



**AVENIR DIVERSIFIED INCOME TRUST**

**First Quarter Interim Report**  
*for the period ending March 31, 2008*



Q1



**TABLE OF CONTENTS**

First Quarter 2008 Financial Highlights & Review .....pg1  
President’s Message .....pg2  
Review of Financial Results .....pg4  
Management’s Discussion and Analysis .....pg14  
Consolidated Financial Statements .....pg37  
Notes to the Consolidated Financial Statements .....pg42  
Corporate Information .....pg70  
Abbreviations.....pg71



# First Quarter - 2008

## FINANCIAL HIGHLIGHTS & REVIEW (Restated)

TOTAL CONSOLIDATED FINANCIAL SUMMARY <i>(in thousands of dollars except for per unit amounts)</i>	For the three months ended March 31		
	2008 <b>(restated)</b> <sup>5</sup>	2007 <sup>4</sup>	% Change
Total Revenue	\$437,777	\$231,210	89%
Funds From Continuing Operations <sup>1,2</sup>	\$15,336	\$12,589	22%
Funds from Continuing Operations Per Unit - Basic	\$0.37	\$0.31	19%
Funds From Operations <sup>1</sup>	\$20,271	\$17,677	15%
Funds from Operations Per Unit <sup>1</sup> - Basic	\$0.49	\$0.43	14%
Distributions	\$10,432	\$10,395	0%
Distributions Per Unit - Basic	\$0.25	\$0.25	0%
Distribution Payout Ratio <sup>3</sup>	51%	59%	14%
Net Income from continuing operations <sup>2</sup>	\$2,271	\$3,414	(33%)
Net Income from continuing operations Per Unit - Basic	\$0.05	\$0.08	(38%)
Net Income	\$5,155	\$7,331	(38%)
Net Income Per Unit - Basic	\$0.12	\$0.18	(33%)
Total Assets	\$654,501	\$546,829	20%
Working Cap. (Net Debt) <sup>1</sup> (not incld. Assets held for sale)	(\$60,144)	(\$25,175)	(139%)
Wtd. Avg. Units Outstanding - Basic	41,788,894	41,202,084	1%
Units Outstanding (including escrowed units)	41,897,645	41,748,403	0%

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

<sup>2</sup>The operations of the Trust's Real Estate Division and EnerVest Limited Partnership, as a result of being classified as 'Assets held for sale', have been excluded from the Trust's Continuing Operations.

<sup>3</sup>Distribution Payout Ratio is calculated by dividing the Distributions by the Funds from Operations.

<sup>4</sup>Comparative periods have been restated to conform to current period presentation – specifically relating to the reclassification of the assets of the Real Estate Division and EnerVest Limited Partnership as held for sale.

<sup>5</sup>March 31, 2008 has been restated as a result of an adjustment relating to employee incentive related expenses and adjustments to inventory.

### FORWARD LOOKING STATEMENTS

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

## PRESIDENT'S MESSAGE

Avenir Diversified Income Trust enjoyed a record first quarter of 2008 on the strength of strong results in the Oil and Gas Division and Elbow River Marketing LP ("Elbow River"). Record world oil prices and a narrow winter medium crude differential contributed to the increased oil and gas cash flows. In Elbow River, the strong export biofuel sales, some of which had been delayed from the fourth quarter of 2007, were the main contributor to their strong results.

Funds from operations were \$20.3 million in the first quarter up 15% from the prior year period and 111% from the \$9.6 million in the fourth quarter of 2007. Overall our distribution payout ratio for the quarter was 51% of funds from operations, well within our target 75%-80% payout ratio, providing flexibility for the balance of the year.

Production in the Oil and Gas Division, in line with expectations, was consistent with the prior year at approximately 3,329 BOE/d with a split of 52% natural gas and 48% oil and liquids. Pricing for both natural gas and crude oil is up significantly boding well for a strong second quarter as well. The improved pricing has also increased the economics of a number of gas development drilling opportunities and the Trust is planning on beginning these after break-up in the late second quarter 2008.

Elbow River benefitted from the development and execution of its export biodiesel strategy, where it has become one of the leading exporters in North America. Certain export sales originally scheduled to be transacted in December 2007 were concluded in the first quarter of 2008 increasing the quarterly cashflows. Butane continued strong as did the natural gasoline market with increased diluent opportunities associated with Alberta oilsands production. Based on initial presale levels, the second quarter for Elbow River, while not at first quarter levels, should be solid in what has traditionally been their weakest quarter.

The Real Estate Division continues to be fully leased with a new KFC restaurant location completed in Wetaskiwin, Alberta and a new Cineplex theatre completed in Red Deer Alberta late in the first quarter. The Trust is progressing on the sale of the Real Estate Division, with a number of offers for specific properties currently being evaluated. We are still targeting this summer for the sale of the properties.

The EnerVest Management Group had a relatively weak early first quarter as markets were impacted by credit worries in the financial sectors before recovering nicely as the higher commodity prices pushed markets higher. The second quarter is currently trending in line with the latter part of the first quarter.

On April 25, 2008 the Trust announced that it had reached an agreement to sell the EnerVest Management assets to a private entity for \$185.0 million, subject to normal industry closing adjustments based on an April 1, 2008 effective date. Closing is expected on or about May 16, 2008. The sales price is to be satisfied through the cash payment at closing of approximately \$140.0 million, the assumption of approximately \$20.0 million in debt and working capital and the provision of a promissory note of \$25.0 million with a scheduled payment on December 31, 2008 unless extended under certain conditions. EnerVest's management will remain with the new entity and Cypress Capital, the investment manager, will also be retained. The decision to sell a key piece of the Trust was similar to the spin off of the Energy Services Division in May 2006; management felt this transaction afforded the Trust the opportunity to crystallize unitholder value not reflected in the unit price.

In view of the pending sale described above, the previously announced decision to sell the Real Estate Division and the pending taxation of income trusts in 2011, the Trust has established a Strategic Review Committee, which includes all of the independent board members, to consider strategic alternatives and opportunities to provide the maximum value to unitholders. Given the strong first quarter performance, the second quarter gain expected on the sale of the EnerVest assets, the continued bullish outlook for the oil and gas pricing and strong presales in Elbow River, the Trust intends to maintain the distributions at current levels as the Special Review Committee works its way through the review process. The Board of Directors of the Trust will keep the unitholders advised of any updates to the review process as information becomes available.

We would like to thank our unitholders for their support as management and the Board of Directors review the direction of the Trust over the next few months. The Trust's diversification model has served unitholders well over the past five years, as the Trust has returned \$10.23 or 170% in distributions over our original issue price of \$6.00. That said, tax regimes, markets and business models change and evolve and the Trust needs to ensure it is positioned to provide the best value to its unitholders. Accordingly, we believe this process is prudent at this time.

Submitted on behalf of the Board of Directors by:



William M. Gallacher,  
President & CEO

## REVIEW OF FINANCIAL RESULTS

Net income from continuing operations for the quarter ended March 31, 2008 was \$2.3 million down 33% from \$3.4 million in the quarter ended March 31, 2007. The net income for the quarter ended March 31, 2008 was \$5.2 million which is down 30% versus the \$7.3 million net income for the quarter ended March 31, 2007. The quarter ended March 31, 2008 net income was lower than 2007 due to a higher unrealized loss on financial instruments in Elbow River of \$7.0 million compared to a loss of \$0.8 million for the first quarter of 2007 offset by higher results from Elbow River, particularly increased biofuel export sales, and the increased commodity pricing in the Oil and Gas Division.

Funds from continuing operations were \$15.3 million for the quarter ended March 31, 2008 up 22% from \$12.6 million in the comparable quarter in 2007. The increase reflected a strong Q1 from Elbow River and higher commodity pricing for the Oil and Gas Division. Funds from operations were \$20.3 million for the quarter ended March 31, 2008, up 15% as funds from operations for the quarter ended March 31, 2007 were \$17.7 million.

The Trust declared distributions of \$10.4 million (\$0.25 per unit) for the quarter ended March 31, 2008 which is consistent on a per unit and total cash basis over the \$10.4 million (\$0.25 per unit) distributed for the quarter ended March 31, 2007. The 2008 quarter end payout ratio was 51% of funds from operations compared to 59% at March 31, 2007, as a result of higher cash flows in 2008.

### REVIEW OF BUSINESS UNIT OPERATIONS

#### 1. Financial Services

At March 31, 2008 the Trust's Financial Services business unit consisted only Elbow River Marketing LP as the EnerVest Management Group has been classified for accounting purposes as 'Assets Held For Sale'.

#### Elbow River Marketing LP ("Elbow River")

The first quarter of 2008 was ahead of expectations due to the combination of: a fourth quarter hedging loss that was recovered in the first quarter and expanded biodiesel supply from new international plants. Biodiesel continued to benefit from strong arbitrage opportunities from North American and international supply sources sold into European markets. Ethanol is still experiencing strong competitive pressure but niche sales have allowed for a profitable quarter. Propane demand was steady for the first quarter, as most retailers were able to draw on their own storage and/or their term supply contracts to meet their late winter needs. Butane was impacted by lower than typical demand as increased ethanol blending pushed butane out of the gasoline blending pool. However, strong presales and the marketing of distressed winter barrels resulted in strong butane results. Natural gasoline became a solid contributor due to unprecedented demand from the Alberta diluent market.

The second quarter and the remainder of 2008 look very promising with record presales lined up. Biodiesel should continue to benefit from Elbow River's ability to respond to the ever changing market. Ethanol will likely remain competitive; although Elbow River believes new strategies being employed will help bolster this segment. Propane is entering its slower summer season, although with steady presales activity. Butane also has good presales and the summer typically offers numerous spot opportunities. Natural gasoline presales have been consistent and several new opportunities are being developed as Alberta's diluent demand continues to be strong.

#### 2. Oil & Gas Division

For the first quarter of 2008, the Oil and Gas Division had slightly lower average sales of 3,329 BOE/D compared to 3,404 BOE/D in the fourth quarter of 2007 due to third party restrictions and cold weather impacts in January and February. The estimated production impact was 390 Mcf/d (65 BOE/D) for the first quarter of 2008. In comparison to the fourth quarter of 2007, oil and natural gas liquid sales for the first quarter averaged 1,596 Bbl/d, down 1% while natural gas sales were down 3% to 10,397 Mcf/d.

Total gross revenue from petroleum and natural gas sales in the first quarter was \$17.5 million up 22% from \$14.4 million in the fourth quarter of 2007 due to both higher oil and natural gas pricing. The average price received for crude oil and natural gas liquids during the first quarter was \$71.36 per barrel after hedging representing a 25% increase over fourth quarter pricing. This increase in oil pricing is further highlighted by the March pricing for Bow River quality crude. Approximately 75% of the Trust's oil production is Bow River quality crude which experienced differentials of only \$15.80 per Bbl to Edmonton light oil resulting in a realized sales price of \$89.74 in March 2008. This represents a 25% increase in average Bow River pricing of \$71.29 received for January and February 2008. To date in the second quarter of 2008, Bow

## REVIEW OF FINANCIAL RESULTS

River crude has averaged \$96.67 per Bbl. Natural gas pricing for the first quarter of 2008 was \$7.53 per Mcf versus \$6.04 per Mcf in the fourth quarter of 2007 representing an increase of 25%.

The total oil and gas operating expenses in the first quarter of 2008 were consistent with the fourth quarter of 2007 at \$4.9 million despite higher electricity costs and production volume restrictions during the first three months of the year. The unit operating expense for the Trust was \$16.01 per BOE for the first quarter of 2008. The Trust expects the operating costs to increase to \$17.00 in the second quarter as a result of electricity costs fluctuations however the total year forecast remains the same at \$16.35 per BOE for 2008.

The total first quarter net capital expenditure by the Trust was \$3.9 million. Drilling activity in the first quarter of 2008 totaled 5 gross (1.6 net) wells including the drilling of a successful 100% Nordegg oil well in Cherhill and the completion of the third Noel horizontal Cadomin well. The Trust also continued to execute on various recompletion, work-over and facility optimizations projects to maintain consistent production volumes from the asset base. For the second and third quarters of 2008, the Trust plans to participate in 12 gross (6.2 net) wells highlighted by the drilling of 9 operated wells in Central Alberta, Noel B.C. and Southwest Saskatchewan. The Trust will endeavour to balance the remaining development activity in 2008 between oil and gas opportunities and remains flexible on the timing of capital programs based on commodity pricing through out the year. The capital programs are currently budgeted to be approximately \$14.0 million in 2008.

### **3. Assets Held For Sale**

#### **i. Enervest Limited Partnership ("Enervest") – Management Contract**

The Trust, through EnerVest, manages the EnerVest Group of Funds and receives a fee for this service. The largest of the group of funds is EnerVest Diversified Income Trust. The income trust market closed the quarter surprisingly strong despite the overall weakness of equity markets around the globe. The income trust market is overweight to the oil and gas sector which outperformed on the strength of rising crude oil prices. EnerVest's oil and gas assets are underweight relative to the trust index, and Assets Under Management ("AUM") at quarter end were flat when factoring in the distributions paid from the EnerVest funds.

AUM were 10% higher at March 31, 2008 than from the quarterly market lows hit on January 21, 2008; however, the lower average daily balances impacted revenues. First quarter 2008 revenue was flat when compared to the first quarter 2007, with cash flow from operations down marginally due to higher interest costs. Revenues and cash flow from operations are directly impacted by AUM.

Subsequent to the quarter, EnerVest completed the roll over of the 2006 and 2006 II flow through offerings totalling over \$25.0 million into the EnerVest Natural Resources Fund. Additionally, stabilized and rising markets subsequent to the end of the quarter have resulted in higher average daily balances of the AUM. Based on net asset value levels experienced to date, second quarter 2008 expectations are in line with the first quarter.

On April 25, 2008, the Trust announced that it had entered into a definitive agreement with Canoe Financial LP, a private entity based in Calgary, for the sale of its EnerVest assets for total consideration of approximately \$185.0 million, subject to customary closing adjustments including working capital and debt adjustments. The sale of EnerVest is subject to customary regulatory and commercial closing conditions and is anticipated to be completed on or about May 16, 2008, with an April 1, 2008 effective date. Closing is not conditional on any financing or due diligence conditions. The staff of EnerVest will remain in their current roles with the new manager and Cypress Capital Management Ltd. will continue as the Investment Manager to the EnerVest funds.

#### **ii. Real Estate**

The Real Estate Division had a net loss for the quarter ended March 31, 2008 totalling \$0.2 million compared to net income of \$0.3 million in the quarter ended March 31, 2007. The decrease is the result of future income taxes expense of \$0.9 million versus a recovery of \$0.1 million for the quarter ended March 31, 2007 offset by the fact that no amortization was recorded for the quarter ended March 31, 2008 compared to \$0.5 million for the quarter ended March 31, 2007. Funds from operations were consistent quarter over quarter for the Division with the quarter ended March 31, 2008, fund from operations of \$0.7 million compared to \$0.7 million for the quarter ended March 31, 2007.

During the first quarter the construction of the new KFC restaurant in Wetaskawin was completed and the construction of the new KFC Restaurant in Spruce Grove commenced with an expected completion date in late 2008.

## REVIEW OF FINANCIAL RESULTS

The Red Deer theatre development was also completed in March 2008. During the first quarter, Landmark sold its lease interest in the theatre to Cineplex Entertainment, who opened the theatre for business on March 21, 2008. A national covenant of this nature increases the valuation for this property.

On November 6, 2007, the Trust announced that it had formally engaged a national real estate brokerage firm to market the sale of the Trust's Real Estate Division in view of the significantly lower cost of capital of the REIT and Pension Fund sectors. Based on the activity in the first quarter, the sale of the Real Estate portfolio is expected to take place in 2008. The Real Estate Division provided funds from operations of approximately \$2.9 million in 2007 or approximately 5.4% of the Trust's funds from operations.

---

The Trust's Management Discussion and Analysis follows.

## MANAGEMENT'S DISCUSSION and ANALYSIS

**MANAGEMENT'S DISCUSSION AND ANALYSIS** for the quarter ended March 31, 2008 should be read in conjunction with the revised unaudited interim consolidated financial statements for the three months ended March 31, 2008 and the audited consolidated financial statements for the year ended December 31, 2007 and the management discussion and analysis thereto. Financial amounts have been updated to reflect the restated results of operations for the three months ended March 31, 2008. All other comments within this management discussion and analysis relate to events up to May 12, 2008.

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

Funds from continuing operations, funds from continuing operations per unit, funds from operations, funds from operations per unit, net back and working capital (net debt) are not recognized measures under Canadian generally accepted accounting principles (GAAP). Funds from operations is calculated by taking cash provided by operating activities on the statement of cash flows adjusted for the effect of changes in non-cash working capital and asset retirement costs incurred. See page 12 for the quantitative reconciliation of funds from operations. Working capital (net debt) is calculated by taking current assets less current liabilities excluding balances relating to assets held for sale. Operating netbacks per BOE equal total petroleum and natural gas revenue net of transportation expenses and realized gains on commodity contracts per BOE less royalties per BOE and operating expenses per BOE. Operating netbacks as used in the MD&A do not have any standardized meaning under GAAP and therefore may not be comparable with the calculation of similar measures of other entities. Operating netbacks are a useful measure to compare the Trust's operations with those of its peers). Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that these measures should not be construed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Distribution Payout Ratio is calculated by dividing the Distributions by the Funds from operations.

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

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

### RESTATEMENT OF MARCH 31, 2008 RESULTS

Expenses, net income from continuing operations, net income and related per unit measurements for the three months ended March 31, 2008 have been restated as a result of an adjustment to increase employee incentive related expenses in Elbow River in the amount of \$1.0 million and adjustments to decrease inventory in Elbow River for valuation and misclassification errors in the amount of \$1.9 million, of which \$1.6 million resulted in a decrease to net income. The total impact of these adjustments to net income was a decrease of \$2.6 million (\$0.07 per basic unit) and to funds from operations was a decrease of \$1.5 million (\$0.03 per basic unit).

## MANAGEMENT'S DISCUSSION and ANALYSIS

### SIGNIFICANT EVENTS SUBSEQUENT TO THE QUARTER ENDED MARCH 31, 2008

- Announced Sale of the EnerVest Assets

On April 25, 2008, the Trust announced that it had entered into a definitive agreement with Canoe Financial LP, a private entity based in Calgary, for the sale of its EnerVest assets for total consideration of approximately \$185.0 million, subject to customary closing adjustments including working capital and debt adjustments based on an April 1, 2008 effective date. Exclusive of transaction costs, the total sale price will be satisfied through the cash payment at closing of approximately \$140.0 million, the assumption of approximately \$20.0 million in debt and working capital and the provision of a promissory note of \$25.0 million with a scheduled payment on December 31, 2008 unless extended under certain conditions. The sale of EnerVest is anticipated to be completed on or about May 16, 2008. Closing is not conditional on any financing or due diligence conditions.

### SELECTED QUARTERLY INFORMATION

	Mar 31 2008 (restated)	Dec 31 2007	Sept 30 2007	June 30 2007	Mar 31 2007	Dec 31 2006	Sept 30 2006	June 30 2006
<i>(thousand of dollars except per unit amounts)</i>								
Total Revenue	437,777	212,731	182,530	219,581	231,210	211,106	206,210	162,413
Net Income from continuing operations	2,271	7,428	403	1,527	3,414	5,630	3,761	5,736
Net Income from continuing operations/unit - basic	0.05	0.18	0.01	0.04	0.08	0.14	0.09	0.14
Net Income	5,155	9,910	4,479	5,671	7,331	9,390	7,594	10,310
Net Income per unit - basic	0.12	0.24	0.11	0.14	0.18	0.23	0.18	0.25
Funds from continuing operations	15,336	5,167	8,556	8,616	12,586	9,313	9,462	8,663
Fund from continuing operations/unit - basic	0.37	0.12	0.21	0.21	0.31	0.23	0.23	0.21
Funds from Operations	20,271	9,557	13,212	13,167	17,677	14,334	14,328	15,747
Funds from Operations per unit - basic	0.49	0.23	0.32	0.32	0.43	0.35	0.35	0.38
Cash Distributions paid	10,432	10,429	10,422	10,413	10,395	10,397	10,401	13,449
Cash Distributions per unit - basic	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.33
Special Distribution per unit (Energy Services)	--	--	--	--	--	--	--	4.445
Total Assets	654,501	598,199	533,739	526,536	546,829	530,550	489,014	476,205

### NET INCOME

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

	March 31, 2008 \$ (restated)	For the three months ended March 31, 2007 \$
<i>(in thousands of dollars)</i>		
Net Income (loss)		
Financial Services – Elbow River	1,934	5,042
Oil and Gas	2,011	(148)
Corporate	(1,674)	(1,480)
<b>Net Income from continuing operations</b>	<b>2,271</b>	<b>3,414</b>
Discontinued Ops. – EnerVest	3,125	3,575
Discontinued Ops. – Real Estate	(241)	342
<b>Net Income</b>	<b>5,155</b>	<b>7,331</b>

Net income from continuing operations for the quarter ended March 31, 2008 was \$2.3 million down 33% from \$3.4 million in the quarter ended March 31, 2007. The net income for the quarter ended March 31, 2008 was \$5.2 million which is down 30% versus the \$7.3 million net income for the quarter ended March 31, 2007. The quarter ended March 31, 2008 net income was higher than 2007 due to a higher unrealized loss on financial instruments in Elbow River of \$7.0 million compared to a loss of \$0.8 million for the first quarter of 2007 offset by higher results from Elbow River, particularly increased biofuel export sales, and the increased commodity pricing in the Oil and Gas Division.

## MANAGEMENT'S DISCUSSION and ANALYSIS

### . Financial Services – Elbow River

The decrease in net income in the Financial Services Division from \$5.0 million in the first quarter of 2007 to \$1.9 million in the first quarter of 2008 is due mainly to the unrealized loss on financial instruments in Elbow River. The unrealized loss for the quarter ended March 31, 2008 was \$7.0 million compared to \$0.8 million for the quarter ended March 31, 2007. Net income for Elbow River for the first quarter was \$1.9 million (Q1 2007: \$5.0 million).

### 2. Oil & Gas Division

The Oil and Gas Division had net income of \$2.0 million for the quarter ended March 31, 2008 versus 2007 net loss of \$0.1 million. The difference is largely due to the impact of increased commodity pricing and a \$1.0 million future income tax recovery for 2008 versus a recovery of \$0.4 million for 2007.

### 3. EnerVest – Assets Held for Sale

EnerVest had net income of \$3.1 million for the quarter ended March 31, 2008 versus \$3.6 million for the quarter ended March 31, 2007. The decrease is as a result of January and February weakness in the equities including income trusts.

### 4. Real Estate – Assets Held for Sale

The Real Estate Division had a net loss for the quarter ended March 31, 2008 totalling \$0.2 million compared to net income of \$0.3 million in the quarter ended March 31, 2007. Higher future income tax and increased general and administrative expense allocation from the corporate office accounts for the difference to the prior year.

## ASSETS HELD FOR SALE

Financial information for EnerVest and the Real Estate Division, currently classified as Assets Held for Sale, are as follows:

### a) EnerVest Limited Partnership (“EnerVest”)

On April 25, 2008, the Trust announced that it had entered into a definitive agreement with Canoe Financial LP, a private entity based in Calgary, for the sale of its EnerVest assets for total consideration of approximately \$185.0 million, subject to customary closing adjustments including working capital and debt adjustments based on an April 1, 2008 effective date. The expected closing date of the transaction is May 16, 2008. Exclusive of transaction costs, the total purchase price will be satisfied through the cash payment at closing of approximately \$140.0 million, the assumption of approximately \$20.0 million in debt and working capital and the provision of a promissory note of \$25.0 million with a scheduled payment on December 31, 2008 unless extended under certain conditions. The transaction has been unanimously approved by the Trust's Board of Directors.

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

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
<i>(in thousands of dollars)</i>		
Cash	291	66
Marketable securities	145	133
Accounts receivable and prepaid expenses	2,648	3,135
Property and equipment	18	22
Intangible and other assets	140,065	140,921
<b>Current assets held for sale</b>	<b>143,167</b>	<b>144,277</b>
Accounts payable and accrued liabilities	1,277	1,211
Current portion of notes payable (i)	3,350	3,350
Notes payable (i)	15,491	16,329
Future income tax	3,102	2,814
<b>Current liabilities of assets held for sale</b>	<b>23,220</b>	<b>23,704</b>

## MANAGEMENT'S DISCUSSION and ANALYSIS

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

	For the three months ended	
	March 31, 2008	March 31, 2007
<i>(in thousands of dollars)</i>	\$	\$
<b>REVENUE</b>		
Financial services revenue	5,516	5,554
	<b>5,516</b>	5,554
<b>EXPENSES</b>		
Financial services operating	869	935
General and administrative	149	143
Interest on long-term debt	226	109
Depreciation and amortization	859	792
	<b>2,103</b>	1,979
Income before income taxes	3,413	3,575
Future income tax expense	(288)	—
Net income from discontinued operations, net of tax	<b>3,125</b>	3,575

During 2007 and 2006, EnerVest entered into unsecured promissory notes with EnerVest Diversified Income Trust ("EDIT"), an investment vehicle that EnerVest manages, for the reimbursement of offering costs paid by EDIT in relation to its exchange offers on October 22, 2007 and October 24, 2006. The 2007 note requires the offering costs to be repaid in equal quarterly payments of 0.4 million plus interest over a seven year period ending October 1, 2014 and the 2006 note requires the offering costs to be repaid in equal quarterly payments of \$0.5 million plus interest over a six year period ending October 1, 2012. Both notes bear interest at a rate per annum equal to the interest rate charged under EDIT's credit facility, which is bank prime less 0.5%.

The average effective interest rate on borrowings under the above notes payables for the three months ended March 31, 2008, including service fees, was 4.83% (three months ended March 31, 2007 – 4.69%).

### b) Real Estate Division

During 2007, the Trust made the decision to dispose of the Real Estate Division assets by way of sale or spin-out. A national brokerage firm has been engaged and the Trust expects to have completed a transaction mid 2008.

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

	March 31,	December 31,
	2008	2007
<i>(in thousands of dollars)</i>	\$	\$
Cash	(157)	488
Accounts receivable and prepaid expenses	1,387	1,305
<b>Current assets held for sale</b>	<b>1,230</b>	<b>1,793</b>
Property and equipment	63,098	61,548
Intangible and other assets	2,678	2,644
<b>Long-term assets held for sale</b>	<b>65,776</b>	<b>64,192</b>
Accounts payable and accrued liabilities	832	493
Deferred revenue	288	291
Current portion of mortgages (i)	17,236	15,023
<b>Current liabilities of assets held for sale</b>	<b>18,356</b>	<b>15,807</b>
Mortgages (i)	28,130	29,427
Future income tax	668	(236)
<b>Long-term liabilities of assets held for sale</b>	<b>28,798</b>	<b>29,191</b>

## MANAGEMENT'S DISCUSSION and ANALYSIS

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

	For the three months ended	
	March 31, 2008	March 31, 2007
(in thousands of dollars)	\$	\$
<b>REVENUE</b>		
Real estate revenue	1,900	1,747
	<b>1,900</b>	<b>1,747</b>
<b>EXPENSES</b>		
Real estate operating	440	458
General and administrative (ii)	249	111
Interest on long-term debt	539	452
Capital taxes	10	6
Depreciation and amortization	—	502
	<b>1,238</b>	<b>1,529</b>
Income before income taxes	662	217
Future income tax recovery (expense)	(903)	124
Net (loss) income from discontinued operations, net of tax	<b>(241)</b>	<b>342</b>

(i) In relation to the Real Estate Division, the Trust has various mortgages outstanding with interest rates ranging from 4.85% to 7.25% with a weighted average rate of 5.77%. The maturities range from October 2008 to August 2014 and all mortgages are collateralized by a first charge over the related properties. The Trust also provides guarantees to third party mortgagors for a maximum of the total value of the mortgages outstanding on behalf of its Real Estate Division. The guarantees require the Trust to be responsible for the mortgage principal and interest payments if its Real Estate Division is unable to do so.

During the period, the mortgage which matured in March 2008 was renewed for a total amount of \$7.8 million at a rate of 4.57% for a term of 1 year. The funding of this renewal was not completed until April 2008.

(ii) During the three months ended March 31, 2008, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions, divestitures and mortgage financing of \$0.1 million (three months ended March 31, 2007 - \$0.1 million) payable to a company with a shareholder who is also a director of the Trust.

### FUNDS FROM OPERATIONS

	For the three months ended	
	March 31, 2008	March 31, 2007
(in thousands of dollars)	\$ (restated)	\$
<b>Funds from Operations</b>		
Financial Services – Elbow River	9,025	7,248
Oil and Gas	7,563	5,652
Corporate	(1,252)	(311)
<b>Funds from continuing operations</b>	<b>15,336</b>	<b>12,589</b>
Discontinued Ops. – EnerVest	4,272	4,367
Discontinued Ops. – Real Estate	663	721
<b>Funds from Operations</b>	<b>20,271</b>	<b>17,677</b>

Funds from continuing operations were \$15.3 million for the quarter ended March 31, 2008 up 22% from \$12.6 million in the comparable quarter in 2007. The increase reflected a strong Q1 from Elbow River and higher commodity pricing for the Oil and Gas Division offset by higher one-time corporate general and administrative expenses. These costs were primarily for costs associated with transactions and an increased allowance for uncollectible accounts receivable. Funds from operations were \$20.3 million for the quarter ended March 31, 2008, up 15% as funds from operations for the quarter ended March 31, 2007 were \$17.7 million.

## MANAGEMENT'S DISCUSSION and ANALYSIS

### CASH DISTRIBUTIONS

#### i. Cash Distribution Policy

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

#### ii. First Quarter 2008 Cash Distributions

The Trust distributed \$10.4 million or \$0.25 per unit for the three month ended March 31, 2008 which is flat compared to the \$10.4 million or \$0.25 per unit distributed for the three months ended March 31, 2007.

For the quarter ended March 31, 2008, cash used in operating activities (after changes in non cash working capital) of \$14.3 million was \$24.7 million less than the \$10.4 million of cash distributions primarily due to a \$34.4 million change in non-cash working capital. This non-cash working capital represents a larger build-up in biodiesel inventory to support a new Elbow River biodiesel export initiative begun in late 2007 and carrying into the first half of 2008. Effectively, credit and bank lines have been increased to support a build-up of inventory for pre-sold shipments of biodiesel to Europe for which Elbow River will not record the sales and profits until 2008. As such, when comparing the distributions declared to the cash flow from operating activities it would be possible to be in a shortfall or an excess position largely depending on the changes in non-cash working capital. Changes in non-cash working capital are funded by available bank facilities and all distributions declared are funded by the cash flow of the Trust. Changes in non-cash working capital vary based on seasonality, timing of development activities and form of debt used in our operating activities.

For the quarter ended March 31, 2008, cash distributions of \$10.4 million exceeded net income of \$5.2 million by \$5.2 million. Distributions typically exceed net income as a result of non-cash expenses such as unrealized losses on financial instruments, depletion, depreciation and amortization, accretion, future income tax expense, and stock-based compensation. These non-cash expenses result in a reduction to net income, with no impact to cash flow from operating activities. Accordingly, we expect that distributions will exceed net income in most periods. In assessing the level of distribution to be paid to the unitholders the Trust will review the cash provided by operating activities prior to the adjustment for non-cash working capital and asset retirement costs incurred during the period, which is referred to as Funds from Operations. The Trust's policy is to distribute approximately 75% to 80% of total Funds from operations.

As noted above, the Trust's distribution policy is to target paying our 75% to 80% of funds from operations (see reconciliation table below). For the period ended March 31, 2008 cash distributions of \$10.4 million represented 51% of the funds from operations well below the Trust's target that has been in effect since inception. The difference between the funds from operations and the cash distributions paid out is generally reinvested back into the businesses for internally generated growth and to maintain oil and gas production levels. It should be noted that traditionally the Trust's first and fourth quarters are the strongest due to the seasonal nature of the Elbow River.

#### iii. Distributable Cash from Operations

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

## MANAGEMENT'S DISCUSSION and ANALYSIS

Distributable cash from operations for the three months ended March 31, 2008 and 2007 are calculated as follows:

<i>(in thousands of dollars)</i>	<b>For the three months ended</b>	
	<b>March 31, 2008</b> <b>(restated)</b>	<b>March 31, 2007</b>
Cash provided by (used in) operating activities	(14,304)	14,186
Settlement of asset retirement obligations	146	86
Changes in non-cash working capital relating to operating activities	34,429	3,405
Funds from operations	20,271	17,677
Cash available to fund capital expenditures and growth	(9,839)	(7,282)
<b>Distributable cash from operations</b>	<b>10,432</b>	<b>10,395</b>
Cash distributions declared and payable	3,478	3,476
Cash distributions paid in period	6,954	6,919
<b>Accumulated cash distributions paid and payable for the period</b>	<b>10,432</b>	<b>10,395</b>

### iv. Cash Distributions Declared

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

<b>Period covered</b>	<b>Date of Distribution</b>	<b>Per Unit \$</b>
January 1, 2008 to January 31, 2008	15/02/2008	0.083
February 1, 2008 to February 29, 2008	17/03/2008	0.083
March 1, 2008 to March 31, 2008	16/04/2008	0.083

## REVENUE & OPERATING EXPENSES

### 1. Financial Services – Elbow River

#### i. Revenue

The Trust recognized revenue in the Financial Services Division of \$423.7 million for the quarter ended March 31, 2008 up over the quarter ended March 31, 2007 of \$219.1 million by 93%. The increase is due to increased Elbow River revenue mainly relating to increased sales in biofuels and the export biodiesel initiative which began in the latter half of 2007. Elbow River is a high revenue low margin brokerage marketing business.

#### ii. Operating Costs

The Trust's operating costs for the Financial Services Division for the quarter ended March 31, 2008 were \$415.7 million compared to \$207.4 million for the quarter ended March 31, 2007. The increase in operating costs is due to the matching of biodiesel and natural gas liquids product costs, corresponding to the increased revenue at Elbow River (see the explanation above in 1(i)).

### 2. Oil & Gas

<b>OIL &amp; GAS OPERATIONS</b>	<b>March 31, 2008</b>	<b>For the three months ended March 31, 2007</b>	<b>% Change</b>
Production			
Oil and NGL's – Bbls per day	1,596	1,695	(6%)
Gas – Mcf/d	10,397	9,809	6%
Total BOE/d	3,329	3,329	0%
Average Pricing			
Oil & NGL (\$/Bbl) before hedging	\$80.14	\$52.67	52%
Oil & NGL (\$/Bbl) after hedging	\$71.36	\$52.51	36%
Natural Gas (\$/Mcf)	\$7.53	\$7.54	0%
Average Price Per BOE before hedging	\$61.00	\$48.13	27%
Average Price Per BOE after hedging	\$56.80	\$48.05	18%

## MANAGEMENT'S DISCUSSION and ANALYSIS

### i. Revenue and Production

For the quarter ended March 31, 2008, oil and gas gross revenue totaled \$17.5 million compared to \$14.7 million for the same period in 2007 and \$14.4 million in the fourth quarter of 2007. This increase can be attributable in most part to the 36% increase in realized after hedge oil pricing during the first quarter of 2008. Transportation costs for the quarter ended March 31, 2008 were \$0.3 million matching the transportation costs for the quarter ended March 31, 2007.

Revenue from petroleum and natural gas sales (net of royalties and unrealized losses on financial instruments) for the quarter ended March 31, 2008 was \$14.1 million up 18% compared to \$12.0 million for the same period in 2007 as a result of higher oil and natural gas liquids pricing. The average price received for petroleum and natural gas sales during the quarter ended March 31, 2008 was \$71.36 per BOE an increase of 36% versus \$52.51 per BOE received in Q1 of 2007. Natural gas pricing for the quarter ended March 31, 2008 was \$7.53 per Mcf versus \$7.54 per Mcf for first quarter of 2007.

The Trust's Oil and Gas Division hedges a portion of its production to add stability to its distributions to guard against fluctuations in commodity prices and to support acquisition economics. As a result, the Trust recorded a hedging cost of \$1.3 million for the quarter ended March 31, 2008 versus \$0.03 million for the first quarter of 2007. In addition, the accounting treatment of oil and gas swap transactions requires the Trust to recognize an unrealized loss of \$0.3 million for the change in the mark-to-market position on existing contracts at March 31, 2008 versus an unrealized loss of \$0.5 million for the change in mark-to-market position as at March 31, 2007.

Average daily sales volume for the quarter ended March 31, 2007 was 3,329 BOE per day consistent with the first quarter 2007 sales volume of 3,329 BOE per day. First quarter 2008 sales consisted of 1,596 Bbls/d of crude oil and natural gas liquids and 10,397 Mcf/d of natural gas compared to 1,695 Bbls/d and 9,809 Mcf/d for the first quarter 2007. Production in the first quarter of 2008 was negatively impacted by third party plant curtailments and cold weather impacts which reduced natural gas production by approximately 390 Mcf/d (65 BOE per day) on average for the first quarter. The overall increase in gas sales volumes of 6% for the first quarter 2007 is a result of a bias toward natural gas opportunities in the late 2007 and early 2008 capital programs.

### ii. Royalties

The Trust's oil and gas royalty cost net of GCA for the quarter ended March 31, 2008 was \$2.8 million or 15% of revenue compared to \$1.8 million or 13% of revenue for the same period in 2007 due primarily to higher oil and natural gas liquids pricing in first quarter 2008. On a BOE basis, royalty costs averaged \$9.37 per BOE for the first quarter of 2008, which is up 52% over the 2007 same period cost of \$6.16 per BOE.

### iii. Operating Expenses

The Trust's operating costs for the quarter ended March 31, 2008 were \$4.9 million or \$16.01 per BOE down 4% compared to \$5.1 million or \$17.03 per BOE for the quarter ended March 31, 2007 due to lower work-over and maintenance costs. On a total cost basis, the first quarter of 2008 matched the fourth quarter 2007 operating costs at \$4.9 million while the per BOE cost increased from \$15.62 to \$16.01 due to slightly lower volumes in Q1 2008.

### iv. Netbacks

	2008		2007		
	Q1 \$/BOE	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE
Gross revenue after hedging and transportation costs	56.80	45.00	46.23	45.17	48.05
Royalties	9.37	7.61	5.53	6.62	6.16
Operating costs	16.01	15.61	16.82	15.94	17.03
Operating netback	31.42	21.78	23.88	22.61	24.86

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative ("G&A") expenses for the quarter ended March 31, 2008 were \$7.7 million (which includes corporate costs of \$1.7 million) compared to \$6.3 million for the quarter ended March 31, 2007 (which includes corporate costs of \$1.3 million). The majority of the corporate costs represent stock based compensation expense relating to all divisions of the Trust for the period. G&A expenses for the respective business units are: \$4.8 million for Financial Services (Q1 2007: \$4.1 million) and \$1.2 million for Oil and Gas (Q1 2007: \$1.0 million). The 22% increase in G&A expenses

## MANAGEMENT'S DISCUSSION and ANALYSIS

in the first quarter 2008 is the result of higher staff incentives in the Financial Services Division, the annualization of staff incentives in the Corporate and Oil and Gas Divisions, one-time transaction costs associated with an unsuccessful acquisition and an allowance for uncollectible receivables in the Oil and Gas Division.

### INTEREST AND BANK FEES

Interest expense and bank fees were \$2.2 million for the quarter ended March 31, 2008 compared to \$1.1 million for the quarter ended March 31, 2007. Interest expense for the first quarter of 2008 includes bank fees of \$0.04 million. The Financial Services Division accounted for \$1.3 million of interest expense the majority of which relates to the outstanding balance on the banking facility for Elbow River. The Oil and Gas Division accounted for \$0.5 million of the interest expense for the quarter ended March 31, 2008. The remaining interest expense of \$0.4 million relates to interest on \$12.0 million of notes payable at the corporate level used to support inventory and credit levels in Elbow River.

### DEPLETION, DEPRECIATION AND AMORTIZATION

Provision for depletion, depreciation and amortization was \$6.4 million for the quarter ended March 31, 2008 compared to \$6.1 million for the quarter ended March 31, 2007, with the Trust's oil and gas depletion and depreciation rate at \$19.39 per BOE up from the \$18.43 per BOE rate in the first quarter of 2007. The depletion rate continues to reflect the higher cost per BOE of acquisitions and capital expenditures in the current market. For the quarter ended March 31, 2008, \$0.5 million is the amortization of intangibles in Financial Services and \$5.9 million of the depletion and depreciation cost for oil and gas assets.

### ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$13.1 million as at March 31, 2008 based on a total future liability of \$27.8 million. These payments are expected to be made over the next 29 years. The Trust's credit adjusted risk free rate of 8.5% and an inflation rate of 2% were used to calculate the present value of the asset retirement obligation.

The following table reconciles the Trust's total asset retirement obligation for the quarter ended March 31, 2008:

<u>(in thousands of dollars)</u>	<u>\$</u>
<b>Carrying amount, as at December 31, 2007</b>	<b>12,905</b>
Oil and gas activities during the period	36
Abandonment cost incurred during the period	(146)
Asset retirement obligation accretion for the period	272
<b>Carrying amount, as at March 31, 2008</b>	<b>13,067</b>

### INCOME TAXES

The Trust is a taxable entity under the Income Tax Act (Canada) and, until 2011, is taxable only on income that is not distributed or distributable to the unitholders. As the Trust allocates all of its Canadian taxable income to the unitholders in accordance with the Trust Indenture, and meets the requirements of the Income Tax Act (Canada) applicable to the Trust, no current tax provision for Canadian income tax expense has been incurred by the Trust. Provincial capital taxes are provided for under capital tax expense.

While the Trust believes it will be subject to additional tax under the new SIFT legislation in 2011, the estimated effective rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations could occur and could materially affect management's estimate of the future income tax liability.

The amount and timing of reversals of temporary differences will also depend on the Trust's future operating results, acquisitions and dispositions of assets and liabilities, and distributions. A significant change in any of the preceding assumptions could materially affect management's estimate of the future income tax liability.

## MANAGEMENT'S DISCUSSION and ANALYSIS

The future income tax recovery totaled \$1.2 million for the first quarter ended March 31, 2008, compared to a recovery of \$0.4 million for the quarter ended March 31, 2007. The future income tax recovery for the period largely resulted from the change in the tax legislation noted above and from the change in the recognition of the future tax liabilities mainly relating to the Oil and Gas Division's tax pools from the previous quarter. The quarter ended March 31, 2008 capital tax of \$0.1 million reflects the resource surcharge on Saskatchewan properties.

### RISK MANAGEMENT

(in thousands of dollars)	\$
<b>Risk management liability, December 31, 2007</b>	<b>(13,750)</b>
Change in mark-to-market for hedges not qualifying for hedge accounting – Oil & Gas Division (i)	(316)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	(6,963)
Change in mark-to-market of cash flow hedge contracts (iii)	(5,710)
<b>Net risk management liability, March 31, 2008</b>	<b>(26,739)</b>
<b>Reclassified to risk management asset, March 31, 2008</b>	<b>(20)</b>
<b>Risk management liability, March 31, 2008</b>	<b>(24,759)</b>

(i) The Trust has the following forward contracts that do not qualify for hedge accounting outstanding as at March 31, 2008 relating to its Oil and Gas Division:

- A fixed price WTI swap for the period August 1, 2007 to July 31, 2008 on 200 barrels/day of crude oil with a price of \$70.50 US/Bbl
- A fixed price WTI swap for the period November 1, 2007 to October 31, 2008 on 200 barrels/day of crude oil with a price of \$71.40 US/Bbl
- A fixed price WTI collar for the period January 1, 2008 to December 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.00 US/Bbl and a ceiling price of \$82.93 US/Bbl
- A fixed price AECO swap for the period November 1, 2008 to October 31, 2009 on 1,000 gigajoules/day of natural gas with a price of \$8.26 CDN/gigajoules

The mark-to-market value of these contracts as at March 31, 2008 was a risk management liability of \$3.5 million (December 31, 2007 – a risk management liability of \$3.2 million), resulting in the recognition of an unrealized loss on the income statement for the three months ended March 31, 2008 of \$0.3 million when compared to the December 31, 2007 mark-to-market.

(ii) The following tables detail those transactions in Elbow River that do not qualify for hedge accounting, which resulted in a risk management liability of \$5.7 million (December 31, 2007 – a risk management asset of \$1.3 million), resulting in the recognition of an unrealized loss on the income statement for the three months ended March 31, 2008 of \$7.0 million when compared to the December 31, 2007 mark-to-market.

Futures contracts involve biofuels transactions done at fixed volume and fixed price.

Futures contracts:			March 31, 2008
Settlement dates	Total Volume (Bbl)	Prices US \$/(Bbl)	Unrealized gain (loss) \$
May 2008	481,000	117.14 – 124.48	(1,287,634)
June 2008	114,000	118.98 – 124.46	(318,254)
July 2008	61,000	2.10 – 123.29	(311,209)
August 2008	14,000	119.79 – 123.65	(53,280)
September 2008	1,000	112.48 – 120.23	7,629
December 2008	1,000	114.19 – 122.01	7,699
	<u>672,000</u>		<u>(1,955,049)</u>
		Exchange rate	<u>1,0279</u>
		Total CDN dollars	<u>(2,009,595)</u>

## MANAGEMENT'S DISCUSSION and ANALYSIS

<b>Futures contracts:</b>			<b>March 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (lbs)</b>	<b>Prices US \$/(lbs)</b>	<b>Unrealized gain (loss) \$</b>
May 2008	24,060,000	0.51480 – 0.66336	(3,322,843)
July 2008	11,400,000	0.52200 – 0.58480	419,061
August 2008	12,540,000	0.52480 – 0.63070	(652,297)
	<u>48,000,000</u>		<u>(3,556,079)</u>
		Exchange rate	1.0279
		Total CDN dollars	<u>(3,655,294)</u>
<b>Futures contracts:</b>			<b>March 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (MT)</b>	<b>Prices US \$/(MT)</b>	<b>Unrealized loss \$</b>
April 2008	7,000	909.65 – 969.00	(35,354)
	<u>7,000</u>		<u>(35,354)</u>
		Exchange rate	1.0279
		Total CDN dollars	<u>(36,340)</u>

(iii) Elbow River sells natural gas liquids, ethanol, biodiesel, diesel, and asphalt product in the United States, Canada and overseas, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, biodiesel, and ethanol. The following table details those transactions that qualify for hedge accounting that are outstanding resulting in a risk management liability of \$17.5 million (December 31, 2007 – a risk management liability of \$11.8 million), resulting in the recognition of other comprehensive loss of \$5.7 million when compared to the December 31, 2007 mark-to-market. Also included in other comprehensive loss for the three months ended March 31, 2008 is \$2.7 million relating to the settlement of a hedge during the period where the corresponding sale has not yet occurred. As such this amount will remain in other comprehensive loss until such time as the sale is completed. This brings the total amount of other comprehensive loss for the period to \$8.4 million.

<b>Commodities hedging contracts:</b>			<b>March 31, 2008</b>
<b>Settlement dates</b>	<b>Average Monthly Volume (Bbl)</b>	<b>Prices \$/(bbl)</b>	<b>Unrealized loss \$</b>
April – June 2008	422,087	2.38 – 154.04	(7,123,761)
July – September 2008	304,006	2.63 – 109.14	(2,858,725)
October – December 2008	315,758	59.12 – 101.92	(1,593,519)
January – December 2009	162,395	59.12 – 101.45	(4,013,067)
January – March 2010	124,725	60.59 – 97.42	(822,344)
			<u>(16,411,416)</u>
		Exchange rate	1.0279
		Total CDN dollars	<u>(16,869,295)</u>
<b>Forward exchange contracts:</b>			<b>March 31, 2008</b>
<b>Term Due</b>	<b>Amount \$</b>	<b>Forward Rates CDN \$</b>	<b>Unrealized loss \$</b>
April – June 2008	11,428,450	0.9329 – 1.0929	(242,266)
July – September 2008	1,363,450	0.9333 – 1.0279	(73,769)
October – December 2008	1,313,450	0.9338 – 1.0279	(68,354)
January – December 2009	3,674,100	0.9344 – 1.0279	(217,288)
January – March 2010	803,550	0.9365 – 1.0279	(46,143)
Total US dollars	18,583,000		<u>(647,820)</u>
Exchange rate	1.0279		
Total CDN dollars	<u>19,101,466</u>		

## MANAGEMENT'S DISCUSSION and ANALYSIS

### FINANCIAL RISKS

#### Fair values of Financial Assets and Liabilities

The Trust's financial instruments consist of cash, accounts receivable, marketable securities, risk management assets (liabilities), bank indebtedness, accounts payable and accrued liabilities, distributions payable, notes payable, and assets and liabilities of assets held for sale. Unless otherwise noted, as at March 31, 2008, there were no significant differences between the carrying amounts of these financial instruments and their estimated fair values.

Marketable securities are classified as available for sale and, as such, have been recorded at fair value on March 31, 2008 in the amount of \$1.2 million. The decrease in the market value of the investments of \$0.04 million for the three months ended March 31, 2008 has been included in other comprehensive income.

Borrowings under bank credit facilities are revolving in nature and are market rate based, thus, carrying value approximates fair value. The fair values of the EnerVest promissory notes are market rate based and unsecured and therefore are valued at carrying values. The fair values of the other promissory notes referred to in note 5 to the consolidated financial statements are derived from third party indications which consider these notes payable as subordinated mezzanine level debt in determining the fair value. This fair value approximates the carrying values. The mortgages are for varying lengths and carry interest rates in line with the market terms agreed to when the mortgages were entered into. The fair value of the mortgages reflect the discounted present value of the principal and interest payments using the effective yield for instruments having the same term and risk characteristics. The fair value of the Trust's mortgages at March 31, 2008 was \$45.4 million, while the carrying value was \$45.4 million

Risk management assets and liabilities are recorded at their estimated fair values based on discounted cash flow analysis using current market rates, forward pricing curves, implied volatility and option pricing models. The results are compared to confirmations from third counterparties for reasonability.

#### CREDIT RISK

The Trust's financial instruments that are exposed to credit risk consist primarily of trade accounts receivable and risk management assets (liabilities). A substantial portion of trade receivables are from the Trust's Oil & Gas Division and Elbow River. The majority of these trade receivables are dependent upon the strength of the North American energy complex and specifically the Canadian oil and gas industry. Elbow River is also exposed to additional risk with international overseas counterparts relating to biofuel revenues wherein additional due diligence is undertaken. Management routinely assesses the financial strength of partners and customers, and monitors the exposure for credit losses. At March 31, 2008 the Trust set up an allowance for doubtful accounts relating to its Oil and Gas Division receivable balance of \$0.3 million representing 0.2% of the Trust's accounts receivables. The maximum credit exposure associated with the Trust's customers are the carrying values of the accounts receivable and the presales in Elbow River which are not reflected in the consolidated financial statements. As at March 31, 2008, 31% of the Trusts consolidated accounts receivable are due from three customers. The total amount of receivables past due 90 days amounted to \$5.8 million as at March 31, 2008. However, in management is comfortable with this risk which is mitigated through the use of documentary credits in relation to international customers.

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

The Trust also has a credit risk arising from cash and cash equivalents held with banks and financial institutions and derivative financial instruments with positive values. Again, the Trust attempts to mitigate potential losses by monitoring the credit worthiness of the counterparties and restricting the types of investments.

#### Foreign Currency Risk

The Trust's Elbow River group operates internationally and is therefore exposed to foreign exchange risk. The Trust's primary exposures are from fluctuations in the US dollar relative to the Canadian dollar. The Trust enters into derivative instruments from time to time to mitigate its currency risk. At March 31, 2008 forward exchange contracts were designated as cash flow hedges.

## MANAGEMENT'S DISCUSSION and ANALYSIS

In respect of existing financial instruments, a \$0.01 change in the US dollar against the Canadian dollar, with all other variables assumed constant, would have resulted in a change of approximately \$0.1 million in net income from continuing operations and a change of approximately \$0.3 million in other comprehensive loss for the three months ended March 31, 2008.

### **Commodity Price Risk**

The Trust is exposed to commodity price risk. The Trust enters into derivative instruments from time to time to mitigate commodity price risk volatility. The Trust does not use derivative contracts for speculative purposes.

The following sensitivity analyses show the effects of reasonably possible changes in relevant risk variables on net income from continuing operations and other comprehensive income. The periodic effects are determined by relating the reasonable possible changes in the risk variables to actual volumes.

At March 31, 2008, in respect of the financial derivative instruments in the Oil and Gas Division, a change of \$10.00 US/Bbl in the price of oil and \$1.00/gigajoules in the price of natural gas would have resulted in unrealized gains and losses impacting net income from continuing operations by approximately \$1.6 million.

In respect of the financial instruments in Elbow River, a 5% change in commodity pricing would have resulted in unrealized gains and losses changing net income from continuing operations by approximately \$2.5 million and would have changed other comprehensive income by approximately \$4.9 million.

### **Interest Rate Risk**

Drawings under the Trust's bank credit facilities are at floating interest rates and expose the Trust to interest rate risk. The Trust is authorized by the Board of Directors to enter into fixed rate swaps to manage risks associated with rising interest rates if felt appropriate. The Trust is also exposed to interest rate risk on maturity and refinancing of its fixed rate mortgages including the possibility that existing mortgages may not be refinanced or may not be refinanced on as favorable terms or with interest rates as favorable as those of the existing debt. The Trust mitigates these risks by its continued efforts to enhance the value of its real estate properties and maintain high occupancy levels. A range of 1% change in interest rates would result in net income sensitivity of approximately \$0.3 million. The Trust has not entered into any derivative agreements to mitigate this risk.

### **Liquidity Risk**

The Trust is exposed to liquidity risk, which is the risk that the Trust may be unable to generate or obtain sufficient cash to meet its commitments as they come due. The Trust mitigates this risk through its management of cash, debt and its distributions.

The Trust maintains appropriate unused capacity in its revolving credit facilities to meet short term fluctuations from forecasted results or volatility in commodities affecting margining requirements, especially in Elbow River. The Trust manages its liquidity requirements through the use of both short term and long term cash forecasts, by establishing a conservative distribution payout target of 75%-80% of funds from continuing operations, maintaining a 60% mortgage to fair market value ratio on the Real Estate Division mortgage and targeting a 1:1 working capital (net debt) to annualized funds from continuing operations ratio for the non-real estate divisions.

On its real estate portfolio, the Trust maintains a debt maturity profile to avoid excessive concentrations of refinancing requirements. In its Oil and Gas Division, the Trust may hedge a portion of future production to protect cash flows to allow the Trust to meet its strategic objectives and preserve distributions. In the Elbow River, the Trust attempts to hedge as much of its business as possible in order to lock-in profit margins when transactions are entered into.

Except for the mortgages and promissory notes included in assets held for sale, all the Trust financial liabilities are effectively due within one year.

### **LIQUIDITY AND DEBT**

In relation to its Oil and Gas Division, as at March 31, 2008, the Trust had a combined revolving demand facility with a major Canadian bank in the amount of \$45.5 million (December 31, 2007 - \$45.5 million) bearing interest ranging from prime to prime plus one percent depending on the debt to cash flow ratio of the Oil and Gas Division (as defined by the banking agreement). The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. In addition, the Trust has a development facility in the amount of \$5.0 million, bearing interest ranging from

## MANAGEMENT'S DISCUSSION and ANALYSIS

prime plus one-quarter of one percent to prime plus one and one-quarter percent. As at March 31, 2008, \$38.5 million (December 31, 2007 - \$40.1 million) was drawn on the revolving demand facility and \$nil was drawn on the development facility (December 31, 2007 - \$nil). Subsequent to March 31, 2008, the Trust signed a term sheet to increase the revolving demand facility from \$45.5 million to \$46.5 million. The Trust is currently awaiting the final amending agreement.

In relation to Elbow River the Trust has a demand revolving loan facility with a Canadian bank in the amount of \$70.0 million (December 31, 2007 - \$70.0 million) bearing interest as follows; for advances of \$50.0 million or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50.0 million a 0.125% premium shall apply to applicable interest rates. In addition the Trust has a \$38.5 million import facility (December 31, 2007 - \$38.5 million) with the same Canadian Bank. The import facility bears interest at bank US base rate plus 0.25% per annum and was to be repaid by June 30, 2008. These facilities are collateralized by a charge over Elbow River's assets. As at March 31, 2008, \$98.4 million (December 31, 2007 - \$68.0 million) was drawn on the demand loan facilities. Subsequent to March 31, 2008 the revolving loan limit of \$70.0 million was increased to \$82.0 million until June 30, 2008 at which time the limit revert back to the original \$70.0 million.

Elbow River was offside a bank covenant during the first quarter of 2008. The bank has granted a forbearance of the covenant until May 31, 2008 at which time management expects Elbow River will be back in compliance with its covenants.

The Trust also had \$0.8 million in bank overdraft as at March 31, 2008 (December 31, 2007 - \$2.2 million).

The average effective interest rate on borrowings under the above lines for the three months ended March 31, 2008, including service fees, was 6.19% (three months ended March 31, 2007 - 5.12%).

As at March 31, 2008, the Trust also had eighteen letters of credit outstanding in the aggregate amount of \$5.0 million (December 31, 2007 - \$5.2 million). The letters of credit reduces the amount available to be drawn on the related demand facilities.

To provide Elbow River with additional credit on natural gas liquids and biofuels inventory purchases, the Trust also has guarantees to third parties for a maximum of \$78.3 million (December 31, 2007 - \$64.7 million). These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

The Trust entered into an agreement to borrow up to \$10.0 million on July 28, 2006. The note payable bears interest at 12.5% per annum on the drawn portion and a standby fee of 2% on any unused portion, for a minimum period of six months. The note payable matured July 24, 2007 with the option to extend the due date for consecutive one year periods based on mutual agreement of both parties. The Trust has extended the notes payable under similar terms to the previous agreement for a period of one year moving the maturity date to July 24, 2008. The notes payable is collateralized by a guarantee provided by the Trust. During the period the Trust entered into a new note to draw an additional \$2.0 million under the same terms as the note payable above except with a maturity date of May 15, 2008. As at March 31, 2008, the outstanding balance of the notes payable was \$12.0 million (December 31, 2007 - \$10.0 million). Subsequent to March 31, 2008, the Trust entered into a new note payable for \$10.0 million USD bearing interest at 18%, as well as a fee of 0.5% payable upon execution. The note payable matures June 2, 2008. This brings the current balance outstanding to approximately \$22.0 million.

These notes were entered into to provide Elbow River with additional credit on natural gas liquids and biofuels inventory purchases.

The average effective interest rate on borrowings under the above notes payable for the three months ended March 31, 2008, including service fees, was 12.5% (three months ended March 31, 2007 - 14.5%).

(in thousands of dollars)	Total	Payments due by period		
		Less than 1 Year	1 - 3 Years	4+ Years
Notes Payable	12,000	12,000	--	--
Lease Commitments	14,740	3,601	8,167	2,972
Total Contractual Obligations	26,740	15,601	8,167	2,972

Ongoing operations and capital expenditures will be managed by funds from operations and the availability of the Trust's current revolving demand facility and proposed future financings.

## MANAGEMENT'S DISCUSSION and ANALYSIS

### INVESTMENT AND CAPITAL EXPENDITURES

<i>(in thousands of dollars)</i>	<b>Quarter Ended March 31, 2008</b>	<b>Quarter Ended March 31 2007</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Services – Elbow River</b>		
Financial Services development expenditures	3	125
Sub-Total	3	125
<b>Oil and Gas</b>		
Land	72	77
Drilling	2,746	831
Production equipment and facilities	944	839
Other	146	207
Oil and gas property acquisitions	30	7,212
Proceeds received on oil and gas property dispositions	--	(27)
Sub-Total	3,938	9,138
<b>Assets Held for Sale - Real Estate</b>		
Real estate acquisitions	--	810
Real estate development expenditures	1,550	571
Sub-Total	1,550	1,381
<b>Other assets</b>	<b>5</b>	<b>78</b>
<b>Net capital expenditures</b>	<b>5,496</b>	<b>10,722</b>

### CONTRACTUAL OBLIGATIONS

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

At March 31, 2008, the following contracts were outstanding with respect to the physical deliveries of oil and gas product:

- A physical fixed price sale for the period March 1, 2007 to April 30, 2008 on 1,000 gigajoules/day of gas at a price of \$7.00/gigajoule.
- A physical fixed price sale for the period April 1, 2008 to October 31, 2008 on 1,000 gigajoules/day of gas at a price of \$7.12/gigajoule.
- A physical fixed price sale for the period May 1, 2008 to October 31, 2008 on 1,000 gigajoules/day of gas at a price of \$7.10/gigajoule.
- A physical fixed price sale for the period January 1, 2008 to December 31, 2008 on 1,000 gigajoules/day of gas at a price of \$7.35/gigajoule.
- A physical fixed price sale for the period February 1, 2008 to March 31, 2009 on 1,000 gigajoules/day of gas at a price of \$6.94/gigajoule.
- A physical fixed price sale for the period November 1, 2008 to March 31, 2009 on 1,000 gigajoules/day of gas at a price of \$7.65/gigajoule.

The mark-to-market value of these contracts as at March 31, 2008 was an unrealized loss of \$2.5 million.

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

## MANAGEMENT'S DISCUSSION and ANALYSIS

The payments over the remaining terms of these lease agreements are as follows:

<i>(in thousands of dollars)</i>	<b>\$</b>
2008	2,773
2009	3,312
2010	3,128
2011	2,555
2012	1,520
2013 and thereafter	1,452
<b>Total</b>	<b>14,740</b>

The Trust indemnifies its directors and officers who are serving at the Trust's request in such capacities. These costs have not been material to the Trust's financial position, operations, or cash flows. The Trust has acquired and maintains liability insurance for its directors and officers.

### UNITHOLDERS' CAPITAL

<b>Trust Units</b>	<b>Number of Units</b>	<b>Amount \$ <i>(in thousands of dollars)</i></b>
<b>Balance at December 31, 2007</b>	<b>41,775,179</b>	<b>419,533</b>
Units issued on exercise of stock options	14,613	99
Units released from escrow – Energy Services Division	3,891	36
<b>Balance March 31, 2008</b>	<b>41,793,683</b>	<b>419,668</b>

For the quarter ended March 31, 2008 the Trust had weighted average trust units outstanding of 41,788,894. The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options of an additional 411,294 Trust Units resulting in weighted average trust units outstanding of 42,200,188 for the quarter ended March 31, 2008. As at March 31, 2008 the total units outstanding for the Trust were 41,793,683 (not including units under escrow of 103,962 relating to the 2005 Elbow River acquisition and set-up of the Essential Energy Option holders in 2006). At March 31, 2008 there were 277,000 in anti-dilutive options that were not part of the dilutive per unit calculation.

As at March 31, 2008, the Trust had a total of 3,162,628 options which represents 75% of the options available for issuance. Subsequent to March 31, 2008, the Trust granted 105,00 options

### RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2008, the Trust paid \$0.05 million (three months ended March 31, 2007 - \$0.04 million) to Avenir Capital Corporation ("Avenir"), a unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at March 31, 2008, is \$0.05 million owing to Avenir relating to administration and advisory services.

During the three months ended March 31, 2008, the Trust incurred marketing fees of \$0.02 million (three months ended March 31, 2007 - \$0.02 million) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$0.02 million is included in accounts payable and accrued liabilities as at March 31, 2008.

In the normal course of joint venture activities, the Trust's Oil and Gas Division from time to time, engages in business transactions with companies having directors in common with the Trust.

### RECENT ACCOUNTING PRONOUNCEMENTS AND THE IMPACT ON THE TRUST

Effective January 1, 2008, the Trust adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

## MANAGEMENT'S DISCUSSION and ANALYSIS

### FINANCIAL INSTRUMENTS

The new Sections 3862, *Financial Instruments – Disclosures* and 3863, *Financial Instruments – Presentation* replace Section 3861, *Financial Instruments – Disclosure and Presentation*, by revising and enhancing its disclosure requirements, and carry forward substantially unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

### CAPITAL DISCLOSURES

Section 1535, *Capital Disclosures* specifies the disclosure of (i) an entity's objectives, policies and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The Trust's capital structure is comprised of unitholders' equity and bank indebtedness. The Trust's objectives when managing its capital structure are to:

- i) Maintain balance sheet strength, ensuring the Trust's strategic objectives are met, while retaining an appropriate amount of leverage; and
- ii) Provide an appropriate return including distributions to unitholders relative to the risk of the Trust's underlying assets.

The Trust manages its capital structure within guidelines approved by the Board of Directors. Changes to the Trust's capital structure are made based on economic conditions and the Trust's planned requirements. The Trust has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to unitholders and making adjustment to its capital expenditure program.

Consistent with its capital structure guidelines, the Trust monitors capital using non-GAAP financial metrics of working capital (net debt) to annualized funds from continuing operations for the non-real estate divisions targeting a ratio of 1:1, 60% mortgage to fair market value ratio on the Real Estate Division and distribution pay out ratio of 75% - 80% of funds from continuing operations. The ratios are calculated as follows:

	<b>March 31, 2008</b>
	<b>\$</b>
<i>(in thousands of dollars)</i>	<b>(restated)</b>
Current assets	369,084
Current liabilities	(326,407)
Less assets held for sale – Real Estate	(1,230)
Less assets held for sale – EnerVest	(143,167)
Add liabilities of assets held for sale – Real Estate	18,356
Add liabilities of assets held for sale – EnerVest	23,220
<b>Working capital (net debt)</b>	<b>(60,144)</b>
Cash provided by operating activities	(14,304)
Changes in non-cash working capital	34,429
Asset retirement costs incurred during period	146
Funds from discontinued operations – Real Estate	(663)
Funds from discontinued operations – EnerVest	(4,272)
<b>Funds from continuing operations</b>	<b>15,336</b>
<b>Annualized funds from continuing operations</b>	<b>61,344</b>
<b>Working capital (net debt) to funds from continuing operations</b>	<b>0.98 : 1</b>

For the Real Estate Division, the ratio is calculated using the total amount of the outstanding mortgages for the period as a percentage of the estimated fair market value of the real estate properties.

The distribution pay out ratio uses the total distributions to unitholders per the statement of cash flows of \$10.4 million as a percentage of the funds from continuing operations as calculated above. The distribution pay out ratio for the three months ended March 31, 2008 is approximately 68% excluding funds from the Real Estate Division and EnerVest. Including the

## MANAGEMENT'S DISCUSSION and ANALYSIS

Real Estate Division and EnerVest funds from operations, the distribution pay out ratio would be approximately 51% for the three months ended March 31, 2008. The Trust's first and fourth quarters are normally the Trust's strongest quarters as such on an annual basis the Trust's distribution ratio is expected to be more in line with the target of 75% to 80%.

### **Inventories**

Section 3031, *Inventories*, aligns accounting for inventories under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard provides additional guidance concerning measurement, classification and disclosure and allows the reversal of write-downs to net realizable value when there is a change in the circumstances giving rise to the impairment. There was no impact to the Trust upon adoption of this standard.

### **Future Accounting Pronouncements**

#### **Goodwill and intangible assets**

Section 3064 *Goodwill and Intangible Assets* replace Section 3062 *Goodwill and Other Intangible Assets*. The new Section will be effective on January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Trust is currently evaluating the impact of the adoption of this new Section, however does not expect a material impact on its consolidated financial statements.

#### **International Financial Reporting Standards**

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed the use of International Financial Reporting Standards ("IFRS") for publicly accountable profit-oriented enterprises beginning on January 1, 2011 with appropriate comparative data from the prior year. IFRS will replace Canada's current Generally Accepted Accounting Principles (GAAP) for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. The impact of these new standards on the Trust's financial statements is currently being assessed.

### **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

For the quarter ended March 31, 2008, no changes were made in the Trust's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

### **RISKS & UNCERTAINTIES AND CRITICAL ACCOUNTING ESTIMATES**

For a discussion of Risks and Uncertainties and Critical Accounting Estimates, please refer to the audited consolidated financial statements for the year ended December 31, 2007 available on SEDAR ([www.sedar.com](http://www.sedar.com)) and our website ([www.avenitrust.com](http://www.avenitrust.com)).

## MANAGEMENT'S DISCUSSION and ANALYSIS

### OUTLOOK

In view of the pending EnerVest sale, the previously announced decision to sell the Real Estate Division and the pending taxation of income trusts in 2011, the Trust has established a Strategic Review Committee, which includes all of the independent board members, to consider strategic alternatives and opportunities to provide the maximum value to unitholders. Given the strong first quarter performance, the second quarter gain expected on the sale of the EnerVest assets, the continued bullish outlook for the oil and gas pricing and strong presales in Elbow River, the Trust will continue to maintain the distributions at current levels as the Special Review Committee works its way through the review process. The Board of Directors of the Trust will keep the unitholders advised of any updates to the review process as information becomes available.

The EnerVest Management asset sale is expected to close on or about May 16, 2008. The Trust will recognize the funds from operation in the accounting records up to closing, although the effective date is April 1, 2008, resulting in a offsetting adjustment to the sale price.

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

Submitted on behalf of:



William M. Gallacher  
President & CEO



Gary Dundas  
Vice President Finance & CFO

## CONSOLIDATED BALANCE SHEETS (unaudited)

<i>(in thousands of dollars)</i>	<b>March 31, 2008</b> \$	<b>December 31, 2007</b> \$
	<b>(restated – note 14)</b>	<b>(restated – note 3)</b>
<b>ASSETS</b> <i>[note 4]</i>		
Current		
Marketable securities	1,235	1,275
Accounts receivable and prepaid expenses	150,007	76,295
Inventory	73,425	83,653
Risk management assets <i>[note 9]</i>	20	4,828
Assets held for sale - EnerVest <i>[note 3a]</i>	143,167	144,277
Assets held for sale – Real Estate <i>[note 3b]</i>	1,230	1,793
	369,084	312,121
Property and equipment	148,112	150,018
Intangibles and other assets	14,654	15,059
Goodwill	56,875	56,875
Assets held for sale – Real Estate <i>[note 3b]</i>	65,776	64,192
	654,501	598,265
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current		
Bank indebtedness <i>[note 4]</i>	137,816	110,331
Accounts payable and accrued liabilities <i>[note 10]</i>	104,778	73,813
Distributions payable	3,478	3,476
Risk management liability <i>[note 9]</i>	26,759	18,578
Notes payable <i>[note 5]</i>	12,000	10,000
Liabilities of assets held for sale – EnerVest <i>[note 3a]</i>	23,220	23,704
Liabilities of assets held for sale – Real Estate <i>[note 3b]</i>	18,356	15,807
	326,407	255,709
Asset retirement obligation <i>[note 6]</i>	13,067	12,905
Future income taxes <i>[note 11]</i>	4,293	5,500
Liabilities of assets held for sale – Real Estate <i>[note 3b]</i>	28,798	29,191
<b>UNITHOLDERS' EQUITY</b>		
Unitholder capital <i>[note 7a]</i>	419,668	419,533
Contributed surplus <i>[note 7c]</i>	6,597	6,033
Accumulated earnings	97,826	92,671
Accumulated other comprehensive loss <i>[note 7d]</i>	(19,034)	(10,589)
Accumulated distributions	(223,121)	(212,688)
	281,936	294,960
	654,501	598,265

*See accompanying notes to the consolidated interim financial statements*

## CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS (unaudited)

<i>(in thousands of dollars)</i>	Three months ended	
	March 31, 2008	March 31, 2007
	\$	\$
	(restated – note 14)	(restated-note 3)
<b>REVENUE</b>		
Financial services revenue	430,689	219,989
Unrealized loss on financial instruments <i>[note 9]</i>	(6,963)	(807)
Total financial services revenue	423,726	219,182
Oil and gas revenue	17,486	14,665
Oil and gas transportation costs	(280)	(267)
Royalties	(2,839)	(1,845)
Unrealized loss on financial instruments <i>[note 9]</i>	(316)	(525)
Total oil and gas revenue	14,051	12,028
<b>Total revenue</b>	<b>437,777</b>	<b>231,210</b>
<b>EXPENSES</b>		
Financial services operating	415,715	207,372
Oil and gas operating	4,850	5,104
General and administrative <i>[notes 8 and 10]</i>	7,739	6,252
Foreign exchange	(599)	2,019
Interest and bank fees	2,243	1,053
Capital taxes	136	90
Depletion, depreciation and amortization	6,358	6,076
Asset retirement obligation accretion <i>[note 6]</i>	272	270
	<b>436,714</b>	<b>228,236</b>
Income from continuing operations before income tax	1,063	2,974
Future income tax recovery	1,208	440
Net income from continuing operations	2,271	3,414
Net income from discontinued operations – EnerVest <i>[note 3a]</i>	3,125	3,575
Net (loss) income from discontinued operations – Real Estate <i>[note 3b]</i>	(241)	342
Net income for the period	5,155	7,331
Accumulated earnings, beginning of period	92,671	65,022
Change in accounting policy	–	258
Accumulated earnings, end of period	97,826	72,611
Net income from continuing operations per unit <i>[note 7b]</i>		
Basic and Diluted	0.05	0.08
Net income from discontinued operations per unit <i>[note 7b]</i>		
Basic and Diluted	0.07	0.10
Net income per unit <i>[note 7b]</i>		
Basic and Diluted	0.12	0.18

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

<i>(in thousands of dollars)</i>	Three months ended	
	March 31, 2008	March 31, 2007
	\$	\$
	(restated – note 14)	
Net income for the period	5,155	7,331
Change in fair value of derivative instruments designated as cash flow hedges <i>[note 9]</i>	(8,417)	3,481
Change in fair value of marketable securities	(28)	150
Other comprehensive (loss) income	(8,445)	3,631
Comprehensive (loss) income for the period	(3,290)	10,962

See accompanying notes to the consolidated interim financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

<i>(in thousands of dollars)</i>	<b>Three months ended</b>	
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
	<b>\$</b>	<b>\$</b>
	<b>(restated – note 14)</b>	<b>(restated-note 3)</b>
<b>OPERATING ACTIVITIES</b>		
Net income from continuing operations	2,271	3,414
Add (deduct) non-cash items:		
Non-cash general and administrative <i>[note 8]</i>	657	1,054
Depletion, depreciation and amortization	6,358	6,076
Asset retirement obligation accretion	272	270
Unrealized (gain) loss on foreign exchange	(293)	883
Unrealized loss on financial instruments	7,279	1,332
Future income tax expense (recovery)	(1,208)	(440)
Funds from continuing operations	15,336	12,589
Funds from discontinued operations – EnerVest	4,272	4,367
Funds from discontinued operations – Real Estate	663	721
	20,271	17,677
Asset retirement costs incurred during period <i>[note 6]</i>	(146)	(86)
Change in non-cash working capital	(34,429)	(3,405)
Cash (used in) provided by operating activities	(14,304)	14,186
<b>FINANCING ACTIVITIES</b>		
Issue of trust units, net of issue costs	46	15
Cash settlement of options	(4)	–
Distributions to unitholders	(10,432)	(10,395)
Increase in bank indebtedness	27,484	3,798
Increase in notes payable	2,000	–
Increase in mortgages	1,423	1,907
Repayment of mortgages	(506)	(207)
Repayment of long-term debt	(838)	–
Change in non-cash working capital	2	–
Cash provided by (used in) financing activities	19,175	(4,882)
<b>INVESTING ACTIVITIES</b>		
Financial services development expenditures	(3)	(125)
Redemption of financial services contracts	–	1,499
Oil and gas property acquisitions	(30)	(7,212)
Oil and gas property disposals	–	27
Oil and gas development expenditures	(3,908)	(1,954)
Purchase of other assets	(5)	(78)
Purchase of real estate properties	–	(810)
Real estate development expenditures	(1,550)	(571)
Changes in non-cash working capital	205	(589)
Cash used in investing activities	(5,291)	(9,813)
<b>Decrease in cash during the period</b>	<b>(420)</b>	<b>(509)</b>
Cash, beginning of period	–	187
Change in cash of assets held for sale <i>[note 3]</i>	420	322
<b>Cash, end of period</b>	<b>–</b>	<b>–</b>
Cash interest paid	2,813	1,776
Cash taxes paid	116	10

*See accompanying notes to the consolidated interim financial statements*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007 (unaudited). Restated see note 14

## 1. Nature of Organization

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

The operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the full fiscal year revenues and expenses during the reporting period, due to seasonal factors. Actual results may differ from those estimates. The Trust's natural gas liquids and biofuels marketing group traditionally has stronger results in the first and fourth quarters of the fiscal year. In the natural gas liquids and biofuels marketing group colder winter weather provides more opportunity for sale of propane and butane. Similarly, although muted somewhat by the industry's use of storage, the Oil and Gas Division often has stronger results in the winter months due to winter demand increasing oil and gas commodity prices.

Comparative periods have been restated to conform with current period presentation (see note 3).

## 2. Summary of Significant Accounting Policies

The unaudited interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles and in a manner consistent with the accounting policies in the audited consolidated financial statements of the Trust for the year ended December 31, 2007. Certain information has been condensed or omitted although the Trust believes that the disclosures are adequate to ensure the information presented is not misleading. The following notes are incremental to and should be read in conjunction with the December 31, 2007 audited consolidated financial statements.

Effective January 1, 2008, the Trust adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

### Financial Instruments

The new Sections 3862, *Financial Instruments – Disclosures* and 3863, *Financial Instruments – Presentation* replace Section 3861, *Financial Instruments – Disclosure and Presentation*, by revising and enhancing its disclosure requirements, and carry forward substantially unchanged, its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (see note 9).

### Capital Disclosures

Section 1535, *Capital Disclosures* specifies the disclosure of (i) an entity's objectives, policies and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The Trust's capital structure is comprised of unitholders' equity and bank indebtedness. The Trust's objectives when managing its capital structure are to:

- i) maintain balance sheet strength, ensuring the Trust's strategic objectives are met, while retaining an appropriate amount of leverage; and
- ii) provide an appropriate return including distributions to unitholders relative to the risk of the Trust's underlying assets

The Trust manages its capital structure within guidelines approved by the Board of Directors. Changes to the Trust's capital structure are made based on economic conditions and the Trust's planned requirements. The Trust has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to unitholders and making adjustments to its capital expenditure program.

Consistent with its capital structure guidelines, the Trust monitors capital using non-GAAP financial metrics of working capital (net debt) to annualized funds from continuing operations for the non-real estate divisions targeting a ratio of 1:1, 60% mortgage to fair market value ratio on the Real Estate Division and distribution pay out ratio of 75% - 80% of funds from continuing operations. The ratios are calculated as follows:

<i>(in thousands of dollars)</i>	<b>March 31, 2008</b>
	<b>\$</b>
Current assets	369,084
Current liabilities	(326,407)
Less assets held for sale – Real Estate	(1,230)
Less assets held for sale – EnerVest	(143,167)
Add liabilities of assets held for sale – Real Estate	18,356
Add liabilities of assets held for sale – EnerVest	23,220
<b>Working capital (net debt)</b>	<b>(60,144)</b>
Cash provided by operating activities	(14,304)
Changes in non-cash working capital	34,429
Asset retirement costs incurred during period	146
Funds from discontinued operations – Real Estate	(663)
Funds from discontinued operations – EnerVest	(4,272)
<b>Funds from continuing operations</b>	<b>15,336</b>
<b>Annualized funds from continuing operations</b>	<b>61,344</b>
<b>Working capital (net debt) to funds from continuing operations</b>	<b>0.98 : 1</b>

For the Real Estate Division, the ratio is calculated using the total amount of the outstanding mortgages for the period as a percentage of the estimated fair market value of the real estate properties.

The distribution pay out ratio uses the total distributions to unitholders per the statement of cash flows of \$10,431,762 as a percentage of the funds from continuing operations as calculated above. The distribution pay out ratio for the three months ended March 31, 2008 is approximately 68% excluding funds from the Real Estate Division and EnerVest. Including the Real Estate Division and EnerVest funds from operations, the distribution pay out ratio would be approximately 51% for the three months ended March 31, 2008. The Trust's first and fourth quarters are normally the Trust's strongest quarters as such on an annual basis the Trust's distribution ratio is expected to be more in line with the target of 75% to 80%.

### Inventories

Section 3031, *Inventories*, aligns accounting for inventories under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard provides additional guidance concerning measurement, classification and disclosure and allows the reversal of write-downs to net realizable value when there is a change in the circumstances giving rise to the impairment. There was no impact to the Trust upon adoption of this standard.

## 3. ASSETS HELD FOR SALE

### a) EnerVest Limited Partnership ("EnerVest")

On April 25, 2008, the Trust announced that it had entered into a definitive agreement with Canoe Financial LP, a private entity based in Calgary, for the sale of its EnerVest assets for total consideration of approximately \$185,000,000, subject to customary closing adjustments including working capital and debt adjustments based on an April 1, 2008 effective date. The expected closing date of the transaction is May 16, 2008. Exclusive of transaction costs, the total purchase price will be satisfied through the cash payment at closing of approximately \$140,000,000, the assumption of approximately \$20,000,000 in debt and working capital and the provision of a promissory note of \$25,000,000 with a scheduled payment on December 31, 2008 unless extended under certain conditions. The transaction has been unanimously approved by the Trust's Board of Directors.

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

<i>(in thousands of dollars)</i>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Cash	291	66
Marketable securities	145	133
Accounts receivable and prepaid expenses	2,648	3,135
Property and equipment	18	22
Intangible and other assets	140,065	140,921
<b>Current assets held for sale</b>	<b>143,167</b>	<b>144,277</b>
Accounts payable and accrued liabilities	1,277	1,211
Current portion of notes payable (i)	3,350	3,350
Notes payable (i)	15,491	16,329
Future income tax	3,102	2,814
<b>Current liabilities of assets held for sale</b>	<b>23,220</b>	<b>23,704</b>

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

<i>(in thousands of dollars)</i>	<b>March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>		
Financial services revenue	<b>5,516</b>	5,554
	<b>5,516</b>	5,554
<b>EXPENSES</b>		
Financial services operating	<b>869</b>	935
General and administrative	<b>149</b>	143
Interest on long-term debt	<b>226</b>	109
Depreciation and amortization	<b>859</b>	792
	<b>2,103</b>	1,979
Income before income taxes	<b>3,413</b>	3,575
Future income tax expense	<b>(288)</b>	—
Net income from discontinued operations, net of tax	<b>3,125</b>	3,575

- (i) During 2007 and 2006, EnerVest entered into unsecured promissory notes with EnerVest Diversified Income Trust ("EDIT"), an investment vehicle that EnerVest manages, for the reimbursement of offering costs paid by EDIT in relation to its exchange offers on October 22, 2007 and October 24, 2006. The 2007 note requires the offering costs to be repaid in equal quarterly payments of \$365,907 plus interest over a seven year period ending October 1, 2014 and the 2006 note requires the offering costs to be repaid in equal quarterly payments of \$471,679 plus interest over a six year period ending October 1, 2012. Both notes bear interest at a rate per annum equal to the interest rate charged under EDIT's credit facility, which is bank prime less 0.5%.

The average effective interest rate on borrowings under the above notes payables for the three months ended March 31, 2008, including service fees, was 4.83% (three months ended March 31, 2007 – 4.69%).

#### **b) Real Estate Division**

During 2007, the Trust made the decision to dispose of the Real Estate Division assets by way of sale or spin-out. A national brokerage firm has been engaged and the Trust expects to have completed a transaction mid 2008.

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

<i>(in thousands of dollars)</i>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Cash	(157)	488
Accounts receivable and prepaid expenses	1,387	1,305
<b>Current assets held for sale</b>	<b>1,230</b>	<b>1,793</b>
Property and equipment	63,098	61,548
Intangible and other assets	2,678	2,644
<b>Long-term assets held for sale</b>	<b>65,776</b>	<b>64,192</b>
Accounts payable and accrued liabilities	832	493
Deferred revenue	288	291
Current portion of mortgages (i)	17,236	15,023
<b>Current liabilities of assets held for sale</b>	<b>18,356</b>	<b>15,807</b>
Mortgages (i)	28,130	29,427
Future income tax	668	(236)
<b>Long-term liabilities of assets held for sale</b>	<b>28,798</b>	<b>29,191</b>

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

<i>(in thousands of dollars)</i>	<b>March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>		
Real estate revenue	1,900	1,747
	<b>1,900</b>	<b>1,747</b>
<b>EXPENSES</b>		
Real estate operating	440	458
General and administrative (ii)	249	111
Interest on long-term debt	539	452
Capital taxes	10	6
Depreciation and amortization	-	502
	<b>1,238</b>	<b>1,529</b>
Income before income taxes	662	218
Future income tax recovery (expense)	(903)	124
Net (loss) income from discontinued operations, net of tax	<b>(241)</b>	<b>342</b>

(i) In relation to the Real Estate Division, the Trust has various mortgages outstanding with interest rates ranging from 4.85% to 7.25% with a weighted average rate of 5.77%. The maturities range from October 2008 to August 2014 and all mortgages are collateralized by a first charge over the related properties. The Trust also provides guarantees to third party mortgagors for a maximum of the total value of the mortgages outstanding on behalf of its Real Estate Division. The guarantees require the Trust to be responsible for the mortgage principal and interest payments if its Real Estate Division is unable to do so.

During the period, the mortgage which matured in March 2008 was renewed for a total amount of \$7,800,000 at a rate of 4.57% for a term of 1 year. The funding of this renewal was not completed until April 2008.

(ii) During the three months ended March 31, 2008, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions, divestitures and mortgage financing of \$135,100 (three months ended March 31, 2007 - \$131,383) payable to a company with a shareholder who is also a director of the Trust.

#### **4. BANK INDEBTEDNESS**

In relation to its Oil and Gas Division, as at March 31, 2008, the Trust had a combined revolving demand facility with a major Canadian bank in the amount of \$45,500,000 (December 31, 2007 - \$45,500,000) bearing interest ranging from prime to prime plus one percent depending on the debt to cash flow ratio of the Oil and Gas Division (as defined by the banking agreement). The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. In addition, the Trust has a development facility in the amount of \$5,000,000, bearing interest ranging from prime plus one-quarter of one percent to prime plus one and one-quarter percent. As at March 31, 2008, \$38,530,000 (December 31, 2007 - \$40,130,000) was drawn on the revolving demand facility and \$nil was drawn on the development facility (December 31, 2007 - \$nil). Subsequent to March 31, 2008, the Trust signed a term sheet to increase the revolving demand facility from \$45,500,000 to \$46,500,000. The Trust is currently awaiting the final amending agreement.

In relation to Elbow River Marketing Limited Partnership ("Elbow River"), the Trust has a demand revolving loan facility with a Canadian bank in the amount of \$70,000,000 (December 31, 2007 - \$70,000,000) bearing interest as follows; for advances of \$50,000,000 or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50,000,000 a 0.125% premium shall apply to applicable interest rates. In addition the Trust has a \$38,500,000 import facility (December 31, 2007 - \$38,500,000) with the same Canadian Bank. The import facility bears interest at bank US base rate plus 0.25% per annum and was to be repaid by June 30, 2008. These facilities are collateralized by a charge over all of Elbow River's assets. As at March 31, 2008, \$98,442,798 (December 31, 2007 - \$67,954,647) was drawn on the demand loan facilities. Subsequent to March 31, 2008 the revolving loan limit of \$70,000,000 was increased to \$82,000,000 until June 30, 2008 at which time the limit will revert back to the original \$70,000,000.

Elbow River was offside a bank covenant during the first quarter of 2008. The bank has granted a forbearance of the covenant until May 31, 2008 at which time management expects Elbow River will be back in compliance with its covenants.

The Trust also had \$842,917 in bank overdraft as at March 31, 2008 (December 31, 2007 - \$2,246,829).

The average effective interest rate on borrowings under the above lines for the three months ended March 31, 2008, including service fees, was 6.19% (three months ended March 31, 2007 - 5.12%).

As at March 31, 2008, the Trust also had eighteen letters of credit outstanding in the aggregate amount of \$4,967,899 (December 31, 2007 - \$5,179,536). The letters of credit reduces the amount available to be drawn on the related demand facilities.

To provide Elbow River with additional credit on natural gas liquids and biofuels inventory purchases, the Trust also has guarantees to third parties for a maximum of \$78,330,974 (December 31, 2007 - \$64,694,076). These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

#### **5. NOTES PAYABLE**

The Trust entered into an agreement to borrow up to \$10,000,000 on July 28, 2006. The note payable bears interest at 12.5% per annum on the drawn portion and a standby fee of 2% on any unused portion, for a minimum period of six months. The note payable matured July 24, 2007 with the option to extend the due date for consecutive one year periods based on mutual agreement of both parties. The Trust has extended the notes payable under similar terms to the previous agreement for a period of one year moving the maturity date to July 24, 2008. The notes payable is collateralized by a guarantee provided by the Trust. During the period the Trust entered into a new note to draw an additional \$2,000,000 under the same terms as the note payable above except with a maturity date of May 15, 2008. As at March 31, 2008, the outstanding balance of the notes payable was \$12,000,000 (December 31, 2007 - \$10,000,000). Subsequent to March 31, 2008, the Trust entered into a new note payable for \$10,000,000 USD bearing interest at 18%, as well as a fee of 0.5% payable upon execution. The note payable matures June 2, 2008. This brings the current balance outstanding to approximately \$22,000,000.

These notes were entered into to provide Elbow River with additional credit on natural gas liquids and biofuels inventory purchases.

The average effective interest rate on borrowings under the above notes payable for the three months ended March 31, 2008, including service fees, was 12.5% (three months ended March 31, 2007 – 14.5%).

## 6. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities in its Oil and Gas Division, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$13,067,073 as at March 31, 2008 based on a total future liability of \$27,823,731 (December 31, 2007 - \$27,720,290). These payments are expected to be made over the next 28 years. The Trust's credit adjusted risk free rate of 8.5% (December 31, 2007 – 8.5%) and an inflation rate of 2% (December 31, 2007 – 2%) were used to calculate the present value of the asset retirement obligation.

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

<b>(in thousands of dollars)</b>	<b>\$</b>
<b>Carrying amount, as at December 31, 2007</b>	<b>12,905</b>
Oil and gas activities during the period	36
Abandonment expenditures incurred during the period	(146)
Asset retirement obligation accretion for the period	272
<b>Carrying amount, as at March 31, 2008</b>	<b>13,067</b>

## 7. UNITHOLDERS' CAPITAL

### a) Unitholders' Capital

#### Authorized

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

#### Issued

<b>Trust Units</b>	<b>Number of Units</b>	<b>Amount \$ (in thousands of dollars)</b>
<b>Balance December 31, 2007</b>	<b>41,775,179</b>	<b>419,533</b>
Units issued on exercise of stock options (i)	14,613	99
Unit released from escrow - Energy Services Division (ii)	3,891	36
<b>Balance March 31, 2008</b>	<b>41,793,683</b>	<b>419,668</b>

(i) Trust Units issued upon exercise of stock options during the period. The total cash received amounted to \$45,959 and the difference of \$53,106 represents the movement from contributed surplus to unitholders' capital relating to the stock based compensation expense previously recognized.

(ii) In 2006 the Trust issued 123,312 Trust Units from treasury, which were escrowed for energy service employees who had unvested Trust options at the time of the Energy Services Division spin-out on May 31, 2006. These units are to remain in escrow until the vesting date is reached on the respective Trust options based on the original grant date of the options. During the period, 3,891 (or \$36,186) of these Trust Units were released from escrow on their respective vesting dates. Also, 422 (or \$3,925) of these escrowed Trust Units were cancelled as certain terms of the escrow agreement were not met. The total number of Trust Units remaining in escrow for the Energy Services Division spin-out is 27,510. Subsequent to March 31, 2008, the Trust has decided to release the remaining unvested Trust options to the respective option holders.

(iii) Subsequent to March 31, 2008, 76,453 Trust Units were released from escrow in relation to the acquisition of Elbow River in 2005 under the terms of the time release provisions based on management remaining with the

go forward entity. These Trust Units were released from escrow on the third anniversary date of the close of the acquisition. The Trust Units were valued at the time of the acquisition at \$10.90. This represents the final time release under the provisions of the 2005 acquisition agreement.

### b) Per Unit Amounts

For the three months ended March 31, 2008, the Trust had a weighted average number of Trust Units outstanding of 41,788,894 (March 31, 2007 – 41,202,084). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options of an additional 411,294 Trust Units resulting in a weighted average number of Trust Units outstanding for the three months ended March 31, 2008, of 42,200,188 (March 31, 2007 – 41,351,285). At March 31, 2008, there were 277,000 in anti-dilutive options that were not part of the dilutive per unit calculation. If the remaining Escrowed Trust Units relating to the spin out of the Energy Services Division and the Elbow River acquisition (note 7(a)(ii) and 7(a)(iii)) were issued there would be no change in the basic and diluted earnings per unit for the three months ended March 31, 2008 (March 31, 2007 – no change in the basic earnings per unit and a decrease of \$0.01 diluted earnings per unit).

### c) Contributed Surplus

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

<i>(in thousands of dollars)</i>	\$
<b>Contributed surplus, December 31, 2007</b>	<b>6,033</b>
Stock-based compensation expense [note 8]	661
Release of units from escrow relating to Energy Services Division [note 7(a)(ii)]	(40)
Options exercised	(53)
Settlement of options	(4)
<b>Contributed surplus, March 31, 2008</b>	<b>6,597</b>

### d) Accumulated other comprehensive loss

The following table reconciles the components of the accumulated other comprehensive loss balance:

<i>(in thousands of dollars)</i>	\$
Derivative instruments designated as cash flow hedges [note 9(c)(iii)]	(20,224)
Fair value of marketable securities	1,190
<b>Accumulated other comprehensive loss</b>	<b>(19,034)</b>

## 8. STOCK-BASED COMPENSATION

Under the Trust's unit option plan, options to acquire trust units are granted to employees and directors from time to time at exercise prices equal to the five day volume weighted average trading price of the units prior to the date of the grant. Options granted under the plan vest a third each year over a three-year period starting on the first anniversary from the date of grant. The options have a five-year life. The exercise price of the options is periodically adjusted to reflect the Trust's monthly distributions ("the grind feature"). Any consideration paid on exercise of stock options is credited to unitholders' capital. A total of 4,189,764 units have been reserved under this plan.

The following table summarizes the status and changes during the three months ended March 31:

	Number of options outstanding	Weighted average grant date exercise price \$
<b>Outstanding, December 31, 2007</b>	<b>3,219,574</b>	<b>8.41</b>
Granted	3,500	7.45
Exercised	(14,613)	10.24
Expired	(45,833)	8.49
<b>Outstanding, March 31, 2008</b>	<b>3,162,628</b>	<b>8.27</b>
<b>Exercisable, March 31, 2008</b>	<b>740,065</b>	<b>9.19</b>

The following table summarizes information about the unit options outstanding at March 31, 2008:

<b>March 31, 2008 Strike Price \$</b>	<b>Grant date exercise price \$</b>	<b>Number of options outstanding</b>	<b>Weighted average remaining life (years)</b>	<b>Number of options exercisable</b>
0.66	9.00	49,779	1.63	49,779
2.83	11.00	30,000	1.76	30,000
3.14	10.90	301,615	2.07	154,225
3.65	11.20	25,000	2.25	16,666
3.63	10.69	87,501	2.62	56,392
6.65	8.30	1,133,999	3.34	382,002
6.86	8.35	40,500	3.51	13,501
6.00	7.16	15,834	3.84	4,167
6.08	7.16	100,000	3.92	33,333
6.28	7.28	1,101,400	4.00	—
7.79	8.54	197,000	4.25	—
6.84	7.17	76,500	4.67	—
7.28	7.45	3,500	4.84	—
		<u>3,162,628</u>	<u>3.49</u>	<u>740,065</u>

As a result of the grind feature of the options, the price on the date of grant is ground down by the distributions paid to unitholders. Accordingly, the weighted average strike price at March 31, 2008 on all outstanding options was \$6.01 and the weighted average strike price at March 31, 2008 on all exercisable options is \$5.04.

The total value of stock-based compensation of \$9,286,782 for those options issued to employees and directors was calculated using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. The assumptions made for the options granted in 2008 are as follows:

**2008 Granted Options**

Expected volatility	39.84%
Risk – free interest rate	3.22%
Expected life of options	2.5 years
<b>Dividend yield</b>	<b>nil</b>

For the three months ended March 31, 2008 the Trust recorded compensation expense and contributed surplus of \$661,124 (March 31, 2007 - \$1,060,193) relating to the Trust's current options and (\$3,925) (March 31, 2007 – (\$6,048)) relating to the spin-out of the Energy Services Division (see note 7(a)(ii)).

Subsequent to March 31, 2008, the Trust granted 10,500 options.

## 9. FINANCIAL INSTRUMENTS

The Trust is exposed to financial risks arising from its financial assets and liabilities. The financial risks include credit risk, market risk on commodity and foreign exchange hedges, interest rate risk and liquidity risk. These risks are outlined more fully below.

<b>Financial instrument</b>	<b>Category</b>
Financial assets:	
Marketable securities	Available for sale
Accounts receivable	Loans and receivables
Risk management assets	Cash flow hedges
Assets held for sale	Loans and receivables
Financial liabilities:	
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities
Risk management liabilities	Cash flow hedges (note 9(c)(iii)) and held for trading (note 9(c)(i)&(ii))
Liabilities of assets held for sale	Other financial liabilities

### a) Fair Values of Financial Assets and Liabilities

Unless otherwise noted, as at March 31, 2008, there were no significant differences between the carrying amounts of the financial instruments listed above and their estimated fair values.

Marketable securities are classified as available for sale and, as such, have been recorded at fair value on March 31, 2008 in the amount of \$1,235,000. The decrease in the market value of the investments of \$40,000 for the three months ended March 31, 2008 has been included in other comprehensive income.

Borrowings under bank credit facilities are revolving in nature and are market rate based, thus, carrying value approximates fair value. The fair values of the EnerVest promissory notes (see note 3a) are market rate based and unsecured and therefore are valued at carrying values. The fair values of the promissory notes referred to in note 5 are derived from third party indications which consider these notes payable as subordinated mezzanine level debt in determining the fair value. This fair value approximates the carrying values. The mortgages are for varying lengths and carry interest rates in line with the market terms agreed to when the mortgages were entered into. The fair value of the mortgages reflect the discounted present value of the principal and interest payments using the effective yield for instruments having the same term and risk characteristics. The fair value of the Trust's mortgages at March 31, 2008 was \$45,448,574, while the carrying value was \$45,366,848.

Risk management assets and liabilities are recorded at their estimated fair values based on discounted cash flow analysis using current market rates, forward pricing curves, implied volatility and option pricing models. The results are compared to confirmations from third counterparties for reasonability.

### b) Credit Risk

The Trust's financial instruments that are exposed to credit risk consist primarily of trade accounts receivable and risk management assets (liabilities). A substantial portion of trade receivables are from the Trust's Oil & Gas Division and Elbow River. The majority of these trade receivables are dependent upon the strength of the North American energy complex and specifically the Canadian oil and gas industry. Elbow River is also exposed to additional risk with international overseas counterparts relating to biofuel revenues wherein additional due diligence is undertaken. Management routinely assesses the financial strength of partners and customers, and monitors the exposure for credit losses. At March 31, 2008 the Trust set up an allowance for doubtful accounts relating to its Oil and Gas Division receivable balance of \$259,149 representing 0.2% of the Trust's accounts receivables. The maximum credit exposure associated with the Trust's customers are the carrying value of the accounts receivable and the presales in Elbow River which are not reflected in the consolidated financial statements. As at March 31, 2008, 31% of the Trusts consolidated accounts receivable are due from three customers. The total amount of receivables past due 90 days amounted to \$5,789,847 as at March 31, 2008. However, management is comfortable with this risk which is mitigated through the use of documentary credits in relation to international customers.

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

The Trust also has a credit risk arising from cash and cash equivalents held with banks and financial institutions and derivative financial instruments with positive values. Again, the Trust attempts to mitigate potential losses by monitoring the credit worthiness of the counterparties and restricting the types of investments.

### c) Risk Management Asset (liability)

(in thousands of dollars)

	\$
<b>Risk management liability, December 31, 2007</b>	<b>(13,750)</b>
Change in mark-to-market for hedges not qualifying for hedge accounting – Oil & Gas Division (i)	(316)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	(6,963)
Change in mark-to-market of cash flow hedge contracts – Elbow River (iii)	(5,710)
<b>Net risk management liability, March 31, 2008</b>	<b>(26,739)</b>
Reclassified to risk management asset, March 31, 2008	<b>(20)</b>
<b>Risk management liability, March 31, 2008</b>	<b>(26,759)</b>

(i) The Trust has the following forward contracts that do not qualify for hedge accounting outstanding as at March 31, 2008 relating to its Oil and Gas Division:

- A fixed price WTI swap for the period August 1, 2007 to July 31, 2008 on 200 barrels/day of crude oil with a price of \$70.50 US/Bbl
- A fixed price WTI swap for the period November 1, 2007 to October 31, 2008 on 200 barrels/day of crude oil with a price of \$71.40 US/Bbl
- A fixed price WTI collar for the period January 1, 2008 to December 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.00 US/Bbl and a ceiling price of \$82.93 US/Bbl
- A fixed price AECO swap for the period November 1, 2008 to October 31, 2009 on 1,000 gigajoules/day of natural gas with a price of \$8.26 CDN/gigajoules

The mark-to-market value of these contracts as at March 31, 2008 was a risk management liability of \$3,520,079 (December 31, 2007 – a risk management liability of \$3,204,281), resulting in the recognition of an unrealized loss on the income statement for the three months ended March 31, 2008 of \$315,798 when compared to the December 31, 2007 mark-to-market.

(ii) The following tables detail those transactions in Elbow River that do not qualify for hedge accounting, which resulted in a risk management liability of \$5,701,228 (December 31, 2007 – a risk management asset of \$1,261,376), resulting in the recognition of an unrealized loss on the income statement for the three months ended March 31, 2008 of \$6,962,604 when compared to the December 31, 2007 mark-to-market.

Futures contracts involve biofuels transactions done at fixed volume and fixed price.

#### Futures contracts:

Settlement dates	Total Volume (Bbl)	Prices US \$(/Bbl)	March 31, 2008
			Unrealized gain (loss) \$
May 2008	481,000	117.14 – 124.48	(1,287,634)
June 2008	114,000	118.98 – 124.46	(318,254)
July 2008	61,000	2.10 – 123.29	(311,209)
August 2008	14,000	119.79 – 123.65	(53,280)
September 2008	1,000	112.48 – 120.23	7,629
December 2008	1,000	114.19 – 122.01	7,699
	<u>672,000</u>		<u>(1,955,049)</u>
		Exchange rate	1,0279
		Total CDN dollars	<u>(2,009,595)</u>

<b>Futures contracts:</b>			<b>March 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (lbs)</b>	<b>Prices US \$/(lbs)</b>	<b>Unrealized gain (loss) \$</b>
May 2008	24,060,000	0.51480 – 0.66336	(3,322,843)
July 2008	11,400,000	0.52200 – 0.58480	419,061
August 2008	12,540,000	0.52480 – 0.63070	(652,296)
	<u>48,000,000</u>		<u>(3,556,078)</u>
		Exchange rate	1.0279
		Total CDN dollars	<u>(3,655,293)</u>

<b>Futures contracts:</b>			<b>March 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (MT)</b>	<b>Prices US \$/(MT)</b>	<b>Unrealized loss \$</b>
April 2008	7,000	909.65 – 969.00	(35,354)
	<u>7,000</u>		<u>(35,354)</u>
		Exchange rate	1.0279
		Total CDN dollars	<u>(36,340)</u>

(iii) Elbow River sells natural gas liquids, ethanol, biodiesel, diesel, and asphalt product in the United States, Canada and overseas, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, biodiesel, and ethanol. The following table details those transactions that qualify for hedge accounting that are outstanding resulting in a risk management liability of \$17,517,115 (December 31, 2007 – a risk management liability of \$11,807,202), resulting in the recognition of other comprehensive loss of \$5,709,913 when compared to the December 31, 2007 mark-to-market. Also included in other comprehensive loss for the three months ended March 31, 2008 is \$2,706,688 relating to the settlement of a hedge during the period where the corresponding sale has not yet occurred. As such this amount will remain in other comprehensive loss until such time as the sale is completed. This brings the total amount of other comprehensive loss for the period to \$8,416,601.

<b>Commodities hedging contracts:</b>			<b>March 31, 2008</b>
<b>Settlement dates</b>	<b>Average Monthly Volume (Bbl)</b>	<b>Prices \$/(bbl)</b>	<b>Unrealized loss \$</b>
April – June 2008	422,087	2.38 – 154.04	(7,123,761)
July – September 2008	304,006	2.63 – 109.14	(2,858,725)
October – December 2008	315,758	59.12 – 101.92	(1,593,519)
January – December 2009	162,395	59.12 – 101.45	(4,013,067)
January – March 2010	124,725	60.59 – 97.42	(822,344)
			<u>(16,411,416)</u>
		Exchange rate	1.0279
		Total CDN dollars	<u>(16,869,295)</u>

<b>Forward exchange contracts:</b>			<b>March 31, 2008</b>
<b>Term Due</b>	<b>Amount \$</b>	<b>Forward Rates CDN \$</b>	<b>Unrealized loss \$</b>
April – June 2008	11,428,450	0.9329 – 1.0929	(242,266)
July – September 2008	1,363,450	0.9333 – 1.0279	(73,769)
October – December 2008	1,313,450	0.9338 – 1.0279	(68,354)
January – December 2009	3,674,100	0.9344 – 1.0279	(217,288)
January – March 2010	803,550	0.9365 – 1.0279	(46,143)
Total US dollars	18,583,000		<u>(647,820)</u>
Exchange rate	1.0279		
Total CDN dollars	<u>19,101,466</u>		

#### **(iv) Foreign currency risk**

The Trust's Elbow River group operates internationally and is therefore exposed to foreign exchange risk. The Trust's primary exposures are from fluctuations in the US dollar relative to the Canadian dollar. The Trust enters into derivative instruments from time to time to mitigate its currency risk. At March 31, 2008 forward exchange contracts were designated as cash flow hedges.

In respect of existing financial instruments, a \$0.01 change in the US dollar against the Canadian dollar, with all other variables assumed constant, would have resulted in a change of approximately \$88,000 in net income from continuing operations and a change of approximately \$345,000 in other comprehensive loss for the three months ended March 31, 2008.

#### **(v) Commodity price risk**

The Trust is exposed to commodity price risk. The Trust enters into derivative instruments from time to time to mitigate commodity price risk volatility. The Trust does not use derivative contracts for speculative purposes.

The following sensitivity analyses show the effects of reasonably possible changes in relevant risk variables on net income from continuing operations and other comprehensive income. The periodic effects are determined by relating the reasonable possible changes in the risk variables to actual volumes.

At March 31, 2008, in respect of the financial derivative instruments in the Oil and Gas Division, a change of \$10.00 US/Bbl in the price of oil and \$1.00/gigajoules in the price of natural gas would have resulted in unrealized gains and losses impacting net income from continuing operations by approximately \$1,619,000.

In respect of the financial derivative instruments in Elbow River, a 5% change in commodity pricing would have resulted in unrealized gains and losses changing net income from continuing operations by approximately \$2,461,000 and other comprehensive income by approximately \$4,885,000.

#### **d) Interest Rate Risk**

Drawings under the Trust's bank credit facilities are at floating interest rates and expose the Trust to interest rate risk. The Trust is authorized by the Board of Directors to enter into fixed rate swaps to manage risks associated with rising interest rates if felt appropriate. The Trust is also exposed to interest rate risk on maturity and refinancing of its fixed rate mortgages including the possibility that existing mortgages may not be refinanced or may not be refinanced on as favorable terms or with interest rates as favorable as those of the existing debt. The Trust mitigates these risks by its continued efforts to enhance the value of its real estate properties and maintain high occupancy levels. A range of 1% change in interest rates would result in net income from continuing operations sensitivity of approximately \$332,000. The Trust has not entered into any derivative agreements to mitigate this risk.

#### **e) Liquidity Risk**

The Trust is exposed to liquidity risk, which is the risk that the Trust may be unable to generate or obtain sufficient cash to meet its commitments as they come due. The Trust mitigates this risk through its management of cash, debt and its distributions.

The Trust maintains appropriate unused capacity in its revolving credit facilities to meet short term fluctuations from forecasted results or volatility in commodities affecting margining requirements, especially in Elbow River. The Trust manages its liquidity requirements through the use of both short term and long term cash forecasts, by establishing a conservative distribution payout target of 75%-80% of funds from continuing operations, maintaining a 60% mortgage to fair market value ratio on the Real Estate Division mortgages and targeting a 1:1 working capital (net debt) to annualized funds from continuing operations ratio for the non-real estate divisions.

On its real estate portfolio, the Trust maintains a debt maturity profile to avoid excessive concentrations of refinancing requirements. In its Oil and Gas Division, the Trust may hedge a portion of future production to protect cash flows to allow the Trust to meet its strategic objectives and preserve distributions. In Elbow River, the Trust attempts to hedge as much of its business as possible in order to lock in profit margins when transactions are entered into.

Except for the mortgages and promissory notes included in assets held for sale as described in note 3, all the Trust financial liabilities are effectively due within one year.

## 10. RELATED PARTY TRANSACTIONS

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

- During the three months ended March 31, 2008, the Trust paid \$52,836 (three months ended March 31, 2007 - \$42,157) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at March 31, 2008 is \$52,836 (December 31, 2007 - \$17,639) owing to Avenir relating to administration and advisory services.
- During the three months ended March 31, 2008, the Trust incurred marketing fees of \$18,000 (three months ended March 31, 2007 - \$18,000) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$18,000 is included in accounts payable and accrued liabilities as at March 31, 2008 (December 31, 2007 - \$19,036).
- In the normal course of joint venture activities, the Trust's Oil and Gas Division from time to time engages in business transactions with companies having directors in common with the Trust. In this regard, during 2007, the Trust purchased royalty and producing property interests from a publicly traded corporation with certain directors in common for \$7,199,494.

## 11. INCOME TAXES

The Trust is a taxable entity under the *Income Tax Act* (Canada) and, until 2011, is taxable only on income that is not distributed or distributable to the unitholders. As the Trust allocates all of its Canadian taxable income to the unitholders in accordance with the Trust Indenture, and meets the requirements of the *Income Tax Act* (Canada) applicable to the Trust, no current tax provision for Canadian income tax expense has been incurred by the Trust. Provincial capital taxes are provided for under capital tax expense.

While the Trust believes it will be subject to additional tax under the new SIFT legislation in 2011, the estimated effective rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations could occur and could materially affect management's estimate of the future tax liability.

The amount and timing of reversals of temporary differences will also depend on the Trust's future operating results, acquisitions and dispositions of assets and liabilities, and distributions. A significant change in any of the preceding assumptions could materially affect management's estimate of the future income tax liability.

The difference between the accounting value and the income tax value of assets and liabilities, which comprise the future income tax liability, are as follows:

	<b>March 31, 2008</b>
<i>(in thousands of dollars)</i>	<b>\$</b>
Excess of tax basis over book value (asset)/liability:	
Property and equipment	<b>8,252</b>
Intangibles and goodwill	<b>495</b>
Net risk management liability	<b>(3,403)</b>
<b>Asset retirement obligation</b>	<b>(1,051)</b>
<b>Future income tax liability</b>	<b>4,293</b>

## 12. SEGMENTED INFORMATION

The Trust determines its reportable segments based on the structure of its operations, which are primarily focused on the following principal business segments – financial services, oil and gas, and real estate. The accounting policies followed by these business segments are the same as those described in the summary of significant accounting policies.

The following is selected financial information for each business segment:

	<b>March 31, 2008</b>				
	<b>Financial – Services Elbow River</b>	<b>Oil &amp; Gas</b>	<b>Corporate</b>	<b>Discontinued Operations</b>	<b>Total</b>
<i>(in thousands of dollars)</i>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Gross revenue	423,726	14,051	156	–	437,933
Inter-segment eliminations	–	–	(156)	–	(156)
Net total revenue	423,726	14,051	–	–	437,777
Operating expenses	415,715	4,850	–	–	420,565
Net operating expenses	415,715	4,850	–	–	420,565
Income (loss) before inter-segment eliminations	1,778	2,011	(1,518)	–	2,271
Inter-segment eliminations	156	–	(156)	–	–
Income (loss) from continuing operations	1,934	2,011	(1,674)	–	2,271
Discontinued operations – EnerVest	–	–	–	3,125	3,125
Discontinued operations – Real Estate	–	–	–	(241)	(241)
Net income (loss)	1,934	2,011	(1,674)	2,884	5,155

	<b>March 31, 2007</b>				
	<b>Financial – Services Elbow River</b>	<b>Oil &amp; Gas</b>	<b>Corporate</b>	<b>Discontinued Operations</b>	<b>Total</b>
<i>(in thousands of dollars)</i>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net total revenue	219,182	12,028	–	–	231,210
Net operating expenses	207,372	5,104	–	–	212,476
Income (loss) from continuing operations	5,042	(148)	(1,480)	–	3,414
Discontinued operations - EnerVest	–	–	–	3,575	3,575
Discontinued operations – Real Estate	–	–	–	342	342
Net income (loss)	5,042	(148)	(1,480)	3,917	7,331

	<b>March 31, 2008</b>					
	<b>Financial – Services Elbow River</b>	<b>Oil &amp; Gas</b>	<b>Corporate</b>	<b>Assets held for sale – Real Estate</b>	<b>Assets held for sale – EnerVest</b>	<b>Total</b>
<i>(in thousands of dollars)</i>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Selected balance sheet items						
Property and equipment	1,463	146,649	–	–	–	148,112
Intangibles and other assets	14,654	–	–	–	–	14,654
Goodwill	35,640	21,235	–	–	–	56,875
Total assets	260,238	182,839	1,250	67,006	143,168	654,501
Working capital (deficiency)	2,657	(48,008)	(14,793)	(17,126)	119,947	42,677
Liabilities of assets held for sale*	–	–	–	(28,798)	–	(28,798)

\* consists of the long-term portion of the Real Estate Division mortgages and future income tax liabilities

### 13. DISTRIBUTIONS

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

#### Cash Distributions Declared per Trust Unit Issued and Outstanding:

During the three months ended March 31, 2008, the Trust declared distributions to the unitholders in the aggregate amount of \$10,431,762 (three months ended March 31, 2008 - \$10,395,154) in accordance with the following table:

<b>Period covered</b>	<b>Date of Distribution</b>	<b>Per Unit \$</b>
January 1, 2008 to January 31, 2008	02/15/2008	0.0830
February 1, 2008 to February 29, 2008	03/17/2008	0.0830
March 1, 2008 to March 31, 2008	04/16/2008	0.0830

As at March 31, 2008, the Trust had cash distributions owing of \$3,477,505 (December 31, 2007 - \$3,476,327). These were paid on April 16, 2008.

### 14. RESTATEMENT

March 31, 2008 has been restated as a result of an increase for employee incentive related expenses in Elbow River in the amount of \$1,008,119 and decrease to inventory in Elbow River for valuation and misclassification errors in the amount of \$1,936,525. The adjustments resulted in an after tax reduction of net income in the amount of \$2,624,794 or \$0.07 basic and diluted earnings per unit. The following details the financial statement balances that have been adjusted:

<i>(in thousands of dollars)</i>	<b>Employee Incentive Adjustment</b>	<b>Inventory Adjustment</b>
	<b>\$</b>	<b>\$</b>
<b>Balance sheet:</b>		
Accounts receivable and prepaid expenses	—	<b>320</b>
Inventory	—	<b>(1,937)</b>
Account payable and accrued liabilities	<b>1,008</b>	—
<b>Income statement:</b>		
Financial services operating	—	<b>451</b>
General and administrative	<b>1,008</b>	—
Foreign exchange	—	<b>1,166</b>

## CORPORATE INFORMATION

### Directors

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

Gary H. Dundas  
VP Finance & CFO

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

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

Jeffery Kohn

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

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

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

### Corporate Secretary

J.G. (Jeff) Lawson

### Auditors

Ernst & Young, LLP

### Bankers

National Bank of Canada

HSBC Bank Canada

### Evaluation Engineers

McDaniel & Associates Consultants Ltd.  
Calgary, Alberta

### Legal Counsel

Burnet, Duckworth & Palmer, LLP

### Transfer Agent

Olympia Trust Company

### OFFICERS & KEY PERSONNEL

#### Corporate Headquarters

William Gallacher, P.Eng  
President & CEO

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

Jill Koskimaki, BBA  
Manager Bus. Development

Michelle O'Grady, CA  
Controller

#### Avenir Operating Corp.

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

#### EnverVest Limited Partnership

Kevin Wolfe, President  
Sean Morgan, CFO

#### Elbow River Marketing LP

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

#### Real Estate Management

MDC Property Services Ltd.  
Calgary, Alberta

#### Investor Relations

300, 808 - First Street SW  
Calgary, Alberta T2P 1M9  
Phone: (403) 237-9949  
Fax: (403) 237-0903  
Email: [info@avenirtrust.com](mailto:info@avenirtrust.com)  
[www.avenirtrust.com](http://www.avenirtrust.com)

