes paid</b>	<b>213</b>	<b>2</b>	<b>649</b>	<b>340</b>

See accompanying notes to the interim consolidated financial statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

## 1. NATURE OF ORGANIZATION

Avenir Diversified Income Trust (the "Trust") is an open-end unincorporated trust governed by the laws of the Province of Alberta. Funds from operations are provided to the Trust from financial services income, oil and gas properties, real estate income, and energy services income (for the period from January 1, 2006 to May 31, 2006).

The operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year revenues and expenses during the reporting period, due to seasonal factors. Actual results may differ from those estimates. The Trust's natural gas marketing division traditionally has stronger results in the first and fourth quarters of the fiscal year. In the natural gas liquids marketing business colder winter weather also provides more opportunity for sale of propane and butane. Similarly, although muted somewhat by the industry's use of storage, the Oil and Gas Division often has stronger results in the winter months due to winter demand increasing oil and gas commodity prices.

Comparative periods have been restated to conform with current period presentation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles and in a manner consistent with the accounting policies in the audited consolidated financial statements of the Trust for the year ended December 31, 2006. Certain information has been condensed or omitted although the Trust believes that the disclosures are adequate to ensure the information presented is not misleading. The following notes are incremental to and should be read in conjunction with the December 31, 2006 audited consolidated financial statements.

Effective January 1, 2007, the Trust adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

### Financial instruments

Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*, prescribe the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. These Sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Trust is required to designate its financial instruments into 1 of the following 5 categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income.

Upon adoption on January 1, 2007, the marketable securities held by the Trust were classified as available-for-sale. All derivative contracts were designated as hedges. All other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All financial liabilities were classified as other liabilities.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

## Comprehensive income

Section 1530, *Comprehensive Income*, introduces a new financial statement “Statement of Comprehensive Income” and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments.

As required, prior periods have not been restated as a result of implementing Section 1530. Upon initial application of Section 3855, all adjustments to the carrying amount of financial instruments are recognized as an adjustment to the opening balance of accumulated other comprehensive income.

## Hedges

Section 3865, *Hedges*, specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon sale or early termination of the hedged item. All hedges entered into by the Trust that qualify for hedge accounting are cash flow hedges.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income while the ineffective portion is recognized in net income. When hedge accounting is discontinued, the amounts previously recognized in accumulated other comprehensive income are reclassified to net income during the periods when the variability in the cash flows of the hedged item affects net income. Gains and losses on derivatives are reclassified immediately to net income when the hedge item is settled or terminated early.

## Impact upon adoption of standards

The transition adjustments attributable to the re-measurement of financial assets and liabilities at fair value were recognized in opening accumulated earnings as at January 1, 2007. Adjustments arising from re-measuring financial assets classified as available-for-sale at fair value were recognized in opening accumulated other comprehensive income as at January 1, 2007. For cash flow hedging relationships existing prior to adopting section 3865 that continue to qualify for hedge accounting under the new standard, the transition adjustment being the effective portion of any gain or loss on the hedging instrument was recognized in accumulated other comprehensive income.

<i>(in thousands of dollars)</i>	<b>Accumulated earnings adjustment \$</b>	<b>Accumulated other comprehensive income adjustment \$</b>
Transition adjustment on adoption of Financial Instrument standards:		
Fair value of derivative instruments designated as cash flow hedges as at January 1, 2007 <i>[note 9]</i>	—	4,640
Fair value of marketable securities as at January 1, 2007	—	1,748
Fair value of hedges no longer qualifying for hedge accounting as at January 1, 2007	258	—
Adjustment to opening balances as at January 1, 2007	258	6,388

## Accounting Changes

Section 1506, *Accounting Changes*, relates to changes in accounting policies, changes in accounting estimates and errors. Under the revised section, voluntary changes in accounting policies are made only if they result in the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

financial statements providing reliable and more relevant information. Additional disclosure is required when the Trust has not applied a new primary source of generally accepted accounting principles that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. Adoption of this revised standard had no impact on the Trust's unaudited interim consolidated financial statements.

### Equity

Section 3251, *Equity*, establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements under this Section have been presented in these unaudited interim consolidated financial statements.

### Future Accounting Pronouncements

On December 1, 2006 the CICA issued three new accounting standards: Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These new standards will be effective beginning on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Trust is currently assessing the impact of these new standards.

## 3. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

### a) Real Estate - Assets held for sale

During the three month period ended June 30, 2007, the Trust made the decision to dispose of the Real Estate Division assets by way of sale or spin-out. In meeting the criteria for classification as assets held for sale under CICA Handbook Section 3475, the disposition process is currently underway and the Trust expects to have completed a transaction before the end of the first quarter of 2008. Subsequent to September 30, 2007, the Trust formally engaged a national real estate brokerage firm to market the sale of the Real Estate Division.

As such, for the nine months ended September 30, 2007, the Real Estate Division assets and liabilities and results from operations have been reclassified as assets held for sale. Comparative periods have been restated.

The following table represents the balances that have been reclassified on the balance sheet as assets held for sale:

<i>(in thousands of dollars)</i>	September 30, 2007	December 31, 2006
	\$	\$
Cash	260	68
Accounts receivable and prepaid expenses	1,333	768
<b>Current assets held for sale</b>	<b>1,593</b>	<b>836</b>
Property and equipment	58,246	52,142
Intangible and other assets	2,493	3,103
<b>Long-term assets held for sale</b>	<b>60,739</b>	<b>55,245</b>
Accounts payable and accrued liabilities	1,327	1,300
Deferred revenue	291	372
Current portion of mortgages (i)	24,045	18,534
<b>Current liabilities of assets held for sale</b>	<b>25,663</b>	<b>20,206</b>
Mortgages (i)	14,679	14,315
Future income tax	481	634
<b>Long-term liabilities of assets held for sale</b>	<b>15,160</b>	<b>14,949</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

- (i) In relation to the Real Estate Division, the Trust has various mortgages outstanding with interest rates ranging from 4.85% to 7.25% with a weighted average rate of 5.81%. The maturities range from November 2007 to July 2014 and all mortgages are collateralized by a first charge over the related properties. The current portion of the mortgages as at September 30, 2007 was \$24,045,345. The Trust also provides guarantees to third party mortgagors for a maximum of the total value of the mortgages outstanding on behalf of its Real Estate Division. The guarantees require the Trust to be responsible for the mortgage principal and interest payments if its Real Estate Division is unable to do so.

Subsequent to September 30, 2007, the mortgage which matures in November 2007 was renewed for a total amount of \$3,691,182 at a rate of 5.73% for a term of 1 year.

The results of operations for the assets held for sale are as follows:

<i>(in thousands of dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>Sept 30, 2007</b>	<b>Sept 30, 2006</b>	<b>Sept 30, 2007</b>	<b>Sept 30, 2006</b>
	\$	\$	\$	\$
<b>REVENUE</b>				
Real estate revenue	<b>1,716</b>	1,051	<b>5,504</b>	2,780
	<b>1,716</b>	1,051	<b>5,504</b>	2,780
<b>EXPENSES</b>				
Real estate operating	<b>252</b>	410	<b>1,283</b>	973
General and administrative (i)	<b>143</b>	84	<b>398</b>	255
Interest on long-term debt	<b>491</b>	223	<b>1,435</b>	591
Capital taxes	<b>7</b>	6	<b>27</b>	18
Depreciation and amortization	<b>514</b>	319	<b>1,544</b>	897
	<b>1,407</b>	1,042	<b>4,687</b>	2,734
Income before taxes	<b>309</b>	9	<b>817</b>	46
Future income tax recovery (expense)	<b>(78)</b>	30	<b>154</b>	136
Net income	<b>231</b>	39	<b>971</b>	182

- (i) During the three and nine months ended September 30, 2007, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions and mortgage financing of \$163,862 and \$456,802, respectively (three and nine months ended September 30, 2006 - \$185,370 and \$208,306) payable to a company with a shareholder who is also a director of the Trust.

### **b) Energy Services - Discontinued operations**

On May 31, 2006, the Trust completed the formation of a new publicly traded oilfield services trust called Essential Energy Services Trust ("Essential"). Pursuant to a plan of arrangement, the Trust conveyed its entire Energy Services Division to Essential in return for Essential Trust Units. All of the Essential Trust Units received were then distributed to existing unitholders of the Trust pro rata to their respective interest in the Trust - for every two Trust Units one Essential Trust Unit was distributed. The total net asset value that was conveyed to Essential was \$77,847,372. Total costs associated with the plan of arrangement were \$2,383,243 consisting of cash that was conveyed of \$946,877, cash paid of \$236,366 on settlement of vested options and an estimate of \$1,200,000 for additional costs. The total carrying value of \$79,047,372, made up of the net asset value and the estimate of \$1,200,000 in costs has been recorded as a non-cash distribution to unitholders. No gain or loss was recorded on the spin-out as it was accounted for at its carrying value. The spin-out was considered a related party transaction due to the fact that the Essential trust units were distributed to Avenir unitholders. The results from operations for the six months ended June 30, 2006 of \$3,517,261 have been classified as discontinued operations on the consolidated statement of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

### 4. BANK INDEBTEDNESS

In relation to its Oil and Gas Division, as at September 30, 2007, the Trust had a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$50,500,000 (December 31, 2006 - \$50,500,000) bearing interest ranging from prime to prime plus one percent depending on the debt to cash flow ratio of the Trust (as defined by the banking agreement). The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. As at September 30, 2007, \$39,630,000 (December 31, 2006 - \$45,930,000) was drawn on the revolving demand facility. Subsequent to September 30, 2007, this banking agreement was updated resulting in the revolving demand facility limited being changed to \$45,500,000 bearing the same interest as above and a new development facility in the amount of \$5,000,000, bearing interest ranging from prime plus one-quarter of one percent to prime plus one and one-quarter percent, was put into place.

The Trust has a demand revolving loan facility with a Canadian bank in the amount of \$70,000,000 (December 31, 2006 - \$70,000,000) bearing interest as follows; for advances of \$50,000,000 or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50,000,000 a 0.125% premium shall apply to applicable interest rates. The facility is primarily used to provide credit for natural gas liquids inventory purchases through the Trust's subsidiary Elbow River Marketing Limited Partnership ("Elbow River"). These facilities are collateralized by a charge over Elbow River's assets. As at September 30, 2007, \$28,233,225 (December 31, 2006 - \$23,309,728) was drawn on the demand loan facility.

The average effective interest rate on borrowings under the above lines for the nine months ended September 30, 2007, including service fees, was 6.99% (period ended September 30, 2006 - 5.58%).

As at September 30, 2007, the Trust had nineteen letters of credit outstanding in the aggregate amount of \$6,613,812 (December 31, 2006 - \$751,400).

To provide the Elbow River with additional credit on natural gas liquids inventory purchases, the Trust also has guarantees to third parties for a maximum of \$53,302,898 (December 31, 2006 - \$56,982,738). These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

### 5. NOTES PAYABLE

The Trust borrowed \$10,000,000, in two equal amounts of \$5,000,000 on July 28, 2006 and September 25, 2006, from a third party. The Trust is responsible for interest at 12.5% per annum on the drawn portion of the notes and a standby fee of 2% on any unused portion, for a minimum period of six months. The notes payable matured July 24, 2007 with the option to extend the due date based on mutual agreement of both parties. The note payable is collateralized by a guarantee provided by the Trust. \$5,000,000 of the note payable was repaid on November 29, 2006. As at September 30, 2007, \$5,000,000 (December 31, 2006 - \$5,000,000) of this note payable is outstanding. The Trust has extended the notes payable under similar terms to the previous agreement for a period of one year. Subsequent to September 30, 2007 the Trust drew an additional \$2,000,000 on the note payable bringing the current balance outstanding to \$7,000,000.

EnerVest Limited Partnership ("EnerVest") a wholly owned subsidiary of the Trust, entered into an unsecured promissory note with EnerVest Diversified Income Trust ("EDIT"), an investment vehicle that EnerVest manages, for the reimbursement of offering costs paid by EDIT in relation to its exchange offer on October 24, 2006. The note requires the offering costs to be repaid in equal quarterly payments plus interest over a six year period ending October 1, 2012 and bears interest at a rate per annum equal to the interest rate charged under EDITs' credit facility, which is bank prime less 0.5%. On December 28, 2006, EnerVest paid EDIT \$2,004,418 for the four principal payments required in 2007 and interest accrued to date. As at September 30, 2007, \$9,433,589 (December 31, 2006 - \$9,433,589) of this note payable is outstanding, with \$1,415,037 classified as current notes payable.

The average effective interest rate on borrowings under the above notes payables for the nine months ended September 30, 2007, including service fees, was 9.74% (period ended September 30, 2006 - 8.91%).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

### 6. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities in its Oil and Gas Division, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligation to be \$13,138,628 as at September 30, 2007 based on a total future liability of \$27,223,506. These payments are expected to be made over the next 29 years. The Trust's credit adjusted risk free interest rate of 8.5% and an inflation rate of 2% were used to calculate the present value of the asset retirement obligation.

The following table reconciles the Trust's total asset retirement obligation:

<i>(in thousands of dollars)</i>	\$
<b>Carrying amount, as at December 31, 2006</b>	<b>12,799</b>
Oil and gas activities during the period	332
Oil and gas divestitures during the period	(25)
Abandonment expenditures incurred during the period	(761)
Asset retirement obligation accretion for the period	794
<b>Carrying amount, as at September 30, 2007</b>	<b>13,139</b>

### 7. UNITHOLDERS' CAPITAL

#### a) Unitholders' capital

##### Authorized

Authorized capital consists of an unlimited number of Trust Units, and an unlimited number of Special Voting Units. No Special Voting Units have been issued to date. Each unit is transferable and represents an equal and undivided beneficial interest in any distributions from the Trust whether of earnings, net working capital gains or other amounts, and in the net assets of the Trust in the event of termination or wind-up. All units are redeemable at the demand of the unitholder.

##### Issued

Trust Units	Number of Units	Amount \$ <i>(in thousands of dollars)</i>
<b>Balance December 31, 2006</b>	<b>41,196,885</b>	<b>413,731</b>
Units issued on exercise of stock options (i)	3,333	26
Units released from escrow - Energy Services Division (ii)	3,891	36
<b>Balance March 31, 2007</b>	<b>41,204,109</b>	<b>413,793</b>
Units issued on exercise of stock options (i)	78,331	588
Units released from escrow - Energy Services Division (ii)	16,894	157
Units released from escrow - Elbow River (iii)	397,554	4,333
<b>Balance June 30, 2007</b>	<b>41,696,888</b>	<b>418,871</b>
Units issued on exercise of stock options (i)	59,722	492
<b>Balance September 30, 2007</b>	<b>41,756,610</b>	<b>419,363</b>

- (i) Trust Units issued upon exercise of stock options in 2007. The total cash received amounted to \$585,645 and the difference of \$520,030 represents the movement from contributed surplus to unitholders' equity relating to the stock based compensation expense previously recognized.
- (ii) In 2006 the Trust issued 123,312 units from treasury, which were escrowed for energy service employees who had unvested Trust options at the time of the Energy Services Division spin-out on May 31, 2006 (see

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

note 3b). These units are to remain in escrow until the vesting date is reached on the respective Trust options based on the original grant date of the options, which will occur over the next one to two and a half years. During 2007, 20,785 (or \$193,396) of these Trust Units were released from escrow on their respective vesting dates. Also, 1,190 (or \$10,363) of these escrowed Trust Units were cancelled as certain terms of the escrow agreement were not met. The total number of Trust Units remaining in escrow for the Energy Services Division spin-out is 52,854.

- (iii) During the three months ended June 30, 2007, 397,554 Trust Units were released from escrow in relation to the acquisition of Elbow River in 2005. 76,452 of these Trust Units were released from escrow on the second anniversary date of the close of the acquisition. The remaining 321,102 Trust Units have been recognized in the consolidated interim financial statements as the conditions under the terms of the release from escrow, being management achieving cumulative earnings before income taxes, depreciation and amortization of \$28.5 million or greater after giving effect to bonuses, have been met. The Trust Units were valued at the time of the acquisition at \$10.90. The total number of Trust Units remaining in escrow in relation to the Elbow River acquisition is 76,452.

### b) Per unit amounts

For the three and nine months ended September 30, 2007, the Trust had a weighted average number of trust units outstanding of 41,721,239 and 41,530,800, respectively (three and nine months ended September 30, 2006 – 41,094,054 and 40,753,161, respectively). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options of an additional 425,304 and 658,914 Trust Units for the three and nine months ended September 30, 2007, respectively, resulting in a diluted weighted average number of trust units outstanding for the three and nine months ended September 30, 2007, of 42,146,543 and 42,189,714, respectively (three and nine months ended September 30, 2006 – 41,233,207 and 41,269,561, respectively). At September 30, 2007, there were 197,000 in anti-dilutive options that were not part of the dilutive per unit calculation. If the Escrowed Trust Units relating to the Elbow River acquisition and the spin out of the Energy Services Division were issued there would be no change for in the basic and diluted earnings per unit for the three and nine months ended September 30, 2007.

### c) Contributed surplus

The following table reconciles the movement in the contributed surplus balance:

<i>(in thousands of dollars)</i>	\$
<b>Contributed surplus, December 31, 2006</b>	<b>4,344</b>
Stock based compensation expense [note 8]	3,123
Release of units from escrow relating to Energy Services Division [note 7a(ii)]	(203)
Options exercised	(520)
Settlement of options	(11)
<b>Contributed surplus, September 30, 2007</b>	<b>6,733</b>

### d) Accumulated other comprehensive income

The following table reconciles the movement in the accumulated other comprehensive income balance:

<i>(in thousands of dollars)</i>	\$
<b>Accumulated other comprehensive income, December 31, 2006</b>	—
Derivative instruments designated as cash flow hedges	1,929
Fair value of marketable securities	1,497
<b>Accumulated other comprehensive income, September 30, 2007</b>	<b>3,426</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

### 8. STOCK-BASED COMPENSATION

Under the Trust's unit option plan, options to acquire trust units are granted to employees and directors from time to time at exercise prices equal to the market value of the units at the date of the grant. Options granted under the plan vest a third each year over a three-year period starting on the first anniversary from the date of grant. The options have a five-year life. The exercise price of the options is periodically adjusted to reflect the Trust's monthly distributions. Any consideration paid on exercise of stock options is added to unitholders capital. A total of 4,182,619 units have been reserved under this plan.

The following table summarizes the status and changes during the nine months ended September 30, 2007:

	Number of options outstanding	Weighted average grant date exercise price \$
<b>Outstanding, December 31, 2006</b>	<b>1,956,229</b>	<b>9.09</b>
Granted	1,493,400	7.44
Exercised	(141,386)	(9.81)
Expired	(154,169)	(8.30)
<b>Outstanding, September 30, 2007</b>	<b>3,154,074</b>	<b>8.31</b>
<b>Exercisable, September 30, 2007</b>	<b>663,119</b>	<b>9.32</b>

The following table summarizes information about the unit options outstanding at September 30, 2007:

September 30, 2007 strike price \$	Grant date exercise price \$	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
1.16	9.00	52,558	2.1	20,502
4.13	10.69	103,334	3.1	64,725
3.63	10.90	306,616	2.6	159,226
3.33	11.00	30,000	2.3	16,666
4.15	11.20	25,000	2.8	16,666
7.15	8.30	1,155,666	3.8	385,334
7.36	8.35	44,500	4.0	—
6.49	7.16	17,500	4.3	—
6.58	7.16	100,000	4.4	—
6.78	7.28	1,121,900	4.5	—
8.29	8.54	197,000	4.8	—
		<b>3,154,074</b>	<b>4.0</b>	<b>663,119</b>

As a result of the grind feature of the options, the price on the date of grant is reduced by the distributions paid to unitholders. Accordingly, the weighted average strike price at September 30, 2007 on all outstanding options was \$6.47 and the weighted average strike price at September 30, 2007 on all exercisable options is \$5.65.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

The total value of stock-based compensation of \$9,341,967 for those options issued to employees and directors was calculated using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. The assumptions made for the options granted in 2007 are as follows:

	<b>2007 Granted Options</b>
Expected volatility	37.89%
Risk – free interest rate	4.09%
Expected life of options	5 years
Dividend yield	nil

The Trust recorded compensation expense and contributed surplus of \$665,189 and \$3,123,065 relating to the Trust's current options for the three and nine months ended September 30, 2007, respectively (three and nine months ended September 30, 2006 - \$1,197,326 and \$3,300,461, respectively). The Trust recorded compensation expense and contributed surplus of \$nil and \$(10,363) for the spin out of the Energy Services Division (see note 7a(ii)) for the three and nine months ended September 30, 2007 (\$1,224,115 for the period ended September 30, 2006).

### 9. FINANCIAL INSTRUMENTS

<i>(in thousands of dollars)</i>	\$
<b>Risk management asset, December 31, 2006</b>	<b>46</b>
Transition adjustment on adoption of new standards [note 2]	4,640
Transition adjustment to retained earnings for hedges no longer qualifying for hedge accounting [note 2]	258
Change in mark-to-market for hedges not qualifying for hedge accounting – oil & gas (i)	(784)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	23
Change in mark-to-market of cash flow hedge contracts (iii)	(2,711)
<b>Net risk management asset, September 30, 2007</b>	<b>1,472</b>
Reclassified to risk management liability, September 30, 2007	4,911
<b>Risk management asset, September 30, 2007</b>	<b>6,383</b>

Fair values of commodity and foreign exchange derivatives are based on pricing models using forward curves as at September 30, 2007. The fair values of other financial instruments approximate their carrying values.

- (i) The Trust has the following forward contracts outstanding as at September 30, 2007 relating to its Oil and Gas Division:
- A fixed price AECO natural gas swap for the period November 1, 2006 to October 31, 2007 on 700 GJ/day of gas at a price of \$6.64 Cdn/GJ
  - A fixed price WTI collar for the period November 1, 2004 to October 31, 2007 on 70 barrels/day of crude oil with a floor price of \$38.00 US/Bbl and a ceiling price of \$44.65 US/Bbl
  - A fixed price WTI floor for the period December 1, 2004 to November 30, 2007 on 170 barrels/day of crude oil with a floor price of \$40.00 US/Bbl
  - A fixed price WTI floor for the period from August 1, 2006 to December 31, 2007 on 200 barrels/day of crude oil with a floor of \$65.00 and the Trust participates in 77% of the upside above the floor price
  - A fixed price WTI floor for the period August 1, 2007 to July 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.50 US/Bbl
  - A fixed price WTI floor for the period November 1, 2007 to October 31, 2008 on 200 barrels/day of crude oil with a floor price of \$71.40 US/Bbl
  - A fixed price WTI collar for the period January 1, 2008 to December 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.00 US/Bbl and a ceiling price of \$82.93 US/Bbl

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

The mark-to-market value of these contracts as at September 30, 2007 was an unrealized loss of \$1,100,374 (December 31, 2006 – an unrealized loss of \$316,639), resulting in the recognition of an unrealized loss on the income statement for the nine months ended September 30, 2007 of \$783,735 when compared to the December 31, 2006 mark-to-market.

- (iii) The following tables detail those transactions in the Elbow River Marketing group that do not qualify for hedge accounting, which resulted in a risk management asset of \$643,742 (December 31, 2006 – an unrealized gain of \$619,896), resulting in the recognition of an unrealized gain on the income statement for the nine months ended September 30, 2007 of \$23,846 when compared to the December 31, 2006 mark-to-market.

<b>Forward exchange contracts:</b>		<b>September 30, 2007</b>
<b>Term Due</b>	<b>Forward Rates CDN \$</b>	<b>Unrealized gain \$</b>
October 2007	0.9959 – 1.1279	92,853
November 2007	0.9955 – 1.1270	91,861
December 2007	0.9951 – 1.1262	90,020
January 2008	0.9949 – 1.1597	306,438
February 2008	0.9948 – 1.1587	302,234
March 2008	0.9947 – 1.1578	298,648
	Total CDN dollars	<u>1,182,054</u>

<b>Commodities hedging contracts:</b>			<b>September 30, 2007</b>
<b>Settlement dates</b>	<b>Volume (bbl)</b>	<b>Prices US \$(/bbl)</b>	<b>Unrealized gain (loss) \$</b>
November 2007	36,750	70.05 – 75.16	(299,833)
December 2007	20,000	72.00 – 72.78	(144,530)
January 2008	20,000	73.25 – 74.66	106,171
	<u>76,750</u>		<u>(338,192)</u>
		Exchange rate	0.9963
		Total CDN dollars	<u>(336,941)</u>

Futures contracts involve bio-fuels transactions done at fixed volume and fixed price.

<b>Futures contracts:</b>			<b>September 30, 2007</b>
<b>Settlement dates</b>	<b>Volume (lbs)</b>	<b>Prices US \$(/lbs)</b>	<b>Unrealized gain (loss) \$</b>
November 2007	17,000	95.32 – 93.47	30,996
December 2007	56,000	90.00 – 94.33	(230,786)
	<u>73,000</u>		<u>(199,790)</u>
		Exchange rate	0.9963
		Total CDN dollars	<u>(199,051)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

<b>Futures contracts:</b>			<b>September 30, 2007</b>
<b>Settlement dates</b>	<b>Volume (lbs)</b>	<b>Prices US \$/(lbs)</b>	<b>Unrealized gain (loss) \$</b>
October 2007	3,000,000	0.3960 – 0.3949	3,283
November 2007	3,000,000	0.4019 – 0.4000	(5,612)
	6,000,000		(2,329)
		Exchange rate	0.9963
		Total CDN dollars	(2,320)

(iii) The Elbow River Marketing group of the Trust sells natural gas liquids, ethanol, biodiesel, diesel, and asphalt product in the United States and Canada, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, biodiesel, and ethanol. The following table details those transactions that qualify for hedge accounting that are outstanding resulting in a risk management asset of \$1,928,861 (January 1, 2007 – a risk management asset of \$4,640,221), resulting in the recognition of other comprehensive loss of \$2,711,360 when compared to the January 1, 2007 mark-to-market:

<b>Commodities hedging contracts:</b>			<b>September 30, 2007</b>
<b>Settlement dates</b>	<b>Volume (bbl)</b>	<b>Prices US \$/(bbl)</b>	<b>Unrealized gain (loss) \$</b>
October 2007	315,251	45.57 - 101.66	198,724
November 2007	670,933	45.57 – 94.19	(1,059,264)
December 2007	390,108	45.57 - 94.67	127,926
January 2008	468,120	45.57 -94.67	(42,306)
February 2008	336,620	45.57 - 94.19	427,363
March 2008	335,895	45.57- 92.95	474,074
April 2008	21,713	47.46 -91.77	38,203
May 2008	17,262	85.68 -87.57	31,228
June 2008	17,262	85.68 -87.57	31,066
July 2008	17,262	85.68 -87.57	30,905
August 2008	17,262	85.68 -87.57	30,745
September 2008	17,262	85.68 -87.57	30,745
October 2008	17,262	85.68 -87.57	30,585
November 2008	17,262	85.68 -87.57	30,269
December 2008	17,262	85.68 -87.57	30,113
	2, 676,736		410,376
		Exchange rate	0.9963
		Total CDN dollars	408,858

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

<b>Forward exchange contracts:</b>			<b>September 30, 2007</b>
<b>Term Due</b>	<b>Amount \$</b>	<b>Forward Rates CDN \$</b>	<b>Unrealized Gain \$</b>
October, 2007	5,720,000	1.0045 – 1.0966	288,502
November, 2007	5,735,000	0.9955 – 1.0958	469,989
December, 2007	1,555,000	1.0502 – 1.0951	92,080
January, 2008	2,690,000	0.9949 – 1.0944	237,558
February, 2008	2,140,000	1.0270 – 1.0938	145,570
March, 2008	2,730,000	1.0269 – 1.0934	168,510
April, 2008	1,795,000	1.0269 – 1.0929	117,794
Total US dollars	22,365,000		1,520,003
Exchange rate	0.9963		
Total CDN dollars	22,282,250		

(iv) The Trust enters into fixed price contracts for the physical delivery of commodities and power. These contracts are in the normal course of business and are not intended to be settled for net cash payment. As such, these contracts are not recognized on the financial statement and future revenues and costs are recognized as earned over the term of the contract.

### 10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions described elsewhere in these consolidated financial statements, the Trust entered into the following transactions with related parties which are recorded at exchange amounts:

- During the three and nine months ended September 30, 2007, the Trust paid \$49,618 and \$136,420, respectively (three and nine months ended September 30, 2006 - \$36,334 and \$107,780, respectively) to Avenir Capital Corporation (“Avenir”), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at September 30, 2007 is \$16,428 (December 31, 2006 - \$13,650) owing to Avenir relating to administration and advisory services.
- During the three and nine months ended September 30, 2007, the Trust incurred marketing fees of \$18,000 and \$54,000, respectively (three and nine months ended September 30, 2006 - \$18,000 and \$54,000, respectively) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$18,000 is included in accounts payable and accrued liabilities as at September 30, 2007 (December 31, 2006 - \$18,000).
- In the normal course of joint venture activities, the Trust’s Oil and Gas Division from time to time, engages in business transactions with companies having directors in common with the Trust. In this regard, during the nine months ended September 30, 2007, the Trust purchased minor producing property interests from a publicly traded corporation with certain directors in common for \$7,212,256.

### 11. INCOME TAXES

In June 2007 the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded income trusts effective January 1, 2011. Prior to June 2007, the Trust estimated future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate. Under the new legislation, the Trust now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.5%. The temporary differences reversing before 2011 will still give rise to nil future income taxes. Based on its assets and liabilities as at September 30, 2007, the Trust has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. The Trust estimates that \$1,666,956 net taxable temporary differences will reverse after January 1, 2011.

While the Trust believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversal after 2011 may change in future periods. As the legislation is new, future

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

technical interpretations of the legislation could occur and could materially affect the Trust's estimate of the future income tax liability. The amount and timing of reversal of temporary differences will also depend on the Trust's future operating results, acquisition and disposition of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect the Trust's estimate of the future tax liability.

The difference between the accounting value and the income tax value of assets and liabilities, which comprise the future tax asset (liability), as follows, also reflect the future income tax liabilities relating to the Trust's Oil and Gas Division that existed prior to the new legislation:

	<b>September 30,</b>
<i>(in thousands of dollars)</i>	<b>2007</b>
	<b>\$</b>
Property and equipment	16,946
Intangibles and other assets & Goodwill	2,924
Risk management liability	(344)
Asset retirement obligations	(3,798)
<b>Future tax liability</b>	<b>15,728</b>

As a result of the new legislation an additional future income tax recovery of \$784,077 and expense of \$556,765 has been recorded for the three and nine months ended September 30, 2007, respectively. The additional recovery recorded of \$760,260 and \$436,735 for the three and nine months ended, respectively, relates to changes in estimates on the temporary differences in the Trust's Oil and Gas Division that existed prior to the effect of the new legislation.

### 12. SEGMENTED INFORMATION

The Trust determines its reportable segments based on the structure of its operations, which are primarily focused on the Trust's principal business segments – financial services, and oil and gas. Also included are the real estate segment now classified as assets held for sale for 2007 and 2006 and energy services segment as discontinued operations for 2006. The accounting policies followed by these business segments are the same as those described in the summary of significant accounting policies.

There were no inter-segment eliminations for the three and nine months ended September 30, 2007.

The following is selected financial information for each business segment:

	<b>For the three months ended September 30, 2007</b>				
<i>(in thousands of dollars)</i>	<b>Financial</b>	<b>Oil &amp;</b>	<b>Corporate</b>	<b>Discontinued</b>	<b>Total</b>
	<b>Services</b>	<b>Gas</b>		<b>Operations</b>	
	\$	\$	\$	\$	\$
Net total revenue	176,492	11,988	1	—	188,481
Net operating expenses	166,513	5,247	—	—	171,760
Income (loss) from continuing operations	4,991	(352)	(391)	—	4,248
Discontinued operations – Real Estate	—	—	—	231	231
Net income (loss)	4,991	(352)	(391)	231	4,479

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

*(in thousands of dollars)*

	For the nine months ended September 30, 2007				
	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Net total revenue	614,657	35,926	1	—	650,584
Net operating expenses	574,890	15,088	—	—	589,978
Income (loss) from continuing operations	23,508	(1,866)	(5,132)	—	16,510
Discontinued operations – Real Estate	—	—	—	971	971
Net income (loss)	23,508	(1,866)	(5,132)	971	17,481

*(in thousands of dollars)*

	For the three months ended September 30, 2006				
	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Net total revenue	198,125	13,659	—	—	211,784
Net operating expenses	186,265	4,767	—	—	191,032
Income (loss) from continuing operations	7,478	1,655	(1,578)	—	7,555
Discontinued operations – Real Estate	—	—	—	39	39
Net income (loss)	7,478	1,655	(1,578)	39	7,594

*(in thousands of dollars)*

	For the nine months ended September 30, 2006				
	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Gross revenue	506,469	39,491	213	—	546,173
Inter-segment eliminations	(145)	—	(145)	—	(290)
Net total revenue	506,324	39,491	68	—	545,883
Operating expenses	474,911	13,398	—	—	488,309
Inter-segment eliminations	—	(118)	—	—	(118)
Net operating expenses	474,911	13,280	—	—	488,191
Income (loss) before inter-segment eliminations	21,275	6,987	(4,070)	—	24,192
Inter-segment eliminations	145	118	(145)	—	118
Income (loss) from continuing operations	21,421	7,105	(4,216)	—	24,310
Discontinued operations – Real Estate	—	—	—	182	182
Discontinued operations – Energy Services	—	—	—	3,517	3,517
Net income (loss)	21,421	7,105	(4,216)	3,699	28,009

\* consists of the long-term portion of the Real Estate Division mortgages

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2007 (unaudited)

(in thousands of dollars)

	September 30, 2007				
	Financial Services	Oil & Gas	Corporate	Assets held for sale	Total
	\$	\$	\$	\$	\$
<b>Selected balance sheet items</b>					
Property and equipment	1,219	150,737	—	—	151,956
Intangibles and other assets	147,191	—	—	—	147,191
Goodwill	35,640	21,235	—	—	56,875
Total assets	281,881	187,822	1,704	62,332	533,739
Working capital (deficiency)	21,510	(44,729)	(7,403)	(24,070)	(54,692)
Liabilities of assets held for sale*	—	—	—	(14,679)	(14,679)
Notes payable	(8,019)	—	—	—	(8,019)

### 13. SUBSEQUENT EVENTS

Subsequent to September 30, 2007, EnerVest Limited Partnership (“EnerVest”) a wholly owned subsidiary of the Trust, entered into an unsecured promissory note with EnerVest Diversified Income Trust (“EDIT”), an investment vehicle that EnerVest manages, for the reimbursement of offering costs of approximately \$10,500,000 paid by EDIT in relation to its exchange offer on October 22, 2007. The note requires the offering costs to be repaid in equal quarterly payments plus interest over a seven year period ending October 1, 2014 and bears interest at a rate per annum equal to the interest rate charged under EDITs’ credit facility.

#### **Alberta Royalty structure changes**

On October 25, 2007, Alberta’s provincial government unveiled its plan to update the province’s royalty structure. The government has indicated that all changes to the royalty structure are intended to take effect January 1, 2009. The Trust had conducted a preliminary review based on the proposed legislation and have concluded that using the Trust’s January 1, 2007 reserve report the impact of these changes on our existing operations would be neutral to slightly better on both a cash flow and a net asset value basis. The Trust will continue to analyze the information that becomes available with respect to the new crown royalty framework, and a final assessment of the impact of the new royalty structure will be completed once the full details of the new program are released.

## **C O R P O R A T E I N F O R M A T I O N**

### **Directors**

William M. Gallacher <sup>(2,3)</sup>  
President & CEO, Chairman

Gary H. Dundas  
VP Finance & CFO

David E. Butler <sup>(1,3)</sup>

Stuart Y. Chow <sup>(2,3)</sup>

Jeffery Kohn

Alan Moon <sup>(1,2)</sup>  
Lead Director

William E. Patterson <sup>(1,2)</sup>

1. Audit Committee
2. Governance & Compensation Committee
3. Reserves Committee

### **Corporate Secretary**

J.G. (Jeff) Lawson

### **Auditors**

Ernst & Young, LLP

### **Bankers**

National Bank of Canada  
HSBC Bank Canada  
Canadian Western Bank

### **Evaluation Engineers**

McDaniel & Associates Consultants Ltd.  
Calgary, Alberta

### **Legal Counsel**

Burnet, Duckworth & Palmer, LLP

### **Transfer Agent**

Olympia Trust Company

### **Officers & Key Personnel**

#### **Corporate Office**

William Gallacher, P.Eng  
President & CEO

Gary Dundas, CMA, MBA  
Vice President, Finance & CFO

Jill Koskimaki, BBA  
Manager Bus. Development

Michelle O'Grady, CA  
Controller

#### **Avenir Operating Corp.**

Grant Leslie, P. Eng., COO  
Bob Guy, P. Eng., VP Production  
Tim Watters, VP Exploration  
Debbie Carter, Controller

#### **EverVest Limited Partnership**

Kevin Wolfe, President  
Sean Morgan, CFO

#### **Elbow River Marketing LP**

Ed Malcolm, President  
George Petropoulos, Mgr, LPG Mktg  
Mitch Brown, General Manager

#### **Real Estate Management**

MDC Property Services Ltd.  
Calgary, Alberta

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## OIL & GAS ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
Bbl	Barrel	Mcf	thousand cubic feet
Bbls	Barrels	Mmcf	million cubic feet
Mbbls	thousand barrels	Bcf	billion cubic feet
Bbls/d	barrels per day	Mcf/d	thousand cubic feet per day
Mmbbls	million barrels	Mmcf/d	million cubic feet per day
NGLs	natural gas liquids	MMBTU	million British Thermal Units
<b>Other</b>			
AECO	EnCana Corporation's natural gas storage facility located at Suffield, Alberta.		
BOE	means barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one Bbl of oil, unless otherwise specified. The conversion factor used to convert natural gas to oil equivalent is not necessarily based upon either energy or price equivalents at this time.		
BOE/d	barrels of oil equivalent per day.		
COGPE	means Canadian oil and gas property expense, as defined in the Tax Act.		
MBOE	means thousand barrels of oil equivalent.		
McfGe	means thousand cubic feet of gas equivalent.		
MMBOE	means million barrels of oil equivalent.		
OOIP	means original oil in place.		
WTI	means West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade.		
°API	means the measure of the density or gravity of liquid petroleum products derived from a specific gravity.		
MW	megawatts of electrical power.		
3D	three dimensional.		
Darcies	means the measure of permeability (being the ease with which a single fluid will flow through connected pore space when a pressure gradient is applied).		
Porosity	means the measure of the fraction of pore space of a reservoir.		

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