

**NOTICE OF ANNUAL AND SPECIAL MEETING OF AVENIR DIVERSIFIED INCOME TRUST  
UNITHOLDERS**

**to be held May 27, 2009**

**and**

**INFORMATION CIRCULAR**

**April 29, 2009**

**AVENIR DIVERSIFIED INCOME TRUST**

**NOTICE OF ANNUAL AND SPECIAL MEETING OF TRUST UNITHOLDERS  
TO BE HELD May 27, 2009**

**NOTICE IS HEREBY GIVEN** that an annual and special meeting (the "**Meeting**") of the holders ("**Unitholders**") of trust units ("**Trust Units**") of Avenir Diversified Income Trust ("**Avenir**" or the "**Trust**") will be held in Rooms 101/102 at the Calgary TELUS Convention Centre, 120 - 9th Avenue SE, Calgary, Alberta, T2G 0P3 on May 27, 2009, at 9:30 a.m. (Calgary time) for the following purposes:

- (a) to receive and consider the consolidated financial statements of Avenir for the year ended December 31, 2008 and the auditors' report thereon;
- (b) to fix the number of directors of Avenir Operating Corp. ("**Avenir Operating Corp.**") to be elected at the Meeting at seven (7) members;
- (c) to elect the directors of Avenir Operating Corp.;
- (d) to reappoint Olympia Trust Company as the trustee, to hold office for a term of three (3) years;
- (e) to appoint the auditors of the Trust and to authorize the directors to fix their remuneration as such; and
- (f) to transact such further and other business as may properly be brought before the Meeting or any adjournment thereof.

Specific details of the matters to be put before the Meeting are set forth in the Information Circular.

The record date (the "**Record Date**") for determination of Unitholders entitled to receive notice of and to vote at the Meeting is April 15, 2009. Only Unitholders whose names have been entered in the register of Trust Units on the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting. Holders of Trust Units who acquire Trust Units after the Record Date will not be entitled to vote such Trust Units at the Meeting.

Each Trust Unit entitled to be voted at the Meeting will entitle the holder to one vote at the Meeting.

**A Unitholder may attend the Meeting in person or may be represented by proxy. Unitholders who are unable to attend the Meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. To be effective, the proxy must be received by Olympia Trust Company, Proxy Department, 2300, 125 – 9<sup>th</sup> Avenue S.E., Calgary, Alberta, T2G 0P6 (not later than forty-eight (48) hours excluding Saturdays, Sundays and statutory holidays in the Province of Alberta), prior to the time set for the Meeting or any adjournment thereof.**

Dated at the City of Calgary, in the Province of Alberta, this 29<sup>th</sup> day of April, 2009.

**BY ORDER OF THE BOARD OF DIRECTORS OF  
AVENIR OPERATING CORP.**

(signed) "*William M. Gallacher*"  
William M. Gallacher  
President and Chief Executive Officer  
Avenir Operating Corp., the administrator of  
Avenir Diversified Income Trust

## INFORMATION CIRCULAR

### Advice to Beneficial Holders of Trust Units

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

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Unitholders in advance of unitholders' meeting. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Unitholders in order to ensure that their Trust Units are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Unitholder by its broker is identical to the form of proxy provided to registered Unitholders; however, its purpose is limited to instructing the registered Unitholder how to vote on behalf of the Beneficial Unitholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions Inc. ("**Broadridge**"). Broadridge typically mails a Voting Instruction Form, which may be scanned, in lieu of the form of proxy. The Beneficial Holder is requested to complete and return the Voting Instruction Form to them by mail or facsimile. Alternatively the Beneficial Holder can call a toll-free telephone number or access the internet to vote the Units held by the Beneficial Holder. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Trust Units to be represented at the meeting. A Beneficial Unitholder receiving a Voting Instruction Form cannot use that Voting Instruction Form to vote Trust Units directly at the Meeting as the Voting Instruction Form must be returned as directed by Broadridge well in advance of the Meeting in order to have the Trust Units voted.

Although you may not be recognized directly at the Meeting for the purposes of voting Trust Units registered in the name of your broker or other intermediary, you may attend at the Meeting, as a proxyholder for the Registered Holder and vote your Trust Units in that capacity. For assistance, please see the back cover of this Information Circular. If you wish to attend the Meeting and vote your own Trust Units you must do so as proxyholder for the Registered Holder. To do this, you should enter your own name in the blank space on the form of proxy provided to you and return the document to your broker or other intermediary (or the agent of such broker or other intermediary) in accordance with the instructions provided by such broker, intermediary or agent well in advance of the Meeting.

### SOLICITATION OF PROXIES

**This Information Circular - Proxy Statement is furnished in connection with the solicitation of proxies by Avenir Operating Corp., the Manager of Avenir Diversified Income Trust, for use at the Annual and Special Meeting of the Unitholders to be held on the 27th day of May, 2009 in Rooms 101/102 at the Calgary TELUS Convention Centre, 120 - 9<sup>th</sup> Avenue S.E., Calgary, Alberta, T2G 0P3 at 9:30 a.m. (Calgary time) and at any adjournment(s) thereof, for the purposes set forth in the Notice of Meeting.**

Avenir has two types of securities that entitle holders to vote generally at meetings of Unitholders: Trust Units and special voting units ("**Special Voting Units**"). Each holder of Trust Units outstanding on the Record Date (as defined below) is entitled to one vote at all meetings of Unitholders for each Trust Unit held. Each holder of Special Voting Units outstanding on the Record Date (as defined below) is entitled to that number of votes per Special

Voting Unit as may be prescribed by the board of directors of Avenir in the resolution authorizing the issuance of such. As of March 31, 2009, there were 41,913,262 Trust Units and no Special Voting Units issued and outstanding.

Instruments of Proxy must be received by the Assistant Corporate Secretary of Avenir, c/o Olympia Trust Company (the "**Trustee**"), 2300, 125 – 9<sup>th</sup> Avenue S.E., Calgary, Alberta, T2G 0P6 not less than 48 hours before the time set for the holding of the Meeting or any adjournment(s) thereof. The Board of Directors of Avenir has fixed the record date for the Meeting at the close of business on April 15, 2009 (the "**Record Date**"). Only Unitholders of record as at the Record Date are entitled to receive notice of the Meeting and to vote their Trust Units included in the list of Unitholders entitled to vote at the Meeting prepared as at the Record Date. Unitholders of record will be entitled to vote those Trust Units or Special Voting Units, as the case may be, included in the list of Unitholders entitled to vote at the Meeting prepared as at the Record Date even though the Unitholder has since that time disposed of his or her Trust Units. No Unitholder who becomes a Unitholder after the Record Date shall be entitled to vote at the Meeting.

The instrument appointing a proxy shall be in writing and shall be executed by the Unitholder or his or her attorney authorized in writing or, if the Unitholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized.

**The persons named in the enclosed Instrument of Proxy are directors and/or officers of Avenir Operating Corp. Each Unitholder has the right to appoint a proxyholder other than the persons designated in the Instrument of Proxy furnished by Avenir Operating Corp., who need not be a Unitholder, to attend and act for the Unitholders and on the Unitholder's behalf at the Meeting. To exercise such right, the names of the persons designated by management should be crossed out and the name of the Unitholder's appointee should be legibly printed in the blank space provided.**

#### **Revocability of Proxy**

A Unitholder who has submitted a proxy may revoke it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the Unitholder or his or her attorney authorized in writing or, if the Unitholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized and deposited either at the head office of Avenir Operating Corp. at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits, the proxy is revoked.

#### **Persons Making the Solicitation**

**The solicitation is made on behalf of the management of Avenir Operating Corp.** The costs incurred in the preparation and mailing of the Instrument of Proxy, Notice of Meeting and this Information Circular - Proxy Statement will be borne by Avenir. In addition to solicitation by mail, proxies may be solicited by personal interviews, telephone or other means of communication and by directors, officers and employees of Avenir Operating Corp., who will not be specifically remunerated therefor.

#### **Exercise of Discretion by Proxy**

Trust Units represented by the Instrument of Proxy enclosed with this Notice of Meeting and this Information Circular will be voted in accordance with the instructions of the Unitholder, but if no specification is made, Trust Units will be voted in favour of the matters set forth in the proxy. If any amendments or variations are proposed at the Meeting or any adjournment thereof to matters set forth in the proxy and described in the accompanying Notice of Meeting and this Information Circular, or if any other matters properly come before the Meeting or any adjournment thereof, the proxy confers upon the Unitholder's nominee discretionary authority to vote on such amendments or variations or such other matters according to the best judgment of the person voting the proxy at the Meeting. At the date of this Information Circular, management of Avenir Operating Corp. knows of no such amendments or variations or other matters to come before the Meeting.

## MATTERS TO BE ACTED UPON AT THE MEETING

### Presentation of Financial Statements

At the Meeting, the Manager will present to Unitholders the consolidated financial statements of Avenir Diversified Income Trust for the year ended December 31, 2008 and the auditors' report thereon.

### Fixing the Number of Directors

At the meeting, Unitholders will be asked to fix the number of directors of the Manager at seven (7).

### Election Of Directors of the Avenir Operating Corp.

At the Meeting, Unitholders will be asked to elect the proposed directors set forth below to hold office until the next annual meeting or until their successors are elected or appointed. There are presently seven (7) directors of Avenir Operating Corp., each of whom retire from office at the Meeting.

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of a resolution electing as directors the nominees set forth in the table below.

The names and places of residence of the persons nominated for election as directors of Avenir Operating Corp., the number of voting securities of Avenir beneficially owned, controlled or directed, directly or indirectly, as at the date hereof, the offices held by each in Avenir, the period served as director and the principal occupation of each are as follows:

Name and Place of Residence	Position Held	Year Became Director or Officer	Number of Trust Units Held	Principal Occupation and Positions for the Past Five Years
William M. Gallacher <sup>(2)(3)</sup> Alberta, Canada	President, Chief Executive Officer ("CEO") and a Director	2003	353,976 (0.8%)	President & Chief Executive Officer of Avenir and the President of Avenir Capital Corporation, a private merchant bank.
Gary H. Dundas Alberta, Canada	Vice President, Finance, Chief Financial Officer ("CFO") and a Director	2003	225,540 (0.5%)	Chief Financial Officer of the Manager; prior thereto, Chief Financial Officer and Vice President Finance; General Manager Corporate Development, Marketing; and Controller at Maxx Petroleum Ltd., a publicly traded junior exploration & production company.
David E. Butler <sup>(1)(3)(5)</sup> Alberta, Canada	Director	2003	78,666 (0.2%)	President of Passport Petroleums Ltd., a private oil and gas company.
Stuart Y. Chow <sup>(2)(3)(5)</sup> Alberta, Canada	Director	2003	42,397 (0.1%)	President of Bravo Energy Inc., a private oil and gas company; formerly President of Onward Energy Inc. (prior to its acquisition by the Trust in January 2003).
Alan C. Moon <sup>(1)(2)(4)(5)</sup> Alberta, Canada	Director	2003	31,500 (0.07%)	President of Crescent Enterprise Inc., a private investment firm and a Corporate Director.

Name and Place of Residence	Position Held	Year Became Director or Officer	Number of Trust Units Held	Principal Occupation and Positions for the Past Five Years
Jeffery D. Kohn <sup>(5)</sup> Alberta, Canada	Director	2003	195,835 (0.5%)	Currently, the President of MDC Property Services Ltd., the Trust's real estate management company. Previously the CEO of TGS North American REIT ("TGS") from December 2003 to June 2006. Prior to TGS, he was Chairman and Founder of Tonko Development Corp, a public real estate company.
William E. Patterson <sup>(1)(2)(5)</sup> Alberta, Canada	Director	2005	15,000 (0.04%)	Currently a Tax and Business Consultant; previously Vice President, Finance and Chief Financial Officer for Energy North Inc. (January 1999 – July 2004).

## Notes:

- (1) Member of the Audit and Risk Management Committee.
- (2) Member of the Corporate Governance and Compensation Committee.
- (3) Member of the Reserves Review and Environment, Health and Safety Committee.
- (4) Mr. Moon serves as the Lead Director. See "Corporate Governance Disclosure".
- (5) Member of the Strategic Review Committee.

As at March 31, 2009, the directors, executive officers, managers and advisors of Avenir Operating Corp., as a group, beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 1,008,601 Trust Units or approximately 2.4% of the issued and outstanding Trust Units.

The information as to Trust Units beneficially owned, controlled or directed, directly or indirectly, is exercised, is based upon information furnished to Avenir by the respective nominees as at March 31, 2009.

***Cease Trade Orders, Bankruptcies, Penalties or Sanctions***

Except as set forth below, to our knowledge, no proposed director: (i) is, or has been in the last 10 years, a director, chief executive officer or chief financial officer of an issuer (including the Trust) that, (a) while that person was acting in that capacity was the subject of a cease trade order or similar order or an order that denied the issuer access to any exemptions under securities legislation, for a period of more than 30 consecutive days, (b) was subject to an event that occurred while that person was acting in the capacity of director, chief executive officer or chief financial officer, which resulted, after that person ceased to be a director, chief executive officer or chief financial officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (c) while that person was acting in the capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; (ii) has, within the last 10 years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangements or compromises with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets; or (iii) has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

Mr. William Patterson was Chief Financial Officer of a private company, which was petitioned into bankruptcy in March of 2007. Mr. Patterson left employment with the company in November of 2006.

### **Re-Appointment of Trustee**

The Avenir Trust Indenture provides that the trustee of Avenir will be re-appointed every three years. The Trustee was last appointed at the Annual and Special Meeting of Unitholders held on May 11, 2006. Accordingly, Unitholders will consider and, if thought advisable, pass an ordinary resolution to reappoint Olympia Trust Company to serve as Trustee of Avenir until the third anniversary following the date of re-appointment.

### **Appointment of Auditors**

The Avenir Trust Indenture provides that the auditors of Avenir will be selected at each annual meeting of Unitholders. Accordingly, Unitholders will consider and, if thought advisable, pass an ordinary resolution to appoint the firm of Ernst & Young LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of Avenir until the next annual meeting of the Unitholders and to authorize the directors of Avenir to fix their remuneration as such.

**Unitholders are hereby informed that the Trust will pass a shareholders resolution in writing to elect each of the directors selected by the Unitholders as directors of Avenir Operating Corp. and to appoint the auditors of Avenir Operating Corp. Avenir Operating Corp. is obliged by the existing Administration Agreement to act as Manager of the Trust and to follow the voting directive of Unitholders.**

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### ***Executive and Employee Compensation Principles***

The Board of Directors recognizes that Avenir's success depends greatly on its ability to attract, retain and motivate superior performing employees at all levels, which can only occur if Avenir has an appropriately structured and executed compensation program. The principal objectives of Avenir's executive compensation program are as follows:

- (a) to attract and retain qualified executive officers;
- (b) to align the executives' interests with those of the Unitholders; and
- (c) achievement of subjective milestones considered to be important in the longer-term development of the business.

#### ***Role of the Corporate Governance and Compensation Committee***

The Board of Directors has established a Corporate Governance and Compensation Committee ("**Compensation Committee**") currently comprised of Messrs. Gallacher (Chairman), Chow, Patterson and Moon. None of these persons are officers of Avenir other than Mr. Gallacher who is the President and Chief Executive Officer, and all, other than Mr. Gallacher, are "independent" for purposes of National Policy 58-201 – *Corporate Governance Guidelines*.

The Compensation Committee meets from time to time during the year for the purpose of, among other things, reviewing the overall compensation policy. The Compensation Committee directs management to gather information on its behalf, and provide initial analysis and commentary. The Compensation Committee reviews this material along with other information received from external public sources in its deliberations before reaching decisions regarding executive compensation. The Compensation Committee has full discretion to adopt or alter management recommendations. The Compensation Committee makes recommendations to the Board of Directors

in respect of compensation issues relating to executive officer compensation, bonus payments, incentive rights plan allocations ("**Option Plan**") and directors' compensation. The Board of Directors reviews all recommendations of the Compensation Committee relating to compensation matters before giving final approval.

The Compensation Committee recognizes the importance of maintaining sound governance practices for the development and administration of executive compensation and benefit programs, and has instituted the holding of in-camera sessions without management present following every regularly scheduled Compensation Committee and Board of Directors meetings, as well as annually approving a checklist that sets out the timetable of all regularly occurring accountabilities for the Committee.

### *The Role of Management*

The executive officers play an important role in the compensation decision-making process, due to their direct involvement in and knowledge of the business' goals, strategies, experiences and performance of the Trust and its operating businesses. The Compensation Committee engages in active discussions with the executive officers concerning the determination of performance objectives, including individual goals and initiatives for executive officers and their managers who directly report to the CEO. Further discussions consider whether, and to what extent, criteria for the previous year have been achieved for those individuals. The CEO may also provide a self-assessment of his own individual performance objectives and/or results achieved, if requested by the Committee.

### *Overview of Compensation Elements*

Component of Compensation	Type of Compensation	Element	Form	Performance Period
Fixed	Short-term Annual	Base Salary	Cash	1 year
	Short-term Annual	Short term incentive	Annual Cash Bonus	1 year
Variable	Long-term	Option Plan	Stock Options	3 year vesting (1/3 per year with 5 year expiry)
	Long-term	Value Added Bonus	Cash	Disposition or exit from a business/division

### *Components of the Executive Compensation Program*

The compensation program of the Trust is currently founded on the principal that executive and employee compensation should be consistent with Unitholders' interests. The objectives of the program are to attract and retain high quality management and an employee team, as well as motivate performance by tying compensation to cash flow and distributable cash objectives, reserves, a target payout ratio, the enhancement in unit value and to encourage all employees to become significant Unitholders. Base salary ranges for executive officers are determined annually upon review by the Compensation Committee, who then makes recommendations to the Board for its consideration and, if thought fit, final approval. Comparative public data is taken into consideration when determining the overall compensation of Executive Management. Comparables include other diversified income trusts, junior oil and gas companies, and royalty trust business operations and operating divisions of similar size and scope to those of the Trust (see the table provided below). In assessing the performance of individual officers, consideration is given to objective factors such as level of responsibility, experience and expertise, as well as subjective factors such as leadership and performance and such other specific role with the Trust.

**Comparable Peers:****Diversified Trusts**

- Terra Vest Income Fund
- Newport Partners Income Fund

**Junior Oil & Gas Companies**

- Alberta Clipper Energy Inc.
- Bonterra Oil & Gas Ltd.
- Buffalo Resources Corp.
- Orleans Energy Ltd.
- ProspEx Resources Ltd.
- Rock Energy Inc.
- Terra Energy Corp.
- Tusk Energy Corporation
- Twin Butte Energy Ltd.
- Zapata Energy Corporation

**Royalty Trusts**

- Advantage Energy Income Fund
- Baytex Energy Trust
- Bonavista Energy Trust
- Crescent Point Energy Trust
- Daylight Energy Trust
- Enterra Energy Trust
- Paramount Energy Trust
- Peyto Energy Trust
- Trilogy Energy Trust
- True Energy Trust

Recommendations for executive compensation, as well as for Trust employees as a whole, are then made by the Committee to the full board for approval. As the CEO is also a member of the Compensation Committee, other members of the Compensation Committee meet in the absence of the CEO to discuss the recommendations made for the CEO's compensation and to determine whether such compensation will be recommended to the full Board of Directors. The Trust's compensation program in respect of executive officer compensation, and corporate headquarter employee compensation, consists of the following elements:

- short-term incentive compensation - base salary & annual cash bonuses
- long-term incentive compensation – Option Plan & value added cash bonuses (executive only)

The same process is generally followed for determining the compensation of all the corporate headquarter employees. A description of the criteria used in each element of compensation is set forth below. The Committee does believe, however, that performance based compensation plans are an important element in the compensation packages for the Trust's officers, and that long-term equity interests, in the form of Options and value added bonuses, compensate for what may be lower based salaries. This compensation strategy is similar to the strategy of many other industry peers. Compensation is thus weighted more heavily towards long term incentive compensation by way of the grant of Options under our Option Plan and the value added bonuses with respect to crystallized value of a businesses upon its disposition, in order to align the interests of our executive officers and employees with the performance of the Trust and the interests of our securityholders. For divisional managers and employees of their Divisions, the compensation programs are determined divisionally and are specific to their industry peers, however do include both base salary, and short term and medium term incentives. All employees and longer term consultants are eligible for Options.

***Base Salaries***

Base salaries for executive officers, including the CEO, for the year ended December 31, 2008 were approved by the Compensation Committee and the Board of Directors. Comparative public data is taken into consideration when determining the overall compensation of executive officers. Comparables include other diversified income trusts, junior oil and gas companies within a similar production range and royalty trusts.

Base salaries are established by the Compensation Committee at levels lower than comparable base salaries paid by industry peers with a view to placing more emphasis on the performance and longer term compensation components.

In assessing comparability, the Trust relied upon salary and other remuneration data gathered from a review of base salary amounts as disclosed from industry peers in their public disclosure documents. Consideration was given to the time period evaluated in public data and to the business climate applicable at the time with respect to industry demand for experience personnel. Salaries of officers, including that of the CEO are reviewed annually.

### ***Annual Bonuses***

While the Trust does not have a written bonus plan in place, it does award discretionary award bonuses largely based on the Trust's annual cashflow and overall corporate performance. Avenir awards cash bonuses to all employees of Avenir, including executive officers. The award of a bonus is recommended, in the case of non-executive employees, by senior management, and approved by the Compensation Committee and finally by the Board of Directors. Bonus levels for the executive officers are established by the Compensation Committee in consultation with the Chief Executive Officer and approved by the Board. The Chief Executive Officer's bonus is recommended by the Compensation Committee and approved by the Board.

Avenir modified the compensation program in 2005 for the final determination of the cash bonuses to be paid for each year. Specifically, the cash bonuses paid to Executive officers and employees for the year is paid in two instalments, 50% in December of the report year and 50% is paid the following April. The April portion of the executive and non-executive bonus is dependent upon final reserve reports, production numbers, financial results and distribution payout ratios for the previous fiscal year and may not be paid if these targeted results are not reached. The cash bonus paid to executive officers is based on the Trust's overall cash flow performance against recommended corporate performance objectives. Where quantitative measures are unavailable for the employee's personal performance, the bonus is discretionary, and is weighted by overall corporate performance.

The payment of bonuses to all executive officers is ultimately at the discretion of the Board upon recommendation of the Compensation Committee. Discretionary bonuses are structured to drive and reward current year results. The amount paid in 2008 was based on the Compensation Committee's subjective assessment of the Corporation's and departmental performance for the year and the employees' contribution thereto. A total dollar of \$781,831 in bonuses were paid to executive officers in 2008.

### **Trust Unit Options (Incentive Rights)**

Avenir Operating Corp. has adopted the Option Plan, which was approved by the Unitholders at the annual meeting of Unitholders of the Trust on May 25, 2008. The Option Plan is intended to give the Board the ability to issue options to provide the employees, officers and directors of Avenir Operating Corp. with long term equity based performance incentives, which is a component of Avenir's compensation strategy. Avenir Operating Corp. believes it is important to align the interests of management and employees with Unitholder interests and to link performance compensation to enhancement of Unitholder value. This is accomplished through the use of Options and the increase in market value over time.

In accordance with the rules of the Toronto Stock Exchange, every three years the unallocated Options under the Option Plan must be approved by the Unitholders of Avenir. The unallocated Options must also be approved by a majority of the directors of Avenir Operating Corp. and a majority of the unrelated directors of Avenir Operating Corp. Accordingly, if the Option Plan remains in place in fiscal 2011, at the annual meeting of Unitholders to be held in such year, Avenir Operating Corp. would seek this approval from Unitholders.

Options are normally awarded by the Board upon the commencement of employment with the Trust based on the level of responsibility within the Trust. Additional grants may be made periodically to ensure that the number of Options granted to any particular individual is commensurate with the individual's level of ongoing responsibility within the Trust. When determining Options to be allocated to each individual officer a number of factors are considered including level of responsibility, seniority, the number of outstanding Options held by such officer, the value of such Options held by the officer and the total number of available Options for grant.

Although, as mentioned above, Options are an important means of compensating officers and employees and aligning the interests of officers and employees with the interests of the unitholders, in recent years due to falling

stock prices of companies due to the financial crisis and lower oil and gas commodity prices, Options have not been meeting their objective of providing a form of long-term incentive. As with many companies in the Trust's peer group, outstanding Options have little retention value. This factor is taken into consideration by the Compensation Committee when evaluating appropriate total executive compensation and in some cases the individual salaries and bonuses are adjusted accordingly in order to continue to attract and retain quality and experienced people.

Option grants and proposed grants for employees and officers are reviewed and discussed from time to time by the Compensation Committee and the Board. The Compensation Committee, as part of its mandate, administers the Plan approved by the Board in accordance with its terms including a recommendation to the Board of the grant of Options. The Compensation Committee also reviews and makes recommendations to the Board pertaining to Options for officers, including the CEO, and members of the Board.

The terms of the Option Plan are summarized below:

1. directors, officers, employees and consultants, or those of the subsidiaries, are eligible to receive options;
2. the aggregate number of Trust Units that may be issued pursuant to the exercise of Options awarded under the Option Plan and all other share compensation arrangements of the Trust is 10% of the Trust Units outstanding from time to time, subject to the following limitations:
  - (a) the aggregate number of Trust Units reserved for issuance to any one person under the Option Plan, together with all other share compensation arrangements of the Trust, must not exceed 5% of the then outstanding Trust Units (on a non-diluted basis);
  - (b) the aggregate number of Trust Units reserved for issuance to insiders, must not exceed 10% of the issued and outstanding Trust Units; and
  - (c) the aggregate number of Trust Units issued to insiders within a one year period, must not exceed 10% of the issued and outstanding Trust Units;
3. the Option price shall be fixed by the Board, but under no circumstances shall the Option price of an Option be lower than the "Market Price" (as defined in the Company Manual), per Trust Unit, or such other minimum price as may be required by any stock exchange on which the Trust Units are listed at the time of grant;
4. the exercise price per Option granted under the Option Plan shall be, at the election of each optionee, either: (i) the initial exercise price of the Options; or (ii) a reduced exercise price calculated monthly by deducting from the price per share at which Trust Units may be purchased under the Option the aggregate of all distributions, on a per unit basis, made by Trust after the date upon which options were granted thereunder;
5. in no event will the exercise price be less than \$0.01 per Trust Unit;
6. when exercising an Option, the person exercising it has the right to require us to pay an "in the money" amount to him or her and the Option will be terminated. The "in the money" amount is calculated by subtracting the exercise price of an option from the weighted average trading price of Trust Units for the 5 days prior to giving notice to us of the election to exercise the right. The Board has the ability to determine not to accept the notice and require the individual to exercise the Option instead. The advantage to us of allowing for this right is that if the holder of the Option exercises the right instead of exercising the Option in the traditional manner, shares would not be issued, resulting in less dilution during the term of the Option Plan;
7. the vesting arrangements are within the discretion of the Board;
8. the term of Option grants are within the discretion of the Board, but cannot be longer than 5 years;

9. unless otherwise provided in the Option agreement, Options shall terminate at the earlier of: (i) the close of business 90 days after the Participant (as defined in the Option Plan) ceases (other than by reason of death) to be at least one of an officer, director, employee (in active employment carrying out regular and normal duties), or consultant of the Trust or a subsidiary of the Trust, as the case may be, (ii) the close of business 90 days after the Participant has been provided with written notice of dismissal related to (i) above; and (iii) the expiry date of the Option;
10. if before the expiry of an Option in accordance with the terms thereof a Participant ceases to be an employee, officer, director or consultant by reason of the death of the Participant, any unvested portion of such Option shall immediately vest. In addition, such Option may, subject to the terms thereof and any other terms of the Plan, be exercised by the legal personal representative(s) of the Participant's estate or at any time before 5:00 p.m. Calgary time on the 90th day after the date of death of the Participant, subject to, at the discretion of the Board, to an extension of the expiry. Notwithstanding the foregoing, in no event will an Option be exercisable at a date in excess of 5 years from the date of grant without the approval of the TSX;
11. Options are non-transferable and non-assignable, except in the case of the death of a Participant, and are exercisable only by the participant to whom the option was granted;
12. Options granted to non-employee directors are approved by the Compensation Committee of the Board of Directors and in aggregate will not exceed one percent of our issued Trust Units; and
13. the Board of Directors may amend the Option Plan (for instance, to reduce the percentage number of options which may be granted under the plan), change the term of the Options (to non-insiders, alter the put-right provisions under the Plan or alter the vesting provision relating to the options), without unitholder approval, or discontinue the Option Plan or any Option at any time, without Participant approval, provided that no such amendment may amend an Option grant for an option held by an insider to lower the exercise price or to extend the expiry date.

The total number of 2,979,833 Options were outstanding at the year ended December 31, 2008.

There were no Options granted to executive officers or division managers during 2008.

#### **Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan**

Avenir also has in place a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "**Distribution Plan**"). Generally, the Distribution Plan provides eligible holders of Trust Units the opportunity to either receive a premium cash payment in lieu of the cash distribution declared payable by Avenir (the "**Premium Distribution**") or accumulate additional Units at a 5% discount to the Average Market Price (as such term is defined in the Distribution Plan). Participants may also purchase additional Trust Units by investing additional sums within the limits and subject to the terms of the Distribution Plan. The Plan is designed to provide an efficient and cost effective way to issue additional equity to existing Unitholders.

**Although the Distribution Plan has been approved by the Board of Directors of Avenir Operating Corp. and the Unitholders of Avenir, given the expense of administering the same, Avenir Operating Corp. has yet to bring the Distribution Plan into operation. If Avenir Operating Corp. does implement the Distribution Plan, Avenir will issue a press release to this effect.**

#### ***Value Added Bonuses***

In addition to base salaries and annual cash bonuses, Avenir may award discretionary value added bonuses to executive officers and corporate headquarter employees. The award of a value added bonus is recommended by management to the Compensation Committee, who then considers and makes a recommendation to the Board. The Board then considers the recommendation for final approval. The value added bonus must be approved by the Board of Directors. Bonus levels for the executive officers are established by the Compensation Committee in

consultation with the CEO and the CEO's bonus is established by the Compensation Committee in consultation with the Board.

To date, the value added bonus is a discretionary bonus awarded to executives for crystallizing value for the unitholders. The value added bonus has been based on the crystallized value of a business or asset that the Trust has spun-off or sold. These bonuses have been awarded based on a value that is over and above the Trust's book value for the business/asset and distributions the business or asset has paid to the Trust. A discretionary percentage of the value gain has been awarded. The award of a value added bonus is recommended by the Compensation Committee, and approved by the Board. In 2006 a value added bonus of \$550,000 was paid with respect to the spin-off of the Energy Services Division. In 2007, no value added transactions occurred and therefore no value added bonus was paid. In 2008, the EnerVest Limited Partnership management contract was sold and therefore a value added bonus of \$1 million was paid to executive officers.

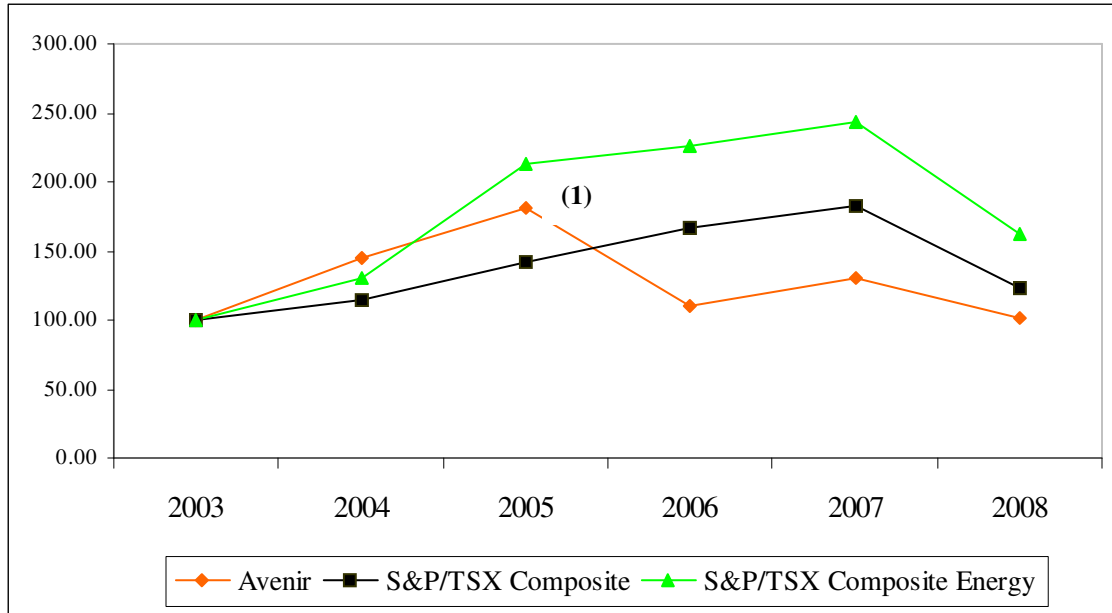
### ***Pension Plans and Retiring Allowances***

The Trust does not currently provide its executive officers, including the CEO, with pension plan benefits or retiring allowances.

### **Performance Graph**

The following graph illustrates changes on a consolidated basis from inception (February 4, 2003) to March 31, 2009, in cumulative Unitholder return, assuming an initial investment of \$100 in Trust Units, with all cash distributions included, compared to the S&P/TSX Composite Index and the S&P/TSX Energy Trust Index with all dividends and distributions reinvested.

The following graph illustrates changes on a consolidated basis from December 31, 2003 to December 31, 2008, in cumulative Unitholder return, assuming an initial investment of \$100 in Trust Units, with all cash distributions included, compared to the S&P/TSX Composite Index and the S&P/TSX Composite Energy Index with all dividends and distributions reinvested.



	2003/12	2004/12	2005/12	2006/12	2007/12	2008/12
Avenir	100	145	182	110	131	102
S&P/TSX Composite Index	100	114	142	167	183	123
S&P/TSX Composite Energy	100	130	213	226	244	162

## Notes:

- (1) Effective May 31, 2006 the Trust conveyed the entirety of its interest in its energy services division pursuant to a plan of arrangement under the ABCA to the then newly formed oilfield services trust called "Essential Energy Services Trust". Avenir Unitholders received a Special Distribution of Essential Energy Services Trust units.
- (2) Fourth quarter 2008 decreases in per unit values occurred in conjunction with the weakened global economic situation that worsened in 2008 and are continuing in 2009, creating a climate of greater volatility. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

### Summary Compensation Table

The following table sets forth for the year ended December 31, 2008 information concerning the compensation paid to our CEO and CFO and the three most highly compensated executive officers (or the three most highly compensated individuals acting in a similar capacity), other than the CEO and CFO, at the end of the year ended December 31, 2008 whose total compensation was more than \$150,000 (each a "Named Executive Officer" or "NEO" and collectively, the "Named Executive Officers" or "NEOs").

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards <sup>(1)</sup> (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation <sup>(4)</sup>	Total compensation (\$)
					Annual incentive plans <sup>(2)</sup>	Long-term incentive plans <sup>(3)</sup>			
William M. Gallacher, President and Chief Executive Officer	2008	114,480	n/a	nil	137,500	450,000	nil	9,119	710,099
Gary H. Dundas Vice-President, Finance and Chief Financial Officer	2008	114,480	n/a	nil	137,500	450,000	nil	8,498	710,478
Ed Malcolm, President Elbow River Marketing	2008	188,598	n/a	nil	326,831 <sup>(5)</sup>	1,157,308 <sup>(5)</sup>	nil	5,898	1,678,635
Grant Leslie, Chief Operating Officer, Oil & Gas	2008	159,000	n/a	nil	100,000	75,000	nil	7,898	341,898
Michelle O'Grady, Controller	2008	127,200	n/a	nil	80,000	100,000	nil	8,275	315,475

Notes:

- (1) Based on the grant date fair value of the applicable awards. The fair values of all options are estimated on the date of grant using the Black-Scholes option pricing model which is the fair value determined in accordance with Section 3870 of the CICA Handbook. The assumptions are disclosed in the Notes to the Consolidated Financial Statements.
- (2) See "Compensation Discussion and Analysis – Annual Bonuses".
- (3) Value added bonuses were paid to certain officers in November 2008 based on the crystallized value of the sale of the EnerVest management contract. See "Compensation Discussion and Analysis – Value Added Bonuses Plan".
- (4) Benefits including: medical and dental benefits; life insurance; short-term disability and long-term disability insurance; and parking allowance. These benefits are intended to be comparable with those that the Named Executive Officers would receive if employed elsewhere in the industry.
- (5) The annual bonus is paid based on a percentage of Elbow River Marketing Limited Partnership's overall profit for their fiscal year ended March 31, 2008. The long-term incentive bonus was paid based on three-year cash flow hurdles that were set-up for the Named Executive Officer when the business was initially purchased by Avenir in March 2005. The amount shown is the entire three year payment that was all paid out at March 31, 2008.

#### *Outstanding Share-Based Awards and Option-based Awards*

The following table sets forth for each Named Executive Officer all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2008.

Name	Option-based Awards <sup>(1)</sup>			Value of unexercised in-the-money options <sup>(2)</sup> (\$)
	Number of securities underlying unexercised options (#)	Weighted Average Option exercise price (\$)	Option expiration date	
William M. Gallacher	271,667	4.53	April 2010 to April 2012	173,621
Gary H. Dundas	248,334	4.79	April 2010 to April 2012	96,375
Ed Malcolm	65,000	4.11	May 2010 to April 2012	68,990
Grant Leslie	150,000	4.30	January 2010 to April 2012	130,764
Michelle O'Grady	63,000	5.11	August 2011 to April 2012	5,049

Notes:

- (1) All option-based awards and options in the above table are Options.
- (2) Calculated based on the difference between the market price of the securities underlying the Options at December 31, 2008 and the exercise price of the Options at such date.
- (3) The Trust does not have any share-based awards outstanding.

#### **Incentive Plan Awards – Value Vested or Earned During the Year**

The following table sets forth for each Named Executive Officer, the value of option-based awards and share-based awards which vested during the year ended December 31, 2008 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2008.

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
William M. Gallacher	83,624	587,500
Gary H. Dundas	83,624	587,500
Ed Malcolm	22,998	1,484,139
Grant Leslie	43,589	175,000
Michelle O'Grady	1,683	180,000

Notes:

- (1) Calculated based on the difference between the market price of the Trust Units underlying the Options at December 31, 2008 and the exercise price of in-the-money Options on that date.
- (2) The Trust does not have any share-based awards outstanding.

#### ***Pension Plans and Retiring Allowances***

The Trust does not currently provide its executive officers, including the CEO, with pension plan benefits or retiring allowances.

#### **Termination and Change of Control Benefits**

As at December 31, 2008 Avenir was in the process of finalizing employment agreements (the "**Employment Agreements**") with Messrs. Gallacher, Dundas, Malcolm, Leslie and Ms. O'Grady. It is estimated that the Employment Agreements would be able to be terminated by the Corporation (for reason other than "just cause") upon payment of a severance amount, in lieu of notice, in an amount equal to two times (or in the case of Mr. Leslie and Ms. O'Grady equal to one and a half times) the executive's then current annual salary and bonus.

## Director Compensation

Directors of Avenir were paid compensation based on an annual fee of \$25,000 (pro-rated quarterly) and \$1,000 for every formal board meeting, \$500 for every informal board meeting, and \$750 for every committee meeting attended in person or by conference call for acting as directors of Avenir during the financial year ended December 31, 2008. Mr. Moon received an additional annual fee of \$10,000 as remuneration for his acting as lead director of Avenir. The Chairs, the Audit Committee and the Reserves, Safety and Environment Committees received an additional annual fee of \$6,000. Directors were also reimbursed for out-of-pocket expenses incurred in carrying out their duties as directors. Each of the Trust's non-management directors also participated in the Option Plan. Based on the approved Option Plan, there is a restriction on the number of Trust Units issuable pursuant to outstanding Options granted to directors, who are not officers or employees of Avenir or its affiliates, of 1.0% of the aggregate outstanding Trust Units.

### *Directors' Summary Compensation Table*

The following table sets forth for the year ended December 31, 2008, information concerning the compensation paid to our directors other than directors who are also Named Executive Officers.

<b>Name</b>	<b>Annual Fees earned (\$)</b>	<b>Option-based awards<sup>(2)</sup> (\$)</b>	<b>Non-equity incentive plan compensation (\$)</b>	<b>Pension value (\$)</b>	<b>All other compensation<sup>(3)</sup> (\$)</b>	<b>Total (\$)</b>
David E. Butler	31,500	nil	nil	nil	nil	31,500
Stuart Y. Chow	33,750	nil	nil	nil	nil	33,750
Alan C. Moon	43,000	nil	nil	nil	14,000	57,000
Jeffery D. Kohn	26,500	nil	nil	nil	nil	26,500
William E. Patterson	36,000	nil	nil	nil	16,000	52,000

Notes:

- (1) The Trust does not have any share-based awards outstanding.
- (2) The fair values of all Options are estimated on the date of grant using the Black-Scholes option pricing model, which is the fair value determined in accordance with Section 3870 of the CICA Handbook. The assumptions are disclosed in the Notes to the Consolidate Financial Statements.
- (3) Fees paid to members of the Special Committee for EnerVest prior to the sale of the business.

### *Directors' Outstanding Option-Based Awards and Share-Based Awards*

The following table sets forth for each of our directors other than directors who are also Named Executive Officers, all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2008.

<b>Name</b>	<b>Option-based Awards</b>			
	<b>Number of securities underlying unexercised options (#)</b>	<b>Weighted Average Option exercise price (\$)</b>	<b>Option expiration date</b>	<b>Value of unexercised in-the-money options<sup>(1)</sup> (\$)</b>
David E. Butler	76,000	4.67	April 2010 to April 2012	38,614
Stuart Y. Chow	81,000	4.49	April 2010 to April 2012	55,167
Alan C. Moon	81,000	4.49	April 2010 to April 2012	55,167
Jeffery D. Kohn	66,000	5.10	Aug 2011 to April 2012	5,508
William E. Patterson	66,000	5.10	Aug 2011 to April 2012	5,508

Notes:

- (1) Calculated based on the difference between the market price of the Trust Units underlying the Options at December 31, 2008 and the exercise price of the Options.
- (2) The Trust does not have any share-based awards outstanding.

***Directors' Incentive Plan Awards – Value Vested or Earned During the Year***

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
David E. Butler	18,389	n/a
Stuart Y. Chow	18,389	n/a
Alan C. Moon	18,389	n/a
Jeffery D. Kohn	1,836	n/a
William E. Patterson	1,836	n/a

Notes:

- (1) Calculated based on the difference between the market price of the Trust Units underlying the Options at December 31, 2008 and the exercise price of in-the-money Options on that date.
- (2) The Trust does not have any share-based awards outstanding.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following sets forth information in respect of securities authorized for issuance under our equity compensation plans as at December 31, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding rights (a)	Weighted-average exercise price of outstanding rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(2)</sup> (c)
Trust units under our Option Plan approved by Unitholders	2,979,833	\$8.17	1,230,247
Equity compensation plans not approved by Unitholders	nil	nil	nil
Total	2,979,833	\$8.17	1,230,247

Notes:

- (1) Total Options issuable is 10% of the total number of Trust Units outstanding. At December 31, 2008 4,210,080 were issuable and 2,979,833 were outstanding.
- (2) Represents the maximum number of Trust Units issuable under the Option Plan based upon the number of Trust Units and Exchangeable Shares outstanding as at December 31, 2008. See "*Option Plan*".

**Employment Contracts and Termination of Employment**

The Manager of the Trust is currently negotiating and settling formal executive employment agreements with the Chief Executive Officer, the Chief Financial Officer and the three executive officers of the Manager. The agreements would, among other things, establish the annual salary, bonus and other compensation for each of the officers, subject to annual review by the Directors, and in accordance with the Trust's incentive programs. It is anticipated that the agreements will also provide for payments to the executive in the event of the termination of the executive's employment or a change of control of the Trust.

***Payments to the Trustee and Avenir Operating Corp.***

Pursuant to the Avenir Trust Indenture, Avenir pays an annual fee of \$18,000 to the Trustee as consideration for services provided under the Trust Indenture. Pursuant to the Administration Agreement between Avenir Operating Corp. and Avenir dated effective September 24, 2002, Avenir pays Avenir Operating Corp. an annual fee of \$100 as consideration for acting as administrator of Avenir.

***Directors' and Officers Liability Insurance***

The Trust has purchased at its expense, Directors' and Officers' Liability Insurance with a policy limit of \$20 million for the directors' and officers'. The policy with full limits extends to the entity itself for Unitholder suits naming the Trust for securities actions only. This policy has a \$20 million per claim and aggregate limit with a \$100,000 corporate reimbursement for each loss. Generally, under this insurance the Trust is reimbursed for payments in excess of the deductible made on behalf of its directors and officers. Individual directors and officers (or their heirs and legal representatives) are covered for losses arising during the performance of their duties.

**VOTING TRUST UNITS AND PRINCIPAL HOLDERS THEREOF**

Avenir is, an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created through a trust indenture dated as of September 24, 2002 (the "**Trust Indenture**") between the Trustee and Avenir Operating Corp. Avenir is authorized to issue an unlimited number of Trust Units. As at March 31, 2009, an aggregate of 41,913,262 Trust Units are issued and outstanding. Avenir is also authorized to issue an unlimited number of Special Voting Units. As of the date hereof, no Special Voting Units are issued and outstanding.

At the Meeting, upon a show of hands, every Unitholder present in person or represented by proxy and entitled to vote shall have one vote. On a poll or ballot, every Unitholder present in person or by proxy has one vote for each Trust Unit of which such Unitholder is the registered holder. All votes on special resolutions shall be by a ballot and no demand for a ballot shall be necessary.

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

To the best of the knowledge of the Trustee, Avenir Operating Corp., and the directors of Avenir Operating Corp., there is no person or corporation which beneficially owns or controls, directly or indirectly, Trust Units carrying more than 10% of the voting rights attached to the issued and outstanding Trust Units, other than as set forth below:

To the best of the knowledge of the Corporations' directors and officers, no person beneficially owns, or controls or directs, directly or indirectly, more than 10% of the votes attached to the Trust Units, other than as set forth below:

Name and Address	Number of Voting Shares	Percentage of Class (%)
Clarke Inc. (" <b>Clarke</b> ") Halifax, Nova Scotia	6,033,500 Trust Units	14.4%

Note:

- (1) Based on information in public filings made by Clarke as at the date of the last public filing of Clarke being August 15, 2008.

## QUORUM FOR MEETING

At the Meeting, a quorum shall consist of one person either present in person or represented by proxy and representing in the aggregate not less than 5% of the outstanding Trust Units. If a quorum is not present at the Meeting within one half hour after the time fixed for the holding of the Meeting, it shall stand adjourned to such day being not less than twenty-one (21) days later and to such place and time as may be determined by the Chairman of the Meeting. At such Meeting, the Unitholders present either personally or by proxy shall form a quorum. In the case of a meeting at which a special resolution is under consideration, such adjournments are required to be for not less than 21 days nor more than 60 days and notice to be given at least 10 days prior to the date of the adjourned meeting.

## CORPORATE GOVERNANCE DISCLOSURE

Set out below is a description of the corporate governance practices of the Trust and the Manager.

### Board of Directors

The Board of Directors of the Manager is comprised of the following seven individuals: William M. Gallacher, President and Chief Executive Officer; Gary H. Dundas, Vice President and Chief Financial Officer; David E. Butler, Stuart Y. Chow, Alan C. Moon, Jeffery D. Kohn, and William E. Patterson.

Multilateral Instrument 52-110 ("**MI 52-110**") of the Canadian Securities Administrators provides that a member is "independent" if the member has no direct or indirect material relationship with the issuer, a "material relationship" being one which could, in the view of the issuer's board of Directors, reasonably interfere with the exercise of a member's independent judgement. MI 52-110 also specifically prescribes certain relationships which are considered to be material.

Based on the foregoing, the Manager has determined that the following individuals are independent within the meaning of MI 52-110:

<i>David E. Butler</i>	– Independent director
<i>Stuart Y. Chow</i>	– Independent director
<i>Alan C. Moon</i>	– Independent director
<i>William E. Patterson</i>	– Independent director

The Manager has determined that the following individuals are not independent based on the guidelines set forth in MI 52-110:

<i>William M. Gallacher</i>	– Not independent, President and Chief Executive Officer of the Manager
<i>Gary H. Dundas</i>	– Not independent, Vice President Finance and Chief Financial Officer
<i>Jeffery Kohn</i>	– Not independent, controls a company that manages the real estate portfolio of the Trust

The majority of the members of the Board of Manager are independent. On at least an annual basis, the Board conducts an analysis and makes a determination as to the "independence" of each Board member.

The following Directors are presently Directors of other issuers that are reporting issuers (or the equivalent):

<u>Name</u>	<u>Name of Reporting Issuer</u>	<u>Position</u>
William Gallacher	Avenir Diversified Income Trust	Director
	Mahalo Energy Ltd.	Director
	Maxim Power Corp.	Director
	Great Plains Exploration Inc.	Director
	Black Diamond Income Fund	Director

<u>Name</u>	<u>Name of Reporting Issuer</u>	<u>Position</u>
Gary Dundas	Avenir Diversified Income Trust	Director
	DirectCash Income Fund	Director
	Mahalo Energy Ltd.	Director
	Great Plains Exploration Inc.	Director
David Butler	Avenir Diversified Income Trust	Director
	Mahalo Energy Ltd.	Director
	Black Diamond Income Fund	Director
Stuart Chow	Avenir Diversified Income Trust	Director
	Bayshore Petroleum Corp.	Director
Alan Moon	Avenir Diversified Income Trust	Director
	Lake Shore Gold Corp.	Director
	Maxy Gold Corp.	Director
	Superior Diamonds Inc.	Director
	TransAtlantic Petroleum Corp.	Director
Jeffery Kohn	Avenir Diversified Income Trust	Director
William Patterson	Avenir Diversified Income Trust	Director
	Javelin Energy Inc.	Director

The independent Directors of the Manager do hold regularly scheduled meetings at which non-independent Directors and members of management are not in attendance, typically in conjunction with each regularly scheduled meeting of the Board of Directors of the Manager. Seven such meetings were held during the Trust's most recently completed financial year.

The Chair of the Board is the President and Chief Executive Officer and therefore is not an independent Director. However, the Board does have a lead director, Mr. Alan Moon, who is independent, and the Board maintains an appropriate number of independent Directors to perform their duties and responsibilities and believes that the offices held and ownership status maintained by the Chair of the Board together enable the Board to act in the best interests of the Manager.

On an ongoing basis, the Corporate Governance and Compensation committee reviews the Manager's structures and procedures to ensure the Board is able to, and in fact does, function independently of management.

The attendance record for each Director of the Manager during the most recently completed financial year is as follows:

William Gallacher attended 7 out of 7 meetings;

Gary Dundas attended 7 out of 7 meetings;

David Butler attended 7 out of 7 meetings;

Stuart Chow attended 7 out of 7 meetings;

Alan Moon attended 7 out of 7 meetings;

Jeffery Kohn attended 7 out of 7 meetings; and

William Patterson attended 7 out of 7 meetings.

## **Board Mandate**

The mandate of the Board of Directors is set out below.

## **Position Descriptions**

The Board has developed written position descriptions or terms of reference for the Chair of the Board, the Chair of each committee of the Board (which include terms of reference for the Chair for each of the Audit and Risk Management Committee, the Corporate Governance and Compensation Committee, the Reserves Review and Environment, Health and Safety Committee) and for individual Directors. The Board has also developed charters for each committee of the Board.

The Board and the Chief Executive Officer have developed a written position description for the CEO.

## **Orientation and Continuing Education**

The Board has created a Corporate Manual that includes an overview which provides guidance to the Board of Directors, its Chair and the various committees of each Board and their respective chairman on various corporate governance matters. It also serves as a primary source of information concerning governance in the orientation of newly appointed Directors. The existing Board Manual includes an overview of the terms of the existing Trust Indenture and Administration Agreement governing the business and affairs of the Trust, provides a summary of the existing Board structure and composition, as well as a breakdown of the various committees of the Board and summaries of their respective responsibilities.

The Board Manual includes an overview of each of the following items:

the Trust's existing Communications and Corporate Disclosure Policy;

Code of Business Conduct and Ethics Policy;

position descriptions and terms of reference

orientation of new Directors and continuing education, and

compensation of Directors.

Through these materials, the Board attempts to ensure that all new Directors receive a comprehensive orientation regarding both the business of the Trust, the duties of a Director and continuing education opportunities available to Board members.

On an ongoing basis, senior managers of each business unit meet and present to the Directors updates with respect to their industry and current business conditions and summarize for the Directors their current operations. As well, the Corporate Governance and Compensation Committee makes recommendations regarding the orientation and ongoing development programs for Directors to ensure that new Directors fully understand the role of the Board and its committees, the contribution individual Directors are expected to make and the nature of the Manager's business and operations.

The Corporate Governance and Compensation Committee makes recommendations regarding ongoing development programs for Directors. The Mandate of the Corporate Governance and Compensation Committee provides that continuing education programs should be focused on enhancing individual Director's skills and abilities as Directors and maintaining the currency of their knowledge and understanding of the Manager's business and affairs.

## **Ethical Business Conduct**

The Manager has adopted a Code of Business Conduct which is applicable to the Manager, its Directors and Officers and its employees generally. The Code of Business Conduct can also be accessed via SEDAR at [www.sedar.com](http://www.sedar.com).

The Code of Business Conduct provides generally, that each individual being considered for nomination as a Director must disclose to the Corporate Governance and Compensation Committee all interest in relationships of which the Director is aware at the time of consideration which will or may give rise to a conflict of interest. If such an interest or relationship should arise while the individual is a Director, there is a positive onus on the Director to make disclosure of the same to the Corporate Secretary or the Board Chair. Each Director is also required by the Code to report any known or suspected breach of the Code to the Board Chair, and is annually required to review, sign and deliver to the Board Chair an executed copy of the Code.

Avenir has not experienced any known conduct of a Director or executive officer that constitutes a departure from the Code requiring the filing of a material change report since the beginning of the Trust's most recently completed financial year.

In accordance with the ABCA, Directors who are a party to or are a Director or an officer of a party to a material contract or material transaction are required to disclose the nature and extent of their interest and are not permitted to vote on any resolution to approve the contract or transaction.

As discussed above, as adopted the Code of Business Conduct which is applicable to all employees, which sets out certain common values under which Avenir and its employees conduct Avenir's business. This code, which is promoted by management, is intended to help create a positive image of Avenir by promoting high ethical standards in all aspects of our business.

## **Nomination of Directors**

The nominees for Directors are initially considered and recommended by the Corporate Governance and Compensation Committee of the Board, approved by the entire Board and appointed annually by the Trust, as the sole shareholder of the Manager, in accordance with the direction given to the Trust by vote of the unitholders of the Trust. In consultation with the Board Chair and the Chief Executive Officer, the Corporate Governance and Compensation Committee recommends to the Board nominees for election as members of the Board taking into consideration such matters as the Committee deems relevant including the competencies and skills each new nominee will bring to the Board and the ability of any such new nominee to devote sufficient time and resources to his or her duties as a member of the Board.

The Board has a Corporate Governance and Compensation Committee comprised of a majority of independent Directors.

The Corporate Governance and Compensation Committee is responsible for overseeing and assessing the functioning of the Board and the committees of the Board and for the development, recommendation to the Board, implementation, and assessment of effective governance principles. In addition, the Committee will undertake on behalf of the Board such other governance initiatives as may be necessary or desirable to enable the Board to provide effective governance for the Manager. The Committee will also review and/or approve any other matters specifically delegated to the Committee by the Board.

## **Compensation**

The Corporate Governance and Compensation Committee has the responsibility to annually review the Directors' compensation program and indemnification and insurance programs and make any recommendations to the Board for approval.

The Corporate Governance and Compensation Committee is comprised of independent Directors, with the exception of William M. Gallacher, President and Chief Executive Officer of Avenir Operating Corp.

The purpose of the Corporate Governance and Compensation Committee is to keep informed of legal requirements and trends regarding corporate governance, monitoring and assessing the functioning of the Board and committees of the Board, and for developing, implementing and monitoring good corporate governance practices. The Committee has overall responsibility for recommending levels of executive compensation that are competitive and motivating. The Committee also has the responsibility of identifying individuals qualified to become new Board members and recommending to the Board the new Director nominees for the next annual meeting of unitholders.

Subject to the powers and duties of the Board, the Corporate Governance and Compensation Committee is required under its Mandate to perform the following duties:

- (a) recommend and bring forward to the Board, a list of corporate governance issues for review, discussion or action by the Board or a committee and ensure that any issues relating to governance are raised with management;
- (b) review the Trust's policies and any breaches thereto and make recommendations as required;
- (c) review and address all complaints except those specified to be reviewed by the Audit and Risk Management Committee and the Reserves Review, Environment, Health & Safety Committee;
- (d) review annually the Director and Officer indemnification resolutions of the Board, general liability insurance policy and the Directors' and Officers' Liability Insurance Policy;
- (e) review annually succession and management development plans and submit a report to the Board;
- (f) with the Chief Executive Officer and Chief Financial Officer, develop or review position descriptions for the Chief Executive Officer and Chief Financial Officer defining limits to Management's authority;
- (g) review annually the adequacy and efficiency of the organizational structure;
- (h) review annually the compensation for Directors who serve on the Board or its committees, considering all relevant matters including the time commitment, compensation provided by comparable businesses and level of responsibility;
- (i) evaluate the performance of management in meeting corporate goals and objectives and report to the Board;
- (j) develop compensation guidelines for management and review and recommend the specific compensation of management, and report its broad conclusions to the Board for its consideration and approval;
- (k) review management's succession practices for management;
- (l) review and make recommendations respecting any incentive awards, perquisites, stock option plan, pension plan or employee benefit plans to be granted to management and other remuneration matters and prepare or review guidelines with respect thereto;
- (m) the Committee shall annually review the performance of the Board, individual Directors, terms of reference for Committees;
- (n) review the performance of the Board as a whole conduct a review of the performance of this Committee and the performance of its Chair over the past year;

- (o) consider the annual reviews by the other committees of the Board of their Charters, their performance and the performance of their chairs over the past year, and any recommendations made by each committee in respect thereto; and
- (p) consider ongoing educational requirements for Directors and members of each committee of the Board.

The Committee has the power to retain special legal, accounting, financial or other consultants or advisors to advise the Committee at the Manager's expense including any compensation consulting firm and shall have sole authority to retain and terminate any such consultants or advisors and to approve any such consultant's or advisor's fees and retention terms.

Since the beginning of the most recently completed financial year, no compensation consultant or advisor has been retained to assist in determining compensation for any of the Directors and Officers.

### **Other Board Committees**

In addition to the disclosure contained in this document, please see the Trust's Annual Information Form for further details regarding the Audit and Risk Management Committee and the Audit and Risk Management Committee Mandate of the Manager.

In addition to the committees set out above, the Board of Directors has also established a Reserves and Environment, Health and Safety Committee, the primary function of which is to assist the Board in fulfilling its oversight responsibilities with respect to the annual review of the Trust's petroleum and natural gas reserves, and due diligence in the development and implementation of systems for the management of health, safety, and environmental responsibilities with respect to petroleum and natural gas operations.

In April of 2008, upon the completion of the sale of the EnerVest Limited Partnership management contract, the Board of Directors formed a committee to consider strategic alternatives and opportunities available to the Trust that would provide maximum value to unitholders. The Strategic Review Committee consists of non-management directors.

### **Assessments**

The Corporate Governance and Compensation Committee evaluates annually the effectiveness and contribution of the Board, the Board Chair and the chair of each committee and the effectiveness and contribution of individual Directors, having regard for the mandate of the Board and position descriptions, the results of surveys of the Directors, attendance at Board and committee meetings, overall contribution and, in the case of individual Directors, the competencies and skills the individual Director is expected to bring to the Board.

## **MANDATE OF THE BOARD OF DIRECTORS**

### **General**

The Board considers good corporate governance to be essential to the fiduciary obligations of the Directors to the Trust's unit holders, and integral to the ongoing good management and development of the Trust. The Board shall manage, or supervise the management of, the business and affairs of the Trust. The Board has the responsibility to act in the best interests of the Trust and the unit holders. The Board has developed the Board's Mandate which is set forth in greater detail below.

### **Meetings**

The Board shall meet at least five times annually, and as many additional times as the Board deems necessary to carry out its duties effectively. Each Director shall review all Board meeting materials in advance of each meeting and shall strive for perfect attendance at all Board and Board committee meetings.

## **Leadership And Integrity**

The Board believes that leadership and integrity begin at the top. To accomplish this, the Board:

requires strict adherence to the disclosure and avoidance rules as contained in corporate legislation applicable to conflicts of interest;

strives to remain current with emerging standards of corporate governance and to adopt best practices where possible;

selects Directors and senior management who the Board believes will conduct themselves with integrity;

chooses Directors who have the appropriate skills and the necessary experience for an effective Board and for any particular committee. Directors must be prepared to devote sufficient time to the business of the Trust;

maintains the appropriate mix of related and independent Directors;

appoints a Lead Director, who is independent of Management so long as it is in the best interest of the Trust for the Chief Executive Officer to concurrently hold the position of Chairman. The Board will set out the duties and responsibilities for this position in formal Terms of Reference, which will be reviewed annually and updated as required;

encourages all those associated with the Trust to update their skills and knowledge; and

supervises and review annually the performance of Directors and Officers.

## **Duties and Responsibilities**

The primary principle applicable to Directors is that of fiduciary duty which is generally described as a duty to act honestly and in good faith with a view to the best interests of the Trust. The fiduciary responsibility proscribes self-dealing, self-interest and bad faith on the part of its Directors and Officers. The concept also requires the Directors to exercise their powers in the best interest of the Trust as a whole. In determining whether or not a Director has met his fiduciary duty, one of the tests used is the "proper purpose test" which contemplates that powers are given to Directors for a specific purpose and if Directors exercise those powers for any other purpose, they are guilty of an abuse of power. There must be reasonable grounds for a Director's belief that he is acting in good faith.

A further aspect of the fiduciary duty is the requirement to avoid a conflict of duty and self-interest. If a Director does act in conflict with his duties to the Trust, under common law a contract may be invalid and the Director may be accountable to the Trust for any profit earned as a result of his action. A Director or Officer must not use confidential information, which he obtains of by virtue of his position as a Director or Officer of the Trust, for his own personal benefit or in circumstances which give rise or might reasonably give rise to a conflict of interest.

The second principle is the duty of care which is generally described as the duty to exercise the "care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances". This duty of care may be higher than for an ordinary person if a Director has certain expertise, for example a lawyer or accountant or engineer may be held to a higher standard in respect of legal, accounting or engineering matters.

The Board has the responsibility for the stewardship of the Trust. To carry out its duties, the Board shall have the specific responsibilities to:

select, appoint, evaluate and, if necessary, terminate the Chief Executive Officer;

approve or develop the objectives that the Chief Executive Officer is responsible for meeting, and to assess the Chief Executive Officer against those objectives;

contribute to the development of the Trust's strategic direction through the adoption of a strategic planning process, approving strategic plans, and monitoring the Trust's ongoing performance;

ensure policies and processes are in place:

to identify principal business risks and opportunities for the Trust,

to determine which risks are acceptable, and

to manage risks through the adoption of effective policies and procedures, and the purchase of insurance;

manage succession planning, including appointing, training and monitoring the performance of senior management;

with the advice of the Corporate Governance and Compensation Committee, approve the compensation of the senior management team and an appropriate compensation program for the Trust's staff;

ensure the integrity of the Trust's internal controls, financial reporting and management information systems;

establish Board committees, however designated, appoint members and chairs of those committees and set out the Charter for each Committee; and

ensure compliance with applicable laws and regulations, including timely disclosure of relevant corporate information and regulatory reporting.

### **Specific Activities of the Board**

#### ***Strategic planning***

On a quarterly basis, the Board has the responsibility to monitor the Trust's strategic plan to assess its strengths and weaknesses, and to assess the Trust's progress in achieving goals. The Board shall be provided with regular reports by management on current activities, new opportunities and potential risks. Following the completion of each year, the Board will undertake an in-depth review of the strategic plan to assess its overall results, and to recommend any necessary modifications to deal with new opportunities and risks. The Chief Executive Officer has the responsibility to develop and update the Trust's strategic plan, which is then submitted to the Board for approval.

#### ***Risk management***

The responsibility for monitoring risk management activities has been delegated to the Audit and Risk Management Committee to ensure that the Trust's risks are being effectively managed to minimize potential losses. Senior Management has the direct responsibility to identify principal business risks and take the necessary steps to manage these risks. This may be done by instituting working policies and procedures, self insuring, purchasing insurance or taking other steps to protect the Trust.

It is also management's responsibility to keep the Committee fully informed with respect to risk management activities, and it is the Committee's responsibility to assess Management's reports and to request any additional information. In the appropriate circumstances, the Committee may engage outside advisors at the Trust's expense. Committee reports on risk management are subsequently provided to the Board, and it is intended that risk management and a review of principal risks will be included on the agenda when the Board annually reviews the Trust's strategic plan. If a significant loss could materialize or should occur, the Board will be immediately notified.

#### ***Items that cannot be delegated***

It should be noted that the following matters must be considered by the Board as a whole and may not be delegated to a Committee:

- any submission to the unit holders of a question or matter requiring the approval of the unit holders;
- the filling of a vacancy among the Directors or in the office of the external Auditor;
- the manner and terms for the issuance of securities;
- the declaration of distributions;
- the purchase, redemption or any other form of acquisition of units issued by the Trust;
- the payment of a commission to any person in consideration of the purchase, or agreement to purchase, units of the Trust or from any other person, or procuring or agreeing to procure purchases for any such units;
- the approval of management proxy circulars;
- the approval of financial statements of the Corporation or the Trust; or
- the adoption, amendment or repeal of by-laws of the Corporation or the Trust.

#### ***Internal Controls/Management Information Systems***

The effectiveness and integrity of the Trust's internal control and management information systems contribute to the effectiveness of the Board and the Trust. To maintain the effectiveness and integrity of the Trust 's financial controls, the Board, through the Audit and Risk Management Committee which consists solely of independent Directors, shall implement and monitor internal control and management information systems.

#### ***Succession, Training and Supervision***

The Board, through the Corporate Governance and Compensation Committee, shall annually identify the key staff members of the Trust and, in consultation with management, determines how best to replace such individuals should the need arise. The Board's policy is to select individuals who have the required expertise and would therefore require a minimum of training in order to assume their role with the Trust. Any required training would be provided by other senior management. Management is assigned the responsibility of advising the new person of the Trust's policies and practices. The Chief Executive has primary responsibility for supervising and reviewing the performance of other senior management. The Board shall be actively involved with the operations of the Trust and therefore the performance of senior management is always under scrutiny. The Board also reviews on an annual basis the performance of the Chief Executive Officer against the performance criteria established from time to time.

#### ***Board and Committee Assessment***

Through consultation with individual Directors, committee members, management, and with experts if necessary, the Corporate Governance and Compensation Committee will annually assess:

- the adequacy of the number of Directors including the number of independent Directors and, if and when the Board considers it to be appropriate, may recommend an increase in the number of Directors to be elected or appointed;
- the required skill and experience necessary for the Board and committees and whether the composition of the Board and committees addresses these needs;
- the performance and effectiveness of the Board, committees of the Board and the chairs of the Board and committees, and recommends changes as required;

- the effectiveness of individual Directors in carrying out their roles; and
- requirements for the upcoming year.

Based on these assessments, the Corporate Governance and Compensation Committee will submit a report of its findings to the Board together with any recommendations.

### ***Communications***

The Corporate Disclosure Policy governs communications with unit holders and others and reflects the Trust's commitment to timely, effective and accurate corporate disclosure in accordance with all applicable laws, and with a view to enhancing the Trust's relationship with its unit holders.

### **INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS**

None of the directors and officers of Avenir Operating Corp. nor any of their associates or affiliates is now or has been indebted to Avenir or Avenir Operating Corp. or any of its subsidiaries since the commencement of the last completed fiscal year, other than for routine indebtedness, nor is, or at any time since the beginning of the most recently completed financial year of Avenir has, any indebtedness of any such person been subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Avenir or any of its subsidiaries.

### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

There were no material interests, direct or indirect, of directors and senior officers of Avenir Operating Corp., nominees for director, any Unitholder who beneficially owns more than 10% of the Trust Units, or any known associate or affiliate of such persons, or any other informed person (as defined in *National Instrument 51-102*), in any transaction since the beginning of the Trust's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect Avenir or Avenir Operating Corp. or any of their respective subsidiaries other than as disclosed elsewhere herein.

### **OTHER MATTERS**

Avenir knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

### **ADDITIONAL INFORMATION**

Additional information relating to Avenir is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information with respect to Avenir and its affairs is provided in Avenir's annual audited financial statements for the period ended December 31, 2008 and the related management's discussion and analysis. Copies of Avenir's financial statements and related management discussion and analysis are available upon request from Avenir at Avenir Diversified Income Trust, 300, 808 – 1<sup>st</sup> Street, SW, Calgary, AB T2P 1M9, attention: Jill Koskimaki-Krala, by telephone at (403) 237-9949 or by email at [info@avenirtrust.com](mailto:info@avenirtrust.com). This information is also accessible on our website at [www.avenirtrust.com](http://www.avenirtrust.com).