



Unlocking Value

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DAYLIGHT RESOURCES TRUST REPORTS THIRD QUARTER 2007 FINANCIAL AND OPERATING RESULTS – ON TRACK FOR A SUCCESSFUL 2007

MESSAGE TO UNITHOLDERS

Daylight Resources Trust ("Daylight" or the "Trust") is pleased to report financial and operating results for the three and nine months ended September 30, 2007 ("Q3 2007" and "YTD 2007" respectively).

STRONG THIRD QUARTER RESULTS - GROWTH IN FUNDS FROM OPERATIONS, SUCCESSFUL OIL FOCUSED CAPITAL PROGRAM AND STRENGTHENED BALANCE SHEET

Q3 2007 was a pivotal quarter for Daylight as the Trust generated strong funds from operations growth while shifting our capital program focus to our large oil prospect inventory. Following on our previously deferred natural gas projects we were able to redirect our activity toward our high netback light oil projects. In addition, the Trust successfully closed its previously announced convertible debenture financing to strengthen our balance sheet and expand our financial capacity.

Successful drilling, completion, optimization and tie-in activity, with a focus on oil prospects, has increased current production to approximately 21,000 boe/d. Currently 45% of Daylight's production consists of oil & natural gas liquids ("NGLs"). In spite of third party turnaround activities resulting in reduced production of 1,150 boe/d for Q3 2007, Daylight attained production of 19,600 boe/d and remains on track to meet 2007 guidance of 20,500 boe/d. While these turnaround activities were anticipated, the durations were in excess of third party estimates.

The Trust's technical teams continue to find additional opportunities to add value, as demonstrated by a series of new farmouts on our exploratory undeveloped lands. This includes a commitment by an industry partner to spend approximately \$25 million to drill and complete seven wells, at no cost to Daylight, to earn a portion of our rights in our undeveloped lands in Obed, Medicine Lodge, Oldman and Fir.

Daylight's preliminary review, subject to receiving final documentation of the new regulations from the Province of Alberta, is based on our third party engineer's current price forecast, available information and consultation with third parties. This review indicates that the New Alberta Royalty Framework proposed by the Province will have no negative impact on the net present value of the Trust's existing reserves. This is principally based on the lower royalty, low productivity nature of many of our shallow heavy oil and sweet gas wells, combined with lower royalty, deep natural gas wells in West Central Alberta, offset by the higher anticipated royalties on some of the more prolific oil wells in areas such as Pembina and Cecil. The new proposed royalty structure will have a material, negative impact on Daylight's future capital program with respect to high impact oil properties such as Pembina. Daylight will divert capital to other prospects in inventory that have a more neutral or positive impact from the new proposed royalty structure.

Funds from operations and netbacks are increasing, while operating costs have returned to projected levels. The Trust's payout ratio has dropped to better than average industry levels. These results support and validate the previously announced decision to maintain distributions at \$0.10 per unit through the fourth quarter of 2007.

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HIGHLIGHTS

Financial	Q3	Q2	Q3	YTD	YTD
(CDN\$ thousands, except unit, per unit and operational data)	2007	2007	2006	2007	2006
Petroleum and natural gas revenues	\$ 82,557	\$ 92,699	\$ 69,877	\$ 267,238	\$ 204,618
Operating netback	49,746	44,803	38,572	146,514	113,991
Funds from operations	40,343	35,274	32,242	118,450	98,452
Per unit					
– Basic	0.52	0.46	0.71	1.55	2.29
– Diluted	0.52	0.46	0.68	1.55	2.18
Cash distributions declared	27,006	34,475	31,844	95,595	84,914
Per unit	0.35	0.45	0.62	1.25	1.88
Payout ratio ⁽¹⁾	67%	98%	n/a ⁽¹⁾	81%	n/a ⁽¹⁾
Capital expenditures	33,727	12,877	19,358	67,291	75,770
Units outstanding (000s)					
Basic	77,475	76,652	71,863	77,475	71,863
Diluted	78,983	78,133	72,117	78,983	72,117
Operational					
Average daily production					
Natural gas (mcf/d)	69,143	74,356	57,926	73,984	57,804
Light oil (bbls/d)	4,565	4,258	3,172	4,378	2,870
Heavy oil (bbls/d)	2,382	2,416	2,760	2,434	2,680
NGLs (bbls/d)	1,129	1,258	756	1,277	725
Oil & NGLs (bbls/d)	8,076	7,932	6,688	8,089	6,275
Combined (boe/d)	19,600	20,325	16,342	20,420	15,909
Average prices received					
Natural gas (\$/mcf)	\$ 5.33	\$ 7.24	\$ 5.74	\$ 6.66	\$ 6.54
Light oil (\$/bbl)	73.87	67.09	74.23	67.61	70.86
Heavy oil (\$/bbl)	51.97	46.05	51.27	46.79	45.87
NGLs (\$/bbl)	59.90	53.42	67.79	55.71	63.93
Oil & NGLs (\$/bbl)	\$ 65.46	\$ 58.51	\$ 64.03	\$ 59.47	\$ 59.38
Combined (\$/boe)	\$ 45.79	\$ 50.12	\$ 46.48	\$ 47.94	\$ 47.12
Petroleum and natural gas revenues (\$/boe)	\$ 45.79	\$ 50.12	\$ 46.48	\$ 47.94	\$ 47.12
Royalties (\$/boe)	(8.02)	(9.85)	(8.85)	(8.77)	(9.17)
Realized gain (loss) on commodity derivatives (\$/boe)	2.84	(0.17)	(0.09)	0.86	(0.03)
Operating expenses (\$/boe)	(11.95)	(14.74)	(10.58)	(12.70)	(10.60)
Transportation (\$/boe)	(1.06)	(1.13)	(1.30)	(1.05)	(1.06)
Operating netback (\$/boe)	\$ 27.59	\$ 24.23	\$ 25.66	\$ 26.28	\$ 26.26
G&A – cash charge (\$/boe)	(1.97)	(2.23)	(2.42)	(2.06)	(2.04)
Cash financial charges (\$/boe)	(3.24)	(2.93)	(1.79)	(2.97)	(1.54)
Cash taxes (\$/boe)	-	-	-	-	-
Funds from operations (\$/boe)	\$ 22.38	\$ 19.07	\$ 21.45	\$ 21.25	\$ 22.68

Per boe amounts many not add exactly due to rounding

⁽¹⁾ On a proforma basis, if the Sequoia acquisition had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006 and 83% for YTD 2006.

PRODUCTION - CURRENT PRODUCTION AT 21,000 BOE PER DAY

- New production additions generated by our successful Q3 2007 capital expenditures have delivered current production of approximately 21,000 boe/d, weighted 45% to oil & NGLs and 55% to natural gas.
- Q3 2007 production of 19,600 boe/d includes the impact of third party plant turnaround activities completed in the quarter that reduced production by approximately 1,150 boe/d in the period.
- With YTD 2007 production of 20,420 boe/d and current production at 21,000 boe/d Daylight maintains guidance at 20,500 boe/d for 2007.

ALBERTA ROYALTY REVIEW - MINIMAL IMPACT ON VALUE OF CURRENT RESERVES EXPECTED

- On October 25, 2007, the Alberta Government introduced the New Royalty Framework which is scheduled to take effect January 1, 2009. Exact details and specific regulations have not yet been made available and a final assessment of the impact to the Trust will need to be revisited when those details are made available.
- Approximately 95% of Daylight's current reserves and production are within the province of Alberta and will be subject to the New Royalty Framework. Based on available information, consultation with third parties and using conservative assumptions, Daylight believes that the proposed changes to the Alberta Crown Royalty System will not have a negative impact on the net present value of the Trust's existing reserves.
- Daylight's analysis is based on independent reserve evaluation engineer's current commodity price forecast which includes: an AECO natural gas price of \$6.60 per mmbtu for 2008 and \$6.80 per mmbtu for 2009; a WTI crude oil price of US \$75.00 per bbl for 2008 and US \$71.50 per bbl for 2009 with an forecast exchange rate of \$1 Canadian to \$1 US.
- The estimated negative impact at the Trust's light oil properties of Pembina, Cecil, Sturgeon, Red Earth, Little Horse and Freeman is offset by the estimated positive impact to our lower rate Wildmere heavy oil property, deep natural gas West Central properties and lower rate shallow natural gas properties located in Central Alberta.
- The Trust's depth of prospect inventory will allow Daylight to select capital expenditure programs that provide the greatest value to our unitholders in the context of the expected change to the royalty system. The new proposed royalty structure will have a material, negative impact on Daylight's future capital program with respect to high impact oil properties such as Pembina. We will divert capital to other prospects in inventory that have a more neutral or positive impact from the new proposed royalty structure.

CAPITAL EXPENDITURES – ACTIVE AND SUCCESSFUL Q3 2007 PROGRAM

- Daylight's decision to weight our capital expenditure program to the last half of 2007 has been effective, with the Trust experiencing improved cost of services and allowing Daylight to focus on our oil program and strategic natural gas opportunities.
- Oil drilling activities were focused on the recently consolidated Cecil property where three of the four wells drilled in the quarter were 100% Daylight working interest.
- Additional oil wells were drilled at Pembina, Sinclair, and Wildmere, building on the success of our previous oil development projects.
- West Central natural gas wells continue to provide reliable and highly economic returns with seven wells drilled in the region during Q3 2007.

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- During Q3 2007 Daylight drilled two initial Elmworth Cadomin horizontal natural gas wells with results that met our initial expectations and establish the potential to drill up to 20 additional wells on our additional 10 sections of land.
- Capital expenditures for the full year 2007 are expected to be approximately \$80 million.

SIGNIFICANT FARMOUT ACTIVITIES - POTENTIAL TO ADD SIGNIFICANT RESERVES AND PRODUCTION AT NO CASH COST

- During Q3 2007 Daylight negotiated a farmout of certain exploratory lands at the Obed, Medicine Lodge, Oldman and Fir properties within West Central Alberta, to a leading industry partner.
- The farmout commitment is to drill and complete at least seven wells to approximately 3,200 meters by March 31, 2008, at an estimated gross cost of approximately \$25 million. Daylight will retain 40% of its original interest in each well at no cash cost.
- In addition to this major farmout, Daylight has also completed multiple farmouts of non-core lands to third parties during 2007. This provides a gross commitment on Daylight lands of approximately \$20 million at no cash cost to the Trust.
- These farmouts generate significant potential value to Daylight and could provide a significant incremental contribution to future reserves and production levels.

BALANCE SHEET - CONVERTIBLE DEBENTURE FINANCING PROVIDES FLEXIBILITY

- On October 3, 2007, Daylight issued \$125 million principal amount of 8.5% Convertible Debentures for net proceeds of \$119.5 million.
- The net proceeds of \$119.5 million were used to repay a \$70 million bridge facility and reduce the outstanding indebtedness under the revolving term credit facility.
- Daylight's bank debt, pro forma this financing, is approximately \$244 million drawn against a credit facility of \$300 million which provides access to approximately \$56 million of additional capital.
- Daylight's credit facilities were reviewed by its banking syndicate during the quarter with the next scheduled review established for May 31, 2008.

INCREASED FUNDS FROM OPERATIONS AND PRUDENT DISTRIBUTIONS DELIVERS CONSERVATIVE 67% PAYOUT RATIO

- Daylight continues to target the full funding of distributions and capital expenditures with funds from operations. Distributions, as previously announced, will be maintained at \$0.10/unit through Q4 2007.
- A relatively low 67% payout ratio during Q3 2007 provided significant flexibility to finance the Trust's capital expenditure program.
- With increasing production levels and commodity prices during the fourth quarter, a further improvement to Daylight's payout ratio is expected.
- \$40.3 million funds from operations generated during Q3 2007 is up 14% from Q2 2007 and represents a 13% increase to \$0.52 per unit basic and diluted over the same period.
- \$118.5 million funds from operations have been generated YTD in 2007.

OUTLOOK

Based on the anticipated increase in production levels, Daylight's continued commitment to cost control and conservative financial management, we expect strong results through to the end of 2007. Daylight reiterates our guidance of meeting our 2007 production target of 20,500 boe/d and, with further improvement to commodity prices in Q4 2007, Daylight anticipates continued improvement to our funds from operations and payout ratio.

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion & Analysis ("MD&A") is dated November 6, 2007 and should be read in conjunction with the accompanying unaudited interim consolidated financial statements and notes for the three and nine months ended September 30, 2007 and 2006 as well as the MD&A and audited consolidated financial statements and notes for the years ended December 31, 2006 and 2005. The consolidated financial statements and other financial data presented have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A compares the results of the three months ended September 30, 2007 ("Q3 2007") to the three months ended June 30, 2007 ("Q2 2007") and to the three months ended September 30, 2006 ("Q3 2006"). This MD&A also compares the results of the nine months ended September 30, 2007 ("YTD 2007") to the nine months ended September 30, 2006 ("YTD 2006"). All references are to Canadian dollars unless otherwise indicated.

NON GAAP MEASURES

Daylight Resources Trust ("Daylight" or the "Trust") utilizes the following terms for measurement within the MD&A that do not have standardized prescribed meaning under GAAP and these measurements may not be comparable with the calculation of similar measurements of other entities.

"Funds from operations" and "funds from operations per unit" are terms utilized by Daylight to evaluate operating performance and assess leverage. Daylight considers funds from operations to be an important measure of Daylight's ability to generate the funds necessary to pay distributions, repay debt and to finance capital expenditures. Funds from operations does not represent net income for the period nor should it be viewed as an alternative to net income or other measures of financial performance calculated in accordance with GAAP. All references to funds from operations throughout the MD&A are based on cash provided by operating activities before change in non-cash operating working capital, asset retirement expenditures and plan of arrangement costs since Daylight believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such these items are not useful for evaluating Daylight's operating performance. A reconciliation of cash provided by operating activities to funds from operations follows.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Cash provided by operating activities	\$ 38,850	\$ 37,211	\$ 31,783	\$ 122,561	\$ 91,791
Change in non-cash operating working capital	525	(2,222)	(5,896)	(7,204)	(3,308)
Asset retirement expenditures	968	285	1,547	3,093	5,161
Plan of arrangement costs	-	-	4,808	-	4,808
Funds from operations	\$ 40,343	\$ 35,274	\$ 32,242	\$ 118,450	\$ 98,452

"Payout ratio" is a term utilized to evaluate financial flexibility and the relative burden of distributions. Payout ratio is defined on a percentage basis as distributions declared divided by funds from operations. Daylight believes that a payout ratio above 100% is a concern as it indicates that no funds from operations are being maintained to finance capital expenditures or to repay debt. Daylight believes that a lower payout ratio corresponds to greater financial flexibility since the excess funds from operations can be invested in capital expenditures for the long term benefit of Daylight or be utilized to repay debt and reduce the leverage utilized by Daylight.

"Operating netback" is a term utilized by Daylight to evaluate operating performance of our petroleum and natural gas assets. The term operating netback is defined as petroleum and natural gas revenues less royalties, realized gain (loss) on commodity derivatives, operating and transportation expenses.

"boe" is a term utilized by Daylight in relation to reserves or production to combine the volumetric measures of natural gas, light oil, heavy oil and natural gas liquids ("NGLs") to a common "barrel of oil equivalent" term of measurement. Natural gas volumes have been converted at the ratio of 6,000 cubic feet of natural gas to one boe and this conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Light oil, heavy oil and NGLs have been converted at the ratio of one barrel of these liquids to one boe. Use of the terms boe and amounts per boe without reference to the underlying commodity may be misleading.

FORWARD LOOKING STATEMENTS

Certain statements contained within this MD&A, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A, as the case may be.

In particular, this MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:

- the performance characteristics of our oil and natural gas properties;
- the size of our oil, natural gas liquids and natural gas reserves;
- estimates of future cash flow and distributions;
- projections of market prices and costs and the related sensitivities to distributions;
- oil, natural gas liquids and natural gas production levels;
- drilling plans and timing of drilling, recompletion and tie-in of wells;
- weighting of production between different commodities;
- commodity prices, exchange rates and interest rates;
- expected levels of royalty rates, operating costs, general and administrative costs, costs of services and other costs and expenses;
- capital expenditure programs and other expenditures and the timing and method of financing thereof;
- supply of and demand for oil, natural gas liquids and natural gas;
- expectations regarding our ability to raise capital and to continually add to reserves through acquisitions and development;
- the existence, operation and strategy of our commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed by us;

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- our acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- our ability to grow or sustain production and reserves through prudent management;
- the emergence of accretive growth opportunities;
- our ability to benefit from the combination of growth opportunities and the ability to grow through capital markets;
- our future operating and financial results;
- schedules and timing of certain projects and our strategy for future growth; and
- treatment under governmental and other regulatory regimes and tax, environmental and other laws.

With respect to forward-looking statements contained in this MD&A and the documents incorporated by reference herein, we have made assumptions regarding, among other things:

- future oil and natural gas prices and differentials between light, medium and heavy oil prices;
- the continued availability of capital, undeveloped lands and skilled personnel;
- the costs of expanding our property holdings;
- the ability to obtain equipment in a timely manner to carry out exploration, development and exploitation activities;
- the ability to obtain financing on acceptable terms;
- the ability to add production and reserves through exploration, development and exploitation activities; and
- the continuation of the current tax and regulatory regime and other assumptions contained in this MD&A and the documents incorporated by reference herein.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A and the documents incorporated by reference into this document:

- volatility in market prices for oil, natural gas liquids and natural gas;
- changes or fluctuations in oil, natural gas liquids and natural gas production levels;
- liabilities inherent in oil and natural gas operations;
- adverse regulatory rulings, orders and decisions;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands, services and skilled personnel;
- incorrect assessments of the value of acquisitions and targeted exploration and development assets;
- fluctuations in foreign exchange or interest rates;
- stock market volatility, market valuations and the market value of the securities of Daylight;
- failure to realize the anticipated benefits of acquisitions;
- actions by governmental or regulatory authorities including changes in income tax laws (including those relating to mutual fund trusts or investment eligibility) or changes in tax laws and incentive programs relating to the oil and gas industry and income trusts;
- changes in environmental or other legislation applicable to our operations, and our ability to comply with current and future environmental and other laws;
- geological, technical, drilling and processing problems and other difficulties in producing oil, natural gas liquids and natural gas reserves; and

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- the other factors discussed under "*Risks and Uncertainties*" in the annual Management's Discussion and Analysis.

Statements relating to "reserves" or "resources" are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements.

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HIGHLIGHTS

Financial	Q3	Q2	Q3	YTD	YTD
(CDN\$ thousands, except unit, per unit and operational data)	2007	2007	2006	2007	2006
Petroleum and natural gas revenues	\$ 82,557	\$ 92,699	\$ 69,877	\$ 267,238	\$ 204,618
Royalties	(14,454)	(18,223)	(13,312)	(48,914)	(39,837)
Realized gain (loss) on commodity derivatives	5,118	(320)	(133)	4,822	(133)
Operating expenses	(21,555)	(27,268)	(15,901)	(70,794)	(46,035)
Transportation	(1,920)	(2,085)	(1,959)	(5,838)	(4,622)
Operating netback	49,746	44,803	38,572	146,514	113,991
G&A – cash charge	(3,552)	(4,117)	(3,634)	(11,509)	(8,855)
Cash financial charges	(5,851)	(5,412)	(2,695)	(16,555)	(6,680)
Cash taxes	-	-	(1)	-	(4)
Funds from operations	40,343	35,274	32,242	118,450	98,452
Per unit – Basic	0.52	0.46	0.71	1.55	2.29
– Diluted	0.52	0.46	0.68	1.55	2.18
Net income (loss)	7,131	18,682	(2,140)	31,114	25,688
Per unit – Basic	0.09	0.24	(0.05)	0.41	0.60
– Diluted	0.09	0.24	(0.05)	0.41	0.59
Cash distributions declared	27,006	34,475	31,844	95,595	84,914
Per unit	0.35	0.45	0.62	1.25	1.88
Payout ratio ⁽¹⁾	67%	98%	n/a ⁽¹⁾	81%	n/a ⁽¹⁾
Capital expenditures	33,727	12,887	19,358	67,291	75,770
Non-cash capital divestitures	-	-	(21,100)	-	(27,728)
Corporate acquisitions	-	-	527,691	-	527,691
Market value of investments	13,336	17,988	20,500	13,336	20,500
Bank debt	363,153	358,832	287,392	363,153	287,392
Working capital deficiency (excluding bank debt)	37,863	20,520	46,877	37,863	46,877
Total assets	1,065,025	1,072,055	1,424,236	1,065,025	1,424,236
Units outstanding (000s)					
Basic	77,475	76,652	71,863	77,475	71,863
Diluted	78,983	78,133	72,117	78,983	72,117
Operational					
Average daily production					
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Light oil (\$/bbl)	73.87	67.09	74.23	67.61	70.86
Heavy oil (\$/bbl)	51.97	46.05	51.27	46.79	45.87
NGLs (\$/bbl)	59.90	53.42	67.79	55.71	63.93
Oil & NGLs (\$/bbl)	\$ 65.46	\$ 58.51	\$ 64.03	\$ 59.47	\$ 59.38
Combined (\$/boe)	\$ 45.79	\$ 50.12	\$ 46.48	\$ 47.94	\$ 47.12
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Transportation (\$/boe)	(1.06)	(1.13)	(1.30)	(1.05)	(1.06)
Operating netback (\$/boe)	\$ 27.59	\$ 24.23	\$ 25.66	\$ 26.28	\$ 26.26
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Cash financial charges (\$/boe)	(3.24)	(2.93)	(1.79)	(2.97)	(1.54)
Cash taxes (\$/boe)	-	-	-	-	-
Funds from operations (\$/boe)	\$ 22.38	\$ 19.07	\$ 21.45	\$ 21.25	\$ 22.68
Wells drilled – gross (net)	18 (9.9)	4 (3.6)	12 (9.2)	33 (19.5)	38 (25.8)

Per boe amounts may not add exactly due to rounding

⁽¹⁾ On a proforma basis, if the Sequoia acquisition had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006 and 83% for YTD 2006.

RESULTS OF OPERATIONS

Daylight is an oil and natural gas energy trust applying a high end technical and business execution team to a high quality asset base to provide sustainable production and reserves levels. Daylight operates in the Western Canadian Sedimentary Basin. Daylight's trust units, 8.5% Convertible Debentures Series A and 8.5% Convertible Debenture Series B trade on the Toronto Stock Exchange ("TSX") with the symbols DAY.UN, DAY.DB and DAY.DB.B, respectively.

Production

Daylight's total production volumes for Q3 2007 averaged 19,600 boe per day which is a decrease of approximately 4% from Q2 2007. During Q3 2007, Daylight's production volumes were reduced by approximately 1,150 boe per day for the quarter due to third party plant turnaround activities with the reduction concentrated on our natural gas production from West Central properties and light oil production at our Pembina and Sturgeon properties. Q3 2007 production was comprised of 69,143 mcf per day of natural gas, 4,565 bbls per day of light oil, 2,382 bbls per day of heavy oil and 1,129 bbls per day of NGLs. Production for Q3 2007 increased 20% over Q3 2006 due to corporate acquisitions and a successful 2006 capital program. Production for YTD 2007 was 20,420 boe per day, an increase of 28% over the corresponding period in 2006, also due to corporate acquisitions and a successful 2006 capital program. This year to date increase was evenly weighted with natural gas production increasing 28% and oil and NGLs combined production increasing 29%.

With the impact of the noted Q3 2007 plant turnaround activities behind us and the addition of new production volumes from our significant and successful Q3 2007 capital expenditures, Daylight is currently producing approximately 21,000 boe per day and expects to average approximately 20,500 boe per day of production for the 2007 full year.

	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Natural gas (mcf/d)	69,143	74,356	57,926	73,984	57,804
Light oil (bbls/d)	4,565	4,258	3,172	4,378	2,870
Heavy oil (bbls/d)	2,382	2,416	2,760	2,434	2,680
NGLs (bbls/d)	1,129	1,258	756	1,277	725
Combined oil & NGLs (bbls/d)	8,076	7,932	6,688	8,089	6,275
Combined all products (boe/d)	19,600	20,325	16,342	20,420	15,909

Production replacement activities for the 2007 year are focused on the following:

- West Central properties of Pine Creek, Kaybob, Pembina, Sturgeon, Oldman and Windfall
- Peace River Arch properties of Cecil and Elmworth
- Eastern properties of Wildmere, Bon Accord, and Chipman
- Southern properties of Chigwell and Sylvan Lake

Commodity Prices

Daylight's natural gas prices are influenced by overall North American supply and demand balance, seasonal changes, storage levels, the Canadian to US dollar exchange rate and transportation capacity constraints. Daylight's realized natural gas price has a high correlation to the Alberta benchmark price ("AECO") which provides pricing for natural gas based on heating value.

Daylight's oil price is significantly influenced by global supply and demand conditions. Daylight's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price and the Canadian to US dollar exchange rate. Canadian light oil prices correlate to refinery postings, which includes the Edmonton par price, that adjust WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments.

Daylight's realized heavy oil price is lower than its light oil price and the historical correlation with Edmonton par price and Bow River price, a heavy oil benchmark, is not overly strong. Heavy oil requires

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increased refining and other costs, such as condensate for blending, which reduce the realized price of this product. During 2006 and so far in 2007, the Edmonton par price and Bow River price have been very strong which results in an enhanced price realization by Daylight on its heavy oil production.

NGLs include condensate, pentane, butane and propane. Prices for NGLs have their own market dynamic with a relatively strong correlation to light oil prices for condensate and pentane, while butane and propane trade at varying discounts due to market conditions including supply and demand.

Market prices	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
AECO (\$Cdn/mcf)	\$ 5.07	\$ 6.94	\$ 5.58	\$ 6.42	\$ 6.26
WTI (\$US/bbl)	75.22	64.95	70.48	66.22	68.12
Edmonton par (\$Cdn/bbl)	80.67	72.64	79.69	73.65	76.02
Bow River (\$Cdn/bbl)	55.56	50.62	58.83	51.98	53.34
Exchange rate (\$Cdn/\$US)	0.9562	0.9111	0.8919	0.9069	0.8833

Daylight prices realized	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Natural gas (\$/mcf)	\$ 5.33	\$ 7.24	\$ 5.74	\$ 6.66	\$ 6.54
Light oil (\$/bbl)	73.87	67.09	74.23	67.61	70.86
Heavy oil (\$/bbl)	51.97	46.05	51.27	46.79	45.87
NGLs (\$/bbl)	59.90	53.42	67.79	55.71	63.93
Combined oil & NGLs (\$/bbl)	65.46	58.51	64.03	59.47	59.38
Combined all products (\$/boe)	\$ 45.79	\$ 50.12	\$ 46.48	\$ 47.94	\$ 47.12

Daylight's natural gas price during Q3 2007 was \$5.33/mcf, a 5% premium to AECO, which is a 26% decrease from the Q2 2007 natural gas price of \$7.24/mcf, a 4% premium to AECO. Daylight's Q3 2007 natural gas price was 7% lower than the Q3 2006 natural gas price of \$5.74/mcf, a 3% premium to AECO, consistent with the 9% decrease to AECO between these two periods. During Q3 2007 the daily AECO pricing for natural gas ranged from a low of approximately \$3.95/mcf to a high of approximately \$5.74/mcf. The YTD 2007 natural gas price was \$6.66/mcf, a 4% premium to AECO compared to the YTD 2006 natural gas price of \$6.54/mcf, a 5% premium to AECO. Daylight has consistently realized a slight premium to AECO on its natural gas sales as a result of the heating value of its natural gas production and Daylight expects this to continue for the remainder of 2007.

Daylight's Q3 2007 light oil realized \$73.87/bbl, 92% of Edmonton par, while Q2 2007 light oil realized \$67.09/bbl, also 92% of Edmonton par, for an overall increase of 10% to Daylight's light oil price. Daylight's light oil price for Q3 2007 was comparable to the Q3 2006 light oil price of \$74.23/bbl, which was 93% of Edmonton par. Daylight's YTD 2007 light oil price of \$67.61/bbl, 92% of Edmonton par, was 5% lower than our YTD 2006 light oil price of \$70.86/bbl, 93% of Edmonton par. Changes in the Canadian dollar to US dollar exchange rate affect the Canadian dollar Edmonton par and Daylight's realized light oil price relative to the US dollar WTI with a higher exchange rate generally reducing Edmonton par and Daylight's realized light oil price relative to WTI and a lower exchange rate generally increasing Edmonton par and Daylight's realized light oil price relative to WTI. The Canadian dollar to US dollar exchange rate for Q3 2007 was 0.9562 which generally put downward pressure on Edmonton par and Daylight's realized light oil price in the quarter when compared to Q2 2007 with an exchange rate of 0.9111 and Q3 2006 with an exchange rate of 0.8919. The Canadian dollar to US dollar exchange rate for YTD 2007 was 0.9069 as compared to 0.8833 for YTD 2006.

Daylight's heavy oil production is concentrated at two properties, with Wildmere producing approximately 80% of our current volumes, and Chipman producing the remaining 20%. Daylight's Q3 2007 heavy oil price of \$51.97/bbl, 93% of Bow River, is 13% higher than the Q2 2007 heavy oil price of \$46.05/bbl, 91% of Bow River. Daylight's Q3 2007 heavy oil price was comparable to the Q3 2006 heavy oil price of \$51.27/bbl, 87% of Bow River. Daylight's YTD 2007 heavy oil price of \$46.79/bbl, 90% of Bow River, showed a slight increase to the YTD 2006 heavy oil price of \$45.87, 86% of Bow River.

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Daylight's combined oil and NGLs price during Q3 2007 was \$65.46/bbl, 12% higher than Q2 2007 and 2% higher than Q3 2006. Daylight's combined oil and NGLs price for YTD 2007 was \$59.47/bbl, a slight increase from the YTD 2006 price of \$59.38/bbl.

Daylight's realized prices are expected to continue to correlate with market prices during the remainder of 2007. As at September 30, 2007, Daylight had commodity derivatives in place for a portion of natural gas production volumes with a recorded asset value of \$2.2 million and these commodity derivatives expire on October 31, 2007. The impact of the commodity derivatives is recorded within Daylight's gain (loss) on financial instruments.

Revenue

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Natural gas	\$ 33,936	\$ 48,969	\$ 30,598	\$ 134,552	\$ 103,190
Light oil	31,017	25,995	21,661	80,806	55,501
Heavy oil	11,389	10,125	13,018	31,092	33,560
NGLs	6,222	6,115	4,718	19,420	12,649
Other	(7)	1,495	(118)	1,368	(282)
Total	\$ 82,557	\$ 92,699	\$ 69,877	\$ 267,238	\$ 204,618

The slight decrease in production combined with the 26% decrease in natural gas price, resulted in an 11% decrease in total revenue for Q3 2007 to \$82.6 million from Q2 2007. Natural gas sales for Q3 2007 were \$33.9 million, a decrease of 31% from Q2 2007. Light oil sales for Q3 2007 were \$31.0 million, up 19% from Q2 2007, heavy oil sales for Q3 2007 were \$11.4 million, up 12% from Q2 2007, and NGLs sales for Q3 2007 were \$6.2 million, virtually unchanged. Total revenue increased 18% in Q3 2007 over Q3 2006, consistent with the production volumes increasing 20% and offset by a small 1% decline on the average realized price on a combined boe basis. For the YTD 2007 period, Daylight realized a 30% increase in natural gas sales, a 46% increase in light oil sales, a 7% decrease in heavy oil sales, a 54% increase in NGL sales, and a 31% increase in total revenue over the YTD 2006 period.

Royalties

Royalty payments are made to the owners of the mineral rights on our leases, which include provincial governments (Crown) and freehold landowners, as well as to other third parties by way of contractual overriding royalties.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for natural gas and NGLs in Alberta. Gas cost allowance, custom processing credits and other incentive programs reduce the effective royalty rate.

Overriding royalties are generally paid to third parties where Daylight has entered into agreements to earn an interest in their mineral rights by investing capital in the property.

Oil royalty rates are generally a function of production rates on a per well basis and prices. They are also subject to certain reductions and incentives. Oil crown royalties in Alberta are generally satisfied by delivering the required volume of oil to the Alberta provincial government. Effective September 1, 2007, the Alberta provincial government has changed several incentive programs to cap reductions at a maximum dollar value. Existing wells under the programs that have exceeded the cap are subject to increased royalties effective September 1, 2007. Daylight has a number of wells under these programs and expects oil royalties to increase marginally.

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Royalties by type (000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Crown royalties, net of ARTC	\$ 11,547	\$ 14,284	\$ 11,177	\$ 38,873	\$ 32,431
Freehold royalties	1,429	1,901	1,205	4,859	4,112
Overriding royalties	1,478	2,038	930	5,182	3,294
Total	\$ 14,454	\$ 18,223	\$ 13,312	\$ 48,914	\$ 39,837
\$ per boe	\$ 8.02	\$ 9.85	\$ 8.85	\$ 8.77	\$ 9.17
% of revenue	17.5	19.7	19.1	18.3	19.5

Royalties by commodity (000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Natural gas	\$ 4,400	\$ 9,846	\$ 6,204	\$ 22,479	\$ 21,977
Oil and NGLs	10,054	8,377	7,108	26,435	17,860
Total	\$ 14,454	\$ 18,223	\$ 13,312	\$ 48,914	\$ 37,837
Natural gas (\$/boe)	\$ 4.15	\$ 8.73	\$ 6.98	\$ 6.68	\$ 8.36
Oil and NGLs (\$/boe)	13.53	11.61	11.55	11.97	10.43
Total (\$/boe)	\$ 8.02	\$ 9.85	\$ 8.85	\$ 8.77	\$ 9.17
Natural gas (% of revenue)	13.0	20.1	20.3	16.7	21.3
Oil and NGLs (% of revenue)	20.7	19.8	18.0	20.1	17.6
Total (% of revenue)	17.5	19.7	19.1	18.3	19.5

Overall royalty rates decreased to 17.5% of revenue in Q3 2007 from 19.7% of revenue in Q2 2007. Natural gas royalty rates decreased to 13.0% of revenue from 20.1% of revenue due to the decrease in natural gas volumes and prices and the impact of Gas Cost Allowance credits recorded during Q3 2007 that relate to prior periods. Oil and NGLs royalty rates increased 4% to 20.7% of revenue during Q3 2007 as compared to Q2 2007. Total royalty rates decreased 8% to 17.5% of revenue for Q3 2007 from 19.1% of revenue for Q3 2006 as a result of the decrease in the natural gas price and the Gas Cost Allowance credits recorded in Q3 2007. Year over year for the nine month period, total royalty rates decreased to 18.3% of revenue for YTD 2007 from 19.5% of revenue during YTD 2006. This is primarily due to the Gas Cost Allowance credits comprising a larger proportion of the total royalty expense in 2007 compared to 2006.

On October 25, 2007, the Alberta government introduced the New Royalty Framework which is scheduled to take effect January 1, 2009. Approximately 95% of Daylight's current reserves and production are within the Province of Alberta and will be subject to the New Royalty Framework. The exact details and specific regulations are not yet known but Daylight has undertaken a preliminary internal review of the potential impact on our royalty rates, operating netback, funds from operations and net present value of our reserves. Daylight has made assumptions which management considers to be reasonable and has also engaged multiple service providers to assist in determining reasonable assumptions and assessing the potential impact on Daylight. Our analysis is based on our independent reserve evaluation engineer's current commodity price forecast which includes: an AECO natural gas price of \$6.60 per mmbtu for 2008 and \$6.80 per mmbtu for 2009; a WTI crude oil price of US\$75.00 per bbl for 2008 and US\$71.50 per bbl for 2009 with an forecast exchange rate of \$1 Canadian to \$1 US. Based on our internal review, in consultation with multiple service providers, Daylight estimates that the impact of the New Royalty Framework on our future royalty rates, operating netback, funds from operations and the net present value of our reserves in aggregate appears to be minimal. The impact on certain wells, properties and projects is expected to be very significant. The estimated negative impact at our light oil properties of Pembina, Cecil, Sturgeon, Red Earth, Little Horse and Freeman is balanced by the estimated positive impact on our lower rate heavy oil Wildmere property, our deep natural gas West Central properties and our lower rate shallow natural gas properties located in Central Alberta.

Future reserve and production addition activities are expected to be significantly impacted by the changes to the royalty system. The Trust's depth of prospect inventory will allow Daylight to select capital

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expenditure programs that provide the greatest value to our unitholders in the context of the expected change to the royalty system.

Gain (Loss) on Financial Instruments

Financial instruments comprise accounts receivable, prepaid expenses and deposits, certain investments, accounts payable and accrued liabilities, cash distributions payable and bank debt. Unless otherwise noted, carrying values reflect the current fair value of the Trust's financial instruments. The Trust's investments held for trading include the shares of Pegasus Oil & Gas Inc. ("Pegasus") and Trafalgar Energy Ltd. ("Trafalgar") (see Investment section below). These investments held for trading have a fair value based on quoted market values of \$7.6 million as at September 30, 2007. During Q3 2007 Daylight experienced a \$1.5 million unrealized loss on these investments held for trading and a \$2.3 million unrealized loss for YTD 2007.

The Trust's long-term debt bears interest at a floating market rate and accordingly, the fair market value approximates the carrying value. The convertible debentures outstanding at September 30, 2007, with a face value of \$3.6 million, had a fair value based on quoted market value of \$3.6 million.

The Trust may enter into financial or commodity derivatives to manage commodity prices, foreign exchange and interest rate risk. The current 12 month forward strip for AECO natural gas is approximately \$6.40 per mcf and WTI oil is approximately US\$91.00 per barrel which is equivalent to approximately \$84.00 Canadian per barrel.

As at September 30, 2007, Daylight had the following commodity derivatives in place:

Type of Contract	Commodity	Hedged Volume ⁽²⁾	Hedge Price	Hedge Period
Financial (Funded Collar ⁽¹⁾)	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$8.50/GJ	Oct 1/07 to Oct 31/07
Financial (Funded Collar ⁽¹⁾)	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.10/GJ	Oct 1/07 to Oct 31/07
Financial (Funded Collar ⁽¹⁾)	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.21/GJ	Oct 1/07 to Oct 31/07

(1) Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ.

(2) A GJ converts to a Mcf at the rate of 1.055056 GJs per Mcf.

Financial or commodity derivatives used to manage risk are subject to periodic settlements throughout the term of the instruments. Such settlements may result in a gain or loss which is recognized as a realized derivative gain or loss at the time of settlement. The mark-to-market value of a derivative outstanding at the end of a reporting period reflects the value of the derivative based upon market conditions existing as of that date. Any change in value from that determined at the end of the prior period is recognized as an unrealized derivative gain or loss.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Realized gain (loss) on commodity derivatives	\$ 5,118	\$ (320)	\$ (133)	\$ 4,822	\$ (133)
Unrealized gain (loss) on commodity derivatives	(2,745)	5,700	871	(4,829)	871
Unrealized gain (loss) on investments held for trading	(1,457)	676	-	(2,282)	-
Total	\$ 916	\$ 6,056	\$ 738	\$ (2,289)	\$ 738
Realized gain (loss) on commodity derivatives (\$/boe)	\$ 2.84	\$ (0.17)	\$ (0.09)	\$ 0.86	\$ (0.03)
Unrealized gain (loss) on commodity derivatives (\$/boe)	(1.52)	3.08	0.58	(0.86)	0.20
Unrealized gain (loss) on investments held for trading (\$/boe)	(0.81)	0.37	-	(0.41)	-
Total (\$/boe)	\$ 0.51	\$ 3.28	\$ 0.49	\$ (0.41)	\$ 0.17

Daylight experienced a \$5.1 million realized gain and a \$2.7 million unrealized loss on its commodity derivatives during Q3 2007. Daylight recognized a realized gain of \$4.8 million and an unrealized loss of

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\$4.8 million on its commodity derivatives during YTD 2007. For the three and nine months ended September 30, 2007, Daylight recorded a gain on financial instruments of \$0.9 million and a loss on financial instruments of \$2.3 million, respectively. As at September 30, 2007, Daylight had commodity derivatives in place for a portion of natural gas production volumes with a recorded asset value of \$2.2 million and these commodity derivatives expire on October 31, 2007.

Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Operating costs	\$ 21,555	\$ 27,268	\$ 15,901	\$ 70,794	\$ 46,035
\$ per boe	\$ 11.95	\$ 14.74	\$ 10.58	\$ 12.70	\$ 10.60

Daylight experienced a 19% decrease to operating costs during Q3 2007 to \$11.95 per boe as compared to Q2 2007 at \$14.74 per boe and a 13% increase to operating costs as compared to Q3 2006 at \$10.58 per boe. During Q2 2007, Daylight recorded approximately \$4.7 million of operating costs attributable to periods prior to 2007 which are considered non recurring charges and primarily relate to third party billings and adjustments to non operated properties. These prior period items increased operating costs by approximately \$2.54 per boe during Q2 2007 and approximately \$0.83 per boe during YTD 2007. With the prior period costs experienced in Q2 2007, Daylight's YTD 2007 operating expense rose to \$12.70 per boe, a 20% increase over the YTD 2006 cost of \$10.60 per boe. Daylight expects its operating costs to be approximately \$11.00 to \$12.00 per boe for the last quarter of 2007, consistent with our previous guidance.

Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point. The cost of delivering production to the custody transfer point is shown separately as transportation expense.

Daylight generally sells its light oil and NGLs production at the lease with the purchaser taking legal custody of the oil and paying a price for the oil at that delivery point. Daylight's heavy oil, and a small portion of its light oil production, are delivered to a terminal by truck and as such, bear trucking charges which are a transportation expense. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then transferred to the purchaser. Transportation expense decreased to \$1.06 per boe in Q3 2007 compared to \$1.13 per boe in Q2 2007 and \$1.30 per boe in Q3 2006. The Q2 2007 transportation expense included increased trucking related to longer than normal spring road bans during Q2 2007 and higher trucking rates. An increase to actual trucking charges was recognized in Q3 2006. On a year to date basis, transportation costs were \$1.05 per boe in 2007 compared to \$1.06 for 2006.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Transportation costs	\$ 1,920	\$ 2,085	\$ 1,959	\$ 5,838	\$ 4,622
\$ per boe	\$ 1.06	\$ 1.13	\$ 1.30	\$ 1.05	\$ 1.06

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Operating Netbacks

The following table provides detail regarding Daylight's operating netbacks on a per boe basis.

\$ per boe	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Revenue	\$ 45.79	\$ 50.12	\$ 46.48	\$ 47.94	\$ 47.12
Royalties	(8.02)	(9.85)	(8.85)	(8.77)	(9.17)
Realized gain (loss) on commodity derivatives	2.84	(0.17)	(0.09)	0.86	(0.03)
Operating cost	(11.95)	(14.74)	(10.58)	(12.70)	(10.60)
Transportation	(1.06)	(1.13)	(1.30)	(1.05)	(1.06)
Operating netback	\$ 27.59	\$ 24.23	\$ 25.66	\$ 26.28	\$ 26.26

General and Administrative Expenses

The following tables provide detail regarding Daylight's general and administrative expenses ("G&A") on a total and per boe basis.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Gross G&A	\$ 6,655	\$ 7,499	\$ 6,520	\$ 20,727	\$ 17,981
Operating recoveries	(1,498)	(1,672)	(1,750)	(4,403)	(6,017)
Capitalized costs	(1,605)	(1,710)	(1,136)	(4,815)	(3,109)
G&A – cash charge	3,552	4,117	3,634	11,509	8,855
Unit based compensation	1,704	1,040	12,806	4,154	15,563
Net G&A	\$ 5,256	\$ 5,157	\$ 16,440	\$ 15,663	\$ 24,418

\$ per boe	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Gross G&A	\$ 3.69	\$ 4.05	\$ 4.34	\$ 3.72	\$ 4.14
Operating recoveries	(0.83)	(0.90)	(1.16)	(0.79)	(1.39)
Capitalized costs	(0.89)	(0.92)	(0.76)	(0.86)	(0.71)
G&A – cash charge	1.97	2.23	2.42	2.06	2.04
Unit based compensation	0.94	0.56	8.52	0.74	3.58
Net G&A	\$ 2.91	\$ 2.79	\$ 10.94	\$ 2.81	\$ 5.62

General and administrative expenses during Q3 2007 were \$5.3 million (\$2.91 per boe) including non-cash unit based compensation of \$1.7 million (\$0.94 per boe). General and administrative expenses for Q2 2007 were \$5.2 million (\$2.79 per boe) including non-cash unit based compensation of \$1.0 million (\$0.56 per boe). G&A expenses for Q3 2006 were \$16.4 million (\$10.94 per boe) including non-cash unit based compensation of \$12.8 million (\$8.52 per boe). The Q3 2007 G&A cash expense per boe decreased 12% as compared to Q2 2007 and decreased 19% as compared to Q3 2006. Daylight's YTD 2007 G&A expenses were \$15.7 million, a decrease of 36% over YTD 2006. On a boe basis, Daylight's YTD 2007 expense of \$2.81 per boe was 50% lower than the YTD 2006 expense of \$5.62 per boe. On a cash boe basis, YTD 2007 of \$2.06 was virtually unchanged from the YTD 2006 charge of \$2.04.

The Administrative and Technical Services Agreement between Daylight Energy and Midnight Oil Exploration Ltd. ("MOX") was terminated effective December 31, 2006. Certain administrative services which provide reasonable economy and do not involve competitive issues are provided to MOX by Daylight Energy on a fixed fee basis and these services may be cancelled by either party. During Q3 2007 recoveries from MOX were \$0.4 million as compared to \$0.4 million during Q2 2007 and \$1.0 million during Q3 2006. The fees charged to MOX for YTD 2007 were \$1.1 million, compared to \$3.0 million for YTD 2006.

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Unit based compensation expense is an allocation of the fair value of Restricted Trust Unit Awards ("RTUs") and Performance Trust Unit Awards ("PTUs") to their three year vesting period starting at the date of grant. Unit based compensation expense also includes amounts relating to the Employee Bonus Plan and Employee Unit Ownership Plan that were settled in units issued from treasury. In conjunction with the Sequoia Oil & Gas Trust ("Sequoia") acquisition, all unit awards vested immediately prior to the closing of the acquisition, resulting in significant unit based compensation expense in Q3 2006.

Financial Charges

Daylight incurs cash interest expense on its outstanding bank debt and convertible debentures. Daylight's effective bank debt interest rate was 6.2% for Q3 2007 as compared to 5.9% for Q2 2007 and 5.3% for Q3 2006. The convertible debentures have a fixed interest rate of 8.5% for all periods. Non-cash financial charges relate to amortization of costs incurred to issue convertible debentures, establish bank credit facilities and accretion of the convertible debenture discount. Daylight's bank debt interest rate is expected to continue to correlate with market interest rates during the remainder of 2007 and the convertible debentures interest rate is fixed at 8.5%. Cash financial charges are influenced by both the interest rate and the level of bank debt outstanding. The increase in total financial charges for Q3 2007 and YTD 2007 as compared to Q3 2006 and YTD 2006 relates primarily to higher bank debt balances and are also affected by higher interest rates during the 2007 periods.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Bank debt interest	\$ 5,774	\$ 5,336	\$ 2,614	\$ 16,327	\$ 6,321
Convertible debenture interest	77	76	81	228	359
Cash financial charges	5,851	5,412	2,695	16,555	6,680
Amortization of financial charges	27	27	34	82	112
Accretion of convertible debenture discount	11	12	5	35	22
Total	\$ 5,889	\$ 5,451	\$ 2,734	\$ 16,672	\$ 6,814

\$ per boe	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Bank debt interest	\$ 3.20	\$ 2.89	\$ 1.74	\$ 2.93	\$ 1.46
Convertible debenture interest	0.04	0.04	0.05	0.04	0.08
Cash financial charges	3.24	2.93	1.79	2.97	1.54
Amortization of financial charges	0.01	0.01	0.02	0.01	0.03
Accretion of convertible debenture discount	0.01	0.01	-	0.01	0.01
Total	\$ 3.26	\$ 2.95	\$ 1.81	\$ 2.99	\$ 1.58

Depletion, Depreciation and Accretion

Daylight's depletion, depreciation and accretion for Q3 2007 totalled \$35.0 million, which is consistent with Q2 2007. Q3 2007 charges increased 37% from Q3 2006 as a result of the Sequoia acquisition which closed during September 2006. Daylight's depletion, depreciation and accretion for YTD 2007 totalled \$106.1 million as compared to \$73.5 million for YTD 2006 with the increase primarily attributable to the Sequoia acquisition.

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(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Depletion and Depreciation	\$ 34,291	\$ 34,402	\$ 25,072	\$ 104,104	\$ 72,180
Accretion	659	660	436	1,974	1,322
Total	\$ 34,950	\$ 35,062	\$ 25,508	\$ 106,078	\$ 73,502
\$ per boe					
Depletion and Depreciation	\$ 19.02	\$ 18.60	\$ 16.68	\$ 18.67	\$ 16.62
Accretion	0.36	0.36	0.29	0.35	0.30
Total	\$ 19.38	\$ 18.96	\$ 16.97	\$ 19.02	\$ 16.92

Goodwill

The Trust records goodwill on corporate acquisitions when the total purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year-end or as events occur that could result in an impairment and any impairment is recognized based on the fair value of the Trust compared to its book value. At September 30, 2007 Daylight performed an assessment of its goodwill and determined that no impairment had occurred. At December 31, 2006 Daylight performed an assessment of its goodwill and determined that the fair value of the entity had been reduced due to the decline in the Trust's market capitalization subsequent to the October 31, 2006 federal government announcement regarding the taxability treatment of trusts. This test resulted in a write down of goodwill of \$301 million for 2006. For the nine month period to September 30, 2007 there has been no impairment to recorded goodwill and no write down to goodwill has been recognized in the period. There has been no impairment to the value of Daylight's petroleum and natural gas assets and no write down to petroleum and natural gas assets has been recorded in any period.

Future Taxes

During Q2 2007, two tax changes affecting Daylight were substantively enacted. The federal government substantively enacted legislation that reduces the federal corporate tax rate by 0.5% effective January 1, 2011. This legislation has reduced the Trust's future income tax liability and provision for future taxes by \$0.7 million. Also enacted was legislation that applies a tax on distributions from publicly-traded income trusts commencing in the 2011 tax year. This legislation resulted in an additional recovery of future taxes of \$2.9 million as previously unrecorded temporary differences at the Trust level were recognized.

As a result, in Q2 2007, Daylight recognized a future income tax recovery of \$13.0 million. Daylight recorded a future income tax recovery of \$7.9 million in Q3 2007 and a future income tax recovery of \$7.9 million in Q3 2006. For YTD 2007, Daylight recognized a future income tax reduction of \$31.6 million compared to a future income tax recovery of \$21.0 million for YTD 2006. Daylight is a taxable entity under the Canadian Income Tax Act and is currently taxable only on income that is not distributed or distributable to its unitholders.

On October 30, 2007, the federal government announced proposed reductions to corporate income tax rates. These proposed reductions have not been substantively enacted.

Daylight does not expect to pay any income taxes until at least 2011 and expects to continue to recognize recoveries of recorded future tax liability amounts on the balance sheet until at least 2011 as income is generated and distributions are paid to unitholders.

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(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Future Tax	\$ (7,939)	\$ (12,980)	\$ (7,940)	\$ (31,582)	\$ (20,972)
Capital Tax	-	-	1	-	4
Total	\$ (7,939)	\$ (12,980)	\$ (7,939)	\$ (31,582)	\$ (20,968)
\$ per boe					
Future Tax	\$ (4.40)	\$ (7.02)	\$ (5.28)	\$ (5.67)	\$ (4.83)
Capital Tax	-	-	-	-	-
Total	\$ (4.40)	\$ (7.02)	\$ (5.28)	\$ (5.67)	\$ (4.83)

As at September 30, 2007, Daylight and its subsidiaries have tax pools of approximately \$804 million. These tax pool balances are subject to change as tax returns are completed, annual claims are made, and reclassification of items between categories may occur.

(000s)	September 30, 2007			December 31, 2006
	Corporate	Trust	Combined	Combined
Canadian exploration expense	\$ 67,000	\$ -	\$ 67,000	\$ 56,000
Canadian development expense	291,000	-	291,000	266,000
Canadian oil and gas property expense	30,000	76,000	106,000	108,000
Undepreciated capital cost	289,000	-	289,000	267,000
Non-capital losses	38,000	-	38,000	38,000
Share and Unit issue costs	2,000	11,000	13,000	21,000
Total	\$ 717,000	\$ 87,000	\$ 804,000	\$ 756,000

Net Income (Loss) and Funds from Operations

As a result of the previously discussed factors, Daylight recognized Q3 2007 net income of \$7.1 million (\$3.95/boe, \$0.09/unit-basic, \$0.09/unit-diluted) and funds from operations of \$40.3 million (\$22.38/boe, \$0.52/unit-basic, \$0.52/unit-diluted). For the YTD 2007 period, Daylight recognized net income of \$31.1 million (\$5.58/boe, \$0.41/unit-basic, \$0.41/unit-diluted) and funds from operations of \$118.5 million (\$21.25/boe, \$1.55/unit-basic, \$1.55/unit-diluted). Results from the comparative periods are presented below.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Net income (loss)	\$ 7,131	\$ 18,682	\$ (2,140)	\$ 31,114	\$ 25,688
Per boe	\$ 3.95	\$ 10.10	\$ (1.42)	\$ 5.58	\$ 5.91
Per Unit					
Basic	\$ 0.09	\$ 0.24	\$ (0.05)	\$ 0.41	\$ 0.60
Diluted	\$ 0.09	\$ 0.24	\$ (0.05)	\$ 0.41	\$ 0.59
Funds from operations	\$ 40,343	\$ 35,274	\$ 32,242	\$ 118,450	\$ 98,452
Per boe	\$ 22.38	\$ 19.07	\$ 21.45	\$ 21.25	\$ 22.68
Per Unit					
Basic	\$ 0.52	\$ 0.46	\$ 0.71	\$ 1.55	\$ 2.29
Diluted	\$ 0.52	\$ 0.46	\$ 0.68	\$ 1.55	\$ 2.18

Daylight's funds from operations is significantly influenced by commodity prices and production volumes.

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Daylight's estimated sensitivity to changes in its commodity price, production volume and exchange rate assumptions for the full year 2007 are estimated as follows:

- \$1.6 million per \$0.10 change in natural gas price per mcf.
- \$1.6 million per US\$1.00 change in the WTI oil price per bbl.
- \$1.3 million per 1 mmcf per day change in production.
- \$1.6 million per 100 bbl per day change in light oil production.
- \$1.0 million per 100 bbl per day change in heavy oil production.
- \$1.2 million per 100 bbl per day change in NGLs production.
- \$1.2 million per \$0.01 change in the United States dollar to Canadian dollar exchange rate.

Capital Expenditures

Daylight invested \$33.7 million on its capital expenditure program during Q3 2007 compared to \$12.9 million in Q2 2007 and \$19.4 million in Q3 2006. Daylight invested \$67.3 million on capital expenditures during YTD 2007 as compared to \$75.8 million during YTD 2006. The higher level of capital expenditures during Q3 2007, as compared to prior periods, is a result of our previously stated decision to defer capital expenditures to the last half of 2007 to take advantage of lower industry service costs.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Land and acquisitions	\$ 1,198	\$ 30	\$ 636	\$ 1,859	\$ 5,934
Geological and geophysical	1,596	1,874	1,247	4,982	6,085
Drill, complete and recomplete	22,835	5,549	10,342	41,966	40,008
Equipping and facilities	8,098	5,434	7,133	18,484	23,743
Gross Capital Expenditures	\$ 33,727	\$ 12,887	\$ 19,358	\$ 67,291	\$ 75,770
Conveyance to Pegasus	-	-	-	-	(6,628)
Conveyance to Trafalgar	-	-	(21,100)	-	(21,100)
Net Capital Expenditures	\$ 33,727	\$ 12,887	\$ (1,742)	\$ 67,291	\$ 48,042

YTD 2007, Daylight drilled a total of 33 gross (19.5 net) wells with 100% success. This program provided production and reserve additions within the following core areas:

- West Central properties including Pine Creek, Kaybob, Pembina, Sturgeon, Oldman and Windfall. YTD 2007 Daylight drilled 11 gross (3.8 net) natural gas wells and 3 gross (1.2 net) oil wells.
- Eastern properties include Wildmere, Bon Accord and Chipman. YTD 2007 Daylight drilled 7 gross (7.0 net) heavy oil wells.
- Southern properties include Chigwell and Sylvan Lake. YTD 2007 Daylight drilled 4 gross (0.7 net) gas wells.
- Peace River Arch Properties include Cecil and Sinclair. YTD 2007 Daylight drilled 2 gross (2.0 net) natural gas wells and 6 gross (4.8 net) oil wells.

Investments

	Symbol	Number of Shares	Equity or Fair Value
Avery Resources Inc.	ARY	21,300,000	\$ 9,344
Trafalgar Energy Ltd.	TFL	740,240	2,583
Pegasus Oil & Gas Inc.	POG.A	2,440,000	5,002
Balance, September 30, 2007			\$ 16,929

In conjunction with the Sequoia acquisition in Q3 2006, Daylight acquired approximately 38% of the basic (46% of the diluted) issued and outstanding common shares of Avery Resources Inc. ("Avery"), a Calgary-based junior exploration company actively pursuing opportunities in Australia. Avery completed an equity issuance in November 2006 which Daylight did not participate in, thereby changing Daylight's ownership in Avery to 28% of the basic common shares outstanding. In addition to the 21,300,000 common shares,

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Daylight also holds 8,400,000 warrants. Each warrant entitles Daylight to acquire one common share of Avery at a price of \$0.50 per share until November 24, 2007. Daylight accounts for this investment using the equity method. Avery is a public company trading on the TSX Venture Exchange under the symbol ARY. On September 28, 2007, Avery common shares closed at \$0.27. As at September 30, 2007, the market value of this investment is approximately \$5.8 million. For the three months ended September 30, 2007, the equity loss in Avery was \$0.3 million and for the nine months ended September 30, 2007, the equity loss on the investment in Avery was \$1.5 million.

On the completion of the Plan of Arrangement (the "Arrangement") between Daylight Energy Trust, Sequoia, and Trafalgar on September 21, 2006, Daylight contributed non-core assets in Grouard and Cypress areas based on their fair value, resulting in the transfer of \$21.1 million of property and related asset retirement obligations of \$2.2 million to Trafalgar. Daylight owns 740,240 common shares of Trafalgar which is approximately 6% of the issued and outstanding common shares of Trafalgar at September 30, 2007. The Trust accounts for its investment in Trafalgar at fair value based on the quoted market prices. Trafalgar is a public company trading on the Toronto Stock Exchange under the symbol TFL. On September 28, 2007 the Trafalgar common shares closed at \$3.49. As at September 30, 2007, the market value of this investment is approximately \$2.6 million.

On June 23, 2006, Daylight closed a transaction with Pegasus, whereby Daylight contributed non-core assets in Sunrise, Hines Creek and 50% of its interest in Chigwell valued at \$6.0 million to Pegasus in exchange for 1,840,000 class A common shares of Pegasus and a \$1.4 million promissory note. The promissory note was fully repaid during the fourth quarter of 2006. Immediately prior to this transaction, Daylight also participated in the initial private placement of Pegasus and contributed \$120,000 in exchange for 600,000 class A common shares. At September 30, 2007, 150,000 of the class A common shares were held in escrow to be released on December 29, 2007. Daylight owns a total of 2,440,000 Class A common shares of Pegasus, which is approximately 9% of the issued and outstanding Class A common shares outstanding at September 30, 2007. The Trust accounts for its investment in Pegasus at fair value based on the quoted market prices. Pegasus is a public company trading on the TSX Venture Exchange under the symbols POG.A and POG.B. On September 28, 2007, the class A shares closed at \$2.05. As at September 30, 2007, the market value of this investment is approximately \$5.0 million.

Daylight continues to consider its equity investments in Avery, Trafalgar and Pegasus as available for disposition.

Distributions

During Q3 2007, Daylight declared three monthly cash distributions totalling \$27.0 million (\$0.35 per Trust Unit) with a resulting payout ratio of 67%. During Q2 2007, Daylight declared three monthly cash distributions totalling \$34.5 million (\$0.45 per Trust Unit) with a resulting payout ratio of 98%. During Q3 2006, Daylight declared one cash distribution totalling \$14.0 million subsequent to the Sequoia acquisition (\$0.195 per Trust Unit) and two cash distributions totalling \$17.8 million prior to the Sequoia acquisition (\$0.28 per Daylight Energy Trust Unit). YTD 2007, Daylight declared nine monthly cash distributions totalling \$95.6 million (\$1.25 per Trust Unit) with a resulting 81% payout ratio. YTD 2006, Daylight declared one cash distribution totalling \$14.0 million subsequent to the Sequoia acquisition (\$0.195 per Trust Unit) and eight monthly cash distributions totalling \$70.9 million prior to the Sequoia acquisition (\$1.12 per Daylight Energy Trust Unit).

Daylight's management and the Board of Directors continually monitor the distribution level in relation to forecast funds from operations, debt levels and capital expenditure programs. Commodity prices and production volumes are critical variables in determining funds from operations and changes in these two items have a material impact on funds from operations and Daylight's ability to fund distributions.

Daylight targets to fully finance our capital expenditures and cash distributions with funds from operations over the longer term, but may not fully finance these items within a quarterly or annual period. Daylight's decision to reduce our monthly cash distribution from \$0.15 per unit per month to \$0.10 per unit per month effective for the September 17, 2007 payment date recognizes the potential impact of the natural gas prices on funds from operations for future periods and improves our ability to fully finance capital expenditures and cash distributions with funds from operations. To the extent that capital expenditures are not fully financed by funds from operations, Daylight may draw upon its available credit facilities or issue new trust units or debentures.

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As discussed in the non GAAP measures section of this MD&A, Daylight utilizes the non GAAP term "funds from operations" to evaluate operating performance, assess leverage and considers this term to be an important measure in assessing Daylight's ability to generate the funds necessary to pay distributions, repay debt and finance capital expenditures. Funds from operations is also utilized in the calculation of "payout ratio" which is also a non GAAP measure utilized by Daylight to evaluate financial flexibility and the relative burden of distributions. National Policy 41-201 requires certain disclosures comparing distributions to cash provided by operating activities which is a GAAP measure. A reconciliation of cash provided by operating activities to funds from operations is included in the non GAAP measures section of this MD&A. The disclosures required by National Policy 41-201 are contained in the following table and paragraphs of this Distributions section of the MD&A.

(000s)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
Cash distributions declared per unit	\$ 0.35	\$ 0.45	\$ 0.62	\$ 1.25	\$ 1.88
Cash distributions declared	\$ 27,006	\$ 34,475	\$ 31,844	\$ 95,595	\$ 84,914
Cash provided by operating activities	\$ 38,850	\$ 37,211	\$ 31,783	\$ 122,561	\$ 91,791
Net income (loss)	\$ 7,131	\$ 18,682	\$ (2,140)	\$ 31,114	\$ 25,688
Excess (shortfall) of the following items over cash distributions declared:					
Cash provided by operating activities	\$ 11,844	\$ 2,736	\$ (61)	\$ 26,966	\$ 6,877
Net income (loss)	\$ (19,875)	\$ (15,793)	\$ (33,984)	\$ (64,481)	\$ (59,226)

Cash provided by operating activities of \$38.8 million for Q3 2007 exceeded Daylight's cash distributions of \$27.0 million by \$11.8 million. Cash provided by operating activities of \$37.2 million for Q2 2007 exceeded cash distributions of \$34.5 million by \$2.7 million. Cash provided by operating activities of \$31.8 million for Q3 2006 was approximately matched to cash distributions in the period. On a year to date basis, cash provided by operating activities of \$122.6 million exceeded the cash distributions of \$95.6 million for 2007 by \$27.0 million and cash provided by operating activities of \$91.8 exceeded the cash distributions of \$84.9 million for 2006 by \$6.9 million.

For Q3 2007, Q2 2007 and Q3 2006, the cash distributions declared exceeded the net income of \$7.1 million, \$18.7 million and the net loss of \$2.1 million respectively by \$19.9 million, \$15.8 million and \$34.0 million respectively. For the nine month periods ended September 30, 2007 and 2006, the cash distributions declared exceeded the net income of \$31.1 million and \$25.7 million respectively by \$64.5 million and \$59.2 million respectively.

Cash distributions declared typically exceeds the net income (loss) in these periods but does not typically exceed cash provided by operating activities and this relationship is expected to continue for future periods. Daylight has declared cash distributions in excess of net income since net income includes several non-cash charges including depletion, depreciation and accretion, unit based compensation, unrealized (gain) loss on financial instruments and future tax which do not impact the funds available to pay distributions declared. The depletion, depreciation and accretion charge does not necessarily represent the cost of maintaining and replacing the volume of reserves produced in the period. In these periods where cash distributions exceed the net income (loss) of the period, a portion of the distribution declared may represent an economic return of capital for unit holders and the distributions declared may be subject to increases or decreases in future periods depending on future circumstances.

As part of the Arrangement, Daylight implemented a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™") for eligible unitholders. On distribution payment dates eligible Premium DRIP™ unitholders may receive, in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount.

Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21st business day preceding the distribution payment date and the second business day following

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the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP™ unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period. During the nine month period ended September 30, 2007 Daylight issued 2,559,950 trust units from treasury for the Premium DRIP™ in lieu of cash distributions totalling \$23.1 million.

On August 9, 2005, Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates, eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. On September 21, 2006, the DRIP was replaced with the Premium DRIP™ which provides for additional elections by unitholders. During the year ended December 31, 2006, Daylight issued 259,326 Daylight Energy Trust units from treasury for the DRIP in lieu of cash distributions totalling \$2.8 million.

Liquidity and Capital Resources

(000s)	September 30, 2007	June 30, 2007	December 31, 2006	September 30, 2006
Bank debt	\$ 363,153	\$ 358,832	\$ 349,336	\$ 287,392
Working capital deficiency (excluding bank debt)	37,863	20,520	15,561	46,877
	401,016	379,352	364,897	334,269
Market value of investments	(13,336)	(17,988)	(22,860)	(20,500)
	387,680	361,364	342,037	313,769
Convertible debentures	3,467	3,456	3,515	3,510
Capital lease obligation - long term portion	-	-	857	1,855
Unitholders' equity	\$ 586,104	\$ 598,240	\$ 617,622	\$ 917,369

At September 30, 2007, Daylight had \$363 million outstanding on its credit facilities which provided up to \$380 million and are subject to semi-annual review by the banking syndicate. The credit facilities included \$310 million available under a revolving term credit facility with a syndicate of banks and a \$70 million bridge facility scheduled to mature on November 30, 2007.

On October 3, 2007, Daylight issued \$125 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures, Series B ("Series B Debentures") for net proceeds of \$119.5 million. The Series B Debentures pay interest semi-annually on October 31 and April 30, commencing with the initial interest payment on April 30, 2008 and have a maturity date of October 31, 2012. The Series B Debentures are convertible at the option of the holder to Trust Units at a conversion price of \$8.60 per Trust Unit. The Trust has the option to redeem the Series B Debentures at a price of \$1,050 per Series B Debenture after October 31, 2010 and on or before October 31, 2011 and at a price of \$1,025 per Series B Debenture after November 1, 2011 and before October 31, 2012. The net proceeds of \$119.5 million were used to repay the \$70 million bridge facility and reduce the outstanding indebtedness under the revolving term credit facility. As a result the bridge facility has been permanently retired and the revolving term credit facility continues to be in place.

On November 6, 2007, Daylight renewed its revolving term credit facility on substantially the same terms with an availability of \$300 million and the next scheduled review date is May 31, 2008.

The market value of Daylight's investments is based on the closing trading value of the related securities at the end of the periods and Daylight's ability to realize this value is subject to the changes in trading value of these securities. Daylight's working capital deficiency, excluding bank debt, at September 30, 2007 was \$37.9 million.

Management anticipates that Daylight will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2007 through a combination of funds from operations, debt and equity. Funds from operations used to finance these commitments may reduce the amount of funding

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available to provide cash distributions to unitholders. Major acquisitions will require the issuance of new equity in exchange for the equity of acquired entities.

Trust Unit Information

Daylight's trust units trade on the Toronto Stock Exchange under the symbol "DAY.UN" and Daylight is a constituent of the S&P/TSX Income Trust Index and S&P/TSX Composite Index. A summary of Daylight's trading history on the TSX follows.

(per unit)	Q3 2007	Q2 2007	Q3 2006	YTD 2007	YTD 2006
High	\$ 10.34	\$ 11.75	\$ 17.28	\$ 11.75	\$ 20.33
Low	\$ 6.90	\$ 9.55	\$ 12.15	\$ 6.90	\$ 12.15
Close	\$ 7.80	\$ 10.25	\$ 13.17	\$ 7.80	\$ 13.17
Average daily volume	428,865	353,245	235,236	376,659	242,962

As at September 30, 2007, Daylight had the following trust units and trust unit equivalents outstanding:

	Number
Trust Units	77,474,734
Convertible debentures (\$3,576,000 face value)	253,997
Restricted trust unit awards (903,043)	1,044,797
Performance trust unit awards (180,000)	209,277
Total Diluted	78,982,805

As at November 6, 2007, Daylight has the following trust units and trust unit equivalents outstanding:

	Number
Trust Units	77,655,129
Convertible debentures Series A (\$3,576,000 face value)	253,997
Convertible debentures Series B (\$125,000,000 face value)	14,534,884
Restricted trust unit awards (1,053,644)	1,181,803
Performance trust unit awards (185,000)	222,388
Total Diluted	93,848,201

Commitments

The following is a summary of Daylight's contractual obligations and commitments, other than bank debt and risk management as at September 30, 2007:

	2007	2008	2009	2010	2011	Thereafter
Capital Lease	\$ 1,084	\$ 1,007	\$ -	\$ -	\$ -	\$ -
Operating Leases	3,162	7,385	3,792	2,736	1,600	7,546
Natural gas transportation	204	464	232	98	84	16
	\$ 4,450	\$ 8,856	\$ 4,024	\$ 2,834	\$ 1,684	\$ 7,562

Daylight enters into multiple contractual obligations as part of conducting day to day business. Material contractual obligations include bank debt, leases for office space, a drilling rig contract and commitments for natural gas transportation.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Daylight is accumulated and communicated to Daylight's management as appropriate to allow timely decisions regarding required disclosure. Daylight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that Daylight's disclosure controls and procedures for the year ended December 31, 2006 and the nine month period ended September 30, 2007 are effective to provide reasonable assurance that material

information related to Daylight, including its consolidated subsidiaries, is made known to them by others within those entities.

Daylight's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting related to the Trust, including its consolidated subsidiaries, to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Daylight's Chief Executive Officer and Chief Financial Officer are required to disclose herein any change in the Trust's internal control over financial reporting that occurred during the Trust's most recent interim period that has materially affected, or is reasonably likely to have materially affected, the Trust's control over financial reporting. During 2006, the Trust engaged external consultants to assist in documenting and assessing the Trust's design of internal controls over financial reporting. No changes in the Trust's internal control over financial reporting were identified during the nine months ended September 30, 2007 that has materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

It should be noted that while Daylight's Chief Executive Officer and Chief Financial Officer believe that the Trust's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Critical Accounting Estimates and Changes in Accounting Policies

The Trust adopted the new Canadian accounting standards for *Comprehensive Income, Financial Instruments – Recognition and Measurement, Financial Instruments – Presentation and Disclosure*, and *Hedges* on January 1, 2007 on a retroactive basis without restatement of prior periods.

The impact on the Trust's consolidated financial statements for the nine months ended September 30, 2007 on adoption of the above policies is as follows:

These recommendations establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and both financial and non-financial derivatives. These recommendations require that fair value be used, both at inception and subsequent thereto, to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity, and other financial liabilities, are measured at inception at their fair value and subsequent thereto at their amortized cost. On January 1, 2007, the Trust classified its investments in the shares of Trafalgar and Pegasus as financial assets held for trading as the Trust does not exercise significant influence over these entities. As a result, the Trust recorded an increase to investments of \$2.2 million, an increase to future taxes of \$0.3 million and a \$1.8 million decrease to the deficit within Unitholders' Equity. The Trust will continue to record these investments at their fair value with changes in their fair value recognized in earnings.

As the Trust exercises significant influence over Avery, its investment in the shares of Avery continue to be accounted for using the equity method where the recorded amount of the investment is increased or decreased for the Trust's ownership percentage of Avery's net earnings or loss, and reduced by dividends paid to the Trust. Although the investment in Avery under accounting standards is considered to be an equity investment and accounted for using the equity method, the Trust continues to consider all investments as available for disposition.

Long-term financial liabilities are to be measured at fair value when initially recognized and, after initial recognition, at amortized cost using the effective interest method. Transaction costs directly attributable to the issuance of long-term financial liabilities are now added to the fair value on initial recognition. Previously, these amounts were recorded as a deferred charge and amortized using the straight line method over the term of the debt. On January 1, 2007, the Trust recognized the cumulative prior period effect of \$0.1 million, by reducing deferred financing costs and recording it against its convertible debentures. The application of the effective interest method for amortization is comparable to the previously used straight line method and accordingly no adjustment was made to the opening deficit.

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Prior to the adoption of these new standards, the Trust used fair value accounting for any derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. Therefore, there is no change in the accounting for these derivatives.

The Trust has elected to account for its commodity sales and other non-financial contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall within the scope of the definition of a financial instrument and were also accounted for as executory contracts.

Future Accounting Changes

The CICA has issued the following accounting standards which will be effective for the Trust from January 1, 2008: *Financial Instruments – Disclosures*, *Financial Instruments – Presentation* and *Capital Disclosures*.

These new accounting standards will require the Trust to provide additional disclosures relating to its financial instruments, including hedging instruments, and about the Trust's Capital. It is not anticipated that the adoption of these new accounting standards will impact the amounts reported in the Trust's financial statements as they primarily relate to disclosure.

Risks and Uncertainties

Daylight is subject to multiple business risks that are similar to other entities involved in the conventional energy trust sector. Daylight's financial position, results of operations, funds from operations and distributions to unitholders are directly impacted by these risks.

On October 25, 2007, the Alberta provincial government announced its plan to change the provincial royalty system. The government indicated that all changes to the royalty system are scheduled to be made effective January 1, 2009. Approximately 95 percent of Daylight's production and reserves are from properties located in Alberta and are subject to royalties payable to the provincial government. At this time, detailed information on the proposed royalty system is not available and although we have performed a limited preliminary assessment (see "Royalties" section of this MD&A) the final regulations may generate a different result and the impact on Daylight may be material.

For a detailed discussion of Risks and Uncertainties, refer to the Trust Annual Information Form, filed on SEDAR at www.sedar.com.

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Quarterly Information

Financial <i>(in thousands of dollars, except unit, per unit and boe data)</i>	2007			2006			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas revenues	\$ 82,557	\$ 92,699	\$ 91,982	\$ 92,715	\$ 69,877	\$ 68,554	\$ 66,187
Royalties	(14,454)	(18,223)	(16,237)	(17,444)	(13,312)	(14,040)	(12,485)
Realized gain (loss) on commodity derivatives	5,118	(320)	24	91	(133)	-	-
Operating expenses	(21,555)	(27,268)	(21,971)	(21,319)	(15,901)	(15,286)	(14,848)
Transportation	(1,920)	(2,085)	(1,833)	(1,871)	(1,959)	(1,354)	(1,309)
Operating netback	49,746	44,803	51,965	52,172	38,572	37,874	37,545
G&A – cash charge	(3,552)	(4,117)	(3,840)	(4,325)	(3,634)	(2,625)	(2,596)
Cash financial charges	(5,851)	(5,412)	(5,292)	(4,519)	(2,695)	(2,286)	(1,699)
Cash taxes	-	-	-	(54)	(1)	222	(225)
Funds from operations	40,343	35,274	42,833	43,274	32,242	33,185	33,025
Per unit – Basic	0.52	0.46	0.57	0.59	0.71	0.79	0.80
– Diluted	0.52	0.46	0.57	0.59	0.68	0.77	0.77
Net income (loss)	7,131	18,682	5,301	(283,511)	(2,140)	15,735	12,093
Per unit – Basic	0.09	0.24	0.07	(3.88)	(0.05)	0.38	0.29
– Diluted	0.09	0.24	0.07	(3.88)	(0.05)	0.38	0.29
Cash distributions declared	27,006	34,475	34,114	43,008	31,844	26,663	26,407
Per unit	0.35	0.45	0.45	0.59	0.62	0.63	0.63
Payout ratio ⁽¹⁾	67%	98%	80%	99%	n/a ⁽¹⁾	80%	80%
Capital expenditures	33,727	12,887	20,677	49,761	19,358	21,034	35,378
Non-cash capital divestitures	-	-	-	-	(21,100)	(6,628)	-
Corporate acquisitions	-	-	-	-	527,691	-	-
Market value of investments	13,336	17,988	16,673	22,860	20,500	5,783	-
Bank debt	363,153	358,832	338,511	349,336	287,392	165,114	162,190
Working capital deficiency	37,863	20,520	30,370	15,561	46,877	28,931	17,048
Total assets	1,065,025	1,072,055	1,083,695	1,114,085	1,424,236	833,821	845,746
Units outstanding (000s)							
Basic	77,475	76,652	76,542	74,322	71,863	42,209	41,861
Diluted	78,983	78,133	77,597	75,309	72,117	44,349	44,110
Operations							
Average daily production							
Natural gas (mcf/d)	69,143	74,356	78,556	80,991	57,926	59,452	56,012
Light oil (bbls/d)	4,565	4,258	4,310	4,455	3,172	2,855	2,575
Heavy oil (bbls/d)	2,382	2,416	2,504	2,796	2,760	2,579	2,701
NGLs (bbls/d)	1,129	1,258	1,449	1,449	756	740	677
Oil & NGLs (bbls/d)	8,076	7,932	8,263	8,700	6,688	6,174	5,953
Combined (boe/d)	19,600	20,325	21,356	22,199	16,342	16,083	15,288
Average prices received							
Natural gas (\$/mcf)	\$ 5.33	\$ 7.24	\$ 7.31	\$ 6.75	\$ 5.74	\$ 6.18	\$ 7.77
Light oil (\$/bbl)	73.87	67.09	61.34	60.07	74.23	71.78	65.55
Heavy oil (\$/bbl)	51.97	46.05	42.50	39.59	51.27	52.01	34.29
NGLs (\$/bbl)	59.90	53.42	54.31	49.53	67.79	63.05	60.50
Oil & NGLs (\$/bbl)	\$ 65.46	\$ 58.51	\$ 54.40	\$ 51.73	\$ 64.03	\$ 62.48	\$ 50.79
Combined (\$/boe)	\$ 45.79	\$ 50.12	\$ 47.86	\$ 45.40	\$ 46.48	\$ 46.84	\$ 48.10
Wells drilled - gross (net)	18 (9.9)	4 (3.6)	11 (6.0)	9 (1.8)	12 (9.2)	5 (1.0)	21 (15.6)

⁽¹⁾ On a proforma basis, if the Sequoia acquisition had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006.

DAYLIGHT RESOURCES TRUST

Quarterly Information

Financial <i>(in thousands of dollars, except unit, per unit and boe data)</i>	2005				2004
	Q4	Q3	Q2	Q1	Oct. 21 to Dec. 31
Petroleum and natural gas revenues	\$ 85,615	\$ 76,445	\$ 60,529	\$ 53,984	\$ 17,377
Royalties	(15,802)	(13,242)	(10,558)	(10,375)	(3,674)
Realized gain (loss) on commodity derivatives	(99)	(350)	59	-	-
Operating expenses	(13,580)	(12,981)	(13,184)	(12,328)	(4,335)
Transportation	(1,657)	(1,018)	(950)	(430)	(153)
Operating netback	54,477	48,854	35,896	30,851	9,215
Interest income	-	-	-	-	726
G&A – cash charge	(3,545)	(2,216)	(2,108)	(1,987)	(987)
Cash financial charges	(1,862)	(2,756)	(2,861)	(2,584)	(1,677)
Cash taxes	(603)	(170)	(295)	(209)	(80)
Funds from operations	48,467	43,712	30,632	26,071	7,197
Per unit – Basic	1.33	1.37	1.02	0.95	0.36
– Diluted	1.26	1.23	0.88	0.80	0.35
Net income	25,447	20,525	12,201	5,887	1,045
Per unit – Basic	0.70	0.68	0.41	0.21	0.06
– Diluted	0.69	0.63	0.40	0.21	0.06
Cash distributions declared	24,316	17,023	16,284	14,962	9,777
Per unit	0.63	0.54	0.54	0.54	0.36
Payout ratio	50%	39%	53%	57%	136%
Capital expenditures	20,215	23,851	14,086	14,387	5,057
Non-cash capital divestitures	(14,636)	-	-	-	(33,456)
Corporate acquisitions	116,509	-	61,000	-	587,164
Market value of investments	-	-	-	-	-
Bank debt	123,455	124,185	131,755	101,850	89,220
Working capital deficiency	26,575	16,467	11,602	12,256	20,820
Total assets	841,254	689,297	676,212	610,970	615,486
Units outstanding (000s)					
Basic	40,806	33,767	30,113	27,904	27,119
Diluted	43,854	37,501	37,334	34,933	34,409
Operations					
Average daily production					
Natural gas (mcf/d)	54,438	54,096	57,890	58,875	58,264
Light oil (bbls/d)	2,368	2,527	2,292	2,721	2,671
Heavy oil (bbls/d)	2,460	2,096	1,937	-	-
NGLs (bbls/d)	814	785	771	892	846
Oil & NGLs (bbls/d)	5,642	5,408	5,000	3,613	3,517
Combined (boe/d)	14,715	14,424	14,648	13,426	13,228
Average prices received					
Natural gas (\$/mcf)	\$ 11.91	\$ 9.26	\$ 7.51	\$ 6.86	\$ 6.89
Light oil (\$/bbl)	63.40	68.98	62.80	56.49	44.29
Heavy oil (\$/bbl)	33.06	51.94	23.49	-	-
NGLs (\$/bbl)	58.79	56.56	52.71	46.35	45.34
Oil & NGLs (\$/bbl)	\$ 49.52	\$ 60.57	\$ 46.02	\$ 53.99	\$ 44.54
Combined (\$/boe)	\$ 63.24	\$ 57.61	\$ 45.41	\$ 44.68	\$ 42.37
Wells drilled - gross (net)	34 (21.7)	15 (6.9)	5 (3.4)	17 (8.6)	4 (2.1)

The 2004 financial results reflect the activities of Daylight from October 21, 2004 to December 31, 2004. Active oil and gas operations commenced subsequent to the Plan of Arrangement on November 30, 2004 and Operations information above applies to that one month period.

Dated November 6, 2007

Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets		
Accounts receivable	\$ 42,967	\$ 58,802
Unrealized gain on derivatives (note 15)	2,234	7,063
Prepaid expenses and deposits	4,123	4,531
	49,324	70,396
Investments (notes 2 and 4)	16,929	18,498
Petroleum and natural gas assets (note 5)	860,590	895,801
Deferred financing charges (note 10)	235	400
Goodwill (notes 3 and 6)	137,947	128,990
	\$ 1,065,025	\$ 1,114,085
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 77,509	\$ 68,146
Current portion of capital lease obligations (note 8)	1,930	3,318
Distributions payable	7,748	14,493
Current portion of bank debt (note 7)	70,000	39,336
	157,187	125,293
Bank debt (note 7)	293,153	310,000
Capital lease obligations (note 8)	-	857
Convertible debentures (note 9)	3,467	3,515
Asset retirement obligations (note 11)	22,480	23,294
Future taxes	2,634	33,504
	478,921	496,463
Unitholders' Equity		
Unitholders' capital (note 12)	1,082,162	1,053,317
Contributed surplus (note 12)	2,834	562
Equity component of convertible debentures (note 9)	104	104
Deficit	(498,996)	(436,361)
	586,104	617,622
	\$ 1,065,025	\$ 1,114,085

Commitments (note 17)

Subsequent event (note 18)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income (Loss) and Deficit

(in thousands of dollars, except per unit amounts) (unaudited)

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Revenues				
Petroleum and natural gas	\$ 82,557	\$ 69,877	\$ 267,238	\$ 204,618
Royalties	(14,454)	(13,312)	(48,914)	(39,837)
Gain (loss) on financial instruments (note 15)	916	738	(2,289)	738
	69,019	57,303	216,035	165,519
Expenses				
Operating	21,555	15,901	70,794	46,035
Transportation	1,920	1,959	5,838	4,622
General and administrative	5,256	16,440	15,663	24,418
Plan of arrangement costs (note 3)	-	4,808	-	4,808
Financial charges (note 10)	5,889	2,734	16,672	6,814
(Gain) loss on equity investment (note 4)	257	(29)	1,458	(29)
Depletion, depreciation and accretion	34,950	25,508	106,078	73,502
	69,827	67,321	216,503	160,170
Income (loss) before taxes and non-controlling interest	(808)	(10,018)	(468)	5,349
Taxes				
Capital taxes (recovery)	-	1	-	4
Future taxes reduction (note 14)	(7,939)	(7,940)	(31,582)	(20,972)
	(7,939)	(7,939)	(31,582)	(20,968)
Income (loss) before non-controlling interest	7,131	(2,079)	31,114	26,317
Non-controlling interest - exchangeable shares	-	61	-	629
Net income (loss)	7,131	(2,140)	31,114	25,688
Deficit, beginning of period	(479,121)	(57,734)	(436,361)	(32,492)
Change in accounting policy (note 2)	-	-	1,846	-
Distributions (note 12)	(27,006)	(49,968)	(95,595)	(103,038)
Deficit, end of period	\$ (498,996)	\$ (109,842)	\$ (498,996)	\$ (109,842)
Net income (loss) per unit (note 12)				
Basic	\$ 0.09	\$ (0.05)	\$ 0.41	\$ 0.60
Diluted	\$ 0.09	\$ (0.05)	\$ 0.41	\$ 0.59

See accompanying notes to consolidated financial statements.

DAYLIGHT RESOURCES TRUST

Consolidated Statements of Cash Flows

(in thousands of dollars) (unaudited)

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operating				
Net income (loss)	\$ 7,131	\$ (2,140)	\$ 31,114	\$ 25,688
Items not affecting cash:				
Depletion, depreciation and accretion	34,950	25,508	106,078	73,502
Non-controlling interest - exchangeable shares	-	61	-	629
Future taxes (reduction)	(7,939)	(7,940)	(31,582)	(20,972)
Non-cash financial charges (note 10)	38	39	117	134
Unit based compensation	1,704	12,806	4,154	15,563
Unrealized (gain) loss on financial instruments	4,202	(871)	7,111	(871)
Equity (gain) loss on investments	257	(29)	1,458	(29)
Asset retirement expenditures (note 11)	(968)	(1,547)	(3,093)	(5,161)
Change in non-cash operating working capital (note 13)	(525)	5,896	7,204	3,308
Cash provided by operating activities	38,850	31,783	122,561	91,791
Financing				
Bank debt	4,321	18,583	13,817	60,242
Issue of trust units, net of issue costs (note 12)	287	(3,100)	860	(3,540)
Cash distribution to unitholders	(25,343)	(25,915)	(79,278)	(76,673)
Repayments on obligation under capital lease	(345)	-	(2,245)	-
Change in non-cash financing working capital (note 13)	(22)	(1,123)	437	(987)
Cash used in financing activities	(21,102)	(11,555)	(66,409)	(20,958)
Investing				
Petroleum and natural gas asset additions	(33,727)	(19,358)	(67,291)	(75,770)
Investment (note 4)	-	-	-	(120)
Corporate acquisition costs (note 3)	-	(4,832)	-	(4,832)
Change in non-cash investing working capital (note 13)	15,979	3,962	11,139	9,889
Cash used in investing activities	(17,748)	(20,228)	(56,152)	(70,833)
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007 and 2006

(Tabular amounts are stated in thousands of dollars except unit, share, and per unit amounts.) (unaudited)

Daylight Resources Trust (formerly Daylight Energy Trust – see note 3) ("Daylight" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Alberta pursuant to a Trust Indenture. Valiant Trust Company has been appointed trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of the Trust units ("unitholders").

The purpose of the Trust is to explore for, develop and hold interests in petroleum and natural gas properties, through investments in securities of subsidiaries and royalty interests in oil and natural gas properties. The business of the Trust is carried on by Daylight Energy Ltd. ("Daylight Energy") and its subsidiaries. The Trust owns 100% of the common shares of Daylight Energy. The activities of Daylight Energy are financed through internally generated funds from operations and third party debt as described in note 7.

Pursuant to the terms of an agreement (the "NPI Agreement"), the Trust is entitled to a payment from Daylight Energy each month equal to the amount by which 99% of the gross proceeds from the sale of production exceed 99% of certain deductible expenditures as defined under the terms of the NPI Agreement. Deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures, to repay debt and to provide for working capital required to carry out the operations of Daylight Energy.

The Trust may declare payable to the unitholders all or any part of the net income of the Trust earned from the income generated under the NPI Agreement, and from any dividends paid on the common shares of Daylight Energy, less any expenses of the Trust, including interest on convertible debentures.

Daylight is involved in the exploitation, development and production of petroleum and natural gas in Alberta, British Columbia and Saskatchewan.

1. Significant Accounting Policies

The interim consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2006 except as described below, and include the accounts of the Trust and its wholly owned subsidiaries. These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes for the year ended December 31, 2006.

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results may differ materially from those estimates. Specifically, the amounts recorded for depletion, depreciation and accretion of petroleum and natural gas assets and asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs 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 material.

Certain prior period balances have been reclassified to conform to the current period's presentation.

2. Changes in Accounting Policies

The Trust adopted the new Canadian accounting standards for *Comprehensive Income*, *Financial Instruments – Recognition and Measurement*, *Financial Instruments – Presentation and Disclosure*, and *Hedges* on January 1, 2007 on a retroactive basis without restatement of prior periods.

The impact on these interim consolidated financial statements on adoption of the above policies is as follows:

These recommendations establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and both financial and non-financial derivatives. These recommendations require that fair value be used, both at inception and subsequent thereto, to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity, and other financial liabilities are measured at inception at their fair value and subsequent thereto at their amortized cost. On January 1, 2007, the Trust classified its investments in the shares of Trafalgar Energy Ltd. ("Trafalgar") and Pegasus Oil & Gas Inc. ("Pegasus") as financial assets held for trading as the Trust does not exercise significant influence over these entities. As a result, the Trust recorded an increase to investments of \$2.2 million, an increase to future taxes of \$0.3 million and a \$1.8 million decrease to the deficit within Unitholders' Equity. The Trust will continue to record these investments at their fair value with changes in their fair value recognized in earnings.

As the Trust exercises significant influence over Avery Resources Inc. ("Avery"), its investment in the shares of Avery continues to be accounted for using the equity method where the recorded amount of the investment is increased or decreased for the Trust's ownership percentage of Avery's net earnings or loss, and reduced by dividends paid to the Trust. Although the investment in Avery under accounting standards is considered to be an equity investment and accounted for using the equity method, the Trust continues to consider all investments as available for disposition.

Long-term financial liabilities are measured at fair value when initially recognized and, after initial recognition, at amortized cost using the effective interest method. Transaction costs directly attributable to the issuance of long-term financial liabilities are now added to the fair value on initial recognition. Previously, these amounts were recorded as a deferred charge and amortized using the straight line method over the term of the debt. On January 1, 2007, the Trust recognized the cumulative prior period effect of \$0.1 million, by reducing deferred financing costs and recording it against its convertible debentures. The application of the effective interest method for amortization is comparable to the previously used straight line method and accordingly no adjustment was made to the opening deficit.

Prior to the adoption of these new standards, the Trust used fair value accounting for any derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. Therefore, there is no change in the accounting for these derivatives.

The Trust has elected to account for its commodity sales and other non-financial contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall within the scope of the definition of a financial instrument and were also accounted for as executory contracts.

There is no other material impact on the Consolidated Financial Statements for the adoption of these new standards.

DAYLIGHT RESOURCES TRUST

Future Accounting Changes

The CICA has issued the following accounting standards which will be effective for the Trust from January 1, 2008: *Financial Instruments – Disclosures*, *Financial Instruments – Presentation* and *Capital Disclosures*.

These new accounting standards will require the Trust to provide additional disclosures relating to its financial instruments, including hedging instruments, and about the Trust's Capital. It is not anticipated that the adoption of these new accounting standards will impact the amounts reported in the Trust's financial statements as they primarily relate to disclosure.

3. Corporate Acquisition

Sequoia Oil & Gas Trust

On September 21, 2006, a Plan of Arrangement (the "Arrangement") between Daylight Energy Trust ("DET"), Sequoia Oil & Gas Trust ("Sequoia"), and Trafalgar was approved. As a result of the Arrangement, DET acquired Sequoia and certain interests in oil and natural gas properties were transferred to Trafalgar in exchange for common shares and arrangement warrants which were distributed to the DET and Sequoia Unitholders (see note 12(e)) with a portion of the Trafalgar common shares remaining with Daylight (see note 4).

Under the Arrangement, each DET Unitholder received 0.6642 units of Daylight for each one DET unit held and Daylight Exchangeable Shareholders received 0.6642 units of Daylight for each DET unit the Exchangeable Shares held were equivalent to at the closing date of the Arrangement. Under the Arrangement each Sequoia Unitholder received 0.8250 units of Daylight for each one Sequoia unit held. The DET Unitholders following the Arrangement hold in excess of 50% of the outstanding units of Daylight, resulting in a substantive change in ownership to the Sequoia net assets.

As a result, Daylight Energy is deemed to be the acquirer of Sequoia and consequently has accounted for the acquisition of Sequoia under the purchase method of accounting. The operations of Sequoia have been included with the results of DET commencing September 21, 2006. The fair values allocated to the net assets acquired are as follows:

Net assets acquired:	
Petroleum and natural gas assets	\$ 347,823
Goodwill	222,083
Unrealized gain on derivatives	2,970
Investments	11,076
Working capital deficiency	(18,950)
Bank debt	(103,695)
Capital lease obligations	(4,715)
Asset retirement obligations	(12,380)
Future taxes	(20,878)
Total net assets acquired	\$ 423,334

Consideration:	
Trust units issued (27,475,423 units issued to Sequoia unitholders)	\$ 418,413
Transaction costs	4,921
Total purchase price	\$ 423,334

Amendments have been made to the purchase equation as the cost estimates and tax balances were finalized. As a result, the net working capital deficiency and goodwill have increased \$9.0 million (see note 6) since December 31, 2006.

DAYLIGHT RESOURCES TRUST

4. Investments

Entity	Symbol	Number of Shares	Equity or Fair Value
Avery Resources Inc.	ARY	21,300,000	\$ 9,344
Trafalgar Energy Ltd.	TFL	740,240	2,583
Pegasus Oil & Gas Inc.	POG.A	2,440,000	5,002
Balance, September 30, 2007			\$ 16,929

In conjunction with the acquisition of Sequoia, Daylight acquired Sequoia's approximate 38% interest in the common shares of Avery and accounts for the investment using the equity method. Avery completed an equity issuance in November 2006 which Daylight did not participate in, thereby changing Daylight's ownership in Avery to approximately 28%. In addition to the 21,300,000 common shares, Daylight also holds 8,400,000 warrants. Each warrant entitles Daylight to acquire one common share of Avery at a price of \$0.50 per share until November 24, 2007. As at September 30, 2007, the market value of the investment in Avery was \$5.8 million. For the three months ended September 30, 2007, the equity loss on the investment in Avery was \$0.3 million and for the nine months ended September 30, 2007, the equity loss on the investment in Avery was \$1.5 million.

In conjunction with the Arrangement on September 21, 2006, Daylight transferred interests in certain oil and gas properties, based on their fair values to Trafalgar, resulting in the transfer of \$21.1 million of property and related asset retirement obligations of \$2.2 million. In exchange, Trafalgar common shares and arrangement warrants were received, of which Daylight retained 740,240 common shares with a value of \$3.0 million. The remaining common shares and arrangement warrants were distributed to DET securityholders and Sequoia unitholders (see note 12(e)). Daylight accounts for this investment at fair value based on the quoted market price.

On June 23, 2006, the Trust transferred interests in certain oil and gas properties valued at \$6.0 million, with associated asset retirement obligations of \$0.6 million, to Pegasus in exchange for 1,840,000 Class A common shares valued at \$2.50 per share and a \$1.4 million non-interest bearing promissory note. The note was secured by the oil and gas properties transferred to Pegasus, was due on December 1, 2006, and was paid in full on that date. Immediately prior to this transaction, the Trust acquired 600,000 Class A common shares of Pegasus for \$0.1 million. At September 30, 2007, 150,000 of the Class A common shares were held in escrow to be released on December 29, 2007. The investment, composed of 2,440,000 Class A common shares of Pegasus, is accounted for at fair value based on the quoted market price.

Daylight continues to consider its equity investments in Avery, Trafalgar and Pegasus as available for disposition.

5. Petroleum and Natural Gas Assets

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 1,153,915	\$ 297,011	\$ 856,904
Other assets	5,829	2,143	3,686
Balance, September 30, 2007	\$ 1,159,744	\$ 299,154	\$ 860,590

DAYLIGHT RESOURCES TRUST

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 1,086,413	\$ 193,656	\$ 892,757
Other assets	4,438	1,394	3,044
Balance, December 31, 2006	\$ 1,090,851	\$ 195,050	\$ 895,801

During the nine months ended September 30, 2007, Daylight capitalized \$6.1 million (2006 - \$3.1 million) of general and administrative expenses related to exploration and development activities. Included in this amount is \$0.9 million of non-cash unit-based compensation and the related tax effect of \$0.4 million. Future development costs of \$34.2 million (2006 - \$50.5 million) associated with proven reserves were included in the depletion and depreciation calculation. Future salvage value of production equipment and facilities of \$32.8 million (2006 - \$39.0 million) and a cost of \$38.5 million (2006 - \$63.1 million) for unproven properties have been excluded from the depletion and depreciation calculation.

6. Goodwill

The Trust reviewed the valuation of goodwill as of September 30, 2007 and determined that there has been no impairment to the value of goodwill during 2007 (2006 - \$301.0 million).

	Nine months ended Sep 30, 2007	Year ended Dec 31, 2006
Balance, beginning of period	\$ 128,990	\$ 216,864
Sequoia acquisition (note 3)	8,957	213,126
Goodwill impairment recognized	-	(301,000)
Balance, end of period	\$ 137,947	\$ 128,990

7. Bank Debt

At September 30, 2007, Daylight had a total of \$380 million available under credit facilities, of which \$363 million was drawn at September 30, 2007. The credit facilities included \$310 million available under a revolving term credit facility with a syndicate of banks and a \$70 million bridge facility scheduled to mature on November 30, 2007.

As a result, \$70 million has been classified on the Balance Sheet as current bank debt, with the remaining \$293 million classified as long-term bank debt. The effective interest rate for the bank debt was 6.0% for the nine months ended September 30, 2007 (2006 – 4.9%). The credit facilities bear interest based on the lenders' prime rate and/or at money market rates plus a stamping fee. The facilities are secured with a demand debenture of \$500 million over the petroleum and natural gas assets and are subject to semi-annual review where the lenders may re-determine the borrowing base.

Pursuant to the terms of the revolving credit facilities dated September 21, 2006, Daylight may, with the bank's approval, extend the revolving period for a further 364 day period. If not extended, the revolving facilities will automatically convert to a one year and one day non-revolving term facility with the entire payment due on the 366th day after commencement of the term period.

On October 3, 2007, Daylight closed its \$125 million convertible unsecured subordinated debenture financing (see note 18). The proceeds from this debenture issuance were used to repay the entire bridge facility and reduce the amount outstanding under the revolving term credit facility. As a result, the bridge facility has been permanently retired and the revolving term credit facility continues to be in place.

DAYLIGHT RESOURCES TRUST

On November 6, 2007 Daylight renewed its revolving term credit facility on substantially the same terms with an availability of \$300 million and the next scheduled review date is May 31, 2008.

8. Capital Leases

In conjunction with the Arrangement, Daylight acquired capital lease agreements for oil and gas equipment. The minimum lease payments over the initial term are as follows:

	Amount
2007	\$ 1,084
2008	1,007
Net minimum lease payments	2,091
Less: Current portion of capital lease obligations	(1,930)
Interest	(161)
Capital lease obligations	\$ -

9. Convertible Debentures

On October 21, 2004, Daylight issued \$80 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures (the "Debentures") for net proceeds of \$76.8 million. Issue costs of \$3.2 million were initially classified as deferred financing charges (note 10). Due to the change in accounting policy as disclosed in note 2, the balance of the unamortized costs of \$0.1 million were recorded against the convertible debenture.

The Debentures pay interest semi-annually on June 1 and December 1 and have a maturity date of December 1, 2009. The Debentures are convertible at the option of the holder to Trust Units at a conversion price of \$14.07888 per Trust Unit. Daylight has the option to redeem the Debentures at a price of \$1,050 per Debenture after December 1, 2007 and on or before December 1, 2008, at a price of \$1,025 per Debenture after December 1, 2008 and on or before December 1, 2009 and on maturity at \$1,000 per Debenture. On redemption or maturity the Trust may elect to satisfy its obligations to repay the principal and interest obligations by issuing Daylight Trust Units.

The Debentures were initially recorded at the fair value of the obligation without the conversion feature. This obligation to make future payments of principal and interest was determined to be \$77.7 million. The difference between the principal amount of \$80 million and the fair value of the obligation is \$2.3 million and has been recorded in unitholders' equity as the fair value of the conversion feature of the Debentures.

The following table indicates the Convertible Debenture activities for the nine months ended September 30, 2007 and the year ended December 31, 2006:

	Face Value	Debt Component	Equity Component
Balance, December 31, 2005	\$ 9,433	\$ 9,219	\$ 274
Accretion and amortization	-	27	-
Conversion to Trust Units	(5,857)	(5,731)	(170)
Balance, December 31, 2006	\$ 3,576	\$ 3,515	\$ 104
Less: unamortized transaction costs	-	(83)	-
Accretion and amortization	-	35	-
Balance, September 30, 2007	\$ 3,576	\$ 3,467	\$ 104

10. Financial Charges

During the nine months ended September 30, 2007 and 2006, Daylight incurred interest charges on bank debt and convertible debentures as well as the amortization of financial charges, transaction costs, and accretion of convertible debenture liability as follows:

	2007	2006
Bank debt interest	\$ 16,327	\$ 6,321
Convertible debenture interest	228	359
Amortization of financial charges and transaction costs	82	112
Accretion of convertible debenture liability	35	22
Total	\$ 16,672	\$ 6,814

A reconciliation of the deferred financing charges is provided as follows:

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 400	\$ 720
Change in accounting policy (note 2)	(83)	-
Amortization	(82)	(146)
Conversion to Trust Units	-	(174)
Balance, end of period	\$ 235	\$ 400

11. Asset Retirement Obligations

Daylight's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. Daylight estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$106.4 million (2006 - \$104.3 million) which will be incurred between 2007 and 2059. The majority of the costs will be incurred between 2007 and 2031. An inflation factor of 2% has been applied to the estimated asset retirement cost at September 30, 2007 and December 31, 2006. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations at September 30, 2007 and December 31, 2006.

A reconciliation of the asset retirement obligations is provided as follows:

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 23,294	\$ 18,179
Sequoia acquisition (note 3)	-	12,380
Liabilities incurred	305	585
Liabilities settled	(3,093)	(6,968)
Liabilities transferred to Pegasus (note 4)	-	(613)
Liabilities transferred to Trafalgar (note 12(e))	-	(2,230)
Accretion expense	1,974	1,961
Balance, end of period	\$ 22,480	\$ 23,294

12. Unitholders' Equity

The Trust Indenture provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Trust and in the assets of the Trust in the event of termination or winding-up of the Trust. All trust units are of the same class with equal rights and privileges.

a) Trust Units

	Number of Units		Amount
Trust units:			
Balance, December 31, 2005	61,435,965	\$	565,128
Issued on retraction of exchangeable shares	2,130,342		20,051
Issued on conversion of debentures	616,516		5,727
Issued through DRIP Plan	259,326		2,829
Issued on vesting of unit awards	2,385,757		18,499
Unit issue costs	-		(442)
Balance, prior to Arrangement	66,827,906	\$	611,792
Conversion ratio to Daylight Resources Trust Units	0.6642		-
Daylight Resources Trust Unit balance, after conversion	44,387,095	\$	611,792
Issued on acquisition of Sequoia (note 3)	27,475,423		418,413
Issued through Premium DRIP™	1,898,758		19,529
Issued on vesting of unit awards	20,374		223
Issued through employee unit ownership plan	52,588		569
Issued through employee bonus plan	487,939		5,464
Issued through optional cash purchase plan	91		1
Unit issue costs	-		(2,674)
Balance, December 31, 2006	74,322,268	\$	1,053,317
Issued through Premium DRIP™	2,559,950		23,062
Issued on vesting of unit awards	32,715		352
Issued through employee unit ownership plan	183,155		1,720
Issued through employee bonus plan	376,646		3,711
Balance, September 30, 2007	77,474,734	\$	1,082,162

Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™")

As part of the Arrangement, Daylight implemented a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™") for eligible unitholders of the Trust. On distribution payment dates eligible Premium DRIP™ unitholders may receive in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount. Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21st business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP™ unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period. During the nine months ended September 30, 2007 Daylight issued 2,113,577 trust units from treasury, related to unitholders electing to receive the 102% of cash distributions option, in lieu of cash distributions totalling \$19.0 million. Daylight also issued 446,373 units from treasury, related to unitholders electing to receive the 95% reinvestment

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price for additional units option, in lieu of cash distributions totalling \$4.1 million in the same period. No units were issued through the optional cash purchase plan.

Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP")

On August 9, 2005, Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. On September 21, 2006, the DRIP was replaced with the Premium DRIP™ which provides for additional elections by unitholders. During the year ended December 31, 2006, Daylight issued 259,326 DET trust units from treasury for the DRIP in lieu of cash distributions totaling \$2.8 million.

Employee Unit Ownership Plan ("EUOP")

On September 21, 2006, Daylight adopted an Employee Unit Ownership Plan ("EUOP") whereby the Trust matches every dollar contributed by each employee, to a maximum of 9% of the employee's salary. Under the terms of the EUOP, the Trust has the option to acquire units on behalf of employees through open market purchases or to issue new units from treasury. During the nine months ended September 30, 2007 the Trust elected to issue 183,155 units (\$1.7 million) from treasury in settlement of the EUOP obligations, representing the employee contributions and the Trust's matching contributions. The price used to determine units issued from treasury on a monthly basis is the average market price for the period beginning on the second business day of the month and ending on the second business day preceding the monthly distribution payment date.

Redemption Right

Unitholders may redeem their trust units for cash at any time, up to a maximum of \$250,000 in any calendar month, by delivering their unit certificates to the Trustee, together with a properly completed notice of redemption. The redemption amount per trust unit will be the lesser of 90 percent of the market price of the trust units on the principal market on which they are traded during the 10 day trading period after the trust units have been validly tendered for the redemption and the closing market price of the trust units on the principal market on which they are traded on the date on which they were validly tendered for redemption, or if there was no trade of the trust units on that date, the average of the last bid and ask prices of the trust units on that date.

b) Net Income (Loss) Per Unit

The following table summarizes the weighted average trust units, exchangeable shares and convertible debentures used in calculating net income (loss) per trust unit:

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Basic	77,089,628	45,215,379	76,388,309	42,938,634
Exchangeable shares				
at exchange ratio	-	-	-	735,108
Convertible debentures	253,997	-	253,997	400,940
Restricted and Performance				
unit awards	179,798	-	128,769	1,210,953
Diluted	77,523,423	45,215,379	76,771,075	45,285,635

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Diluted net income per unit adds back interest, amortization and accretion expense on convertible debentures and non-controlling interest. Interest, amortization and accretion for the three months ended September 30, 2007 was \$0.1 million (2006 - \$0.1 million) and for the nine months ended September 30, 2007 was \$0.3 million (2006 - \$0.4 million). Non-controlling interest for the three months ended September 30, 2007 was nil (2006 - \$0.1 million) and for the nine months ended September 30, 2007 was nil (2006 - \$0.6 million).

c) Unit Award Incentive Plan

Daylight has a Unit Award Incentive Plan which allows the Board of Directors to grant up to 5% of the trust units outstanding, including trust units which may be issued on exchange of exchangeable shares, as Restricted and/or Performance Unit Awards to directors, officers, employees and service providers of Daylight and its affiliates. The Restricted Unit Awards and Performance Unit Awards vest over a three-year period. The number of units issued under the Performance Unit Awards granted is also subject to a performance multiplier and is dependent on the performance of the Trust relative to a peer comparison group of oil and gas trusts. A holder of a Restricted or Performance Unit Award may elect, subject to consent of Daylight, to receive cash upon vesting in lieu of the number of units held. The plan provides for adjustments to the number of units issued based on the cumulative distributions of the Trust during the period that the Restricted or Performance Unit Award is outstanding.

The following tables reconcile the number of restricted and performance units outstanding:

Restricted Awards	Number
Balance, December 31, 2005	1,044,350
Issued	1,011,395
Vested and converted to trust units	(1,420,523)
Forfeited	(77,689)
Balance December 31, 2006	557,533
Issued	556,850
Vested and converted to trust units	(28,943)
Forfeited	(182,397)
Balance, September 30, 2007	903,043
Weighted average adjustment factor	1.15697
Trust unit equivalent	1,044,797

Performance Awards	Number	Performance Multiplier	Total Number
Balance, December 31, 2005	290,000	2	580,000
Issued	135,000	-	135,000
Vested and converted to trust units	(290,000)	-	(580,000)
Balance, December 31, 2006	135,000	1	135,000
Issued	77,500	-	77,500
Forfeited	(32,500)	-	(32,500)
Balance, September 30, 2007	180,000	1	180,000
Weighted average adjustment factor			1.16265
Trust unit equivalent			209,277

The performance multiplier is calculated on an annual basis for one third of the performance units originally granted. The performance multiplier may range from 0 to 2 in any given year as determined by the Board of Directors. For the period ended September 21, 2006, a performance multiplier of 2 was

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granted on the units. Daylight has assumed a multiplier of 1 on the performance units, although the final multiplier may range anywhere from 0 to 2.

The fair value of the Unit Awards is determined at the date of grant and amortized through general and administrative expense over the vesting period as unit based compensation with a corresponding increase to contributed surplus. In conjunction with the Arrangement, all outstanding Unit Awards vested immediately prior to closing. The weighted average fair value at the date of grant for the Unit Awards granted during the nine months ended September 30, 2007 was \$9.86 per Unit Award (2006 - \$12.37) and \$2.6 million (2006 - \$15.6 million) was charged to general and administrative expense in the period.

d) Contributed Surplus

	Amount
Balance, December 31, 2005	\$ 2,936
Unit based compensation	16,348
Vested Unit Awards	(18,722)
Balance, December 31, 2006	\$ 562
Unit based compensation	2,624
Vested Unit Awards	(352)
Balance, September 30, 2007	\$ 2,834

e) Accumulated Distributions

The table below shows the cumulative distributions and the per unit equivalent for Daylight Energy Trust and Daylight Resources Trust:

Record Date	per Daylight Unit equivalent *	per DET Unit	Amount
Total 2004 cash distributions	\$ 0.36	\$ 0.24	\$ 9,777
Total 2005 cash distributions	\$ 2.26	\$ 1.50	\$ 72,585
Open Range distribution (cost base)	0.47	0.31	15,235
Total 2005 distributions	\$ 2.73	\$ 1.81	\$ 87,820
January 31, 2006	0.21	0.14	8,773
February 28, 2006	0.21	0.14	8,810
March 31, 2006	0.21	0.14	8,824
April 28, 2006	0.21	0.14	8,873
May 31, 2006	0.21	0.14	8,893
June 30, 2006	0.21	0.14	8,897
July 31, 2006	0.21	0.14	8,904
August 31, 2006	0.21	0.14	8,927
Total 2006 cash distributions	\$ 1.69	\$ 1.12	\$ 70,901
Trafalgar distribution (cost base)	0.26	0.17	11,202
Total 2006 distributions	\$ 1.94	\$ 1.29	\$ 82,103
Total distributions since inception	\$ 5.03	\$ 3.34	\$ 179,700

* may not add exactly due to rounding.

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The table below shows the cumulative distributions and per unit equivalent for Daylight Resources Trust:

Record Date	Per Unit	Amount
September 29, 2006	\$ 0.195	\$ 14,013
October 31, 2006	0.195	14,187
November 30, 2006	0.195	14,328
December 31, 2006	0.195	14,493
Total 2006 cash distributions	\$ 0.780	\$ 57,021
January 31, 2007	0.150	11,274
February 28, 2007	0.150	11,358
March 30, 2007	0.150	11,482
April 30, 2007	0.150	11,484
May 31, 2007	0.150	11,493
June 29, 2007	0.150	11,498
July 31, 2007	0.150	11,513
August 31, 2007	0.100	7,745
September 28, 2007	0.100	7,748
Total 2007 cash distributions	\$ 1.250	\$ 95,595
Total distributions since inception	\$ 2.030	\$ 152,616

As part of the Arrangement, Daylight Energy disposed of interests in certain oil and gas properties in exchange for Trafalgar common shares and arrangement warrants. Daylight retained 740,240 of the Trafalgar common shares and distributed the remaining securities to DET unitholders, Sequoia unitholders and the Daylight Energy Exchangeable Shareholders. Each DET unitholder received 0.0417 of a Trafalgar common share and 0.0116 of a Trafalgar warrant for each DET unit held. Each Sequoia unitholder received 0.0517 of a Trafalgar common share and 0.0144 of a warrant for each Sequoia unit held. The Daylight Energy exchangeable shareholders received Trafalgar common shares and warrants on the same basis as the DET unitholders based on the number of DET units into which their shares were exchangeable.

At the time of transfer, Daylight and Trafalgar were considered arms-length parties and accordingly the property disposition has been recorded at its fair value of \$21.1 million.

The disposition to Trafalgar was recorded using the following fair values:

Petroleum and natural gas assets	\$ 23,330
Asset retirement obligations (note 11)	(2,230)
Total	\$ 21,100
Distributed to DET securityholders	\$ 11,202
Distributed to Sequoia unitholders	6,922
Retained by Daylight (note 4)	2,976
Total	\$ 21,100

13. Supplemental Cash Flow Information

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Changes in non-cash working capital:				
Accounts receivable	\$ 6,405	\$ (9,822)	\$ 15,835	\$ 6,587
Prepaid expenses and deposits	(508)	(77)	408	(1,556)
Accounts payable and accrued liabilities	12,796	23,310	9,363	10,440
Unrealized gain on derivatives	-	400	-	400
Plan of arrangement costs settled with units	-	-	2,131	-
Note receivable acquired on disposal of properties (note 4)	-	-	-	1,415
Working capital acquired on acquisition (note 3)	(3,261)	(5,076)	(8,957)	(5,076)
Change in non-cash working capital	\$ 15,432	\$ 8,735	\$ 18,780	\$ 12,210
Relating to:				
Operating activities	\$ (525)	\$ 5,896	\$ 7,204	\$ 3,308
Financing activities	(22)	(1,123)	437	(987)
Investing activities	15,979	3,962	11,139	9,889
Change in non-cash working capital	\$ 15,432	\$ 8,735	\$ 18,780	\$ 12,210

	Three months ended Sep 30,		Nine months ended Sep 30,	
	2007	2006	2007	2006
Interest and taxes paid:				
Interest paid	\$ 5,054	\$ 3,067	\$ 16,192	\$ 7,034
Taxes paid	\$ -	\$ 11	\$ -	\$ 290

14. Taxes

During Q2 2007, two tax changes affecting Daylight were substantively enacted. The federal government substantively enacted legislation that reduces the federal corporate tax rate by 0.5% effective January 1, 2011. This legislation has reduced the Trust's future income tax liability and provision for future taxes by \$0.7 million. Also enacted was legislation that applies a tax on distributions from publicly-traded income trusts commencing in the 2011 tax year. This legislation resulted in an additional recovery of future taxes of \$2.9 million as previously unrecorded temporary differences at the Trust level were recorded.

15. Financial Instruments

Balance Sheet Financial Instruments:

Financial instruments include accounts receivable, prepaid expenses and deposits, certain investments, accounts payable and accrued liabilities, cash distributions payable and bank debt. Unless otherwise noted, carrying values reflect the current fair value of the Trust's financial instruments. The Trust's investments held for trading have a fair value based on quoted market value of \$7.6 million. The Trust's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The convertible debentures outstanding at September 30, 2007, with a face value of \$3.6 million (2006 - \$3.6 million), had a fair value based on quoted market value of \$3.6 million (2006 - \$3.8 million).

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Credit Risk:

Portions of the Trust's accounts receivable are with joint operating partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Trust's oil and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment.

Interest Rate Risk:

The Trust is exposed to interest rate risk to the extent that changes in market interest rates will impact the Trust's bank debt which is subject to a floating interest rate.

Foreign Currency:

While substantially all of the Trust's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

Commodity Price Risk:

The commodity derivatives outstanding at September 30, 2007 are summarized as follows:

Type of Contract	Commodity	Hedged Volume ⁽²⁾	Hedge Price	Hedge Period	Unrealized Gain
Financial (Funded Collar ⁽¹⁾)	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$8.50/GJ	Oct 1/07 to Oct 31/07	\$ 1,642
Financial (Funded Collar ⁽¹⁾)	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.10/GJ	Oct 1/07 to Oct 31/07	297
Financial (Funded Collar ⁽¹⁾)	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.21/GJ	Oct 1/07 to Oct 31/07	295
					\$ 2,234

⁽¹⁾ Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ.

⁽²⁾ A GJ converts to a Mcf at the rate of 1.055056 GJs per Mcf.

The following table provides a summary of the loss on financial instruments for the nine months ended September 30, 2007 and 2006:

	2007	2006
Realized gain (loss) on commodity derivatives	\$ 4,822	\$ (133)
Unrealized gain (loss) on commodity derivatives	(4,829)	871
Unrealized loss on investments held for trading	(2,282)	-
Total	\$ (2,289)	\$ 738

16. Related Party

Since November 30, 2004, Daylight Energy and Midnight Oil Exploration Ltd. ("MOX") had been operating pursuant to an Administrative and Technical Services Agreement which provided for the shared services required to manage the activities of Daylight Energy and MOX and to govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight Energy was the employer on behalf of the parties and received payment for certain technical and administrative services provided to MOX. In conjunction with DET's acquisition of Sequoia, Daylight Energy and MOX announced their intention to terminate the agreement on mutually acceptable terms. The Administrative and Technical Services Agreement was terminated effective December 31, 2006. Certain administrative services which provide reasonable economy and do not involve competitive issues are provided to MOX by Daylight Energy on a fixed fee basis and these services may be cancelled by either party.

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Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged Midnight Oil Exploration Ltd. \$1.5 million relating to general and administrative activities and \$1.5 million relating to capital expenditures for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, Daylight Energy charged MOX \$1.1 million.

17. Commitments

The following is a summary of Daylight's contractual obligations and commitments, other than bank debt as disclosed in note 7, as at September 30, 2007:

	2007	2008	2009	2010	2011	Thereafter
Capital Lease	\$ 1,084	\$ 1,007	\$ -	\$ -	\$ -	\$ -
Operating Leases	3,162	7,385	3,792	2,736	1,600	7,546
Natural gas transportation	204	464	232	98	84	16
	\$ 4,450	\$ 8,856	\$ 4,024	\$ 2,834	\$ 1,684	\$ 7,562

Included in operating leases are obligations related to office space, office equipment and a drilling rig contract.

In addition to the above, the Trust has commitments related to its risk management program (see note 15).

18. Subsequent Event

On October 3, 2007, Daylight issued \$125 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures, Series B ("Series B Debentures") for net proceeds of \$119.5 million. The Series B Debentures pay interest semi-annually on October 31 and April 30, commencing with the initial interest payment on April 30, 2008 and have a maturity date of October 31, 2012. The Series B Debentures are convertible at the option of the holder to Trust Units at a conversion price of \$8.60 per Trust Unit. The Trust has the option to redeem the Series B Debentures at a price of \$1,050 per Series B Debenture after October 31, 2010 and on or before October 31, 2011 and at a price of \$1,025 per Series B Debenture after November 1, 2011 and before October 31, 2012. The net proceeds of \$119.5 million were used to repay the \$70 million bridge facility and reduce the outstanding indebtedness under the revolving term credit facility.

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Abbreviations

/d	per day
bb1(s)	barrel(s)
mbbls	thousand barrels
mmbbls	million barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
boe	barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmstb	million stock tank barrels of oil
ARTC	Alberta Royalty Tax Credit
Cdn	Canadian
NGLs	natural gas liquids
WTI	West Texas Intermediate crude oil
US	United States

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