

AVENIR DIVERSIFIED INCOME TRUST

2005 Annual Report



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2005 FINANCIAL HIGHLIGHTS & YEAR IN REVIEW

For the year ended	December 31		
TOTAL CONSOLIDATED FINANCIAL SUMMARY	2005	2004 ^a	% Change
Gross Revenue	379,149,120	25,047,961	1414%
Net Revenue	369,162,024	21,907,316	1585%
Funds From Operations (FFO) ¹	56,142,933	10,579,736	431%
FFO Per Unit ¹ - Basic	2.20	1.86	18%
Distributions	34,473,947	6,671,281	417%
Distributions Per Unit - Basic	1.35	1.17	15%
Distribution Payout Ratio ²	61%	63%	-3%
% of Distributions Taxed as Income	100%	75%	33%
Net Income (loss)	22,939,339	4,014,451	471%
Net Income (loss) Per Basic Unit	0.90	0.71	27%
Total Assets	583,626,932	155,314,853	276%
Working Cap. (Net Debt) including mortgages ¹	(26,694,363)	(44,768,923)	40%
Wtd. Avg. Units Outstanding - Basic	25,500,884	5,685,210	349%
Units Outstanding (including escrowed units)	40,692,012	11,671,524	249%

OIL & GAS OPERATIONS

Production			
Oil and NGLs – bbls per day	1,616	431	275%
Gas – mcf per day	9,494	4,336	119%
Total BOE ³ per day	3,198	1,153	177%
BOE ³ per day Exit Rate	3,540	2,990	17%
Average Pricing			
Oil & NGL (\$/Bbl) before hedging ⁵	50.88	44.11	15%
Oil & NGL (\$/Bbl) after hedging ⁵	46.10	39.66	16%
Natural Gas (\$/mcf)	8.62	6.46	33%
Average Price Per BOE ³ before hedging ⁵	50.54	40.20	26%
Average Price Per BOE ³ after hedging ⁵	48.13	38.53	25%
Gross Reserves (Proved plus Probable 6:1)			
Natural Gas (Mmcf)	27,468.0	19,543.7	41%
Oil & NGL (Mmbl)	3,967.9	3,849.9	3%
Total (Mboe) ³	8,545.9	7,107.2	20%

- 1 Funds from operations, Funds from operations per unit, net back, and working capital (net debt) are not recognized measures under Canadian generally accepted accounting principles (GAAP). Funds from operations is calculated by taking net income and adding back non-cash balances such as depletion, depreciation and amortization, asset retirement obligation accretion, gain on sale of real estate properties, stock based compensation expense, unrealized (gain) loss on financial instruments and future income tax recovery. Working capital (net debt) is calculated by taking current assets less current liabilities including capital lease obligations, mortgages (upon mortgage maturity it is the Trust's intention to renew the mortgages on a long term basis at current rates) and long-term debt. Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the Funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that "Funds from operations" and "Funds from operations per unit" should not be construed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP.
- 2 Distribution Payout Ratio is calculated by dividing the Distributions by the Funds from operations.
- 3 Natural Gas conversion ratio of 6mmcf:1bbl
- 4 Unit and per unit amounts for comparative periods have been restated to incorporate the fifteen-for one unit consolidation and the retroactive application of the changes in accounting policies for transportation charges, as described in notes 3 and 20 to the consolidated financial statements for the year ended December 31, 2004.
- 5 Hedging in this situation means the realized gain or loss on physical delivery contracts and financial commodity fixed price transactions.

PRESIDENT'S MESSAGE

Forward Looking Statements

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

PRESIDENT'S MESSAGE

2005 was another successful year for the Avenir Diversified Income Trust. For the year-ended December 31, 2005, the Trust delivered a 24% return to unitholders, including \$1.32 per unit capital appreciation and \$1.30 per unit in distributions paid. Distributions were increased in July 2005 (5%) and in December 2005 (7.8%). Distributions represented a 61% payout of the funds from operations for the year.

It was also another year of growth. The market capitalization of the Trust grew from approximately \$130 million to \$480 million by the end of December 2005. The number of units outstanding increased with two financings, the first closed in March 2005 at a price of \$10.90 per unit for gross proceeds of \$126.5 million and the second closed in October 2005 at a price of \$12.65 per unit, for gross proceeds of \$196.2 million.

Since inception, the Trust has followed a corporate philosophy that combines the cash flow streams from three business units: Energy (oil & gas and energy services), Financial Services and Real Estate. The strategy of the Trust is to diversify risk and maintain attractive yields, with sustainable distributions. Through acquisition, the Trust has been able to successfully grow each of these business units accretively throughout 2005 and generate steady income and capital appreciation for unitholders.

The Trust took a significant step in its diversification strategy with the acquisitions of Elbow River Resources Ltd., a liquids brokerage business, and the purchase of the management company which manages the EnerVest Group of Funds. These acquisitions strengthened our Financial Services business unit and provided new stepping stones for growth. Over the next three years, the Trust will continue with this growth strategy, building each business unit to a size of independence. From the outset, the three business units have been organized to possess their own trust-like characteristics, operate independently, and be managed by experienced industry individuals, with significant input at the Trust level. We continue to expand each business unit with core strategies outlined as follows:

In the Oil and Gas division, we look to target opportunities of less than 1,000 BOE per day which are too small for pure-play energy trusts, maintain the Trust's reserve life index at 6 to 8 years and hedge some of our commodity price exposure. Within the Energy Services division, we look to consolidate small operations and continue to pursue diversification opportunities which are economic and accretive in the essential production services segment of the industry.

In our Financial Services business unit we look for opportunities which allow us to wrap a contract or series of contracts around a stream of cash flow. We will look to further grow this business unit's portfolio across additional business lines.

PRESIDENT'S MESSAGE

The Real Estate business unit has continued to be the hardest to grow. We look to target and acquire real estate properties that will yield a 9-10% return and are too large for individual investors yet too small for other REIT's.

Highlights from 2005 include:

- Completing two equity financings totaling approximately \$322.7 million;
- Diversifying and growing the Financial Services business unit;
- Growing the Energy Services division;
- Increasing distributions twice throughout 2005;
- Completing a total of:
 - \$41.3 million in oil and gas acquisitions;
 - \$39.8 million in energy services acquisitions;
 - \$178.5 million in financial services acquisitions; and
- Increase cash flow to approximately \$56.1 million from \$10.6 million in 2004.

So far in 2006, we have completed a number of smaller acquisitions in our Energy Services division and this is on track for another strong quarter despite a mild winter which restricted access in some areas. The Trust has added to its Oil and Gas asset base through a number of development projects; however the warmer than usual winter has contributed to significantly lower natural gas prices and wider than normal differentials on our southern Alberta medium crude, indicating the first quarter of 2006 in the oil and gas division will not be as robust as the fourth quarter 2005.

EnerVest Diversified Income Trust completed a very successful rights offering in February 2006. Currently the EnerVest management group is marketing a new EnerVest Oil Sands Trust offering, both of which will add to the Trust's fee base through increased assets. Elbow River will also be impacted somewhat by warmer weather reducing natural gas liquids price volatility and therefore business opportunities. However, the Trust's ability to weather commodity price fluctuations with solid results in other aspects of its business is a testament to how our diversification strategy across multiple business lines continues to pay "distributions".

We continue to evaluate acquisition opportunities in all three segments of our Trust and are confident that we will continue to grow in size, liquidity, diversity, cash flow and distributions, as we have demonstrated since our inception. We now have the critical mass to grow internally rather than through acquisitions; through new product offerings in the Elbow River business; through increasing the assets under management within EnerVest; through the acquisition of additional equipment in Energy Services; and by development drilling and re-completions in the Oil and Gas division.

In closing, we would like to express our appreciation to our employees and consultants for their efforts, to our Board of Directors for their guidance, and to our unitholders for their continued support as we execute our business plan.

We look forward to a successful 2006.

Submitted on behalf of the Board of Directors by:



William M. Gallacher
President & CEO

REVIEW OF FINANCIAL RESULTS

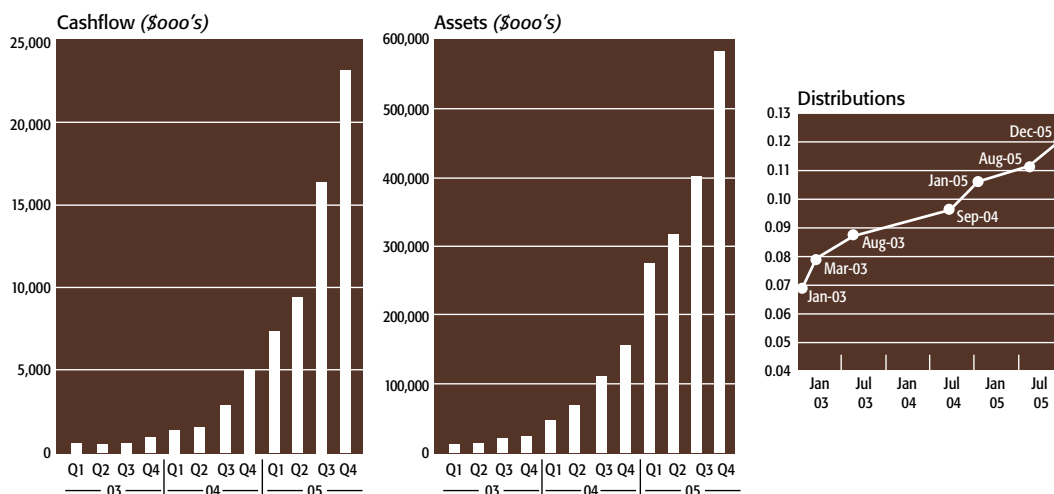
REVIEW OF FINANCIAL RESULTS

The net income for the year ended December 31, 2005 was \$22,939,339 which is up 471% versus the \$4,014,451 net income for the year ended December 31, 2004. The Trust recorded net income of \$14,206,664 for the three months ended December 31, 2005 compared to \$2,955,693 for the three months ended December 31, 2004. The three months ended December 31, 2005 net income was increased from the recognition of \$1,282,621 in non-cash mark-to-market gains related to risk management contracts.

Funds from operations were \$56,142,933 for the year ended December 31, 2005, up 431% as funds from operations for the year ended December 31, 2004 were \$10,579,736. The funds from operations for the fourth quarter 2005 were \$23,152,458 (\$0.58 per unit) up 364%, compared to the fourth quarter 2004 of \$4,991,022 (\$0.53 per unit). The increase in funds from operations was primarily the result of the growth in the Trust's business units, including: oil and gas acquisitions made, continued high commodity prices, strong natural gas liquids marketing results and the initial inclusion of the EnerVest acquisition in October 2005.

The Trust declared distributions of \$34,473,947 (\$1.35 per unit) for the year ended December 31, 2005 which is up 417% over the \$6,671,281 (\$1.17 per unit) distributed for the year ended December 31, 2004. For the fourth quarter 2005 the Trust distributed \$13,941,083 (\$0.35 per unit), to unitholders compared to \$3,053,499 (\$0.32 per unit) for the quarter ended December 31, 2004. On July 14, 2005 the Trust announced a 5% increase in the monthly distribution beginning with the July distribution payable August 15, 2005. On November 28, 2005 the Trust announced a further 7.8% increase in the monthly distribution beginning with the December distribution payable January 16, 2006. The 2005 year end payout ratio was 61% of cash flow and the fourth quarter payout was 60% of cash flow.

Of the 2005 distributions, unitholders will treat 0% as a return of capital and 100% as taxable income or return on capital. This varies from the Trust's previous estimates because of a significantly lower payout ratio (61%) than its 75% to 80% target payout ratio. The lower payout ratio, and correspondingly higher retained income, resulted in lower tax deferral of the distributed income to unitholders.



REVIEW OF FINANCIAL RESULTS

REVIEW OF BUSINESS UNIT OPERATIONS

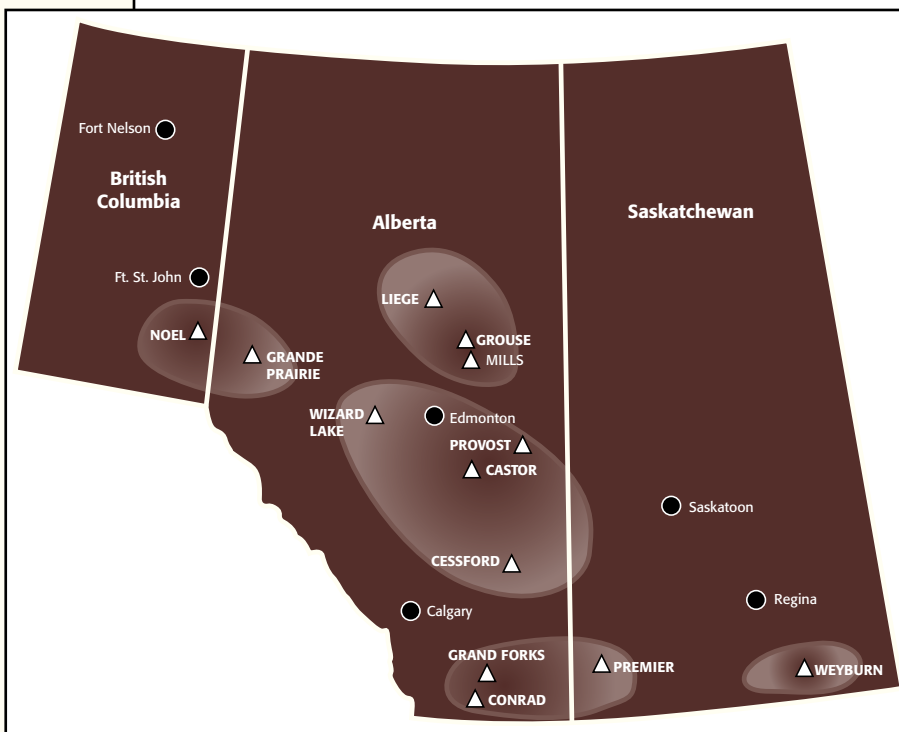
I. ENERGY - Oil & Gas Operations

The Oil and Gas unit made significant progress in 2005 completing two corporate acquisitions, two asset acquisitions, one significant property disposition, staffing both operational and administrative teams, setting up two field offices and initiating a development drilling program to provide an internal growth component to the very effective acquisition strategy. Production increased from 2,990 BOE per day at the close of the fourth quarter of 2004 to 3,540 BOE per day at the close the fourth quarter of 2005. As discussed in more detail below, product sales in the fourth quarter averaged 3,213 BOE per day and product sales for the year averaged 3,198 BOE per day. Production for the year averaged 3,220 BOE per day. The slight difference in the sales and production number is due to prior period adjustments and Nova inventory differences. The weighted average realized sales prices by the Trust for the year ended December 31, 2005 was \$8.62/Mcf for natural gas, \$50.75/Bbl for crude oil and \$53.29/Bbl for NGLs.

The oil and gas unit drilled 4 successful operated gas wells (2.0 net) in the Provost area in the fourth quarter. Non-operated wells for the year totalled 79 gross (4.6 net) consisting of 15 gross oil wells (1.7 net), 62 gross gas wells (2.6 net) and 2 gross (0.3 net) dry and abandoned wells. Capital expenditures on development activities totalled approximately \$7.4 million in 2005. This amount varies from the total reported in the financial statements due to inclusion of 2004 costs booked in 2005 and capitalized lease rental costs. Of this total, \$1.7 million were expenditures on either newly acquired properties or properties that were disposed of during the year and are therefore treated, for finding and development cost determination, as adjustments to the acquisition cost or disposition proceeds. The total also includes \$320,000 of capital investment in corporate projects and \$117,000 in land sale acquisitions. Of the remaining \$5.3 million; \$560,000 was invested to convert already booked reserves from undeveloped to proved developed categories

and a further \$516,000 was invested in maintenance projects to preserve production and reserves leaving \$4.2 million as capital invested to develop new reserves. Reserve additions from these projects included in the year end reserve report total 380,000 BOE for a finding and development cost of \$11.05 per BOE. Projects undertaken on new acquisitions added a further 75,500 BOE at a finding and development cost of \$7.70 per BOE.

In 2006 capital investment will continue to focus on work-over, re-completion and reactivation projects on company operated



REVIEW OF FINANCIAL RESULTS

lands, partner operated drilling on the Mills/Grouse shallow gas area of northeast Alberta and company operated drilling and development for shallow gas in the southern Alberta Grand Forks and Taber areas. Later in the year attention will shift to the company operated portion of the Noel field in British Columbia pending improvement by the operator in minimizing downtime and to oil prospects in the southern Alberta Grand Forks core area.

The oil and gas unit of the Trust completed two corporate acquisitions in 2005. The acquisition of Val Vista Energy Ltd. in March for total consideration of \$25.7 million and Makah Energy Corporation in August for \$28.2 million, provided the Trust with a new focus area. Operations and land holdings for both companies were focused in the Provost, Castor, Cessford and Wizard Lake areas of central Alberta. This is an area with excellent year round access, well developed oil and gas infrastructure and very good potential for the addition of new reserves and production at competitive costs, from relatively shallow, multi-zone reservoirs. These acquisitions provided over 2 million BOE of developed reserves, 40,000 acres of highly prospective undeveloped land and 58 square kilometres of proprietary 3D seismic. The Trust chose to sell for \$1.3 million of certain rights to coal bed methane prospects. The Trust has also farmed out other coal bed methane opportunities so as to reduce capital exposure and to benefit from the expertise provided by the farmee.

In December the Trust closed the acquisition of certain assets in the Grand Forks area of southern Alberta for total cash consideration of \$2.8 million. These lands are located immediately adjacent to the Trust's main core production area. The Trust acquired 252,000 BOE of developed reserves and approximately 7,000 acres of undeveloped land valued at approximately \$835,000. Work is progressing to develop gas reserves on the undeveloped land that will be tied in to an underutilized gas gathering system on the Trust's Grand Forks property.

The Shekilie area is located in the extreme northwest of Alberta and while this has been a prolific oil and gas producing area it is very remote and subject to limited seasonal access. It is also dominated by a small number of large operators that have achieved the necessary critical mass to operate efficiently in this challenging area. The Trust has held a substantial interest in a very small number of properties in Shekilie that have been prone to operational upsets, extended shut-ins of productive wells, high costs and generally difficult and inefficient operations. In November the Trust closed the sale of its interests in the area for total cash consideration of \$6.65 million before adjustments and transaction costs. These assets included 232,000 BOE of developed reserves and approximately 1,800 acres of undeveloped land

Production capability reached approximately 3,700 BOE per day in the fourth quarter but several factors contributed to lower sales volumes for the quarter. Sales volumes for the fourth quarter of 2005 were reduced by 195 BOE per day due to various unplanned outages and restrictions, 181 BOE per day due to an inventory short fall resulting from overselling of gas volumes in the third quarter of 2005 and by 109 BOE per day due to prior period adjustments relating to acquisitions resulting in average daily sales volumes of 3,213 BOE per day for the fourth quarter. Of the total 195 BOE per day of outages and restrictions, production was restricted at the Noel property by 41 BOE per day on average through the fourth quarter due to ongoing problems at a third party operated major gas processing facility. The Grand Forks area saw excess downtime due to power failures and cold weather resulting in a loss of 18 BOE per day for the quarter. Ongoing problems in the Shekilie area resulted in a shortfall of approximately 33 BOE per day for the quarter which is an improvement from prior quarters simply because the property was sold as of mid-November. Production from the Taber area was restricted by 40 BOE per day due to a dispute with Dynegy Canada over fees payable on a section of pipeline. The issue in question was settled by a decision of the Alberta Energy and Utilities Board on March 7, 2006 to declare the pipeline a common carrier and apply reasonable fees, and gas production resumed in March of 2006. While further outages and restrictions are inevitable on the Trust's properties the resolution of this issue and the sale of the Shekilie property should substantially reduce the potential production that is shut-in. Gas inventory imbalances were

REVIEW OF FINANCIAL RESULTS

resolved in the fourth quarter and should not impact sales volumes in future.

Fourth quarter operating costs were \$12.51 per BOE based on product sales volumes and including prior period adjustments. Removing the factors as discussed above in the section on production and despite strong cost pressures in the oil and gas industry, the oil and gas unit was able to achieve a slight reduction in unit operating costs in the fourth quarter compared to the second and third quarters to \$11.47 per BOE. This reduction was due to the bulk of facility turnarounds and maintenance being carried out in the second and third quarters. Unit operating costs for the year were \$11.98 per BOE.

Oil and Natural Gas Reserves

In accordance with NI 51-101, McDaniel prepared the McDaniel Report dated March 13, 2006, evaluating the crude oil, natural gas, natural gas liquids and sulphur reserves of the Trust as at December 31, 2005. The tables below are a summary of the Trust's oil, NGL and natural gas reserves and the net present value of future net revenue attributable to such reserves as evaluated in the McDaniel Report based on constant and forecast price and cost assumptions. The information set forth below is prepared in accordance with standards contained in the Canadian Oil and Gas Evaluation Handbook (COGEH) and the reserves definitions contained in NI 51-101 and the COGEH.

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

	Gross Reserves				Net Reserves			
	Light and Medium Crude Oil	Heavy Oil	Natural Gas Liquids	Natural Gas	Light and Medium Crude Oil	Heavy Oil	Natural Gas Liquids	Natural Gas
	Mbbbls	Mbbbls	Mbbbls	Mmcf	Mbbbls	Mbbbls	Mbbbls	Mmcf
Proved								
Developed Producing	2,047.0	879.4	98.9	16,972.6	1871.6	831.2	74.6	14,178.9
Developed Non-Producing	22.8	0.0	14.6	2,550.0	20.4	0.0	10.9	2,040.5
Undeveloped	28.1	0.0	3.9	1,132.0	25.2	0.0	3.3	1012.5
Total Proved	2,097.9	879.4	117.4	20,654.6	1,917.1	831.2	88.8	17,231.9
Total Probable	591.8	236.0	45.4	6,813.4	514.5	220.6	33.1	5,620.5
Total Proved plus Probable	2,689.7	1,115.4	162.8	27,468.0	2,431.6	1,051.8	121.9	22,852.5

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

	Before Future Income Tax Expenses and Discounted at						
	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)		
Proved							
Developed Producing			150,218	132,998	119,228	108,347	99,599
Developed Non-Producing			8,288	7,373	6,701	6,180	5,760
Undeveloped			3,863	3,102	2,478	1,973	1,564
Total Proved			162,368	143,473	128,407	116,501	106,923
Total Probable			53,090	37,971	28,149	22,357	18,218
Total Proved plus Probable			215,458	181,263	156,826	138,858	125,141

Reserves Reconciliation

The following table sets forth a reconciliation of the Trust's total net proved, probable and total net proved plus probable reserves as at December 31, 2005 against such reserves as at December 31, 2005 based on forecast price and cost assumptions.

REVIEW OF FINANCIAL RESULTS

	Light and Medium Crude Oil			Heavy Oil(1)			Associated and Non-Associated Gas		
	Net	Net	Net	Net	Net	Net	Net	Net	Net
	Proved Reserves	Probable Reserves	Proved Plus Probable	Proved Reserves	Probable Reserves	Proved Plus Probable	Proved Reserves	Probable Reserves	Proved Plus Probable
	Mbbls	Mbbls	Mbbls	Mbbls	Mbbls	Mbbls	Mmcf	Mmcf	Mmcf
December 31, 2004	2,094.4	471.0	2,565.4	612.0	107.00	719.0	11,834.0	4,202.0	16,036.0
Extensions/Infill Drilling	13.5	4.5	18.0	3.8	1.2	5.0	0.0	0.0	0.0
Improved Recovery	127.2	27.1	154.3	39.5	16.5	56.0	62.2	21.8	84.0
Technical Revisions	(96.1)	8.1	(88.0)	201.2	59.3	260.5	1,035.9	(832.8)	203.1
Discoveries	0.0	0.0	0.0	0.0	0.0	0.0	410.0	131.0	441.0
Acquisitions	232.1	57.3	289.4	160.6	37.0	197.6	6,967.0	2,210.0	9,071.0
Dispositions	(151.0)	(54.0)	(205.0)	0.0	0.0	0.0	(248.0)	(111.0)	(359.0)
Production	(303.1)	0.0	(303.1)	(186.1)	0.0	(186.1)	(2829.1)	0.0	(2,829.1)
December 31, 2005	1,917.0	514.0	2,432.0	831.0	221.0	1,052.0	17,232.0	5,621.0	22,853.0

	Net Natural Gas Liquids			Total Net Oil Equivalent		
	Net	Net	Net	Net	Net	Net
	Proved Reserves	Probable Reserves	Proved Plus Probable	Proved Reserves	Probable Reserves	Proved Plus Probable
	Mbbls	Mbbls	Mbbls	Mboe	Mboe	Mboe
December 31, 2004	46.0	15.0	111.0	4,724.7	1,293.3	6,018.1
Extensions/Infill Drilling	0.0	0.0	0.0	17.3	5.7	23.0
Improved Recovery	0.0	0.0	0.0	177.1	47.2	224.3
Technical Revisions	13.0	0.0	13.0	290.7	(71.4)	219.3
Discoveries	0.0	0.0	0.0	68.3	21.8	90.2
Acquisitions	47.5	19.0	66.5	1,601.4	481.6	2,083.0
Dispositions	(1.0)	(1.0)	(2.0)	(193.3)	(73.5)	(266.8)
Production	(16.5)	0.0	(16.5)	(977.2)	0.0	(977.2)
December 31, 2005	89.0	33.0	122.0	5,709.0	1,704.8	7,414.8

Properties With No Attributed Reserves

The following table summarizes the gross and net acres of unproved properties in which the Trust has an interest. The Trust does not have any properties that are unproductive at this time. The following table sets out the Trust's undeveloped land holdings as at December 31, 2005.

	Undeveloped Acres	
	Gross	Net
British Columbia	27,936	7,455
Alberta	300,899	109,685
Saskatchewan	16,769	7,562
Total	345,604	124,702

The Trust estimates the value of this land at approximately \$10.0 million based on a third party evaluation by Seaton – Jordan & Associates effective September 30, 2005.

REVIEW OF FINANCIAL RESULTS

2005 Drilling Activity

The following table summarizes the Trust's drilling results for the year ended December 31, 2005.

	2005	
	Gross	Net
Oil	15	1.7
Natural Gas	27	3.8
Coal bed methane	39	0.8
Dry & Abandoned	2	0.3
Total	83	6.6

In 2006, the Trust will focus development activities on the Mills/Grouse properties, low risk shallow gas development in Southeast Alberta, additional Weyburn horizontal well opportunities and East Central Alberta delineation drilling to the Viking and Mannville horizons. In total, the Trust has plans to participate in and drill 24 gross (10.3 net) wells in Q1 and Q2 of 2006.

For further information regarding the Trust's reserves, please refer to its Annual Information Form for December 31, 2005 which will be posted on the Trust's profile at www.sedar.com.

2. ENERGY - Energy Services

Energy Services enjoyed rapid growth and strong financial performance in 2005. In April of 2005 the Trust acquired Millard Oilfield and Endless Tubing, both located in Medicine Hat for total consideration of \$18.9 million. In May the Trust acquired Cardinal Well Service of Brooks for \$7.21 million and in August, 90% of Westvac Service of Edmonton for \$7.1 million. The Trust's Cascade Services Partnership acquired the assets of D&G Oil/Gas Services of Fort St John for \$3.5 million in May to bolster its hot oiling, steaming and pressure truck businesses. In December the Trust acquired Richmond Energy Services of Richmond, Saskatchewan for \$8.0 million. Richmond operates approximately twenty vacuum and tank trucks in an area with a vast number of shallow gas wells that all produce small amounts of water and this water is collected and moved to disposal sites. Richmond enjoys steady work that is largely unaffected by cycles in commodity prices or drilling activity levels. This is a key addition in developing the Energy Service Unit into an essential production service provider across the oil and gas productive areas of western Canada. Also in December the Trust acquired the assets of Ken's Steaming of Swan Hills through Westvac for \$1.4 million. The assets of Ken's Steaming have been rolled into Westvac. (All amounts above are before adjustments and transaction costs).

Subsequent to year end the Trust completed the acquisition of the assets of HK Well Service of Medicine Hat for \$7.9 million. HK operates five swab rigs and one flush-by along with associated tank trucks. This acquisition further strengthens the Trust's position in south-eastern Alberta.

The Energy Services division ended 2005 focused on essential production services to the oil and gas industry through six operating companies in two broad business lines. Three of the operating companies; Cascade, Westvac and Richmond provide truck based services including fluid hauling, vacuum, pressure, steaming, hot oiling and hydro-excavation services to oil and gas operators. These services are essential to maintain production, support new operations and the maintenance of production facilities. The other three operating companies; Millard, Endless and Cardinal provide rig based services with service rigs, coiled tubing rigs and flush-by's. These companies focus on the completion, repair and maintenance of producing wells. All of these services are essential to maintaining production and efficient operations.

REVIEW OF FINANCIAL RESULTS

The addition of the swab rigs and flush-by of HK Well Service in 2006 greatly enhances the Trust's position in providing these rig based services to the oil and gas industry.

The Energy Service Unit enjoyed a record quarter as steady utilization and improved rates managed to provide a cushion against increasing fuel and labour costs. Revenue grew from \$9.9 million in the third quarter of 2005 to \$13.1 million in the fourth. Compared to 2004, fourth quarter revenue increased from \$2.4 million to \$13.1 million. Direct costs averaged 53% of revenue while G&A expense is approximately 17%. It is anticipated that drilling activity and other upstream capital expenditures by oil and gas operating companies may not increase as rapidly in 2006 as in past years or may even shrink slightly due to the softening of natural gas prices and the supply situation in the crude oil market. Any such slowing of expenditures is unlikely to affect the Trust's Energy Service Unit as very little of the Unit's revenue is derived from drilling related activities. The large and growing number of producing wells in western Canada ensures steady work for services such as those provided by the Trust. In fact, a slowdown in the upstream part of the business might help reduce the cost pressure resulting from the current shortage of skilled labour throughout western Canada and stabilizing oil prices will help alleviate the rising fuel costs absorbed by the Unit.

The Trust is also investing to expand the vehicle fleets of the Unit. Millard Oilfield has taken delivery in March 2006 of a new service rig to expand the fleet to six. Cardinal has three new flush-by's on order to increase the fleet from nine to twelve while Endless Tubing has one new coiled tubing rig on order. Approximately \$4.0 million in new equipment of various types is on order for Westvac and Cascade for delivery in 2006.

3. FINANCIAL SERVICES BUSINESS UNIT REVIEW

At December 31, 2005 the Trust's financial services business unit, Avenir Financial Services Limited Partnership consisted of:

i. ENERVEST LIMITED PARTNERSHIP – MANAGEMENT CONTRACT

On October 4, 2005, the Trust was pleased to add to the Financial Services business unit with the acquisition of the joint venture that is the sole shareholder of the EnerVest Management Company, Manager of the EnerVest Diversified Income Trust ("EnerVest"), the EnerVest Natural Resource Fund and the Enervest Flow-Through Limited Partnerships. Cypress Capital Management Ltd. ("Cypress") remains as investment manager of EnerVest. The sale of the joint venture interests had no impact on the investment management agreement between the EnerVest Management Company and Cypress and EnerVest will operate independently of Avenir. There is no change in the investment objective or strategy of EnerVest, the key components of which are to: maximize monthly distributions relative to risk, maximize net asset value over the Trust's life and maintain a diversified portfolio to reduce investment risk.

The team at EnerVest operates independently under the Trust. A new President & CEO was named with all other key employees were retained. Key employees have been provided with incentives to achieve cash flow targets over a three year period. Kevin Wolfe, the new President and Chief Executive Officer was formerly the Senior Vice President of Rockwater Asset Management Inc. Prior thereto, he was the President of Palliser Capital Corp., a privately held financial services advisory firm. Mr. Wolfe was the President of Bissett & Associates Investment Management Ltd. from April 1997 to November 2001, and the Chief Operating Officer of that firm from September 1993 to March 1997. He was also previously the Chairman of the Investment Funds Institute of Canada and of the Mutual Fund Dealers Association of Canada. Ward Mallabone remains with EnerVest and has taken on the new role of Chief Operating Officer. One of the principals of the previous EnerVest Group, Mr. Mallabone was the Vice-President, Law, for EnerVest starting May 1998. Prior thereto, he was a partner with the law firm Walsh Wilkins.

REVIEW OF FINANCIAL RESULTS

The Trust paid \$125.9 million for EnerVest's based on the long-term management contracts of EnerVest and the Trust expects that the acquisition will add approximately \$14.0 million annually of stable distributable cash flow and further diversifying the Financial Services division. The Canadian Department of Finance's announcement expressing concerns about "tax leakage" with income trusts had an impact on the value of assets under management by EnerVest during the 4th quarter in 2005. The reversal of the decision from the Department of Finance in late November resulted in assets under management returning to their pre-announcement level. Despite temporary reduction in the value of the assets under management, the revenues and distributable cash flow of EnerVest slightly exceeded expectations.

Since the acquisition of the management agreement, assets under management have increased by over \$400 million. On November 22, 2005, EnerVest Diversified Income Trust completed an exchange offer for net proceeds of \$107.7 million and on February 24, 2006, closed a rights offering for net proceeds of \$281.5 million. In October 2005, an additional \$15.0 million was raised for the EnerVest FTS Limited Partnership 2005. All of these offerings increase the distributable cash flow to the Avenir Trust by way of additional management fees. The Trust believes the EnerVest assets will continue to increase through organic growth.

ii. ELBOW RIVER RESOURCES MARKETING LP

On April 1, 2005, the Trust closed on an agreement to acquire Elbow River Resources Ltd. ("Elbow River"), a wholesale broker, transporter and supplier of butane to major refineries and propane to major retailers in the United States, Canada and Mexico. Consideration for the transaction was \$57.8 million, consisting of \$51.8 million cash and \$6 million in the form of escrowed Trust Units, subject to normal course purchase adjustments. Elbow River, established in 1984, is considered to be one of the largest wholesale brokers in Canada and United States in providing brokerage, marketing, logistics, transportation, storage and risk management services to the natural gas liquids market. They currently transact over 15,000 BOE per day of liquids sales with approximately 160 customers and suppliers.

The suppliers and purchasers of Elbow River are generally the major oil and gas and chemical companies in Canada and the United States. Elbow River takes title of the product, arranges transportation and delivery, mainly by rail tank cars, with Elbow River paying for product and transportation. Product prices are normally determined by the spot market price. Elbow River has minimal product risk as the delivery price is generally fixed at the time that Elbow River takes title.

The team at Elbow River operates separately under the Trust's umbrella of companies. All key employees have remained on staff and have been provided with incentives to meet specific EBITDA performance targets over the next three years. The acquisition expands Avenir's Financial Services business unit and continues the diversification strategy.

Elbow River, acquired April 1, 2005, exceeded their 2005 nine-month budget by approximately \$3.3 million. This was due to an exceptionally strong fourth quarter despite below average second and third quarters. Fourth quarter 2005 butane sales were at record levels as the major hurricanes resulted in strong gasoline demand, strong propane sales in December due to early winter weather throughout the U.S., and the specialty products business showed strong growth.

First quarter 2006 is anticipated to be slightly under budget as warm weather blanketed North America at the commencement of 2006 which resulted in virtually no incremental propane demand. The remainder of 2006 is projected to be at or above budget due to continued growth in the specialty products area and good opportunities to profit in propane and butane due to volatility in the market to date.

REVIEW OF FINANCIAL RESULTS

iii. FINANCIAL SERVICE CONTRACTS

In January 2003, Avenir Financial Services Partnership initially acquired a financial services contract with an affiliate of a financial services provider, RentCash Inc. ("RentCash"), to provide funding of \$600,000 for a cash advance company. RentCash provides cash advance, cheque cashing and payday loan services. The Trust expanded its business in the first half of the year with RentCash by entering into additional contracts and at the end of December 2005 there were \$19.9 million in contracts outstanding.

Each contract has terms as outlined below:

- A ten year life;
- The loan's recallable in 30 days at the Trust's option;
- A payment of a fixed fee per amount provided per day at \$0.07 per \$100 loaned per day; and
- Collateralization of the loan by the end user.

The Trust is satisfied the principal loaned is secure and has been paid all interest owing as at December 31, 2005. Although the Trust has not expanded its financial service contracts portfolio since mid year, it continues to be comfortable with the investment and returns based on results to date.

In December of 2003 the Trust entered into a three-year agreement with RentCash to fund a subordinated debenture in the aggregate principal amount of \$2 million and in July 2004 increased the aggregate principal amount by \$1 million to \$3 million. The debenture yielded a monthly coupon on 12% plus additional associated fees of 4% per annum. The debenture was fully repaid in July of 2005.

4. REAL ESTATE BUSINESS UNIT REVIEW

The Trust's acquisition of Western Spirit Investments Ltd. in March of 2004 became the founding corner stone to the real estate business unit in 2005. The Trust approved a \$1,900,000 expansion of one of its buildings in London, Ontario where the current tenant needed to increase lease space, adding 29,343 square feet to the building. The expansion was completed in February 2005, and includes a 10 year triple net fee lease at an approximate 9.59% cap rate.

On February 1, 2005 the Trust sold one of its warehouse buildings in Calgary Alberta. The building was sold for \$3,718,794, approximately 18% more than the purchase price of March 2004. Concurrently, the Trust purchased a fully leased 16,000 square foot shopping plaza in Fort Saskatchewan, Alberta, for total cash consideration of approximately \$2.9 million.

Subsequent to the end of the 2005, on January 31, 2006, the Trust purchased the remaining 50% ownership of its Vaughan, Ontario Snidercroft building from an arm's length third party for \$1,850,000.

The Real Estate business unit currently has over 400,000 square feet of commercial properties located in Toronto and London, Ontario and Edmonton and Calgary, Alberta of which 95% is currently leased.

REVIEW OF FINANCIAL RESULTS

A description of the properties follows:



2305 - 84th Avenue, Edmonton, Alberta

The building was constructed in 1979, and was updated in 1995. This large warehouse and office facility is on a 4.57 acre parcel located in the Sherwood Industrial subdivision and can service Edmonton's industrial sector. It backs onto and has exposure to the Sherwood Park Freeway. The property's 90,800 square feet are fully leased to a manufacturer and distributor of packaging materials.



6732 - 8th Street NE, Calgary, Alberta

This research and manufacturing facility, constructed in 1991, is in the Deerfoot industrial area in northeast Calgary, immediately adjacent to the Calgary International Airport. Built in 1991 by Novatel, this facility comprises approximately 119,600 square feet resting on 9.65 acres which results in site coverage of only 26%. It enjoys convenient access to Deerfoot Trail, and is partially leased to three tenants.



222 Snidercroft Road, Vaughan, Ontario

This office and manufacturing facility is located in Greater Toronto's 600 million square foot industrial market, backing onto Highway 407 in a well-established business park in Vaughan. Built in two stages (1970 and 1980) for the present tenant, this renovated facility comprises approximately 71,000 square feet resting on 4.0 acres, with site coverage of only 29%. The Trust owned a 50% interest in this property and on January 31, 2005



1800 Huron Street, London, Ontario

This manufacturing/warehouse facility sits adjacent to London International Airport in the northeast industrial area of London, Ontario. The tenant is a large automotive parts manufacturer. Built in 1989, the building is fully air-conditioned and comprises approximately 141,300 square feet (after the 2005 expansion) on 12.65 acres.



Station Crossing, Fort Saskatchewan, Alberta

Fort Saskatchewan is 30 kilometres from downtown Edmonton. This shopping plaza is located strategically at the intersection of 99th Avenue (Main Street) and 100th Street in the downtown area of Fort Saskatchewan. The centre is approximately four years old, comprises 16,000 square feet and has generous parking of approximately 107 stalls with convenient access. It sits adjacent to an expanded and upgraded Sobeys Grocery store.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005. This management discussion and analysis relates to events up to March 24, 2006.

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

Funds from operations, funds from operations per unit, net back and working capital (net debt) are not recognized measures under Canadian generally accepted accounting principles (GAAP). Funds from operations is calculated by taking net income and adding back non-cash balances such as depletion, depreciation and amortization, asset retirement obligation accretion, gain on sale of real estate properties, stock based compensation expense, unrealized (gain) loss on financial instruments and future income tax recovery. Working capital (net debt) is calculated by taking current assets less current liabilities including capital lease obligations, mortgages (upon mortgage maturity it is the Trust's intention to renew the mortgages on a long term basis at or below current rates) and long-term debt. Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that "Funds from operations" and "Funds from operations per unit" should not be construed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Distribution Payout Ratio is calculated by dividing the Distributions by the Funds from operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SIGNIFICANT EVENTS FOR THE YEAR ENDED DECEMBER 31, 2005

- **\$126.5 Million Equity Financing in March 2005**

On March 21, 2005 the Trust closed a fully-marketed equity financing at \$10.90 per unit with a syndicate of agents, co-led by Raymond James Ltd. and GMP Securities Ltd. Including the take up under the over-allotment option of 15%, 11,605,504 total units were issued for total proceeds of \$126,499,993. The proceeds of the offering were used to pay down the Trust's credit facility (with respect to the December 2004 PrimeWest acquisition); fund the cash portion of the Val Vista Energy Ltd. acquisition; fund the Elbow River Resources Ltd. transaction and the energy services acquisitions that closed subsequent to the quarter end.

- **Val Vista Energy Ltd. Oil & Gas Acquisition in March 2005**

The Trust acquired all of the issued and outstanding common shares of Val Vista Energy Ltd. ("Val Vista") through its February 2005 take-over offer and subsequent compulsory acquisition take-up. On March 24, 2005 the Trust acquired the outstanding shares of Val Vista for total consideration of \$25,709,437 including the issuance of 1,183,772 Trust Units at \$10.70 per unit. The amalgamation was effective May 1, 2005, with the resulting company continuing to operate under the name Avenir Operating Corp., the Manager of the Trust.

- **Elbow River Resources Ltd. Financial Services Acquisition in April 2005**

On April 1, 2005, the Trust closed the agreement with Elbow River Resources Ltd. ("Elbow River") for consideration of approximately \$57.8 million consisting of \$51.8 million cash and \$6.0 million in the form of escrowed Trust Units. Elbow River's primary business is that of a wholesale marketer, transporter and supplier of butane to major refineries and propane to major retailers in the United States, Canada and Mexico.

- **Additional Cheque Cashing Contracts Added in April 2005**

On April 25, 2005 the Trust announced that in conjunction with the Rentcash Inc. ("Rentcash") acquisition of Instaloes, the Trust had entered into an agreement with the vendors of Instaloes to fund an additional \$5.25 million in customer loan contracts.

- **Energy Services Acquisitions in April and May 2005**

The Trust acquired Millard Oilfield Services (91) Ltd. ("Millard"), Endless Tubing Services Ltd. ("Endless"), Richmond Endless Tubing Services Ltd. ("Richmond") and Cardinal Well Services Ltd. ("Cardinal") for consideration of approximately \$26.1 million less debt and working capital. Millard provides well servicing to the oil and gas industry from its operational base in Medicine Hat, Alberta and owns five free-standing mobile service rigs, ideally suited to the southeast Alberta area. The company operates under the name Millard Oilfield Services Limited Partnership, under the Trust's Energy Services umbrella. Endless and Richmond provide coiled tubing services to the oil and gas industry with a fleet of nine custom built mobile coiled tubing units. Endless and Richmond are also based in Medicine Hat, Alberta and operates under the name Endless Tubing Limited Partnership. Cardinal provides essential oil well services to the oil and gas industry with a fleet of nine rod rig "flush-by" units. Cardinal operates in southern Alberta out of Brooks and Taber and in central Alberta from Red Deer and Drayton Valley.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- **Redemption of Rentcash Inc. \$3.0 million Debentures and Issue of \$1.5 million Contract July 2005**

On July 12, 2005 the Trust reached an agreement with Rentcash to redeem the \$3.0 million it held in the form of debentures with Rentcash for principal value and outstanding interest. The Trust then entered into new financial service contracts for \$1.5 million with terms identical to the pre existing contracts. The total value of contracts outstanding then totalled \$19.9 million. No new contracts have been entered into since July 2005.

- **5% Increase in Monthly Distributions Effective July 2005 Record Date**

With the integration of a number of acquisitions in the first half of 2005 and the continued high commodity prices, the Trust was able to increase monthly distributions in the third quarter. This was the fifth time since inception in 2003 that distributions were increased for a total increase of 65%.

- **Banking Facilities for Energy Business Unit Increased**

On August 5, 2005 Avenir Operating Corp. entered into a syndicated operating loan agreement with a syndicate of two Canadian Banks for \$47,000,000 and a bridge facility for \$15,000,000. The bridge facility was used for the Makah Energy Corp. transaction discussed below and was repaid upon completion of the equity financing on October 4, 2005. In the energy services division, a \$5,000,000 operating line and a \$10,000,000 capital demand facility was put in place on August 31, 2005.

- **Makah Energy Corp. Acquisition in August 2005**

Effective August 4, 2005, the Trust completed the acquisition of Makah Energy Corp. ("Makah"). This acquisition added approximately 650 BOE per day of predominantly sweet gas production that is focused in the Trust's central Alberta core area. The Makah assets are largely operated with high working interests and have excellent drilling opportunities that the Trust is evaluating to either drill or farm-out. Total consideration for the acquisition was \$28.2 million less assumed net debt plus estimated transaction costs.

- **Westvac Service Ltd. Acquisition in August 2005**

On August 31, 2005 the Trust purchased 90% of the shares of Westvac Service Ltd. ("Westvac"), through a partnership structure. Mr. Rod MacDonald, the owner of Westvac, retained a 10% partnership interest and remains with Westvac in the capacity of President, Westvac Service Partnership. Westvac provides production related services to the oil and gas industry with a fleet of 40 vacuum trucks, pressure trucks, steamers and hydro-vacs. Total consideration for the transaction was \$9.0 million less debt and working capital.

- **\$196.2 Million Bought Deal Equity Financing in September 2005**

On September 13, 2005 the Trust entered into an agreement with a syndicate of underwriters (the "Underwriters"), co-led by GMP Securities Ltd. and Raymond James Ltd., and including First Associates Investments Inc., Canaccord Capital Corporation and Acumen Capital Finance Partners Limited, in connection with a "bought deal" trust unit financing by way of short form prospectus. On October 4, 2005 the Trust completed the public offering which was fully subscribed and the Trust issued an aggregate of 11,857,750 trust units at a price of \$12.65 per unit for gross proceeds of approximately \$150,000,000. The underwriters also exercised an underwriters' option to acquire an additional 3,652,550 trust units at a price of \$12.65 per unit for additional proceeds of approximately \$46,205,295. Net proceeds of the financing were used primarily to complete the acquisition of the joint venture that is the sole shareholder of the management company, EnerVest Diversified Management Inc., which acts as the

MANAGEMENT'S DISCUSSION AND ANALYSIS

manager and administrator for EnerVest Diversified Income Trust, and other EnerVest funds, to repay debt incurred in connection with the Trust's previously announced oil and gas acquisition of Makah Energy Corporation and for working capital to fund growth capital expenditures associated with the Trust's business units.

- **EnerVest Diversified Management Inc. Acquisition for \$125.9 million in October 2005**

On October 4, 2005 the Trust successfully completed the acquisition of the privately held joint venture that is the sole shareholder of the EnerVest Diversified Management Inc. ("EnerVest"), Manager of the EnerVest Diversified Income Trust ("EnerVest Trust") and other EnerVest funds. Cypress Capital Management Ltd. ("Cypress") remains as the investment manager of EnerVest. The sale of the joint venture interests had no impact on the investment management agreement between the Manager and Cypress, and EnerVest will continue to operate independently from Avenir. EnerVest Trust is an actively managed, closed-end trust which invests in a diversified portfolio of income, royalty and real estate investment trusts, and limited partnerships, all of which trade on the Toronto Stock Exchange under the symbol "EIT.UN".

- **Richmond Energy Services Acquisition in December 2005**

On December 15, 2005 the Trust entered into an agreement whereby they acquired Richmond Energy Services ("Richmond") an oilfield service company based in Richmond, Saskatchewan approximately 100 kilometres east of Medicine Hat, Alberta. Richmond provides fluid hauling and other services to the oil and gas industry in southwest Saskatchewan with a fleet of 20 vacuum and tank trucks. Total consideration for the acquisition was \$8.0 million cash and the company is forecast to generate EBITDA of approximately \$2.3 million in 2006. Mr. Duncan Au, President of Richmond, joined the Trust as a consultant to lead business development activities in the Energy Services area with an emphasis on acquisitions. Mr. Calvin Giofu remains with Richmond in the position of General Manager providing day to day operational leadership.

- **8% Increase in Monthly Distributions Effective December 2005 Record Date**

With strong third quarter results and a favourable outlook across all business units, the December 2005 cash distribution was increased to \$0.12 per Trust Unit, which was a 7.8% increase over the previous monthly distribution. The distributions were paid on January 16, 2006, to unitholders of record on December 30, 2005.

SUBSEQUENT TO THE YEAR ENDED DECEMBER 31, 2005

Increase in Energy Services Credit Facility from \$10.0 million to \$20.0 million Increase in Energy Services Credit Facility from \$10.0 million to \$20.0 million. Subsequent to the year ended December 31, 2005, the revolving term loan facility was updated and is now with a syndicate of two Canadian banks in the amount of \$20.0 million bearing interest at prime plus three-quarters of one percent.

- **HK Well Service Ltd. Acquisition in February 2006**

In February 2006 the Trust closed the acquisition of HK Well Service Ltd. ("HK") of Medicine Hat. HK operates a fleet of five swab rigs and one flush-by unit. HK's operations will be managed by key staff remaining with HK: Dennis Drescher and Trevor Kurtz.

MANAGEMENT'S DISCUSSION AND ANALYSIS

• Kodiak Coil Tubing Ltd. Acquisition in March 2006

On March 23, 2006 the Trust entered into an acquisition agreement to purchase 90% of the shares of Kodiak Coil Tubing Ltd. ("Kodiak") for total consideration of \$23.65 million less debt and working capital, funded both from existing credit facilities and the issuance of approximately 729,438 units of the Trust. The Trust further agrees to pay an additional contingent amount based on a predetermined multiple times the earnings before interest, depreciation and taxes in excess of \$5.2 million for 2006. Kodiak provides essential production related services to the oil and gas industry with a fleet of ten coiled tubing rigs. Kodiak is based in Brooks, Alberta and provides services across southern Alberta from operational bases in Brooks, Medicine Hat and Three Hills, Alberta. Key people remained with the company.

Selected Annual Information

Year Ended December 31(1)

<i>(thousand of dollars except per unit amounts)</i>	2005	2004	2003	2002	2001
Revenue – oil and gas (net of royalties)	40,668	14,547	3,791	–	–
Total net revenue	369,162	21,907	4,451	187	2
Funds from operations	56,143	10,579	2,363	(71)	(162)
Per unit basic	2.20	1.86	1.28	(0.01)	(0.03)
Net income (loss)	22,939	4,014	447	(71)	(162)
Per share basic	0.90	0.71	0.24	(0.01)	(0.03)
Total net debt incl. working capital & mortgages	(26,694)	(44,769)	4,274	237	(102)
Unitholders' equity	388,679	81,143	14,788	837	(102)
Total assets	583,627	155,315	22,431	2,028	2
Total net capital expenditures	267,124	98,715	16,424	–	–

Note: (1) As the Trust acquired a substantial portion of its business operations on January 16, 2003 through the acquisition of 928719 Alberta Ltd. ("928719"), the summary financial information presented above compares that of the Trust for periods after January 16, 2003 and that of 928719 for periods prior to January 16, 2003.

Selected Quarterly Information

<i>(thousand of dollars except per unit amounts)</i>	Dec 31 2005	Sept 30 2005	June 30 2005	Mar 31 2005	Dec 31 2004	Sept 30 2004	June 30 2004	Mar 31 2004
Total Net Revenue	197,385	96,848	65,949	8,980	11,614	5,328	2,811	2,154
Net Income (loss)	14,207	6,592	2,744	(604)	2,955	781	(145)	423
Net Income (loss) per Unit basic	0.36	0.27	0.11	(0.05)	0.31	0.11	(0.04)	0.15
Funds from Operations	23,153	16,360	9,351	7,279	4,991	2,806	1,439	1,318
Total Assets	583,627	401,227	317,217	274,220	155,315	109,945	66,771	44,888
Distributions paid	13,941	8,389	7,954	4,190	3,053	2,016	847	755
Distributions per Unit basic	0.35	0.34	0.33	0.32	0.32	0.28	0.26	0.27

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Income

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

	For the three months ended		For the Year ended	
	December 31, 2005 \$	December 31, 2004 \$	December 31, 2005 \$	December 31, 2004 \$
Net Income (loss)				
Oil and Gas	4,025,672	2,601,836	7,138,300	2,574,346
Financial Services	11,015,057	561,003	14,845,891	1,293,593
Real Estate	(78,771)	(434,935)	355,452	(314,072)
Energy Services	889,720	227,789	3,412,888	460,584
Corporate	(1,645,014)	-	(2,813,192)	-
Consolidated Net Income	14,206,664	2,955,693	22,939,339	4,014,451

The net income for the year ended December 31, 2005 was \$23,939,339 which is 471% over the \$4,014,541 of net income for the year ended December 31, 2004. The Trust recorded net income of \$14,206,664 for the three months ended December 31, 2005 compared to \$2,955,693 for the three months ended December 31, 2004. The three months ended December 31, 2005 net income was impacted by recognition of \$1,282,621 non-cash mark-to-market opportunity gain related to risk management contracts. Consistent with most oil and gas firms of the Trust's size, the Trust's Oil and Gas division does not follow hedge accounting for these contracts due to onerous monitoring and regulatory requirements.

1. Energy - Oil & Gas Division

The oil and gas net income of \$7,138,300 for the year ended December 31, 2005 versus 2004 of \$2,574,346, a 177% increase, as well as the fourth quarter year over year increase of 55%, is a result of the Prime West acquisition at the end of 2004, the Val Vista acquisition in April 2005, the Makah acquisition in August 2005 and higher commodity prices.

2. Energy - Energy Services Division

Energy Service net income for the year ended December 31, 2005 was \$3,412,888 compared to \$460,584 for the year ended 2004. The 641% increase in net income is mainly due to the acquisitions made throughout 2005 including Millard, Endless, Cardinal, Westvac and Richmond, and the fact that the first energy service acquisition, Cascade, was made in July 2004.

3. Financial Services

The increases in net income in the financial services business unit from \$561,003 in the fourth quarter of 2004 to \$11,015,057 in the fourth quarter of 2005, as well as the increase on a year to date basis over 2004 of \$13,552,298 are due mainly to the additional financial services contracts entered into in the first half of 2005, and the Elbow River and EnerVest acquisitions in April and October of 2005, respectively. Net income for the year ended December 31, 2005 from financial service contracts and debenture interest was \$4,583,923, for Elbow River was \$7,294,766 and for EnerVest was \$2,967,202.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. Real Estate

The Real Estate business unit net income for the year ended December 31, 2005 totaled \$355,452 compared to net loss of \$(314,072) in the year ended December 31, 2004. For the fourth quarter ended December 31, 2005 the net loss was \$(78,771), a % increase over the comparative fourth quarter 2004 which was \$(434,935). The increase in 2005 is largely due to the recognition of a \$222,360 gain on property sales in the first quarter 2005. The Trust did not acquire any real estate properties until the second quarter of 2004.

FUNDS FROM OPERATIONS

Funds from operations were \$56,142,933 (\$2.20 per unit) for the year ended December 31, 2005, up 431% as funds from operations for the year ended December 31, 2004 was \$10,579,736 (\$1.86 per unit). Funds from operations for the fourth quarter 2005 were \$23,152,458 (\$0.58 per unit) up 364%, compared to the fourth quarter 2004 of \$4,991,022 (\$0.53 per unit). The increase in funds from operations was primarily the result of the growth in the Trust's business units, including: oil and gas acquisitions, higher commodity prices, energy service acquisitions and the Elbow River and EnerVest financial service acquisitions.

DISTRIBUTIONS

Of the 2005 distributions, unitholders will treat 0% as a return of capital and 100% as taxable income or return on capital. This varies from the Trust's previous estimates because of a significantly lower payout ratio (61%) than its 75% to 80% target payout ratio. The lower payout ratio, and correspondingly higher retained income, resulted in lower tax deferral of the distributed income to unitholders.

The Trust distributed \$34,473,947 or \$1.35 per unit for the year ended December 31, 2005 which is up 417% over the \$6,671,281 or \$1.17 per unit distributed for the year ended December 31, 2004. For the fourth quarter 2005 the Trust distributed \$13,941,083 (\$0.35 per unit), to unitholders compared to \$3,053,499 (\$0.32 per unit) for the quarter ended December 31, 2004. On July 14, 2005 the Trust announced a 5% increase in the monthly distribution beginning with the July distribution payable August 15, 2005. On November 28, 2005 the Trust announced a further 7.8% increase in the monthly distribution beginning with the December distribution payable January 15, 2005. The year ended 2005 payout ratio was 61% and for the fourth quarter ended December 31, 2005 the payout ratio was 60% of funds from operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Distributable funds from operations and distributable funds from operations per unit for the year ended December 31, 2005 and the year ended 2004 are calculated as follows:

Reconciliation of Unaudited Non-GAAP Financial Measures to GAAP Measures		
Funds Available for Distribution and Retention for the Year ended December 31		
	2005	2004
Net Income	22,939,339	4,014,451
Depletion, depreciation and amortization	27,707,984	7,212,726
Non-cash general and administrative	1,833,070	202,196
Gain on sale of property and equipment	(228,424)	-
Asset retirement obligation accretion	759,689	241,923
Unrealized foreign exchange	281,262	-
Unrealized (gain) loss on financial instruments	6,415,712	(1,159,542)
Future income tax expense (recovery)	(3,827,815)	-
Non-controlling interest	262,116	67,982
Funds from operations	56,142,933	10,579,736
Funds retained for growth and maintenance capital	21,668,986	3,908,455
Distributions declared	34,473,947	6,671,281
Payout ratio	61%	63%

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

Period covered	Date of Distri.bution	Per Unit \$
January 1, 2005 to January 31, 2005	02/15/2005	0.1060
February 1, 2005 to February 28, 2005	03/15/2005	0.1060
March 1, 2005 to March 20, 2005*	04/15/2005	0.0684
March 21, 2005 to March 31, 2005*	04/15/2005	0.0376
April 1, 2005 to April 30, 2005	05/16/2005	0.1060
May 1, 2005 to May 31, 2005	06/15/2005	0.1060
June 1, 2005 to June 30, 2005	07/15/2005	0.1060
July 1, 2005 to July 31, 2005	08/15/2005	0.1113
August 1, 2005 to August 31, 2005	09/15/2005	0.1113
September 1, 2005 to September 30, 2005	10/17/2005	0.1113
October 1, 2005 to October 31, 2005	11/15/2005	0.1113
November 1, 2005 to November 30, 2005	12/15/2005	0.1113
December 1, 2005 to December 31, 2005	16/01/2005	0.1200

* Total March 2005 distribution was split into two pieces to accommodate the closing of the March 21, 2005 equity financing and the resulting increase in the number of units outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUE

1. Oil & Gas

i. Revenue and Production

For the year ended December 31, 2005, oil and gas revenue was \$57,070,728 compared to \$16,528,426 for the same period in 2004. Oil and gas revenues for the fourth quarter 2005 were \$15,907,724, up 92% from the fourth quarter of 2004 which was \$8,283,101, attributable in most part to the Prime West (at the end of December 2004), Val Vista (April 2005) and Makah (August 2005) acquisitions and the higher commodity prices.

Transportation costs for the year ended December 31, 2005 were \$888,393 versus \$264,953 for the year ended December 31, 2004. The increase is a result primarily of increased natural gas production throughout 2005.

Revenue from petroleum and natural gas sales (net of royalties) for the year ended December 31, 2005 was \$40,667,920 up 180% compared to \$14,547,323 for the year ended December 31, 2004. For the fourth quarter 2005 revenue from petroleum and natural gas sales was \$14,121,360 up 72% from \$8,202,615 in the fourth quarter of 2004. The average price received for crude oil and natural gas liquids during the year ended December 31, 2005 was \$48.13 per BOE an increase of 25% versus \$38.53 per BOE received for the year ended December 31, 2004. Natural gas pricing for the year ended December 31, 2005 was \$8.62 per mcf versus \$6.46 per mcf for 2004. The fourth quarter of 2005 average was \$43.18 per barrel, up 2% from \$42.16 in the fourth quarter of 2004. As well in the fourth quarter ended December 31, 2005 natural gas averaged \$10.83 per mcf, up 65% from the 2004 fourth quarter average of \$6.56 per mcf.

Although the Trust's Oil and Gas division hedges a portion of its production to add stability to its distributions, to guard against fluctuations in commodity prices and to support acquisition economics, it has been determined that its oil swap transaction does not qualify under new hedge accounting guidelines. Accordingly, the Trust recorded a hedging cost of \$2,819,977 for the year ended December 31, 2005 and \$1,183,482 for the fourth quarter of 2005. In addition, the accounting treatment requires the Trust to recognize an unrealized loss of \$(6,415,712) for the change in the mark to market position on existing contracts at December 31, 2005.

Average daily sales volumes for the year ended December 31, 2005 were 3,198 BOE per day up 177% over 2004 sales volumes of 1,153 BOE per day. Product sales during the fourth quarter ended December 31, 2005 averaged 3,213 BOE per day, up 46%, compared to 2,206 BOE per day in the fourth quarter of 2004. Fourth quarter 2005 sales consisted of 1,647 bbls per day of crude oil and natural gas liquids and 9,398 mcf per day of natural gas (compared to 813 bbls per day and 8,357 mcf per day for the fourth quarter 2004, respectively). The 103% increase in oil and liquids sales came mostly from acquisitions in December of 2004. The 12% increase in natural gas sales was the result of the natural gas assets acquired in the Val Vista and Makah corporate acquisitions completed in March and August of 2005. It should be noted that the reported sales volumes above differ from actual production in the fourth quarter for two reasons. First, gas sales exceeded production during the third quarter resulting in an inventory short fall on the TCPL/Nova system. Retiring this inventory shortfall reduced reported gas sales for the fourth quarter by 1,086 mcf per day (181 BOE per day). The second reason is a prior period adjustment resulting from acquisition transactions that reduced reported sales by a further 109 BOE per day. Actual fourth quarter production was therefore 3,506 BOE per day, a 59% increase over the fourth quarter of 2004. Fourth quarter 2005 oil and natural gas liquid production was 1,705 bbls per day, an increase of 110% over the fourth quarter of 2004 and gas production was 10,807 mcf per day, an increase of 29% over the fourth quarter of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ii. Royalties

The Trust's royalty costs net of ARTC for the year ended December 31, 2005 were \$9,098,703 compared to \$2,875,692 for the previous year. The quarter ended December 31, 2005 was \$2,765,724 up 78% over the fourth quarter 2004 of \$1,557,813. On a BOE basis, royalty costs averaged \$7.79 per BOE for the year ended December 31, 2005, which is up 14% over the same 2004 period cost of \$6.81 per BOE due mostly to higher natural gas prices. Royalties averaged 17.39% in the fourth quarter of 2005 and 15.94% for the year ended December 31, 2005 compared to 18.8% for the fourth quarter 2004 and 17% for the year end 2004, reflecting a higher percentage of natural gas, newer wells and additional ARTC in 2005.

iii. Operating Expenses

The Trust's operating costs for the year ended December 31, 2005 were \$13,867,868 or \$11.98 per BOE compared to \$3,089,847 or \$7.32 for the year ended December 31, 2004. The quarter ended December 31, 2005 had operating costs of \$3,584,411, up 145% over the fourth quarter 2004 of \$1,460,330, as a result of increased production due to the acquisitions in December 2004 and April and August 2005. On a BOE basis, operating costs averaged \$12.51 per BOE in the period, which is up 88% over the fourth quarter 2004 cost of \$6.64 per BOE. Fourth quarter 2005 operating costs reflect the impact of the same factors as were discussed in the section on production in i. above. Adjusting for the inventory imbalance issue and prior period adjustments reduces operating expense in the fourth quarter to approximately \$11.47 per BOE. The percentage increase over the same period in 2004 is 59% on this basis which reflects an increase in higher cost oil production in southern Alberta along with general cost increases in the oil and gas industry. Operating costs are down slightly from the second and third quarters due to a reduction in turnarounds and other facility maintenance costs.

iv. Netbacks

	2005				2004			
	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE
Gross revenue after hedging	52.79	54.83	41.65	41.77	38.95	37.56	38.11	37.19
Royalties	9.36	7.99	6.00	7.82	7.68	6.58	6.12	5.07
Operating costs	12.51	12.07	12.51	10.63	6.64	7.35	8.61	6.29
Operating netback	30.93	34.77	23.15	23.32	24.64	23.63	23.38	25.83

2. ENERGY SERVICES

i. Revenue

Revenue for the Energy Services division totaled \$33,867,321 for the year ended December 31, 2005 an increase of 773% versus \$3,877,905 for the year ended December 31, 2004. The increase reflects the new acquisitions made throughout 2005 but also the organic growth and rate increases within the division. As well the first energy service acquisition was not made until half-way through 2004, and the number is therefore reflective of only a six month period. Revenue for the quarter ended December 31, 2005 was \$13,140,142 compared with \$2,384,593 for the same period in the prior year. The increase again is mainly due to the 2005 acquisitions of Millard, Endless, Cardinal, Westvac and Richmond.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ii. Operating Costs

The Trust's operating costs for Energy Services for the year ended December 31, 2005 were \$17,837,423 compared to \$1,915,684 for the year ended December 31, 2004. The quarter ended December 31, 2005 had operating costs of \$7,400,435, up 549% over the fourth quarter 2004 of \$1,139,526. Both of these increases reflect the growth from the acquisitions in 2005, but also the upward pressure on wages and fuel costs felt throughout the industry.

3. FINANCIAL SERVICES

i. Revenue

The Trust recognized revenue in the financials services business unit of \$291,318,820 for the year ended December 31, 2005 up substantially over the year ended December 31, 2004 of \$1,358,908. The revenue for the fourth quarter 2005 was up substantially as well at \$169,485,617 compared to \$576,090 in the fourth quarter of 2004. The increase is primarily due to the acquisition of Elbow River which provided revenue of \$278,494,620 for the year ended December 31, 2005. Elbow River is a high revenue low margin (4.5% - 5.0%) brokerage marketing business. The EnerVest management contract in October 2005 also provided revenue of \$4,490,313. An additional \$11,000,000 in cheque cashing contracts also contributed to the increase.

ii. Operating Costs

The Trust's operating costs for Financial Services for the year ended December 31, 2005 were \$269,092,359 compared to \$12,000 for the year ended December 31, 2004. The quarter ended December 31, 2005 had operating costs of \$154,931,281, up over the fourth quarter 2004 of \$12,000. The operating costs are almost entirely due to the matching of operating and product costs at Elbow River to the large revenue explanation above in 3(i).

4. REAL ESTATE

i Revenue

The revenue from the Real Estate business unit for the year ended December 31, 2005 was \$2,946,194 compared to \$2,018,475 for the year ended 2004. Since the real estate assets were brought into the Trust on March 31, 2004, through the Western Spirit acquisition and therefore the 2004 numbers only reflect nine months of revenue. For the three months ended December 31, 2005 revenues totaled \$740,131 versus \$449,457 for the same period in 2004. Revenue was higher due to the additional rent for the expanded building in London, Ontario and a vacancy filled in one of the Trust's warehouse buildings in Calgary.

ii. Operating Costs

The Trust's operating costs for Real Estate for the year ended December 31, 2005 were \$912,626 compared to \$753,942 for the year ended December 31, 2004. The quarter ended December 31, 2005 had operating costs of \$230,656, up 160% over the fourth quarter 2004 of \$88,798, as 2004 included prior period adjustments for utilities.

iii. Interest

There are various mortgages with interest rates ranging from 4.24% to 7.24% (weighted average 5.12%), maturities from September 2006 to February 2010. During 2005, the mortgages for two of the Trust's real estate properties matured. One mortgage was renewed for a total amount of \$2,290,000 at a rate of 4.849% for a term of five years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The second mortgage was renewed for a total amount of \$1,631,296 at a rate of 4.25% for a term of six months. Currently the Real Estate business unit leases 95% of its space.

City	% Ownership	% Leased	Square Footage
Edmonton, AB	100%	100	90,800
Fort Saskatchewan, AB	100%	100	16,000
Calgary, AB	100%	82	119,553
Vaughan, ON*	100%	100	71,000
London, ON	100%	100	141,343
Total			454,696

* At December 31, 2005 the Trust owned 50% of the Vaugh, Ontario building. The remaining 50% was purchased on January 31, 2006.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative ("G&A") expenses for the year ended December 31, 2005 were \$15,993,931 (which includes corporate costs of \$2,522,527) compared to \$3,342,700 for the year ended December 31, 2004. During the fourth quarter 2005 G&A expenses were \$7,593,106 (which includes corporate costs of \$1,324,326), up from the fourth quarter 2004 amount of \$1,632,460. G&A expenses for the respective business units are: \$3,107,186 for oil and gas, \$318,072 for real estate, \$4,248,427 for financial services, and \$5,797,719 for energy services. The 378% increase in G&A expenses in 2005 is the result of significant staff additions in the energy service division and in Elbow River, the additional reporting and regulatory costs of being a TSX listed company and increased costs associated with multiple business units.

Interest and Bank Fees

Interest expense and bank fees were \$3,021,141 for the year ended December 31, 2005 and \$645,016 for the quarter ended December 31, 2005. For the quarter and for the year ended December 31, 2004, interest expense and bank fees were \$1,117,438 and \$511,456 respectively. Interest expense for the fourth quarter of 2005 includes bank fees of \$34,748. The oil and gas division accounted for \$1,317,409 of the interest expense for the year ended December 31, 2005 primarily as a result of approximately \$30 million of debt that was carried for most of the first quarter of 2005 for the Prime West acquisition and approximately \$57 million of debt that was carried in the third quarter relating to the acquisition of Makah. The financial services division accounted for \$265,516 of interest expense the majority of which relates to the outstanding balance on the banking facility for Elbow River. Most of the remaining interest expense was in the real estate division where the Trust had \$13,888,504 in mortgages outstanding at the year ended December 31, 2005 versus December 31, 2004 mortgages of \$12,133,681.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was \$27,707,984 for the year ended December 31, 2005 compared to \$7,212,726 for the year ended December 31, 2004. The fourth quarter 2005 totaled \$8,829,081 compared to \$3,534,913 for the same period in 2004, with the Trust's depletion and depreciation rate at \$15.45 per BOE up from the \$12.87 per BOE rate in the fourth quarter of 2004. The depletion rate reflects the higher cost per BOE of acquisitions in the current market. For the year ended December 31, 2005, \$17,479,232 of the depletion and depreciation cost for oil and gas assets, \$6,270,498 is depreciation and amortization cost in Energy Services, \$2,927,671 is the amortization of intangibles in Financial Services and \$1,030,583 is the depreciation and amortization cost in real estate.

Asset Retirement Obligations

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$11,479,561 as at December 31, 2005 based on a total future liability of \$25,388,051. These payments are expected to be made over the next 2 to 31 years. The Trust's credit adjusted risk free rate of 8.5% and an inflation rate of 2% were used to calculate the present value of the asset retirement obligation.

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

	2005	2004
	\$	\$
Carrying amount, as at January 1	8,033,301	1,312,965
Oil and gas property acquisitions during the period	2,629,734	6,065,739
Oil and gas dispositions during the year	(265,786)	-
Oil and gas operations during the period	606,983	412,649
Abandonment cost incurred during the period	(284,360)	-
Asset retirement obligation accretion for the period	759,689	241,948
Carrying amount, as at December 31	11,479,561	8,033,301

MANAGEMENT'S DISCUSSION AND ANALYSIS

Income Taxes

The Trust does not provide for current income taxes, as it expects that all taxable income will be passed to unitholders in the form of distributions. Future income tax recovery totaled \$3,821,827 for the year ended December 31, 2005 and a liability of \$60,536 for the quarter ended December 31, 2005. The future income tax recovery for the year resulted from the recognition of the future tax benefits of the unrealized loss on the Trust's fixed price commodity transactions. In addition, the Trust recognized a small adjustment due to the recognition of future income tax benefits of loss carry forwards not previously recognized. 2005 capital tax of \$601,891 reflects the growth in the asset base of the Trust and the Saskatchewan resource surcharge for the Prime West properties, versus \$138,598 recorded in 2004.

Risk Management and Financial Instruments

The Elbow River business within the Trust sells natural gas liquids product in the United States and Canada, which can give rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The following table details those transactions that qualify for hedge accounting as at December 31, 2005.

Under hedge accounting the unrealized loss below is not required to be reflected in the financial statements:

Commodities hedging contracts:

Settlement dates	Volume (bbl)	Prices \$/(bbl)	December 31, 2005 Unrealized gain (loss) \$
January, 2006	545,755	33.92 - 79.55	1,257,792
February, 2006	248,805	33.92 - 73.42	261,280
March, 2006	58,400	36.44 - 79.55	133,607
April, 2006	28,000	65.84 - 79.55	(51,702)
May, 2006	28,000	65.84 - 79.55	(64,050)
June, 2006	28,000	65.84 - 79.55	(74,046)
	936,960		1,462,881
		Exchange rate	1.1659
		Total CDN dollars	1,705,573

Forward exchange contracts:

Term Due	Amount	Forward Rates	December 31, 2005 Unrealized Gain (loss) \$
January, 2006	1,079,700	1.1501 - 1.2272	280,987
February, 2006	12,615,000	1.1484 - 1.2105	233,499
March, 2006	2,375,000	1.1491 - 1.1904	140,286
April, 2006	9,700,000	1.1465 - 1.2243	(131,746)
May, 2006	150,000	1.1623 - 1.1623	(540)
Total US dollars	25,919,700		522,486
Exchange rate	1.1659		1.1659
Total CDN dollars	30,219,778		609,166

MANAGEMENT'S DISCUSSION AND ANALYSIS

The net unrealized loss of \$2,314,739 is offset by the increase in the market value of the inventory over the carrying cost as at December 31, 2005.

The following table presents a reconciliation of the risk management liability and the deferred financial instrument loss for those transactions that do not qualify for hedge accounting:

	2005 \$	2004 \$
Risk management asset (liability), January 1	1,147,127	(125,676)
Change in mark-to-market unrealized gain (loss)	(6,415,712)	1,159,542
Change in recognized loss relating to expired contracts	12,415	113,261
Risk management asset (liability), December 31	(5,256,170)	1,147,127

The Trust has the following forward contracts outstanding as at December 31, 2005 (note: these do not qualify for hedge accounting):

- A fixed price AECO natural gas swap for the period November 1, 2004 to October 31, 2006 on 700 gigajoules ("GJ")/day of gas at a price of \$7.17 Cdn/GJ
- A fixed price AECO natural gas swap for the period November 1, 2006 to October 31, 2007 on 700 GJ/day of gas at a price of \$6.64 Cdn/GJ
- A fixed price West Texas Intermediate ("WTI") swap for the period January 1, 2005 to December 31, 2006 on 200 barrels/day of crude oil at a price of \$40.50 US/Bbl
- A fixed price WTI collar for the period November 1, 2004 to October 31, 2007 on 70 barrels/day of crude oil with a floor price of \$38.00 US/Bbl and a ceiling price of \$44.65 US/Bbl
- A fixed price WTI floor for the period December 1, 2004 to November 30, 2007 on 170 barrels/day of crude oil with a floor price of \$40.00 US/Bbl
- A fixed price WTI floor for the period from July 1, 2005 to June 30, 2006 on 200 barrels/day of crude oil with a floor of \$52.50 and the Trust participates in 75% of the upside above the floor price

Credit Risk

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

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

The Trust's financial services contracts are with an affiliate of RentCash, a public company which trades on the Toronto Stock Exchange, and its chain of cash advance stores. The stated return on the financial services contracts and the principal are subject to significant credit risk. The Trust has attempted to mitigate this risk by advancing amounts to various counterparties; however, credit risk remains. Under the Trust's revenue recognition policy, fees earned on these contracts are adjusted to reflect anticipated credit losses. No credit loss provision currently exist, but a credit loss provision will be established when management deems the risk to be significant.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Liquidity and Debt

At December 31, 2005 in relation to its oil and gas division, the Trust has a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$47,000,000 bearing interest ranging from prime plus one-quarter of one percent to prime plus one percent depending on the debt to cash flow ratio of the Trust. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. As at December 31, 2005, \$23,080,000 was drawn on the revolving demand facility.

The Trust also has an extendible revolving loan facility with another major Canadian bank in the amount of \$5,000,000 bearing interest at prime plus one-half of one percent. In addition, the Trust has an extendible revolving term loan facility in the amount of \$10,000,000 bearing interest at prime plus three-quarters of one percent. These facilities are available for the operations and acquisitions in the Trust's energy services division. As at September 30, 2005, \$950,000 was drawn on the revolving loan facility and \$9,931,000 was drawn on the revolving term loan facility. Subsequent to year end, the revolving term loan facility was updated and is now with a syndicate of two Canadian banks in the amount of \$20,000,000, bearing interest at prime plus three-quarters of one percent.

The Trust has a demand revolving loan with a Canadian bank in the amount of \$30,000,000 and a foreign exchange loan in the amount of \$10,500,000 bearing interest at bank prime plus one quarter of a percent or US bank base rate plus one quarter of a percent. The facility is primarily used to provide credit for natural gas liquids inventory purchases through its subsidiary Elbow River Marketing Partnership. As at December 31, 2005, \$24,920,771 was drawn on the demand loan facility.

The average effective interest rate on borrowings under all of the above lines for the year ended December 31, 2005 including services fees was 6.12% (December 31, 2004 – 4.66%).

As at December 31, 2005, the Trust also had 21 letters of credit outstanding in the aggregate maximum amount of \$1,372,383 to provide Elbow River Marketing Partnership with additional credit on natural gas liquids inventory purchases, the Trust also has guarantees to third parties for an amount up to \$32,659,619. These guarantees provided by the Trust, to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

On September 1, 2005, the Trust borrowed \$7,500,000 from a third party to fund additional opportunities in its Elbow River business. The note payable bore interest at 12% and was repayable November 30, 2005 with the option to extend the due date based on mutual agreement of both parties. The option was extended and was repaid February 28, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Payments due by period

	Total	Less than 1 year	1 – 3 years	4+ years
Capital lease obligations	480,648	155,127	270,143	55,378
Mortgages	13,888,504	7,684,571	6,124,236	79,697
Long-term debt	2,283,945	1,159,521	1,124,424	–
Lease Commitments	17,838,711	4,352,868	10,472,099	3,013,744
Total Contractual Obligations	34,491,808	13,352,087	17,990,902	3,148,819

Ongoing operations and capital expenditures will be managed by existing funds from operations and the availability of the Trust's current revolving demand facility and proposed future financings. During 2005 the Trust renewed \$3,921,296 in mortgages, one totaling \$2,290,000 for 5 year term at a rate of 4.849% and another totaling \$1,631,296 for a nine month term @ a rate of 4.25%.

As at December 31, 2005, the Trust had inventory of \$31,786,855 consisting of \$31,626,872 in pre-sold natural gas liquids inventory and \$159,983 in energy services equipment and parts. Also at December 31, 2005, the Trust held 500,000 shares of a Toronto Stock Exchange listed junior oil and gas company recorded at a cost of \$12,500, but with a market value of \$3.5 million.

Investment and Capital Expenditures

	Year Ended December 31, 2005 \$	Year Ended December 30, 2004 \$
Land	565,323	14,985
Drilling	4,569,844	1,455,743
Production equipment and facilities	3,489,314	494,292
Other	343,250	–
Development expenditures	8,967,731	1,965,020
Oil and gas acquisitions	41,272,738	–
Energy services acquisitions	39,786,992	3,450,668
Financial services acquisitions	178,507,589	–
Real estate acquisitions	2,915,290	18,309,592
Oil and gas property acquisitions	3,090,790	74,269,334
Financial services development expenditures	70,335	–
Real estate development expenditures	162,355	–
Energy services property and equipment	12,502,603	2,196,693
Proceeds received on oil and gas property dispositions	(7,679,390)	(1,513,906)
Proceeds received on energy services dispositions	(69,066)	–
Proceeds received on real estate property dispositions	(3,718,794)	–
Other assets	283,006	37,329
Net capital expenditures	267,124,448	98,714,730

Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas as at December 31, 2005 are as follows:

- A physical fixed price sale for the period November 1, 2004 to October 31, 2007 on 1,050 gigajoules/day of gas at a price of \$6.55/ gigajoule.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Elbow River Marketing division of the Trust also had the following fixed price and fixed volumes future contracts relating to its ethanol operations:

Futures contracts:			December 31, 2005 Unrealized gain (loss)
Settlement dates	Volume (bbl)	Prices \$/(bbl)	\$
February, 2006	4,143	82.88 – 87.36	15,080
June, 2006	3,452	74.76 – 88.20	46,400
July, 2006	3,452	74.76 – 88.20	46,400
August, 2006	3,452	74.76 – 88.20	46,400
	14,499		154,280
		Exchange rate	1.1659
		Total CDN dollars	179,875

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

The payments over the remaining terms are as follows:	\$
2006	4,352,868
2007	4,115,010
2008	3,629,466
2009	2,727,623
2010	1,966,801
2011	687,213
2012	292,230
2013	67,500
	17,838,711

Unitholder Capital

Trust Units	Number of Units	Amount \$
Balance December 31, 2003	2,766,836	15,851,942
Units issued on Western Spirit corporate purchase	332,500	2,992,512
Units issued on financing June 28, 2004	3,833,300	28,749,750
Units issued on Cascade Partnership purchase	266,667	2,000,000
Units issued on financing November 14, 2004	4,472,221	40,250,000
Trust unit issue costs	–	(5,181,954)
Balance December 31, 2004	11,671,524	84,662,250
Units issued on financing March 21, 2005	11,605,504	126,499,993
Units issued on Val Vista acquisition	1,183,772	12,666,361
Units issued on Westvac acquisition	170,454	2,250,000
Units issued on financing October 4, 2005	15,510,300	196,205,295
Trust unit issue costs	–	(20,365,534)
Balance December 31, 2005	40,141,554	401,918,365

For the fourth quarter ended and the year ended December 31, 2005 the Trust had weighted average trust units outstanding of 39,635,783 and 25,500,884, respectively. The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in trust units of 39,715,661 and 25,573,174 for the fourth quarter ended and the year ended December 31, 2005, respectively. As at December 31, 2005 the total units outstanding

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Trust were 40,141,554 (not including units under escrow of 550,458 relating to the Elbow River acquisition).

Related Party Transactions

During the year ended December 31, 2005, the Trust paid \$123,604 (December 31, 2004 - \$106,414) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable is \$17,144 owing to Avenir relating to administration and advisory services and included in accounts receivable is \$107,000 owing from Avenir relating to consulting services provided during 2005.

During the period the Trust paid \$500,000 to a non-management director of the Trust for consulting fees relating to services provided in connection with the closing of the Elbow River acquisition which has been recorded as transactions costs.

During the year ended December 31, 2005, the Trust incurred marketing fees of \$72,000 (December 31, 2004 - \$75,690) payable to a company with a shareholder who is also a director of the Trust.

Risks and Uncertainties

Federal Government Income Trust Review

On September 5, 2005, the Federal Government of Canada issued a consultation paper regarding the income trust sector and began a period of discussion with the tax department, and affected stakeholders. The consultation paper, and signals out of Ottawa, had a negative impact on the market value of the Trust sector in the fourth quarter at large. The reversal of the decision from the Department of Finance in late November resulted in an increase in the market value, returning to pre-announcement levels.

Business Risks

Within each of the business units of the Trust there are a number of risks that can affect the amount of funds available for distribution to unitholders and the ability to grow. These risks include but are not limited to:

a) Oil and Gas

- Fluctuations in commodity prices, exchange rates and interest rates;
- Government and regulatory risk with respect to royalty and income tax regimes;
- Operational and geological risk that may affect the quality and recoverability of reserves; and
- Capital markets risk and the ability to finance future growth.

b) Energy Services

- Seasonality with lower third quarter and higher fourth and first quarter activity;
- Commodity prices and health of oil and gas production companies;
- Availability of skilled workers;
- Ability to retain key customers; and
- Environmental and safety risks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

c) Financial Services

Cheque cashing:

- Negative regulatory regime change in payday loan business; and
- Key relationship in financial services business with payday loan provider;

Elbow River:

- Energy market division relies on rail transportation; and
- Ability to maintain key customer relationships to protect energy market revenues.
- Seasonality with higher first and fourth quarter results.
- Price volatility in natural gas liquids provides opportunity and risk.

EnerVest:

- Fluctuations in the underlying unit and stock prices of the funds under management.

d) Real Estate

- Interest rates and strong economic environment are key drivers in real estate division; and
- Loss of key tenants could impact real estate profits due to large fixed expenditures relating to commercial properties.

The Trust strives to mitigate these risks by:

- Following a diversification strategy – no individual risk could have a significant impact on the Trust's results;
- Employing experienced incentivized personnel in all divisions;
- Hedging energy marketing transactions to lock in margins;
- Fixing commodity prices on a portion of oil and gas volumes to ensure stability of cash available for distribution and to support acquisition economics;
- Marketing to selected credit worthy customers;
- Maintaining prudent financial leverage;
- Managing mortgage terms to rental leases and monitoring financial status of tenants;
- Adhering to strict environmental, health and safety programs; and
- Maintaining strong relationships with investment community and capital providers.

For a discussion of additional business risks, see "Risk Factors" detailed in the Annual Information Form dated March 31, 2006 available on SEDAR (www.sedar.com).

Sensitivities

The following table shows the estimated sensitivity of 2006 cash flows to changes in pricing, interest and volume based on December 31, 2005 year end exit production rate of approximately 3,500 BOE per day with debt and hedges in place at that time:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pricing	\$	Change	Per unit
WTI (+US\$1.00) Oil	\$1.00	\$366,414	\$0.01
AECO (+Cdn\$0.25) Gas	\$0.25	\$802,389	\$0.02
Interest (+/-1.0%)	1.0%	\$483,715	\$0.01
Volume			
Oil & Natural Gas Liquids (+100 BOE/d)	+100	\$795,872	\$0.02
Natural Gas (+1.0 mmcf/d)	+1.0	\$1,785,623	\$0.04

CRITICAL ACCOUNTING ESTIMATES

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

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

Reserve Estimates

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Asset Retirement Obligations

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

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired and was a result of various acquisitions, is assessed by the Trust for impairment at least annually. Goodwill was allocated to the business unit at the time of the acquisition based on the respective book values compared to fair values. If it is determined that the fair value of the assets and liabilities of the business units is less than the book value of the business unit at the time of assessment, an impairment amount is determined by deducting fair value from the book value and applying it against the book balance of goodwill. The offset is charged to the consolidated statement of operations as additional DD&A.

Income Taxes

The Trust's operating entity is a taxable entity under the Tax Act and is taxable only on income that is not distributed or distributable to Unit holders. As the Trust distributes all of its taxable income to the Unit holders pursuant to the Trust Indenture and meets the requirements of the Tax Act applicable to the Trust, no provisions for income taxes have been made.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Trust is accumulated and communicated to the Trust's management as appropriate to allow timely decisions regarding required disclosure. The Trust's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings that the Trust's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Trust is made known to them by others within the Trust. It should be noted that while the Trust'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.

Recent Accounting Pronouncements and the Impact on the Trust

Comprehensive Income, Financial Instruments and Hedges

The CICA issued new standards in early 2005 for Comprehensive Income (CICA 1530), Financial Instruments (CICA 3855) and Hedges (CICA 3865), which will be effective for the reporting year-end 2007. The new standards will bring Canadian rules in line with current rules in the US. The standards will introduce the concept of "Comprehensive Income" to Canadian GAAP and will require that an enterprise (a) classify items of comprehensive income by their nature in a financial statement and (b) display the accumulated balance of comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Derivative contracts will be carried on the balance sheet at their mark-to-market value, with the change in value flowing to either net income or comprehensive income. Gains and losses on instruments that are identified as hedges will flow initially to comprehensive income and be brought into net income at the time the underlying hedged item is settled. It is expected that this standard will be effective for the Trust's 2007 reporting. Any instruments that do not qualify for hedge accounting will be marked-to-market with the adjustment (tax effected) flowing through the income statement.

OUTLOOK

We continue to evaluate opportunities in all three segments of our Trust and are confident that we will continue to grow in size, liquidity, diversity, cash flow and in distributions, as we have demonstrated since our inception.

We now have critical mass to grow internally rather than through acquisitions; through new product growth in the Elbow River business; through increasing the management fees within EnerVest; through additional equipment in Energy Services; and by development drilling and re-completions in the Oil and Gas division.

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

Submitted on behalf of:



William M. Gallacher
President & CEO



Gary Dundas
Vice President Finance & CFO

Consolidated Financial Statements

MANAGEMENT'S REPORT

To the Unitholders of Avenir Diversified Income Trust

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

The Board of Directors and management have established corporate governance practices that are consistent with guidelines set out in the report issued by the Toronto Stock Exchange Committee on Corporate Governance in Canada.

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

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



William Gallacher
President & Chief Executive Officer



Gary Dundas
Vice-President Finance & Chief Financial Officer

Consolidated Financial Statements

AUDITORS' REPORT

To the Unitholders of Avenir Diversified Income Trust

We have audited the consolidated balance sheets of Avenir Diversified Income Trust as at December 31, 2005 and 2004 and the consolidated statements of operations and accumulated earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

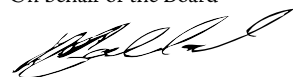
Chartered Accountants
Calgary, Alberta
March 24, 2005

CONSOLIDATED BALANCE SHEETS

As at December 31,	2005 \$	2004 \$
ASSETS <i>[note 9]</i>		
Current		
Cash	6,767,724	327,217
Restricted cash <i>[notes 4 and 11]</i>	366,057	160,227
Accounts receivable and prepaid expenses <i>[note 20]</i>	95,663,009	9,847,972
Inventory	31,786,855	—
Marketable securities	12,500	—
Notes receivable <i>[note 5]</i>	1,050,000	—
Risk management asset <i>[note 17]</i>	—	1,147,127
	135,646,145	11,482,543
Property and equipment <i>[notes 3, 6, 11 and 13]</i>	204,615,394	120,822,688
Investment in financial services contracts <i>[note 7]</i>	20,440,209	12,472,055
Intangibles and other assets <i>[notes 3 and 8]</i>	146,572,446	2,356,422
Goodwill <i>[note 3]</i>	76,352,738	8,181,145
	583,626,932	155,314,853
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 9]</i>	58,881,771	31,475,000
Accounts payable and accrued liabilities <i>[note 20]</i>	68,922,316	9,470,009
Distributions payable <i>[note 25]</i>	4,883,041	1,237,182
Deferred revenue	200,439	230,805
Due to non-controlling interest owner	43,674	66,667
Risk management liability <i>[note 17]</i>	5,256,170	—
Notes payable <i>[note 10]</i>	7,500,000	—
Current portion of capital lease obligations <i>[note 12]</i>	155,127	32,459
Current portion of long-term debt <i>[note 13]</i>	1,159,521	693,888
Current portion of mortgages <i>[note 11]</i>	7,684,571	5,024,920
	154,686,630	48,230,930
Capital lease obligations <i>[note 12]</i>	325,521	—
Mortgages <i>[note 11]</i>	6,203,933	7,108,761
Long-term debt <i>[note 13]</i>	1,124,424	911,775
Asset retirement obligation <i>[note 14]</i>	11,479,561	8,033,301
Future income taxes <i>[note 22]</i>	20,123,076	9,626,982
Non-controlling interest <i>[note 18]</i>	1,004,965	259,755
Commitments and contingencies <i>[notes 9 and 21]</i>		
Unitholders' equity		
Unitholder capital <i>[note 15]</i>	401,918,365	84,662,250
Contributed surplus <i>[note 15]</i>	2,136,030	322,064
Accumulated earnings	27,623,526	4,684,187
Accumulated cash distributions	(42,999,099)	(8,525,152)
	388,678,822	81,143,349
	583,626,932	155,314,853

See accompanying notes to the consolidated financial statements

On behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS

	2005	2004
For the year ended December 31,	\$	\$
REVENUE		
Oil and gas revenue	57,070,728	16,528,426
Oil and gas transportation costs	(888,393)	(264,953)
Royalties, net of ARTC	(9,098,703)	(2,875,692)
Unrealized gain (loss) on financial instruments <i>[note 17]</i>	(6,415,712)	1,159,542
	40,667,920	14,547,323
Real estate revenue	2,946,194	2,018,475
Energy services revenue	33,867,321	3,877,905
Financial services revenue	291,318,820	1,358,908
Interest and other revenue	133,345	104,705
Gain on sale of property and equipment	228,424	—
	369,162,024	21,907,316
EXPENSES		
Oil and gas operating	13,867,868	3,089,847
Real estate operating	912,626	753,942
Energy services operating	17,837,423	1,915,684
Financial services operating	269,092,359	12,000
General and administrative <i>[notes 16 and 20]</i>	15,993,931	3,342,700
Foreign exchange	(6,528)	—
Short-term interest and bank fees	2,014,725	405,300
Long-term interest	1,006,416	712,138
Capital taxes	601,891	138,598
Depletion, depreciation and amortization	27,707,984	7,212,726
Asset retirement obligation accretion <i>[note 14]</i>	759,689	241,948
	349,788,384	17,824,883
Income before income tax and non-controlling interest	19,373,640	4,082,433
Future income tax recovery <i>[note 22]</i>	3,827,815	—
Net income before non-controlling interest	23,201,455	4,082,433
Non-controlling interest <i>[note 18]</i>	(262,116)	(67,982)
Net income for the year	22,939,339	4,014,451
Accumulated earnings, beginning of year	4,684,187	669,736
Accumulated earnings, end of year	27,623,526	4,684,187
Net income per unit <i>[note 15]</i>		
Basic	0.90	0.71
Diluted	0.90	0.70

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005	2004
For the year ended December 31,	\$	\$
OPERATING ACTIVITIES		
Net income for the year	22,939,339	4,014,451
Add (deduct) non-cash items:		
Gain on sale of property and equipment	(228,424)	—
Non-cash general and administrative [note 16]	1,833,070	202,196
Depletion, depreciation and amortization	27,707,984	7,212,726
Asset retirement obligation accretion	759,689	241,923
Unrealized loss (gain) on financial instruments	6,415,712	(1,159,542)
Unrealized foreign exchange	281,262	—
Future income tax recovery	(3,827,815)	—
Non-controlling interest	262,116	67,982
Funds from operations	56,142,933	10,579,736
Asset retirement costs incurred during year [note 14]	(284,360)	—
Change in non-cash working capital [note 24]	(56,605,025)	(2,888,095)
Cash (used in) provided by operating activities	(746,452)	7,691,641
FINANCING ACTIVITIES		
Issue of trust units, net of issue costs	302,320,650	63,817,796
Distributions to unitholders	(30,828,088)	(5,676,063)
Increase in bank indebtedness	16,146,870	26,970,000
Increase in note payable	7,500,000	—
Increase in note receivable	(1,050,000)	—
Repayment of subordinated debt	(192,271)	—
Increase in mortgages	4,118,411	—
Repayment of mortgages	(2,363,588)	(313,649)
Repayments of capital lease obligations	(110,515)	(61,162)
Increase in long-term debt	266,233	408,645
Repayment of long-term debt	(3,796,395)	—
Change in non-cash working capital [note 24]	(287,811)	—
Cash provided by financing activities	291,723,496	85,145,567
INVESTING ACTIVITIES		
Purchase of Western Spirit Investments Ltd. [note 3h]	—	(3,557,647)
Purchase of Cascade Services Partnership [note 3g]	—	(3,492,451)
Purchase of Indy Oilfield Ltd. [note 3g]	—	(265,961)
Purchase of Val Vista Energy Ltd. [note 3a]	(13,043,076)	—
Purchase of Elbow River [note 3b]	(52,614,262)	—
Purchase of Endless Tubing [note 3c]	(11,168,203)	—
Purchase of Makah [note 3d]	(28,229,662)	—
Purchase of Enervest [note 3e]	(125,893,327)	—
Other energy services acquisitions [note 3f]	(28,618,789)	—
Oil and gas property acquisitions [note 6]	(3,090,790)	(74,269,334)
Oil and gas property disposals [note 6]	7,679,390	1,513,906
Oil and gas development expenditures	(8,967,731)	(1,965,020)
Purchase of energy services assets [note 6]	(12,502,603)	(2,196,693)
Proceeds on sale of energy services assets	69,066	—
Purchase of other assets	(283,006)	(37,329)
Purchase of financial services contracts	(11,018,930)	(9,243,520)
Redemption of financial services contracts	3,000,000	—
Financial services development expenditures	(70,335)	—
Purchase of real estate properties	(2,915,290)	—
Real estate development expenditures	(162,355)	—
Proceeds on sale of real estate properties	3,718,794	—
Restricted cash [note 4]	(205,830)	178,723
Change in non-controlling interest	241,071	—
Changes in non-cash working capital [note 24]	(460,669)	568,463
Cash used in investing activities	(284,536,537)	(92,766,863)
Increase in cash during the year	6,440,507	70,345
Cash, beginning of year	327,217	256,872
Cash, end of year	6,767,724	327,217
Cash interest paid	2,693,292	1,003,405

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE ORGANIZATION

Avenir Diversified Income Trust (“AVF” or the “Trust”) is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created through a trust indenture dated effective September 24, 2002 between Onward Energy Inc. (“Onward”) and Olympia Trust Company. Pursuant to a Plan of Arrangement (the “Arrangement”) dated effective January 16, 2003 involving the Trust and Onward, Onward was converted from a corporate entity to the Trust. To facilitate this conversion, all of the common shares and options of Onward were exchanged for an aggregate of 146,289 Trust Units and \$2,351,305 in cash.

In conjunction with the completion of the Arrangement, the Trust acquired all the issued and outstanding shares of a private company, 928719 Alberta Ltd. (“928719”), in exchange for an aggregate of 509,991 Trust Units. This transaction was in effect a reverse takeover as the shareholders of 928719 controlled the majority of units in the Trust after the transaction and the management and directors of 928719 have carried on the management of the Trust.

In connection with the Arrangement, the Trust also completed a private placement of an aggregate of 755,023 Trust Units at \$6.00 per unit, which closed in a series of two allocations.

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

Funds from operations are currently provided to the Trust from the oil and gas properties owned and operated by Avenir Operating Corp., the financial services income of its wholly owned subsidiaries Avenir Financial Services Limited Partnership, Avenir Financial Funding Limited Partnership, Elbow River Marketing Limited Partnership and EnerVest Limited Partnership, the real estate income of its wholly owned subsidiaries Avenir Real Estate Acquisition Corp. and Avenir Real Estate Limited Partnership and the energy services income of its 90% interest in Cascade Services Partnership and Westvac Energy Services Partnership and its wholly owned subsidiaries Millard Oilfield Services Partnership, Endless Tubing Services Partnership, Cardinal Well Services Partnership and Richmond Energy Services Limited Partnership.

Funds from operations are paid from these corporations and partnerships to the Trust by way of net profit payments, partnership income, interest payments and principal repayments. The cash payments received by the Trust are subsequently distributed to the unitholders monthly.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) **Principles of consolidation**

The consolidated financial statements include the accounts of the Trust and its wholly owned subsidiaries and partnerships. Non-controlling interest relating to the Trust's interest in Cascade Services Partnership and Westvac Energy Services Partnership is reported separately on these consolidated financial statements.

b) **Marketable securities**

Marketable securities extending beyond three months but less than a year are recorded at the lower of cost or market value. Any reduction in the carrying value of the investments and any gains or losses on ultimate disposition will be reflected in the statement of operations and accumulated earnings.

c) **Inventory**

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

d) **Property and equipment**

Oil and gas properties

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

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

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

Costs of future developments are initially included in the calculation of depletion. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to depletable properties. Costs of unproved properties and salvage values are excluded from the calculation of depletion.

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

Ceiling test

The Trust calculates its ceiling test by comparing the carrying value of oil and gas property and equipment to the sum of undiscounted cash flows expected to result from the future production of gross proved reserves and the cost of unproved properties less any impairment. Cash flows are based on third party quoted forward prices, adjusted for

transportation and quality. Should the ceiling test result in an excess of carrying value, the Trust would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the cost of unproved properties less any impairment. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess is recorded as a permanent impairment.

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

Real estate properties

Real estate properties are stated at the lower of cost less accumulated amortization and net recoverable amount. Costs include the original cost of the property and related acquisition costs. Net recoverable amount represents the undiscounted estimated future net cash flow expected to be received from the ongoing use and residual worth of the properties. The Trust capitalizes all direct costs relating to real estate acquisitions including carrying costs such as professional, transaction and overhead directly attributable to these activities. The Trust amortizes the costs of its buildings using the straight-line method over their estimated useful lives ranging from approximately 30 to 40 years.

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

Energy services equipment

Energy services assets are recorded at cost less accumulated depreciation. The Trust amortizes the costs of its energy services equipment less salvage value using the declining balance method. The rates used as set out below are estimated to be sufficient to amortize the cost of the assets over their estimated useful lives:

Automotive equipment	30%
Heavy Automotive equipment	Ranging from 10 to 40%
Equipment	20%
Computer	30%
Radio	25%
Leasehold improvements	Term of lease
Building	4%
Furniture and fixtures	20%

Impairment of long-lived assets

Under Canadian Institute of Chartered Accountants (CICA) Handbook Section 3063, "Impairment of long-lived assets", an impairment loss should be recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected from its use and anticipated disposal value. The impairment recognized is measured as the amount by which the carrying amount of the assets exceeds its fair value. Real estate properties are recorded at lower of cost less accumulated amortization. If it is determined that the carrying amount of a real estate property exceeds the estimated future net cash flow expected to be received from the ongoing use and residual worth of the property, it is reduced to its estimated fair value. There was no financial impact relating to the implementation of CICA Handbook Section 3063.

e) Asset retirement obligations

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

f) Financial services contracts

Financial services contracts are recorded at the lower of cost and fair market value determined using industry data at the period end.

g) Joint operations

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

h) Intangibles and other assets

Intangible assets and liabilities are recorded at cost and amortized over their estimated useful lives. Intangible assets are regularly evaluated by comparing their applicable estimated future net cash flows to the unamortized net book value of the intangible asset. Any permanent impairment would be charged to income in that period.

In connection with its real estate acquisitions the Trust allocates the purchase price to land; building; intangible assets and liabilities, such as the value of above and below market leases; the value of in-place leases; origination costs associated with in-place leases and the value of tenant relationships, if any. The value associated with tenant relationships is amortized over the expected term of the relationship. The value of above and below market leases and origination costs associated with in-place leases are recorded and amortized over the remaining term of the associated lease which range from 3.5 years to 11 years.

i) Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired and liabilities assumed. Goodwill is not subject to amortization, but is tested for impairment on an annual basis by applying a fair value based test. The amount of impairment is determined by deducting the fair value of the reporting unit's assets from the fair value of the reporting unit's liabilities to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any goodwill impairment will be recognized as an expense.

j) Revenue recognition

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

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

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

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

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

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

k) Use of estimates

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

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

l) Unit option plan

Under the Trust's unit option plan, options to purchase trust units are granted to directors, officers, employees and consultants at current market prices. Options granted by the Trust are accounted for in accordance with the fair-value method of accounting for stock-based compensation, and as such the cost of the option is charged to net income with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value using a Black-Scholes option-pricing model (see note 16). Consideration upon exercise of the options, along with the amount recorded as contributed surplus, is recorded as an increase in unitholders' contributions.

Direct awards of units to employees and unit option awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock based compensation. The fair value of direct awards of units is determined by the quoted market price of the Trust's units on the date of grant. To date no direct award of units has been completed.

m) Per unit amounts

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

n) Income taxes

The Trust, and its operating entity, are taxable entities under the Income Tax Act of Canada and are taxable only on income that is not distributed or distributable to the Unitholders. As the Trust distributes all of its taxable income to the Unitholders pursuant to the Trust Indenture and meets the requirements of the Income Tax Act of Canada applicable to the Trust, no provision for income taxes has been made in these consolidated financial statements.

The liability method for calculating income taxes is followed within the consolidated corporate subsidiaries of the Trust. Differences between the amounts reported in the financial statements of the corporate subsidiaries and their respective tax bases are applied to tax rates in effect to calculate the future tax liability. The effect of any change in income tax rates is recognized in the period the change is substantially enacted.

o) Financial instruments

The Trust may periodically enter into derivative financial instrument contracts to manage exposures related to interest rates, foreign currency exchange rates, and oil and natural gas prices. Gains or losses on the various derivative contracts which settle via net cash payment and that meet the hedge criteria are recognized into earnings concurrent with the hedged transaction. Amounts received or paid under interest rate swaps are recognized in interest expense, while settlement amounts on commodity and foreign currency hedge contracts are recognized in earnings as the related production revenues are recorded. The Trust does not enter into financial instruments for trading or speculative purposes.

The hedging requirements under Accounting Guideline 13 consist of the designation of the instrument as a hedge, the identification of the nature of the risk exposure being hedged and that there is reasonable assurance that the instrument is expected to be an effective hedge throughout its term. In addition, in the case of anticipated transactions, it is also probable that the transaction designated as being hedged will occur. The Trust assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that have been designated as hedges are highly effective in offsetting changes in fair value or cash flows of the hedged items.

Realized and unrealized gains and losses associated with hedging instruments which have been terminated or cease to be effective prior to maturity, are deferred as other current or non-current assets or liabilities on the balance sheet, as appropriate, and recognized in earnings in the period in which the underlying hedged transaction is recognized. In the event a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in earnings.

For transactions that do not qualify for hedge accounting, the Trust applies the fair value method of accounting by recording an asset or liability on the consolidated balance sheet and recognizing changes in the fair value of the instruments in the current period statements of operations.

The Trust has currently elected not to apply hedge accounting to its oil and gas division hedging relationships.

3. ACQUISITIONS

The following acquisitions represent those which were completed during 2005 that were significant acquisitions to the Trust:

a) Val Vista Energy Ltd.

On March 24, 2005 the Trust acquired the outstanding shares of Val Vista Energy Ltd. ("Val Vista"), for total consideration of \$25,709,437 consisting of cash of \$11,845,158, estimated transaction costs of \$1,197,918 and the issuance of 1,183,772 Trust Units at \$10.70 per unit. The Trust Units were valued based on the average fair market value of the units immediately prior to the date the acquisition was announced.

Results from operations for Val Vista are included in the Trust's consolidated financial statements from the closing date of acquisition. The transaction has been accounted for using the purchase method of accounting as follows:

	\$
Calculation of purchase price:	
Cash consideration	11,845,158
Trust units issued	12,666,361
Transaction costs	1,197,918
	<u>25,709,437</u>
Allocation of purchase price:	
Non-cash working capital	(89,869)
Property and equipment	25,648,007
Goodwill	12,396,362
Bank indebtedness	(5,455,894)
Asset retirement obligation	(805,700)
Future income taxes	(5,983,469)
	<u>25,709,437</u>

b) Elbow River

On April 1, 2005 the Trust, through its financial services division, acquired all of the assets of Elbow River Resources Ltd. for \$57.8 million consisting of \$51.8 million cash and \$6 million of Trust Units. The Trust Units will be held in Escrow until certain conditions are met. Of the \$6 million of Trust Units, one third of \$2.5 million will be released to the Escrowed parties on each of the first, second and third anniversary dates from the closing of the transaction if the escrowed parties remain with Elbow River for a period of three years and performance targets based on the latest budget of Elbow River are met. The remaining \$3.5 million in Escrowed Trust Units shall be released from escrow 120 days after the third fiscal year ending after the closing date of the transaction if Elbow River has achieved cumulative earnings before income taxes, depreciation and amortization of \$28.5 million or greater after giving effect to bonuses. These Escrowed Trust Units are considered part of the purchase price however due to the inability to estimate beyond a reasonable doubt the incremental amount of Escrowed Trust Units that will be issued; the \$6 million has not been reflected in the purchase price allocation or in these audited consolidated financial statements. However if the maximum number of Trust Units are issued there would be a decrease of \$0.01 in the basic and \$0.02 in the diluted earnings per unit for the year ended December 31, 2005. Trust Units were valued at \$10.90 per Trust Unit, based on the average fair market value of the units immediately prior to the date the acquisition was announced.

Results from operations for Elbow River are included in the Trust's consolidated financial statements from the closing date of acquisition. The transaction has been accounted for using the purchase method of accounting as follows:

	\$
Calculation of purchase price:	
Fair value of cash consideration	51,800,000
Transaction costs	814,262
	<u>52,614,262</u>
Allocation of purchase price:	
Property and equipment	848,000
Customer relationships	2,393,000
Contracts	5,300,000
Tradenname	8,100,000
Non-compete agreements	5,500,000
Goodwill	30,473,262
	<u>52,614,262</u>

c) **Richmond Endless Tubing Services Ltd.**

On April 16, 2005 the Trust acquired all of the issued and outstanding shares of Richmond Endless Tubing Services Ltd. ("Endless"), which provides coiled tubing services to the oil and gas industry, for net cash consideration of \$11,168,203. Transaction costs of the acquisition were approximately \$400,000.

Results from operations for Endless are included in the Trust's consolidated financial statements from the closing date of the acquisition. The transaction has been accounted for using the purchase method as follows:

	\$
Calculation of purchase price:	
Fair value of cash consideration	10,863,146
Transaction costs	400,000
Less cash acquired	<u>(94,943)</u>
	11,168,203
Allocation of purchase price:	
Non-cash working capital	428,753
Property and equipment	6,248,620
Goodwill	5,657,294
Bonus and note payable	<u>(1,166,464)</u>
	11,168,203

d) **Makah Energy Corporation**

On August 5, 2005 the Trust acquired all of the issued and outstanding shares of Makah Energy Corporation ("Makah"), a private oil and gas company, for total cash consideration of \$28,229,662 including transaction costs.

Results from operations for Makah are included in the Trust's consolidated financial statements from the closing date of acquisition. The transaction has been accounted for using the purchase method of accounting as follows:

	\$
Calculation of purchase price:	
Cash consideration	26,392,310
Transaction costs	1,086,001
Less cash received	751,351
	28,229,662
Allocation of purchase price:	
Non-cash working capital	(3,298,507)
Property and equipment	36,481,017
Goodwill	3,813,216
Asset retirement obligation	(724,623)
Future income taxes	(8,041,441)
	28,229,662

e) **Enervest**

On October 4, 2005 the Trust acquired the privately held joint venture that is the sole shareholder of the manager of EnerVest Diversified Income Trust and the EnerVest Group of Funds, EnerVest Diversified Management Inc. ("EnerVest"), for total cash consideration of \$125,893,327 including transaction costs.

Results from operations for EnerVest are included in the Trust's consolidated financial statements from the closing date of acquisition. The transaction has been accounted for using the purchase method of accounting as follows:

	\$
Calculation of purchase price:	
Cash consideration	125,487,232
Transaction costs	820,391
Less cash received	(414,296)
	125,893,327
Allocation of purchase price:	
Non-cash working capital	(416,141)
Intangible – Management contract	125,709,468
Intangible – Non-compete agreements	300,000
Intangible – Tradename	300,000
	125,893,327

f) **Other Energy Services Acquisitions**

The following is a summary of all additional acquisitions that were completed during the year that were not individually material to the Trust. The acquisitions include, Eagle Oilfield Services Ltd., Millard Oilfield Services, Cardinal Well Services, Westvac Energy Services and Richmond Energy Services.

Results from operations for these acquisitions are included in the Trust's consolidated financial statements from the closing date of acquisition. The transactions have been accounted for using the purchase method of accounting as follows:

	\$
Calculation of purchase price:	
Cash consideration	28,683,931
Trust units issued	2,250,000
Transaction costs	863,001
Less cash received	(928,143)
	<u>30,868,789</u>
Allocation of purchase price:	
Non-cash working capital	2,720,910
Property and equipment	19,994,493
Goodwill	15,639,774
Bank indebtedness	(1,429,006)
Due to Cascade Services Partnership	(60,000)
Due to Avenir Production Services Limited Partnership	(1,247,248)
Long-term debt	(4,208,445)
Subordinated debt	(192,271)
Future income taxes	(299,000)
Non-controlling interest	(50,418)
	<u>30,868,789</u>

The following acquisitions represent those which were completed during 2004 that were significant acquisitions to the Trust:

g) Cascade Services Partnership

On June 30, 2004 the Trust acquired 90% of the partnership units of Cascade Services Partnership ("Cascade Partnership"), for total consideration of \$5,492,451 consisting of cash of \$3,835,465 and the issuance of 266,667 Trust Units at \$7.50 per unit. The Cascade Partnership was the first investment by the Trust's energy services business unit and is involved in providing steaming, vacuum truck and hydro vac services to the energy, utility and construction industries in Northeast British Columbia and Northwest Alberta. The Trust Units were valued based on the average fair market value of the units immediately prior to the date the acquisition was announced.

from operations for the Cascade Partnership are included in the Trust's consolidated financial statements from the closing date of acquisition. The transaction was accounted for using the purchase method as follows:

	\$
Calculation of purchase price:	
Cash consideration	3,835,465
Trust units issued	2,000,000
Transaction costs	219,758
Less: cash received	(562,772)
	<u>5,492,451</u>
Allocation of purchase price:	
Non-cash working capital	694,759
Property and equipment	2,950,193
Goodwill and other intangibles	3,004,840
Long-term debt	(903,425)
Non-controlling interest	(253,916)
	<u>5,492,451</u>

On July 15, 2004, Cascade Partnership acquired all the outstanding shares of Indy Oilfield Ltd. ("Indy"), for net cash consideration of \$265,961. Indy represented the second acquisition in the Trust's energy services business unit and is involved in providing steaming, vacuum truck and hydro vac services to the energy, utility and construction industries in Northwest Alberta.

Results from operations for Indy are included in the Trust's consolidated financial statements from the closing date of acquisition. The transaction was accounted for using the purchase method as follows:

	\$
Calculation of purchase price:	
Cash consideration	322,840
Transaction costs	51,411
Less: cash received	(108,290)
	265,961
Allocation of purchase price:	
Non-cash working capital	(87,547)
Property and equipment	500,475
Goodwill and other intangibles	151,150
Long-term debt	(293,593)
Non-controlling interest	(4,524)
	265,961

h) Western Spirit Investments Ltd.

On March 31, 2004 the Trust acquired all of the outstanding shares of Western Spirit Investments Ltd. ("Western Spirit"), a publicly traded real estate company, for consideration consisting of cash of \$3,000,000 and the issuance of 332,500 Trust Units. The Trust Units were valued based on the average fair market value of the units immediately prior to the date the acquisition was announced. The Trust also issued an aggregate of 10,513,179 performance rights. Each performance right entitled the holder to acquire 0.003333 of a Trust Unit for no additional consideration, provided that, on or prior to January 21, 2005, either a signed lease agreement was in place for that portion of the area in the Harris Building which was then vacant, or the Trust sold the Harris Building for not less than \$8,500,000. The performance rights expired with no additional Trust Units issued.

Results from operations are included in the Trust's consolidated financial statements from the closing date of acquisition. The transaction has been accounted for using the purchase method as follows:

	\$
Calculation of purchase price:	
Cash consideration	3,000,000
Trust units issued	2,992,512
Transaction costs	706,873
Less: cash received	(149,226)
Less: restricted cash	(338,950)
	6,211,209
Allocation of purchase price:	
Non-cash working capital	(301,294)
Real estate properties	18,309,592
Goodwill and other intangibles	2,343,106
Deferred charges	232,179
Mortgages	(12,447,330)
Deferred revenue	(215,896)
Severance costs	(550,000)
Tenant improvement	(78,000)
Future income taxes	(1,081,148)
	6,211,209

4. RESTRICTED CASH

Restricted cash consists primarily of deposits in money market mutual funds, for property specific tenant improvement expenditures and funding of future capital expenditures and repairs for one of the Trust's buildings.

	2005	2004
	\$	\$
Restricted cash – tenant renewal and leasing cost fund required by mortgage agreements for the real estate properties	366,057	160,227
	366,057	160,227

5. NOTES RECEIVABLE

On December 9, 2005, the Trust loaned \$1,050,000 to a third party. The note receivable bears interest at prime plus 1% and is repayable no later than May 9, 2006 with the option to extend the due date based on mutual agreement of both parties.

6. PROPERTY AND EQUIPMENT

	2005	2005	Net Book
	Cost,	Accumulated Depletion	Value
	\$	Depreciation	\$
	\$	and Amortization	\$
Oil and gas properties/production equipment	170,948,753	24,663,976	146,284,777
Real estate properties	20,052,860	772,133	19,280,727
Energy services equipment	44,809,152	7,321,897	37,487,255
Financial services assets	41,855	-	41,855
Oil and gas assets under capital lease	175,689	111,215	64,474
Energy services assets under capital lease	558,621	80,480	478,141
Furniture and computer equipment	1,225,283	247,118	978,165
	<u>237,812,213</u>	<u>33,196,819</u>	<u>204,615,394</u>

	2004	2004	Net Book
	Cost,	Accumulated Depletion	Value
	\$	Depreciation	\$
	\$	and Amortization	\$
Oil and gas properties/production equipment	102,999,990	7,250,072	95,749,918
Real estate properties	20,019,592	331,964	19,687,628
Energy services equipment	5,907,361	652,802	5,254,559
Financial services assets	15,000	-	15,000
Oil and gas assets under capital lease	175,689	93,170	82,519
Furniture and computer equipment	50,798	17,734	33,064
	<u>129,168,430</u>	<u>8,345,742</u>	<u>120,822,688</u>

- a) During 2005 the Trust sold non-core oil and gas assets for total cash consideration of \$7,679,390, including adjustments to date. The entire consideration has been allocated to oil and gas properties.
- b) During 2005 the Trust purchased oil and gas properties for total cash consideration of \$3,090,790 including adjustments to date. The entire purchase price has been allocated to oil and gas properties. An additional asset retirement obligation of \$1,099,411 was recorded on these acquisitions. During 2005, the Trust also purchased additional energy services equipment for total cash consideration of \$12,502,603.
- c) Included in oil and gas properties is \$40,009,775 of unproven properties which has been excluded from the calculation of depletion and depreciation (December 31, 2004 - \$22,262,300).
- d) The Trust has performed an impairment test on its oil and gas properties and production equipment as of December 31, 2005 using the estimated average price for each of the next five years as determined by the Trust's independent reserve engineers adjusted for differentials specific to the Trust's reserves as follows:

Year	Oil (\$US WTI/bbl)	Gas (\$CDN/Mmbtu)
2006	57.50	10.40
2007	55.40	9.35
2008	52.50	8.30
2009	49.50	7.20
2010	46.90	6.70

Each benchmark price increases by an average of 2.5 percent each year thereafter.

There was no impairment as at December 31, 2005.

7. INVESTMENT IN FINANCIAL SERVICES CONTRACTS

	2005 \$	2004 \$
Cheque cashing contracts (i)	19,940,209	8,939,733
Debenture with RENTCASH (ii)	–	3,032,322
Debenture with hotelling business (iii)	500,000	500,000
	20,440,209	12,472,055

(i) During 2005 the Trust entered into additional cheque cashing contracts totalling \$11,000,000 (December 31, 2004 - \$7,700,000). Interest is charged on these contracts at an annual effective rate of 59% such that, after loan allowances and administrative charges, the Trust earns the equivalent of \$0.07 per \$100 loaned per day. Costs associated with the contracts of \$104,412 (2004 - \$85,482) have been capitalized and are being amortized over the term of the contracts. \$50,776 (2004 - \$13,427) in amortization has been recorded for the year ended December 31, 2005.

(ii) At December 31, 2004 the Trust had debentures totalling \$3,000,000 with RENTCASH Inc. ("RENTCASH"). The non-revolving loans paid the Trust interest at a rate of 12% and a financing fee of 4% per annum. These debentures were repaid during 2005;

(iii) On August 19, 2004 the Trust entered into an agreement to provide a debenture in the amount of \$500,000 to an unrelated third party in the hotelling business. The non-revolving loan pays the Trust interest at a rate of 14% plus net profit and incentive fees of 20% of annual net profits from the hotel investments. The loan matures August 19, 2008.

The estimated fair value of the financial services contracts at December 31, 2005 was \$34,350,000 based on a third party valuation (December 31, 2004 - \$15,000,000).

8. INTANGIBLES AND OTHER ASSETS

	Cost \$	2005 Accumulated Amortization \$	Net Book Value \$
In-place leasing costs	2,383,588	709,742	1,673,846
Above market rent	142,559	52,394	90,165
Below market rent	(920,734)	(226,940)	(693,794)
Customer relationships	5,721,967	449,478	5,272,489
Contracts (note 3)	128,102,468	1,030,718	127,071,750
Trade name	5,600,000	29,260	5,570,740
Non-compete agreements	8,400,000	1,222,315	7,177,685
Tenant improvement and leasing costs	651,310	241,745	409,565
	150,081,158	3,508,712	146,572,446

	Cost \$	2004 Accumulated Amortization \$	Net Book Value \$
In-place leasing costs	2,960,338	461,057	2,499,281
Above market rent	254,574	47,043	207,531
Below market rent	(920,734)	(97,260)	(823,474)
Deferred Financial instruments loss	12,415	-	12,415
Tenant improvement and leasing costs	548,077	87,408	460,669
	2,854,670	498,248	2,356,422

9. BANK INDEBTEDNESS

At December 31, 2005 in relation to its oil and gas division, the Trust has a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$47,000,000 bearing interest ranging from prime plus one-quarter of one percent to prime plus one percent depending on the debt to cash flow ratio of the Trust. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. As at December 31, 2005, \$23,080,000 was drawn on the revolving demand facility.

The Trust also has an extendible revolving loan facility with another major Canadian bank in the amount of \$5,000,000 bearing interest at prime plus one-half of one percent. In addition, the Trust has an extendible revolving term loan facility in the amount of \$10,000,000 bearing interest at prime plus three-quarters of one percent. These facilities are available for the operations and acquisitions in the Trust's energy services division. As at December 31, 2005, \$950,000 was drawn on the revolving loan facility and \$9,931,000 was drawn on the revolving term loan facility. Subsequent to year end, the revolving term loan facility was updated and is now with a syndicate of two Canadian banks in the amount of \$20,000,000 bearing interest at prime plus three-quarters of one percent.

The Trust has a demand revolving loan facility with a Canadian bank in the amount of \$30,000,000 and a foreign exchange loan facility in the amount of \$10,500,000 bearing interest at bank prime plus one quarter of a percent or US bank base rate plus one quarter of a percent. The facility is primarily used to provide credit for natural gas liquids inventory purchases through its subsidiary Elbow River Marketing Partnership. As at December 31, 2005, \$24,920,771 was drawn on the demand loan facility.

The average effective interest rate on borrowings under all of the above lines for the year ended December 31, 2005 including services fees was 6.12% (December 31, 2004 – 4.66%).

As at December 31, 2005, the Trust also had twenty-one letters of credit outstanding in the aggregate amount of \$1,372,383.

To provide the Elbow River Marketing Partnership with additional credit on natural gas liquids inventory purchases, the Trust also has guarantees to third parties for a maximum of \$32,659,619. These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

10. NOTES PAYABLE

On September 1, 2005, the Trust borrowed \$7,500,000 from a third party to fund additional opportunities in its Elbow River Marketing Division. The notes payable bears interest at 12% and were repayable November 30, 2005 with the option to extend the due date based on mutual agreement of both parties. The option to extend to February 28, 2006 was agreed upon. The note was repaid on February 28, 2006.

11. MORTGAGES

	2005	2004
	\$	\$
Various mortgages with interest rates ranging from 4.24% to 7.24% (2004 – 5.75% to 8.15%) (weighted average rate of 5.12%, 2004 – 7.5%), maturities from September 2006 to February 2010 (2004 – March 2005 to September 2006) and collateralized by a first charge over the related properties, and restricted cash	13,888,504	12,133,681
Current portion of mortgages	(7,684,571)	(5,024,920)
	<u>6,203,933</u>	<u>7,108,761</u>

Approximate principal repayments required to maturity are as follows:

	\$
2006	7,684,571
2007	691,984
2008	4,954,069
2009	478,183
2010	79,697
	<u>13,888,504</u>

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using December 31, 2005 market rates for debt of similar terms. Based on these assumptions, the fair value of the mortgages as at December 31, 2005 has been estimated at \$14,027,410 (December 31, 2004 - \$12,311,707) compared to the carrying value of \$13,888,504.

During 2005, the mortgages for two of the Trust's real estate properties matured. One mortgage was renewed for a total amount of \$2,290,000 at a rate of 4.849% for a term of 5 years. The second mortgage was renewed for a total amount of \$1,631,296 at a rate of 4.25% for a term of six months.

12. CAPITAL LEASE OBLIGATIONS

The Trust has capital leases for equipment which are repayable in monthly installments ranging between \$977 and \$1,296 including interest at rates implicit in the lease ranging from 3.7% to 12.7 per annum. The leases mature between January 2006 and February 2008 and are collateralized by specific equipment purchased.

Future minimum lease payments at December 31, 2005 are as follows:

	\$
2006	183,746
2007	286,446
2008	55,979
Total minimum lease payments	526,171
Less amount representing interest	(45,523)
	480,648
Current portion of minimum lease payments	(155,127)
	325,521

13. LONG-TERM DEBT

The Trust has the following long-term loans outstanding which are collateralized by energy services equipment:

	2005	2004
	\$	\$
Various loans payable in monthly instalments with interest rates ranging from prime plus 1.8% to prime plus 2.65% (2004 – prime plus 2.61% to prime plus 2.65%), and maturities from January 2006 to September 2008 (2004 – December 2005 to February 2007)	961,795	1,466,314
Various loans payable in monthly instalments with interest rates ranging from 0.00% to 10.95% (2004 – 0.00% to 4.30%), and maturities from January 2006 to November 2009 (2004 – September 2007 to September 2008)	1,322,150	139,349
	2,283,945	1,605,663
Current portion	(1,159,521)	(693,888)
	1,124,424	911,775

There is no difference in the carrying value of these loans versus the fair value, as loans entered into during 2005 had similar terms to prior loans.

Approximate principal repayments required to maturity are as follows:

	\$
2006	1,159,521
2007	755,485
2008	293,475
2009	75,464
	<u>2,283,945</u>

14.ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities in its oil and gas segment, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$11,479,561 as at December 31, 2005 based on a total future liability of \$25,388,051. These payments are expected to be made over the next 2 to 31 years. The Trust's credit adjusted risk free rate of 8.5% and an inflation rate of 2% were used to calculate the present value of the asset retirement obligation.

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

	2005	2004
	\$	\$
Carrying amount, as at January 1	8,033,301	1,312,965
Oil and gas property acquisitions during the year (notes 3a, 3d and 6b)	2,629,734	6,065,739
Oil and gas property dispositions during the year	(265,786)	-
Oil and gas operations during the year	606,983	412,649
Abandonment cost incurred during the year	(284,360)	-
Asset retirement obligation accretion for the year	759,689	241,948
Carrying amount, as at December 31	<u>11,479,561</u>	<u>8,033,301</u>

15. UNITHOLDERS' CAPITAL

a) Unitholders' capital

Authorized

Authorized capital consists of an unlimited number of Trust Units, and an unlimited number of Special Voting Units. No Special Voting Units have been issued to date.

Issued

Trust Units	Number of Units	Amount \$
Balance December 31, 2003	2,766,836	15,851,942
Units issued on Western Spirit corporate purchase (note 3h)	332,500	2,992,512
Units issued on financing June 28, 2004	3,833,300	28,749,750
Units issued on Cascade Partnership purchase (note 3g)	266,667	2,000,000
Units issued on financing November 14, 2004	4,472,221	40,250,000
Trust unit issue costs	–	(5,181,954)
Balance December 31, 2004	11,671,524	84,662,250
Units issued on financing March 21, 2005 (i)	11,605,504	126,499,993
Units issued on Val Vista acquisition (ii)	1,183,772	12,666,361
Units issued on Westvac acquisition (iii)	170,454	2,250,000
Units issued on financing October 4, 2005 (iv)	15,510,300	196,205,295
Trust unit issue costs (i), (iv), (v)	–	(20,365,534)
Balance December 31, 2005	40,141,554	401,918,365

(i) On March 21, 2005 the Trust completed a public offering by way of a prospectus for proceeds of \$126,499,993.

Costs associated with this offering amounted to \$8,044,507;

(ii) Trust Units issued in relation to the acquisition of Val Vista Energy Ltd. ("Val Vista") on March 24, 2005 (see note 3a);

(iii) Trust Units issued in relation to the acquisition of Westvac Service Ltd. ("Westvac") on August 31, 2005 (see note 3f);

(iv) On October 4, 2005, the Trust completed a public offering by way of a prospectus for proceeds of \$196,205,295.

Costs associated with this transaction amounted to \$12,175,639;

(v) Additional costs of \$145,388 associated with the Trust's public offering which was completed November 15, 2004 have been recorded.

b) Per unit amounts

For the year ended December 31, 2005, the Trust had a weighted average number of trust units outstanding of 25,500,884 (December 31, 2004 – 5,685,210). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options of an additional 72,290 Trust Units resulting in a weighted average number of trust units outstanding for the year ended December 31, 2005, of 25,573,174 (December 31, 2004 – 5,747,845). At December 31, 2005 there were no anti-dilutive options.

b) Contributed surplus

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

	2005	2004
	\$	\$
Contributed surplus, beginning of year	322,064	119,868
Compensation expense (note 16)	1,833,070	202,196
Settlement of options	(19,104)	—
Contributed surplus, end of year	2,136,030	322,064

16. STOCK-BASED COMPENSATION

Under the Trust's unit option plan, options to acquire trust units are granted to employees and directors from time to time at exercise prices equal to the market value of the units at the date of the grant. Options granted under the plan vest a third each year over a three-year period starting on the first anniversary from the date of grant. The options have a five-year life. The exercise price of the options is periodically adjusted to reflect the Trust's monthly distributions. Any consideration paid on exercise of stock options is credited to unitholders capital. A total of 4,069,201 units have been reserved under this plan.

The following table summarizes the status and changes during the year ended December 31, 2005:

	2005		2004	
	Number of options outstanding	Weighted average grant date exercise price	Number of options outstanding	Weighted average grant date exercise price
Outstanding, January 1	261,030	\$7.64	123,331	\$6.20
Granted	1,195,970	10.85	137,699	8.93
Expired	(70,799)	(10.21)	—	—
Outstanding, December 31	1,386,201	\$10.28	261,030	\$7.64
Exercisable, December 31	120,752	\$7.08	41,109	\$6.20

The following table summarizes information about the unit options outstanding at December 31, 2005:

Grant date exercise price	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
6.00	106,666	2.1	71,108
7.50	16,665	2.7	11,110
7.65	3,333	3.4	1,111
9.00	120,267	3.9	37,423
10.69	390,600	4.9	—
10.90	623,670	4.3	—
11.00	70,000	4.0	—
11.20	55,000	4.5	—
	1,386,201	3.8	120,752

The total value of stock-based compensation of \$4,508,048 for those options issued to employees and directors was calculated using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. The assumptions made for the options granted in 2005 and 2004 are as follows:

	2005 Granted Options	2004 Granted Options
Expected volatility	49.15%	60.47%
Risk – free interest rate	3.28%	4.25%
Expected life of options	5 years	5 years
Dividend yield	nil	nil

The Trust recorded compensation expense and contributed surplus of \$1,833,070 for the year ended December 31, 2005 (December 31, 2004 - \$202,196).

Subsequent to December 31, 2005 the Trust issued an additional 34,500 options.

17. FINANCIAL INSTRUMENTS

a) Fair values of financial assets and liabilities

The Trust's financial instruments consist of cash, restricted cash, accounts receivable, marketable securities, notes receivable, risk management asset (liability), investment in financial services contracts, bank indebtedness, accounts payable and accrued liabilities, distributions payable, capital lease obligations, notes payable, mortgages and long-term debt. Unless otherwise noted, as at December 31, 2005 and 2004, there were no significant differences between the carrying amounts of these financial instruments and their estimated fair values.

b) Credit risk

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

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

The Trust's financial services contracts are with affiliates of a financial services provider and with a chain of cash advance stores. The stated return on the financial services contracts and the principal are subject to significant credit risk. The Trust has attempted to mitigate this risk through the advancing of amounts through various counter parties, however, some credit risk remains. Under the Trust's revenue recognition policy, fees earned on these contracts are adjusted to reflect anticipated credit losses. Although no credit loss provision currently exists, a credit loss provision will be established when management deems the risk of credit loss to be significant.

c) Risk management asset (liability) and deferred financial instrument loss

The Elbow River Marketing division of the Trust sells natural gas liquids product in the United States and Canada, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts. These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The following table details those transactions that qualify for hedge accounting that are outstanding:

Commodities hedging contracts:			December 31, 2005
			Unrealized gain (loss)
Settlement dates	Volume (bbl)	Prices \$/(bbl)	\$
January, 2006	545,755	33.92 - 79.55	1,257,792
February, 2006	248,805	33.92 - 73.42	261,280
March, 2006	58,400	36.44 - 79.55	133,607
April, 2006	28,000	65.84 - 79.55	(51,702)
May, 2006	28,000	65.84 - 79.55	(64,050)
June, 2006	28,000	65.84 - 79.55	(74,046)
	936,960		1,462,881
		Exchange rate	1.1659
		Total CDN dollars	1,705,573

Forward exchange contracts:			December 31, 2005
			Unrealized Gain (loss)
Term Due	Amount	Forward Rates	\$
January, 2006	1,079,700	1.1501 - 1.2272	280,987
February, 2006	12,615,000	1.1484 - 1.2105	233,499
March, 2006	2,375,000	1.1491 - 1.1904	140,286
April, 2006	9,700,000	1.1465 - 1.2243	(131,746)
May, 2006	150,000	1.1623 - 1.1623	(540)
Total US dollars	25,919,700		522,486
Exchange rate	1.1659		1.1659
Total CDN dollars	30,219,778		609,166

A net unrealized gain of \$2,314,739 is offset by the decrease in the market value of the inventory over the carrying cost as at December 31, 2005.

The Trust has the following forward contracts outstanding as at December 31, 2005 relating to its oil and gas division:

- A fixed price AECO natural gas swap for the period November 1, 2004 to October 31, 2006 on 700 gigajoules ("GJ")/day of gas at a price of \$7.17 Cdn/GJ
- A fixed price AECO natural gas swap for the period November 1, 2006 to October 31, 2007 on 700 GJ/day of gas at a price of \$6.64 Cdn/GJ
- A fixed price West Texas Intermediate ("WTI") swap for the period January 1, 2005 to December 31, 2006 on 200barrels/day of crude oil at a price of \$40.50 US/Bbl
- A fixed price WTI collar for the period November 1, 2004 to October 31, 2007 on 70 barrels/day of crude oil with a floor price of \$38.00 US/Bbl and a ceiling price of \$44.65 US/Bbl

- A fixed price WTI floor for the period December 1, 2004 to November 30, 2007 on 170 barrels/day of crude oil with a floor price of \$40.00 US/Bbl
- A fixed price WTI floor for the period from July 1, 2005 to June 30, 2006 on 200 barrels/day of crude oil with a floor of \$52.50 and the Trust participates in 75% of the upside above the floor price

The following table presents a reconciliation of the risk management liability in the oil and gas division and the deferred financial instrument loss for those transactions that do not qualify for hedge accounting:

	2005	2004
	\$	\$
Risk management asset (liability), January 1	1,147,127	(125,676)
Change in mark-to-market unrealized gain (loss)	(6,415,712)	1,159,542
Change in recognized loss relating to expired contracts	12,415	113,261
Risk management asset (liability), December 31	(5,256,170)	1,147,127

d) Interest Rate Risk

Drawings under the Trust's bank credit facilities are at floating interest rates and expose the Trust to interest rate risk. The Trust is also exposed to interest rate risk on maturity and refinancing of its fixed rate mortgages including the possibility that existing mortgages may not be refinanced or may not be refinanced on as favorable terms or with interest rates as favorable as those of the existing debt. The Trust mitigates these risks by its continued efforts to enhance the value of its real estate properties and maintain high occupancy levels.

18. NON-CONTROLLING INTEREST

As a result of the partnership structure in two of its energy services divisions, the Trust accounts for non-controlling interest as follows:

	2005	2004
	\$	\$
Opening non-controlling interest, January 1	259,755	-
Energy Services acquisitions	537,033	258,440
Energy Services capital contributions	246,061	-
Non-controlling interest in earnings for the year	262,116	67,982
Distributions to non-controlling interest holders	(300,000)	(66,667)
Closing non-controlling interest, December 31	1,004,965	259,755

19. REAL ESTATE CO-OWNERSHIP AGREEMENT

These consolidated financial statements include the Trust's 50% interest in the respective assets, liabilities, revenue and expenses of a co-ownership agreement. The following amounts represent the Trust's interest in the related assets, liabilities, revenue and expenses relating to the co-ownership agreement as at and for the year ended:

	2005	2004
	\$	\$
Assets	1,305,526	1,303,465
Liabilities	881,187	910,821
Revenue	171,848	120,932
Operating expenses	75,383	66,199
Net income	96,465	54,733
Cash flow from operating activities	113,537	67,352

Subsequent to December 31, 2005, the Trust acquired the additional 50% interest in this real estate property and now owns 100% of the property.

20. RELATED PARTY TRANSACTIONS

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

- During the year ended December 31, 2005, the Trust paid \$123,604 (December 31, 2004 - \$106,414) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable is \$17,144 owing to Avenir relating to administration and advisory services and included in accounts receivable is \$107,000 owing from Avenir relating to consulting services provided during 2005.
- During the period the Trust paid \$500,000 to a non-management director of the Trust for consulting fees relating to services provided in connection with the closing of the Elbow River acquisition which has been recorded as transactions costs (see note 3b).
- During the year ended December 31, 2005, the Trust incurred marketing fees of \$72,000 (December 31, 2004 - \$75,690) payable to a company with a shareholder who is also a director of the Trust.

21. COMMITMENTS

At December 31, 2005, the following contracts were outstanding with respect to the physical deliveries of oil and gas product:

- A physical fixed price sale for the period November 1, 2004 to October 31, 2007 on 1,050 gigajoules/day of gas at a price of \$6.55/ gigajoule.

The Elbow River Marketing division of the Trust also had the following fixed price and fixed volumes future contracts relating to ethanol:

Futures contracts:			December 31, 2005
Settlement dates	Volume (bbl)	Prices \$/(bbl)	Unrealized gain (loss)
			\$
February, 2006	4,143	82.88 – 87.36	15,080
June, 2006	3,452	74.76 – 88.20	46,400
July, 2006	3,452	74.76 – 88.20	46,400
August, 2006	3,452	74.76 – 88.20	46,400
	14,499		154,280
		Exchange rate	1.1659
		Total CDN dollars	179,875

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

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

	\$
2006	4,352,868
2007	4,115,010
2008	3,629,466
2009	2,727,623
2010	1,966,801
2011	687,213
2012	292,230
2013	67,500
	17,838,711

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

22.FUTURE INCOME TAXES

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

	2005	2004
	\$	\$
Property and equipment	25,851,713	12,355,091
Risk management liability	(1,799,187)	–
Asset retirement obligation	(3,929,454)	(2,728,109)
	20,123,076	9,626,982
Valuation allowance	–	–
	20,123,076	9,626,982

The future income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial income tax rate of 37.62 percent as follows:

	2005	2004
	\$	\$
Earnings before income taxes	19,373,640	4,082,433
Statutory income tax rate	37.62%	38.87%
	7,288,363	1,586,842
Increase (decrease) resulting from:		
Non-deductible crown charges	1,980,606	580,590
Resource allowance	(883,858)	(228,016)
Trust distributions	(12,969,099)	(1,948,807)
Non-deductible stock based compensation expense	689,601	78,594
Other	66,572	(69,203)
	(3,827,815)	-

23.SEGMENTED INFORMATION

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

The following is selected financial information for each business segment:

	Oil and Gas	Financial Services	2005 Real Estate	Energy Services	Corporate	Total
	\$	\$	\$	\$	\$	\$
Total Revenue before inter-segment eliminations	40,673,312	291,674,159	3,168,554	33,986,134	374,260,369	369,876,419
Inter-segment eliminations	—	(300,823)	—	(112,749)	(300,823)	(714,395)
Net Total Revenue	40,673,312	291,373,336	3,168,554	33,873,385	73,437,369	369,162,024
Operating expenses before inter-segment eliminations	13,980,617	269,092,359	912,626	17,837,423	—	301,823,025
Inter-segment eliminations	(112,749)	—	—	—	—	(112,749)
Net Operating Expenses	13,867,868	269,092,359	912,626	17,837,423	—	301,710,276
Net Income before inter-segment eliminations	7,025,551	14,545,068	355,452	3,525,637	(2,512,369)	22,939,339
Inter-segment eliminations	112,749	300,823	—	(112,749)	(300,823)	—
Net Income	7,138,300	14,845,891	355,452	3,412,888	(2,813,192)	22,939,339

There were no inter-segment eliminations in 2004.

	Oil and Gas	Financial	2004 Real	Energy	Corporate	Total
	\$	\$	Estate	Services	\$	\$
	\$	\$	\$	\$	\$	\$
Net Revenue	14,652,028	1,358,908	2,018,475	3,877,905	-	21,907,316
Net Operating Expenses	3,089,847	12,000	753,942	1,915,684	-	5,771,473
Net Income	2,574,346	1,293,593	(314,072)	460,584	-	4,014,451

	Oil and Gas	Financial	Real	Energy	Total
	\$	Services	Estate	Services	\$
	\$	\$	\$	\$	\$
Selected balance sheet items					
Property and equipment	146,618,038	751,233	19,280,727	37,965,396	204,615,394
Investment in financial services contracts	-	20,440,209	-	-	20,440,209
Intangibles and other assets	-	144,907,675	1,664,771	-	146,572,446
Goodwill	21,234,733	30,473,262	-	24,644,743	76,352,738
Total assets	186,917,331	298,118,417	21,623,342	76,967,842	583,626,932
Bank indebtedness	23,080,000	24,920,771	-	10,881,000	58,881,771
Mortgages	-	-	13,888,504	-	13,888,504
Long-term debt	-	-	-	2,283,945	2,283,945

	Oil and Gas	Financial	Real	Energy	Total
	\$	Services	Estate	Services	\$
	\$	\$	\$	\$	\$
Selected balance sheet items					
Property and equipment	95,865,501	15,000	19,687,628	5,254,559	120,822,688
Investment in financial services contracts	-	12,472,055	-	-	12,472,055
Intangibles and other assets	-	-	2,356,422	-	2,356,422
Goodwill	5,025,155	-	-	3,155,990	8,181,145
Total assets	109,368,101	13,164,019	22,424,501	10,358,232	155,314,853
Bank indebtedness	31,400,000	-	-	75,000	31,475,000
Mortgages	-	-	12,133,681	-	12,133,681
Long-term debt	-	-	-	1,605,663	1,605,663

24.CHANGE IN NON-CASH WORKING CAPITAL

	2005	2004
	\$	\$
Change in non-cash working capital:		
Accounts receivable and prepaid expenses	(85,815,037)	(8,048,169)
Inventory	(31,786,855)	-
Marketable securities	(12,500)	-
Accounts payable and accrued liabilities	59,452,307	7,980,254
Deferred revenue	(30,366)	230,805
Due to non-controlling interest owner	(22,993)	66,667
Unrealized foreign exchange in working capital	(281,262)	-
Working capital acquired through acquisitions	1,143,201	(2,549,189)
	<u>(57,353,505)</u>	<u>(2,319,632)</u>
Operating activities	(56,605,025)	(2,888,095)
Financing activities	(287,811)	-
Investing activities	(460,669)	568,463

25.CASH DISTRIBUTIONS

Cash distributions declared per Trust unit issued and outstanding:

Period covered	Date of Distribution	Per Unit \$
January 1, 2005 to January 31, 2005	02/15/2005	0.1060
February 1, 2005 to February 28, 2005	03/15/2005	0.1060
March 1, 2005 to March 20, 2005	04/15/2005	0.0684
March 21, 2005 to March 31, 2005	04/15/2005	0.0376
April 1, 2005 to April 30, 2005	05/16/2005	0.1060
May 1, 2005 to May 31, 2005	06/15/2005	0.1060
June 1, 2005 to June 30, 2005	07/15/2005	0.1060
July 1, 2005 to July 31, 2005	08/15/2005	0.1113
August 1, 2005 to August 31, 2005	09/15/2005	0.1113
September 1, 2005 to September 30, 2005	10/17/2005	0.1113
October 1, 2005 to October 31, 2005	11/15/2005	0.1113
November 1, 2005 to November 30, 2005	12/15/2005	0.1113
December 1, 2005 to December 31, 2005	01/16/2006	0.1200

As at December 31, 2005, the Trust had distributions owing of \$4,883,041 (December 31, 2004 - \$1,237,182). This was paid subsequent to year end on January 16, 2006.

27.SUBSEQUENT EVENTS

In February 2006, the Trust completed the acquisition of the assets of HK Well Service for \$7.9 million.

In March 2006, the Trust entered into an agreement to acquire 90% of the shares of Kodiak Coil Tubing for total consideration of \$23.65 million less debt and working capital which will be funded both from existing credit facilities and the issuance of approximately 729,438 Trust Units. The Trust further agrees to pay an additional contingent amount based on a predetermined multiple times the earnings before interest, depreciation and taxes in excess of \$5.2 million for 2006.

CORPORATE INFORMATION

DIRECTORS

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

Gary H. Dundas
VP Finance & CFO

David E. Butler (1,3)

Stuart Y. Chow (2,3)

Jeffery Kohn

Alan Moon (1,2)
Lead Director

William E. Patterson (1,2)

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

CORPORATE SECRETARY

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

AUDITORS

Ernst & Young, LLP

BANKERS

National Bank of Canada
HSBC Bank Canada
Canadian Western Bank
Toronto Dominion Bank

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.

LEGAL COUNSEL

Burnet, Duckworth & Palmer, LLP

TRANSFER AGENT

Olympia Trust Company

OFFICERS & KEY PERSONNEL

William Gallacher, P.Eng
President & CEO

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

Jill Koskimaki, BBA
Manager Bus. Development

Michelle O'Grady, CA
Controller

James Burns, P. Geol., MBA
COO, Energy

Grant Leslie, P. Eng.
VP Operations, Energy

Debbie Carter
Controller, Energy

Stuart King, CA
Controller, Energy Services

Duncan Au, CA, CFA
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Kevin Wolfe, President /
Ward Mallabone, C.O.O.

Elbow River Marketing LP
Ed Malcolm, President

Cascade Services LP
Ken Wagner, President

Cardinal Well Services LP

Endless Tubing LP
Steve Sykes, General Manager

Millard Oilfield Services LP
Clyde Moch, President

Westvac Energy Services Partnership
Rod MacDonald, President

Richmond Energy Services LP

HK Well Services

OIL & GAS ABBREVIATIONS

Oil, Natural Gas and Natural Gas Liquids

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

Other

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

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