AVENIR DIVERSIFIED INCOME TRUST

QUARTER
TWO
FINANCIAL
STATEMENTS
2005

SECOND QUARTER 2005 FINANCIAL HIGHLIGHTS

For the periods ended	Three months Ended June 30		Six months Ended June 30	
	2005	2004	2005	2004
FINANCIAL				
Gross Revenue	$ 67,921,161	$ 3,653,701	$ 84,197,436	$ 6,144,070
Net Revenue	$ 65,949,359	$ 2,811,502	$ 74,929,157	$ 4,965,820
Funds From Operations (FFO) [1]	$ 9,351,360	$ 1,438,630	$ 16,630,304	$ 2,756,701
FFO Per Unit [1] – Basic	$ 0.38	$ 0.45	$ 0.88	$ 0.92
Distributions	$ 7,953,581	$ 847,008	$ 12,143,662	$ 1,601,977
Distributions Per Unit – Basic	$ 0.33	$ 0.26	$ 0.65	$ 0.53
Distribution Payout Ratio [2]	85%	59%	73%	58%
Net Income (loss)	$ 2,744,345	$ (145,206)	$ 2,140,463	$ 278,159
Net Income (loss) Per Unit – Basic	$ 0.11	$ (0.04)	$ 0.11	$ 0.09
Total Assets	$317,216,981	$ 66,771,292	$317,216,981	$ 66,771,292
Working Cap. (Net Debt) including mortgages [1]	$(42,210,037)	$(10,166,806)	$(42,210,037)	$(10,166,806)
Wtd. Avg. Units Outstanding – Basic	24,441,653	3,228,639	18,815,761	2,999,564
Units Outstanding (incl. escrowed units)	25,011,258	7,199,303	25,011,258	7,199,303
OPERATING				
Production				
Oil and NGL's – bbls per day	1,609	304	1,623	281
Gas – Mcf per day	9,819	2,507	8,503	2,523
Total BOE [3] per day	3,246	722	3,040	701
Average Pricing				
Oil & NGL ($/Bbl) before hedging [5]	$ 47.28	$ 41.87	$ 45.85	$ 40.67
Oil & NGL ($/Bbl) after hedging [5]	$ 42.28	$ 36.21	$ 42.20	$ 35.58
Natural Gas ($/Mcf)	$ 7.06	$ 6.56	$ 7.06	$ 6.47
Average Price Per BOE [3] before hedging [5]	$ 44.01	$ 40.50	$ 43.65	$ 39.71
Average Price Per BOE [3] after hedging [5]	$ 41.65	$ 38.11	$ 41.71	$ 37.67

1 Funds from operations, Funds 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 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 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 6:1

4 Certain comparative figures for prior quarters have been retroactively 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.

REVIEW OF FINANCIAL RESULTS

The Trust was very busy completing and integrating a number of acquisitions over the first half of 2005. Due to the seasonal nature of the energy services division and its Elbow River natural gas marketing division funds from operation profile, the second quarter of the year will tend to be the Trust's weakest quarter. Energy services is impacted by weather and spring breakup and marketing revenues decline in the spring shoulder months after busy winter sales season. However, taking into account an exceptionally wet June and start-up requirements at Elbow River, the Trust had a solid second quarter with increases in total assets, funds from operations, net income and distributions.

The Trust had net income for the quarter ended June 30, 2005 of $2,744,345 as strong profits were recorded across each of the oil and gas, energy services and financial services divisions. Net Income is up 1,990% over the $(145,206) net income for the quarter ended June 30, 2004. Net income for the six months ended June 30, 2005 was $2,140,463 or $0.11 per unit versus $278,159 or $0.09 per unit for the first six months of 2004. The six month 2005 net income figures were impacted by the recognition of $5,194,055 in unrealized loss on financial instruments. In its oil and gas division, consistent with most oil and gas firms of the Trust's size, the Trust does not follow hedge accounting for those contracts due to the onerous monitoring and regulatory requirements.

The funds from operations for the second quarter 2005 were $9,351,360 or $0.38 per unit versus $1,438,630 or $0.45 per unit for the second quarter 2004. For the six months ended June 30, 2005, funds from operations were $16,630,304 compared to $2,756,701 for the same period in 2004, a 503% increase. The increase in the funds from operations were primarily the result of the growth in the Trust's business units, including: oil and gas acquisitions, high commodity prices, the energy services acquisitions, additional financial services contracts, and the initial inclusion of the Western Spirit real estate acquisition at the end of March 2004.

The Trust distributed $7,953,581 or $0.33 per unit for the quarter ended June 30, 2005 versus $847,008 or $0.26 per unit distributed for the quarter ended June 30, 2004. Since the second quarter of 2004, the Trust has increased the monthly distribution approximately 21% over 2 separate increases. For the quarter ended June 30, 2005 the payout ratio was 85% of funds from operations. For the six months ended June 30, 2005 the payout ratio was 73% versus 58% for the first six months of 2004 and a target payout ratio of 75% to 80%.

REVIEW OF BUSINESS UNIT OPERATIONS

I. ENERGY BUSINESS UNIT

a. OIL & GAS OPERATIONS

The second quarter of the year is typically the most challenging for oil and gas operations due to the inability to mobilize equipment during spring break-up. The second quarter of 2005 was particularly difficult because of the record breaking rainfall in the month of June that further delayed and complicated field operations. Production increases over the first quarter of 2005 resulted primarily from the inclusion of Val Vista properties for the full quarter. While oil and Ngl production was down negligibly (less than 2%) compared to the first quarter at 1,609 BOE per day, gas production increased from 7.2 Mmcf per day to 9.8 Mmcf per day. On a BOE basis production averaged 3,246 BOE per day in the second quarter compared to 2,832 in the first, an increase of 14.6%. Increases from the inclusion of Val Vista were offset by temporarily shut-in production at several properties. Production for the quarter was negatively impacted by about 189 BOE per day due to ongoing facility constraints at Noel in northeast British Columbia. Early July this production was back on stream and is expected to continue without further constraint for the foreseeable future. Production for the quarter was further impacted by 100 BOE per day due to weather related access problems in the Shekilie area in northwest Alberta preventing installation of artificial lift on two wells. One of these artificial lift installations is scheduled for August while timing for the second has not been determined. Despite the difficult conditions, required maintenance of oil facilities acquired in December of 2004 was carried out in June (continuing beyond quarter end into July) resulting in temporarily increased operating expense and a further production curtailment of 15 BOE per day average over the quarter.

During the second quarter the Trust added key operational and technical staff to the Oil and Gas Operations group. Assessment of numerous opportunities has led to the initiation of re-completion and reactivation programs in southern Alberta and southwest Saskatchewan. Plans are in place to expand these programs and commence drilling programs starting late in the third quarter or early in the fourth on the opportunities identified to date.

Subsequent to the end of the quarter, effective August 4, 2005, the Trust completed the acquisition of Makah Energy Corp. This acquisition has added approximately 650 BOE per day of predominantly sweet gas production that is focused in the Trust's central Alberta core area. Total Proved plus Probable reserves are approximately 1.5 million BOE. The Makah assets are largely operated with high working interests and excellent upside drilling opportunities that the Trust is evaluating to either drill or farm-out. Consideration for the acquisition was $29.8 million less net debt plus transaction costs of approximately $4.0 million. After allowing for the value of undeveloped land, proprietary 3D seismic and a pending transaction to farm-out a portion of Coal Bed Methane rights, the Trust acquired proved plus probable reserves at a cost of $17.00 per BOE or at a production cost of $37,000 per producing BOE.

b. ENERGY SERVICES OPERATIONS

The second quarter was extremely busy and also challenging for the energy services division of the Trust. The Trust completed the acquisition of four companies during the second quarter for total consideration of $29,450,000 less debt and working capital. Overall results exceeded expectations despite the challenging weather and the integration of four new businesses. The Cascade Services Partnership enjoyed another strong quarter despite the interruption of spring break-up.

Millard Oilfield Services (91) ("Millard") – Acquired April, 2005. 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. Clyde Moch, previous part-owner, remains with Millard in the capacity of President of Millard Oilfield Services Partnership.

Endless Tubing Services Ltd. ("Endless") – Acquired April 2005. Endless provides coiled tubing services to the oil and gas industry with a fleet of nine custom built mobile coiled tubing units. Endless is also based in Medicine Hat, Alberta and will now operate under the name Endless Tubing Services Partnership. Mr. Steve Sykes, previously operations manager for Endless has assumed the role of General Manager.

Cardinal Well Services Ltd. ("Cardinal") – Acquired May, 2005. Cardinal provides essential oil well services to the oil and gas industry with a fleet of nine rod rig "flush-by" units used to service pumping oil wells. Cardinal operates in southern Alberta out of Brooks and Taber and in central Alberta from Red Deer and Drayton Valley. Troy Fisher, previous General Manager, C.O.O. and Part-Owner of Cardinal, remains with Cardinal in the capacity of President of Cardinal Well Services Partnership to manage the day to day operations.

D&G Oil/Gas Services ("D&G") – Acquired June, 2005 through Cascade Services Partnership. D&G will continue to operate under the D&G name but operations have been integrated with Cascade. D&G provides hot-oiling, pressure truck and steaming services to the oil and gas industry in northeast British Columbia, from its operational base in Fort St John. The acquisition of D&G expands the fleet of vehicles within Cascade to 50 and expands the range of services offered by Cascade. The acquisition will provide greater efficiency and will allow Cascade to compete for larger contracts.

Spring break-up was followed by record breaking rainfall in the southern Alberta area that was the main operational focus for the group's newly acquired southern Alberta companies. The rainfall greatly reduced utilization for the month of June, but a return to more normal weather has resulted in a strong recovery of utilization rates in July and August. The acquisitions were accretive to the Trust's funds from operations and are an important step in the development of the Energy Services segment of the Trust's Energy Business Unit. The acquisitions of Millard, Endless, Cardinal and D&G continue to focus the Trust's Energy Service division on essential production services, and extend its geographic reach throughout Alberta, northeast British Columbia and Saskatchewan.

II. FINANCIAL SERVICES BUSINESS UNIT REVIEW

i. Financial Services Contracts

In January 2003, Avenir Financial acquired its first financial services contract with an affiliate of a financial services provider, RentCash Inc. ("RentCash"), to provide funding of $600,000 for Rentcash end users. RentCash provides cash advance, cheque cashing and payday loan services. The Trust has continued to grow its business with RentCash and has entered into contracts that totalled $21.9 million at the end of June 2005. Subsequent to the quarter end the Trust entered into an additional $1.5 million in contracts and expects to add additional financial services contracts throughout 2005.

ii. Elbow River Marketing Limited Partnership

On April 1, 2005, the Trust closed the agreement to acquire all of the assets of 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. The second quarter, traditionally the slowest quarter for Elbow River, was somewhat lower than what was budgeted for funds from operations as the Trust worked to integrate personnel, credit, and business relationships into the new entity. In addition, the high price crude environment, which has led to fuel surcharges, freight rate increases and higher credit requirements, has brought customer uncertainty and generally customer inactivity during the second quarter. Elbow River is on budget for July and well positioned going into the traditionally stronger fall and winter season with inventory builds and a sizable winter tank car fleet leading to higher than historical winter pre-sale levels. Also, the specialty products division, and more specifically the ethanol market, has exceeded expectations and continues to show strong growth.

III. REAL ESTATE BUSINESS UNIT REVIEW

At June 30, 2005 the Trust's real estate portfolio consisted of five properties with approximately 400,000 square feet of leasable area. The properties are located in Toronto, London (Ontario), Calgary, Fort Saskatchewan and Edmonton (Alberta). A property management company, Tonko Realty Advisors, administers the day to day operations of the Trust's real estate business unit. Currently the portfolio is 93% leased. Subsequent to the quarter end, the Trust has re-mortgaged two of its buildings at rates approximately 2% less than the previous mortgages and this interest savings will be reflected in future period's funds from operations. The Trust continues to evaluate opportunities, but has been reluctant to undertake acquisitions at the historically low cap rates in the current environment.

To follow is the Trust's Management Discussion and Analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis should be read in conjunction with the unaudited consolidated financial statements for the quarter and six months ended June 30, 2005, audited consolidated financial statements for the year ended December 31, 2004 and the management discussion and analysis thereto. This management discussion and analysis relates to events up to August 12, 2005.

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 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 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 funds from operations from both real estate and financial services with a more variable higher return from the energy sector.

Significant Events for the Second Quarter Ended June 30, 2005

- **Energy Services Acquisition – Eagle Oilfield Services Inc.**

  The Trust completed four energy service acquisitions during the second quarter for total consideration of approximately $30,000,000 including transaction costs.

  - **Millard Oilfield Services (91) ("Millard")** – Acquired April, 2005.

    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. Clyde Moch, previous part-owner, remains with Millard in the capacity of President of Millard Oilfield Services Partnership.

  - **Endless Tubing Services Ltd. ("Endless")** – Acquired April 2005.

    Endless provide coiled tubing services to the oil and gas industry with a fleet of nine custom built mobile coiled tubing units. Endless is also based in Medicine Hat, Alberta and will now operate under the name Endless Tubing Services Partnership. Mr. Steve Sykes, previously operations manager for Endless has assumed the role of General Manager.

- **Cardinal Well Services Ltd. (“Cardinal”)** – Acquired May, 2005.

  Cardinal provides essential oil well services to the oil and gas industry with a fleet of nine rod rig “flush-by” units used to service pumping oil wells. Cardinal operates in southern Alberta from of Brooks and Taber and in central Alberta from Red Deer and Drayton Valley. Troy Fisher, previous General Manager, C.O.O. and Part-Owner of Cardinal, remains with Cardinal in the capacity of President of Cardinal Well Services Partnership to manage the day to day operations.

- **D&G Oil/Gas Services Ltd. (“D&G”)** – Acquired June, 2005 through Cascade Services Partnership.

  D&G will continue to operate under the D&G name but operations have been integrated with Cascade. D&G provides hot-oiling, pressure truck and steaming services to the oil and gas industry in northeast British Columbia, from its operational base in Fort St John. The acquisition of D&G expands the fleet of vehicles within Cascade to 50 and expands the range of services offered by Cascade. The acquisition will provide greater efficiency and will allow Cascade to compete for larger contracts.

- **Oil & Gas Acquisition – Val Vista Energy Ltd.**

  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 under the provisions of the Business Corporations Act. On March 24, 2005 the Trust acquired the outstanding shares of Val Vista for total consideration of $25,435,031 including the issuance of 1,183,772 Trust Units at $10.70 per unit. On April 29, 2005 the Trust completed the compulsory acquisition of the remaining outstanding common shares of Val Vista and Val Vista became an indirect wholly owned subsidiary of the Trust. 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. The Trust has accounted for the transaction effective March 24, 2005.

- **Elbow River Resources Ltd. (“Elbow River”) Acquisition**

  On April 1, 2005, the Trust closed the agreement with 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 broker, transporter and supplier of butane to major refineries and propane to major retailers in the United States, Canada and Mexico.

Subsequent Significant Events after June 30, 2005

- **Redemption of Rentcash Inc. (“Rentcash”) $3.0 million Debentures**

  On July 12, 2005 the Trust reached an agreement with Rentcash to redeem a total of $3,000,000 in debentures for principal value and outstanding interest only. On the same day, the Trust entered into a new financial services contract for $1,500,000 with terms identical to the Insta-loans contracts entered into in April 2005.

- **Makah Energy Corp. (“Makah”) Acquisition**

  Subsequent to the end of the quarter, effective August 4, 2005, the Trust completed the acquisition of Makah Energy Corp. This acquisition has added approximately 650 BOE per day of predominantly sweet gas production that is primarily focused in the Trust’s central Alberta core area. Total Proved plus Probable reserves are approximately 1.5 million BOE. The Makah assets are largely operated with high working interests and have excellent upside drilling opportunities that the Trust is evaluating to either drill or farm-out. Total consideration for the acquisition was $29.8 million less assumed net debt plus estimated transaction costs. After allowing for the value of undeveloped land, proprietary 3D seismic and a pending transaction to farm-out a portion of Coal Bed Methane rights the value of the reserves and current production was determined to be approximately $17.00 per BOE of proved plus probable reserves or $37,000 per producing BOE.

- **Acquisition of EnerVest Diversified Management Inc. ("EnerVest") for $125.5 million**

  On July 11, 2005 the Trust announced it had reached an agreement to purchase the joint venture that is the sole shareholder of EnerVest Diversified Management Inc., the Manager of the EnerVest group of funds including EnerVest Diversified Income Trust, for approximately $125,500,000. As manager of the funds, the Trust will receive monthly management fees based on the net asset value of the funds. The transaction is scheduled to close on or about September 30, 2005 subject to certain closing conditions.

- **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 for the fifth time since inception in 2003. Over that period distributions have increased 65%.

- **Banking Facility 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 transaction and is scheduled for repayment on or about September 30, 2005.

Selected Quarterly Information

(000's $)	**June30 2005**	**Mar 31 2005**	**Dec 31 2004**	**Sept 30 2004**	**June 30 2004**	**Mar 31 2004**	**Dec 31 2003**	**Sept 30 2003**	**June 30 2003**
Total Net Revenue	65,949	8,980	11,614	5,328	2,811	2,154	1,730	946	931
Net Income (loss)	2,744	(604)	2,955	781	(145)	423	(73)	177	60
Net Income (loss) per Unit basic	0.11	(0.05)	0.31	0.11	(0.04)	0.15	(0.03)	0.11	0.04
Funds from Operations	9,351	7,279	4,991	2,806	1,439	1,318	853	532	455
Funds per unit	0.38	0.55	0.53	0.39	0.45	0.48	0.31	0.32	0.31
Total Assets	317,217	274,220	155,315	109,945	66,771	44,888	22,430	19,620	12,105
Distributions paid	7,954	4,190	3,053	2,016	847	755	726	516	358
Distributions (per Unit)	0.33	0.32	0.32	0.28	0.26	0.27	0.26	0.31	0.24

The Trust was very busy completing and integrating a number of acquisitions over the first half of 2005. The second quarter of the year is the Trust's weakest quarter due to the seasonal nature of the energy services division and its Elbow River natural gas marketing division funds from operations profile. Energy services is impacted by weather and spring breakup and marketing revenues decline in the spring shoulder months after busy winter sales season.

Taking into account an exceptionally wet June and start-up requirements at Elbow River, the Trust had a solid second quarter with increases in total assets, funds from operations, net income and distributions.

Net Income (loss)

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

	For the three months ended		For the six months ended	
	June 30, 2005 $	June 20, 2004 $	June 30, 2005 $	June 30, 2004 $
Net Income (loss)				
Oil and Gas	1,796,162	(377,237)	(679,758)	(88,916)
Financial Services	412,296	–	1,276,741	–
Real Estate	989,624	201,651	1,705,637	336,695
Energy Services	(33,083)	30,380	427,973	30,380
Corporate	(420,654)		(590,130)	
Consolidated Net Income	**2,744,345**	**(145,206)**	**2,140,463**	**278,159**

The Trust had net earnings for the quarter ended June 30, 2005 of $2,744,345 as strong profits were recorded across each of the oil and gas, energy services and financial services divisions. Net Income is up 1,990% over the $145,206 net loss for the quarter ended June 30, 2004. Net income for the six months ended June 30, 2005 was $2,140,463 or $0.11 per unit versus $278,159 or $0.09 per unit for the first six months of 2004. The six month 2005 net income figures were impacted by the recognition of $5,194,055 in unrealized loss on financial instruments. In its oil and gas division, consistent with most oil and gas firms of the Trust's size, the Trust does not follow hedge accounting for those contracts due to the onerous monitoring and regulatory requirements.

1(a). Oil & Gas

The oil and gas net income was $1,796,162 for the quarter ended June 30, 2005 versus net loss of $377,237 for the quarter ended June 30, 2004. For the six months ended June 30, 2005 net loss was $679,758 compared to $88,916 for the first six months of 2004. The 576% increase quarter over quarter and the 664% decrease for the six month period 2005 over 2004 was the result of growth in the division through four significant acquisitions over the past year. 2005 results have been significantly impacted by the recognition of unrealized losses on its financial instruments used to lock-in acquisition economics and to sustain distributions.

1(b). Energy Services

On June 30, 2004 the Trust created Cascade Energy Services Partnership ("Cascade Partnership") through the acquisition of 90% of Cascade Steaming Ltd. ("Cascade"). Cascade was the first Energy services acquisition made by the Trust so there are no comparative results for the second quarter 2004. Net Income for the second quarter 2005 totaled $412,296 which is a 52% decrease over the first quarter of 2005 which was $864,445. It should be noted that the first quarter of the year is typically the strongest earnings quarter for the energy services industry. Second quarter 2005 includes only partial results from four energy services acquisitions and, in addition to typically a slow quarter, was severely impacted by abnormally wet June weather in Southern Alberta. Despite the weather issues the division came in above budget for the quarter.

2. Financial Services

Net income in the financial services business unit increased from $201,651 in the second quarter of 2004 to $989,624 in the second quarter of 2005. For the six months ended June 30, 2005 the net income for this business unit was $1,705,637 compared to $336,695 for the first six months of 2004. The 407% increase is due to the additional financial service cheque cashing contracts and inclusion of the Elbow River marketing natural gas liquids brokerage business in April 2005. Net income from financial service contracts and debenture interest totaled $1,867,064 while Elbow River recorded a loss of $161,427. Elbow River which traditionally has a weak second quarter also includes amortization costs of $719,025 as the intangible assets recognized on acquisitions are amortized over a five year period.

3. Real Estate

The Real Estate business unit net loss for the second quarter ended June 30, 2005 totaled $33,083 compared to net income of $30,380 in the second quarter of 2004. For the six months ended June 30, 2005 net income was $427,973 compare to $30,380 in the first six months of 2004. The 2005 increase is largely due to the recognition of a $222,360 gain on property sales in the first quarter 2005; while in 2004, the Trust did not acquire any real estate properties until the second quarter.

Funds from Operations

The funds from operations for the second quarter 2005 were $9,351,360 or $0.38 per unit versus $1,438,630 or $0.45 per unit for the second quarter 2004. For the six months ended June 30, 2005, funds from operations were $16,630,304 compared to $2,756,701 for the same period in 2004, a 503% increase. The increase in funds from operations was primarily the result of the growth in the Trust's business units, including: oil and gas acquisitions, high commodity prices, the energy services acquisitions, additional financial services contracts, and the initial inclusion of the Western Spirit real estate acquisition at the end of March 2004.

The Trust distributed $7,953,581 or $0.33 per unit for the quarter ended June 30, 2005 versus $847,008 or $0.26 per unit distributed for the quarter ended June 30, 2004. Since the second quarter of 2004, the Trust has increased the monthly distribution approximately 21% over 2 separate increases. For the quarter ended June 30, 2005 the payout ratio was 85% of funds from operations. For the six months ended June 30, 2005 the payout ratio was 73% versus 58% for the first six months of 2004 and a target payout ratio of 75% to 80%.

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

Period covered	Date of Distribution	Per Unit $
January 1, 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	05/15/2005	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

* 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.

Revenue

1(a). Oil & Gas

i. Revenue and Production

For the quarter ended June 30, 2005, oil and gas gross revenue was $12,497,725 compared to $2,557,212 for the same period in 2004, up 389%, attributable in most part to the acquisitions made in June, September and December 2004 and March 2005.

Revenue from petroleum and natural gas sales (net of royalties and unrealized losses on financial instruments) for the quarter ended June 30, 2005 was $10,890,825 up 534% compared to $1,717,006 for the quarter ended June 30, 2004. The average price received for crude oil and natural gas liquids during the quarter ended June 30, 2005 was $42.28 per BOE an increase versus $36.21 per BOE which was received for the quarter ended June 30, 2004 and $7.06 per mcf for natural gas, up 8% from the 2004 first quarter average of $6.56 per mcf. Although oil prices received were higher than comparable periods in June 2004, the Trust continues to be negatively impacted by the price differential between light sweet crude and the Bow River medium stream that much of the Trust's southern Alberta production, acquired from PrimeWest in December 2004, is sold into. In July 2005, Bow River price differentials have narrowed such that Bow River crude is trading at approximately 20% off Edmonton par price versus in excess of 30% in the first half of 2005.

Although the Trust hedges a portion of its production to add stability to its distributions, to guard against fluctuations in commodity prices and to support acquisition economics, it has been determined that its oil and gas swap transaction does not qualify under new hedge accounting guidelines. Accordingly, the Trust recorded a hedging gain of $363,167 for the quarter ended June 30, 2005. In addition, the accounting treatment requires the Trust to recognize an unrealized loss of $(5,194,055) for the change in the mark-to-market position on existing contracts for the six months ended June 30, 2005.

Average daily production volumes for the quarter ended June 30, 2005 were 3,246 BOE per day up 350% over 2004 production of 722 BOE per day. Second quarter 2005 production consisted of 1,609 bbls per day of crude oil and natural gas liquids and 9,819 mcf per day of natural gas (compared to 304 bbls per day and 2,507 mcf per day for the first quarter 2004, respectively). The 429% increase in oil and liquids production came mostly from the PrimeWest acquisition in December 2004. The 291% increase in natural gas production was the result of the Liege and Blaze natural gas asset acquisitions completed in June 2004, the Lightning acquisition completed in September 2004 and the Val Vista acquisition completed in March of 2005. Production for the six months ended June 30, 2005 averaged 3,040 BOE per day versus 701 BOE per day in the same period ended June 30, 2004.

ii. Royalties

The Trust's royalty costs net of ARTC for the quarter ended June 30, 2005 were $1,771,474 or 13.6% of revenue, up 340% over the second quarter 2004 of $402,049 or 16.1% of revenue. Royalties were positively impacted by additional ARTC qualifying royalties from the Val Vista acquisition and the recognition of $222,891 in the quarter for prior year gas cost allowance credits not previously recognized. Royalties for the quarter would have been 15.3% of revenue without the prior year gas cost allowance adjustment. On a BOE basis, royalty costs averaged $6.00 per BOE in the period, which is down 2% over the second quarter 2004 cost of $6.12 per BOE.

iii. Operating Expenses

The Trust's operating costs, net of processing income, for the quarter ended June 30, 2005 were $3,689,805, up 553% over the second quarter 2004 a result of increased production due higher volumes and higher operating cost properties acquired in 2004. On a BOE basis, operating costs for the quarter averaged $12.51 per BOE in the period, which is up 45% over the second quarter 2004 cost of $8.61 per BOE. Second quarter 2005 operating costs continue to reflect the impact of the higher inherent operating costs associated with the southern Alberta oil acquisition from PrimeWest. The quarter was also impacted by the required maintenance turnarounds at its southern Alberta oil facilities which added an average of $0.67 per BOE to operating costs for the quarter. The final turnaround was completed in July 2005. Second quarter 2005 operating costs were negatively impacted by the inclusion of about $320,000 or ($1.08 per BOE for the quarter) in prior year costs on properties acquired in 2004 but which had costs recorded in 2005. Without annual maintenance turnarounds and the prior year costs, operating expenses per BOE would have been $10.76 or similar to last quarter. The Trust expects overall operating costs to be about the $11.00 per BOE level, higher than previous estimates due to continuing problems with production in the Shekile area and higher than when the Trust's product mix was predominantly natural gas in 2004. For the six month period ended June 30, 2005 operating costs totaled $6,402,344 or $11.64 per BOE versus $954,811 and $7.48 per BOE in the same period in 2004.

iv. Netbacks

	2005		2004			
	Q2	Q1	Q4	Q3	Q2	Q1
	$/BOE	$/BOE	$/BOE	$/BOE	$/BOE	$/BOE
Gross revenue after hedging	41.65	41.77	39.51	37.58	38.11	37.19
Royalties	6.00	7.82	7.67	6.58	6.12	5.07
Operating costs	12.51	10.63	7.20	7.37	8.61	6.29
Operating netback	23.15	23.32	24.64	23.63	23.38	25.83

1(b). Energy Services Revenue

On June 30, 2004 the Trust created the Cascade Partnership which was the first Energy services acquisition made by the Trust so there are no comparative results for the second quarter 2004. During the second quarter of 2005 the Trust added four new service companies as discussed above. Revenue for the Energy Services division totaled $6,623,540 for the quarter ended June 30, 2005. For the previous quarter ended March 31, 2005, revenues were $4,204,051. The increase over the previous quarter reflects the inclusion of revenue from the four new acquisitions for a portion of the quarter. Further increases in the third quarter will result from inclusion of these companies for the full period and better utilization rates from improved weather conditions. Southern Alberta was significantly impacted by abnormally wet June conditions. Despite the inclement weather, the division remained on budget due to strong results in northeast British Columbia.

2. Financial Services Revenue

The Trust recognized revenue in the financial services business unit of $47,681,876 for the quarter ended June 30, 2005 and $48,434,778 for the six months ended June 30, 2005, up 20,897% and 12,567% respectively over the comparative second quarter and first six months of 2004 of $227,092 and $382,364, respectively. The increase is primarily due to the acquisition of Elbow River which provided $46,492,110 in the period, as well as additional cheque cashing contracts that were added.

3. Real Estate Revenue

The revenue from the Real Estate business unit for the quarter ended June 30, 2005 was $695,355 compared to $867,404 for the second quarter of 2004. For the six months period ended June 30, 2005 revenue totaled $1,608,018 compared to $867,404 for the first six months of 2004. The increase is primarily due to the Western Spirit Investments Ltd. acquisition that closed March 31, 2004, so no revenues were recorded in the first quarter of 2004. Currently the Real Estate business unit currently leases 93% of its space.

General and Administrative Expenses

General and administrative ("G&A") expenses for the quarter ended June 30, 2005 were $3,017,370 compared to $524,638 for the quarter ended June 30, 2004. For the six months ended June 30, 2005 G&A expenses totaled $4,468,934 compared to $929,826 for the first six months of 2004. Non-cash stock based compensation expense of $408,423 is included in the six months ended June 30, 2005 reflecting the increase in options as a result of new employees in the Trust's respective divisions. G&A expenses on the split between the respective business units for the second quarter 2005 were: $1,030,651 for oil and gas, $724,065 for financial services, $119,929 for real estate, $1,938,138 for energy services and $656,151 for corporate costs. The 379% increase in G&A expenses in the six months of 2005 is the result of additional staffing costs associated with the 375% increase in the Trust's asset base from June 2004, with large staff components being added in energy services and Elbow River, the additional reporting and regulatory costs of being a TSX listed company and increased costs associated with multiple business units.

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was $6,426,297 in the quarter ended June 30, 2005, compared to $1,094,113 for the second quarter of 2004 and $10,507,451 for the six months ended June 30, 2005 versus $1,935,101 for the six months ended June 30, 2004. The Trust's depletion and depreciation rate in its oil and gas division was $14.12 per BOE during the second quarter 2005 up from the $13.29 per BOE rate in the second quarter of 2004. The depletion rate continues to reflect the historically high cost per BOE of acquisitions in the current market. For the period ended June 30, 2005, $7,523,695 of the depletion and depreciation cost was on oil and gas assets, $1,754,086 of depreciation and amortization was in the energy services division, $729,862 for amortization of intangibles in the financial services division and $499,808 of depreciation and amortization was from 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 $9,222,269 as at June 30, 2005 based on a total future liability of $20,369,585. 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:

	$
Carrying amount, as at January 1, 2005	8,033,301
Oil and gas property acquisitions during the period	805,700
Oil and gas activities during the period	13,222
Asset retirement obligation accretion for the period	370,046
Carrying amount, as at June 30, 2005	**9,222,269**

Income Taxes

The Trust did 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 $nil for the three months ended June 30, 2005 and $1,864,800 for the six months ended June 30, 2005. The future income tax recovery for the six months ended June 30, 2005 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 $253,549 reflects the growth in the asset base of the Trust and Saskatchewan resource surcharge fro the Prime West properties versus $11,310 recorded in 2004.

Interest Expense

Interest expense and bank fees were $546,212 for the three months and $1,186,771 for the six months ended June 30, 2005. For the three and six months ended June 30, 2004, interest expense and bank fees were $286,283 and

$398,598. The 2005 figures reflect a 91% and 198% increase over the comparative 2004 figures. Interest expense for the second quarter of 2005 includes bank fees of $17,086. The oil and gas division accounted for $700,267 of the interest expense for the six months ended June 30, 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. Most of the remaining interest expense was in the real estate division where the Trust had $13,915,410 in mortgages outstanding in the quarter ended June 30, 2005 versus June 30, 2004 where mortgages of $12,345,421 were only recognized for one day with the Western Spirit acquisition at quarter end 2004.

Financial Instruments

The following table details those transactions that qualify for hedge accounting as at June 30, 2005. Under hedge accounting the unrealized loss below is not required to be reflected in the financial statements:

Commodities hedging contracts:			**June 30, 2005**
Settlement dates	**Volume (bbl)**	**Prices $/(bbl)**	**Unrealized gain (loss)**
July 2005	338,500	29.715 – 60.500	(344,113)
August 2005	168,300	33.180 – 65.121	(270,994)
September 2005	64,200	33.180 – 65.121	(50,607)
October 2005	44,000	33.915 – 65.121	(51,379)
November 2005	101,500	33.915 – 65.121	(278,281)
December 2005	170,725	33.915 – 65.121	(631,535)
January 2006	83,725	33.915 – 65.835	(83,343)
February 2006	25,725	33.915 – 65.835	(18,588)
March 2006	11,750	37.149 – 65.835	1,571
April 2006	11,000	65.835	(5,775)
May 2006	11,000	65.835	(10,395)
June 2006	11,000	65.835	(10,395)
	1,041,425		(1,753,834)
		Exchange rate	1.2245
		Total CDN dollars	(2,147,570)

Forward exchange contracts:			**June 30, 2005**
Term Due	**Amount**	**Forward Rates**	**Unrealized gain (loss)**
July 2005	$ 220,000	1.2068 – 1.25270	39,517
August 2005	70,000	1.23970 – 1.25180	21,083
September 2005	85,000	1.2389	1,071
October 2005	715,000	1.20450 – 1.24450	10,635
November 2005	0	1.2295	2,208
December 2005	2,785,000	1.2475	128,918
January 2006	185,000	1.20210 – 1.2272	(4,356)
April 2006	280,000	1.1999 – 1.2243	(4,464)
Total US dollars	$ 4,340,000		194,612
Exchange rate	1.2245		1.2245
Total CDN dollars	$ 5,314,330		238,302

The following table presents those transactions that do not qualify for hedge accounting together with a reconciliation of the risk management liability and the deferred financial instrument loss as at June 30, 2005. These amounts are reflected in the financial statements as unrealized loss on financial instruments:

	$
Risk management asset (liability), January 1, 2005	1,147,127
Change in mark-to-market unrealized gain (loss)	(5,194,055)
Change in recognized loss relating to expired contracts	12,416
Risk management asset (liability), June 30, 2005	**(4,034,512)**

The Trust has the following fixed price forward contracts outstanding (Note: these do not quality 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 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

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

The Trust's financial services contracts are with an affiliate of RentCash 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 by advancing amounts to various counterparties; however, some 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.

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

Liquidity and Debt

At June 30, 2005 the Trust has a combined revolving demand facility with a major Canadian bank in the amount of $35,925,000 bearing interest at prime plus one-quarter of one percent. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. In addition, the Trust has an acquisition and development line of $5,000,000, bearing interest at bank prime plus one and one-half percent, to fund additional oil and gas acquisitions. Upon the acquisition of Val Vista the Trust also acquired a demand revolving credit facility with a limit of $6,000,000 bearing interest at prime plus three-quarters of one percent. As at June 30, 2005, $22,850,000 (not including overdraft of $718,330) was drawn on the revolving demand facility, and $5,100,000 was drawn on the demand revolving credit facility.

The Trust also has an operating line facility with another major Canadian bank in the amount of $500,000 bearing interest at prime plus one percent. This operating line facility is available for the operations in the Trust's energy services division. Upon the acquisition of Cardinal Well Services Partnership the Trust also acquired a demand operating credit facility with a limit of $750,000 bearing interest at prime plus three quarters of one percent and a non-revolving demand facility in the amount of $2,000,000 bearing interest at prime plus one and one quarter of a percent. As at June 30, 2005, $nil was drawn on the operating line facility, $550,000 was drawn on the demand operating credit facility and $958,444 was outstanding on the non-revolving demand facility.

During the quarter the Trust obtained a demand revolving loan with a Canadian bank through its subsidiary Elbow River Marketing Partnership 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's base rate plus one quarter of a percent. The facility is primarily used to provide credit for natural gas liquids inventory purchases. As at June 30, 2005 $8,646,116 was drawn on this facility.

The effective average interest rate on borrowings under these lines for the six months ended June 30, 2005 including services fees was 5.75% (June 30, 2004 – 5.77%).

As at June 30, 2005, the Trust also had three letters of credit outstanding in the aggregate amount of $474,500. 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 $14,251,120.

Subsequent to the quarter 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. As well, the Trust is currently finalizing an integrated banking facility for the Energy Services division of the Trust and expects to have it in place by August 31, 2005. In the interim, on August 11, 2005, Cascade Steaming Ltd., a third party partner in Cascade Services Partnership has provided a $1,000,000 advance repayable on or about September 30, 2005. The advance will bear interest at prime + 2% plus a 2% drawdown fee.

		Payments due by period		
	Total	**Less than 1 year**	**1 – 3 years**	**4+ years**
Mortgages	13,915,410	3,481,579	5,760,862	4,672,969
Long-term debt	1,564,637	415,603	1,149,034	–
Lease Commitments	13,606,506	1,648,963	8,910,165	3,047,378
Total Contractual Obligations	29,086,553	5,546,145	15,820,061	7,720,347

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. The Trust renewed two mortgages, one totaling $2,290,000 for a 5 year term at a rate of 4.849% and another totaling $1,631,296 for a six month term @ a rate of 4.25%.

Capital Expenditures

	Quarter Ended June 30, 2005	Quarter Ended June 30, 2005
	$	$
Land	76,978	123,025
Drilling	659,726	1,116,933
Production equipment and facilities	661,733	1,140,160
Other	87,941	131,754
Development expenditures	1,486,378	2,511,872
Oil and gas acquisitions	160,849	12,768,670
Energy services acquisitions	26,358,143	27,129,976
Financial services acquisitions	52,852,069	52,616,448
Real estate corporate acquisitions	–	2,915,290
Property acquisitions	–	–
Financial services development expenditure	71,830	56,830
Energy services property and equipment	4,209,638	5,525,370
Proceeds received on oil and gas property dispositions	(65,910)	(140,230)
Proceeds received on real estate property disposition	–	(3,718,714)
Other assets	35,077	150,518
Net capital expenditures	84,108,074	99,816,030
Property and equipment June 30, 2005	166,360,778	166,360,778

Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas as at June 30, 2005 are as follows:

- A physical fixed price sale for the period November 1, 2004 to October 31, 2005 on 700 gigajoules/day of gas at a price of $5.94/ gigajoule.
- A physical fixed price sale for the period November 1, 2004 to October 31, 2007 on 1,050 gigajoules/day of gas at a price of $6.55/ gigajoule.
- A physical fixed price sale for the period April 1, 2005 to October 31, 2005 on 750 gigajoules/day of gas at a price of $6.70/ gigajoule.

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

The payments over the remaining terms are as follows:

	$
2005	1,648,963
2006	3,257,647
2007	3,041,587
2008	2,616,931
2009	1,729,014
2010	1,018,604
2011	277,533
2012	22,230
	13,606,506

Unitholders' Capital

Trust Units	Number of Units	Amount $
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	1,121,545	12,000,532
Trust unit issue costs	—	(8,213,562)
Balance at March 31, 2005	**24,398,573**	**214,949,213**
Units issued on Val Vista Acquisition	62,227	665,829
Balance at June 30, 2005	**24,460,800**	**215,615,042**

For the three months ended June 30, 2005, the Trust had a weighted average number of trust units outstanding of 24,441,653 (June 30, 2004 – 3,228,639) reflecting the inclusion of the units issued in the Trust's financings since June 2004. During the quarter 652,670 options were granted at an average strike price of $10.90. The Trust has currently granted approximately 40% of the number of options approved by unitholders.

Related Party Transactions

During the three months ended June 30, 2005, the Trust paid $30,579 (June 30, 2004 – $25,114) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust, for rent, administration and advisory services. Included in accounts payable is $5,079 owing to Avenir relating to administration and advisory services.

During the three and six months ended June 30, 2005, the Trust incurred marketing fees of $18,000 and $36,000 (June 30, 2004 – $nil) payable to a company with a director who is also a unitholder of the Trust. Of this balance $36,000 is included in accounts payable and accrued liabilities as at June 30, 2005.

In the second quarter ended June 30, 2005, the Trust paid $500,000 to a non-management director of the Trust for financial consulting fees relating to services provided in connection with the closing of an acquisition and have been recorded as transaction costs.

Risks and Uncertainties

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 second 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.

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.

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
- Proactively working with payday loan association and government to regulate the payday loan industry
- 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, 2005 available on SEDAR (www.sedar.com).

Recent Accounting Pronouncements

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

During the second quarter of 2005, the Trust continued to make positive strides both operationally and on the acquisition front. Following the addition of James Burns, C.O.O. and Grant Leslie, V.P. Operations, of the Energy Division, the Trust stream-lined operations both in the oil and gas division and the energy services division.

In our oil and gas division, the recent acquisition of Makah Energy Corp. brings our production to approximately 3,950 BOE per day, up from the Q2 average of 3,246 BOE per day. As we outlined in our first quarter report, the Trust has earmarked $5.0 to $6.0 million of development opportunities were chosen out of an inventory of approximately $50 million of development drilling and re-completion projects, for the balance of 2005. In order to initiate this development program, the Trust has added key technical personal to carry out these operations. Within the opportunities that the trust has identified, there are a number of projects which do not fit the risk profile of the Trust, but are very good farm-out candidates. This farm out program is currently being reviewed.

We also continue to be active in our energy services division, with the acquisition of four production services companies during the quarter. The Energy Services division has grown to in excess of $48 million of assets to date.

The integration of the Elbow River Resources Ltd. acquisition also occurred during the second quarter. This is, historically, Elbow River's slowest quarter. We feel that with the traditionally strong fall and winter season before us, Elbow River will be a strong contributor to the Trust's funds from operations going forward.

By far the Trust's largest acquisition, which was announced on July 11, 2005 was in the Financial Services business unit. The Trust has agreed to acquire the joint venture company that manages the EnerVest Group of Funds. This acquisition does not only further diversify our Financial Services business unit; it also adds an exciting new platform for growth. We believe that there is a good opportunity for year-over-year organic growth within the existing Funds' asset base, as well as external growth opportunities. This acquisition is scheduled to close in September 2005.

In keeping with the Trust's business model and once the integration of our first quarter acquisitions were complete, the Trust announced a 5% increase in distributions for the month of July 2005, payable on August 15, 2005. This was our 5th distribution increase since our inception and brought the total percentage distribution increase to 65% since the Trust's debut in January 2003.

We are very pleased to welcome Mr. William E. (Bill) Patterson to our Board of Directors. Mr. Patterson brings added financial strength to the board, with a Chartered Accountant designation and over 30 years of experience. His background includes working as the Vice President Finance and CFO for Energy North Inc. for five years and as a tax partner at PriceWaterhouse Coopers. Mr. Patterson will head up the Audit Committee for the Trust.

Looking ahead, the Trust's disciplined approach to acquisitions and prudent deployment of capital on internal projects will continue as the Trust delivers sustainable distributions and accretive growth on a per unit basis.

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 the Board of Directors by:

WILLIAM M. GALLACHER	GARY DUNDAS
President & CEO	Vice President Finance & CFO

FORWARD LOOKING STATEMENTS

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, (xiv) fluctuations in currency exchange rates and interest rates.

CONSOLIDATED BALANCE SHEETS

	June 30, 2005 $ (unaudited)	December 31, 2004 $
ASSETS [note 4]		
Current		
Cash and cash equivalents	—	327,217
Restricted cash	161,565	160,227
Accounts receivable and prepaid expenses	36,828,524	9,847,972
Inventory	11,590,655	—
Risk management asset [note 10]	—	1,147,127
	48,580,744	11,482,543
Property and equipment [notes 2 and 6]	166,360,778	120,822,688
Investment in financial services contracts	21,974,597	12,472,055
Intangibles [notes 2 and 3]	22,501,335	2,356,422
Goodwill	57,799,527	8,181,145
	317,216,981	155,314,853
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	38,822,890	31,475,000
Accounts payable and accrued liabilities [note 12]	29,514,114	9,470,009
Distributions payable	2,651,193	1,237,182
Deferred revenue	200,439	230,805
Due to non-controlling interest owner	87,586	66,667
Risk management liability [note 10]	4,034,512	—
Current portion of capital lease obligations	—	32,459
Current portion of long-term debt [note 6]	782,535	693,888
Current portion of mortgages [note 5]	6,392,288	5,024,920
	82,485,557	48,230,930
Long-term debt [note 6]	782,102	911,775
Mortgages [note 5]	7,523,122	7,108,761
Asset retirement obligation [note 7]	9,222,269	8,033,301
Future income taxes	13,745,750	9,626,982
Non-controlling interest [note 11]	956,815	259,755
Commitments [note 4]		
Unitholders' equity		
Unitholder capital [note 8]	215,615,042	84,662,250
Contributed surplus [note 8]	730,487	322,064
Accumulated earnings	6,824,651	4,684,187
Accumulated cash distributions	(20,668,814)	(8,525,152)
	202,501,366	81,143,349
	317,216,981	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

(unaudited)	Three months ended June 30, 2005 $	Three months ended June 30, 2004 $	Six months ended June 30, 2005 $	Six months ended June 30, 2004 $
REVENUE				
Oil and gas revenue	12,497,725	2,557,212	23,257,605	4,882,560
Oil and gas transportation costs	(200,328)	(53,849)	(309,029)	(75,757)
Royalties, net of ARTC	(1,771,474)	(402,049)	(3,765,195)	(716,192)
Unrealized gain (loss) on financial instruments	363,167	(386,301)	(5,194,055)	(386,301)
	10,889,090	1,715,013	13,989,326	3,704,310
Real estate revenue	695,355	865,182	1,385,658	865,182
Energy services revenue	6,617,462	—	10,821,513	—
Financial services revenue	47,675,036	227,092	48,427,938	382,364
Interest and other revenue	66,341	4,215	76,287	13,964
Gain on sale of property and equipment	6.075	—	228,435	—
	65,949,359	2,811,502	74,929,157	4,965,820
EXPENSES				
Oil and gas operating	3,689,805	565,249	6,402,344	954,811
Real estate operating	185,131	433,166	407,180	433,166
Energy services operating	3,680,501	—	5,693,445	—
Financial services operating	45,278,305	—	45,290,305	—
General and administrative [notes 9 and 12]	3,017,370	524,638	4,468,934	929,826
Foreign exchange	(29,632)	—	(29,632)	—
Short-term interest and bank fees	364,124	60,384	778,629	127,699
Long-term interest	182,088	225,899	408,142	225,899
Capital taxes	206,254	11,310	253,549	11,310
Depletion, depreciation and amortization	6,426,297	1,094,113	10,507,451	1,935,101
Asset retirement obligation accretion [note 7]	199,057	41,949	370,046	69,849
	63,199,300	2,956,708	74,550,393	4,687,661
Income (loss) before income tax and non-controlling interest	2,750,059	(145,206)	378,764	278,159
Future income tax recovery	—	—	1,864,800	—
Net income (loss) before non-controlling interest	2,750,059	(145,206)	2,243,564	278,159
Non-controlling interest [note 11]	(5,714)	—	(103,101)	—
Net income (loss) for the period	2,744,345	(145,206)	2,140,463	278,159
Accumulated earnings, beginning of the period	4,080,306	1,093,101	4,684,188	669,736
Accumulated earnings, end of the period	6,824,651	947,895	6,824,651	947,895
Net income (loss) per unit [note 8]				
Basic	0.11	(0.04)	0.11	0.09
Diluted	0.08	(0.04)	0.08	0.09

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Six months ended	
(unaudited)	June 30, 2005 $	June 30, 2004 $	June 30, 2005 $	June 30, 2004 $
OPERATING ACTIVITIES				
Net income for the period	2,744,345	(145,206)	2,140,463	278,159
Add (deduct) non-cash items:				
Gain on sale of property and equipment	(6,075)	—	(228,435)	—
Non-cash general and administrative [note 9]	345,189	61,473	408,423	87,291
Depletion, depreciation and amortization	6,426,297	1,094,113	10,507,451	1,935,101
Asset retirement obligation accretion	199,057	41,949	370,046	69,849
Unrealized (gain) loss on financial instruments	(363,167)	386,301	5,194,055	386,301
Future income tax recovery	—	—	(1,864,800)	—
Non-controlling interest	5,714	—	103,101	—
Funds from operations	9,351,360	1,438,630	16,630,304	2,756,701
Change in non-cash working capital	(17,179,439)	(700,549)	(17,374,182)	(297,701)
Cash provided by operating activities	(7,828,079)	738,081	(743,878)	2,459,000
FINANCING ACTIVITIES				
Issue of trust units, net of issue costs	—	26,380,126	118,286,431	26,380,126
Distributions to unitholders	(7,018,107)	(813,123)	(10,729,651)	(1,539,016)
Increase (decrease) in bank indebtedness	31,950,217	(8,155,000)	625,217	(4,505,000)
Increase in mortgages	1,900,000	—	3,915,000	—
Repayment of mortgages	(103,249)	(101,909)	(2,133,271)	(101,909)
Repayments of capital lease obligations	(16,391)	(15,135)	(32,459)	(29,971)
Increase in long-term debt	4,388	531,580	197,065	531,580
Repayment of long-term debt	(214,406)	—	(406,176)	—
Change in non-cash working capital	(305,668)	181,032	43,292	181,032
Cash provided by financing activities	26,196,784	18,007,571	109,765,448	20,916,842
INVESTING ACTIVITIES				
Purchase of Western Spirit Investments Ltd.	—	—	—	(2,918,687)
Purchase of Val Vista Energy Ltd. [note 2]	(160,849)	—	(12,768,670)	—
Purchase of Eagle Oilfield Services Ltd.	—	—	(771,833)	—
Purchase of Elbow River [note 2]	(51,852,069)	—	(52,616,448)	—
Purchase of Endless Tubing [note 2]	(11,178,600)	—	(11,178,600)	—
Purchase of Millard	(7,775,852)	—	(7,775,852)	—
Purchase of Cardinal	(7,403,691)	—	(7,403,691)	—
Oil and gas property acquisitions	—	(10,053,357)	—	(11,697,446)
Oil and gas property disposals	65,910	(1,007)	140,230	1,233,365
Oil and gas development expenditures	(1,486,378)	(224,483)	(2,511,872)	(530,444)
Financial services development expenditures	(71,830)	—	(56,830)	—
Purchase of energy services assets	(4,209,638)	—	(5,525,370)	—
Purchase of other assets	(35,077)	(14,945)	(150,518)	(25,560)
Purchase of financial services contracts	(6,763,380)	(1,642,571)	(9,513,380)	(1,642,571)
Purchase of real estate properties	—	—	(2,915,290)	—
Proceeds on sale of real estate properties	—	—	3,718,794	—
Change in restricted cash	(681)	—	(1,338)	(338,950)
Changes in non-cash working capital	(2,771,207)	(209,080)	(18,119)	119,383
Cash used in investing activities	(93,643,342)	(15,627,216)	(109,348,787)	(19,282,683)
Increase in cash and cash equivalents during the period	(75,274,637)	3,118,436	(327,217)	4,093,159
Cash and cash equivalents, beginning of period	75,274,637	1,231,595	327,217	256,872
Cash and cash equivalents, end of period	—	4,350,031	—	4,350,031
Cash interest paid	529,126	54,038	1,156,934	112,993

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2005 and 2004 (unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Avenir Diversified Income Trust (the "Trust") have been prepared by management in accordance with Canadian generally accepted accounting principles and in a manner consistent with the accounting policies in the audited consolidated financial statements of the Trust for the year ended December 31, 2004. Certain information has been condensed or omitted although the Trust believes that the disclosures are adequate to make the information presented not misleading. The following notes are incremental to and should be read in conjunction with the 2004 audited consolidated financial statements.

Due to seasonality, the operating results for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the full fiscal year revenues and expenses during the reporting period. Actual results may differ from those estimates.

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

2. ACQUISITIONS

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 $25,435,031 consisting of cash of $11,845,158, estimated transaction costs of $923,512 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
Estimated transaction costs	923,512
	25,435,031
Allocation of purchase price:	
Non-cash working capital	(89,869)
Property and equipment	26,610,223
Goodwill	11,159,740
Bank indebtedness	(5,455,894)
Asset retirement obligation	(805,700)
Future income taxes	(5,983,469)
	25,435,031

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 unaudited interim consolidated financial statements. However if the maximum number of Trust Units are issued there would be no change in the basic and diluted earnings per unit for the three and six months ended June 30, 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
Estimated transaction costs	816,448
	52,616,448
Allocation of purchase price:	
Property and equipment	848,000
Customer relationships	2,393,000
Contracts	5,300,000
Tradename	8,100,000
Non-compete agreements	5,500,000
Goodwill	30,475,448
	52,616,448

c) Richmond Endless Tubing Services Ltd.

On April 15, 2005 the Trust acquired all of the issued and outstanding shares of Richmound Endless Tubing Services Ltd., which provides coiled tubing services to the oil and gas industry, for net cash consideration of $11,178,600. Transaction costs of the acquisition were approximately $400,000.

The unaudited pro forma consolidated financial statements reflect the transaction using the purchase method as follows:

	$
Calculation of purchase price:	
Fair value of cash consideration	10,873,543
Estimated transaction costs	400,000
Less cash acquired	(94,943)
	11,178,600
Allocation of purchase price:	
Non-cash working capital	428,753
Property and equipment	6,248,620
Goodwill	5,667,691
Bonus and note payable	(1,166,464)
	11,178,600

3. INTANGIBLES AND OTHER ASSETS

	June 30, 2005		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
In-place leasing costs	2,383,588	498,107	1,885,481
Above market rent	142,559	37,424	105,135
Below market rent	(920,734)	(162,100)	(758,634)
Customer relationships	5,721,968	154,308	5,567,660
Contracts	2,393,000	116,676	2,276,324
Trade name	5,300,000	—	5,300,000
Non-compete agreements	8,100,000	405,000	7,695,000
Tenant improvement and leasing costs	548,254	117,885	430,369
	23,668,635	1,167,300	22,501,335

4. BANK INDEBTEDNESS

At June 30, 2005 the Trust has a combined revolving demand facility with a major Canadian bank in the amount of $35,925,000 bearing interest at prime plus one-quarter of one percent. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. In addition, the Trust has an acquisition and development line of $5,000,000, bearing interest at bank prime plus one and one-half percent, to fund additional oil and gas acquisitions. Upon the acquisition of Val Vista the Trust also acquired a demand revolving credit facility with a limit of $6,000,000 bearing interest at prime plus three-quarters of one percent. As at June 30, 2005, $22,850,000 (not including overdraft of $718,330) was drawn on the revolving demand facility, and $5,100,000 was drawn on the demand revolving credit facility.

The Trust also has an operating line facility with another major Canadian bank in the amount of $500,000 bearing interest at prime plus one percent. This operating line facility is available for the operations in the Trust's energy services division. Upon the acquisition of Cardinal Well Services Partnership the Trust also acquired a demand operating credit facility with a limit of $750,000 bearing interest at prime plus three quarters of one percent and a non-revolving demand facility in the amount of $2,000,000 bearing interest at prime plus one and one quarter of a percent. As at June 30, 2005, $nil was drawn on the operating line facility, $550,000 was drawn on the demand operating credit facility and $958,444 was outstanding on the non-revolving demand facility.

During the three months ended June 30, 2005 the Trust obtained a demand revolving loan with a Canadian bank through its subsidiary Elbow River Marketing Partnership 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's base rate plus one quarter of a percent. The facility is primarily used to provide credit for natural gas liquids inventory purchases. As at June 30, 2005 $8,646,116 was drawn on this facility.

The effective average interest rate on borrowings under these lines for the six months ended June 30, 2005 including services fees was 5.75% (June 30, 2004 – 5.77%).

As at June 30, 2005, the Trust also had three letters of credit outstanding in the aggregate amount of $474,500.

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 $14,251,120. 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 were unable to do so. Given that Elbow River hedges all inventory transactions, the Trust see very little or no risk in providing these parental guarantees. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

5. MORTGAGES

	2005 $
Various mortgages with interest rates ranging from 4.85% to 7.70% (weighted average rate of 6.6%), maturities from July 2005 to February 2010 2009, collateralized by first charge over the related properties, and restricted cash	13,915,410
Less current portion of mortgages	(6,392,288)
	7,523,122

Approximate principal repayments required to maturity are as follows:

	$
2005	3,481,579
2006	4,517,650
2007	616,359
2008	626,853
2009	4,605,876
2010	67,093
	13,915,410

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using June 30, 2005 market rates for debt of similar terms. Based on these assumptions, the fair value of the mortgages as at June 30, 2005 has been estimated at $14,046,596.

Subsequent to June 30, 2005, the mortgages for two of the Trust's real estate properties matured. One mortgage was 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.

6. LONG-TERM DEBT

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

	2005 **$**
Various loans payable in monthly instalments with interest rates ranging from prime plus 1.8% to prime plus 2.65%, and maturities from January 2006 to September 2008	1,373,025
Various loans payable payable in monthly instalments with interest rates ranging from 0.00% to 4.30% , and maturities from June 2005 to December 2008	191,612
	1,564,637
Less current portion	(782,535)
	782,102

There is no difference in the carrying value of these loans versus the fair value as a majority of the loans were entered into during the last quarter of 2004 or have variable interest rates.

7. 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 $9,222,269 as at June 30, 2005 based on a total future liability of $20,369,585. 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:

	$
Carrying amount, as at January 1, 2005	**8,033,301**
Oil and gas property acquisitions during the period [note 2]	805,700
Oil and gas activities during the period	13,222
Asset retirement obligation accretion for the period	370,046
Carrying amount, as at June 30, 2005	**9,222,269**

8. UNITHOLDERS' CAPITAL

a) Unitholders' capital

Authorized

Authorized capital consists of an unlimited number of Trust Units, without par value, and an unlimited number of Special Voting Units, without par value. No Special Voting Units have been issued to date.

Issued

Trust Units	Number of Units	Amount $
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	1,121,545	12,000,532
Trust unit issue costs (i) and (ii)	—	(8,213,562)
Balance March 31, 2005	**24,398,573**	**214,949,213**
Units issued on Val Vista acquisition (iii)	62,227	665,829
Balance June 30, 2005	**24,460,800**	**215,615,042**

(i) On March 21, 2005 the Trust completed a public offering by way of a prospectus for net proceeds of $118,431,820. Costs associated with this offering amounted to $8,068,173;

(ii) Additional costs of $145,389 associated with the Trust's public offering which was completed November 15, 2004 have been recorded during the period.

(iii) Represents additional units issued on final take up of 100% of the outstanding shares of Val Vista Energy Ltd.

b) Net income (loss) per unit

For the three and six months ended June 30, 2005, the Trust had a weighted average number of trust units outstanding of 24,441,653 and 18,815,761, respectively (three and six months ended June 30, 2004 – 3,228,639 and 2,999,564, respectively). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in a weighted average number of trust units outstanding for the three and six months ended

June 30, 2005, of 32,810,728 and 27,190,310, respectively (three and six months ended June 30, 2004 – 3,277,150 and 3,050,843, respectively). At June 30, 2005 there were no anti-dilutive options.

c) Contributed surplus

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

	$
Contributed surplus, beginning of period	**322,064**
Compensation expense [note 9]	408,423
Contributed surplus, end of period	**730,487**

9. STOCK-BASED COMPENSATION

The following table summarizes the status and changes during the period ended June 30, 2005:

	Number of options outstanding	Weighted average grant date exercise price
Outstanding, December 31, 2004	254,430	7.63
Granted	725,070	10.91
Expired	(600)	7.63
Outstanding, June 30, 2005	978,900	10.06
Exercisable, June 30, 2005	77,774	6.13

The following table summarizes information about the unit options outstanding at June 30, 2005:

Grant date exercise price	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
6.00	106,666	2.8	71,108
7.00	16,665	3.4	5,555
7.00	3,333	4.2	1,111
9.00	127,766	4.6	—
10.00	652,670	4.8	—
11.00	72,400	4.5	—
	978,900	4.3	77,774

The Trust recorded compensation expense and contributed surplus of $345,189 and 408,423 for the three and six months ended June 30, 2005, respectively (three and six months ended June 30 2004 — $61,473 and $87,291). The total value of stock-based compensation of $977,891 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 the first half of 2005 include a volatility factor of expected market price ranging from 20.1% to 21.3%, a weighted average risk-free interest rate of 4.25%, an average dividend yield of 11% and a weighted average expected life of the options of 5 years.

Subsequent to June 30, 2005, the Trust issued an additional 55,000 options at a price of $11.20 per Trust Unit.

9. FINANCIAL INSTRUMENTS

The Trust sells product to the United States, giving rise to significant exposure to market risks from foreign exchange rates. The Trust uses derivative financial instruments to reduce those 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:			**June 30, 2005**
Settlement dates	**Volume (bbl)**	**Prices $/(bbl)**	**Unrealized gain (loss)**
July 2005	338,500	29.715 – 60.500	(344,113)
August 2005	168,300	33.180 – 65.121	(270,994)
September 2005	64,200	33.180 – 65.121	(50,607)
October 2005	44,000	33.915 – 65.121	(51,379)
November 2005	101,500	33.915 – 65.121	(278,281)
December 2005	170,725	33.915 – 65.121	(631,535)
January 2006	83,725	33.915 – 65.835	(83,343)
February 2006	25,725	33.915 – 65.835	(18,588)
March 2006	11,750	37.149 – 65.835	1,571
April 2006	11,000	65.835	(5,775)
May 2006	11,000	65.835	(10,395)
June 2006	11,000	65.835	(10,395)
	1,041,425		(1,753,834)
		Exchange rate	1.2245
		Total CDN dollars	(2,147,570)

Forward exchange contracts:			June 30, 2005
Term Due	**Amount**	**Forward Rates**	**Unrealized gain (loss)**
July 2005	$ 220,000	1.2068 – 1.25270	39,517
August 2005	70,000	1.23970 – 1.25180	21,083
September 2005	85,000	1.2389	1,071
October 2005	715,000	1.20450 – 1.24450	10,635
November 2005	0	1.2295	2,208
December 2005	2,785,000	1.2475	128,918
January 2006	185,000	1.20210 – 1.2272	(4,356)
April 2006	280,000	1.1999 – 1.2243	(4,464)
Total US dollars	$ 4,340,000		194,612
Exchange rate	1.2245		1.2245
Total CDN dollars	$ 5,314,330		238,302

The net unrealized loss of $1,909,268 is offset by the increase in the market value of the inventory over the carrying cost as at June 30, 2005.

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

	2005 $
Risk management asset (liability), January 1, 2005	1,147,127
Change in mark-to-market unrealized gain (loss)	(5,194,055)
Change in recognized loss relating to expired contracts	12,416
Risk management asset (liability), June 30, 2005	**(4,034,512)**

The Trust has the following fixed price forward contracts outstanding as at June 30, 2005:

- 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 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

11. NON-CONTROLLING INTEREST

	2005 $
Non-controlling interest, January 1, 2005	259,755
Adjustments to acquisition of Indy Oilfield Ltd.	37,762
Acquisition of Eagle Oilfield Ltd.	75,536
Acquisition of D&G assets	373,317
Capital contributions	218,455
Non-controlling interest in earnings for the sixmonths ended June 30, 2005	103,101
Distributions payable to non-controlling interest holders	(111,111)
Non-controlling interest, June 30, 2005	**956,815**

12. RELATED PARTY TRANSACTIONS

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

- During the three and six months ended June 30, 2005, the Trust paid $30,579 and $59,518, respectively (three and six months ended June 30, 2004 – $25,114 and $51,138, respectively) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable is $5,079 owing to Avenir relating to administration and advisory services.
- During the three and six months ended June 30, 2005, the Trust incurred marketing fees of $18,000 and $36,000, respectively (June 30, 2004 – $nil) payable to a company with a shareholder who is also a director of the Trust. Of this balance $36,000 is included in accounts payable and accrued liabilities as at June 30, 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 2).

13. 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 polices. During the three and six months ended June 30, 2005 there were no inter-segment eliminations (June 30, 2004 – nil).

The following is selected financial information for each business segment:

	For the three months ended		For the six months ended	
	June 30, 2005 $	June 30, 2004 $	June 30, 2005 $	June 30, 2004 $
Revenue, net				
Oil and Gas	10,890,825	1,717,006	13,991,008	3,716,052
Financial Services	47,681,876	227,092	48,434,778	382,364
Real Estate	695,355	867,404	1,608,018	867,404
Energy Services	6,623,540	—	10,827,591	—
Corporate	57,763	—	67,762	—
	65,949,359	2,811,502	74,929,157	4,965,820

	For the three months ended		For the six months ended	
	June 30, 2005 $	June 30, 2004 $	June 30, 2005 $	June 30, 2004 $
Operating expenses				
Oil and Gas	3,689,805	565,249	6,402,344	954,811
Financial Services	45,278,305	—	45,290,305	—
Real Estate	185,131	433,166	407,180	433,166
Energy Services	3,680,501	—	5,693,445	—
Corporate	—	—	—	—
	52,833,742	998,415	57,793,274	1,387,977

	For the three months ended		For the six months ended	
	June 30, 2005 $	June 30, 2004 $	June 30, 2005 $	June 30, 2004 $
Net income				
Oil and Gas	1,796,162	(377,237)	(679,758)	(88,916)
Financial Services	989,624	201,651	1,705,637	336,695
Real Estate	(33,083)	30,380	427,973	30,380
Energy Services	412,296	—	1,276,741	—
Corporate	(420,654)	—	(590,130)	—
	2,744,345	(145,206)	2,140,463	278,159

	June 30, 2005				
	Oil and Gas $	Financial Services $	Real Estate $	Energy Services $	Total $
Selected balance sheet items					
Property and equipment	117,487,411	858,480	19,554,635	28,460,252	166,360,778
Investment in financial services contracts	—	21,974,597	—	—	21,974,597
Intangibles	—	20,633,825	1,867,510	—	22,501,335
Goodwill	16,184,895	30,475,448	—	11,139,184	57,799,527
Total assets	145,518,069	104,063,997	21,904,874	45,730,041	317,216,981
Bank indebtedness	28,668,330	8,668,116	—	1,508,444	38,822,890
Mortgages	—	—	13,915,410	—	13,915,410
Long-term debt	—	—	—	1,564,637	1,564,637

14. SUBSEQUENT EVENTS

On July 12, 2005 the Trust reached an agreement with Rentcash Inc. to redeem $3,000,000 in debentures for principal value and outstanding interest only. On the same day, the trust subsequently entered into a new financial services contract for $1,500,000 with terms the same as the Insta-loans contracts entered into in April 2005. The balance of $1,500,000 was used for general corporate purposes.

On July 6, 2005 the Trust announced it had entered into an agreement to purchase all the outstanding shares of Makah Energy Corporation, a private oil and gas company for $29,800,000 less net debt and working capital. The transaction closed August 5, 2005 and Makah Energy Ltd. was wound up into Avenir Operating Corp.

On July 11, 2005 the Trust announced it had reached an agreement to purchase the joint venture that is the sole shareholder of the Manager of EnerVest Diversified Income Trust, EnerVest Diversified Management Inc. for approximately $125,500,000. The transaction is scheduled to close on or about September 30, 2005 subject to certain closing conditions.

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, used for the Makah Energy transaction, is scheduled for repayment on or about September 30, 2005.

On August 11, 2005, Cascade Steaming Ltd., a third party partner in Cascade Services Partnership has provided a $1,000,000 advance repayable on or about September 30, 2005. The advance will bear interest at prime + 2% with a 2% drawdown fee.

CORPORATE INFORMATION

Directors

William M. Gallacher [2,3]
President & CEO

Gary Dundas
VP Finance & CFO

David E. Butler [1,3]

Stuart Y. Chow [2,3]

Jeffery Kohn

Alan Moon [1,2]

William E. Patterson [1,2]

1 Audit Committee
2 Governance and Compensation Committee
3 Reserves Committee

Corporate Secretary

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

Auditors

Ernst & Young, LLP

Bankers

National Bank of Canada
HSBC Bank Canada
Canadian Western Bank

Evaluation Engineers

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

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

Elbow River Marketing LP
Ed Malcolm, President

Cascade Services LP
Ken Wagner, President

Cardinal Well Services LP
Troy Fisher, President

Endless Tubing LP
Steve Sykes, General Mgr.

Millard Oilfield Services LP
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