

AVENIR DIVERSIFIED INCOME TRUST

2008 ANNUAL REPORT



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**TOTAL CONSOLIDATED FINANCIAL SUMMARY**

	For the year ended Dec 31			For the three months ended Dec 31		
	2008	2007 <sup>4</sup>	% Change	2008	2007 <sup>4</sup>	% Change
Total Revenue	\$2,230,722	\$853,373	161%	\$709,145	\$214,549	231%
Funds (Used In) From						
Continuing Operations (FFCO) <sup>1,2</sup>	\$18,106	\$35,650	-49%	\$(34,160)	\$5,168	-761%
FFCO1 Per Unit - Basic	\$0.43	\$0.86	-50%	\$(0.81)	\$0.12	-775%
Funds From Operations (FFO) <sup>1</sup>	\$25,024	\$53,611	-53%	\$(34,160)	\$9,557	-457%
FFO Per Unit <sup>1</sup> - Basic	\$0.60	\$1.29	-53%	\$(0.81)	\$0.23	-452%
Monthly Distributions	\$41,826	\$41,659	0%	\$10,486	\$10,429	1%
Distributions Per Unit – Basic	\$1.00	\$1.00	0%	\$0.25	\$0.25	0%
Distribution Payout Ratio <sup>3</sup>	167%	78%	-114%	(30)%	109%	128%
Special Distribution	\$25,260	–	100%	\$25,260	–	100%
Net (Loss) Income from						
Continuing Operations (NICO) <sup>2</sup>	\$(39,933)	\$15,506	-3658	\$(96,103)	\$9,191	-1146%
NICO Per Unit - Basic	\$(0.95)	\$0.37	-357%	\$(2.28)	\$0.22	-1136%
Net (Loss) Income	\$2,513	\$27,391	-91%	\$(96,067)	\$9,910	-1069%
Net (Loss) Income Per Unit - Basic	\$0.06	\$0.66	-91%	\$(2.28)	\$0.24	-1050%
Total Assets	\$522,228	\$597,776	-13%	\$522,228	\$597,776	-13%
Working Cap. (Net Debt) excluding mortgages and assets of discontinued operations	\$59,703	\$(49,137)	222%	\$59,703	\$(49,137)	222%
Mortgages	\$(38,688)	\$(44,450)	13%	\$(38,688)	\$(44,450)	13%
Wtd. Avg. Units Outstanding - Basic	41,957,872	41,590,308	1%	42,062,380	41,766,892	1%
Units Outstanding (including escrowed units)	42,100,796	41,883,454	1%	42,100,796	41,883,454	1%

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

2 The operations of EnerVest Limited Partnership, as a result of being classified as 'Discontinued operations', have been excluded from the Trust's Continuing Operations.

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

4 Comparative periods have been restated to conform to current period presentation – specifically relating to the reclassification of the EnerVest Limited Partnership as discontinued operations and the Real Estate Division as assets held and used.

### ***Forward Looking Statements***

Certain statements contained herein including, without limitation, financial and business prospects and financial outlook, the effect of government announcements, proposals and legislation, plans in its Oil and Gas Division regarding hedging, wells to be drilled, expected or anticipated production rates, timing of expected production increases, the weighting of production between different commodities, expected commodity prices, exchange rates, production expenses, transportation costs and other costs and expenses, maintenance of productive capacity and capital expenditures; plans in the Elbow River Marketing Limited Partnership (“Elbow River”) business regarding plans for its ongoing Liquefied Petroleum Gas (“LPG”) business and activities around the exit from marketing its bio-diesel product; plans in the Real Estate Division for the timing of selling assets and the nature of capital expenditures; and the timing and method of financing these businesses, may be forward looking statements. Words such as “may”, “will”, “should”, “could”, “anticipate”, “believe”, “expect”, “intend”, “plan”, “potential”, “continue”, “targeted” and similar expressions may be used to identify these forward looking statements. These statements reflect management’s current beliefs and are based on information currently available to management. Forward looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including, but not limited to, risks associated with oil and gas exploration: development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers and the inability to retain drilling rigs and other services; risks associated with its Elbow River business including, but not limited to, counterparty risk in default, operational risks, hedging, access to credit, competitor risk, seasonality and impact of the global recession on overall economic activity; and risks associated with the Real Estate Division including, but not limited to the impact the overall economy has on valuations, future delinquencies, access to mortgages and impact on interest rates; as well as the risks associated with the Trust’s incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined under “Risk Factors” and elsewhere herein. The recovery and reserve estimates of Avenir’s reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Avenir believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Avenir can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Avenir operates; the timely receipt of any required regulatory approvals; the ability of Avenir to obtain qualified staff, equipment and services in a timely and cost efficient manner; Divisional results; the ability of operators to operate the field in a safe, efficient and effective manner; the ability of Avenir to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Avenir to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Avenir operates; and the ability of Avenir to successfully market its products, fluctuations in foreign exchange or interest rates and stock market volatility, credit risk and the ability to realize on collateral in the event of default, failure of counter parties to perform on contracts, fluctuation in the value of real property, failure to produce income or revenue from real estate, failure of tenants to meet lease obligations, increase in property taxes and mortgage, maintenance, insurance, operating costs and decreases in occupancy and rental rates, and fixed costs in relation to variable revenue streams. Readers are cautioned that the foregoing list of factors is not exhausted. These forward looking statements are made as of the date hereof and Avenir assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward looking statements and other information contained herein concerning the Oil and Gas Division, Elbow River's business, the Real Estate Division and Avenir's general expectations concerning these industries are based on estimates prepared by each Division's management and from using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of these industries which Avenir believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Avenir is not aware of any misstatements regarding any industry data presented herein, these industries involve risks and uncertainties and are subject to change based on various factors.

## **PRESIDENT'S MESSAGE**

For the Trust, 2008 will be remembered as the year that the value crystallizing Enervest sale and strong operational performances in our Oil and Gas Division and base Elbow River LPG marketing group were overshadowed by the losses surrounding the Elbow River exit from bio-diesel marketing.

In May 2008 the Trust sold the Enervest Management contract for net proceeds, after adjustments, fees and debt, of approximately \$161.0 million for a gain of \$34.0 million. This sale afforded the Trust the ability to pay out a one-time special distribution of \$0.60 per unit (\$25.3 million) to Unitholders and provides a very strong well-capitalized balance sheet going into 2009. At yearend, the Trust had \$59.7 million in non-real estate cash and working capital, undrawn bank lines of \$42.5 million in its Oil and Gas Division and mortgages of \$38.6 million against an estimated fair value of approximately \$50.0 million in its Real Estate Division.

The Oil and Gas Division was able to maintain production at the targeted 3,350 BOE/d level with finding and development costs, including future development costs, of \$16.76 per BOE on a proved plus probable basis. Operational success was highlighted in a Cadomin development in our N.E. British Columbia core area with the recent well testing at 5,000 Mcf/d.

Two buildings were sold in the Real Estate Division at cap rates of approximately 7% for gains on sales of \$10.1 million. Although many offers were and continue to be considered and negotiated, the Trust has formally removed the real estate portfolio from the market in view of current market conditions. The Real Estate Division continues to be fully-leased and provides expected cash flow for the Division, although only representing about 4-5% of the Trust's funds from operations.

Operationally there were really two tales at Elbow River as the base LPG and ethanol business had strong annual funds from operations of approximately \$21.0 million including approximately \$10.3 million in the fourth quarter. Conversely, the bio-diesel business which looked so promising earlier in the year ran into the global financial market crisis headwinds, changing government regulations and global recession in the fourth quarter as they were attempting to exit from the marketing of the product. Funds from operations of approximately \$12.7 million in the first three quarters of the year were more than erased with negative fourth quarter funds from operations of around \$15.9 million including inventory write-downs, tankage and tank car charges, severance and basis risk losses. Elbow River has now finalized all physical shipments of bio-diesel, mitigated all tankage and tank car liabilities and is working to collect the outstanding receivables. Currently Elbow River is expecting an additional \$10.5 million in bio-diesel charges and hedging losses in the first quarter of 2009 and to be completely wrapped-up by mid second quarter 2009.

In addition, Elbow River was further hit on the bio-diesel side when, as press released on March 9, 2009, one of their joint venture partners advised that they would not be able to pay Elbow River their proportionate share of joint venture proceeds. Accordingly, Elbow River has recorded \$35.7 million in bad debt expense for uncollectable accounts related to bio-diesel. Elbow River immediately filed an injunction and lawsuit against the partner requesting that funds be placed in escrow pending resolution of the issue. Recently however, although the court denied Elbow River's emergency motion for a preliminary injunction to freeze those funds, the court has not yet made a determination of the merits of Elbow River's claims to the monies at issue. Elbow River's lawsuit remains on course to proceed to trial on the merits, and Elbow River continues to pursue its legal rights with respect to these monies, including vigorously prosecuting the lawsuit.

Taking into consideration the above, the net effect for Elbow River for 2008, which includes Elbow's funds from operations, their bio-diesel losses, and the bio-diesel bad debt expense, was a loss of \$17.9 million.

The Trust had funds from operations of \$25.0 million for 2008 for a 167% payout ratio based on monthly cash distributions as the fourth quarter 2008 was reduced by the \$15.9 million impact of exiting the marketing of bio-diesel and a charge of \$35.7 million for bio-diesel bad debts. The core businesses of the Trust remain very strong as even in the fourth quarter of 2008, with falling commodity prices, the Trust would have had a 60% payout ratio, better than its target 75%-80% funds from operations payout target, if the impact of the bio-diesel exit and bio-diesel bad debts were excluded.

Going forward, the Trust is looking to finalize the bio-diesel wrap-up before redeploying funds or using the undrawn bank lines to support any acquisition opportunities that may be available in what is essentially a "buyers market". Accordingly, with the ongoing uncertainty due to the global recession and lower oil and gas commodity prices, the board of directors will continue to review distributions on a monthly basis. The Trust remains committed to remaining a distribution paying entity and expects to take advantage of its current trust structure into 2011.

Given the positive EnerVest sale and the finalizing of the exit of bio-diesel, the Trust is moving forward with \$42.5 million in undrawn lines of credit and \$59.7 million available cash and working capital to take advantage of opportunities in the future.

Submitted on behalf of the Board of Directors by:



William M. Gallacher  
President & CEO

## REVIEW OF FINANCIAL RESULTS

Net income for the year ended December 31, 2008 was \$2.5 million or \$0.06 per unit versus \$27.4 million or \$0.66 per unit for the year ended December 31, 2007. The Trust had a net loss for the quarter ended December 31, 2008 of \$96.1 million down 1069% over the \$9.9 million in income recorded for the quarter ended December 31, 2007. Very strong operating results, a \$34.0 million gain on the sale of the EnerVest management assets and a \$10.1 million gain on the sale of two real estate properties over three quarters was more than offset by a number of fourth quarter non-recurring charges that resulted in the large fourth quarter loss and reduced full year 2008 net income to \$2.5 million. The non-recurring charges included a bad debt expense of \$35.7 million related to an Elbow River bio-diesel partner; a goodwill impairment charge in Elbow River of \$13.0 million recognizing the reduced market value of the business; a \$3.5 million Elbow River intangible write-down recognizing an impairment to the value of non-compete agreements and certain contracts within the business; a fourth quarter bio-diesel loss of approximately \$15.9 as Elbow River wrote down its bio-diesel inventory, and began exiting sales of the bio-diesel product; a real estate impairment of \$8.0 million reflecting higher cap rates and lower market valuations; the recognition of eighteen months depreciation and amortization on the Trust's real estate portfolio as it was reclassified as assets held and used; and a goodwill impairment charge of \$21.2 million on the Oil and Gas Division reflecting reduced valuations as a result of lower commodity prices and the overall global financial crisis.

Funds from continuing operations for the year ended December 31, 2008 were \$18.1 million down 49% from the \$35.7 million in 2007. Strong results in the Oil and Gas Division as a result of record commodity prices were more than offset by the fourth quarter 2008 impact of the loss on the exit from marketing bio-diesel and the recognition of \$35.8 million in bad debt expense primarily in Elbow River's bio-diesel segment. Within the Elbow River business, the base LPG and ethanol group recorded results of \$21.0 million on solid butane and condensate sales throughout the year and strong winter propane sales, however bio-diesel incurred a negative funds from continuing operations of \$38.8 million including \$35.7 million of bad debt expense.

Funds from continuing operations for the fourth quarter of 2008 were negative \$34.2 million down 761% from \$5.2 million in the same quarter in 2007. The Oil and Gas Division was up 56% over 2007 on stronger commodity prices, however the Elbow River business was down \$42.6 million to the previous quarter in 2007 due to bio-diesel losses and a \$35.7 million bad debt expense in the bio-diesel segment. The base LPG and ethanol products had very strong results of \$10.3 million on continued butane sales and strong propane sales. However, bio-diesel recorded negative funds from continuing operations of \$51.6 million for the quarter including the bad debt expense.

For the period ended December 31, 2008 monthly cash distributions of \$41.7 million represented 167% of the \$25.0 million funds from operations. Had the Trust not been forced to recognize the \$35.7 million bad debt expense associated with Elbow River, the funds from operations for 2008 would have been \$60.7 million despite a significant fourth quarter 2008 loss in exiting the marketing of bio-diesel product sales.

Despite the negative impact of the large uncollectable accounts provision, the Trust continues to maintain a very strong balance sheet with estimated cash and working capital available for operations and investment of approximately \$59.7 million as at December 31, 2008, exclusive of real estate mortgages, and not including undrawn credit lines of approximately \$46.5 million. The Oil and Gas Division of the Trust, although impacted by lower commodity prices, continues to operate at or around its targeted 3,300 BOE/d. Elbow's base LPG and ethanol marketing businesses look to have strong first quarter 2009 results on the back of 2009 presales.

## REVIEW OF BUSINESS UNIT OPERATIONS

### 1. FINANCIAL SERVICES – ELBOW RIVER

At December 31, 2008 the Trust's Financial Services business unit consisted only of Elbow River Marketing Limited Partnership as the EnerVest Management Assets was sold in May 2008 and for all comparative periods has been classified for accounting purposes as 'Discontinued Operations'.

Excluding the charges associated with the exit of the bio-diesel business, Elbow River's 2008 results exceeded targets due to record contributions from the LPG segment and a particularly strong fourth quarter. For the majority of the year propane saw typical demand, however the end of the year presented very strong sales opportunities as cold weather hit the key consuming regions. Butane sales were once again very strong as Elbow River was able to arbitrage various markets and take advantage of the constantly changing demand patterns. The natural gasoline business became a steady component of the LPG segment of the company as additional Alberta Oil Sands activity increased the overall market size. Ethanol experienced a highly competitive market, however overall Elbow was able to carve out some niches that allowed overall growth to this segment. Bio-diesel experienced a very turbulent year based on major geo-political issues and as a result Elbow River made the decision in Q4 to start the process of exiting the business which is detailed below.

Looking forward, the base LPG and ethanol segments look positioned to exceed their normal winter quarter of \$4.5 million to \$5.0 million cash flow as the first quarter of 2009 has strong overall presales. Demand for propane during Q1 was the strongest it has been in several years and Elbow River was well positioned to capture opportunities. Butane demand overall is weaker than usual but there have been and should continue to be some solid arbitrage opportunities. Natural gasoline demand is also weaker overall however decent term sales along with the likelihood of the market returning to balance should allow Elbow River to continue to grow this aspect of the business. Overall the ethanol markets are weak but Elbow River has been able to build on some new strategies related to increasing its portfolio of marketing agreements that should provide a solid base to increase the business overall.

### **Exit from the Marketing of Bio-diesel**

In November of 2008 Elbow River made the decision to exit from marketing bio-diesel due to the higher risk/reward nature of the business which was not inline with the Trust's business model. The global financial crisis and changing international government regulations added further counterparty risk. Elbow River was able to transfer the bio-diesel asset obligations to a large European agricultural company based out of Rotterdam which operates in 22 countries around the world. As a result of exiting the marketing of bio-diesel, Elbow River originally estimated costs of \$11.0 million associated with this process. These costs included a basis change on its inventory position, a provision for Q4 defaults; additional storage/demurrage costs in order to liquidate products in Q4; the liquidation of tankage and tank car positions and severance and legal costs. However, based on fourth quarter 2008 bio-diesel operational losses of \$15.9, excluding bio-diesel bad debt allowance and an estimated \$10.5 million in Q1 2009 bio-diesel losses it now appears that operational bio-diesel losses will total \$26.4 million.

As announced in the press release dated March 9, 2009, Elbow River advised of a significant increase in the provision for uncollectable accounts. Elbow River had been advised by one of its joint venture parties that the party's bank and equity holder had demanded payment from the party and were claiming 100% of the proceeds earned under the "Memorandum of Understanding" not just the party's proportionate share. To that end, Elbow River had to take a provision of \$35.7 million for bad debts in its December 31, 2008 financial statements to cover bio-diesel uncollectable accounts. In response to the joint venture parties, Elbow River filed an injunction to freeze the funds and a lawsuit against the parties in efforts to recover the funds. Although the court denied Elbow River's emergency motion for a preliminary injunction to freeze certain funds, the court has not made a determination of the merits of Elbow River's claim to the monies at issue. Elbow's lawsuit remains on course to proceed to trial on the merits, and Elbow River continues to pursue its legal rights with respect to these monies, including vigorously prosecuting the lawsuit.

## **2. ENERGY - OIL & GAS DIVISION**

The Oil and Gas Division continued to deliver consistent production volumes in 2008 through a combination of internally generated capital expenditure programs and acquisition activity. This development focus combined with a third quarter asset acquisition, allowed the Trust to increase production 11% in the fourth quarter 2008 to 3,585 BOE per day up from 3,228 BOE per day in Q3 of 2008. While sales of oil and natural gas liquids remained consistent with the prior quarter at 1,480 barrels per day, the sales volume of natural gas increased 22% to 12,629 Mcf per day in Q4 of 2008 from 10,393 Mcf per day in the third quarter of 2008. The yearly average production for 2008 was 3,339 BOE per day consistent with the average production of 3,348 BOE per day in 2007. In comparison to the total year 2007, reported oil and natural gas liquids for 2008 averaged down 7% to

1,529 bbl per day while natural gas sales were up 6% to 10,859 Mcf per day. On a BOE basis (6 to 1 conversion), the production ratio of the Trust at year end 2008 was 41% oil and natural gas liquids and 59% natural gas reflecting the natural gas focus of the capital expenditures in 2008.

Total gross revenue from petroleum and natural gas sales in 2008 was \$75.1 million up 30% from \$57.5 million in 2007 due to higher oil and natural gas liquids pricing. Similarly, the higher natural gas prices in the fourth quarter of 2008 combined with higher sales gas volumes resulted in \$16.3 million of gross revenue, up 13% from \$14.4 million in the same period of 2007. The average price received for crude oil and natural gas liquids during the fourth quarter was \$57.97 per barrel after hedging representing only a 2% increase over the Q4 2007 pricing of \$57.05 per barrel after hedging. Conversely, the average price received for crude oil and natural gas liquids during the year ended December 31, 2008 was \$77.18 per barrel after hedging representing a 41% increase over the 2007 pricing of \$54.77 per barrel after hedging. Natural gas pricing for the twelve months of 2008 averaged \$8.00 per Mcf versus \$6.62 per Mcf in the same period of 2007 representing an increase of 21%.

Oil and Gas operating expenses increased 6% in 2008 due to an 18% increase in power costs and additional processing fees in the Noel property associated with increased sales gas volumes. The total operating cost for 2008 was \$21.2 million or \$17.35 per BOE compared to \$20.0 million or \$16.35 per BOE for the twelve months of 2007. The fourth quarter 2008 operating costs were negatively impacted by \$0.7 million prior period adjustments from 3rd party processing fees resulting in a per BOE unit cost of \$18.34 compared to \$16.99 for the first nine months of 2008. In 2009, the Trust anticipates a reduction in the planned well work-overs and a reduction in the overall inflationary impacts for goods and services in the industry. The total operating costs for 2009 are budgeted to average \$17.05 per BOE.

In 2008, the Trust participated in the drilling of 31 gross (8.2 net) wells in Alberta, British Columbia and Saskatchewan highlighted by the drilling of 2 gross (1.0 net) operated horizontal Cadomin wells in the Noel area of NE British Columbia. The first well came on production early October and averaged 4,500 Mcfd (2,250 Mcfd net) in the first month of production. The second well was completed in March 2009 at initial test rates of 5,000 Mcfd. Although the production rates for both wells are expected to level out at 1,000 to 1,500 Mcfd in the first 8 months, the Trust is very encouraged by the results and the follow-up opportunities. The total capital expenditure by the Trust on development activities including re-completions, optimizations and maintenance was \$16.5 million in 2008. In September 2008, the Trust completed an acquisition of non-operated working interest production in the core areas of Huxley and Foster in Central Alberta. The acquisition included 95 BOE per day of coal bed methane production with 378 MBOE of proved plus probable reserves. The total consideration paid for the acquisition was \$4.0 million yielding an acquisition cost of \$10.58 per BOE.

For the year ending December 31, 2008, the Trust produced a total of 1,222 MBOE from the asset base. The combined working interest proved plus probable petroleum and natural gas reserve additions from development, acquisition and divestiture activities as per the year end independent reserve report was 1,280 MBOE resulting in a 105% production replacement. Including all future development costs and the acquisition and divestiture activity, the Trust booked \$20.1 million in 2008 yielding an FD&A cost of \$16.76 per BOE on a working interest proved plus probable basis. On a total proved basis, the Trust had an FD&A cost of \$19.57 per BOE in 2008.

Capital investment for the Trust in 2009 will focus on development programs in the operated core areas of East Central Alberta, SW Saskatchewan and the Noel area of NE British Columbia. Re-completion and optimizations will continue to be a key component of the capital programs to maintain production profiles through the current commodity environment. The capital programs are currently budgeted to be approximately \$11.0 million from which the Trust anticipates corporate sales volumes to average 3,250 BOED for 2009. Capital expenditures will be dependent on commodity prices and are currently scheduled to be second half of 2009 weighted with only \$4 million to be spent in the first half of 2009. That said, the Trust continues to review additional acquisitions and opportunities while taking advantage of its strong balance sheet position. The Trust will endeavour to balance the development activity in 2009 between oil and gas opportunities and remains flexible on the timing of capital programs based on commodity pricing throughout the year.

## OIL AND NATURAL GAS RESERVES

In accordance with NI 51-101, McDaniel & Associates Consultants Ltd. prepared the McDaniel Report dated February 23, 2009, evaluating the crude oil, natural gas, natural gas liquids and sulphur reserves of the Trust as at December 31, 2008. The tables below are a summary of the Trust's oil, NGL and natural gas reserves and the net present value of future net revenue attributable to such reserves as evaluated in the McDaniel Report based on constant and forecast price and cost assumptions. The information set forth below is prepared in accordance with standards contained in the Canadian Oil and Gas Evaluation Handbook (COGEH) and the reserves definitions contained in NI 51-101 and the COGEH.

### Reserves Data - Forecast Prices and Costs Summary of Oil and Gas Reserves

	Gross Reserves <sup>(1)</sup>				Net Reserves <sup>(2)</sup>			
	Light & Medium	Natural		Light & Medium	Natural		Natural Gas	
	Crude Oil	Heavy Oil	Gas Liquids	Crude Oil	Heavy Oil	Gas Liquids		
	Mbbls	Mbbls	Mbbls	Mmcf	Mbbls	Mbbls	Mmcf	
Proved								
Developed Producing	1,921.9	919.5	104.2	16,226.8	1,710.2	861.2	74.2	14,079.6
Developed Non-Producing	15.3	4.4	0.8	970.3	11.7	4.4	0.6	824.0
Undeveloped	0.0	0.0	3.9	2,831.7	0.0	0.0	3.2	2178.8
Total Proved	1,937.2	923.9	109.0	20,028.8	1,721.9	865.6	78.0	17,082.3
Total Probable	621.8	261.7	44.7	7,302.0	523.0	237.7	30.1	5,995.0
Total Proved plus Probable <sup>(3)</sup>	2,559.0	1,185.6	153.7	27,330.9	2,244.8	1,103.4	108.1	23,077.3

Notes:

1. Gross reserves include working interest reserves before deduction of royalties but do not include royalty interest reserves.
2. Net reserves include working interest reserves less the deduction of royalties plus royalty interest reserves.
3. Some totals may differ slightly due to rounding.

### Net Present Value of Future Net Revenue of Oil and Gas Reserves

	Before Future Income Tax Expenses and Discounted at			
	0%	5%	10%	15%
	(M\$)	(M\$)	(M\$)	(M\$)
Proved				
Developed Producing		172,678	142,961	121,873
Developed Non-Producing		(42)	(227)	(281)
Undeveloped		6,152	4,023	2,587
Total Proved		178,789	146,757	124,179
Total Probable		79,285	51,823	36,716
Total Proved plus Probable		258,073	198,580	160,895

### Reserves Reconciliation

The following table sets forth a reconciliation of the Trust's total proved, probable and proved plus probable working interest and royalty interest reserves as at December 31, 2007 against such reserves as at December 31, 2008 based on forecast price and cost assumptions.

Reserves Reconciliation	Total Working Interest and Royalty Interest Oil Equivalent		
	Proved	Probable	Proved Plus
	Reserves	Reserves	Probable
	MBOE	MBOE	MBOE
Opening Balance			
December 31, 2007	6,328	2,225	8,553
Extensions/Infill Drilling	394	107	501
Improved Recovery	319	17	336
Technical Revisions	296	(216)	80
Discoveries	0	0	0
Acquisitions	324	54	378
Dispositions	(12)	(4)	(16)
Production	(1,222)	0	(1,222)
Closing Balance December 31, 2008	6,427	2,183	8,611

#### Properties With No Attributed Reserves

The following table summarizes the gross and net acres of unproved properties in which the Trust has an interest. The Trust does not have any properties that are unproductive at this time. The following table sets out the Trust's undeveloped land holdings as at December 31, 2008:

	Undeveloped Acres	
	Gross	Net
British Columbia	16,669	3,647
Alberta	315,338	100,591
Saskatchewan	11,275	4,135
<b>Total</b>	<b>343,282</b>	<b>108,373</b>

The Trust estimates the value of this land at approximately \$6.1 million based on a third party evaluation by Seaton – Jordan & Associates effective December 31, 2008.

#### 2008 Drilling Activity

The following table summarizes the Trust's drilling results for the year ended December 31, 2008.

	2008	
	Gross	Net
Oil	11	2.6
Natural Gas	14	4.7
Coal bed methane	5	0.9
Dry & Abandoned	1	0.0
Total	31	8.2

#### Finding and Development Costs

Based on a total expenditure of \$20.1 million on development and acquisition activity in 2008, the Trust added reserves for \$16.76 per BOE on a working interest proved plus probable basis including future development costs. In comparison, the Trust had FD&A costs of \$15.73 per BOE on proved plus probable basis in 2007.

For further information regarding the Trust's reserves, please refer to its Annual Information Form for December 31, 2008 which will be posted on the Trust's profile at [www.sedar.com](http://www.sedar.com).

### 3. REAL ESTATE DIVISION

Funds from operations increased 3% for the year ended December 31, 2008 to \$3.0 million compared to \$2.9 million for the year ended December 31, 2007. The increase is due to the benefit of having completed the construction of the Cineplex Cinemas in Red Deer and two additional KFC Locations which increased the rental revenues offset by the sale of the two buildings in the latter half of 2008. The funds from operations for the fourth quarter ended December 31, 2008 totalled \$0.5 million compared to \$0.5 million for the fourth quarter of 2007. A decrease in operating expenses for the quarter over the prior year offset the loss in revenues from the sale of the Harris and Station Crossing buildings.

The Trust concluded the development of three real estate projects in 2008:

- In March 2008 the Trust completed a 10-screen multiplex theatre in Red Deer. Just prior to its completion, Landmark Theatres of Canada sold its interest in the theatre to Cineplex Entertainment Corporation and the Trust entered in to a new 20 year lease with Cineplex;
- The development KFC in Wetaskiwin, Alberta was completed in March 2008; and
- The development of the KFC in Spruce Grove in November 2008.

The process for the sale of the Trust's Real Estate assets, which began in the fourth quarter of 2007, continued throughout 2008. Despite its efforts to complete transactions on either a portfolio or individual property basis, the Trust was unable to dispose of its entire Real Estate portfolio. The following two sale transactions did occur in 2008:

- The Harris building, a multi-tenant industrial building located in Calgary was sold and closed in August 2008; and
- Station Crossing, a multi-tenant retail strip centre located in Fort Saskatchewan, Alberta was unconditionally sold in September 2008 and subsequently closed in October 2008.

The properties were sold at an average cap rate of 7%. The Trust realized a gain on the sale of the Harris building of approximately \$9.5 million in the third quarter and an estimated \$0.6 million on the Station Crossing building for the fourth quarter results. At December 31, 2008, the Trust assessed its properties for impairment on its book value and reduced the value of a portion of its portfolio through an impairment charge of \$8.0 million.

With the downturn in the economy in the second half of 2008, the Trust re-evaluated its strategy for the Real Estate Division and decided to take the portfolio off the market and retain the properties as income producing assets.

The Trust will continue to evaluate any offers, but has no longer engaged a broker to market the properties. The properties continue to perform well financially in accordance with expectations. At the end of 2008, the properties remaining within Avenir's portfolio were 100% leased and all tenants within the portfolio are current with their rental payments required under the leases.

### 4. DISCONTINUED OPERATIONS – ENERVEST LIMITED PARTNERSHIP (“ENERVEST”)

The Trust enjoyed record cash flows from its investment in the EnerVest Management contract during the first five and a half months of 2008, as strong financial markets and high commodity prices increased assets under management. After determining it would be difficult to increase value without changing the operations to include significantly increased sales staff and a distribution network, the Trust decided to accept an offer for the EnerVest Management contract.

On May 16, 2008, the Trust completed the sale of its EnerVest assets to Canoe Financial LP, a private entity based in Calgary, for total consideration of \$185.0 million, subject to closing adjustments including operating income and working capital and debt adjustments based on an April 1, 2008 effective date. After adjustments and transactions costs of \$24.0 million, the net sale consideration of \$161.0 million was satisfied by the receipt of \$136.0 million in cash and the provision of a note receivable of \$25.0 million. This sale resulted in a gain of \$34.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008. This management discussion and analysis relates to events up to March 31, 2009.

### Forward Looking Statements

Certain statements contained herein including, without limitation, financial and business prospects and financial outlook, the effect of government announcements, proposals and legislation, plans in its Oil and Gas Division regarding hedging, wells to be drilled, expected or anticipated production rates, timing of expected production increases, the weighting of production between different commodities, expected commodity prices, exchange rates, production expenses, transportation costs and other costs and expenses, maintenance of productive capacity and capital expenditures; plans in the Elbow River Marketing Limited Partnership ("Elbow River") business regarding plans for its ongoing Liquefied Petroleum Gas ("LPG") business and activities around the exit from marketing its bio-diesel product; plans in the Real Estate Division for the timing of selling assets and the nature of capital expenditures; and the timing and method of financing these businesses, may be forward looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", "targeted" and similar expressions may be used to identify these forward looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including, but not limited to, risks associated with oil and gas exploration: development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers and the inability to retain drilling rigs and other services; risks associated with its Elbow River business including, but not limited to, counterparty risk in default, operational risks, hedging, access to credit, competitor risk, seasonality and impact of the global recession on overall economic activity; and risks associated with the Real Estate Division including, but not limited to the impact the overall economy has on valuations, future delinquencies, access to mortgages and impact on interest rates; as well as the risks associated with the Trust's incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined under "Risk Factors" and elsewhere herein. The recovery and reserve estimates of Avenir's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Avenir believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Avenir can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Avenir operates; the timely receipt of any required regulatory approvals; the ability of Avenir to obtain qualified staff, equipment and services in a timely and cost efficient manner; Divisional results; the ability of operators to operate the field in a safe, efficient and effective manner; the ability of Avenir to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Avenir to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Avenir operates; and the ability of Avenir to successfully market its products, fluctuations in foreign exchange or interest rates and stock market volatility, credit risk and the ability to realize on collateral in the event of default, failure of counter parties to perform on contracts, fluctuation in the value of real property, failure to produce income or revenue from real estate, failure of tenants to meet lease obligations, increase in property taxes and mortgage, maintenance, insurance, operating costs and decreases in occupancy and rental rates, and fixed costs in relation to variable revenue streams. Readers are cautioned that the foregoing list of factors is not exhausted. These forward looking statements are made as of the date hereof and Avenir assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward looking statements and other information contained herein concerning the Oil and Gas Division, Elbow River's business, the Real Estate Division and Avenir's general expectations concerning these industries are based on estimates prepared by each Division's management and from using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of these industries which Avenir believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Avenir is not aware of any misstatements regarding any industry data presented herein, these industries involve risks and uncertainties and are subject to change based on various factors.

### **Non-GAAP Financial Measures**

Funds from continuing operations, funds from continuing operations per unit, funds from operations, funds from operations per unit, net back and working capital (net debt) are not recognized measures under Canadian generally accepted accounting principles (GAAP). Funds from operations is calculated by taking cash provided by operating activities on the statement of cash flows adjusted for the effect of changes in non-cash working capital and asset retirement costs incurred. See page 18 for the quantitative reconciliation of funds from operations. Working capital (net debt) is calculated by taking current assets less current liabilities excluding balances relating to discontinued operations and adding back current portion of mortgages. Operating netbacks per BOE equal total petroleum and natural gas revenue net of transportation expenses and realized gains on commodity contracts per BOE less royalties per BOE and operating expenses per BOE. Operating netbacks as used in the MD&A do not have any standardized meaning under GAAP and therefore may not be comparable with the calculation of similar measures of other entities. Operating netbacks are a useful measure to compare the Trust's operations with those of its peers). Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that these measures should not be construed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Distribution Payout Ratio is calculated by dividing the Distributions by the Funds from operations.

### **Comparative periods have been restated to conform to current period presentation – specifically relating to the reclassification of the EnerVest Limited Partnership as discontinued operations and the Real Estate Division as assets held and used.**

The Trust's strategy is to have both Energy and Non-Energy Divisions with multiple businesses in order to provide diversification of cash flows.

### **OUTLOOK**

The Trust's core businesses of oil and gas production, LPG and ethanol marketing, and real estate continue to perform strongly into 2009 despite the low commodity prices and the continued challenges of Elbow River exiting from the marketing of bio-diesel. The balance sheet continues to be very strong with cash and working capital of \$59.7 million, not including real estate; undrawn \$42.5 million credit line on its oil and gas assets and mortgages of \$38.7 million.

Excluding the redeployment of the available cash and working capital or debt, the Trust estimates 2009 cash flow split approximately 60% oil and gas, 35% LPG and ethanol marketing, and 5% real estate and other.

Preliminary first quarter information indicates oil and gas production will be flat for the year with minimal capital expenditures; real estate continues to be 100% leased with decreasing mortgage rates; and Elbow River's LPG and ethanol business is ahead of a normal \$4.5 to \$5.0 million winter quarter. The Elbow River bio-diesel exit has been finalized and all costs and receivables should be cleaned up by mid 2009.

Distributions will continue to be reviewed monthly as we look to redeploy our working capital and debt with the exit of bio-diesel marketing.

## Selected Annual Information

<i>(in thousands of dollars except per unit amounts)</i>	For the year ended December 31				
	2008	2007	2006	2005	2004
Total revenue	2,230,722	853,373	745,111	330,782	18,029
Net (Loss) Income from continuing operations	(39,933)	15,506	19,241	19,526	3,554
Net (Loss) Income from continuing operations / unit - basic	(0.95)	0.37	0.47	0.77	0.63
Net Income	2,513	27,391	37,399	22,939	4,014
Net Income per unit – basic	0.06	0.66	0.91	0.90	0.71
Funds from continuing operations	18,106	35,650	38,266	46,203	9,098
Fund from continuing operations / unit - basic	0.43	0.86	0.94	1.81	1.60
Funds from Operations	25,024	53,611	65,005	56,143	10,579
Funds from Operations / unit - basic	0.60	1.29	1.59	2.20	1.86
Working Cap. (Net Debt) excluding mortgages and assets of discontinued operations	59,703	(49,137)	(30,286)	(10,685)	(32,392)
Mortgages	(38,688)	(44,450)	(32,849)	(13,889)	(12,134)
Unitholders' equity	239,295	294,960	312,067	388,679	81,143
Total assets	522,228	597,776	530,550	583,627	155,315
Total net capital expenditures	17,705	31,340	82,495	276,092	98,715

## Selected Quarterly Information

<i>(in thousands of dollars except per unit amounts)</i>	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31
	2008	2008 *	2008 *	2008	2007	2007	2007	2007
Total Revenue	709,145	597,403	434,154	439,677	214,549	184,246	221,621	232,957
Net (Loss) Income from continuing operations	(96,103)	38,215	(28,907)	4,655	9,191	635	1,925	3,757
Net (Loss) Income from continuing operations per unit - basic	(2.28)	0.91	(0.69)	0.11	0.22	0.02	0.05	0.09
Net (Loss) Income	(96,067)	37,886	10,706	7,780	9,910	4,479	5,671	7,331
Net (Loss) Income per unit - basic	(2.28)	0.90	0.26	0.19	0.24	0.11	0.14	0.18
Funds (used in) from continuing ops	(34,160)	25,205	11,065	17,458	5,168	8,557	8,617	13,311
Funds (used in) from continuing operations per unit - basic	(0.81)	0.60	0.26	0.42	0.12	0.21	0.21	0.32
Funds (used in) from Operations	(34,160)	25,200	13,714	21,730	9,557	13,211	13,167	17,678
Funds (used in) from Operations per unit - basic	(0.81)	0.60	0.33	0.52	0.23	0.31	0.32	0.43
Monthly Distributions paid	10,486	10,466	10,442	10,432	10,429	10,422	10,413	10,395
Monthly Distributions per unit - basic	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Total Assets	522,228	799,009	666,632	656,118	597,776	533,739	526,536	545,517

\*Note the second and third quarters have been restated to reflect the change in the hedge accounting relating to the hedge contracts as described in the financial instruments section of the Management Discussion and Analysis.

## Net Income

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

(in thousands of dollars)	For the three months ended		For the year ended	
	Dec 31, 2008	Dec 31, 2007	Dec 31, 2008	Dec 31, 2007
Net Income (loss)				
Financial Services – Elbow River	(79,563)	1,263	(39,063)	13,606
Oil and Gas	(16,426)	50	(2,227)	(1,816)
Real Estate	(2,162)	1,763	3,125	2,734
Corporate	2,048	6,114	(1,768)	982
Net Income from continuing operations	(96,103)	9,190	(39,933)	15,506
Discontinued Ops. – EnerVest	36	720	42,446	11,885
Net Income	(96,067)	9,910	2,513	27,391

Net income for the year ended December 31, 2008 was \$2.5 million or \$0.06 per unit versus \$27.4 million or \$0.66 per unit for the year ended December 31, 2007. The Trust had a net loss for the quarter ended December 31, 2008 of \$96.1 million down 1069% over the \$9.9 million in income recorded for the quarter ended December 31, 2007. Very strong operating results, a \$34.0 million gain on the sale of the EnerVest assets and a \$10.1 million gain on the sale of two real estate properties over three quarters was more than offset by a number of fourth quarter non-recurring charges that resulted in the large fourth quarter loss and reduced full year 2008 net income.

The non-recurring charges include:

- A bad debt expense of \$35.7 million related to an Elbow River bio-diesel partner;
- A goodwill impairment charge in Elbow River of \$13.1 million recognizing the reduced market value of the business;
- A \$3.5 million Elbow River intangible write-down recognizing an impairment to the value of non-compete agreements and certain contracts within the business;
- A fourth quarter bio-diesel loss of approximately \$15.9 million as Elbow River wrote-down its bio-diesel inventory, and began exiting sales of the bio-diesel product;
- A real estate impairment of \$8.0 million reflecting higher cap rates and lower market valuations;
- The recognition of eighteen months depreciation and amortization on the Trust's real estate portfolio as it was reclassified as assets held and used; and
- A goodwill impairment charge of \$21.2 million on the Oil and Gas Division reflecting reduced valuations as a result of lower commodity prices and the overall global financial crisis.

In addition, in the year ended December 31, 2007, net income benefited from significantly higher future income tax recoveries as a result of 2007 rate reductions, and new SIFTS legislation being enacted that year.

### 1. Financial Services Division - Elbow River

Net loss for the year ended December 31, 2008 for the Financial Services Division – Elbow River was \$39.1 million versus net income of \$13.6 million for the year ended December 31, 2007. Net income in the Financial Services Division decreased in the fourth quarter from \$1.3 million in 2007 to a loss of \$79.6 million in the fourth quarter of 2008. Elbow River's fourth quarter and full year 2008's net income were impacted by: the recognition of a \$35.7 million bad debt expense on its bio-diesel receivables; an impairment charge against goodwill of \$13.1 million; the impact of the write-down of bio-diesel inventory; a \$3.5 million write-down of intangibles for reduced value of non-compete agreements and contracts within the business; and the resulting fourth quarter bio-diesel product sales loss of \$15.9 million.

## 2. Energy - Oil & Gas Division

The Oil and Gas Division had a net loss of \$16.4 million for the fourth quarter ended December 31, 2008 versus net income of \$0.05 million for the quarter ended December 31, 2007. For the year ended December 31, 2008 the Oil and Gas Division had a net loss of \$2.2 million compared to net loss of \$1.8 million for year ended 2007. The difference is largely due to the recognition of a goodwill impairment in the amount of \$21.2 million during the fourth quarter 2008. The goodwill impairment recognizes the decrease in market valuations of oil and gas assets as a result of falling commodity prices and the global financial crisis. Offsetting this is the recognition of a non-cash mark-to-market hedging gain on its financial instruments of \$6.1 million for the year ended December 31, 2008 compared to a loss of \$2.9 million for the same period in 2007.

## 3. Real Estate Division

The Real Estate Division had a net loss for the fourth quarter ended December 31, 2008 of \$2.2 million compared to net income of \$1.8 million in the fourth quarter of 2007. For the twelve months ended December 31, 2008 net income was \$3.1 million compared to \$2.7 million for the year ending December 31, 2007. For the twelve months ended December 31, 2008, there is the recognition of a gain of \$10.1 million on the sale of the Harris building, an industrial property in Calgary and on the sale of Station Crossing, a retail building located in Fort Saskatchewan. This gain is off-set by the fourth quarter recognition of 18 months of amortization and depreciation that was booked as the real estate assets were reclassified from assets held for sale. Additionally, offsetting the gain on the sale of the two properties was the recognition of a \$8.0 million fourth quarter impairment of assets recorded for a portion of the real estate portfolio as a result of declining market valuations.

## 4. EnerVest – Discontinued Operations

For the year ended December 31, 2008 net income was \$42.4 million compared to \$11.9 million in 2007. The year over year increase is a result of the sale of EnerVest on May 16, 2008 and the recognition of the gain on the sale of \$34.0 million.

### EnerVest Limited Partnership (“EnerVest”) – Discontinued Operations

On May 16, 2008, the Trust completed the sale of its EnerVest assets to Canoe Financial LP (“Canoe”), a private entity based in Calgary, for total consideration of \$185.0 million, subject to customary closing adjustments including working capital and debt adjustments based on an April 1, 2008 effective date. After adjustments of \$21.4 million and transactions costs of \$2.7 million, the net sale consideration of \$161.0 million was satisfied by the receipt of \$136.0 million in cash and the provision of a note receivable of \$25.0 million. This resulted in a gain of \$34.0 million based on the net asset value on May 16, 2008 as outlined below:

<i>(in thousands of dollars)</i>	\$
Cash	287
Working capital (excluding cash)	496
Property and equipment	16
Intangible assets	144,178
Note payable	(18,004)
	<u>126,973</u>

The \$25.0 million promissory note has been recorded as a note receivable bearing interest at 6% which was due to mature on December 31, 2008 unless extended under certain conditions. Effective January 1, 2009 the note maturity was extended to June 30, 2009 with an increased interest rate of 8% payable monthly.

Comparative periods have been restated. The results for discontinued operations are as follows:

<i>(in thousands of dollars)</i>	<b>December 31, 2007</b>
<b>Assets</b>	
Cash	66
Marketable securities	133
Accounts receivable and prepaid expenses	3,135
Property and equipment	22
Intangible and other assets	140,921
	<u>144,277</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,211
Current portion of notes payable	3,350
Notes payable	16,329
Future income tax	2,814
	<u>23,704</u>
Net assets of discontinued operations	<u>120,573</u>

<i>(in thousands of dollars)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
<b>REVENUE</b>		
Financial services revenue	8,833	23,109
Gain on sale of assets	33,984	–
	<u>42,817</u>	<u>23,109</u>
<b>EXPENSES</b>		
Financial services operating	1,351	3,736
General and administrative	259	836
Interest on long-term debt	305	577
Depreciation and amortization	1,270	3,261
	<u>3,185</u>	<u>8,410</u>
Income before taxes	39,632	14,699
Future income tax recovery (expense)	2,814	(2,814)
Net income from discontinued operations, net of tax	<u>42,446</u>	<u>11,885</u>

### Funds from Operations

<i>(in thousands of dollars)</i>	<b>For the three months ended</b>		<b>For the year ended</b>	
	<b>Dec 31, 2008</b>	<b>Dec 31, 2007</b>	<b>Dec 31, 2008</b>	<b>Dec 31, 2007</b>
Funds from Operations				
Financial Services – Elbow River	(41,300)	1,275	(17,878)	14,390
Oil and Gas	6,664	4,268	35,033	20,736
Real Estate	474	533	3,004	2,894
Corporate	2	(908)	(2,053)	(2,370)
Funds from continuing operations	(34,160)	5,168	18,106	35,650
Discontinued Ops. – EnerVest	–	4,389	6,918	17,961
Funds from Operations	<u>(34,160)</u>	<u>9,557</u>	<u>25,024</u>	<u>53,611</u>

Funds from continuing operations for the year ended December 31, 2008 were \$18.1 million down 49% from the \$35.7 million in 2007. Strong results in the Oil and Gas Division as a result of record commodity prices were more than offset by the fourth quarter 2008 impact of the loss on the exit from marketing bio-diesel product and the recognition of \$36.3 million in bad debt expense (\$35.7 million for Elbow River's bio-diesel segment and \$0.6 million in the Oil and Gas Division). Within the Elbow River business, the base LPG and ethanol group recorded results of \$21.0 million on solid butane and condensate sales throughout the year and strong winter propane sales, however bio-diesel incurred a negative funds from continuing operations of \$38.8 million including \$35.7 million of bad debt expense.

Funds from continuing operations for the fourth quarter of 2008 were negative \$34.1 million down 761% from \$5.2 million in the same quarter in 2007. The Oil and Gas Division was up 56% over 2007 on stronger commodity prices, however the Elbow River business was down \$42.6 million to the previous quarter in 2007 due to bio-diesel losses and a \$35.7 million bad debt expense in the bio-diesel segment. The base LPG and ethanol products had very strong results of \$10.3 million on continued butane sales and strong propane sales. However, bio-diesel recorded negative funds from continuing operations of \$51.6 million for the quarter including the bad debt expense.

For the year ended December 31, 2008, funds from operations were \$25.0 million compared to \$53.6 million for 2007. The 53% decrease in the year to date funds from operations was primarily due to the impact of the \$36.3 million in losses incurred to exit the marketing of the bio-diesel product together with the recognition of bad debt expense in the fourth quarter of 2008.

## **Cash Distributions**

### **i. Cash Distribution Policy**

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

### **ii. Regular Monthly Cash Distributions**

The Trust distributed \$10.4 million or \$0.25 per unit in regular monthly distributions for the fourth quarter ended December 31, 2008 and \$41.7 million or \$1.00 per unit for the year ended December 31, 2008. On a per unit basis this was consistent with the prior year's distributions of \$41.7 million or \$0.25 per unit.

### **iii Special Cash Distribution**

In conjunction with the Strategic Review Committee, formed after the sale of the EnerVest Management contract in May 2008, the Trust declared a Special Cash Distribution of \$0.60 per unit to those Unitholders of record December 31, 2008, payable on February 16, 2009. The Special Cash Distribution effectively returned a portion of the gain on the sale of the EnerVest business back to Unitholders of the Trust. The distribution was funded out of the proceeds of the sale of the EnerVest management contract.

### **iv. Distribution Discussion**

For the year ended December 31, 2008, cash used in operating activities was \$30.1 million compared to the \$41.7 million of monthly cash distributions paid primarily due to a \$53.6 million change in non-cash working capital and bad debt expense write-off of \$36.3 million. The non-cash working capital change represents the last of the inventory and accounts receivable build-up associated with the bio-diesel business still on the books as at December 31, 2008. Effectively cash from the EnerVest sale was allocated to bio-diesel funding and additional bank lines were put in place to support the working capital requirements of the bio-diesel program. As such, when comparing the distributions declared to the cash flow from operating activities it would be possible

to be in a shortfall or an excess position largely depending on the changes in non-cash working capital. Changes in non-cash working capital are funded by available cash, or bank facilities and all monthly distributions declared are funded by the cash flow of the Trust. Changes in non-cash working capital vary based on seasonality, timing of development activities and from debt used in our operating activities.

For the year ended December 31, 2008, monthly cash distributions of \$41.7 million exceeded the net income of \$2.5 million by \$39.2 million largely due to the impact of the \$36.3 million in bad debt expense and the Trust's various non-cash expenses. Distributions typically exceed net income as a result of non-cash expenses such as unrealized gains or losses on financial instruments, non-cash impairments, depletion, depreciation and amortization, accretion, future income tax expense, and stock-based compensation. These non-cash expenses result in a reduction to net income, with no impact to cash flow from operating activities. Accordingly, we expect that distributions will exceed net income in most periods. In assessing the level of monthly distributions to be paid to the Unitholders the Trust will review the cash provided by operating activities prior to the adjustment for non-cash working capital and asset retirement costs incurred during the period, which is referred to as Funds from Operations. The Trust's policy is to target to distribute approximately 75% to 80% of total Funds from operations.

As noted above, the Trust's distribution policy is to target paying our 75% to 80% of funds from operations (see reconciliation table below). For the period ended December 31, 2008 monthly cash distributions of \$41.7 million represented 167% of the \$25.0 million funds from operations. The Trust provided for a \$35.7 million bad debt expense as a result of an Elbow River joint venture partner advising in mid-March 2009 that they would be unable to pay Elbow River its proportionate share of the joint venture. Had the Trust not been forced to recognize the bad debt expense, the funds from operations for 2008 would have been \$60.7 million despite a significant fourth quarter 2008 loss in exiting the marketing of bio-diesel. Monthly cash distributions would have equated to a 54% payout ratio, better than our target 75% to 80%. The difference between the funds from operations and the cash distributions paid out is generally reinvested back into the businesses for internally generated growth and to maintain oil and gas production levels. In this instance, due to the bad debt expense, funds have effectively been provided out of the proceeds on the sale of the EnerVest Management contract.

#### v. Distributable Cash from Operations

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

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

	For the three months ended		For the year ended	
	Dec 31, 2008	Dec 31, 2007	Dec 31, 2008	Dec 31, 2007
<i>(in thousands of dollars)</i>				
Cash provided by (used in) operating activities	(14,685)	(35,431)	(30,061)	12,172
Settlement of asset retirement obligations	352	448	1,506	1,209
Changes in non-cash working capital relating to operating activities	(19,827)	44,540	53,579	40,230
Funds from operations	(34,160)	9,557	25,024	53,611
Cash (available) used to fund distributions, capital expenditures or growth	44,646	872	16,802	(11,952)
Distributable cash from operations	10,486	10,429	41,826	41,659
Cash distributions declared and payable	3,495	3,476	3,495	3,476
Cash distributions paid in period	6,991	6,953	38,331	38,183
Accumulated cash distributions paid and payable for the period	10,486	10,429	41,826	41,659
Special distribution declared and payable relating to the gain on the sale of EnerVest	25,260	—	25,260	—

## vi. Cash Distributions Declared

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

<b>Period covered</b>	<b>Date of Distribution</b>	<b>Per Unit</b>
January 1, 2008 to January 31, 2008	15/02/2008	0.083
February 1, 2008 to February 28, 2008	17/03/2008	0.083
March 1, 2008 to March 31, 2008	16/04/2008	0.083
April 1, 2008 to April 30, 2008	15/05/2008	0.083
May 1, 2008 to May 31, 2008	16/06/2008	0.083
June 1, 2008 to June 30, 2008	15/07/2008	0.083
July 1, 2008 to July 31, 2008	15/08/2008	0.083
August 1, 2008 to August 31, 2008	15/09/2008	0.083
September 1, 2008 to December 31, 2008	15/10/2008	0.083
October 1, 2008 to October 31, 2008	17/11/2008	0.083
November 1, 2008 to November 30, 2008	15/12/2008	0.083
December 1, 2008 to December 31, 2008	15/01/2009	0.083
Special Distribution December 31, 2008 Record Date	16/02/2009	0.600

## Revenue & Operating Expenses

### 1. Financial Services Division - Elbow River

	For the year ended December 31, 2008			For the year ended December 31, 2007		
	Elbow River	Avenir Financial	Total	Elbow River	Avenir Financial	Total
<i>(in thousands of dollars)</i>						
Revenue	2,143,064	–	2,143,064	800,157	354	800,511
Operating Costs	2,093,564	–	2,093,564	771,749	215	771,964
Net Operating Income	49,500	–	49,500	28,408	139	28,547

#### i. Revenue

The Trust recognized revenue in the Financial Services - Elbow River business unit of \$2,143.1 million for the year ended December 31, 2008 up 168% over the year ended December 31, 2007 of \$800.5 million reflecting the expansion of the international bio-diesel business throughout 2008. The revenue for the fourth quarter 2008 was up 230% at \$689.8 million compared to \$209.0 million in the fourth quarter of 2007 reflecting the higher level of bio-diesel product sales. Elbow River is a high revenue low margin brokerage marketing business. Revenue was also affected by high sales prices of the Elbow River underlying natural gas liquids and biofuels products sold, which were at record levels throughout the first three quarters of 2008.

With Elbow River's final exit from marketing of bio-diesel in early 2009, and lower commodity prices in the LPG business, revenues are expected to decrease to the \$400 million range in 2009, with a corresponding decrease in cost of goods sold as well. Margins however, are expected to return to more historical levels of 4% to 5% before general and administrative and interest costs.

#### ii. Operating Costs

The Trust's operating costs for Financial Services – Elbow River for the year ended December 31, 2008 were \$2,093.6 million compared to \$771.7 million for the year ended December 31, 2007. The quarter ended December 31, 2008 had operating costs of \$694.4 million, up over the fourth quarter 2007 of \$201.0 million. The increase in operating costs is due to a corresponding increase in the costs of goods sold with the increased revenues in Elbow River.

## 2. Oil and Gas Division

OIL & GAS OPERATIONS	For the three months ended December 31, 2008			For the year ended December 31, 2007		
	2008	2007	% Change	2008	2007	% Change
Production						
Oil and NGLs – bbls per day	1,480	1,614	(8%)	1,529	1,636	(7%)
Gas – Mcf per day	12,629	10,743	18%	10,859	10,274	6%
Total BOE3 per day	3,585	3,404	5%	3,339	3,348	0%
Average Pricing						
Oil & NGL (\$/Bbl) before hedging	\$50.51	\$62.63	(19%)	\$86.10	\$57.07	51%
Oil & NGL (\$/Bbl) after hedging	\$57.97	\$57.06	2%	\$77.18	\$54.77	41%
Natural Gas (\$/Mcf)	\$7.18	\$6.04	19%	\$8.00	\$6.62	21%
Average Price Per BOE3 before hedging	\$45.34	\$47.65	(5%)	\$64.63	\$47.23	37%
Average Price Per BOE3 after hedging	\$48.42	\$45.00	8%	\$60.55	\$46.10	31%

### i. Revenue and Production

For the year ended December 31, 2008, oil and gas gross revenue was \$75.1 million compared to \$57.5 million for 2007 due to a 31% increase in realized oil and natural gas prices during the period. The oil and gas gross revenue for the fourth quarter of 2008 was \$16.3 million, up 13% from the fourth quarter of 2007 at \$14.4 million due to a 5% increase in sales volumes and an 8% increase in realized oil and natural gas pricing for the quarter. Transportation costs for the year ended December 31, 2008 were \$1.0 million versus \$1.2 million for 2007.

Revenue from petroleum and natural gas sales (net of royalties and unrealized losses on financial instruments) for the quarter ended December 31, 2008 was \$16.9 million up 75% compared to the quarter ended December 31, 2007 at \$9.6 million. The average price received for petroleum and natural gas sales during the fourth quarter of 2008 was \$48.42 per BOE an increase of 8% versus \$45.00 per BOE received in Q4 of 2007. The average price received for crude oil and natural gas liquids during the quarter ended December 31, 2008 was \$57.97 per BOE representing an increase of 2% over the \$57.06 per BOE received for the same period of 2007. Natural gas pricing for the quarter ended December 31, 2008 was \$7.18 per Mcf versus \$6.04 per Mcf for 2007.

For the year ending December 31, 2008, revenue from petroleum and natural gas sales (net of royalties and unrealized losses on financial instruments) was \$68.5 million up 50% compared to \$45.5 million for the same period in 2007. The average price received for petroleum and natural gas sales during the twelve months of 2008 was \$60.55 per BOE an increase of 31% versus \$46.10 per BOE received in 2007. The average price received for crude oil and natural gas liquids during the year ending December 31, 2008 was \$77.18 per BOE an increase of 41% over the \$54.77 per BOE received for the year 2007. Natural gas pricing for the twelve months ended December 31, 2008 was \$8.00 per Mcf versus \$6.62 per Mcf for 2007.

The Trust's Oil and Gas Division hedges a portion of its production to add stability to its distributions, guard against fluctuations in commodity prices and to support acquisition economics. As a result, the Trust recorded a hedging gain of \$1.0 million for the quarter ended December 31, 2008 and a hedging loss of \$5.0 million for the twelve months of 2008. In addition, the accounting treatment of oil and gas swap transactions requires the Trust to recognize an unrealized gain of \$6.1 million for the change in the mark-to-market position on existing contracts at December 31, 2008 versus an unrealized loss of \$2.9 million for the change in mark-to-market position as at December 31, 2007.

Average daily sales volume for the year ended December 31, 2008 was 3,339 BOE per day consistent with the average 2007 sales volume of 3,348 BOE per day. Product sales during the fourth quarter ended December 31, 2008 averaged 3,585 BOE per day, up 5%, compared to 3,404 BOE per day in the fourth quarter of 2007. Fourth quarter 2008 sales consisted of 1,480 Bbls per day of crude oil and natural gas liquids and 12,629 Mcf per day of natural gas compared to 1,614 Bbls per day and 10,743 Mcf per day for the fourth quarter 2007. Natural gas production in the year ended December 31, 2007 was up 6% from the average of 2007 at 10,859 Mcf per day versus 10,274 Mcf per day. Oil and natural gas liquids were down 7% in 2008 at 1,529 Bbls per

day as compared to 1,636 Bbls per day for the year ended December 31, 2007. Increased natural gas sales reflected a September acquisition and results of its second half development drilling.

## ii. Royalties

The Trust's oil and gas royalty cost net of GCA for the year ended December 31, 2008 was \$11.7 million up 48% compared to \$7.9 million for the previous year. The quarter ended December 31, 2008 was \$2.1 million compared to \$2.4 million for the fourth quarter 2007. On a BOE basis, royalty costs averaged \$9.55 per BOE for the year ended December 31, 2008, which is up 47% over the 2007 same period cost of \$6.48 per BOE due to the higher prices received for oil and natural gas in 2008. Royalties averaged 14.3% in the fourth quarter of 2008 and 14.8% for the year ended December 31, 2008 compared to 16.0% for the fourth quarter 2007 and 13.7% for the year ended December 31 2007.

## iii. Operating Expenses

The Trust's oil and gas operating costs for the year ended December 31, 2006 were \$21.2 million or \$17.35 per BOE compared to \$20.0 million or \$16.35 per BOE for the year ended December 31, 2007. Oil and gas operating expenses increased in 2008 due an 18% increase in power costs and additional processing fees in the Noel property associated with increased gas sales volumes. The quarter ended December 31, 2008 had operating costs of \$6.0 million, up 22% over the fourth quarter 2007 of \$4.9 million due to prior period impacts of 3rd party processing fees of \$0.7 million. On a BOE basis, operating costs averaged \$18.34 per BOE in the three month period ended December 31, 2008, which is up 17% over the fourth quarter 2007 cost of \$15.62 per BOE.

## iv. Netbacks

	2008				2007			
	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE
Gross revenue after hedging	48.42	69.60	68.93	56.80	45.00	46.23	45.17	48.05
Royalties	6.49	11.84	10.87	9.37	7.61	5.53	6.62	6.16
Operating costs	18.34	18.09	16.88	16.01	15.62	16.82	15.94	17.03
Operating netback	23.59	39.67	41.18	31.42	21.77	23.88	22.61	24.86

## 3. Real Estate Division

### i Revenue

The revenue from the Real Estate business unit for the year ended December 31, 2008 was \$7.9 million compared to \$7.3 million for the year ended 2007 largely due to the inclusion of the Cineplex Theatre in Red Deer since the first quarter of 2008. For the three months ended December 31, 2008 revenues totaled \$1.4 million versus \$1.8 million for the same period in 2007. The decrease is primarily due to the sale of two properties during Q2 and Q4 of 2008. This is somewhat offset in the fourth quarter by the completion of the Cineplex Theatre in Red Deer. Currently the Real Estate portfolio is 100% leased.

### ii. Operating Costs

The Trust's operating costs for the Real Estate Division for the year ended December 31, 2008 were \$1.9 million compared to \$1.8 million for the year ended December 31, 2007. The quarter ended December 31, 2008 had operating costs of \$0.2 million, compared with \$0.5 million for the fourth quarter of 2007. The decrease in operating costs in the fourth quarter 2008 compared to the same period in the previous year is a result of the sale of the Harris building which had a higher level of operating costs when compare to other properties in the Trust's portfolio.

### iii. Interest on Long-term Debt and Mortgages

Total mortgage interest for the year ended December 31, 2008 was \$2.4 million compared to \$2.0 million in 2007. Mortgage interest for the fourth quarter ended December 31, 2008 was \$0.5 million the same as the same period in 2007. The increase in the mortgage interest on a year to date basis is mainly a result of the additional mortgage amounts relating to the Cineplex building.

<i>(in thousands of dollars)</i>	December 31, 2008			December 31, 2007		
	Interest Rate	Maturity	\$	Interest Rate	Maturity	\$
Sunbelt*	6.05%	Jan 1/09	4,656	6.05%	Jan 1/09	4,734
Magee	5.73%	Oct 31/09	3,569	5.40%	Oct 31/08	3,683
Snidercroft	5.70%	Aug 1/14	3,091	5.70%	Aug 1/14	3,183
KFC	5.96%	Aug 1/11	7,746	5.96%	Aug 1/11	7,903
KFC	5.90%	Mar 1/12	1,853	5.90%	Mar 1/12	1,889
Landmark	3.81%	Nov 1/11	10,154	5.60%	Nov 1/11	10,389
Cineplex	5.00%	Mar 1/09	7,619	7.25% No Fixed Term		6,259
Harris	–	–	–	4.85%	Mar 1/08	4,476
Station Crossing	–	–	–	5.55%	Feb 1/10	1,934
			<b>38,688</b>			44,450
Current portion of mortgages			<b>(11,856)</b>			(15,023)
Long-term portion of mortgages			<b>26,832</b>			29,427

\*Subsequent to year end on January 1, 2009, the Sunbelt mortgage was renewed for a one-year period with an interest rate of 4.30%.

#### iv. Gain on Sales

During 2008, the Trust disposed of real estate properties for net proceeds of \$20.0 million comprised of cash of \$10.4 million and mortgage assumptions of \$9.6 million. A gain of \$10.1 million was recorded relating to these divestitures.

#### v. Write-down in Carrying Value

The real estate assets have been assessed for valuation on the basis of lower of cost or market as at December 31, 2008. Accordingly, an impairment charge of \$8.0 million has been recorded against a portion of the portfolio to reflect estimated current market values. This charge has been included in depreciation and amortization in the income statement.

#### General and Administrative Expenses

General and administrative (“G&A”) expenses for the year ended December 31, 2008 were \$21.3 million (which includes corporate costs of \$3.8 million) compared to \$18.8 million for the year ended December 31, 2007 (which includes corporate costs of \$2.6 million). The majority of the corporate costs represent stock based compensation expense relating to all divisions of the Trust for the period. During the fourth quarter 2008 G&A expenses were \$1.1 million (which includes corporate costs of \$0.5 million), down from the fourth quarter 2007 amount of \$4.6 million largely as a result of reduced fourth quarter employee incentive payments in Elbow River. G&A expenses for the year ended December 31, 2008 for the respective business units were: \$13.1 million for Financial Services – Elbow River (\$9.1 million in 2007); \$7.6 million for Oil and Gas and Corporate (\$6.9 million in 2007); and \$0.6 million for Real Estate \$0.4 million in 2007). The increase in G&A expense is the result of additional staff in Elbow River to handle the bio-diesel expansion and higher Elbow River employee incentive costs in the first three quarters of the year.

#### Bad Debt Expense

With the global financial crisis leading into recession around the world, counterparty, partner and customer risk became more of a concern than in previous years. In that regard, the Trust recorded a bad debt expense of \$36.5 million consisting of \$35.8 million at Elbow River and \$0.7 million in the Oil and Gas Division. The Elbow River bad debt expense related to bio-diesel with the majority of the expense to one joint venture partner who advised in March 2009 that they would be unable to pay Elbow River its proportionate share of the joint venture proceeds. The majority of the Oil and Gas Division provision related to one of the Division’s oil purchasers who filed for bankruptcy in the summer of 2008. There was no bad debt expense recorded in 2007.

### **Foreign Exchange Expense**

The large increase in the foreign exchange expense from \$0.9 million for the year ended December 31, 2007 to \$20.0 million for the year ended December 31, 2008, relates to the exit from marketing bio-diesel in the Elbow River business in the fourth quarter of 2008. Large positions in bio-diesel inventory were written down and foreign exchange losses recorded, as the Canadian dollar fell against the US dollar.

### **Interest and Bank Fees**

Interest expense and bank fees were \$7.2 million for the year ended December 31, 2008 and \$1.4 million for the quarter ended December 31, 2008. For the year and quarter ended December 31, 2007, interest expense and bank fees were \$5.7 million and \$1.8 million, respectively. Interest expense for the fourth quarter of 2008 includes bank fees of \$0.2 million compared to fees of \$0.04 million in 2007. For the year ended December 31, 2008, the Financial Services Division accounted for \$5.3 million of interest expense, the majority of which relates to the outstanding balance on the banking facilities for Elbow River to fund bio-diesel expansion, the Oil and Gas Division accounted for \$1.1 million of the interest expense, and \$0.8 million was incurred at the corporate level.

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

The provision for depletion, depreciation and amortization was \$39.3 million for the year ended December 31, 2008 compared to \$26.3 million for the year ended December 31, 2007. The fourth quarter 2008 totaled \$15.0 million compared to \$6.0 million for the same period in 2007. The Trust's depletion and depreciation rate in its Oil and Gas Division was \$18.30 per BOE down from the \$18.79 per BOE rate in the fourth quarter of 2007. The Oil and Gas depletion rate reflects lower finding and development costs during the period. The provision for depletion, depreciation and amortization ("DD&A") is significantly higher than the previous year due to the following non-recurring items: \$2.4 million for eighteen months of real estate DD&A when the Division was reclassified from assets held for sale; \$8.0 million is for a real estate impairment - writing down the value of a portion of the Real Estate portfolio to current market values; and \$3.5 million for an Elbow River impairment - writing down the value of certain intangible assets including non-corporate agreements and contracts. The impairments in the Divisions are also a result of the global financial crisis and its impact on corporate valuations.

### **Asset Retirement Obligations**

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Given increasing costs, environmental and regulatory requirements in the oil and gas industry, the Trust undertook a detailed property review to better determine future abandonment and reclamation obligations. The Trust has estimated the net present value of its total asset retirement obligations to be \$14.9 million as at December 31, 2008 based on a total future liability of \$68.8 million. These figures compare to \$12.9 million at December 31, 2007 with a total future liability of \$27.7 million.

The majority of these payments are expected to be made by 2030. The Trust's credit adjusted risk free rate ranging from 8.5% to 10.0% and an inflation rate of 2% were used to calculate the present value of the asset retirement obligation.

### **Income Taxes**

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

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

The future income tax recovery totaled \$9.2 million for the fourth quarter ended December 31, 2008 and the future income tax recovery totaled \$8.4 million for the year ended December 31, 2008, compared to a recovery of \$10.9 million and of \$11.0 million for the three and twelve months ended December 31, 2007. The future income tax recovery for the year largely results from the write-down of property and equipment and goodwill and intangible values within Elbow River and the Real Estate Division. In 2007, income tax recovery was high due to rate changes and the Trust tax legislation. 2008 capital tax of \$0.5 million reflects the resource surcharge on Saskatchewan properties and Ontario capital taxes relating to the real estate properties owned in Ontario.

At December 31, 2008, the Trust had tax pools totalling \$210.8 million and non-capital losses totalling \$11.3 million expiring by 2027 (December 31, 2007 – tax pools \$311.0 million and non-capital losses \$0.04 million).

### **Risk Management and Financial Instruments**

The summary of the Trust's Risk Management Asset, as at December 31, 2008, under the CICA guidelines for hedge accounting is new for 2008.

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Risk management asset (liability), January 1,	<b>(13,750)</b>	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)	<b>6,057</b>	(2,888)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	<b>398</b>	641
<u>Change in mark-to-market of cash flow hedge contracts – Elbow River (iii)</u>	<u><b>7,001</b></u>	<u>(16,447)</u>
Net risk management liability, December 31,	<b>(294)</b>	(13,750)
<u>Reclassified to risk management asset, December 31,</u>	<u><b>(14,522)</b></u>	<u>(4,828)</u>
<b>Risk management liability, December 31,</b>	<b>(14,816)</b>	(18,578)

Fair values of commodity and foreign exchange derivatives are based on pricing models using forward curves as at December 31, 2008.

(i) The Trust has the following forward contracts outstanding as at December 31, 2008 relating to its Oil and Gas Division:

- A fixed price AECO swap for the period November 1, 2008 to October 31, 2009 on 1,000 gigajoules/day of natural gas with a price of \$8.26 CDN/gigajoules.
- A fixed price WTI collar for the period August 1, 2008 to July 31, 2009 on 200 barrels/day of crude oil with a floor price of \$90.00 US/Bbl and a ceiling price of \$113.10 US/Bbl.
- A fixed price AECO swap for the period April 1, 2010 to March 31, 2011 on 1,000 gigajoules/day of natural gas with a price of \$8.25 CDN/gigajoules.

The mark-to-market value of these contracts as at December 31, 2008 was a risk management asset of \$2.9 million (December 31, 2007 – a risk management liability of \$3.2 million), resulting in the recognition of an unrealized gain on the income statement for the year ended December 31, 2008 of \$6.1 million (2007 - \$2.9 million).

Subsequent to December 31, 2008, the Trust entered into the following forward contract:

- A fixed price WTI swap for the period March 1, 2009 to December 31, 2009 on 200 barrels/day of crude oil with a price of \$60.35 CDN/Bbl.

(ii) Elbow River sells natural gas liquids, ethanol, biodiesel, diesel, and asphalt product in the United States, Canada and overseas, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, natural gasoline, biodiesel, and ethanol. Futures contracts involve bio-fuels transactions at fixed volumes and fixed prices.

At December 31, 2008, Management determined that the documentation and effectiveness measures for hedge accounting had not been met from April 1, 2008 onward. As a result the unrealized loss of \$5.0 million relating to these contracts as at April 1, 2008 will remain in other comprehensive income until the hedge item relating to these commodity hedge contracts are settled. The change in the fair value of an unrealized gain of \$5.7 million from April 1, 2008 to December 31, 2008 has been recognized in earnings for the year.

The following tables detail those transactions in Elbow River that do not qualify for hedge accounting, which resulted in a risk management asset of \$1.7 million (December 31, 2007 – a risk management asset of \$1.3 million), resulting in the recognition of an unrealized gain on the income statement for the year ended December 31, 2008 of \$0.4 million (2007 - \$0.6 million).

<b>Commodities hedging contracts:</b>			<b>December 31, 2008</b>
<b>Settlement dates</b>	<b>Average Monthly Volume (bbl)</b>	<b>Prices \$/(bbl)</b>	<b>Unrealized gain (loss) \$</b>
January – March 2009	573,456	24.68 – 137.05	2,217,110
April – June 2009	348,342	25.62 – 82.30	685,900
July – September 2009	328,825	32.07 – 82.30	(551,475)
October – December 2009	328,825	33.76 – 82.30	(895,347)
January – March 2010	328,825	34.41 – 82.30	(886,323)
			569,865
		Exchange rate	1.2246
		Total CDN dollars	697,857
		Amount recorded as Other Comprehensive Loss	4,970,320
		Amount recorded in Unrealized Gain on Financial Instruments	5,668,177

<b>Futures contracts:</b>			<b>December 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (Bbl)</b>	<b>Prices US \$/(Bbl)</b>	<b>Unrealized loss \$</b>
January – March 2009	645,235	53.52 – 102.63	(2,993,682)
	645,235		(2,993,682)
		Exchange rate	1.2246
		Total CDN dollars	(3,666,064)

<b>Futures contracts:</b>			<b>December 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (Bbl)</b>	<b>Prices US \$</b>	<b>Unrealized loss \$</b>
March 2009	3,000,000	1.2979	(279,688)
	3,000,000		(279,688)
		Exchange rate	1.2246
		Total CDN dollars	(342,506)

(iii) The following table details those transactions that qualify for hedge accounting that are outstanding giving rise to a risk management asset of \$0.2 million (December 31, 2007 – a risk management liability of \$11.8 million), resulting in the recognition of a comprehensive income of \$12.0 million when compared to the December 31, 2007 mark-to-market. Also included in other comprehensive income for the year ended December 31, 2008 is an unrealized loss of \$5.0 million relating to the fair value of commodity hedge contracts as at April 1, 2008 as described above. As such this amount will remain in other comprehensive income until such time as the hedges are settled.

This brings the total amount of other comprehensive income for the year to \$7.0 million.

<b>Forward exchange contracts:</b>			<b>December 31, 2008</b>
<b>Term Due</b>	<b>Amount \$</b>	<b>Forward Rates CDN \$</b>	<b>Unrealized gain (loss) \$</b>
January – March 2009	64,313,450	0.9344 – 1.2862	1,068,193
April – June 2009	12,558,550	0.9349 – 1.2456	(271,070)
July – September 2009	1,973,550	0.9355 – 1.2441	(203,880)
October – December 2009	1,973,550	0.9360 – 1.2396	(211,828)
January –April 2010	2,363,550	0.9365 – 1.2351	(217,671)
Total US dollars	83,182,650		163,744
Exchange rate	1.2246		
Total CDN dollars	101,865,473		

### **Liquidity and Debt**

In relation to its Oil and Gas Division, as at December 31, 2008, the Trust had a combined revolving demand facility with a major Canadian bank in the amount of \$46.5 million (December 31, 2007 - \$45.5 million) bearing interest ranging from prime to prime plus one percent depending on the debt to cash flow ratio of the Oil and Gas Division (as defined by the banking agreement). The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. In addition, the Trust has a development facility in the amount of \$5.0 million, bearing interest ranging from prime plus one-quarter to prime plus one and one-quarter percent. As at December 31, 2008, \$4.0 million (December 31, 2007 - \$40.1 million) was drawn on the revolving demand facility and \$nil (December 31, 2007 - \$nil) was drawn on the development facility. As at December 31, 2008, the Oil & Gas Division was in compliance with all its banking covenants.

In relation to Elbow River, the Trust has a demand revolving loan facility with a Canadian bank in the amount of \$70.0 million (December 31, 2007 - \$70.0 million) bearing interest as follows; for advances of \$50.0 million or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50.0 million a 0.125% premium shall apply to applicable interest rates. In addition the Trust has a \$38.5 million import facility (December 31, 2007 - \$38.5 million) with the same Canadian Bank. The import facility bears interest at bank US base rate plus 0.25% per annum and was to be repaid by February 15, 2009. The full amount of this import facility was repaid on February 6, 2009. These facilities are collateralized by a charge over all of Elbow River's assets. As at December 31, 2008, \$89.1 million (December 31, 2007 - \$68.0 million) was drawn on the demand loan facilities. During the year, the revolving loan limit of \$70.0 million was temporarily increased to \$82.0 million until February 15, 2009 at which time the limit reverted back to the original \$70.0 million. As at December 31, 2008, Elbow River was in compliance with all its banking covenants.

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

The average effective interest rate on borrowings under the above lines for the year ended December 31, 2008, including service fees, was 5.05% (December 31, 2007 – 6.91%).

As at December 31, 2008, the Trust had 14 letters of credit outstanding in the aggregate amount of \$7.4 million (December 31, 2007 - \$5.2 million). The letters of credit reduce the amount available to be drawn on the related demand facilities. In addition Elbow River had 18 bonds outstanding in the aggregate amount of \$2.2 million which do not reduce the availability of Elbow's demand facility.

To provide Elbow River with additional credit on natural gas liquids and biofuels inventory purchases, the Trust has guarantees to third parties for a maximum of \$190.4 million (December 31, 2007 - \$64.7 million). These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time. During the first quarter of 2009 the amount of parental guarantees has been reduced by \$36.4 million.

<i>(in thousands of dollars)</i>	<b>Total</b>	<b>Payments due by period</b>		
		<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>4+ years</b>
Mortgages	38,688	11,856	24,154	2,678
Lease Commitments	12,801	3,386	6,563	2,852
<b>Total Contractual Obligations</b>	<b>51,489</b>	<b>15,242</b>	<b>30,717</b>	<b>5,530</b>

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

### **Goodwill**

Through acquisitions since the inception of the Trust, goodwill was built-up when purchase prices exceeded identifiable assets. This occurred in the Oil and Gas Division during times of rising commodity prices and in Elbow River where a marketing company has few identifiable assets to support its cash flow stream. Goodwill is not amortized; rather under GAAP the Trust evaluates the carrying value of its goodwill annually or more frequently if events or circumstances change. Given decreasing market valuations, in light of the global financial crisis and rapidly falling commodity prices, the goodwill assessment resulted in an impairment. The Trust recorded a December 31, 2008 goodwill impairment charge of \$34.3 million (\$21.2 million in Oil and Gas and \$13.1 million in Elbow River). This non-cash charge has no impact on the Trust's liquidity, the stability of funds from operations or distributable cash. The remaining \$23.4 million goodwill all relates to the Elbow River business.

### **Investment and Capital Expenditures**

<i>(in thousands of dollars)</i>	<b>December 31, 2008</b>	<b>December 30, 2007</b>
<b>Financial Services</b>		
Financial services development expenditures	519	1,143
Sub-Total	519	1,143
<b>Oil and Gas</b>		
Land	449	478
Drilling	12,313	5,151
Production equipment and facilities	3,715	7,097
Other	52	53
Oil and gas property acquisitions	4,062	7,395
Proceeds received on oil and gas property dispositions	(502)	(83)
Sub-Total	20,089	20,091
<b>Real Estate</b>		
Real estate acquisitions	–	810
Real estate development expenditures	2,962	9,159
Proceeds received on real estate property dispositions	(10,392)	–
Sub-Total	(7,430)	9,969
<b>Discontinued Operations - EnerVest</b>		
Financial services development expenditures	4,521	–
Sub-Total	4,521	–
<b>Other assets</b>	<b>6</b>	<b>137</b>
<b>Net capital expenditures</b>	<b>17,705</b>	<b>31,340</b>

### **Contractual Obligations**

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

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

- A physical fixed price sale for the period February 1, 2008 to March 31, 2009 on 1,000 gigajoules/day of gas at a price of \$6.94/gigajoule.
- A physical fixed price sale for the period November 1, 2008 to March 31, 2009 on 1,000 gigajoules/day of gas at a price of \$7.65/gigajoule.
- A physical fixed price sale for the period April 1, 2009 to March 31, 2010 on 2,000 gigajoules/day of gas at a price of \$7.92/gigajoule.
- A physical fixed price sale for the period January 1, 2009 to December 31, 2010 on 1,000 gigajoules/day of gas at a price of \$7.95/gigajoule.

The mark-to-market value of these contracts as at December 31, 2008 was an unrealized gain of \$1.8 million.

At December 31, 2008, the following contracts were outstanding with respect to the physical purchase of power:

- A physical fixed price purchase of electrical power for the period January 1, 2009 to June 30, 2009 of 2.0 megawatts per month at a price of \$74.99/megawatt hour.
- A physical fixed price purchase of electrical power for the period January 1, 2009 to December 31, 2009 of 1.0 megawatts per month at a price of \$79.84/megawatt hour.

The mark-to-market value of these contracts as at December 31, 2008 was an unrealized loss of \$0.02 million.

Subsequent to December 31, 2008, the Trust entered into the following additional contracts:

- A physical fixed price sale for the period February 1, 2009 to March 31, 2011 on 1,000 gigajoules/day of gas at a price of \$6.79/gigajoule.
- A physical fixed purchase of electrical power for the period July 1, 2009 to December 31, 2010 of 2.0 megawatts per month at a price of \$67.72/megawatt hour.

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

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

<i>(in thousands of dollars)</i>	<i>\$</i>
2009	3,386
2010	2,684
2011	2,250
2012	1,629
2013	1,168
2014 and thereafter	1,684
<b>Total</b>	<b>12,801</b>

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

## Unitholders' Capital

<b>Trust Units</b>	<b>Number of Units</b>	<b>Amount \$ (in thousands of dollars)</b>
<b>Balance December 31, 2006</b>	<b>41,196,885</b>	<b>413,731</b>
Units issued on exercise of stock options	142,886	1,116
Units released from escrow – Elbow River	397,554	4,334
Units released from escrow - Energy Services Division	37,854	352
<b>Balance December 31, 2007</b>	<b>41,775,179</b>	<b>419,533</b>
Units issued on exercise of stock options	276,532	1,947
Units released from escrow – Elbow River	76,452	833
Units released from escrow - Energy Services Division	30,977	289
Units repurchased & cancelled – Normal Course Issuer Bid	(58,344)	(585)
<b>Balance December 31, 2008</b>	<b>42,100,796</b>	<b>422,017</b>

For the fourth quarter and year ended December 31, 2008 the Trust had weighted average trust units outstanding of 42,062,380 and 41,957,872, respectively. The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in weighted average trust units outstanding of 42,277,327 and 42,749,181 for the fourth quarter and year ended December 31, 2008, respectively. As at December 31, 2008 the total units outstanding for the Trust were 42,100,796. At December 31, 2008 there were 329,000 in anti-dilutive options that were not part of the dilutive per unit calculation. Earnings per share from continuing operations for 2008 did not include the dilution adjustment as there was a loss for the year.

As at December 31, 2008, the Trust had a total of 2,979,833 options which represents 71% of the options available for issuance.

Subsequent to December 31, 2008 the Trust issued an additional 29,500 options.

## Related Party Transactions

During the year ended December 31, 2008, the Trust paid \$0.2 million (December 31, 2007 - \$0.2 million) to Avenir Capital Corporation (“Avenir”), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at December 31, 2008 is \$0.02 million (December 31, 2007 - \$0.02 million) owing to Avenir relating to administration and advisory services.

During the year ended December 31, 2008, the Trust incurred marketing fees of \$0.07 million (December 31, 2007 - \$0.08 million) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$0.02 million is included in accounts payable and accrued liabilities as at December 31, 2008 (December 31, 2007 - \$0.02 million).

During the year ended December 31, 2008, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions, divestitures and mortgage financing of \$0.7 million (December 31, 2007 - \$0.6 million) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$nil is included in accounts payable and accrued liabilities as at December 31, 2008 (December 31, 2007 - \$0.02 million).

In the normal course of joint venture activities, the Trust's Oil and Gas Division from time to time engages in business transactions with companies having directors in common with the Trust. In this regard, during 2008, the Trust purchased minor royalty and producing property interests from a publicly traded corporation with certain directors in common for \$4.0 million (December 31, 2007 - \$7.2 million).

## **Risks and Uncertainties**

### **Financial Risks**

#### **Cash Distributions to Unitholders are Dependent on the Performance of the Trust**

Distributable cash generally refers to the net cash received by the Trust that is available for payment to Unitholders on a monthly basis. The Trust is entirely dependent upon the operations and assets of its Divisions to make cash distributions to Unitholders.

There is no assurance regarding the amounts of cash to be distributed by the Trust or generated by the Trust and therefore, the funds available for distribution to Unitholders. The actual amount distributed will depend on a variety of factors, including without limitation, the performance of each operating business, the effect of acquisitions or dispositions on the Trust, and other factors that may be beyond the control of the Trust. In the event significant sustaining capital expenditures are required or the profitability of the Trust declines, there would be a decrease in the amount of cash available for distribution to Unitholders and such decrease could be material.

The Trust's distribution policy is subject to change at the discretion of the board of directors of the Administrator of the Trust.

#### ***Fair values of financial assets and liabilities***

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

Marketable securities are classified as available for sale and at December 31, 2008, recorded as permanently re-valued at a fair value of \$20 thousand. The increase in the market value of the investments of \$8 thousand for the year ended December 31, 2008 has been included on the income statement as a gain on marketable securities.

Borrowings under bank credit facilities are revolving in nature and are market rate based, thus, carrying value approximates fair value. The fair values of the promissory notes are derived from third party indications which consider these notes payable as subordinated mezzanine level debt in determining the fair value. This fair value approximates the carrying values. The mortgages are for varying lengths and carry interest rates in line with the market terms agreed to when the mortgages were entered into. The fair value of the mortgages reflect the discounted present value of the principal and interest payments using the effective yield for instruments having the same term and risk characteristics. The fair value of the Trust's mortgages at December 31, 2008 was \$38.6 million, while the carrying value was \$38.7 million.

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

#### ***Credit risk***

The Trust's financial instruments exposed to credit risk consist primarily of trade accounts receivable and risk management assets (liabilities). The trade receivables are from the Trust's Oil & Gas Division and Elbow River. The oil and gas trade receivables are dependent upon the strength of the North American energy complex and specifically the petroleum industry. Elbow River is also exposed to additional risk with international and overseas counterparts relating to biofuel revenues wherein additional due diligence and documentary letters of credit are undertaken. Management routinely assesses the financial strength of partners and customers, and monitors the exposure for credit losses. At December 31, 2008, the Trust had an allowance for doubtful accounts relating to its Oil and Gas Division receivable balance of \$0.8 million and Elbow River has an allowance for doubtful accounts of \$35.9 million, the two amounts representing 42.7% of the Trust's accounts receivables.

The increase in the allowance in the Oil and Gas Division is the result of a purchaser of a small portion of the Oil and Gas Division's production, filing for protection under the Companies Creditor Arrangement Act or CCAA on July 22, 2008. As a result,

the Trust's total exposure of approximately \$0.5 million for production proceeds for the period from June 1, 2008 to July 21, 2008, was recorded as an allowance for doubtful accounts as at December 31, 2008. The Trust is registered as a creditor under the CCAA proceedings and may eventually be able to collect some portion of the amounts owing. The Trust believes it has no additional exposure to this counterparty as all production purchases have been reallocated to another counterparty effective July 22, 2008 as allowed by the court orders.

The increase in the allowance in Elbow River is for doubtful bio-diesel joint venture partner receivables. In Mid March 2009, Elbow River was advised by this joint venture partner that they would be unable to pay to Elbow River its proportionate share owing under their "memorandum of understanding". Elbow River has taken legal actions against the joint venture partner, its equity investor and its secured bank, claiming return of funds owing to Elbow River under the joint venture agreement. There can be no certainty under the legal proceedings that Elbow River will recover these monies. Elbow River has assessed its accounts receivable and determined that including this partner receivable a provision of \$35.7 million in bio-diesel receivables would be appropriate at December 31, 2008. Elbow River will continue to work with its bio-diesel counterparties and partners and will pursue all avenues to recover funds owed.

The maximum credit exposures associated with the Trust's customers are the carrying value of the accounts receivable and the presales in Elbow River (which are not reflected in the consolidated financial statements). As at December 31, 2008, 30% of the Trusts consolidated accounts receivable are due from one customer. The total amount of receivables past due 90 days amounted to \$24.5 million as at December 31, 2008. Elbow River has now exited from marketing bio-diesel products and its additional inherent counterparty and partner risks. Management continues to scrutinize and monitor its remaining bio-diesel receivables and expects to have completely collected all outstanding amounts by mid 2009. The Elbow River LPG base accounts receivables have been reviewed and are continually monitored. No allowance was deemed necessary for these accounts.

With respect to financial instruments, the Trust could be exposed to losses either directly, if the counterparty is unable or fails to perform in accordance with the terms of the contract or through the parental guarantees the Trust provides from time to time to its operating divisions. This risk is managed by diversifying the derivative portfolio among counterparties meeting certain financial criteria. The Trust also evaluates its credit risk by monitoring on a regular basis the Standard and Poor's ratings for its counterparties and as a guideline the Trust uses a minimum rating of BBB or above. For the period all counterparties met this requirement.

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

#### ***Foreign currency risk***

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

In respect of existing financial instruments, a \$0.01 change in the US dollar against the Canadian dollar, with all other variables assumed constant, would have resulted in a change of approximately \$0.05 million in net income from continuing operations and a change of approximately \$0.8 million in other comprehensive income for the year ended December 31, 2008.

#### ***Commodity price risk***

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

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

At December 31, 2008, in respect of the financial derivative instruments in the Oil and Gas Division, a change of \$10.00 US/Bbl in the price of oil and \$1.00/gigajoule in the price of natural gas would have resulted in unrealized gains and losses impacting net income from continuing operations by approximately \$0.7 million.

In respect of the financial derivative instruments in Elbow River, a 5% change in commodity pricing would have resulted in unrealized gains and losses changing net income from continuing operations and other comprehensive income by approximately \$5.8 million.

### ***Interest rate risk***

Drawings under the Trust's bank credit facilities are at floating interest rates and expose the Trust to interest rate risk. The Trust is authorized by the Board of Directors to enter into fixed rate swaps to manage risks associated with rising interest rates if felt appropriate. The Trust is also exposed to interest rate risk on maturity and refinancing of its fixed rate mortgages including the possibility that existing mortgages may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt. The Trust mitigates these risks by its continued efforts to enhance the value of its real estate properties and maintain high occupancy levels. A 1% change in interest rates would result in net income from continuing operations sensitivity of approximately \$1.3 million. The Trust has not entered into any derivative agreements to mitigate this risk.

### ***Liquidity risk***

The Trust is exposed to liquidity risk, which is the risk that the Trust may be unable to generate or obtain sufficient cash to meet its commitments as they come due. The Trust mitigates this risk through its management of cash, debt and its distributions. With the sale of the EnerVest assets in May 2008, the Trust has a significant cash and working capital surplus together with undrawn credit facilities in its Oil & Gas Division providing significant flexibility in meeting current and future liquidity requirements.

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

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

Except for the mortgages and some hedges covering term deals of up to two years in Elbow River, all the Trust financial liabilities are effectively due within one year.

### **Business Risks**

Recent market events and conditions and the deterioration of global economic conditions, have caused significant volatility in commodity prices and disruptions in the international credit markets and other financial systems. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Each business of the Trust has specific risks associated with operations:

**Elbow River:**

- Assessing partner and counterparty risk particularly in newer less established bio-diesel and ethanol markets.
- Energy market division relies on rail and tanker transportation;
- Ability to maintain key customer relationships to protect energy market revenues;
- Seasonality with higher first and fourth quarter results;
- Price volatility in natural gas liquids and ethanol provides opportunity and risk;
- Maturity of ethanol business will bring increased competitive pressures;
- International export market for bio-diesel provides opportunity and new risks and challenges;
- Ability to access credit given tighter global credit markets and general market uncertainties;
- Ability to manage risk and fluctuations in commodity and currency markets; and
- Potential impact on core LPG business of write-downs and exit from marketing the bio-diesel product.

**Oil and Gas**

- Fluctuations and volatility in commodity prices, exchange rates and interest rates;
- Government and regulatory risk with respect to royalties, land tenure, allowable production and income tax regimes;
- Operational and geological risk that may affect the quality and recoverability of reserves;
- Capital markets risk and the ability to finance future growth;
- The ability to market the Trust's oil and natural gas;
- Operational problems affecting pipelines and facilities;
- Environmental risks associated with the business;
- Estimates of reserve and production recovery information contained in the reserve reports; and
- Bank borrowing rates.

**Real Estate**

- Interest rates and a strong stable economic environment are key drivers in Real Estate Division;
- Loss of key tenants could impact real estate profits due to large fixed expenditures relating to commercial properties;
- Impact of worldwide financial crisis and a slowing economy affects valuations; and
- Uncertainty and tightened credit markets has significantly affected financing and real estate valuations.

The Trust strives to mitigate these risks by:

- Following a diversification strategy – where risks are spread over multiple businesses;
- Employing experienced incentivized personnel in all divisions;
- Hedging energy marketing transactions to lock in margins;
- Fixing commodity prices on a portion of oil and gas volumes to ensure stability of cash available for distribution and to support acquisition economics;
- Marketing to selected credit worthy customers;
- Maintaining prudent financial leverage;
- Managing mortgage terms to rental leases and monitoring financial status of tenants;
- Adhering to strict environmental, health and safety programs; and
- Maintaining strong relationships with investment community and capital providers.

For a discussion of additional business risks, see “Risk Factors” detailed in the Annual Information Form to be filed March 31, 2009, available on SEDAR ([www.sedar.com](http://www.sedar.com)).

## Oil and Gas Division Sensitivities

The following table shows the estimated sensitivity of the Trust's 2009 cash flows to changes within the Oil and Gas Division with respect to pricing, volume, interest and foreign exchange based on 2009 estimates:

<b>Pricing</b>		<b>Change</b>	<b>Per unit</b>
		<b>\$</b>	<b>\$</b>
WTI (+US\$1.00) Oil	+\$1.00	477,351	0.01
AECO (+Cdn\$0.25) Gas	+\$0.25	542,338	0.01
<b>Volume</b>			
Oil & Natural Gas Liquids (+100 BOE/d)	+100	1,386,733	0.03
Natural Gas (+1.0 mmcf/d)	+1.0	1,805,225	0.04
Interest*	+1%	n/a	
Foreign Exchange			
\$Cdn/\$US	+ .01	(322,533)	(0.01)

The Oil and Gas Division makes up approximately 60% of the total Trust cash flow based on the 2009 estimates. \*The interest sensitivity in the prior table is deemed not applicable as the Oil and Gas Division does not have any debt in the 2009 projections.

## Critical Accounting Estimates

The MD&A is based on the Trust's consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The application of Canadian GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Trust bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The following is a discussion of the critical accounting estimates that are inherent in the preparation of the Trust's consolidated financial statements and notes thereto.

### Reserve Estimates

Estimates of the Trust's reserves in its consolidated financial statements are prepared in accordance with guidelines established by NI 51-101. Reserve engineering is a subjective process of estimating underground accumulations of petroleum and natural gas that cannot be measured in an exact manner. The process relies on interpretations of available geological, geophysical, engineering and production data. The accuracy of a reserve estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgment of the persons preparing the estimate.

The Trust's reserve information is based on estimates prepared by its independent petroleum consultants. Estimates prepared by others may be different than these estimates. Because these estimates depend on many assumptions such as projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which may differ from actual results, reserve estimates may be different from the quantities of petroleum and natural gas that are ultimately recovered. In addition, the results of drilling, testing and production after the date of an estimate may justify revisions to the estimate.

The present value of future net revenues should not be assumed to be the current market value of the Trust's estimated reserves. Actual future prices, costs and reserves may be materially higher or lower than the prices, costs and reserves used for the future net revenue calculations. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depreciation, depletion and amortization.

A downward revision in the reserve estimate could result in a higher depletion, depreciation and amortization ("DD&A") charge to earnings (see depletion and depreciation below). In addition, if the net capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserve estimates (see asset impairment below), the excess must be written off as an expense charged against earnings.

### ***Asset Retirement Obligations***

The asset retirement obligation provision recorded in the consolidated financial statements is based on an estimate for total costs for future restoration and abandonment of the Trust's petroleum and natural gas properties, as well as estimates of when these costs will occur. These estimates are based on management's analysis of production structure, reservoir characteristics and depth, market demand for equipment, currently available procedures, and discussions with construction and engineering consultants. Estimating these future costs requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changing technology and political and regulatory environments.

### ***Intangible Assets***

The Trust reviews long-lived assets and intangible assets with finite lives at least annually or whenever events or changes in circumstance indicate that the carrying value of such assets may have changed. A fair value test of the asset values incorporates estimates of useful life, normalized earnings, future earnings, price earnings or cash flow multiples, future cash flows, discount rates and residual values. Any impairment would be charged to the consolidated statement of operations as an increase in depletion, depreciation and amortization. The majority of the Trust's intangible assets are in the Financial Services Division.

### ***Goodwill***

Globally, the economic crisis has resulted in a significant revaluation of assets, including infrastructure assets. While the Trust's portfolio continues to generate stable cash flow, the Trust has not been immune to the turbulence in global capital markets, as evidenced by the Trust's unit price performance in the last quarter of 2008.

In accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), the Trust evaluates the carrying value of its goodwill annually and more frequently if events or changes in circumstances, including the market environment, warrant a reassessment prior to the annual impairment test. As of December 31, 2008, the Trust recognized a goodwill impairment charge of \$34.3 million due to the revaluation of its assets, which is reflective of the decline in the Trust's market valuation relative to the book value of its equity. This non-cash charge has no impact on the Trust's liquidity, the stability of cash flow from operations or distributable cash. As at December 31, 2008, the goodwill balance of \$23.4 million is all related to the Elbow River business.

### ***Income Taxes***

The Trust is a taxable entity under the Income Tax Act (Canada) and, for periods prior to January 1, 2011, is taxable only on income that is not distributed or distributable to the unitholders. On June 22, 2008 the federal government's bill regarding the taxation of distributions from trusts beginning January 1, 2011 was substantially enacted. Under this new law, distributions after January 1, 2011 will not be deductible by the Trust for tax purposes. As the Trust distributes all of its taxable income to the Unit holders pursuant to the Trust Indenture and meets the requirements of the Tax Act applicable to the Trust, no current provisions for income taxes have been made. Notwithstanding the above, the Trust does provide for an estimate of future income taxes in its Oil and Gas and Real Estate corporate entities, as per required accounting rules. This may require estimates and interpretations of federal and provincial income tax rules and regulations, and judgment as to their interpretation and application to the Trust's specific situation. Any changes in future income tax assets and liabilities are charged to income in the period.

### ***Accounts Receivable***

Accounts receivable collectability may require an assessment and estimation of the creditworthiness of the Trust's customers and partners, the timing and circumstances of collection and eventual amounts to be recovered. Any allowance estimated as uncollectible is recorded against earnings. In 2008, the Trust was required to record a significant bad debt expense of \$36.3 million largely due to a bio-diesel joint venture partner advising Elbow River in mid March 2009 that the partner would be unable to pay Elbow River its proportionate share of joint venture revenues. Elbow River is currently pursuing legal action to recover the funds. Elbow River has now exited from marketing bio-diesel products and its additional inherent counterparty and partner risks. Management continues to scrutinize and monitor its remaining bio-diesel receivables and expects to have completely collected all outstanding amounts by mid 2009. The Elbow River LPG base accounts receivables have been reviewed and are continually monitored. No allowance was deemed necessary for these accounts.

## **Disclosure Controls**

Disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the Trust required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is communicated to the Trust's management as appropriate to allow timely decisions regarding required disclosure. The Trust's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of these disclosure controls and have concluded, based on their evaluation that the Trust's disclosure controls and procedures were operating effectively during 2008 to provide reasonable assurance that material information related to the Trust, including its consolidated subsidiaries, is made known to them by others within those entities.

## **Internal Controls over Financial Reporting**

As at December 31, 2008, Management has evaluated the design and operation of the Trust's internal controls over financial reporting as is required under National Instrument 52-109. Management has used the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the effectiveness of the Trust's internal controls over financial reporting.

Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that while the design of internal controls over financial reporting was effective and sufficient to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, the implementation and operation of the internal controls over financial reporting could not be deemed to be effective.

The review concluded that the implementation of internal controls over financial reporting were effective over all divisions of the Trust except for the Elbow River business. A deficiency in the design and operating effectiveness of internal control over financial reporting can affect financial statement balances and result in a material misstatement to the annual or interim financial statements that may not be prevented or detected.

Management believes this weakness may be the result of the Elbow River business attempting to deal with first the build-up and then the exit from marketing bio-diesel. The size, complexities and rapid changes inherent in the bio-diesel business stretched existing Elbow River systems, processes and staff to the point that implementation and operation over internal controls were deemed to have the following material deficiencies: inadequate entity level oversight within the Elbow River business; insufficient staff and inadequate staff training to handle the additional workload and complexities of bio-diesel marketing; and failing to provide support for hedge accounting treatment on derivative contracts. To address the deficiencies, a new senior Chief Financial Officer was hired to provide oversight and support for the yearend audit; staff training is being updated and workloads will decrease with the exit from marketing bio-diesel and transactions not qualifying for hedge accounting have been mark-to-marketed and corrected in the financial statements. Following the identification of the deficiency, in addition to the steps referred to above, adjustments and entries were made to correct any identified errors and accordingly, Management believes that the consolidated financial statements and accompanying notes included in this report, present fairly the financial results of the Trust for the year ended December 31, 2008.

Management expects that these deficiencies will be addressed as bio-diesel sales are wound-up in the first quarter of 2009, transaction complexities diminish and staff work loads and training return to more normal levels. The new Chief Financial Officer for the Elbow River business has been hired to ensure the required changes are made and oversee the effective implementation of any additional internal controls required in this business unit.

## **Recent Accounting Pronouncements and the Impact on the Trust**

Effective January 1, 2008, the Trust adopted CICA Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, Handbook Section 3863, Financial Instruments – Presentation, and Handbook Section 3031 Inventories. The adoption of Section 1535 resulted in additional disclosure with regard to the Trust's objectives. Policies and processes for managing capital. 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. On January 20, 2009, the Emerging Issues Committee of the CICA issued Abstract #173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", concerning the measurement of the financial assets and financial liabilities, the Trust also adopted this in 2008.

For more information on these policies, see note 3 of the Trust's consolidated financial statements for the year ended December 31, 2008.

### ***Future Accounting Pronouncements***

The Canadian Institute of Chartered Accountants ("CICA") has issued a number of accounting pronouncements, some of which may affect the Trust's reported results and financial position in future years.

In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets". The new Section will be effective on January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Trust is currently evaluating the impact of the adoption of this new Section, however does not expect a material impact on its consolidated financial statements.

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

The Trust is assessing the effects of the adoption of IFRS by comparing differences between Canadian GAAP and IFRS and is currently assessing the effects of adoption and finalizing its conversion plans. At this time, the impact on the Trust's financial position and results of operations is not reasonably determined or estimable for any of the IFRS conversion impacts identified. The Trust will continue to monitor any changes in the adoption of IFRS, as well as continue to assess the impact of these new standards on its financial statements.

In December 2008, the CICA issued Handbook Section 1582 "Business Combination", which will replace CICA Handbook Section 1581 of the same name. Under this guidance, the purchase prices used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently, the purchase price used is based on the market price of the shares for a reasonable period before and after the date of the acquisition is agreed upon and announced. This new standard generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently, only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. These new requirements are effective January 1, 2011 and are expected to have minimal impact on the Trust's consolidated financial statements.

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

Submitted on behalf of:



William M. Gallacher, President & CEO



Gary Dundas, Vice President & CFO

To the Unitholders of Avenir Diversified Income Trust:

Management is responsible for the preparation of the financial statements in accordance with Canadian generally accepted accounting principles and for ensuring that all other financial and operating information presented in this report is consistent with those financial statements. Management maintains a system of internal controls that is designed to ensure all assets are safeguarded and managed efficiently and to facilitate the preparation of reliable and timely financial information.

The Audit Committee of the Board of Directors, is comprised of three members considered to be “outside and unrelated” directors, has reviewed the consolidated financial statements with management and the external auditors.

Independent auditors, appointed by the unitholders of the Trust, have examined the financial statements in order to express their opinion. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board of Directors has reviewed these financial statements with management and the auditors and has reported to the Board of Directors. The Board of Directors has approved the financial statements.



William Gallacher  
President & Chief Executive Officer



Gary Dundas  
Vice-President Finance & Chief Financial Officer

To the Unitholders of

Avenir Diversified Income Trust

We have audited the consolidated balance sheets of Avenir Diversified Income Trust as at December 31, 2008 and 2007 and the consolidated statements of operations and accumulated earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Calgary, Alberta

March 31, 2009 Chartered Accountants

**CONSOLIDATED BALANCE SHEETS**

**As at December 31,**

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
	\$	\$
		<b>(restated – note 3)</b>
<b>ASSETS</b> <i>[note 8]</i>		
<b>Current</b>		
Cash	21,956	–
Marketable securities <i>[note 14a]</i>	20	1,275
Accounts receivable and prepaid expenses	88,737	77,600
Inventory <i>[note 4]</i>	127,883	83,653
Note receivable <i>[note 3a]</i>	25,000	–
Risk management assets <i>[note 14]</i>	14,522	4,828
Assets of discontinued operations <i>[note 3a]</i>	–	144,276
	<b>278,118</b>	<b>311,632</b>
Property and equipment <i>[notes 5, 8 and 10]</i>	195,237	211,566
Intangibles and other assets <i>[note 6]</i>	11,571	17,703
Goodwill <i>[note 7]</i>	23,424	56,875
Future income taxes <i>[note 17]</i>	13,878	–
	<b>522,228</b>	<b>597,776</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness <i>[note 8]</i>	93,127	109,843
Accounts payable and accrued liabilities <i>[note 15]</i>	81,516	74,305
Distributions payable <i>[note 20]</i>	28,755	3,476
Deferred revenue	201	291
Risk management liabilities <i>[note 14]</i>	14,816	18,578
Notes payable <i>[note 9]</i>	–	10,000
Current portion of mortgages <i>[note 10]</i>	11,856	15,023
Liabilities of discontinued operations <i>[note 3a]</i>	–	23,703
	<b>230,271</b>	<b>255,219</b>
<b>Mortgages</b> <i>[note 10]</i>	<b>26,832</b>	<b>29,427</b>
<b>Asset retirement obligation</b> <i>[note 11]</i>	<b>15,009</b>	<b>12,905</b>
<b>Future income taxes</b> <i>[note 17]</i>	<b>10,721</b>	<b>5,265</b>
<b>Commitments and contingencies</b> <i>[notes 8 and 16]</i>		
<b>Unitholders' equity</b>		
Unitholder capital <i>[note 12]</i>	422,017	419,533
Contributed surplus <i>[note 12]</i>	6,777	6,033
Accumulated earnings	95,184	92,671
Accumulated other comprehensive loss <i>[notes 2 and 12]</i>	(4,807)	(10,589)
Accumulated distributions	(279,776)	(212,688)
	<b>239,395</b>	<b>294,960</b>
	<b>522,228</b>	<b>597,776</b>

See accompanying notes to the consolidated financial statements

On behalf of the Board



Director



Director

**CONSOLIDATED STATEMENTS OF  
OPERATIONS AND ACCUMULATED EARNINGS**

For the year ended December 31,

<i>(in thousands of dollars)</i>	2008 \$	2007 \$
		(restated – note 3)
<b>REVENUE</b>		
Financial services revenue	2,142,666	799,870
Unrealized gain on financial instruments <i>[note 14]</i>	398	641
Total financial services revenue	2,143,064	800,511
Oil and gas revenue	75,089	57,521
Oil and gas transportation costs	(1,004)	(1,177)
Royalties	(11,673)	(7,920)
Unrealized gain (loss) on financial instruments <i>[note 14]</i>	6,057	(2,888)
Total oil and gas revenue	68,469	45,536
Real estate revenue	7,911	7,321
Gain on sale of real estate properties <i>[note 5d]</i>	10,096	—
Interest and other revenue	1,182	5
Total revenue	2,230,722	853,373
<b>EXPENSES</b>		
Financial services operating <i>[note 4]</i>	2,093,564	771,964
Oil and gas operating	21,155	19,981
Real estate operating	1,877	1,776
General and administrative <i>[notes 13 and 15]</i>	21,330	18,694
Bad debt expense <i>[note 14b]</i>	36,455	125
Foreign exchange	19,954	929
Interest and bank fees	7,184	5,700
Interest on long-term debt	2,390	1,954
Capital taxes	508	461
Goodwill impairment <i>[note 7]</i>	34,284	—
Depletion, depreciation and amortization <i>[note 3b]</i>	39,297	26,268
Asset retirement obligation accretion <i>[note 11]</i>	1,079	993
	2,279,077	848,845
Income (loss) from continuing operations before income tax	(48,355)	4,528
Future income tax recovery <i>[note 17]</i>	8,422	10,978
Net income (loss) from continuing operations	(39,933)	15,506
Net income from discontinued operations – EnerVest <i>[note 3a]</i>	42,446	11,885
Net income for the year	2,513	27,391
Accumulated earnings, beginning of year	92,671	65,022
Change in accounting policy <i>[note 2]</i>	—	258
Accumulated earnings, end of year	95,184	92,671
Net income (loss) from continuing operations per unit <i>[note 12]</i>		
Basic	(0.95)	0.37
Diluted	(0.95)	0.37
Net income from discontinued operations per unit <i>[note 12]</i>		
Basic	1.01	0.29
Diluted	0.99	0.28
Net income per unit <i>[note 12]</i>		
Basic	0.06	0.66
Diluted	0.06	0.65

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the year ended December 31,

<i>(in thousands of dollars)</i>	2008 \$	2007 \$
Net income for the year	2,513	27,391
Change in fair value of derivative instruments designated as cash flow hedges <i>[note 14]</i>	7,001	(16,447)
Change in fair value of marketable securities	(1,263)	(530)
Other comprehensive income	5,738	(16,977)
Comprehensive income for the year	8,251	10,414

See accompanying notes to the consolidated financial statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the year ended December 31,

<i>(in thousands of dollars)</i>	<b>2008</b> \$	<b>2007</b> \$
		<b>(restated – note 3)</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss) from continuing operations	(39,933)	15,506
Add (deduct) non-cash items:		
Non-cash general and administrative <i>[note 13]</i>	1,352	2,577
Depletion, depreciation and amortization	39,297	26,268
Asset retirement obligation accretion	1,079	993
Goodwill impairment	34,284	—
Gain on sale of real estate properties	(10,096)	—
Unrealized loss (gain) on financial instruments	(6,455)	2,247
Unrealized foreign exchange	7,000	(963)
Future income tax recovery	(8,422)	(10,978)
Funds from continuing operations	18,106	35,650
Funds from discontinued operations – EnerVest <i>[note 3a]</i>	6,918	17,961
	25,024	53,611
Asset retirement expenditures during year <i>[note 11]</i>	(1,506)	(1,209)
Change in non-cash working capital <i>[note 19]</i>	(53,579)	(40,230)
Cash provided (used in) by operating activities	(30,061)	12,172
<b>FINANCING ACTIVITIES</b>		
Issue of trust units, net of issue costs	1,086	591
Repurchase of trust units <i>[note 12a(iv)]</i>	(288)	—
Cash settlement of options	(21)	(11)
Distributions to unitholders <i>[note 20]</i>	(67,087)	(41,659)
(Decrease) increase in bank indebtedness	(16,650)	40,603
(Decrease) increase in notes payable	(10,000)	5,000
Increase in mortgages	4,757	12,416
Repayment of mortgages	(891)	(815)
Repayments of long-term debt	(1,675)	—
Change in non-cash working capital <i>[note 19]</i>	25,279	11
Cash provided by (used in) financing activities	(65,490)	16,136
<b>INVESTING ACTIVITIES</b>		
Sale of EnerVest assets <i>[note 3a]</i>	135,670	—
Financial services development expenditures	(5,040)	(1,143)
Redemption of financial services contracts	—	3,265
Oil and gas property acquisitions <i>[note 5]</i>	(4,062)	(7,395)
Oil and gas property disposals <i>[note 5]</i>	502	83
Oil and gas development expenditures	(16,529)	(12,779)
Purchase of other assets	(6)	(137)
Purchase of real estate properties	—	(810)
Real estate development expenditures	(2,962)	(9,159)
Real estate dispositions <i>[note 5d]</i>	10,392	—
Change in non-cash working capital <i>[note 19]</i>	(458)	(676)
Cash provided by (used in) investing activities	117,507	(28,751)
<b>Increase (decrease) in cash during the year</b>	<b>21,956</b>	<b>(443)</b>
Cash, beginning of year	—	255
<b>Change in cash of discontinued operations</b> <i>[note 3a]</i>	<b>—</b>	<b>188</b>
<b>Cash, end of year</b>	<b>21,956</b>	<b>—</b>
<b>Cash taxes paid</b>	<b>686</b>	<b>807</b>
<b>Cash interest paid</b>	<b>9,531</b>	<b>7,921</b>

See accompanying notes to the consolidated financial statements

1. **NATURE OF THE ORGANIZATION**

Avenir Diversified Income Trust (“AVF” or the “Trust”) is an open-end unincorporated investment trust governed by the laws of the Province of Alberta.

The beneficiaries of the Trust are the unitholders. The Trust, a public income trust trading on the Toronto Stock Exchange, distributes a portion of its funds from operations on a monthly basis to its Unitholders. It currently carries on businesses in the areas of exploration and development of oil and gas properties in western Canada, financial services, and real estate.

Funds from operations are provided to the Trust from financial services income – Elbow River, oil and gas properties, and real estate income. Funds from operations are paid from the corporations and partnerships that hold these interests to the Trust by way of net profit payments, partnership income, interest payments and principal repayments.

Certain comparative figures have been restated to conform with current period presentation.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of Avenir Diversified Income Trust (the “Trust”) have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust’s accounting policies noted below.

a) **Principles of consolidation**

The consolidated financial statements include the accounts of the Trust and its wholly owned subsidiaries and partnerships.

b) **Marketable securities**

The Trust accounts for its marketable securities as financial assets available for sale. As such, the securities are marked to fair value at each balance sheet date using quoted market prices. Changes in the fair value are recorded in other comprehensive income in the period in which the change occurs, unless a change is determined to be permanent in which case it is recorded as a gain or loss in the statement of operations.

c) **Inventory**

Inventory consists of liquefied petroleum gases and biofuels and is recorded at the lower of weighted average cost and net realizable value.

d) **Property and equipment**

***Oil and gas properties/production equipment***

The Trust follows the full cost method of accounting for its oil and gas activities whereby all costs associated with the acquisition of, exploration for and development of oil and gas reserves are capitalized. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on unproved properties, drilling both productive and non-productive wells, and equipping costs directly related to acquisition, exploration and development activities. Certain salary expenses related to acquisition, exploration and development activities are also included in the full cost pool.

Proceeds from the disposal of properties are normally applied as a reduction of the costs unless crediting proceeds to the full cost pool results in a change of 20% or more in the depletion rate, in which case a gain or loss is recorded.

Depletion of oil and gas properties and depreciation of production equipment costs, net of salvage values is determined using the unit-of-production method based on estimated proven oil and gas reserves, before royalties, as determined by the Trust’s independent reservoir engineers. The relative volumes of oil and gas reserves and production are converted to a common unit of measure on the basis of relative energy content at a ratio of six (6) mmcf to one (1) barrel of oil equivalent (boe).

Unproven properties and undeveloped land are excluded from the depletion calculation until proven reserves are assigned or the property is considered to be impaired. Future development costs for proved reserves are also included in the calculation of depletion. Costs of unproved properties and salvage values are excluded from the calculation of depletion.

### ***Ceiling test***

The Trust calculates its ceiling test by comparing the carrying value of oil and gas property and production equipment to the sum of undiscounted cash flows expected to result from the future production of gross proved reserves and the cost of unproved properties less any impairment. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality of the Trust's reserves. Should the ceiling test result in an excess of carrying value, the Trust would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the cost of unproved properties less any impairment. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess is recorded as a permanent impairment in depletion, depreciation and amortization.

The carrying value of unproved properties is reviewed periodically and written down to net realizable value if impairment is determined.

### ***Real estate properties***

Real estate properties are stated at the lower of cost less accumulated amortization and net recoverable amount. Costs include the original cost of the property and related acquisition costs. Net recoverable amount represents the undiscounted estimated future net cash flows expected to be received from the ongoing use and residual worth of the properties. The Trust capitalizes all direct costs relating to real estate acquisitions including carrying costs such as professional, transaction and overhead directly attributable to these activities. The Trust amortizes the costs of its buildings using the straight-line method over their estimated useful lives ranging from approximately 20 to 37 years.

Leasing costs, including leasing concessions, are amortized on a straight-line basis over the terms of the related leases.

### ***Impairment of long-lived assets***

Long-lived assets are to be tested for recoverability whenever events or changes in circumstances occur that would indicate that the carrying amount may not be recoverable. An impairment of long-lived assets is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount of the assets exceeds its fair value. The Trust assesses fair value by determining discounted cash flows of the associated assets based on current market assumptions. If it is determined that the carrying amount of a long-lived asset exceeds the estimated future net cash flow expected to be received from the ongoing use and residual worth of the property, it is reduced to its estimated fair value.

### ***Furniture and computer equipment***

Furniture and computer equipment are depreciated using the declining balance method at rates of 20% and 30% respectively.

#### **e) Asset retirement obligations**

The Trust recognizes the fair value of a liability for an asset retirement obligation related to its long-lived assets in the period in which the asset is acquired, developed or built with a corresponding increase in the carrying value of the related long-lived asset. The fair value of the liability is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of operations. For oil and gas activities, the increase in the carrying value of the asset is depleted using the unit-of-production method based upon estimated gross proven reserves as determined by independent engineers, while the increase in the carrying value of all other assets is depleted on a straight-line basis over the expected life. Actual costs incurred upon settlement of the obligations are charged against the liability.

#### **f) Joint operations**

Substantially all of the Trust's oil and gas development and production activities are conducted jointly with others. These financial statements reflect only the Trust's proportionate interest in such activities.

#### **g) Intangibles and other assets**

Intangible assets are recorded at cost and amortized over their estimated useful lives.

In connection with its Financial Services Division, the Trust records intangible assets at cost and amortizes them on either a straight-line or declining balance basis over the expected life of the intangible benefit, as follows:

	Elbow River	EnerVest – Discontinued Operations
Contracts	25%	43 to 45 years
Non-compete agreements	20%	2.5 years
Trade name	–	10 years
Customer relationships	10%	–

In connection with its real estate acquisitions the Trust allocates the purchase price to land; building; intangible assets and liabilities, such as the value of above and below market leases; the value of in-place leases; origination costs associated with in-place leases and the value of tenant relationships, if any. The value associated with tenant relationships is amortized over the expected term of the relationship. Tenant improvement and leasing costs are capitalized as incurred. The value of above and below market leases and origination costs associated with in-place leases and tenant improvement and leasing costs are recorded and amortized over the remaining term of the associated lease which ranges from 3.5 years to 20 years.

**h) Goodwill**

Goodwill represents the excess of purchase price over fair value of net assets acquired and liabilities assumed. Goodwill is allocated at the date of acquisition to the reporting unit of the Trust's operations that are expected to benefit from the business combination. Goodwill is not subject to amortization, but is tested for impairment on an annual basis, or more frequently if events occur that could result in an impairment, by applying a fair value based test. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of the reporting unit is less than its carrying amount, goodwill of that reporting unit is considered impaired and the second step of the impairment test is completed. In the second step, the fair value of goodwill is compared to its carrying amount, with an impairment loss recognized when the carrying value of goodwill exceeds its estimated fair value. Any goodwill impairment will be recognized as an expense in the period the impairment is determined. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

**i) Revenue recognition**

Oil and gas sales are recognized as revenue when the commodities are delivered to customers.

Income from Elbow River is recognized on a monthly basis as title passes and when collection is reasonably assumed.

Income from financial services contracts and investment income is recognized on a monthly basis as earned based on the stipulations in the individual contracts and agreements for the period estimated to be outstanding.

Income from energy services is recognized as the services are rendered to its customers.

Income from properties includes rents from tenants under leases, percentage participation rents, property taxes and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income. Percentage participation rent is recognized after the minimum sales level has been achieved in accordance with each lease. All other rental revenue is recognized in accordance with each lease.

Income from properties recorded in the statement of operations during free rent periods represents future cash receipts and is reflected in the balance sheets in receivables and recognized in the statement of operations on a straight-line basis over the initial term of the lease.

The Trust accounts for stepped rents on a straight-line basis over the term of the rental contract.

**j) Financial instruments**

The Trust may periodically enter into derivative financial instrument contracts to manage exposures related to interest rates, foreign currency exchange rates, commodity prices and real electrical power prices. The Trust does not enter into financial instruments for trading or speculative purposes.



The Trust classifies its financial instruments into one of the following categories: held-for-trading (assets and liabilities), assets available-for-sale, loans and receivables, assets held-to-maturity and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items, in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument. Financial assets and liabilities held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are, as appropriate, subsequently measured at amortized cost using the effective interest rate method. Financial instruments that are derivative contracts are considered held-for-trading unless they are designated as a hedge. The financial derivative contracts outstanding at December 31, 2008 are disclosed in note 14 to the consolidated financial statements.

The Trust may from time to time designate financial instruments as a hedging instrument for accounting purposes. Hedge accounting requires the designation of a hedging relationship, including a hedged and a hedging item, identification of the risk exposure being hedged and reasonable assurance that the hedging relationship will be effective throughout its term. The Trust assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that have been designated as hedges are highly effective in offsetting changes in fair value or cash flows of the hedged items.

If the derivative financial instrument that has been designated as a hedge is terminated or is no longer designated as part of the hedging relationship, the gain or loss on the hedge at that date is deferred in other comprehensive income and recognized in net income concurrently with the anticipated transaction. If it is probable that the anticipated transaction will not occur substantially as and when identified at the inception of the hedging relationship, the gain or loss on the hedge at that date is recognized in net income immediately.

Cash flow hedges – the effective portion of changes in the fair value of financial instruments designated as cash flow hedges is recognized in other comprehensive income, net of tax, with any ineffective portion being recognized immediately in net income. Gains and losses are recovered from other comprehensive income and recognized in net income in the same period as the hedged item is realized.

Fair value hedges – both the financial instrument designated as the hedging item, and the portion of the underlying hedged asset or liability attributable to the hedged risk are measured at fair value. Changes in the fair value of the financial instrument designated as the hedging item and changes in the fair value of the hedged item attributable to the hedged risk are reflected in net income immediately.

The Trust enters into physical commodity and electrical power contracts in the normal course of business including contracts with fixed terms. These contracts outstanding at December 31, 2008 are disclosed in note 16 to the consolidated financial statements. The Trust's production is expected to be sufficient to deliver all required volumes under these contracts. No amounts are recognized in the consolidated financial statements related to these contracts until such time as the associated volumes are delivered.

#### **k) Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated. In particular, management makes estimates for amounts recorded for depletion, depreciation and amortization, financial instruments, asset retirement obligations, goodwill, unit based compensation and future income taxes. The amounts recorded for depletion, depreciation and amortization, and the oil and gas ceiling test calculations are based on estimates of gross proven reserves, production rates, commodity prices, future costs, estimated future lives and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known.

Inherent in the fair value calculation of asset retirement obligations, are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment is made to the oil and gas property and equipment balance.

The measurement of future income tax balances is subject to uncertainty relating to the timing of the reversal of temporary differences which are based on estimates of the recoverability of oil and gas reserves, commodity prices, the timing of future cash flows and changes in legislation and tax rates. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes of estimates in future periods could be significant.

**l) Unit option plan**

Under the Trust's unit option plan, options to purchase trust units are granted to directors, officers, employees and consultants at current market prices. Options granted by the Trust are accounted for in accordance with the fair-value method of accounting for stock-based compensation, and as such the cost of the option is charged to net income or capitalized as part of property and equipment as appropriate with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value using a Black-Scholes option-pricing model (see note 13). Consideration upon exercise of the options, along with the amount recorded as contributed surplus, is recorded as an increase in unitholders' contributions.

The fair value of direct awards of units is determined by the quoted market price of the Trust's units on the date of grant. To date no direct award of units has been completed.

**m) Per unit amounts**

The Trust utilizes the treasury stock method in determining diluted per unit amounts whereby the diluted number of units is calculated assuming that the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase units of the Trust at their average market price for the period.

**n) Foreign currency translation**

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at year end while non-monetary assets and liabilities are translated at historical rates of exchange. Revenue and expenses are translated at monthly average rates of exchange. Translation gains and losses are reflected in earnings in the period in which they arise.

**o) Income taxes**

The Trust follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets and liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The benefit of any uncertain tax benefits, if any, is recognized only if it is probable that they would be realized.

The Trust is a taxable entity under the Income Tax Act (Canada) and, for periods prior to January 1, 2011, is taxable only on income that is not distributed or distributable to the unitholders. On June 22, 2007 the federal government's bill regarding the taxation of distributions from trusts beginning January 1, 2011 was substantially enacted. Under this new law, distributions after January 1, 2011 will not be deductible by the Trust for tax purposes.

**Changes in accounting policies**

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

***Financial Instruments***

The new Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation replace Section 3861, Financial Instruments – Disclosure and Presentation, by revising and enhancing its disclosure requirements, and carry forward substantially unchanged, its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new disclosure is included in note 14.

### Capital Disclosures

Section 1535, Capital Disclosures specifies the disclosure of (i) an entity's objectives, policies and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new disclosure is included in note 21.

### Inventories

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

CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have an impact on the Trust's financial statements.

On January 20, 2009, the Emerging Issues Committee ("EIC") of the CICA issued Abstract #173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", concerning the measurement of the financial assets and financial liabilities. There has been diversity in practice as to whether an entity's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial instruments. The Committee reached a consensus that these risks should be taken into account in the measurement of financial assets and financial liabilities. The Abstract is effective for all financial assets and liabilities measure at fair value for the interim and annual financial statements issued for periods ending on or after the date of issuance of the Abstract with retrospective application without restatement of prior periods. The Trust adopted this EIC in 2008.

Effective January 1, 2007, the Trust adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"), Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation, Section 1530, Comprehensive Income, and Section 3865, Hedges.

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.

	Accumulated earnings adjustment	Accumulated other comprehensive income adjustment
	\$	\$
<i>(in thousands of dollars)</i>		
Transition adjustment on adoption of Financial Instrument standards:		
Fair value of derivative instruments designated as cash flow hedges as at January 1, 2007 [note 14]	–	4,640
Fair value of marketable securities as at January 1, 2007 [note 14]	–	1,748
Fair value of hedges no longer qualifying for hedge accounting as at January 1, 2007 [note 14]	258	–
Adjustment to opening balances as at January 1, 2007	258	6,388

### Future Accounting Pronouncements

In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets". The new Section will be effective on January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Trust is currently evaluating the impact of the adoption of this new Section, however does not expect a material impact on its consolidated financial statements.

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

The Trust is assessing the effects of the adoption of IFRS by comparing differences between Canadian GAAP and IFRS and is currently assessing the effects of adoption and finalizing its conversion plans. At this time, the impact on the Trust’s financial position and results of operations is not reasonably determined or estimable for any of the IFRS conversion impacts identified. The Trust will continue to monitor any changes in the adoption of IFRS, as well as continue to assess the impact of these new standards on its financial statements.

In December 2008, the CICA issued Handbook Section 1582 “Business Combination”, which will replace CICA Handbook Section 1581 of the same name. Under this guidance, the purchase prices used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently, the purchase price used is based on the market price of the shares for a reasonable period before and after the date of the acquisition is agreed upon and announced. This new standard generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently, only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. These new requirements are effective January 1, 2011 and are expected to have minimal impact on these consolidated financial statements.

3.

### DISCONTINUED OPERATIONS

#### a) EnerVest Limited Partnership (“EnerVest”) – Discontinued Operations

On May 16, 2008, the Trust completed the sale of its EnerVest assets to Canoe Financial LP (“Canoe”), a private entity based in Calgary, for total consideration of \$185,000,000, subject to closing adjustments including operating income and working capital and debt adjustments based on an April 1, 2008 effective date. After adjustments of \$21,367,743 and transactions costs of \$2,675,176, the net sale consideration of \$160,957,081 was satisfied by the receipt of \$135,957,081 in cash and the provision of a note receivable of \$25,000,000. This resulted in a gain of \$33,984,066 based on the net asset value on May 16, 2008 as outlined below:

<i>(in thousands of dollars)</i>	\$
Cash	287
Working capital (excluding cash)	496
Property and equipment	16
Intangible assets	144,178
Note payable	(18,004)
	<u>126,973</u>

The \$25,000,000 promissory note has been recorded as a note receivable bearing interest at 6% which was scheduled to mature on December 31, 2008 unless extended under certain conditions. Effective January 1, 2009 the note maturity was extended to June 30, 2009 with an increased interest rate of 8% payable monthly.

Comparative periods have been restated. The results for discontinued operations are as follows:

	<b>December 31,</b>
	<b>2007</b>
<i>(in thousands of dollars)</i>	<b>\$</b>
<b>Assets</b>	
Cash	66
Marketable securities	133
Accounts receivable and prepaid expenses	3,135
Property and equipment	22
Intangible and other assets	140,920
	<b>144,276</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,210
Current portion of notes payable	3,350
Notes payable	16,329
Future income tax	2,814
	<b>23,703</b>
<b>Net assets of discontinued operations</b>	<b>120,573</b>

	<b>December 31,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
<i>(in thousands of dollars)</i>	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>		
Financial services revenue	<b>8,833</b>	23,109
Gain on sale of assets	<b>33,984</b>	—
	<b>42,817</b>	23,109
<b>EXPENSES</b>		
Financial services operating	<b>1,351</b>	3,736
General and administrative	<b>259</b>	836
Interest on long-term debt	<b>305</b>	577
Depreciation and amortization	<b>1,270</b>	3,261
	<b>3,185</b>	8,410
Income before taxes	<b>39,632</b>	14,699
Future income tax recovery (expense)	<b>2,814</b>	(2,814)
<b>Net income from discontinued operations, net of tax</b>	<b>42,446</b>	11,885

**b) Real Estate – reclassified as Assets held and used**

During 2007, the Trust had made the decision to dispose of the Real Estate Division assets by way of sale or spin-out. A national brokerage firm had been engaged and the Trust expected to have completed a transaction on all of its real estate properties during 2008. Due to the deteriorating real estate and credit market conditions, the Trust decided to take the Real Estate Division assets off the market. Two properties were sold in 2008 for proceeds of \$20,020,250 and a gain of \$10,096,296. The remainder of the Real Estate Division has therefore been reclassified as assets held and used at the lower of carrying value, adjusted for depreciation or market. Accordingly, an impairment charge of \$2,484,977 has been recorded against a portion of the portfolio to reflect estimated current market values. This charge has been included in depreciation and amortization in the income statement.

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

	<b>December 31,</b>
	<b>2007</b>
<i>(in thousands of dollars)</i>	<b>\$</b>
Accounts receivable and prepaid expenses	1,305
<b>Current assets held for sale</b>	<b>1,305</b>
Property and equipment	61,548
Intangible and other assets	2,644
<b>Long-term assets held for sale</b>	<b>64,192</b>
Bank indebtedness	(488)
Accounts payable and accrued liabilities	493
Deferred revenue	291
Current portion of mortgages	15,023
<b>Current liabilities of assets held for sale</b>	<b>15,319</b>
Mortgages	29,427
Future income tax	(236)
<b>Long-term liabilities of assets held for sale</b>	<b>29,191</b>

The results of operations that have been reclassified to income from operations are as follows:

	<b>December 31,</b>
	<b>2007</b>
<i>(in thousands of dollars)</i>	<b>\$</b>
<b>REVENUE</b>	
Real estate revenue	7,321
	<u>7,321</u>
<b>EXPENSES</b>	
Real estate operating	1,777
General and administrative	626
Interest on long-term debt	1,954
Capital taxes	70
Depreciation and amortization	1,030
	<u>5,457</u>
Income before taxes	1,864
Future income tax recovery	870
<b>Net income</b>	<b>2,734</b>

4.

#### **INVENTORY**

	<b>December 31,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
<i>(in thousands of dollars)</i>	<b>\$</b>	<b>\$</b>
Biodiesel	105,650	51,062
Butane	8,764	16,134
Propane	2,961	12,753
Fuel ethanol	4,722	1,512
Natural gasoline	3,355	2,169
Canola oil	2,406	11
Other	25	12
	<u>127,883</u>	<u>83,653</u>

All inventory balances relate to the Trust's subsidiary Elbow River Marketing Limited Partnership.

Inventory is valued at the lower of cost and estimated net realizable value. For the year ended December 31, 2008, a \$65,413,879 write down of bio-diesel inventory to estimated net realizable value was recorded in operating expenses.

5.

## PROPERTY AND EQUIPMENT

	<b>December 31, 2008</b>		<b>Net Book Value</b>
	<b>Cost</b>	<b>Accumulated Depletion, Depreciation and Amortization</b>	
<i>(in thousands of dollars)</i>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Oil and gas properties/production equipment	239,594	92,060	147,534
Real estate properties	57,515	11,400	46,115
Furniture and computer equipment	3,275	1,687	1,588
	<b>300,384</b>	<b>105,147</b>	<b>195,237</b>

	<b>December 31, 2007</b>		<b>Net Book Value</b>
	<b>Cost</b>	<b>Accumulated Depletion, Depreciation and Amortization</b>	
<i>(in thousands of dollars)</i>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Oil and gas properties/production equipment	216,716	68,547	148,169
Real estate properties	63,750	2,202	61,548
Furniture and computer equipment	2,750	901	1,849
	<b>283,216</b>	<b>71,650</b>	<b>211,566</b>

- a) During 2008 the Trust sold non-core oil and gas assets for total cash consideration of \$502,473 (2007 - \$83,061), including adjustments. The entire consideration has been allocated to oil and gas properties. This disposition resulted in a reduction of \$37,663 in the asset retirement obligation.
- b) During 2008 the Trust purchased oil and gas properties for total cash consideration of \$4,062,097 (2007 - \$7,395,478) including adjustments. The entire purchase price has been allocated to oil and gas properties. An additional asset retirement obligation of \$515,778 (2007 - \$183,676) was recorded on these acquisitions.
- c) Included in oil and gas properties is \$22,229,881 of unproven properties which has been excluded from the calculation of depletion and depreciation (2007 - \$26,189,612). Included in the calculation of depletion and depreciation are future development costs of \$6,840,441 (2007 - \$5,337,962).
- d) During 2008, the Trust disposed of real estate properties for net proceeds of \$20,020,250 comprised of cash of \$10,392,131 and mortgage assumptions of \$9,628,119. A gain of \$10,096,296 was recorded relating to these divestitures. These divestitures resulted in a decrease in the land and building under the real estate properties in the amount of \$8,596,559. The Trust also incurred \$2,961,947 in regular additions to the properties during 2008 (2007 - \$9,159,303).
- e) In 2008, the Trust capitalized \$589,721 (2007 - \$405,456) of salaries and \$257,896 (2007 - \$nil) of stock based compensation directly related to acquisitions, exploration and development activities.
- f) The Trust has performed part one of the impairment test on its oil and gas properties and production equipment as of December 31, 2008 using the estimated average price for each of the next five years as determined by the Trust's independent reserve engineers adjusted for differentials specific to the Trust's reserves as follows:

Year	Oil (\$US WTI/bbl)	Exchange Rate (\$US/SCdn)	Oil (\$Cdn WTI/bbl)	Gas (\$CDN/Mmbtu)
2009	60.00	0.85	70.59	7.20
2010	71.40	0.85	84.00	7.80
2011	83.20	0.90	92.44	8.25
2012	90.20	0.95	94.95	8.60
2013	97.40	1.00	97.40	8.85
Thereafter (inflation %)	2%	1.00	2%	2%

There was no impairment as at December 31, 2008 (December 31, 2007 - \$nil).

## 6. INTANGIBLES AND OTHER ASSETS

	Cost	2008 Accumulated Amortization	Net Book Value
<i>(in thousands of dollars)</i>	\$	\$	\$
Contracts	2,393	1,510	883
Non-compete agreements	8,100	7,600	500
Trade name	5,300	–	5,300
Customer relationships	5,500	1,757	3,743
In-place leasing costs	2,701	1,325	1,376
Above market rent	224	46	178
Below market rent	(1,215)	(662)	(553)
Tenant improvements and leasing costs	550	406	144
	23,553	11,982	11,571

	Cost	2007 Accumulated Amortization	Net Book Value
<i>(in thousands of dollars)</i>	\$	\$	\$
Contracts	2,393	1,161	1,232
Non-compete agreements	8,100	3,694	4,406
Trade name	5,300	–	5,300
Customer relationships	5,722	1,489	4,233
In-place leasing costs	4,003	1,485	2,518
Above market rent	367	110	257
Below market rent	(1,215)	(433)	(782)
Tenant improvements and leasing costs	1,191	652	539
	25,861	8,158	17,703

- a) During 2008 the Trust disposed of real estate properties as described in note 5d, which resulted in a decrease of \$484,105 in in-place leasing costs, \$45,252 in above market rent, \$352,782 in tenant improvements and leasing costs and \$112,345 in customer relationships.
- b) Intangible assets have been assessed for impairment on the basis of the lower of net book value compared to their fair value as at December 31, 2008. Accordingly, an impairment charge of \$3,532,006 has been recorded in relation to the non-compete agreements and contracts. This charge has been included in depletion, depreciation and amortization in the income statement.

7. **GOODWILL**

<i>(in thousands of dollars)</i>	2008 \$	2007 \$
<b>Carrying amount, as at January 1</b>	<b>56,875</b>	<b>52,541</b>
Elbow River adjustment for contingent consideration [note 12(a)(iii)]	833	4,334
Goodwill impairment	<b>(34,284)</b>	–
<b>Carrying amount, as at December 31</b>	<b>23,424</b>	<b>56,875</b>

The Trust performed its annual goodwill impairment test in the fourth quarter of 2008 and determined that the fair values of the Oil & Gas Division and Elbow River reporting units were lower than the respective carrying values, primarily due to increasing economic uncertainty in the global market and the resulting higher costs of capital assumptions in the valuation methodologies. Consequently, a goodwill impairment, amounting to \$34,284,404 was recorded (December 31, 2007 - \$nil). Of this \$21,234,733 was associated with the Oil & Gas Division and \$13,049,671 was associated with Elbow River. At December 31, 2008, the goodwill balance of \$23,423,595 is related entirely to the Elbow River reporting unit.

8. **BANK INDEBTEDNESS**

In relation to its Oil and Gas Division, as at December 31, 2008, the Trust had a combined revolving demand facility with a major Canadian bank in the amount of \$46,500,000 (December 31, 2007 - \$45,500,000) bearing interest ranging from prime to prime plus one percent depending on the debt to cash flow ratio of the Oil and Gas Division (as defined by the banking agreement). The revolving demand facility is collateralized by a floating charge debenture over all of the Trust's assets. In addition, the Trust has a development facility in the amount of \$5,000,000, bearing interest ranging from prime plus one-quarter of one percent to prime plus one and one-quarter percent. As at December 31, 2008, \$4,000,000 (December 31, 2007 - \$40,130,000) was drawn on the revolving demand facility and \$nil (December 31, 2007 - \$nil) was drawn on the development facility. As at December 31, 2008, the Oil & Gas Division was in compliance with all its banking covenants.

In relation to Elbow River Marketing Limited Partnership ("Elbow River"), the Trust has a demand revolving loan facility with a Canadian bank in the amount of \$70,000,000 (December 31, 2007 - \$70,000,000) bearing interest as follows; for advances of \$50,000,000 or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50,000,000 a 0.125% premium shall apply to applicable interest rates. In addition the Trust has a \$38,500,000 import facility (December 31, 2007 - \$38,500,000) with the same Canadian bank. The import facility bears interest at bank US base rate plus 0.25% per annum and was on February 6, 2009. These facilities are collateralized by a charge over all of Elbow River's assets. As at December 31, 2008, \$89,126,989 (December 31, 2007 - \$67,954,647) was drawn on the demand loan facilities. During the year, the revolving loan limit of \$70,000,000 was temporarily increased to \$82,000,000 until February 15, 2009 at which time the limit reverted back to the original \$70,000,000. As at December 31, 2008, Elbow River was in compliance with all its banking covenants.

The Trust had \$nil in bank overdraft as at December 31, 2008 (December 31, 2007 - \$2,180,348).

The average effective interest rate on borrowings under the above lines for the year ended December 31, 2008, including service fees, was 5.05% (December 31, 2007 – 6.91%).

As at December 31, 2008, the Trust had 14 letters of credit outstanding in the aggregate amount of \$7,366,098 (December 31, 2007 - \$5,179,536). The letters of credit reduce the amount available to be drawn on the related demand facilities. In addition Elbow River had 18 bonds outstanding in the aggregate amount of \$2,160,807 which do not reduce the availability of Elbow's demand facility.

To provide the Elbow River with additional credit on natural gas liquids and biofuels inventory purchases, the Trust has guarantees to third parties for a maximum of \$190,428,176 (December 31, 2007 - \$64,694,076). These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time. During the first quarter of 2009 the amount of parental guarantees has been reduced by \$36,370,620.

**9. NOTES PAYABLE**

On July 24, 2008, the full amount of the outstanding note payable of \$10,000,000 was repaid.

The average effective interest rate on borrowings under the above notes payable for the period they were outstanding in 2008, including service fees, was 12.38% (December 31, 2007 – 14.06%).

**10. MORTGAGES**

<i>(in thousands of dollars)</i>	December 31, 2008			December 31, 2007		
	Interest Rate	Maturity	\$	Interest Rate	Maturity	\$
Sunbelt*	6.05%	Jan 1/09	4,656	6.05%	Jan 1/09	4,734
Magee	5.73%	Oct 31/09	3,569	5.40%	Oct 31/08	3,683
Snidercroft	5.70%	Aug 1/14	3,091	5.70%	Aug 1/14	3,183
KFC	5.96%	Aug 1/11	7,746	5.96%	Aug 1/11	7,903
KFC	5.90%	Mar 1/12	1,853	5.90%	Mar 1/12	1,889
Landmark	3.81%	Nov 1/11	10,154	5.60%	Nov 1/11	10,389
Cineplex	5.00%	Mar 1/09	7,619	7.25% No Fixed Term		6,259
Harris	–	–	–	4.85%	Mar 1/08	4,476
Station Crossing	–	–	–	5.55%	Feb 1/10	1,934
			<b>38,688</b>			44,450
Current portion of mortgages			<b>(11,856)</b>			(15,023)
Long-term portion of mortgages			<b>26,832</b>			29,427

The weighted average interest rate on all mortgages is 5.49% (December 31, 2007 – 5.77%). All mortgages are collateralized by a first charge over the related properties.

Approximate principal repayments required to maturity are as follows:

<i>(in thousands of dollars)</i>	\$
2009	11,856
2010	5,183
2011	17,126
2012	1,845
2013	121
2014 and thereafter	2,557
Total	38,688

Upon maturity, the Trust intends to re-mortgage each of the properties.

The Trust provides guarantees to third party mortgagors for a maximum of the total value of the mortgages outstanding on behalf of its Real Estate Division. The guarantees require the Trust to be responsible for the mortgage principal and interest payments if its Real Estate Division is unable to do so.

Subsequent to year end on January 1, 2009, the Sunbelt mortgage was renewed for a one year period with an interest rate of 4.30%.

**11. 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. Given increasing costs, environmental and regulatory requirements in the oil and gas industry, the Trust undertook a detailed property review in 2008 to better determine future abandonment and reclamation obligations. As at December 31, 2008, the Trust has estimated the net present value of its total asset retirement obligations to be \$14,894,362 (December 31, 2007 - \$12,905,284) based on an undiscounted total future liability of \$68,846,648 (December 31,

2007 - \$27,720,290). The majority of these payments are expected to be made by 2030. The Trust's credit adjusted risk free rate ranging from 8.5% to 10.0% (December 31, 2007 – 8.5%) and an inflation rate of 2% (December 31, 2007 – 2%) were used to calculate the present value of the asset retirement obligation.

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<i>2007</i>
	<b>\$</b>	<b>\$</b>
<b>Carrying amount, as at January 1</b>	<b>12,905</b>	<b>12,799</b>
Oil and gas activities during the year	<b>683</b>	362
Oil and gas divestitures during the year	<b>(38)</b>	(40)
Adjustment for estimated changes in costs and timing	<b>1,886</b>	–
Abandonment expenditures incurred during the year	<b>(1,506)</b>	(1,209)
Asset retirement obligation accretion for the year	<b>1,079</b>	993
<b>Carrying amount, as at December 31</b>	<b>15,009</b>	<b>12,905</b>

## 12. UNITHOLDERS' CAPITAL

### a) Unitholders' capital

#### Authorized

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

#### Issued

<b>Trust Units</b>	<b>Number of</b>	<b>Amount \$</b>
<i>dollars)</i>	<b>Units</b>	<i>(in thousands</i>
		<i>of</i>
<b>Balance December 31, 2006</b>	<b>41,196,885</b>	<b>413,731</b>
Units issued on exercise of stock options	142,886	1,116
Units released from escrow – Elbow River	397,554	4,334
Units released from escrow - Energy Services Division	37,854	352
<b>Balance December 31, 2007</b>	<b>41,775,179</b>	<b>419,533</b>
Units issued on exercise of stock options	276,532	1,947
Units released from escrow – Elbow River	76,452	833
Units released from escrow - Energy Services Division	30,977	289
Units repurchased & cancelled – Normal Course Issuer Bid	(58,344)	(585)
<b>Balance December 31, 2008</b>	<b>42,100,796</b>	<b>422,017</b>

- (i) The total cash received for Trust Units issued upon exercise of stock options during the year amounted to \$1,086,247 and the difference of \$860,855 represents the movement from contributed surplus to unitholders capital relating to the stock based compensation expense previously recognized.
- (ii) In 2006 the Trust issued 123,312 Trust Units from treasury, which were escrowed for energy service employees who had unvested Trust options at the time of the Energy Services Division spin-out on May 31, 2006. These units were to remain in escrow until the vesting date was reached on the respective Trust options based on the original grant date of the options. During 2008, the Trust decided to release the remaining unvested Trust options to the respective option holders resulting in 30,977 (or \$289,095) Trust Units being released from escrow (2007 – 37,854 Trust Units or \$352,000). Also, 846 (or \$7,868) of these escrowed Trust Units were cancelled as certain terms of the escrow agreement were not met.
- (iii) During the year 76,452 Trust Units (2007 – 397,554 Trust Units) were released from escrow in relation to the acquisition of Elbow River in 2005 under the terms of the time release provisions based on management remaining with the go forward

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

- (iv) On October 20, 2008, the Trust instituted a Normal Course Issuer Bid (“NCIB”) under which it may purchase up to 3,463,769 Trust Units for cancellation in a 12 month period. As at December 31, 2008, the Trust has purchased 58,344 Trust Units under this Normal Course Issuer Bid for \$288,302. Subsequent to December 31, 2008, the Trust purchased an additional 190,200 Trust Units under this Normal Course Issuer Bid for a total repurchase of 248,544 Trust Units. All Trust Units repurchased have been cancelled.

#### b) Per unit amounts

For the year ended December 31, 2008, the Trust had a weighted average number of trust units outstanding of 41,957,872 (December 31, 2007 – 41,590,308). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options of an additional 761,766 Trust Units resulting in a weighted average number of trust units outstanding for the year ended December 31, 2008, of 42,719,638 (December 31, 2007 – 41,917,417). At December 31, 2008, there were 329,000 (December 31, 2007 – 1,432,900) in anti-dilutive options that were not part of the dilutive per unit calculation. Earnings per share from continuing operations for 2008 did not include the dilution adjustment as there was a loss for the year.

#### c) Contributed surplus

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Contributed surplus, January 1</b>	<b>6,033</b>	<b>4,344</b>
Stock-based compensation expense [note 13]	1,369	2,625
Stock-based compensation capitalized [notes 5 and 13]	257	–
NCIB unit buy back [note 12(a)(iv)]	296	–
Release of units from escrow relating to Energy Services Division [note 12(a)(ii)]	(296)	(399)
Options exercised	(861)	(526)
Settlement of options	(21)	(11)
<b>Contributed surplus, December 31</b>	<b>6,777</b>	<b>6,033</b>

#### d) Accumulated other comprehensive loss

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
	\$	\$
Derivative instruments designated as cash flow hedges	(4,807)	(11,807)
Fair value of marketable securities	–	1,218
<b>Accumulated other comprehensive loss</b>	<b>(4,807)</b>	<b>(10,589)</b>

The accumulated other comprehensive loss is made up of an unrealized loss on commodity hedges in the amount of \$4,970,320 (see note 14(c)(ii)) and an unrealized gain on foreign exchange contract of \$163,744 (see note 14(c)(iii)).

13.

#### 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 credited to unitholders' capital. A total of 4,210,080 units have been reserved under this plan.

The following table summarizes the status and changes during the year ended December 31:

	2008		2007	
	Number of options outstanding	Weighted average grant date exercise price \$	Number of options outstanding	Weighted average grant date exercise price \$
<b>Outstanding, January 1</b>	<b>3,219,574</b>	<b>8.41</b>	<b>1,956,229</b>	<b>9.09</b>
Granted	341,500	7.91	1,569,900	7.42
Exercised	(276,532)	(9.07)	(142,886)	(6.91)
Expired	(304,709)	(8.17)	(163,669)	(8.28)
<b>Outstanding, December 31</b>	<b>2,979,833</b>	<b>8.17</b>	<b>3,219,574</b>	<b>8.41</b>
<b>Exercisable, December 31</b>	<b>1,515,110</b>	<b>8.60</b>	<b>706,343</b>	<b>9.28</b>

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

December 31, 2008 Strike Price \$	Grant date exercise price \$	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
1.48	11.00	30,000	1.01	30,000
1.79	10.90	240,334	1.33	240,334
2.31	11.20	25,000	1.50	25,000
2.28	10.69	27,167	1.86	27,167
5.30	8.30	968,333	2.59	724,553
5.51	8.35	40,166	2.75	26,775
4.65	7.16	12,500	3.16	4,166
4.73	7.16	100,000	3.16	33,333
4.94	7.28	1,005,833	3.25	337,784
6.45	8.54	166,500	3.50	55,500
5.49	7.17	31,500	3.92	10,498
5.94	7.45	3,500	4.09	—
5.97	7.32	5,000	4.25	—
6.84	8.10	3,500	4.33	—
7.00	8.08	301,000	4.52	—
6.48	7.41	4,500	4.67	—
4.07	4.84	15,000	4.84	—
		<b>2,979,833</b>	<b>2.98</b>	<b>1,515,110</b>

As a result of the grind feature of the options, the price on the date of grant is reduced by the distributions paid to unitholders. Accordingly, the weighted average strike price at December 31, 2008 on all outstanding options was \$5.02 per option and the weighted average strike price at December 31, 2008 on all exercisable options is \$4.52 per option.

The total fair value of stock-based compensation of \$9,533,520 for these options issued at the date of grant was calculated using a Black-Scholes option-pricing model. The assumptions made for the options granted in 2008 and 2007 are as follows:

	2008 Granted Options	2007 Granted Options
Expected volatility	34.41%	37.97%
Risk – free interest rate	3.35%	4.08%
Expected life of options	3.74 years	5 years
Dividend yield	nil	nil

**FINANCIAL INSTRUMENTS**

The Trust recorded stock based compensation and contributed surplus of \$1,625,643 (2007 - \$2,624,934) relating to the Trust's current options, of which \$257,896 was capitalized (2007 - \$nil) and \$(7,868) or 846 options (2007 - \$(47,908) or 5,152 options) relating to the spin-out of the Energy Services Division (see note 12(a) (ii)) for the year ended December 31, 2008.

Subsequent to December 31, 2008 the Trust issued an additional 29,500 options.

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

<b>Financial instrument</b>	<b>Category</b>
<b>Financial assets:</b>	
Cash	Held for trading
Marketable securities	Available for sale
Accounts receivable	Loans and receivables
Note receivable	Loans and receivables
Risk management assets	Cash flow hedges
Assets of discontinued operations	Loans and receivables
<b>Financial liabilities:</b>	
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities
Mortgages	Other financial liabilities
Risk management liabilities	Cash flow hedges (note 14(c) (iii)) and held for trading (note 14(c) (i) & (ii))
Liabilities of discontinued operations	Other financial liabilities

**a) Fair values of financial assets and liabilities**

Unless otherwise noted below, as at December 31, 2008, there were no significant differences between the carrying amounts of the financial instruments listed above and their estimated fair values due to their short-term nature.

Marketable securities are classified as available for sale and at December 31, 2008 have been recorded as permanently re-valued to the current fair value of \$20,000. The increase in the market value of the investments of \$8,000 for the year ended December 31, 2008 has been included in net income.

Borrowings under bank credit facilities are revolving in nature and are market rate based, thus, carrying value approximates fair value. The mortgages are for varying lengths and carry interest rates in line with the market terms agreed to when the mortgages were entered into. The fair value of the mortgages reflect the discounted present value of the principal and interest payments using the effective yield for instruments having the same term and risk characteristics. The fair value of the Trust's mortgages as at December 31, 2008 was \$38,631,215 (2007 - \$44,445,740), while the carrying value was \$38,688,417 (2007 - \$44,449,843).

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

**b) Credit risk**

The Trust's financial instruments exposed to credit risk consist primarily of trade accounts receivable and risk management assets (liabilities). The trade receivables are from the Trust's Oil & Gas Division and Elbow River. The oil and gas trade receivables are dependent upon the strength of the North American energy complex and specifically the petroleum industry. Elbow River is also exposed to additional risk with international and overseas counterparts relating to biofuel revenues wherein additional due diligence and documentary letters of credit are undertaken. Management routinely assesses the financial strength of partners and customers, and monitors the exposure for credit losses. At December 31, 2008, the Trust

had an allowance for doubtful accounts relating to its Oil and Gas Division receivable balance of \$785,668 and Elbow River has an allowance for doubtful accounts of \$35,949,077, the two amounts representing 42.7% of the Trust's accounts receivables.

The increase in the allowance in the Oil and Gas Division is the result of a purchaser of a small portion of the Oil and Gas Division's production, filing for protection under the Companies Creditor Arrangement Act or CCAA on July 22, 2008. As a result, the Trust's total exposure of approximately \$482,645 for production proceeds for the period from June 1, 2008 to July 21, 2008, was recorded as an allowance for doubtful accounts as at December 31, 2008. The Trust is registered as a creditor under the CCAA proceedings and may eventually be able to collect some portion of the amounts owing. The Trust believes it has no additional exposure to this counterparty as all production purchases have been reallocated to another counterparty effective July 22, 2008 as allowed by the court orders.

The increase in the allowance in Elbow River is the results of a bio-diesel joint venture partner receivable. In Mid March 2009, Elbow River was advised by this joint venture partner that they would be unable to pay to Elbow River its proportionate share owing under their "memorandum of understanding". Elbow River has taken legal actions against the joint venture partner, its equity investor and its secured bank, claiming return of funds owing to Elbow River under the joint venture agreement. There can be no certainty under the legal proceedings that Elbow River will recover these monies. Elbow River has assessed its accounts receivable and determined that including this partner receivable a provision of \$35,654,197 in bio-diesel receivables would be appropriate at December 31, 2008.

The maximum credit exposures associated with the Trust's customers are the carrying value of the accounts receivable and the presales in Elbow River (which are not reflected in the consolidated financial statements). As at December 31, 2008, 30% of the Trusts consolidated accounts receivable are due from one customer. The total amount of receivables past due 90 days amounted to \$24,511,819 as at December 31, 2008. Elbow River has now exited from marketing bio-diesel products and its additional inherent counterparty and partner risks. Management continues to scrutinize and monitor its remaining bio-diesel receivables and expects to have completely collected all outstanding amounts by mid 2009. The Elbow River LPG base accounts receivables have been reviewed and are continually monitored. No allowance was deemed necessary for these accounts.

With respect to financial instruments, the Trust could be exposed to losses either directly, if the counterparty is unable or fails to perform in accordance with the terms of the contract or through the parental guarantees the Trust provides from time to time to its operating divisions. This risk is managed by diversifying the derivative portfolio among counterparties meeting certain financial criteria. The Trust also evaluates its credit risk by monitoring on a regular basis the Standard and Poor's ratings for its counterparties and as a guideline the Trust uses a minimum rating of BBB or above. For the period all counterparties met this requirement.

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

**c) Risk management asset (liability)**

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Net risk management liability, January 1,</b>	<b>(13,750)</b>	<b>46</b>
Transition adjustment on adoption of new standards <i>[note 2]</i>	–	4,640
Transition adjustment to retained earnings for hedges no longer qualifying for hedge accounting <i>[note 2]</i>	–	258
Change in mark-to-market for hedges not qualifying for hedge accounting – Oil & Gas Division (i)	<b>6,057</b>	(2,888)
Change in mark-to-market for hedges not qualifying for hedge accounting – Elbow River (ii)	<b>398</b>	641
Change in mark-to-market of cash flow hedge contracts – Elbow River (iii)	<b>7,001</b>	(16,447)
<b>Net risk management liability, December 31,</b>	<b>(294)</b>	<b>(13,750)</b>
Reclassified to risk management asset, December 31,	(14,522)	(4,828)
<b>Risk management liability, December 31,</b>	<b>(14,816)</b>	<b>(18,578)</b>

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

- A fixed price AECO swap for the period November 1, 2008 to October 31, 2009 on 1,000 gigajoules/day of natural gas with a price of \$8.26 CDN/gigajoules.
- A fixed price WTI collar for the period August 1, 2008 to July 31, 2009 on 200 barrels/day of crude oil with a floor price of \$90.00 US/Bbl and a ceiling price of \$113.10 US/Bbl.
- A fixed price AECO swap for the period April 1, 2010 to March 31, 2011 on 1,000 gigajoules/day of natural gas with a price of \$8.25 CDN/gigajoules.

The mark-to-market value of these contracts as at December 31, 2008 was a risk management asset of \$2,852,926 (December 31, 2007 – a risk management liability of \$3,204,281), resulting in the recognition of an unrealized gain on the income statement for the year ended December 31, 2008 of \$6,057,207 (2007 - \$2,887,642).

Subsequent to December 31, 2008, the Trust entered into the following forward contract:

- A fixed price WTI swap for the period March 1, 2009 to December 31, 2009 on 200 barrels/day of crude oil with a price of \$60.35 CDN/Bbl.

(ii) Elbow River sells natural gas liquids, ethanol, biodiesel, diesel, and asphalt product in the United States, Canada and overseas, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures. The commodity hedge contracts are entered into for the following commodities: butane, propane, natural gasoline, biodiesel, and ethanol. Futures contracts involve bio-fuels transactions at fixed volumes and fixed prices.

At December 31, 2008, Management determined that the documentation and effectiveness measures for hedge accounting had not been met from April 1, 2008 onward. As a result the unrealized loss of \$4,970,320 relating to these contracts as at April 1, 2008 will remain in other comprehensive income until the hedge item relating to these commodity hedge contracts are settled. The change in the fair value of an unrealized gain of \$5,668,177 from April 1, 2008 to December 31, 2008 has been recognized in earnings for the year.

The following tables detail those transactions in Elbow River that do not qualify for hedge accounting, which resulted in a risk management asset of \$1,659,607 (December 31, 2007 – a risk management asset of \$1,261,376), resulting in the recognition of an unrealized gain on the income statement for the year ended December 31, 2008 of \$398,231 (2007 - \$641,480).

<b>Commodities hedging contracts:</b>			<b>December 31, 2008</b>
<b>Settlement dates</b>	<b>Average Monthly Volume (bbl)</b>	<b>Prices \$/(bbl)</b>	<b>Unrealized gain (loss) \$</b>
January – March 2009	573,456	24.68 – 137.05	2,217,110
April – June 2009	348,342	25.62 – 82.30	685,900
July – September 2009	328,825	32.07 – 82.30	(551,475)
October – December 2009	328,825	33.76 – 82.30	(895,347)
January – March 2010	328,825	34.41 – 82.30	(886,323)
			569,865
		Exchange rate	1.2246
		Total CDN dollars	697,857
		Amount recorded as Other Comprehensive Loss	4,970,320
		Amount recorded in Unrealized Gain on Financial Instruments	5,668,177

<b>Futures contracts:</b>			<b>December 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (Bbl)</b>	<b>Prices US \$/(Bbl)</b>	<b>Unrealized loss \$</b>
January – March 2009	645,235	53.52 – 102.63	(2,993,682)
	645,235		(2,993,682)
		Exchange rate	1.2246
		Total CDN dollars	(3,666,064)

<b>Futures contracts:</b>			<b>December 31, 2008</b>
<b>Settlement dates</b>	<b>Total Volume (Bbl)</b>	<b>Prices US \$</b>	<b>Unrealized loss \$</b>
March 2009	3,000,000	1.2979	(279,688)
	3,000,000		(279,688)
		Exchange rate	1.2246
		Total CDN dollars	(342,506)

- (iii) The following table details those transactions that qualify for hedge accounting that are outstanding giving rise to a risk management asset of \$163,744 (December 31, 2007 – a risk management liability of \$11,807,202), resulting in the recognition of a comprehensive income of \$11,970,946 when compared to the December 31, 2007 mark-to-market. Also included in other comprehensive income for the year ended December 31, 2008 is an unrealized loss of \$4,970,320 relating to the fair value of commodity hedge contracts in place as at April 1, 2008 as described in note 14(c)(ii) above. As such this amount will remain in other comprehensive income until such time as the hedges are settled. This brings the total amount of other comprehensive income for the year to \$7,000,626.

<b>Forward exchange contracts:</b>			<b>December 31, 2008</b>
<b>Term Due</b>	<b>Amount \$</b>	<b>Forward Rates CDN \$</b>	<b>Unrealized gain (loss) \$</b>
January – March 2009	64,313,450	0.9344 – 1.2862	1,068,193
April – June 2009	12,558,550	0.9349 – 1.2456	(271,070)
July – September 2009	1,973,550	0.9355 – 1.2441	(203,880)
October – December 2009	1,973,550	0.9360 – 1.2396	(211,828)
January – April 2010	2,363,550	0.9365 – 1.2351	(217,671)
Total US dollars	83,182,650		163,744
Exchange rate	1.2246		
Total CDN dollars	101,865,473		

(iv) Foreign currency risk

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

In respect of existing financial instruments, a \$0.01 change in the US dollar against the Canadian dollar, with all other variables assumed constant, would have resulted in a change of approximately \$52,000 in net income from continuing operations and a change of approximately \$832,000 in other comprehensive income for the year ended December 31, 2008.

(v) Commodity price risk

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

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

At December 31, 2008, in respect of the financial derivative instruments in the Oil and Gas Division, a change of \$10.00 US/Bbl in the price of oil and \$1.00/gigajoule in the price of natural gas would have resulted in unrealized gains and losses impacting net income from continuing operations and other comprehensive income by approximately \$669,000.

In respect of the financial derivative instruments in Elbow River, a 5% change in commodity pricing would have resulted in unrealized gains and losses changing net income from continuing operations and other comprehensive income by approximately \$5,763,000.

**d) Interest rate risk**

Drawings under the Trust's bank credit facilities are at floating interest rates and expose the Trust to interest rate risk. The Trust is authorized by the Board of Directors to enter into fixed rate swaps to manage risks associated with rising interest rates if felt appropriate. The Trust is also exposed to interest rate risk on maturity and refinancing of its fixed rate mortgages including the possibility that existing mortgages may not be refinanced or may not be refinanced on as favorable terms or with interest rates as favorable as those of the existing debt. The Trust mitigates these risks by its continued efforts to enhance the value of its real estate properties and maintain high occupancy levels. A 1% change in interest rates would result in net income from continuing operations and other comprehensive income sensitivity of approximately \$1,330,000. The Trust has not entered into any derivative agreements to mitigate this risk.

**e) Liquidity risk**

The Trust is exposed to liquidity risk, which is the risk that the Trust may be unable to generate or obtain sufficient cash to meet its commitments as they come due. The Trust mitigates this risk through its management of cash, debt and its distributions. With the sale of the EnerVest assets in May 2008, the Trust has a significant cash and working capital surplus together with undrawn credit facilities in its Oil & Gas Division providing significant flexibility in meeting current and future liquidity requirements.

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

On its real estate portfolio, the Trust maintains a debt maturity profile to avoid excessive concentrations of refinancing requirements. In its Oil and Gas Division, the Trust may hedge a portion of future production to protect cash flows to allow the Trust to meet its strategic objectives and preserve distributions. In Elbow River, the Trust attempts to hedge as much of its

business as possible in order to lock in profit margins when transactions are entered into.

Except for the mortgages as described in note 10 and some hedges covering term deals of up to two years in Elbow River, all the Trust financial liabilities are effectively due within one year.

## 15. 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 year ended December 31, 2008, the Trust paid \$208,072 (December 31, 2007 - \$197,931) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable and accrued liabilities as at December 31, 2008 is \$17,012 (December 31, 2007 - \$17,639) owing to Avenir relating to administration and advisory services.
- During the year ended December 31, 2008, the Trust incurred marketing fees of \$72,000 (December 31, 2007 - \$80,750) 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 December 31, 2008 (December 31, 2007 - \$19,036).
- During the year ended December 31, 2008, the Trust incurred fees relating to its Real Estate Division for management of properties, acquisitions, divestitures and mortgage financing of \$741,811 (December 31, 2007 - \$554,863) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$nil is included in accounts payable and accrued liabilities as at December 31, 2008 (December 31, 2007 - \$15,755).
- 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 third quarter of 2008, the Trust purchased royalty and producing property interests from a publicly traded corporation with certain directors in common for \$3,990,950. During 2007, the Trust purchased royalty and producing property interests from a publicly traded corporation with certain directors in common for \$7,199,494.

## 16. COMMITMENTS AND CONTINGENCIES

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

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

A physical fixed price sale for the period February 1, 2008 to March 31, 2009 on 1,000 gigajoules/day of gas at a price of \$6.94/gigajoule.

A physical fixed price sale for the period November 1, 2008 to March 31, 2009 on 1,000 gigajoules/day of gas at a price of \$7.65/gigajoule.

A physical fixed price sale for the period April 1, 2009 to March 31, 2010 on 2,000 gigajoules/day of gas at a price of \$7.92/gigajoule.

A physical fixed price sale for the period January 1, 2009 to December 31, 2010 on 1,000 gigajoules/day of gas at a price of \$7.95/gigajoule.

The mark-to-market value of these contracts as at December 31, 2008 was an unrealized gain of \$1,793,700.

At December 31, 2008, the following contracts were outstanding with respect to the physical purchase of power:

A physical fixed price purchase of electrical power for the period January 1, 2009 to June 30, 2009 of 2.0 megawatts per month at a price of \$74.99/megawatt hour.

A physical fixed price purchase of electrical power for the period January 1, 2009 to December 31, 2009 of 1.0 megawatts per month at a price of \$79.84/megawatt hour.

The mark-to-market value of these contracts as at December 31, 2008 was an unrealized loss of \$17,792.

Subsequent to December 31, 2008, the Trust entered into the following additional contracts:

A physical fixed price sale for the period February 1, 2009 to March 31, 2011 on 1,000 gigajoules/day of gas at a price of \$6.79/gigajoule.

A physical fixed purchase of electrical power for the period July 1, 2009 to December 31, 2010 of 2.0 megawatts per month at a price of \$67.72/megawatt hour.

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

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

<i>(in thousands of dollars)</i>	\$
2009	3,386
2010	2,684
2011	2,250
2012	1,629
2013	1,168
<u>2014 and thereafter</u>	<u>1,684</u>
<u>Total</u>	<u>12,801</u>

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

## 17. FUTURE INCOME TAXES

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

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

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

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

<i>(in thousands of dollars)</i>	2008 \$	2007 \$
Property and equipment	4,221	9,063
Intangibles and goodwill	(3,141)	473
Net risk management liability	(830)	(3,304)
Asset retirement obligation	(3,834)	(956)
Partnership income	1,847	-
<u>Non-capital losses</u>	<u>(3,080)</u>	<u>(11)</u>
Net future income tax (asset) liability	(3,157)	5,265
<u>Future income tax liability</u>	<u>(10,721)</u>	<u>(5,265)</u>
<u>Future income tax asset</u>	<u>13,878</u>	<u>-</u>

The future income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial income tax rate of 29.5% as follows:

	2008	2007
	\$	\$
<i>(in thousands of dollars)</i>		
Income from continuing operations before income taxes	(48,355)	4,528
Statutory income tax rate	29.50%	32.12%
	(14,265)	1,454
Increase (decrease) resulting from:		
Income not subject to tax	6,154	(7,726)
Impact of new SIFT legislation	–	1,837
Rate adjustment	(6,793)	(6,805)
Goodwill impairment not deductible for tax	6,344	–
Other	138	262
	(8,422)	(10,978)

At December 31, 2008, the Trust had tax pools totalling \$210,773,712 and non-capital losses totalling \$11,297,719 expiring by 2027, (December 31, 2007 – tax pools totalling \$310,999,085 (of which \$95,668,800 relates to discontinued operations) and non-capital losses totalling \$38,405).

## 18. SEGMENTED INFORMATION

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

The following is selected financial information for each business segment:

	2008					
	Financial Services – Elbow River	Oil & Gas	Real Estate	Corporate	Discontinued Operations	Total
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$
Net total revenue	2,143,064	68,469	18,007	1,182	–	2,230,722
Net operating expenses	2,093,564	21,155	1,877	–	–	2,116,596
Income (loss) before inter-segment eliminations	(43,128)	(2,227)	3,125	2,297	–	(39,933)
Inter-segment eliminations	4,065	–	–	(4,065)	–	–
Income (loss) from continuing operations	(39,063)	(2,227)	3,125	(1,768)	–	(39,933)
Discontinued operations – EnerVest Assets	–	–	–	–	42,446	42,446
Net income (loss)	(39,063)	(2,227)	3,125	(1,768)	42,446	2,513

	2007					
	Financial Services – Elbow River	Oil & Gas	Real Estate	Corporate	Discontinued Operations	Total
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$
Net total revenue	800,511	45,536	7,321	5	–	853,373
Net operating expenses	771,964	19,981	1,776	–	–	793,721
Income (loss) from continuing operations	13,606	(1,816)	2,734	982	–	15,506
Discontinued operations – EnerVest	–	–	–	–	11,885	11,885
Net income (loss)	13,606	(1,816)	2,734	982	11,885	27,391

	Financial Services –	Oil & Gas	2008 Real Estate	Corporate	Total
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$
Selected balance sheet items					
Property and equipment	1,397	147,725	46,115	–	195,237
Intangibles and other assets	10,426	–	1,145	–	11,571
Goodwill	23,424	–	–	–	23,424
Total assets	252,427	162,947	51,536	55,318	522,228
Working capital (deficiency)	45,572	(5,088)	(11,470)	18,833	47,847
Mortgages excluding current portion	–	–	(26,832)	–	(26,832)

	Financial Services –	Oil & Gas	Real Estate	2007 Discontinued Corporate Operations	Total
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$
Selected balance sheet items					
Property and equipment	1,493	148,525	61,548	–	211,566
Intangibles and other assets	15,059	–	2,644	–	17,703
Goodwill	35,640	21,235	–	–	56,875
Total assets	202,317	184,396	65,497	1,290	597,776
Working capital (deficiency)	12,924	(48,315)	(14,014)	(14,755)	56,413
Mortgages excluding current portion	–	–	(29,427)	–	(29,427)

#### 19. CHANGE IN NON-CASH WORKING CAPITAL

<i>(in thousands of dollars)</i>	2008 \$	2007 \$
<b>Change in non-cash working capital:</b>		
Marketable securities	–	–
Accounts receivable and prepaid expenses	(11,137)	(4,140)
Inventory	(44,230)	(43,704)
Accounts payable and accrued liabilities	7,211	6,191
Distributions payable	25,279	11
Deferred revenue	(90)	(81)
Unrealized foreign exchange loss in working capital	(7,000)	962
Other	(61)	(6)
Working capital of real estate properties sold	(333)	–
Working capital of discontinued operations	1,603	(128)
	<b>(28,758)</b>	<b>(40,895)</b>
Operating activities	<b>(53,579)</b>	<b>(40,230)</b>
Financing activities	<b>25,279</b>	<b>11</b>
Investing activities	<b>(458)</b>	<b>(676)</b>

**20. DISTRIBUTIONS**

The amount of cash available for distribution is proposed by management and approved by the Board of Directors. Distribution levels are continually assessed with respect to forecasted funds from operations, debt levels and capital spending plans. Variations in economic factors, operational performance, capital market interest and government regulatory changes all impact each of our operating divisions and their ability to fund distributions. The Trust believes that its strong balance sheet diversification model across multiple business lines including Energy, Financial Services and Real Estate, 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.

**a) Cash distributions declared per Trust unit issued and outstanding:**

During the year the Trust declared distributions to the unitholders in the aggregate amount of \$67,086,729 (2007 - \$41,658,637) in accordance with the following table:

<b>Period covered</b>	<b>Date of Distribution</b>	<b>Per Unit \$</b>
January 1, 2008 to January 31, 2008	02/15/2008	0.0830
February 1, 2008 to February 29, 2008	03/17/2008	0.0830
March 1, 2008 to March 31, 2008	04/16/2008	0.0830
April 1, 2008 to April 30, 2008	05/15/2008	0.0830
May 1, 2008 to May 31, 2008	06/16/2008	0.0830
June 1, 2008 to June 30, 2008	07/15/2008	0.0830
July 1, 2008 to July 31, 2008	08/15/2008	0.0830
August 1, 2008 to August 31, 2008	09/15/2008	0.0830
September 1, 2008 to September 30, 2008	10/15/2008	0.0830
October 1, 2008 to October 31, 2008	11/17/2008	0.0830
November 1, 2008 to November 30, 2008	12/15/2008	0.0830
December 1, 2008 to December 31, 2008	01/15/2009	0.0830
Special Distribution December 31, 2008	02/16/2009	0.6000

<b>Period covered</b>	<b>Date of Distribution</b>	<b>Per Unit \$</b>
January 1, 2007 to January 31, 2007	02/15/2007	0.0830
February 1, 2007 to February 28, 2007	03/15/2007	0.0830
March 1, 2007 to March 31, 2007	04/16/2007	0.0830
April 1, 2007 to April 30, 2007	05/15/2007	0.0830
May 1, 2007 to May 31, 2007	06/15/2007	0.0830
June 1, 2007 to June 30, 2007	07/16/2007	0.0830
July 1, 2007 to July 31, 2007	08/15/2007	0.0830
August 1, 2007 to August 31, 2007	09/17/2007	0.0830
September 1, 2007 to September 30, 2007	10/15/2007	0.0830
October 1, 2007 to October 31, 2007	11/15/2007	0.0830
November 1, 2007 to November 30, 2007	12/17/2007	0.0830
December 1, 2007 to December 31, 2007	01/15/2008	0.0830

As at December 31, 2008, the Trust had cash distributions payable of \$28,754,844 (December 31, 2007 - \$3,476,327) comprised of the Trust's regular monthly distribution of \$3,494,366 paid on January 15, 2009 and a special distribution of \$25,260,478 paid on February 16, 2009.

**21. 21. CAPITAL DISCLOSURES**

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

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

The Trust manages its capital structure within guidelines approved by the Board of Directors. Changes to the Trust's capital structure are made based on economic conditions and the Trust's planned requirements. The Trust has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to unitholders and making adjustments to its capital expenditure program. In 2008, the sale of the EnerVest assets for proceeds net of costs and adjustments of \$160,957,081 provided the Trust with a great deal of flexibility in its go forward capital structure.

The Trust does have externally imposed capital requirements, which consist of positive, non-financial covenants on its demand revolving facilities that the Trust is in compliance with for the year ended December 31, 2008. As collateral for the demand revolving facilities, the Trust has provided a general security agreement with a floating charge debenture over all of the Trust's assets. Other than these restrictions the Trust is not subject to any externally imposed capital requirements.

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

For the year ended December 31, 2008, the working capital (net debt) to funds from continuing operations ratio is not meaningful to the Trust as the Trust is in a net positive working capital position versus a net debt position.

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

The distribution payout ratio uses the total distributions to unitholders per the Statement of Cash Flows of \$67,086,729 as a percentage of the funds from operations. The distribution payout ratio for the year ended December 31, 2008 based on regular monthly cash distributions of \$41,826,252 is approximately 167%.

**22. SUBSEQUENT EVENTS**

**Elbow River ceases marketing of bio-diesel product**

Due to changes in the competitive environment and the global financial crisis, the Trust determined in the fourth quarter of 2008 that Elbow River would cease to market bio-diesel product. By the end of the first quarter of 2009, Elbow River had completed all final physical sales of bio-diesel and mitigated all tankage and transportation obligations. The Trust estimates it will incur an additional bio-diesel charge of approximately \$10,500,000 in the first quarter of 2009 for bio-diesel hedge losses and tankage and transportation usage.







**DIRECTORS**

William M. Gallacher <sup>(2,3)</sup>

President & CEO, Chairman

Gary H. Dundas

VP Finance & CFO

David E. Butler (1,3,4)

Stuart Y. Chow (2,3,4)

Jeffery Kohn (4)

Alan Moon (1,2,4)

Lead Director

William E. Patterson <sup>(1,2,4)</sup>

1. Audit Committee
2. Governance & Compensation Committee
3. Reserves Committee
4. Strategic Review Committee

**CORPORATE SECRETARY**

Burnet Duckworth & Palmer LLP

**AUDITORS**

Ernst & Young, LLP

**BANKERS**

National Bank of Canada

HSBC Bank Canada

**EVALUATION ENGINEERS**

McDaniel & Associates Consultants Ltd.

**LEGAL COUNSEL**

Burnet, Duckworth & Palmer, LLP

Vogel & Company, LLP

**TRANSFER AGENT**

Olympia Trust Company of Canada

**OFFICERS & KEY PERSONNEL****Corporate Headquarters**

William Gallacher, P.Eng

President & CEO

Gary Dundas, CMA, MBA

Vice President, Finance & CFO

Jill Koskimaki, BBA

Manager Bus. Development

Michelle O'Grady, CA

Controller

**Avenir Operating Corp.**

Grant Leslie, P. Eng., COO

Bob Guy, VP Production

Debbie Carter, Controller

**Elbow River Marketing LP**

Ed Malcolm, President

Arie Prins, Chief Financial Officer

George Petropoulos, Mgr, LPG Marketing

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## OIL & GAS ABBREVIATIONS

### OIL AND NATURAL GAS LIQUIDS

<b>Bbl</b>	Barrel
<b>Bbls</b>	Barrels
<b>Mbbls</b>	thousand barrels
<b>Bbls/d</b>	barrels per day
<b>Mmbbls</b>	million barrels
<b>NGLs</b>	natural gas liquids

### NATURAL GAS

<b>Mcf</b>	thousand cubic feet
<b>Mmcf</b>	million cubic feet
<b>Bcf</b>	billion cubic feet
<b>Mcf/d</b>	thousand cubic feet per day
<b>Mmcf/d</b>	million cubic feet per day
<b>MMBTU</b>	million British Thermal Units

### OTHER

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





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