



Avenir Diversified Income Trust



Second Quarter Interim Report

for the period ending June 30, 2007

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SECOND QUARTER 2007 FINANCIAL HIGHLIGHTS & REVIEW

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TOTAL CONSOLIDATED FINANCIAL SUMMARY

<i>(in thousands except for per unit amounts)</i>	For the three months ended June 30			For the six months ended June 30		
	2007	2006 ³	Change	2007	2006 ³	Change
Total Revenue	\$225,338	\$168,137	34%	\$462,103	\$334,099	38%
Funds From Continuing Operations (FFCO) ¹	\$12,350	\$13,307	(7)%	\$29,305	\$26,635	10%
FFCO ¹ Per Unit ¹ - Basic	\$0.30	\$0.32	(6)%	\$0.71	\$0.66	8%
Funds From Operations (FFO) ¹	\$13,167	\$15,747	(16)%	\$30,843	\$36,343	(15)%
FFO Per Unit ¹ - Basic	\$0.32	\$0.38	(16)%	\$0.74	\$0.90	(18)%
Distributions ⁴	\$10,413	\$13,449	(23)%	\$20,808	\$28,185	(26)%
Distributions Per Unit - Basic ⁴	\$0.25	\$0.33	(24)%	\$0.50	\$0.69	(28)%
Distribution Payout Ratio ²	79%	85%	7%	67%	78%	14%
Net Income from continuing operations (NICO)	\$5,274	\$9,644	(45)%	\$12,262	\$16,755	(27)%
NICO Per Unit - Basic	\$0.13	\$0.23	(43)%	\$0.29	\$0.41	(29)%
Net Income	\$5,671	\$10,310	(45)%	\$13,002	\$20,415	(36)%
Net Income Per Unit - Basic	\$0.14	\$0.25	(44)%	\$0.31	\$0.50	(38)%
Total Assets	\$526,536	\$476,205	11%	\$526,536	\$476,205	11%
Working Cap. (Net Debt) including notes payable ¹ (not incld. Assets held for sale)	\$(33,006)	\$(28,390)	16%	\$(33,006)	\$(28,390)	16%
Wtd. Avg. Units Outstanding - Basic	41,663,371	41,047,398	2%	41,434,002	40,601,009	2%
Units Outstanding (including escrowed units)	41,826,194	41,763,367	0%	41,826,194	41,763,367	0%

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

² Distribution Payout Ratio is calculated by dividing the Distributions by the Funds from Operations.

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

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

FORWARD LOOKING STATEMENTS

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

PRESIDENT'S MESSAGE

The Trust continued to perform very solidly and ahead of forecast, in what is traditionally our weakest quarter. Our payout ratio for the second quarter was 79% of Funds from Operations versus 85% in the same period in 2006. Together with the 59% first quarter payout ratio results in a 67% payout ratio for the first half of 2007 below our target payout of 75%-80%.

Operationally, in the second quarter of 2007, as was the case in the first quarter, we continued to focus on reviewing and assessing the ability of each division to both grow organically and expand through acquisitions in view of the changed landscape after the trust tax announcement. Operational results include:

- Financial Services contributed 61% of Funds from Operations again reflecting the benefits of the Trust's diversification model.
- Elbow River Marketing was well ahead of forecast and about 250% ahead of 2006 in its normally weakest quarter on the strength of strong butane and bio-fuel sales.
- EnerVest's performance was on forecast with assets under management now exceeding \$2.1 billion. In addition, on July 7, 2007 the unitholders of EnerVest Diversified Income Fund voted to expand the investment mandate of the Fund to ensure the future viability of the Fund and prepare the Fund for post 2011 when income trusts will be taxed and likely a much smaller investment segment.
- The second quarter 2007 marked the final redemption of our investment in the payday loan/cheque cashing business.
- The Oil and Gas Division began a development drilling program which should serve to offset production declines over the balance of 2007. Results to date are very encouraging with current production in the 3,400 BOED range. The Division's second quarter cash flow was however, behind last years numbers due to a one-time prior period adjustment and weaker realized oil prices as the Bow River differential was wider than in 2006.
- Real Estate, although a small component of funds from operations, was slightly ahead of forecast and work continued on our development project in Red Deer, Alberta.

Corporately, the Trust has formally made the decision to dispose of or spin-off our Real Estate properties. As part of the internal evaluation process described above, it was determined that in view of the significantly lower cost of capital of the REIT and Pension Fund sectors it was increasingly difficult to acquire suitable real estate properties that met the investment criteria of the Trust. This has become especially difficult in view of the advantages that a stand alone REIT received in the trust tax legislation.

Accordingly, in the financial statements attached, the respective balance sheet items and income statement activities for the Real Estate Division have been classified as "Assets Held for Sale" for accounting purposes. We look to announce a transaction by the end of the year and expect to book a gain based on market appreciation of our portfolio over the period we have held the properties. Funds from any real estate disposition will be reinvested into active businesses which will be accretive to the Trust's cash flows and that the Trust feels has greater growth potential.

We continue to be comfortable with our current level of distributions given our current payout ratio and would like to thank our unitholders for their continued support. Finally, we would like to take a moment to acknowledge the contribution of Ward Mallabone, Chief Operating Officer of our EnerVest unit, who has advised us that he will be leaving our Trust group in the new year to pursue other entrepreneurial business endeavours. Ward was very instrumental in the growth of EnerVest and ensuring a smooth transition when we acquired the EnerVest contract two years ago. We wish him well.



William M. Gallacher

President & CEO

REVIEW OF FINANCIAL RESULTS

The Trust had a solid second quarter that was ahead of forecast and in line with the previous year. The second quarter of the year tends to be the Trust's weakest quarter as Elbow River Marketing revenues decline in the spring shoulder months after the busy winter sales season. For the year the Trust is about 10% ahead of the previous year in funds from continuing operations as overall results for the marketing group more than offset weaker realized oil prices in our Oil and Gas Division. Year to date payout ratio is 67%.

Income from continuing operations before income tax for the three months ended June 30, 2007 was \$7.4 million up 4% compared to \$7.1 million for the same period in 2006. The income from continuing operations before income tax for the six months ended June 30, 2007 was \$13.9 million down 7% compared to \$15.0 million for the same period in 2006. As a result of new legislation regarding the taxation of income trusts, a future income tax expense was recorded for the three and six months ended June 30, 2007 versus a future tax recovery as a result of 2006 rate reductions for the same period in 2006. Accordingly, net income from continuing operations for the quarter ended June 30, 2007 of \$5.3 million was down 45% from \$9.6 million in the quarter ended June 30, 2006. And for the same reason the net income for the six months ended June 30, 2007 of \$13.0 million was down 36% compared to \$20.4 million for the same period in 2006. The net income was also impacted by the spin out of the Energy Services Division in the second quarter of 2006 as Essential Energy Services Trust, the reclassification of the Real Estate Division as assets held for sale, lower realized oil prices, and smaller hedging gains in our Oil and Gas Division.

Funds from continuing operations were \$12.4 million for the second quarter ended June 30, 2007 down 7% from \$13.3 million in the comparable quarter in 2006. Funds from continuing operations now exclude the results for both the Real Estate and Energy Services Divisions. Funds from operations were \$13.2 million for the second quarter ended June 30, 2007 down 16% as funds from operations for the second quarter ended June 30, 2006 were \$15.7 million. For the six months ended June 30, 2007 the funds from operations were \$30.8 million versus \$36.3 million for the comparable period in 2006. The decrease in funds from operations was again largely the result of the spin out of the Energy Services Division in the second quarter of 2006, lower realized oil prices and the reclassification of the Real Estate Division as discontinued operations partially offset by the improved performance of the Financial Services Division.

The Trust declared distributions of \$10.4 million (\$0.25 per unit) for the second quarter ended June 30, 2007 which is down 23% on a total cash basis over the \$13.4 million (\$0.33 per unit) distributed for the quarter ended June 30, 2006, again due to the spin-off of the Energy Services Division. It should be noted that if Avenir Trust Unitholders retained their units of Essential Energy Services Trust there would in fact be a slight increase in distributions per unit. The 2007 second quarter end payout ratio was 79% of funds from operations versus 85% in the second quarter of 2006. For the six months ended June 30, 2007 the payout ratio was 67% under our stated payout ratio target of 75-80%.

REVIEW OF OPERATIONS

1. Financial Services

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

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

EnerVest results came in slightly ahead of budget due to strong returns on its management contract with EnerVest Diversified Income Fund. The income trust market had a strong second quarter with investors benefiting from a number of trust takeovers and the realization that income trusts remain a viable asset class for the next few years. The assets under management for the EnerVest Group of Funds grew by 3.8% during the quarter to over \$2.12 billion. Revenues increase by the same percentage as they are directly correlated to Assets under Management.

During the quarter, EnerVest closed its spring flow through offering, finalized the Independent Review Committee as mandated by the Canadian Security regulators and initiated a Special Unitholders meeting for the EnerVest Diversified Income Trust Fund. This meeting held on July 5, 2007, approved changes to the trust declaration which include broadening the investment mandate to include more than income trusts. This additional flexibility was important for the longevity of the EnerVest Diversified Income Trust Fund so that it may continue to invest in appropriate securities given the tax changes for income trusts after 2010.

ii. ELBOW RIVER MARKETING LIMITED PARTNERSHIP ("Elbow River")

Elbow River continued its strong performance with second quarter results ahead of forecast and up significantly from the second quarter of 2006. Most of the increase can be attributed to strong butane and bio-diesel sales. Butane has continued to benefit from changing market conditions related to Alberta Oil Sands activity, additional summer excesses caused by increased ethanol consumption which reduces the amount of butane that can be blended into gasoline and advancing some winter presales into the second quarter. Bio-diesel experienced a tough domestic market due to the high cost of feedstocks versus diesel pricing however international mandates for the use of bio-diesel allowed for strong export sales. Propane was able to benefit from some late winter weather in the early part of the quarter while ethanol sales were off due to the market being in balance.

The remainder of 2007 continues to look promising for Elbow River with a number of presales on the books. Propane demand will be limited until winter weather kicks in later in the year as the current high priced environment will likely limit winter pre-buying activity. Butane has strong presales and the changing market conditions should allow for continued opportunities throughout the year. Ethanol activity is picking up and the large number of new plants coming online should create additional opportunities. Bio-diesel domestic demand is anticipated to benefit from increased summer seasonal demand as well as some international business. The Biofuels business is heavily impacted by government mandates and incentives and this is being closely monitored to determine the impact on our business.

iii. FINANCIAL SERVICE CONTRACTS

During the first half of 2007, Avenir Financial Services Limited Partnership redeemed the final \$3.3 million (\$1.8 million in the second quarter) in financial services contracts outstanding leaving the Trust with no further exposure to the payday loan/cheque cashing industry once the final interest payments are collected. Management believes it is prudent to redeploy capital into businesses that better fits a public trust.

2. Energy - Oil & Gas Operations

For the second quarter of 2007, the Oil and Gas Division continued to focus on capital expenditure programs to maintain consistent production volumes for the Trust. The actual oil and gas field sales averaged 3,433 BOED in the second quarter of 2007 however these volumes were impacted by a one-time prior period acquisition adjustment of 167 BOED resulting in a reported sales volume of 3,266 BOED for the quarter. The Trust was also impacted by third party restrictions due to planned outages and access issues associated with break-up conditions. Production downtime for the second quarter is estimated at 79 BOED resulting in a production capability of 3,485 BOED as of mid year 2007. In comparison to the first quarter of 2007, reported oil and natural gas liquid sales for the second quarter averaged 1,564 bbl/d down 8% while natural gas sales were up 4% to 10,213 mcf (or 1,702 BOED).

Total gross revenue from petroleum and natural gas sales in the second quarter was \$13.7 million down 7% from \$14.7 million in the first quarter of 2007 due to lower natural gas pricing and the \$0.7 million impact of the one-time prior period adjustment. The average price received for crude oil and natural gas liquids during the second quarter was \$52.02 per barrel after hedging representing a 1% decrease over first quarter pricing. Natural gas pricing for the second quarter of 2007 was \$6.78 per mcf versus \$7.54 per mcf in the first quarter of 2007 representing a decrease of 10%.

Oil and Gas operating expenses continued to decrease in the second quarter of 2007 with total operating expenses of \$4.7 million resulting in a unit operating expense of \$15.94 per BOE down from \$17.03 per BOE in the first quarter of 2007. The unit operating expenses for the Trust are anticipated to be negatively impacted in the third quarter due to the abnormally high power pool prices currently being experienced in Alberta. The unit operating expense is estimated to be approximately \$17.25 per BOE for the third quarter as a result of the higher power prices.

The total second quarter net capital expenditures by the Trust were \$3.5 million spent primarily on development drilling and recompletion activity. Drilling activity in the second quarter of 2007 totalled 3 gross (2.2 net) wells highlighted by the drilling of the first Cadomin horizontal development well in Noel. The non-operated gas well produced 1100 mcf net to the Trust for the first month of production commencing mid June 2007. A second Cadomin well has been drilled in the third quarter and is expected to be on production in late August. Additional drilling and completion activity planned for in the second quarter for Central and Southern Alberta has been somewhat delayed due to weather. For the remainder of 2007, the Trust plans to participate in 18 gross (7.2 net) wells bringing the total drilling activity on Trust lands for the year to 27 gross (10.1 net) wells. The Trust will endeavour to balance the remaining development activity in 2007 between oil and gas opportunities and remains flexible on the timing of capital programs based on commodity pricing throughout the year. The capital programs are currently budgeted to be approximately \$12 million in 2007.

Based on the development activity for the third quarter and the planned summer outage schedules at third party processing facilities, the Trust anticipates sales volumes to average approximately 3,400 BOED for the third quarter of 2007.

3. Assets Held for Sale - Real Estate

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

During the first quarter of 2007 acquisitions were finalized on land in Spruce Grove and Wetaskiwin. Construction of the KFC restaurants will begin in the third quarter of 2007. Construction on the Landmark Cinema in Red Deer is progressing with an anticipated opening date of November 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS for the six months ended June 30, 2007 should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended June 30, 2007 and the audited consolidated financial statements for the year ended December 31, 2006 and the management discussion and analysis thereto. This management discussion and analysis relates to events up to August 10, 2007.

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

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

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

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

THE TRUST'S MANAGEMENT DISCUSSION and ANALYSIS

Significant Events for the Quarter Ended June 30, 2007

- Reclassification of the Real Estate Properties as Assets Held for Sale

At June 30, 2007, the Real Estate Division has been reclassified as Assets held for Sale, as it is the intent of management to actively pursue the disposition or spin-off of the Real Estate Division.

- Redemption of \$1.8 million in Financial Services Contracts Outstanding with RentCash Inc.

During the second quarter, the Trust redeemed the final \$1.8 million in financial service contracts outstanding, leaving the Trust with no further exposure to the payday loan/cheque cashing industry once the final interest payments are collected.

Selected Quarterly Information

	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
<i>(thousand of dollars except per unit amounts)</i>	2007	2007	2006	2006	2006	2006	2005	2005
Total Revenue	225,338	236,764	216,743	211,784	168,137	165,961	183,505	86,122
Net Income from continuing operations	5,274	6,988	9,204	7,555	9,644	7,111	13,396	5,340
Net Income from continuing operations per unit - basic	0.13	0.17	0.22	0.18	0.23	0.18	0.34	0.22
Net Income	5,671	7,331	9,390	7,594	10,310	10,105	14,207	6,592
Net Income per unit - basic	0.14	0.18	0.23	0.18	0.25	0.25	0.36	0.27
Funds from continuing operations	12,350	16,955	13,682	14,000	13,307	13,327	19,608	12,634
Funds from continuing operations per unit - basic	0.30	0.41	0.33	0.34	0.32	0.33	0.49	0.52
Funds from Operations	13,167	17,678	14,334	14,328	15,747	20,595	23,153	16,360
Funds from Operations per unit - basic	0.32	0.43	0.35	0.35	0.38	0.51	0.58	0.67
Cash Distributions paid	10,413	10,395	10,397	10,401	13,449	14,737	13,941	8,389
Cash Distributions per unit - basic	0.25	0.25	0.25	0.25	0.33	0.37	0.35	0.34
Special Distribution per unit (Energy Services)	-	-	-	-	4.445	-	-	-
Total Assets	526,536	545,517	530,551	489,014	476,205	567,628	583,627	401,227

Net Income

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

	For the three months ended		For the six months ended	
<i>(in thousands of dollars)</i>	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Net Income (loss)				
Financial Services	9,901	6,650	18,517	13,942
Oil and Gas	(1,366)	4,640	(1,515)	5,450
Corporate	(3,261)	(1,646)	(4,740)	(2,637)
Net Income from continuing operations	5,274	9,644	12,262	16,755
Discontinued Ops - Real Estate	397	139	740	143
Discontinued Ops - Energy Services	-	527	-	3,517
Net Income	5,671	10,310	13,002	20,415

Income from continuing operations before income tax for the three months ended June 30, 2007 was \$7.4 million up 4% compared to \$7.1 million for the same period in 2006. The income from continuing operations before income tax for the six months ended June 30, 2007 was \$13.9 million down 7% compared to \$15.0 million for the same period in 2006. As a result of new legislation regarding the taxation of income trusts, a future income tax expense was recorded for the three and six months ended June 30, 2007 versus a future tax recovery as a result of 2006 rate reductions for the same period in 2006. Accordingly, net income from continuing operations for the quarter ended June 30, 2007 of \$5.3 million was down 45% from \$9.6 million in the quarter ended June

30, 2006. And for the same reason the net income for the six months ended June 30, 2007 of \$13.0 million was down 36% compared to \$20.4 million for the same period in 2006. The net income was also impacted by the spin out of the Energy Services Division in the second quarter of 2006 as Essential Energy Services Trust, the reclassification of the Real Estate Division as assets held for sale, lower realized oil prices, and smaller hedging gains in our Oil and Gas Division.

1. Financial Services

The increases in net income in the Financial Services Division from \$6.7 million in the second quarter of 2006 to \$9.9 million in the second quarter of 2007, and the increase of \$4.6 million for the six months ended June 30, 2007 compared to the same period in 2006, are due mainly to the higher product sales in Elbow River. Net income for the quarter ended June 30, 2007 from financial service contracts was \$(0.04) million (Q2 2006: \$1.2 million), for Elbow River was \$6.2 million (Q2 2006: \$1.6 million) and for EnerVest was \$3.7 million (Q2 2006: \$3.9 million).

2. Energy - Oil & Gas Division

The Oil and Gas Division had a net loss of \$1.4 million for the quarter ended June 30, 2007 versus 2006 net income of \$4.6 million. For the six months ended June 30, 2007 there was a loss of \$1.5 million compared to income of \$5.5 million for the six months ended June 30, 2006. The difference is largely due to the future income tax expense that was recorded in 2007 compared to a future income tax recovery in 2006. The recovery in 2006 related to changes that were enacted in the future income tax rates. The decrease is also a result of the impact of reduced pricing for its oil sales in 2007 versus the pricing received in 2006, together with higher depreciation, depletion and amortization costs, and operating costs in 2007. Lastly, contributing to the difference for the six month period is the impact of a \$0.4 million non-cash mark-to-market hedging gain versus a \$2.0 million gain for the six months ended June 30, 2006.

3. Real Estate - Assets Held for Sale

The Real Estate Division net income for the second quarter ended June 30, 2007 totaled \$0.4 million compared to net income of \$0.1 million in the second quarter ended June 30, 2006. For the six months ended June 30, 2007 net income was \$0.7 million compared to \$0.1 million in the first six months of 2006. The increase for both the three and six month period is as a result of the acquisition of the KFC and Landmark properties in Q3 and Q4 of 2006.

Assets Held for Sale – Real Estate Division

During the three month period ended June 30, 2007, the Trust made the decision to dispose of the Real Estate Division assets by way of sale or spin-out. In meeting the criteria for classification as assets held for sale under CICA Handbook Section 3475, the disposition process is currently underway and the Trust expects to have completed a transaction before the end of 2007. As such, for the six months ended June 30, 2007, the Real Estate Division assets and liabilities and results from operations have been reclassified as assets held for sale. Comparative periods have been restated.

THE TRUST'S MANAGEMENT DISCUSSION and ANALYSIS

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>	June 30, 2007	December 31, 2006
	\$	\$
Cash	325	6
Accounts receivable and prepaid expenses	1,059	768
Current assets held for sale	1,384	836
Property and equipment	53,868	52,142
Intangible and other assets	2,697	3,103
Long-term assets held for sale	56,565	55,245
Accounts payable and accrued liabilities	608	1,300
Deferred revenue	291	372
Current portion of mortgages (i)	16,997	18,534
Current liabilities of assets held for sale	17,896	20,206
Mortgages (i)	19,093	14,315
Future income tax	402	634
Long-term liabilities of assets held for sale	19,495	14,949

(i) In relation to the Real Estate Division, the Trust has various mortgages outstanding with interest rates ranging from 4.85% to 6.50% with a weighted average rate of 5.65%. The maturities range from August 2007 to July 2014 and all mortgages are collateralized by a first charge over the related properties. The current portion of the mortgages as at June 30, 2007 was \$16,996,613. 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.

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

<i>(in thousands of dollars)</i>	For the three months ended		For the six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
REVENUE				
Real estate revenue	2,041	990	3,788	1,729
	2,041	990	3,788	1,729
EXPENSES				
Real estate operating	573	380	1,031	562
General and administrative (i)	145	101	255	172
Interest on long-term debt	492	184	944	368
Capital taxes	14	(3)	20	14
Depreciation and amortization	528	296	1,030	577
	1,752	958	3,280	1,693
Income before taxes	289	32	508	36
Future income tax recovery	108	107	232	107
Net income	397	139	740	143

(i) During the three and six months ended June 30, 2007, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions and mortgage financing of \$168,810 and \$292,940, respectively (three and six months ended June 30, 2006 - \$22,936) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$55,343 is included in current liabilities of assets held for sale and \$15,726 is included in current assets held for sale for a net payable of \$39,617 as at June 30, 2007 (December 31, 2006 - \$28,911).

Funds from Operations

<i>(in thousands of dollars)</i>	For the three months ended		For the six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Funds from Operations				
Financial Services	8,019	6,820	19,634	14,798
Oil and Gas	4,857	6,661	10,623	12,225
Corporate	(526)	(174)	(952)	(388)
Funds from continuing operations	12,350	13,307	29,305	26,635
Discontinued Ops - Real Estate	817	329	1,538	614
Discontinued Ops - Energy Services	-	2,111	-	9,094
Funds from Operations	13,167	15,747	30,843	36,343

Funds from continuing operations were \$12.4 million for the second quarter ended June 30, 2007 down 8% from \$13.3 million in the comparable quarter in 2006. Funds from operations were \$13.2 million for the second quarter ended June 30, 2007 down 16% as funds from operations for the second ended June 30, 2006 were \$15.7 million. For the six months ended June 30, 2007 the funds from operations were \$30.8 million versus \$36.3 million for the comparable period in 2006. The decrease in funds from operations was the result of the spin out of the Energy Services Division in the second quarter of 2006, reclassification of the Real Estate Division as discontinued operations, and lower oil prices realized in our Oil and Gas Division offset by the improved performance of the Financial Services Division.

Cash Distributions

The Trust declared distributions of \$10.4 million (\$0.25 per unit) for the second quarter ended June 30, 2007 which is down 23% on a total cash basis over the \$13.4 million (\$0.33 per unit) distributed for the quarter ended June 30, 2006, again due to the spin-off of the Energy Services division. It should be noted that if Avenir Trust Unitholders retained their units of Essential Energy Services Trust there would in fact be a slight increase in distributions per unit. The 2007 second quarter end payout ratio was 79% of funds from operations versus 85% in the second quarter of 2006. For the six months ended June 30, 2007 the payout ratio was 67% under our stated payout ratio target of 75-80%.

i. Distributable Cash from Operations

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

The three and six months ended June 30, 2007 payout ratios were 79% and 67% respectively, of funds from operations.

THE TRUST'S MANAGEMENT DISCUSSION and ANALYSIS

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

<i>(in thousands of dollars)</i>	For the three months ended		For the six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Cash provided by (used in) operating activities	29,921	1,302	43,517	47,525
Settlement of asset retirement obligations	381	69	466	137
Changes in non-cash working capital relating to operating activities	(17,135)	14,375	(13,140)	(11,319)
Funds from operations	13,167	15,747	30,843	36,343
Cash available to fund capital expenditures and growth	(2,754)	(2,298)	(10,035)	(8,158)
Distributable cash from operations	10,413	13,449	20,808	28,185
Cash distributions declared and payable	3,472	3,465	3,472	3,465
Cash distributions paid in period	6,941	9,984	17,336	24,720
Accumulated cash distributions paid and payable for the period	10,413	13,449	20,808	28,185

ii. Cash Distribution Policy

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

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

iii. Cash Distributions Declared

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

Period covered	Date of Distribution	Per Unit \$
January 1, 2007 to January 31, 2007	15/02/2007	0.083
February 1, 2007 to February 28, 2007	15/03/2007	0.083
March 1, 2007 to March 31, 2007	16/04/2007	0.083
April 1, 2007 to April 30, 2007	15/05/2007	0.083
May 1, 2007 to May 31, 2007	15/06/2007	0.083
June 1, 2007 to June 30, 2007	16/07/2007	0.083

Revenue**1. Financial Services****i. Revenue**

The Trust recognized revenue in the Financials Services Division of \$212.5 million for the second quarter ended June 30, 2007 and \$438.0 million for the six months ended June 30, 2007 up 38% and 42%, respectively, over the three and the six months ended June 30, 2006 of \$154.3 million and \$308.2 million, respectively. The increase is primarily due to Elbow River revenue of \$206.7 million for the second quarter of 2007 compared to \$146.0 million for the second quarter ended June 30, 2006. Elbow River is a high revenue low margin (2.0% - 5.0%) brokerage marketing business. EnerVest was relatively unchanged from 2006.

ii. Operating Costs

The Trust's operating costs for Financial Services for the second quarter ended June 30, 2007 were \$200.1 million compared to \$145.0 million for the second quarter ended June 30, 2006. The increase in operating costs is due to the matching of operating and natural gas liquids product costs, corresponding to the increased revenue at Elbow River (see the explanation above in 1(i)).

2. Oil & Gas

	For the three months ended June 30			For the six months ended June 30		
	2007	2006	Change	2007	2006	Change
Production						
Oil and NGLs – bbls per day	1,564	1,653	(5)%	1,629	1,683	(3)%
Gas – mcf per day	10,213	10,447	(2)%	10,012	10,019	0%
Total BOE per day	3,266	3,394	(4)%	3,297	3,353	(2)%
Average Pricing						
Oil & NGL (\$/Bbl) before hedging	\$53.57	\$66.76	(20)%	\$53.11	\$56.78	(6)%
Oil & NGL (\$/Bbl) after hedging	\$52.02	\$60.94	(15)%	\$52.27	\$50.91	3%
Natural Gas (\$/mcf)	\$6.78	\$6.15	10%	\$7.15	\$7.08	1%
Average Price Per BOE before hedging	\$45.91	\$50.76	(10)%	\$47.03	\$49.93	(6)%
Average Price Per BOE after hedging	\$45.17	\$47.93	(6)%	\$46.62	\$45.99	1%

i. Revenue and Production

For the quarter ended June 30, 2007, oil and gas revenue totaled \$13.7 million compared to \$15.0 million for the same period in 2006. This change was attributable in most part to the 15% decrease in realized after hedge oil pricing during the second quarter of 2007 and 4% lower reported oil and gas sales volumes. The Trust recorded a one-time prior period adjustment of 167 BOED over the quarter. The oil and gas revenue for the six month period ending June 30, 2007 was down to \$27.8 million from \$27.9 million in the same period in 2006 primary due to lower oil and gas sales volumes.

Transportation costs for the six months ended June 30, 2007 were \$0.5 million versus \$0.4 million for the six months ended June 30, 2006. The increase is a result of inflationary impacts on transportation costs through 2007.

Revenue from petroleum and natural gas sales (net of royalties) for the quarter ended June 30, 2007 was \$11.9 million compared to the quarter ended June 30, 2006 of \$13.8 million. The average price received for petroleum and natural gas sales during the quarter ended June 30, 2007 was \$45.17 per BOE a decrease of 6% versus

\$47.93 per BOE received in the second quarter of 2006. The average price received for crude oil and natural gas liquids during the quarter ended June 30, 2007 was \$52.02 per BOE a decrease of 15% over the \$60.94 per BOE received for the quarter ended June 30, 2006. This decrease is primarily a result of lower Edmonton sweet crude pricing and an increased differential between Edmonton sweet crude and the Trust's predominantly heavier medium crude. Natural gas pricing for the quarter ended June 30, 2007 was \$6.78 per mcf versus \$6.15 per mcf for 2006.

For the six months ending June 30, 2007, revenue from petroleum and natural gas sales (net of royalties) was \$23.9 million compared to \$25.8 million for the same period in 2006. The revenue difference between the two periods is a result of an unrealized gain on financial instruments for the hedging of oil and gas at the end of the second quarter of 2006 and the \$0.7 million impact of the one-time prior period adjustment related to the 2004-2007 time frame. The average price received for petroleum and natural gas sales during the six months ended June 30, 2007 was \$46.62 per BOE an increase of 1% versus \$45.99 per BOE received in the second quarter of 2006. The average price received for crude oil and natural gas liquids during the six months ended June 30, 2007 was \$52.27 per BOE an increase of 3% over the \$50.91 per BOE received for the same period of 2006. Natural gas pricing for the six months ended June 30, 2007 was \$7.15 per mcf versus \$7.08 per mcf for 2006.

Although the Trust's Oil and Gas Division hedges a portion of its production to add stability to its distributions, to guard against fluctuations in commodity prices and to support acquisition economics, it has been determined that its oil and gas swap transactions do not qualify under new hedge accounting guidelines. Accordingly, the Trust recorded a hedging cost of \$0.2 million for the second quarter ended June 30, 2007. In addition, the accounting treatment requires the Trust to recognize an unrealized gain of \$0.5 million for the change in the mark to market position on existing contracts at June 30, 2007. This compares to a non-cash mark-to-market gain of \$0.7 million in the second quarter of 2006.

Average daily sales volume for the quarter ended June 30, 2007 was 3,266 BOE per day while the average for the six months ended on June 30, 2007 was 3,297 BOE per day. For the same periods in 2006, the averages were 3,394 BOE per day (4% higher) and 3,353 BOE per day (2% higher) respectively. Second quarter 2007 sales consisted of 1,564 bbls per day of crude oil and natural gas liquids and 10,213 mcf per day of natural gas compared to 1,653 bbls per day and 10,447 mcf per day for the second quarter 2006. Natural gas production in the first half of 2007 was consistent with the first six months of 2006 at 10,012 mcf per day versus 10,019 mcf per day. Oil and natural gas liquids sales were down 3% in the first six months of 2007 at 1,629 bbls per day as compared to 1,683 bbls per day for the same period in 2006.

ii. Royalties

The Trust's royalty costs for the quarter ended June 30, 2007 were \$2.0 million or 14% of revenue compared to \$1.7 or 11% of revenue for the second quarter of 2006. On a BOE basis, royalty costs averaged \$6.39 per BOE for the first six months of 2007, which is down from \$6.72 per BOE over the same period of 2006 primary due to slightly lower oil and natural gas liquid pricing.

iii. Operating Expenses

The Trust's operating costs for the quarter ended June 30, 2007 were \$4.7 million or \$15.94 per BOE compared to \$4.6 million or \$14.89 per BOE for the quarter ended June 30, 2006. On a BOE basis, operating costs averaged \$16.49 per BOE for the first six months of 2007, which is up from \$14.03 per BOE over the same period of 2006.

This increase reflects the overall inflationary impacts to the oil and gas industry as well as the escalating power pool prices in Alberta. Each \$10 Mwh change in Alberta power pool prices, results in a change of approximately \$0.50 per BOE in operating costs.

iv. Netbacks

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

3. Real Estate - Assets Held for Sale

i Revenue

The revenue from the Real Estate Division for the second quarter ended June 30, 2007 was \$2.0 million compared to \$1.0 million for the second quarter of 2006. For the six months ended June 30, 2007 revenue totaled \$3.8 million compared to \$1.7 million for the first six months of 2006. The increase is primarily due to the KFC and Landmark acquisition completed in Q3 and Q4 of 2006. Currently the Real Estate portfolio is 100% leased.

ii. Operating Costs

The Trust's operating costs for Real Estate for the second quarter ended June 30, 2007 were \$0.6 million compared to \$0.4 million for the quarter ended June 30, 2006. For the six month period ended June 30, 2006 operating costs totaled \$0.6 million compared to \$1.0 million for the first six months of 2007. The increase is a result of the increase in properties in the portfolio and the related operating costs associated to the increase in the Real Estate portfolio

iii. Interest

There are various mortgages with interest rates ranging from 4.85% to 6.5% (weighted average 5.65%), maturities from August 2007 to July 2014.

General and Administrative Expenses

General and administrative ("G&A") expenses for the second quarter ended June 30, 2007 were \$5.0 million (which included corporate costs of \$1.8 million) compared to \$4.4 million (which included corporate costs of \$1.7 million) for the quarter ended June 30, 2006. For the six months ended June 30, 2007 G&A expenses totaled \$11.4 million (which included corporate costs of \$3.1 million) compared to \$8.2 million (which included corporate costs of \$2.5 million) for the first six months of 2006. G&A expenses for the respective divisions for the second quarter of 2007 were: \$2.1 million for Financial Services (Q2 2006: \$1.4 million), and \$1.1 million for Oil and Gas (Q2 2006: \$1.3 million). The 39% increase in G&A expenses for the six months ended June 30, 2007 is the result of higher staff incentives in the Financial Services Division, greater staffing requirements in the Oil and Gas Division, increased stock based compensation expense due to the additional grant in April 2007 and higher corporate regulatory reporting costs.

Interest and Bank Fees

Interest expense and bank fees were \$1.5 million for the three months and \$2.6 million for the six months ended June 30, 2007 reflecting higher debt levels and the notes payable outstanding in 2007. For the three and six months ended June 30, 2006, interest expense and bank fees were \$0.7 million and \$1.2 million. Interest expense for the second quarter of 2007 includes bank fees of \$0.1 million compared to fees of \$0.03 million for the second quarter of 2006. For the six months ended June 30, 2007, the Financial Services Division accounted for \$1.1 million of the interest expense, the majority of which relates to the outstanding balance on the banking facility for Elbow River, and the Oil and Gas Division accounted for \$1.2 million of interest expense. The remaining interest expense of \$0.3 million relates to the note payable outstanding of \$5.0 million.

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was \$7.0 million in the second quarter ended June 30, 2007, compared to \$6.4 million for the second quarter of 2006 and \$13.9 million for the six months ended June 30, 2007 versus \$12.9 million for the six months ended June 30, 2006. The Trust's depletion and depreciation rate in its Oil and Gas Division was \$18.89 per BOE during the second quarter of 2007 up from the \$16.64 per BOE rate in the second quarter of 2006. The depletion rate continues to reflect the historically high cost per BOE of acquisitions. For the six months ended June 30, 2007, \$2.6 million relates to amortization of intangibles in the Financial Services Division, and \$11.3 million of the depletion and depreciation cost was on 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 in its Oil and Gas Division, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligation to be \$13.1 million as at June 30, 2007 based on a total future liability of \$27.1 million. These figures compare to \$11.7 million at June 30, 2006 with a total future liability of \$25.3 million.

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

Income Taxes

Currently, the Trust does not provide for current income taxes, as it expects that all taxable income will be passed to unitholders in the form of distributions.

On June 22, 2007, the federal government passed and enacted legislation eliminating the deduction of distributions from taxable income for certain publicly traded mutual fund trusts. This legislation does not take effect until January 1, 2011 for trusts that commenced trading prior to November 2006, providing the Trust only experiences "normal growth" and no "undue expansion" before then. This legislation also introduced a reduction in federal corporate tax rates by 0.05 percent starting in 2011. For the second quarter of 2007, the consolidated interim financial statements of the Trust reflect the impact of this legislation, resulting in an increase of \$1.3 million in future income taxes. This adjustment is directly attributable to applying the 31.5 percent tax rate to temporary differences which are expected to reverse in 2011 and beyond.

Future income tax expense totaled \$2.1 million and \$1.7 million for the three and six months ended June 30, 2007, respectively. The future income tax expense for the period largely resulted from the change in the tax legislation noted above and from the change in the recognition of the future tax liabilities mainly relating to the Oil and Gas Division's tax pools from the previous quarter. During the six months ended June 30, 2006 the Trust had a future income tax recovery of \$1.8 million as a result of tax rate reductions. The second quarter 2007 capital tax of \$0.09 million reflects the Saskatchewan surcharge on its Saskatchewan production.

Risk Management and Financial Instruments

(in thousands of dollars)

	\$
Risk management asset, December 31, 2006	46
Transition adjustment on adoption of new standards	4,640
Transition adjustment to retained earnings for hedges no longer qualifying for hedge accounting	(258)
Change in mark-to-market for hedges not qualifying for hedge accounting – oil & gas (i)	(71)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	134
Change in mark-to-market of cash flow hedge contracts (iii)	(2,060)
Net risk management asset, June 30, 2007	2,947
Reclassified to risk management liability, June 30, 2007	2,206
Risk management asset, June 30, 2007	5,153

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

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

- A fixed price AECO natural gas swap for the period November 1, 2006 to October 31, 2007 on 700 GJ/day of gas at a price of \$6.64 Cdn/GJ
- A fixed price WTI collar for the period November 1, 2004 to October 31, 2007 on 70 barrels/day of crude oil with a floor price of \$38.00 US/Bbl and a ceiling price of \$44.65 US/Bbl
- A fixed price WTI floor for the period December 1, 2004 to November 30, 2007 on 170 barrels/day of crude oil with a floor price of \$40.00 US/Bbl
- A fixed price WTI floor for the period from August 1, 2006 to December 31, 2007 on 200 barrels/day of crude oil with a floor of \$65.00 and the Trust participates in 77% of the upside above the floor price
- A fixed price WTI floor for the period from August 1, 2006 to July 31, 2007 on 200 barrels/day of crude oil with a floor of \$60.00 and the Trust participates in 88% of the upside above the floor price
- A fixed price WTI floor for the period August 1, 2007 to July 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.50 US/Bbl

The mark-to-market value of these contracts as at June 30, 2007 was an unrealized loss of \$387,752 (December 31, 2006 – an unrealized loss of \$316,639), resulting in the recognition of an unrealized loss on the income statement for the six months ended June 30, 2007 of \$71,113 when compared to the December 31, 2006 mark-to-market.

(ii) The following tables detail those transactions in the Elbow River Marketing group that do not qualify for hedge accounting, which resulted in a risk management asset of \$754,442 (December 31, 2007 – an unrealized gain of \$619,896), resulting in the recognition of an unrealized gain on the income statement for the six months ended June 30, 2007 of \$134,546 when compared to the December 31, 2006 mark-to-market.

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Forward exchange contracts:

Term Due	Forward Rates	June 30, 2007 Unrealized gain \$
August, 2007	1.0586 – 1.1308	37,579
September, 2007	1.0634 – 1.1297	37,957
October, 2007	1.0634 – 1.1288	43,970
November, 2007	1.0634 – 1.1279	42,858
December, 2007	1.0634 – 1.1270	42,420
January, 2008	1.0634 – 1.1262	41,600
February, 2008	1.0634 – 1.1597	173,102
March, 2008	1.0634 – 1.1587	170,853
April, 2008	1.0634 – 1.1578	168,980
	Total CDN dollars	<u>759,319</u>

Futures contracts:

Settlement dates	Volume (bbls)	Prices US \$/(bbls)	June 30, 2007 Unrealized (loss) \$
August, 2007	4,000	84.63 – 85.78	(4,586)
	<u>4,000</u>		<u>(4,586)</u>
		Exchange rate	1.0634
		Total CDN dollars	<u>(4,877)</u>

- (iii) The Elbow River Marketing group of the Trust sells natural gas liquids product in the United States and Canada, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, low sulphur diesel, unleaded gasoline, heating oil, soy bean oil, and crude. The following table details those transactions that qualify for hedge accounting that are outstanding resulting in a risk management asset of \$2,579,829 (January 1, 2007 – a risk management asset of \$4,640,221), resulting in the recognition of other comprehensive loss of \$2,060,392 when compared to the January 1, 2007 mark-to-market:

Commodities hedging contracts:

Settlement dates	Volume (bbl)	Prices US \$/(bbl)	June 30, 2007 Unrealized gain (loss) \$
July, 2007	420,415	44.10 – 94.71	751,077
August, 2007	392,139	44.10 – 94.71	726,852
September, 2007	277,731	45.57 – 90.72	223,849
October, 2007	309,677	45.57 – 91.35	212,572
November, 2007	310,902	45.57 – 88.80	197,400
December, 2007	286,327	45.57 – 89.35	82,219
January, 2008	346,382	45.57 – 89.67	(37,433)
February, 2008	235,682	45.57 – 89.67	107,806
March, 2008	234,957	45.57 – 88.72	98,043
	<u>2,814,212</u>		<u>2,362,385</u>
		Exchange rate	1.0634
		Total CDN dollars	<u>(4,877)</u>

Forward exchange contracts:			June 30, 2007
Term Due	Amount \$	Forward Rates \$	Unrealized gain (loss) \$
July, 2007	445,000	1.0992 – 1.1369	26,773
August, 2007	520,000	1.0583 – 1.1360	24,957
September, 2007	420,000	1.0575 – 1.1349	18,363
October, 2007	310,000	1.0566 – 1.0966	1,292
November, 2007	540,000	1.0559 – 1.0958	1,089
December, 2007	550,000	1.0554 – 1.0951	(261)
January, 2008	535,000	1.0539 – 1.0944	(9,930)
February, 2008	375,000	1.0617 – 1.0938	2,091
March, 2008	510,000	1.0541 – 1.0934	787
April, 2008	85,000	1.0929 – 1.0929	2,508
Total US dollars	4,290,000		67,669
Exchange rate	1.0634		
Total CDN dollars	4,561,986		

Credit Risk

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

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

The Trust is exposed to interest rate fluctuations on its bank indebtedness, which is tied to Canadian bank prime rate. In addition, given the fixed fee nature and the long period to maturity of the financial services contracts, a significant change in interest rates will affect the value of these contracts.

Liquidity and Debt

In relation to its Oil and Gas Division, as at June 30, 2007, the Trust has a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$50.5 million bearing interest ranging from prime plus one-quarter of one percent to prime plus one percent depending on the debt to cash flow ratio of the Trust. The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. As at June 30, 2007, \$41.4 million as drawn on the revolving demand facility.

The Trust has a demand revolving loan facility with a Canadian bank in the amount of \$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. The facility is primarily used to provide credit for natural gas liquids inventory purchases through the Trust's subsidiary Elbow River Marketing Partnership. These facilities are collateralized by a charge over Elbow River's assets. As at June 30, 2007, \$14.9 million was drawn on the demand loan facility.

The average effective interest rate on borrowings under the above lines for the six months ended June 30, 2007, including service fees, was 6.53% (period ended June 30, 2006 – 6.40%).

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As at June 30, 2007, the Trust had seventeen letters of credit outstanding in the aggregate amount of \$2.1 million. The Trust also has guarantees to third parties for an amount up to \$56.2 million to provide Elbow River Marketing Partnership additional credit on natural gas liquids inventory purchases.

The Trust borrowed \$10.0 million, in two equal amounts of \$5.0 million on July 28, 2006 and September 25, 2006, from a third party. The Trust is responsible for interest at 12.5% per annum on the drawn portion of the notes and a standby fee of 2% on any unused portion, for a minimum period of six months. The notes payable matured July 24, 2007 with the option to extend the due date based on mutual agreement of both parties. The note payable is collateralized by a guarantee provided by the Trust. \$5.0 million of the note payable was repaid on November 29, 2006. As at June 30, 2007, \$5.0 million of this note payable is outstanding. The Trust is currently in discussions to extend the notes payable under similar terms to the previous agreement.

EnerVest Limited Partnership ("EnerVest") a wholly owned subsidiary of the Trust, entered into an unsecured promissory note with EnerVest Diversified Income Trust ("EDIT"), an investment vehicle that EnerVest manages, for the reimbursement of offering costs paid by EDIT in relation to its exchange offer on October 24, 2006. The note requires the offering costs to be repaid in equal quarterly payments plus interest over a six year period ending October 1, 2012 and bears interest at a rate per annum equal to the interest rate charged under EDITs' credit facility, which is bank prime less 0.5%. On December 28, 2006 EnerVest paid EDIT \$2.0 million for the four principal payments required in 2007 and interest accrued to date. As at June 30, 2007, \$9.4 million of this note payable is outstanding, with \$0.9 million classified as current notes payable.

The average effective interest rate on borrowings under the above notes payables for the six months ended June 30, 2007, including service fees, was 8.76% (period ended June 30, 2006 – nil%).

<i>(in thousands of dollars)</i>	Total	Payments due by period		
		Less than 1 year	1 – 3 years	4+ years
Notes Payable	14,433	5,943	4,716	3,774
Lease Commitments	15,485	4,146	7,748	3,591
Total Contractual Obligations	29,918	10,089	12,464	7,365

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

Investment and Capital Expenditures

<i>(in thousands of dollars)</i>	For the three months ended		For the six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Financial Services				
Financial services development expenditures	187	24	312	25
Sub-Total	187	24	312	25
Oil and Gas				
Land	131	268	209	430
Drilling	2,093	1,102	2,924	3,253
Production equipment and facilities	1,321	897	2,159	2,391
Other	(31)	172	176	274
Oil and gas property acquisitions	-	-	7,212	-
Proceeds received on oil and gas property dispositions	4	(1,543)	(23)	(1,638)
Sub-Total	3,518	896	12,657	4,710
Assets held for sale - Real Estate				
Real estate acquisitions	-	184	810	1,225
Real estate development expenditures	930	-	1,501	-
Sub-Total	930	184	2,311	1,225
Discontinued Operations - Energy Services				
Energy services acquisitions	-	4,245	-	30,995
Sub-Total	-	4,245	-	30,995
Other assets	40	20	117	41
Net capital expenditures	4,675	5,369	15,397	36,996

Contractual Obligations

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

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

The mark-to-market value of these contracts as at June 30, 2007 was an unrealized loss of \$0.3 million.

THE TRUST'S MANAGEMENT DISCUSSION and ANALYSIS

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

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

<i>(in thousands of dollars)</i>	\$
2007	2,155
2008	3,981
2009	3,030
2010	2,728
2011	1,769
2012	568
2013	341
2014	281
2015	281
2016	281
2017	70
Total	15,485

Unitholders' Capital

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

For the three and six months ended June 30, 2007, the Trust had a weighted average number of trust units outstanding of 41,663,371 and 41,434,002, respectively (three and six months ended June 30, 2006 – 41,047,398 and 40,601,009, respectively). The diluted per unit amounts were calculated assuming the exercise of outstanding in-the-money options resulting in trust units of 319,987 and 120,778 for the three and six months ended June 30, 2007, respectively. Subsequent to June 30, 2007 the Trust issued an additional 197,000 options.

As at June 30, 2007 the total units outstanding for the Trust were 41,696,888 (not including units under escrow of 76,452 relating to the Elbow River acquisition and 52,854 relating to the Essential Energy Services Trust original Avenir options).

Related Party Transactions

During the three and six months ended June 30, 2007, the Trust paid \$44,645 and \$86,803, respectively (three and six months ended June 30, 2006 - \$34,555 and \$71,446, respectively) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at June 30, 2007 is \$29,569 (December 31, 2006 - \$13,650) owing to Avenir relating to administration and advisory services.

During the three and six months ended June 30, 2007, the Trust incurred marketing fees of \$18,000 and \$36,000, respectively (three and six months ended June 30, 2006 - \$18,000 and \$36,000) 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 June 30, 2007 (December 31, 2006 - \$18,000).

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

Recent Accounting Pronouncements

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

Financial instruments

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

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

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

Comprehensive income

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

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

Hedges

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

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

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

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

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

Accounting Changes

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

Equity

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

Future Accounting Pronouncements

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

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

Disclosure Controls and Internal Controls over Financial Reporting

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

Risks & Uncertainties and Critical Accounting Estimates

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

Outlook

After a solid second quarter and a year to date pay out ratio of 67% versus a target of 75-80%, the Trust's diversification model continues to provide for the prospect of stable distributions. On the growth front, management and the Board of the Trust have determined that our Real Estate Division is effectively "restricted from growth" due to our higher cost of capital versus our competitors in the Pension Fund and REIT sectors. This has been especially exacerbated by the federal government rules around trust taxation and the resulting impact on smaller income trusts versus REITs. As such, we have decided to pursue the sale or spin-off of the Real Estate Division with the redeployment of the proceeds into active businesses in which we feel offer better growth prospects and potentially a high return.

We are committed to the merchant banking, diversified trust model and would expect to book a gain on the disposition of the Real Estate Division. An update on the process will be provided if and when a transaction has been finalized.

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 or the Trust's website at www.avenirtrust.com.

Submitted on behalf of:



William M. Gallacher
President & CEO



Gary Dundas
Vice President Finance & CFO

CONSOLIDATED BALANCE SHEETS (unaudited)

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<i>(in thousands of dollars)</i>	June 30, 2007	December 31, 2006
	\$	\$
		(restated - note 3a)
ASSETS <i>[note 4]</i>		
Current		
Cash	776	441
Marketable securities	2,090	13
Accounts receivable and prepaid expenses	67,917	75,634
Inventory	33,595	39,949
Risk management assets <i>[note 9]</i>	5,153	46
Assets held for sale <i>[note 3a]</i>	1,384	836
	110,915	116,919
Property and equipment	153,701	151,681
Investment in financial services contracts	–	3,265
Intangibles and other assets	148,480	150,899
Goodwill	56,875	52,541
Assets held for sale <i>[note 3a]</i>	56,565	52,245
	526,536	530,550
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 4]</i>	56,310	69,240
Accounts payable and accrued liabilities <i>[note 10]</i>	66,116	67,782
Distributions payable	3,472	3,465
Risk management liability <i>[note 9]</i>	2,206	–
Notes payable <i>[note 5]</i>	5,943	5,000
Liabilities of assets held for sale <i>[note 3a]</i>	17,896	20,206
	151,943	165,693
Notes payable <i>[note 5]</i>	8,490	9,434
Asset retirement obligation <i>[note 6]</i>	13,098	12,799
Future income taxes <i>[note 11]</i>	17,272	15,608
Liabilities of assets held for sale <i>[note 3a]</i>	19,495	14,949
Unitholders' equity		
Unitholder capital <i>[note 7c]</i>	418,871	413,731
Contributed surplus <i>[note 7c]</i>	6,265	4,344
Accumulated earnings	78,282	65,022
Accumulated other comprehensive income <i>[notes 2 and 7d]</i>	4,657	–
Accumulated distributions	(191,837)	(171,030)
	316,238	312,067
	526,536	530,550

See accompanying notes to the consolidated financial statements

On behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS (unaudited)

<i>(in thousands of dollars)</i>	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
		(restated – note 3a)		(restated – note 3a)
REVENUE				
Financial services revenue	212,487	154,287	438,031	308,200
Unrealized gain (loss) on financial instruments <i>[note 9]</i>	941	–	134	–
Total financial services revenue	213,428	154,287	438,165	308,200
Oil and gas revenue	13,706	15,016	28,371	28,354
Oil and gas transportation costs	(282)	(213)	(549)	(440)
Royalties, net of ARTC	(1,968)	(1,694)	(3,813)	(4,081)
Unrealized gain (loss) on financial instruments <i>[note 9]</i>	454	673	(71)	1,998
Total oil and gas revenue	11,910	13,782	23,938	25,831
Interest and other income	–	68	–	68
Total revenue	225,338	168,137	462,103	334,099
EXPENSES				
Financial services operating	200,070	145,007	408,377	288,646
Oil and gas operating	4,737	4,600	9,841	8,513
General and administrative <i>[notes 8 and 10]</i>	5,002	4,372	11,400	8,190
Foreign exchange	(646)	(257)	1,373	(870)
Interest and bank fees	1,351	678	2,404	1,157
Interest on long-term debt	110	–	219	–
Capital taxes	88	34	178	155
Depletion, depreciation and amortization	6,985	6,400	13,853	12,850
Asset retirement obligation accretion <i>[note 6]</i>	262	209	532	453
	217,959	161,043	448,177	319,094
Income from continuing operations before income tax	7,379	7,094	13,926	15,005
Future income tax recovery (expense) <i>[note 11]</i>	(2,105)	2,550	(1,664)	1,750
Net income from continuing operations	5,274	9,644	12,262	16,755
Net income from discontinued operations - Real Estate <i>[note 3a]</i>	397	139	740	143
Net income from discontinued operations - Energy Services <i>[note 3b]</i>	–	527	–	3,517
Net income for the period	5,671	10,310	13,002	20,415
Accumulated earnings, beginning of period	72,611	37,729	65,022	27,624
Change in accounting policy <i>[note 2]</i>	–	–	258	–
Accumulated earnings, end of period	78,282	48,039	78,282	48,039
Net income from continuing operations per unit <i>[note 7b]</i> - Basic and diluted	0.13	0.23	0.29	0.41
Net income from discontinued operations per unit <i>[note 7b]</i> - Basic and diluted	0.01	0.02	0.02	0.09
Net income per unit <i>[note 7b]</i> - Basic and diluted	0.14	0.25	0.31	0.50

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

<i>(in thousands of dollars)</i>	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Net income for the period	5,671	10,310	13,002	20,415
Change in derivative instruments designated as cash flow hedges <i>[notes 2 and 9]</i>	(5,541)	–	(2,060)	–
Change in fair value of marketable securities <i>[note 2]</i>	180	–	330	–
Other comprehensive income	(5,361)	–	(1,730)	–
Comprehensive income for the period	310	10,310	11,272	20,415

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

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<i>(in thousands of dollars)</i>	June 30, 2007 \$	June 30, 2006 \$	June 30, 2007 \$	June 30, 2006 \$
		restated – note 3a)		(restated – note 3a)
OPERATING ACTIVITIES				
Net income from continuing operations	5,274	9,644	12,262	16,755
Add (deduct) non-cash items:				
Non-cash general and administrative <i>[note 8]</i>	1,393	1,472	2,448	2,103
Depletion, depreciation and amortization	6,985	6,400	13,853	12,850
Asset retirement obligation accretion	262	209	532	453
Unrealized (gain) loss on foreign instruments	(2,274)	(1,195)	(1,391)	(1,778)
Unrealized (gain) loss on financial instruments	(1,395)	(673)	(63)	(1,998)
Future income tax expense (recovery)	2,105	(2,550)	1,664	(1,750)
Funds from continuing operations	12,350	13,307	29,305	26,635
Funds from discontinued operations - Real Estate	817	329	1,538	614
Funds from discontinued operations - Energy Services	-	2,111	-	9,094
	13,167	15,747	30,843	36,343
Asset retirement costs incurred during year <i>[note 6]</i>	(381)	(69)	(466)	(137)
Change in non-cash working capital	15,517	(14,375)	12,111	11,319
Cash provided by operating activities	28,303	1,303	42,488	47,525
FINANCING ACTIVITIES				
Issue of trust units, net of issue costs	271	1,150	286	1,150
Distributions to unitholders	(10,406)	(14,953)	(20,801)	(29,602)
Increase (decrease) in bank indebtedness	(17,469)	19,258	(12,930)	22,467
Increase (decrease) in notes payable	-	-	-	(7,500)
Decrease in note receivable	-	1,050	-	1,050
Increase in mortgages	1,732	-	3,639	-
Repayment of mortgages	(191)	(133)	(398)	(264)
Repayments of capital lease obligations	-	(22)	-	(51)
Repayment of long-term debt	-	(171)	-	(2,994)
Change in non-cash working capital	-	(75)	-	(41)
Cash provided by (used in) financing activities	(26,063)	6,104	(30,204)	(15,785)
INVESTING ACTIVITIES				
Energy Services Division acquisitions	-	(4,245)	-	(30,995)
Disposition of Energy Services Division <i>[note 3b]</i>	-	(2,383)	-	(2,383)
Financial services expenditures	(187)	(24)	(312)	(25)
Redemption of financial services contracts	1,766	1,030	3,265	1,030
Oil and gas property acquisitions	-	-	(7,212)	-
Oil and gas property disposals	(4)	1,543	23	1,638
Oil and gas development expenditures	(3,514)	(2,439)	(5,468)	(6,348)
Purchase of other assets	(40)	(20)	(117)	(41)
Purchase of real estate properties	-	(184)	(810)	(1,225)
Real estate development expenditures	(930)	-	(1,501)	-
Change in restricted cash	-	-	-	163
Change in non-controlling interest	-	(419)	-	(524)
Change in non-cash working capital	1,029	(266)	440	202
Cash used in investing activities	(1,880)	(7,407)	(11,692)	(38,508)
Increase (decrease) in cash during the period	360	-	592	(6,768)
Cash, beginning of period	-	-	441	6,768
Cash of assets held for sale	416	-	(257)	-
Cash, end of period	776	-	776	-
Cash taxes paid	3,727	1,000	1,951	1,845
Cash interest paid	427	335	437	338

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2007 (unaudited)

1. NATURE OF THE ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial instruments

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2007 (unaudited)

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

Comprehensive income

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

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

Hedges

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

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

Impact upon adoption of standards

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2007 (unaudited)

Accounting Changes

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

Equity

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

Future Accounting Pronouncements

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

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

3. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

a) Real Estate - Assets held for sale

During the three month period ended June 30, 2007, the Trust made the decision to dispose of the Real Estate Division assets by way of sale or spin-out. In meeting the criteria for classification as assets held for sale under CICA Handbook Section 3475, the disposition process is currently underway and the Trust expects to have completed a transaction before the end of 2007. As such, for the six months ended June 30, 2007, the Real Estate Division assets and liabilities and results from operations have been reclassified as assets held for sale. Comparative periods have been restated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2007 (unaudited)

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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>	June 30, 2007	December 31, 2006
	\$	\$
Cash	325	68
Accounts receivable and prepaid expenses	1,059	768
Current assets held for sale	1,384	836
Property and equipment	53,868	52,142
Intangible and other assets	2,697	3,103
Long-term assets held for sale	56,565	55,245
Accounts payable and accrued liabilities	608	1,300
Deferred revenue	291	372
Current portion of mortgages (i)	16,997	18,534
Current liabilities of assets held for sale	17,896	20,206
Mortgages (i)	19,093	14,315
Future income tax	402	634
Long-term liabilities of assets held for sale	19,495	14,949

(i) In relation to the Real Estate Division, the Trust has various mortgages outstanding with interest rates ranging from 4.85% to 6.50% with a weighted average rate of 5.65%. The maturities range from August 2007 to July 2014 and all mortgages are collateralized by a first charge over the related properties. The current portion of the mortgages as at June 30, 2007 was \$16,996,613. 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.

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

<i>(in thousands of dollars)</i>	For the three months ended		For the six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
REVENUE				
Real estate revenue	2,041	990	3,788	1,729
	2,041	990	3,788	1,729
EXPENSES				
Real estate operating	573	380	1,031	562
General and administrative (i)	145	101	255	172
Interest on long-term debt	492	184	944	368
Capital taxes	14	(3)	20	14
Depreciation and amortization	528	296	1,030	577
	1,752	958	3,280	1,693
Income before taxes	289	32	508	36
Future income tax recovery	108	107	232	107
Net income	397	139	740	143

(i) During the three and six months ended June 30, 2007, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions and mortgage financing of \$168,810 and \$292,940, respectively (three and six months ended June 30, 2006 - \$22,936) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$55,343 is included in current liabilities of assets held for sale and \$15,726 is included in current assets held for sale for a net payable of \$39,617 as at June 30, 2007 (December 31, 2006 - \$28,911).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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b) Energy Services - Discontinued operations

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

4. BANK INDEBTEDNESS

In relation to its Oil and Gas Division, as at June 30, 2007,, the Trust had a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$50,500,000 (December 31, 2006 - \$50,500,000) bearing interest ranging from prime plus one-quarter of one percent to prime plus one percent depending on the debt to cash flow ratio of the Trust. The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. As at June 30, 2007, \$41,430,000 (December 31, 2006 - \$45,930,000) was drawn on the revolving demand facility.

The Trust has a demand revolving loan facility with a Canadian bank in the amount of \$70,000,000 (December 31, 2006 - \$70,000,000) bearing interest as follows; for advances of \$50,000,000 or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50,000,000 a 0.125% premium shall apply to applicable interest rates. The facility is primarily used to provide credit for natural gas liquids inventory purchases through the Trust's subsidiary Elbow River Marketing Limited Partnership ("Elbow River"). These facilities are collateralized by a charge over Elbow River's assets. As at June 30, 2007, \$14,879,958 (December 31, 2006 - \$23,309,728) was drawn on the demand loan facility.

The average effective interest rate on borrowings under the above lines for the six months ended June 30, 2007, including service fees, was 6.53% (period ended June 30, 2006 – 6.40%).

As at June 30, 2007, the Trust had seventeen letters of credit outstanding in the aggregate amount of \$2,130,694 (December 31, 2006 - \$751,400).

To provide the Elbow River with additional credit on natural gas liquids inventory purchases, the Trust also has guarantees to third parties for a maximum of \$56,151,964 (December 31, 2006 - \$56,982,738). These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

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5. NOTES PAYABLE

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

EnerVest Limited Partnership ("EnerVest") a wholly owned subsidiary of the Trust, entered into an unsecured promissory note with EnerVest Diversified Income Trust ("EDIT"), an investment vehicle that EnerVest manages, for the reimbursement of offering costs paid by EDIT in relation to its exchange offer on October 24, 2006. The note requires the offering costs to be repaid in equal quarterly payments plus interest over a six year period ending October 1, 2012 and bears interest at a rate per annum equal to the interest rate charged under EDITs' credit facility, which is bank prime less 0.5%. On December 28, 2006, EnerVest paid EDIT \$2,004,418 for the four principal payments required in 2007 and interest accrued to date. As at June 30, 2007, \$9,433,589 (December 31, 2006 - \$9,433,589) of this note payable is outstanding, with \$943,358 classified as current notes payable.

The average effective interest rate on borrowings under the above notes payables for the six months ended June 30, 2007, including service fees, was 8.76% (period ended June 30, 2006 – nil%).

6. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities in its Oil and Gas Division, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligation to be \$13,098,203 as at June 30, 2007 based on a total future liability of \$27,058,783. These payments are expected to be made over the next 29 years. The Trust's credit adjusted risk free interest rate of 8.5% and an inflation rate of 2% were used to calculate the present value of the asset retirement obligation.

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

<i>(in thousands of dollars)</i>	\$
Carrying amount, as at December 31,	12,799
Oil and gas activities during the period	258
Oil and gas divestitures during the period	(25)
Abandonment expenditures incurred during the period	(466)
Asset retirement obligation accretion for the period	532
Carrying amount, as at June 30, 2007	13,098

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. UNITHOLDERS' CAPITAL**a) Unitholders' capital****Authorized**

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

Issued

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

- (i) Trust Units issued upon exercise of stock options in 2007. The total cash received amounted to \$285,782 and the difference of \$327,804 represents the movement from contributed surplus to unitholders' equity relating to the stock based compensation expense previously recognized.
- (ii) In 2006 the Trust issued 123,312 units from treasury, which were escrowed for energy service employees who had unvested Trust options at the time of the Energy Services Division spin-out on May 31, 2006 (see note 3b). These units are to remain in escrow until the vesting date is reached on the respective Trust options based on the original grant date of the options, which will occur over the next one to two and a half years. During 2007, 20,785 (or \$193,396) of these Trust Units were released from escrow on their respective vesting dates. Also, 1,190 (or \$10,363) of these escrowed Trust Units were cancelled as certain terms of the escrow agreement were not met. The total number of Trust Units remaining in escrow for the Energy Services Division spin-out is 52,854.
- (iii) During the three months ended June 30, 2007, 397,554 Trust Units were released from escrow in relation to the acquisition of Elbow River in 2005. 76,452 of these Trust Units were released from escrow on the second anniversary date of the close of the acquisition. The remaining 321,102 Trust Units have been recognized in the consolidated interim financial statements as the conditions under the terms of the release from escrow, being management achieving cumulative earnings before income taxes, depreciation and amortization of \$28.5 million or greater after giving effect to bonuses, have been met. The Trust Units were valued at the time of the acquisition at \$10.90. The total number of Trust Units remaining in escrow in relation to the Elbow River acquisition is 76,452.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2007 (unaudited)

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b) Per unit amounts

For the three and six months ended June 30, 2007, the Trust had a weighted average number of trust units outstanding of 41,663,371 and 41,434,002, respectively (three and six months ended June 30, 2006 – 41,047,398 and 40,601,009, respectively). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options of an additional 319,987 and 120,778 Trust Units for the three and six months ended June 30, 2007, respectively, resulting in a weighted average number of trust units outstanding for the three and six months ended June 30, 2007, of 41,983,358 and 41,554,780, respectively (three and six months ended June 30, 2006 – 41,065,736 and 40,663,544, respectively). If the Escrowed Trust Units relating to the Elbow River acquisition and the spin out of the Energy Services Division were issued there would be a decrease of \$0.01 in the basic earnings per unit for the three months ended June 30, 2007 with no change for the six months ended June 30, 2007 and there would be no change in the diluted earnings per unit for the three and six months ended June 30, 2007.

c) Contributed surplus

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

<i>(in thousands of dollars)</i>	\$
Contributed surplus, December 31, 2006	4,344
Stock based compensation expense [note 8]	2,458
Release of units from escrow relating to Energy Services Division [note 7a(ii)]	(203)
Options exercised	(328)
Settlement of options	(6)
Contributed surplus, June 30, 2007	6,265

d) Accumulated other comprehensive income

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

<i>(in thousands of dollars)</i>	\$
Accumulated other comprehensive income, December 31, 2006	-
Derivative instruments designated as cash flow hedges	2,580
Fair value of marketable securities	2,077
Accumulated other comprehensive income, June 30, 2007	4,657

8. STOCK-BASED COMPENSATION

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table summarizes the status and changes during the six months ended June 30, 2007:

	Number of options outstanding	Weighted average grant date exercise price \$
Outstanding, December 31, 2006	1,956,229	9.09
Granted	1,296,400	7.27
Exercised	(81,664)	(8.19)
Expired	(123,501)	(9.11)
Outstanding, March 31, 2007	3,047,464	8.34
Exercisable, March 31, 2007	266,563	10.70

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

June 30, 2007 Strike Price \$	Grant date exercise price \$	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
1.41	9.00	58,669	2.4	26,613
4.38	10.69	111,834	3.4	27,947
3.88	10.90	336,061	2.8	187,004
3.58	11.00	30,000	2.5	16,666
4.40	11.20	25,000	3.0	8,333
7.40	8.30	1,191,500	4.1	-
7.61	8.35	49,500	4.3	-
6.74	7.16	17,500	4.6	-
6.83	7.16	100,000	4.7	-
7.03	7.28	1,127,400	4.8	-
		3,047,464	4.1	266,563

As a result of the grind feature of the options, the price on the date of grant is reduced by the distributions paid to unitholders. Accordingly, the weighted average strike price at June 30, 2007 on all outstanding options was \$6.57 and the weighted average strike price at June 30, 2007 on all exercisable options is \$3.68.

The total value of stock-based compensation of \$8,933,921 for those options issued to employees and directors was calculated using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. The assumptions made for the options granted in 2007 are as follows:

	2007 Granted Options
Expected volatility	37.91%
Risk - free interest rate	4.0%
Expected life of options	5 years
Dividend yield	nil

The Trust recorded compensation expense and contributed surplus of \$1,397,683 and \$2,457,876 relating to the Trust's current options for the three and six months ended June 30, 2007, respectively (three and six months ended June 30, 2006 - \$1,471,990 and \$2,103,135, respectively). The Trust recorded compensation expense and contributed surplus of \$(4,315) and \$(10,363) for the spin out of the Energy Services Division (see note 7a(ii)) for the three and six months ended June 30, 2007 (nil for the period ended June 30, 2006).

Subsequent to June 30, 2007 the Trust issued an additional 197,000 options..

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2007 (unaudited)

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9. FINANCIAL INSTRUMENTS

(in thousands of dollars)

	\$
Risk management asset, December 31, 2006	46
Transition adjustment on adoption of new standards [note 2]	4,640
Transition adjustment to retained earnings for hedges no longer qualifying for hedge accounting [note 2]	258
Change in mark-to-market for hedges not qualifying for hedge accounting – oil & gas (i)	(71)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	134
Change in mark-to-market of cash flow hedge contracts (iii)	(2,060)
Net risk management asset, June 30, 2007	2,947
Reclassified to risk management liability, June 30, 2007	2,206
Risk management asset, June 30, 2007	5,153

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

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

- A fixed price AECO natural gas swap for the period November 1, 2006 to October 31, 2007 on 700 GJ/day of gas at a price of \$6.64 Cdn/GJ
- A fixed price WTI collar for the period November 1, 2004 to October 31, 2007 on 70 barrels/day of crude oil with a floor price of \$38.00 US/Bbl and a ceiling price of \$44.65 US/Bbl
- A fixed price WTI floor for the period December 1, 2004 to November 30, 2007 on 170 barrels/day of crude oil with a floor price of \$40.00 US/Bbl
- A fixed price WTI floor for the period from August 1, 2006 to December 31, 2007 on 200 barrels/day of crude oil with a floor of \$65.00 and the Trust participates in 77% of the upside above the floor price
- A fixed price WTI floor for the period from August 1, 2006 to July 31, 2007 on 200 barrels/day of crude oil with a floor of \$60.00 and the Trust participates in 88% of the upside above the floor price
- A fixed price WTI floor for the period August 1, 2007 to July 31, 2008 on 200 barrels/day of crude oil with a floor price of \$70.50 US/Bbl

The mark-to-market value of these contracts as at June 30, 2007 was an unrealized loss of \$387,752 (December 31, 2006 – an unrealized loss of \$316,639), resulting in the recognition of an unrealized loss on the income statement for the six months ended June 30, 2007 of \$71,113 when compared to the December 31, 2006 mark-to-market.

(ii) The following tables detail those transactions in the Elbow River Marketing group that do not qualify for hedge accounting, which resulted in a risk management asset of \$754,442 (December 31, 2006 – an unrealized gain of \$619,896), resulting in the recognition of an unrealized gain on the income statement for the six months ended June 30, 2007 of \$134,546 when compared to the December 31, 2006 mark-to-market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Forward exchange contracts:

Term Due	Forward Rates	June 30, 2007 Unrealized gain \$
August, 2007	1.0586 – 1.1308	37,579
September, 2007	1.0634 – 1.1297	37,957
October, 2007	1.0634 – 1.1288	43,970
November, 2007	1.0634 – 1.1279	42,858
December, 2007	1.0634 – 1.1270	42,420
January, 2008	1.0634 – 1.1262	41,600
February, 2008	1.0634 – 1.1597	173,102
March, 2008	1.0634 – 1.1587	170,853
April, 2008	1.0634 – 1.1578	168,980
	Total CDN dollars	<u>759,319</u>

Futures contracts:

Settlement dates	Volume (bbls)	Prices US \$(/bbls)	June 30, 2007 Unrealized (loss) \$
August, 2007	4,000	84.63 – 85.78	(4,586)
	<u>4,000</u>		(4,586)
		Exchange rate	1.0634
		Total CDN dollars	<u>(4,877)</u>

(iii) The Elbow River Marketing group of the Trust sells natural gas liquids, ethanol, biodiesel, diesel, and asphalt product in the United States and Canada, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, biodiesel, and ethanol. The following table details those transactions that qualify for hedge accounting that are outstanding resulting in a risk management asset of \$2,579,829 (January 1, 2007 – a risk management asset of \$4,640,221), resulting in the recognition of other comprehensive loss of \$2,060,392 when compared to the January 1, 2007 mark-to-market:

Commodities hedging contracts:

Settlement dates	Volume (bbl)	Prices US \$(/bbl)	June 30, 2007 Unrealized gain (loss) \$
July, 2007	420,415	44.10 – 94.71	751,077
August, 2007	392,139	44.10 – 94.71	726,852
September, 2007	277,731	45.57 – 90.72	223,849
October, 2007	309,677	45.57 – 91.35	212,572
November, 2007	310,902	45.57 – 88.80	197,400
December, 2007	286,327	45.57 – 89.35	82,219
January, 2008	346,382	45.57 – 89.67	(37,433)
February, 2008	235,682	45.57 – 89.67	107,806
March, 2008	234,957	45.57 – 88.72	98,043
	<u>2,814,212</u>		<u>2,362,385</u>
		Exchange rate	1.0634
		Total CDN dollars	<u>2,512,160</u>

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Forward exchange contracts:

Settlement dates	Amount \$	Forward Rates CDN \$	June 30, 2007
			Unrealized gain (loss) \$
July, 2007	445,000	1.0992 – 1.1369	26,773
August, 2007	520,000	1.0583 – 1.1360	24,957
September, 2007	420,000	1.0575 – 1.1349	18,363
October, 2007	310,000	1.0566 – 1.0966	1,292
November, 2007	540,000	1.0559 – 1.0958	1,089
December, 2007	550,000	1.0554 – 1.0951	(261)
January, 2008	535,000	1.0539 – 1.0944	(9,930)
February, 2008	375,000	1.0617 – 1.0938	2,091
March, 2008	510,000	1.0541 – 1.0934	787
April, 2008	85,000	1.0929 – 1.0929	2,508
Total US dollars	4,290,000		67,669
Exchange rate	1.0634		
Total CDN dollars	4,561,986		

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

10. RELATED PARTY TRANSACTIONS

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

- During the three and six months ended June 30, 2007, the Trust paid \$44,645 and \$86,803, respectively (three and six months ended June 30, 2006 - \$34,555 and \$71,446, respectively) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at June 30, 2007 is \$29,569 (December 31, 2006 - \$13,650) owing to Avenir relating to administration and advisory services.
- During the three and six months ended June 30, 2007, the Trust incurred marketing fees of \$18,000 and \$36,000, respectively (three and six months ended June 30, 2006 - \$18,000 and \$36,000) 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 June 30, 2007 (December 31, 2006 - \$18,000).
- In the normal course of joint venture activities, the Trust's Oil and Gas Division from time to time, engages in business transactions with companies having directors in common with the Trust. In this regard, during the period, the Trust purchased minor producing property interests from a publicly traded corporation with certain directors in common for \$7,212,256.

11. INCOME TAXES

In June 2007 the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded income trusts effective January 1, 2011. Prior to June 2007, the Trust estimated future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate. Under the new legislation, the Trust now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.5%. The temporary differences reversing before 2011 will still give rise to nil future income taxes. Based on its assets and liabilities as at June 30, 2007, the Trust has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. The Trust estimates that \$4,255,655 net taxable temporary differences will reverse after January 1, 2011.

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

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

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

<i>(in thousands of dollars)</i>	June 30, 2007
	\$
Property and equipment	18,745
Intangibles and other assets & Goodwill	2,439
Risk management liability	(3,788)
Asset retirement obligations	(124)
Future tax liability	17,272

As a result of the new legislation an additional future income tax expense of \$1,340,842 has been recorded for the three and six months ended June 30, 2007. The additional balance recorded of \$763,659 and \$323,525 for the three and six months ended, respectively, relates to changes in estimates on the temporary differences in the Trust's Oil and Gas Division that existed prior to the effect of the new legislation.

12. SEGMENTED INFORMATION

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

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

The following is selected financial information for each business segment:

	For the three months ended June 30, 2007				
<i>(in thousands of dollars)</i>	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Net Total Revenue	213,428	11,910	–	–	225,338
Net Operating Expenses	200,070	4,737	–	–	204,807
Income (loss) from continuing operations	9,901	(1,366)	(3,261)	–	5,274
Discontinued operations – Real Estate	–	–	–	397	397
Net income (loss)	9,901	(1,366)	(3,261)	397	5,671

	For the six months ended June 30, 2007				
<i>(in thousands of dollars)</i>	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Net Total Revenue	438,165	23,938	–	–	462,103
Net Operating Expenses	408,377	9,841	–	–	418,218
Income (loss) from continuing operations	18,517	(1,515)	(4,740)	–	12,262
Discontinued operations – Real Estate	–	–	–	740	740
Net income (loss)	18,517	(1,515)	(4,740)	740	13,002

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For the three months ended June 30, 2007

<i>(in thousands of dollars)</i>	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Gross Revenue	154,287	13,782	68	–	168,137
Inter-segment eliminations	–	–	–	–	–
Net Total Revenue	154,287	13,782	68	–	168,137
Operating expenses	145,007	4,645	–	–	149,652
Inter-segment eliminations	–	(45)	–	–	(45)
Net Operating Expenses	145,007	4,600	–	–	149,607
Net income (loss) before inter-segment eliminations	6,650	4,685	(1,646)	–	9,689
Inter-segment eliminations	–	(45)	–	–	(45)
Income (loss) from continuing operations	6,650	4,640	(1,646)	–	9,644
Discontinued operations – Real Estate	–	–	–	139	139
Discontinued operations – Energy Services	–	–	–	527	527
Net income (loss)	6,650	4,640	(1,646)	666	10,310

For the six months ended June 30, 2007

<i>(in thousands of dollars)</i>	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Gross Revenue	308,345	25,831	213	–	334,389
Inter-segment eliminations	(145)	–	(145)	–	(290)
Net Total Revenue	308,200	25,831	68	–	334,099
Operating expenses	288,646	8,631	–	–	297,272
Inter-segment eliminations	–	(118)	–	–	(118)
Net Operating Expenses	288,646	8,513	–	–	297,159
Net income (loss) before inter-segment eliminations	13,797	5,332	(2,492)	–	16,125
Inter-segment eliminations	145	118	(145)	–	118
Income (loss) from continuing operations	13,942	5,450	(2,637)	–	16,755
Discontinued operations – Real Estate	–	–	–	143	143
Discontinued operations – Energy Services	–	–	–	3,517	3,517
Net income (loss)	13,942	5,450	(2,637)	3,660	20,415

June 30, 2007

<i>(in thousands of dollars)</i>	Financial Services	Oil & Gas	Corporate	Discontinued Operations	Total
	\$	\$	\$	\$	\$
Selected balance sheet items					
Property and equipment	812	152,889	–	–	153,701
Intangibles and other assets	148,480	–	–	–	148,480
Goodwill	35,640	21,235	–	–	56,875
Total assets	274,877	189,900	3,810	57,949	526,536
Working capital (deficiency)	25,427	(44,673)	(5,270)	(16,512)	(41,028)
Notes payable	8,490	–	–	–	8,490

CORPORATE INFORMATION

DIRECTORS

William M. Gallacher (2,3)
President & CEO, Chairman

Gary H. Dundas
VP Finance & CFO

David E. Butler (1,3)

Stuart Y. Chow (2,3)

Jeffery Kohn

Alan Moon (1,2)
Lead Director

William E. Patterson (1,2)

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

CORPORATE SECRETARY

J.G. (Jeff) Lawson
Burnet, Duckworth & Palmer, LLP

AUDITORS

Ernst & Young, LLP

BANKERS

National Bank of Canada
HSBC Bank Canada
Canadian Western Bank

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.

LEGAL COUNSEL

Burnet, Duckworth & Palmer, LLP

TRANSFER AGENT

Olympia Trust Company

OFFICERS & KEY PERSONNEL

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

EnerVest Management Ltd.

Kevin Wolfe, President
Ward Mallabone, COO
Sean Morgan, CFO

Elbow River Marketing LP

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

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OIL & GAS ABBREVIATIONS

AVF.UN
Q2|07

Oil, Natural Gas and Natural Gas Liquids

Bbl	barrel
Bbls	barrels
Bbls/d	barrels per day
Bcf	billion cubic feet
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mmbbls	million barrels
MMBTU	million British Thermal Units
Mmcf	million cubic feet
Mmcf/d	million cubic feet per day
NGLs	natural gas liquids

Other

AECO	The AECO-C hub is the main pricing point for Alberta natural gas and represents the major pricing point for Canadian gas. Prices are determined via the spot market, which includes all transactions for sale of 30 days or less, but typically refers to a 30-day sale.	OOIP	original oil in place
BOE	barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one Bbl of oil, unless otherwise specified. The conversion factor used to convert natural gas to oil equivalent is not necessarily based upon either energy or price equivalents at this time	WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade
BOE/d	barrels of oil equivalent per day	°API	the measure of the density or gravity of liquid petroleum products derived from a specific gravity
COGPE	Canadian oil and gas property expense, as defined in the Tax Act	MW	megawatts of electrical power
MBOE	thousand barrels of oil equivalent	3D	three dimensional
McfGe	thousand cubic feet of gas equivalent	Darcies	the measure of permeability (being the ease with which a single fluid will flow through connected pore space when a pressure gradient is applied)
MMBOE	million barrels of oil equivalent	Porosity	the measure of the fraction of pore space of a reservoir.