

AVENIR DIVERSIFIED INCOME TRUST

Q1

First Quarter Interim Report | *for the period ending March 31, 2006*



FIRST QUARTER 2006 FINANCIAL HIGHLIGHTS & REVIEW

For the quarter ended	March 31		
TOTAL CONSOLIDATED FINANCIAL SUMMARY	2006	2005	Change
Gross Revenue	\$ 188,762,997	\$ 16,639,442	1034%
Net Revenue	\$ 186,149,211	\$ 8,979,798	1973%
Funds From Operations (FFO) ¹	\$ 20,595,565	\$ 7,278,944	183%
FFO Per Unit ¹ - Basic	\$ 0.51	\$ 0.55	(7)%
Distributions	\$ 14,736,657	\$ 4,190,081	252%
Distributions Per Unit - Basic	\$ 0.37	\$ 0.32	16%
Distribution Payout Ratio ²	72%	58%	24%
Net Income (loss)	\$ 10,105,502	\$ (603,882)	1773%
Net Income (loss) Per Basic Unit	\$ 0.25	\$ (0.05)	600%
Total Assets	\$ 567,627,819	\$274,220,427	107%
Working Cap. (Net Debt) including mortgages ¹	\$ (50,965,017)	\$ 46,218,631	(210)%
Wtd. Avg. Units Outstanding - Basic	40,149,659	13,127,359	206%
Units Outstanding (including escrowed units)	41,421,450	24,398,573	70%

OIL & GAS OPERATIONS

Production			
Oil and NGLs – bbls per day	1,714	1,637	5%
Gas – mcf per day	9,586	7,172	34%
Total BOE ³ per day	3,312	2,832	17%
Average Pricing			
Oil & NGL (\$/Bbl) before hedging ⁴	\$ 47.04	\$ 44.66	5%
Oil & NGL (\$/Bbl) after hedging ⁴	\$ 41.14	\$ 42.13	(2)%
Natural Gas (\$/mcf)	\$ 8.10	\$ 7.05	15%
Average Price Per BOE3 before hedging ⁴	\$ 47.04	\$ 43.25	9%
Average Price Per BOE3 after hedging ⁴	\$ 43.98	\$ 41.79	5%

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

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

3 Natural Gas conversion ratio of 6mcf:1bbl.

4 Hedging in this situation means the realized gain or loss on physical delivery contracts and financial commodity fixed price transaction.

PRESIDENT'S MESSAGE

Forward Looking Statements

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

PRESIDENT'S MESSAGE

Results for the first quarter were at or slightly ahead of forecast again proving the benefits of diversification as higher energy services and financial services cash flow offset lower realized commodity prices in our Oil and Gas division. In the Financial Services division we saw solid performances from both Elbow River and the EnerVest Group of companies. Elbow River's first quarter, although not outstanding like its fourth quarter numbers, sets us on track to meet or exceed our budget expectations despite an unseasonably warm winter propane season. EnerVest has added over \$400 million to its assets under management since Avenir acquired the management contract in October 2005. The increase is a result of the completion of an exchangeable offering and a rights issue in its publicly-traded fund, a 2005 Flow through offering, as well as the addition of a new Oilsands Trust. EnerVest continues to evaluate both new fund and potential acquisition opportunities.

First quarter results in our Oil and Gas division were negatively impacted by lower natural gas prices and extremely wide differentials on our Southern Alberta medium crude. While natural gas prices have yet to recover to budget levels, oil differentials have narrowed substantially in the second quarter boding well for quarter two and three ahead. Our oil and gas group continues to work on several development projects within our current portfolio of greater than \$40 million in projects which should add oil and gas production at approximately \$20,000 per producing BOE per day through the balance of 2006. Current production is approximately 3,400 BOE per day or flat to fourth quarter 2005 and first quarter 2006 with about 100 BOE per day shut-in due to service work requirements. We have been disciplined in our approach to acquisitions, and continue to only evaluate opportunities that fit both our financial and operating criteria. We continue to review new and exiting opportunities and are also continuing to evaluate farmout options on our lands.

The Real Estate business unit continues to be the hardest business unit to transact on as we look to target and acquire real estate properties that will yield a 9-10% return. Given our target yield, we have been looking for unique situations that would provide both the yield and scale to grow this unit. We remain confident that with our disciplined approach we will be able to achieve this.

The Energy Services division continued its strong returns in what is traditionally a robust first quarter. Much of our focus for the quarter was in this division as we spent over \$30 million in the acquisitions of both HK Well Service Ltd. in February and the Kodiak Coil Tubing Ltd. acquisition at the end of March 2006. The Energy Service term facility was increased from \$10 million to \$20 million; reflecting not only our increased size, but also our strong operating performance.

PRESIDENT'S MESSAGE

At the beginning of April 2006 we announced that the Trust would be spinning-out its Energy Service division into a stand alone trust as Essential Energy Services Trust ("Essential"). We believe that the valuations of the stand alone Avenir Trust and the new Trust entities will be better reflected in the marketplace. Further, given its size, we believe the Energy Service division will benefit from a management team and board of directors that can dedicate 100% of their efforts and resources to continuing its growth. This reorganization accomplishes these objectives. In order to maintain corporate direction and provide continuity to the new Trust, Gary Dundas and I will join the board of directors of the new Trust together with a majority of new outside directors. The senior management of Avenir's Energy Services division, along with each business entity manager, will also continue with the new Trust.

The units of the new Trust will be distributed to existing unitholders of Avenir. These unitholders will receive one new Trust unit of Essential Energy Trust for every two Avenir trust units held. Avenir currently intends for Essential Energy Trust to initially distribute \$0.083 per Essential Trust unit per month, beginning with the first distribution payable following closing of the arrangement (expected to be May 31, 2006). Avenir also anticipates that Avenir's distribution policy will be adjusted such that Avenir will distribute an amount equal to \$0.083 per Avenir trust unit per month beginning with the first distribution payable to the Avenir unitholders of record on or about June 30, 2006, which will be paid on or about July 15, 2006 following closing of the arrangement. On a combined basis, unitholders who held one Avenir unit immediately prior to completion of the Arrangement will receive, after the arrangement, a combined distribution of \$0.1245 per month (\$1.50 per year), rather than the \$0.12 per month (\$1.44 per year) currently distributed by Avenir.

We remain focused and diligent with respect to our operations and acquisitions. We continue to see and evaluate opportunities and plan to remain active on the acquisition front. With the spin-out of our Energy Services division, we will turn our attention to establishing a foothold in a new business line that will provide opportunities to grow both organically and through consolidation. We firmly believe we will continue to provide sustainable distributions and accretive growth on a per unit basis.

Submitted on behalf of the Board of Directors by:



William M. Gallacher
President & CEO

REVIEW OF FINANCIAL RESULTS

REVIEW OF FINANCIAL RESULTS

The net income for the quarter ended March 31, 2006 was \$10,105,502 which is up 1773% versus the \$(603,882) net income for the quarter ended March 31, 2005. The three months ended March 31, 2006 net income was substantially higher than 2005 due to the impact of 2005 acquisitions and organic growth in each of our divisions and recognition of a first quarter 2006 non-cash mark-to-market gain of \$1,325,391 versus a 2005 first quarter loss of \$(5,557,222).

Funds from operations were \$20,595,565 for the quarter ended March 31, 2006, up 183% as funds from operations for the quarter ended March 31, 2005 were \$7,278,944. The increase in funds from operations was primarily the result of the growth in the Trust's business units as mentioned above.

The Trust declared distributions of \$14,736,657 (\$0.37 per unit) for the quarter ended March 31, 2006 which is up 252% over the \$4,190,081 (\$0.32 per unit) distributed for the quarter ended March 31, 2005. The 2006 quarter end payout ratio was 72% of cash flow.

REVIEW OF BUSINESS UNIT OPERATIONS

I. ENERGY - Oil & Gas Operations

During the first quarter of 2006 the Trust focused on advancing the capital expenditure projects identified in the second half of 2005 rather than pursuing acquisition opportunities at a time when junior oil and gas companies were trading at very high multiples. These development efforts have been successful but some delays have been experienced due to the shortage of available equipment and manpower. Overheated conditions in the oil and gas industry make it difficult for smaller operators to contract drilling rigs and other equipment. The Trust has a growing inventory of excellent projects and will advance the development of these projects by either participation or farm out over the remainder of the quarter.

Field production for the first quarter of 2006 averaged 3,429 boe/d, however, reported sales were reduced by 117 boe/d due to prior period adjustments. Shut in production averaged approximately 130 boe/d through the first quarter resulting in an indicated production capability of approximately 3,580 boe/d.

Oil and Gas sales for the first quarter of 2006 averaged 3,312 boe/d comprised of 1,714 boe/d of oil and natural gas liquids and 9,586 mcf/d of natural gas. This represents an increase in total sales of 17% over the first quarter of 2005. Oil and natural gas liquids sales were up by 4% while natural gas sales increased by 33%. The increase is largely due to the inclusion of the Val Vista and Makah corporate acquisitions completed during 2005, the December 2005 Grand Forks area asset acquisition and less the November 2005 Shekilie disposition and natural production declines. Production in the first quarter of 2006 was also negatively impacted by plant turn arounds at Noel and Liege which reduced natural gas production by approximately 600 mcf/d (100 boe/d) on average for the first quarter. The Alberta Energy and Utilities Board approved the Trust's application for common carrier status on a third party pipeline in the Taber area of southern Alberta and production in this area which had been shut-in since September of 2005 was restarted in December of 2005. This will add approximately 40 boe/d of reliable shallow gas production to the Trust. Further drilling on the property is currently being evaluated.

REVIEW OF FINANCIAL RESULTS

For the first quarter of 2006 revenue from petroleum and natural gas sales including the effect of hedges, was \$13,110,413 up 23% from \$10,651,179 in the first quarter of 2005. The average price received for crude oil and natural gas liquids during the first quarter of 2006 was \$47.04 per boe an increase of 5% versus \$44.66 per boe which was received in the first quarter of 2005. Natural gas pricing for the first quarter of 2006 was \$8.10 per mcf versus \$7.05 for the first quarter of 2005, an increase of 15%. Oil and natural gas royalties increased 20% to \$2,386,769 in the first quarter of 2006 compared to \$1,993,721 in the first quarter of 2005 which represents a slight decrease in the royalty rate from approximately 18% to approximately 17%. Per unit operating expenses increased by 26% from \$10.63 per boe in the first quarter of 2005, to \$13.37 per boe in the first quarter of 2006. The increase in operating expense resulted from increased work-over activity, expenses related to the plant turnarounds at Liege and Noel, the prior year adjustments of 117 boe per day and generally increased costs in the industry due to high activity levels.

The first quarter net capital expenditure by the Trust totaled \$3.9 million including:

1. Northern Alberta Mills Grouse Development – 14 wells drilled and 5 wells re-completed with an average 15% working interest (WI) as part of a non-operated program for the Grand Rapids and McMurray sands.
2. Weyburn Saskatchewan Horizontal Well – The Trust operated the drilling of a 61.5% WI two-leg horizontal well drilled to the Midale formation.
3. Southeast Alberta and Saskatchewan – 9 well workover and reactivation program in final phases of a \$458,000 program.
4. Central Alberta Viking Program – Trust operated a 3 well program with an 50% WI for delineation of the Viking formation.
5. East Central Alberta Programs – Two low interest non-operated programs with WI ranging from 4% to 6%.

The current forecast for the remainder of 2006 has the Trust focusing on operated projects in the East Central and Southeast Alberta properties primarily targeting Bow Island and Mannville gas and Sawtooth oil horizons. Capital spending is estimated at \$2.60 MM for the second quarter with a total 2006 budget estimated at \$12-\$13 million.

REVIEW OF FINANCIAL RESULTS

2. ENERGY - Energy Services Operations

The first quarter of 2006 saw continued growth in energy services with results exceeding expectations. Gross revenue increased from \$4,204,051 in the first quarter of 2005 to \$19,448,741 in the first quarter of 2006, an increase of 363%. Funds from operations increased by 353% from \$1.5 million to \$6.8 million over the same period. Direct costs increased by 385% and general and administrative expenses increased by 229%. These large increases are mainly due to a very strong quarter at Cascade Services Partnership together with the acquisitions of Millard Oilfield, Endless Tubing, Cardinal Well Service, WestVac Service and Richmond Energy Services which were all completed in 2005 after the first quarter. It should be noted that EBITDA margins also improved from approximately 35% in the first quarter of 2005 to approximately 37% in the first quarter of 2006 as the Trust moved to exploit efficiencies inherent in a larger organization while retaining a strong customer focus in the autonomous business units that form the energy services division.

During the first quarter the Trust completed the acquisition of HK Well Service for total consideration of \$7.9 million cash (before adjustments). A contingent payment may be payable to the previous shareholders if certain revenue thresholds are exceeded over the first quarter of operations as a unit of the Trust. HK operates five swabbing rigs and one rod rig (flush-by) from a base in Medicine Hat, Alberta. The Trust also completed the acquisition of 90% of Kodiak Coil Tubing at the close of the first quarter for total consideration of \$23.65 million (before adjustments) including 729,438 Avenir Trust Units at a deemed price of \$12.11 per unit. A contingent payment may be payable to the previous shareholders if earnings before interest, taxes and depreciation exceed \$5.2 million over the first quarter of operations as a unit of the Trust. Kodiak operates a fleet of 10 coil tubing units from operational bases in Three Hills, Brooks and Medicine Hat, Alberta. Both acquisitions are accretive to the Trust's cash flow and fit with the Trust's strategy of acquiring well managed companies that provide essential production services to the oil and gas industry. Subsequent to the quarter end, in conjunction with the spin-out of the Energy Services division as Essential Energy Services Trust, the Trust announced the acquisitions of Classic Well Service, a Nisku, Alberta based private company that operates 9 service rigs in central Alberta. In addition three smaller private companies were acquired, two of the companies will be absorbed by the Trust's Cascade Service unit and will add 7 units including 3 vacuum trucks, 2 hot oilers, a hydro-vac and a tank truck to Cascade's fleet along with access to valuable contracts and relationships. The third private company has 4 swabbing rigs that will be added to the fleet of HK in Medicine Hat. The acquisitions of HK, Kodiak and Classic in particular include strong operational management teams and greatly strengthen the Trust's position in south and central Alberta.

During the first quarter the Trust also invested \$5.4 million in new equipment including approximately \$1.1 million for the completion of a new service rig for Millard Oilfield that was delivered and commenced operations in April of 2006. Approximately \$2.9 million was invested in new tankers and a hydro-vac for Westvac and tankers and a hot oiler for Cascade. Additional funds were advanced for the construction of three new flush-by's for Cardinal and a new coil tubing rig for Endless Tubing all of which are scheduled to be delivered in the second half of 2006.

REVIEW OF FINANCIAL RESULTS

3. FINANCIAL SERVICES BUSINESS UNIT REVIEW

At March 31, 2006 the Trust's financial services business unit, Avenir Financial Services Limited Partnership consisted of:

i. ENERVEST LIMITED PARTNERSHIP – MANAGEMENT CONTRACT

In October 2005, the Trust expanded its Financial Services division through the acquisition of the joint venture that was the sole shareholder of EnerVest Management Ltd., Manager of the EnerVest Group of Funds. Through a series of management contracts, EnerVest provides a stable long-term source of monthly distributable cash flow based on fees earned from assets under management in the Enervest Group of Funds. Initial acquisition metrics were based on funds from operations of at least \$14 million, the majority of which is derived from the EnerVest Diversified Income Trust, which has 45 years remaining on its trust indenture. The division was ahead of original first quarter 2006 budget by approximately 13% as assets being managed increased due to the fourth quarter 2005 exchange offering and first quarter 2006 rights offering. This larger amount under management allows the Enervest investment manager to take advantage of trust buying opportunities and allows the Enervest funds to lower expense fees thereby increasing returns within the funds. This increase in size was partially offset by the price reduction of some of the underlying trust unit prices in the main diversified trust fund due to the negative impact of continued rising interest rates.

The Enervest division has identified growth opportunities in current and new product offerings. To date the Enervest Group has raised approximately \$400 million within its funds since joining the Avenir Trust in early October 2005. New products have included the winter Enervest Flow-through 2005 Limited Partnership and the new Enervest Energy and Oil Sands Total Return Trust which closed in April 2006. A new Toronto office has been opened to increase the Enervest presence and better market the respective Enervest products in Eastern Canada.

ii. ELBOW RIVER RESOURCES MARKETING LP

On April 1, 2005, the Trust closed on an agreement to acquire Elbow River Resources Ltd. ("Elbow River"), a wholesale broker, transporter and supplier of butane to major refineries and propane to major retailers in the United States, Canada and Mexico. Elbow River, established in 1984, is considered to be one of the largest wholesale brokers in Canada and United States in providing brokerage, marketing, logistics, transportation, storage and risk management services to the natural gas liquids and specialty petroleum products market.

At March 31, 2006, Elbow River completed its first full year as part of the Trust. For the year ended March 31, 2006, Elbow River Marketing exceeded budget and initial acquisition metrics by approximately 26%. They currently transact over 15,000 BOE per day of liquids sales with approximately 160 customers and suppliers.

The diversification into different product lines has helped Elbow River finish just under budget for the first quarter 2006. Despite weak propane demand due to record warm weather across most of North America, they experienced good butane sales due to strong gasoline blending economics, strong ethanol demand and continued growth from the bio-diesel market.

It is anticipated that the second quarter of 2006 will be near budget, accounting for the seasonality in the propane markets and continued strength in pre-sales from both the butane and ethanol markets. Elbow River also sees continued growth in bio-diesel and other specialty product markets.

REVIEW OF FINANCIAL RESULTS

iii. FINANCIAL SERVICE CONTRACTS

In January 2003, Avenir Financial Services Partnership acquired its initial financial services contract with an affiliate of a financial services provider, RentCash Inc. ("RentCash"), to provide funding for a cash advance company. RentCash provides cash advance, cheque cashing and payday loan services. The Trust expanded its business since 2003 with RentCash by entering into additional contracts and at the end of March 2006 there were \$19.9 million in contracts outstanding.

Each contract has terms as outlined below:

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

Although the Trust has not expanded its financial service contracts portfolio since mid year 2005, it continues to be comfortable with the investment and returns based on results to date.

4. REAL ESTATE

The Western Spirit Investments Ltd. acquisition in March of 2004 became the founding corner stone to the real estate business unit. The business unit currently has over 450,000 square feet of light industrial and smaller commercial properties located in Toronto and London, Ontario and Edmonton and Calgary, Alberta.

On January 31, 2006, the Trust purchased the remaining 50% ownership of its Vaughan, Ontario Snidercroft building from an arm's length third party for \$1.85 million (before adjustments). Also during the quarter ended March 31, 2006 the remaining vacancy at the Harris location was filled and the Trust's real estate properties are now 100% leased.

The current portfolio, including expansions, is as follows:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS for the quarter ended March 31, 2006 should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005 and the management discussion and analysis thereto. This management discussion and analysis relates to events up to May 12, 2006.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SIGNIFICANT EVENTS FOR THE QUARTER ENDED MARCH 31, 2006

- **Increase in Energy Service Term Facility from \$10.0 million to \$20.0 million**

Subsequent to quarter end March 31, 2006, the revolving term loan facility for the Energy Services division was updated and is now with a syndicate of two Canadian banks in the amount of \$20,000,000.

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

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

- **Kodiak Coil Tubing Ltd. Acquisition in March 2006**

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

SUBSEQUENT TO THE QUARTER ENDED MARCH 31, 2006

- **Announcement of Energy Service Spin-Off**

On April 5, 2006 the Trust announced that, in accordance with its originally stated business plan, it was proceeding with the formation of a new publicly traded oilfield services trust called Essential Energy Services Trust ("Essential" or the "New Trust") through the spin-out of its Energy Services division. The units of the New Trust will be distributed to existing unitholders of Avenir on record May 31, 2006 whereby they will receive one (1) trust unit of Essential Energy Trust for each two (2) Avenir trust units held.

- **Annual Meeting of Unitholders**

On May 11, 2006 the unitholders of Avenir approved the Plan of Arrangement (the "Arrangement") to spin-off the Energy Services division of Avenir into New Trust. The effective date is to be May 31, 2006 and it is expected that the first distribution of Essential Energy Trust will be to those of record on or about June 30, 2006, which will be paid on or about July 15, 2006. Essential Energy Trust intends to initially distribute \$0.083 per Essential Trust unit per month (\$0.996 per unit per year). Future distributions and the actual payout ratio will be subject to the discretion of the Board of Directors of Essential Operating Corp. and may vary depending on, among other things, the current and anticipated energy services market. Avenir also anticipates that Avenir's distribution policy will be adjusted such that Avenir will distribute an amount equal to \$0.083 per Avenir trust unit per month (\$0.996 per unit per year) beginning with the first distribution payable to the Avenir unitholders of record on or about June 30, 2006, which will be paid on or about July 15, 2006. Accordingly, on a combined basis, unitholders who held one (1) Avenir unit immediately prior to completion of the Arrangement will receive, after the Arrangement, a combined distribution of \$0.1245 per month (\$1.494 per unit per year), rather than the \$0.12 per month (\$1.44 per unit per year) currently distributed by Avenir.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Quarterly Information

<i>(thousand of dollars except per unit amounts)</i>	Mar 31	Dec 31	Sept 30	June 31	Mar 31	Dec 31	Sept 30	June 30	Mar 31
	2006	2005	2005	2005	2004	2004	2004	2004	2004
Total Net Revenue	186,149	197,385	96,848	65,949	8,980	11,614	5,328	2,811	2,154
Net Income (loss)	10,106	14,207	6,592	2,744	(604)	2,955	781	(145)	423
Net Income (loss) per Unit basic	0.25	0.36	0.27	0.11	(0.05)	0.31	0.11	(0.04)	0.15
Funds from Operations	20,596	23,153	16,360	9,351	7,279	4,991	2,806	1,439	1,318
Total Assets	567,628	583,627	401,227	317,217	274,220	155,315	109,945	66,771	44,888
Distributions paid	14,737	13,941	8,389	7,954	4,190	3,053	2,016	847	755
Distributions per Unit basic	0.37	0.35	0.34	0.33	0.32	0.32	0.28	0.26	0.27

Net Income

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

	For the three months ended	
	March 31, 2006	March 31, 2005
	\$	\$
Net Income (loss)		
Oil and Gas	810,499	(2,607,795)
Financial Services	7,292,615	748,995
Real Estate	4,124	494,038
Energy Services	2,990,155	864,445
Corporate	(991,891)	(103,565)
Consolidated Net Income	10,105,502	(603,882)

The net income for the quarter ended March 31, 2006 totaled \$10,105,502 which is substantially higher than the \$(603,882) net loss for the quarter ended March 31, 2005. The increase was due to the impact of 2005 acquisitions and organic growth in each of our divisions and recognition of a first quarter 2006 non-cash mark-to-market gain of \$1,325,391 versus a 2005 first quarter loss of \$(5,557,222). Consistent with most oil and gas firms of the Trust's size, the Trust's Oil and Gas division does not follow hedge accounting for these contracts due to onerous monitoring and regulatory requirements.

1. Energy - Oil & Gas Division

The oil and gas net income of \$810,499 for the quarter ended March 31, 2006 versus 2005 of \$(2,607,795), a 131% increase. The difference is largely the result of the difference in the non-cash mark-to-market opportunity loss between the two quarters.

2. Energy - Energy Services Division

Energy Service net income for the quarter ended March 31, 2006 totaled \$2,990,155 compared to \$864,445 for the quarter ended 2005. The 246% increase in net income is mainly due to the very strong first quarter in the Cascade Services Partnership together with acquisitions made throughout 2005 including Millard, Endless, Cardinal, Westvac, Richmond and in 2006 of HK Well Services.

3. Financial Services

The increases in net income in the financial services business unit from \$748,995 in the first quarter of 2005 to \$7,292,615 in the first quarter of 2006, is due mainly to the Elbow River acquisition in April 2005 and the

MANAGEMENT'S DISCUSSION AND ANALYSIS

EnerVest management contract acquisition in October 2005. Net income for the quarter ended March 31, 2006 from financial service contracts was \$1,114,018, for Elbow River was \$2,813,797 and for EnerVest was \$3,364,800.

4. Real Estate

The Real Estate business unit net income for the quarter ended March 31, 2006 totaled \$4,124 compared to net income of \$494,038 in the quarter ended March 31, 2005. The first quarter of 2005 included both a \$222,360 gain on the sale of a building and \$274,000 in future income tax recovery.

FUNDS FROM OPERATIONS

Funds from operations were \$20,595,565 (\$0.51 per unit) for the quarter ended March 31, 2006, up 183% compared to the quarter ended March 31, 2005 were \$7,278,944 (\$0.55 per unit). The increase in funds from operations was primarily the result of the growth in the Trust's business units, including: oil and gas acquisitions, energy service acquisitions and the Elbow River and EnerVest financial service acquisitions.

DISTRIBUTIONS

The Trust distributed \$14,736,657 or \$0.37 per unit for the quarter ended March 31, 2006 which is up 252% over the \$4,190,081 or \$0.32 per unit distributed for the quarter ended March 31, 2005. Since March 31, 2005 the Trust has increased distributions twice, in July a 5% increase and in December 2005 a 7.8% increase.

Distributable funds from operations and distributable funds from operations per unit for the quarter ended March 31, 2006 and the quarter ended 2005 are calculated as follows:

Reconciliation of Unaudited Non-GAAP Financial Measures to GAAP Measures
Funds Available for Distribution and Retention for the Quarter Ended March 31

	2006	2005
Net Income	\$ 10,105,502	\$ (603,882)
Depletion, depreciation and amortization	10,315,450	4,081,154
Non-cash general and administrative	631,145	63,234
Loss (gain) on sale of property and equipment	249	(222,360)
Asset retirement obligation accretion	244,062	170,989
Unrealized foreign exchange	(582,874)	-
Unrealized (gain) loss on financial instruments	(1,325,391)	5,557,222
Future income tax expense (recovery)	799,266	(1,864,800)
Non-controlling interest	408,156	97,387
Funds from operations	\$ 20,595,565	\$ 7,278,944
Funds retained for growth and maintenance capital	(5,858,908)	(3,088,863)
Distributions declared	\$ 14,736,657	\$ 4,190,081
Payout ratio	72%	58%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Period covered	Date of Distri.bution	Per Unit \$
January 1, 2006 to January 31, 2005	15/02/2006	0.1200
February 1, 2006 to February 28, 2006	15/03/2006	0.1200
March 1, 2006 to March 31, 2006	17/04/2006	0.1200

REVENUE

1. Oil & Gas

i. Revenue and Production

For the quarter ended March 31, 2006, oil and gas revenue totaled \$13,337,181 compared to \$10,759,880 for the same period in 2005. This was attributable in most part to higher natural gas volumes from the Val Vista (April 2006) and Makah (August 2006) acquisitions together with slightly higher commodity prices.

Transportation costs for the quarter ended March 31, 2006 were \$226,768 versus \$108,701 for the quarter ended March 31, 2005. The increase is a result primarily of increased natural gas production from the end of the first quarter 2005.

Revenue from petroleum and natural gas sales (net of royalties) for the quarter ended March 31, 2006 was \$12,049,035 up 289% compared to the quarter ended March 31, 2005. The average price received for crude oil and natural gas liquids during the quarter ended March 31, 2006 was \$43.98 per BOE an increase of 5% versus \$41.79 per BOE received for the quarter ended March 31, 2005. On a BOE basis the first quarter 2006 was down 17% from the fourth quarter 2006 as natural gas prices fell and differentials widened substantially between Edmonton sweet crude and the Trust's predominantly heavier medium crude. The medium differential has narrowed significantly in the second quarter to date, which should benefit the Trust in the second and third quarters of 2006. Natural gas pricing for the quarter ended March 31, 2006 was \$8.10 per mcf versus \$7.05 per mcf for 2005.

Although the Trust's Oil and Gas division hedges a portion of its production to add stability to its distributions, to guard against fluctuations in commodity prices and to support acquisition economics, it has been determined that its oil and gas swap transactions do not qualify under new hedge accounting guidelines. Accordingly, the Trust recorded a hedging cost of \$911,696 for the quarter ended March 31, 2006. In addition, the accounting treatment requires the Trust to recognize an unrealized gain of \$1,325,391 for the change in the mark to market position on existing contracts at March 31, 2006. This compares to a non-cash mark-to-market loss of \$(5,557,222) in the first quarter of 2005.

Average daily sales volumes for the quarter ended March 31, 2006 were 3,312 BOE per day up 17% over the first quarter 2005 sales volumes of 2,832 BOE per day. First quarter 2006 sales consisted of 1,714 bbls per day of crude oil and natural gas liquids and 9,586 mcf per day of natural gas (compared to 1,637 bbls per day and 7,172 mcf per day for the first quarter 2005, respectively). The volume increases are largely due to the inclusion of the Val Vista and Makah corporate acquisitions completed in 2005, the previously announced Grand Forks area asset acquisition completed in December 2005, the net Shekilie disposition completed in November of 2005 and natural production declines. Production in the first quarter of 2006 was negatively impacted by plant turnarounds at Noel and Liege which reduced natural gas production by approximately 600 mcf (100 BOE per day) on average for the first quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Field production for the first quarter of 2006 averaged 3,429 BOE per day, however, reported sales were reduced by 117 BOE per day due to prior period adjustments. Shut-in production averaged approximately 130 BOE per day through the first quarter resulting in an indicated production capability of approximately 3,580 BOE per day.

ii. Royalties

The Trust's royalty costs net of ARTC for the quarter ended March 31, 2006 were \$2,386,769 or 17% of revenue compared to \$1,993,721 or 18% of revenue for the first quarter of 2005. On a BOE basis, royalty costs averaged \$8.01 per BOE for the quarter ended March 31, 2006, which is up marginally at 2.4% over the same 2005 period cost of \$7.82 per BOE.

iii. Operating Expenses

The Trust's operating costs for the quarter ended March 31, 2006 were \$3,913,326 or \$13.37 per BOE compared to \$2,712,539 or \$10.63 per BOE for the quarter ended March 31, 2005, which reflects an increase in higher cost oil production in southern Alberta, prior period adjustments, increased work-over and turnaround expenses at Liege and Noel, along with general cost increases in the oil and gas industry.

iv. Netbacks

	2006	2005			
	Q1 \$/BOE	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE
Gross revenue after hedging	43.98	52.79	54.83	41.65	41.77
Royalties	8.01	9.36	7.99	6.00	7.82
Operating costs	13.37	12.51	12.07	12.51	10.63
Operating netback	22.60	30.93	34.77	23.15	23.32

2. ENERGY SERVICES

i. Revenue

Revenue for the Energy Services division totaled \$19,448,741 for the quarter ended March 31, 2006 a 363% increase over \$4,204,051 for the quarter ended March 31, 2005. The increase reflects a very strong quarter in our Cascade Services Partnership division, the new acquisitions of Millard, Endless, Cardinal, Westvac, Richmond and HK Well Services made throughout 2005 and the first quarter of 2006, but also the organic growth and rate increases within the division.

ii. Operating Costs

The Trust's operating costs for Energy Services for the quarter ended March 31, 2006 were \$9,770,014 compared to \$2,012,944 or 10% of revenue for the quarter ended March 31, 2005. The increase corresponds to large revenue growth from the acquisitions and new equipment, and also the upward pressure on wages and fuel costs felt throughout the industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. FINANCIAL SERVICES

i. Revenue

The Trust recognized revenue in the financials services business unit of \$153,912,782 for the quarter ended March 31, 2006 up substantially over the quarter ended March 31, 2005 of \$752,902. The increase is primarily due to the acquisition of Elbow River in April 2005 which provided revenue of \$146,301,561 for the quarter ended March 31, 2006. Elbow River is a high revenue low margin (4.5% - 5.0%) brokerage marketing business. The EnerVest management contract acquisition made in October 2005 also provided revenue of \$5,075,802.

ii. Operating Costs

The Trust's operating costs for Financial Services for the quarter ended March 31, 2006 were \$143,639,076 compared to \$12,000 for the quarter ended March 31, 2005. The increase in operating costs is almost entirely due to the matching of operating and product costs, to the large revenue at Elbow River (see the explanation above in 3(i)).

4. REAL ESTATE

i. Revenue

The revenue from the Real Estate business unit for the quarter ended March 31, 2006 was \$738,902 compared to \$690,303 for the quarter ended 2005. Revenue was higher due to the additional rent for additional space in Ontario and a full occupancy in all the Trust's buildings.

ii. Operating Costs

The Trust's operating costs for Real Estate for the quarter ended March 31, 2006 were \$182,019 compared to \$222,049 for the quarter ended March 31, 2005.

iii. Interest

There are various mortgages with interest rates ranging from 4.24% to 7.24% (weighted average 5.12%), maturities from September 2006 to February 2010.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative ("G&A") expenses for the quarter ended March 31, 2006 were \$6,272,485 (which includes corporate costs of \$828,392) compared to \$1,451,564 for the quarter ended March 31, 2005. G&A expenses for the respective business units are: \$866,897 for oil and gas, \$71,265 for real estate, \$2,122,702 for financial services, and \$2,383,229 for energy services. The 332% increase in G&A expenses in the first quarter 2006 is the result of significant staff additions in the energy service and financial services divisions and increased costs associated with multiple business units, and higher regulatory, legal and audit costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest and Bank Fees

Interest expense and bank fees were \$976,747 for the quarter ended March 31, 2006 compared to \$640,559 for the quarter ended March 31, 2005. Interest expense for the first quarter of 2006 includes bank fees of \$147,070. The oil and gas division accounted for \$257,162 of the interest expense for the quarter ended March 31, 2006. The financial services division accounted for \$58,141 of interest expense the majority of which relates to the outstanding balance on the banking facility for Elbow River. Most of the remaining interest expense was in the real estate division where the Trust had \$14,560,805 in mortgages outstanding at the quarter ended March 31, 2006 versus March 31, 2005 mortgages of \$12,118,659.

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was \$10,315,450 for the quarter ended March 31, 2006 compared to \$4,081,154 for the quarter ended March 31, 2005, with the Trust's oil and gas depletion and depreciation rate at \$16.41 per BOE up from the \$13.04 per BOE rate in the first quarter of 2005. The depletion rate reflects the higher cost per BOE of acquisitions. For the quarter ended March 31, 2006, \$5,036,123 of the depletion and depreciation cost for oil and gas assets, \$3,584,774 is depreciation and amortization cost in Energy Services, \$1,413,243 is the amortization of intangibles in Financial Services and \$281,310 is the depreciation and amortization cost in real estate.

Asset Retirement Obligations

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$11,711,381 as at March 31, 2006 based on a total future liability of \$25,520,332. These payments are expected to be made over the next 2 to 31 quarters. 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 for the quarter ended March 31, 2006:

	2006 \$
Carrying amount, as at January 1	11,479,561
Oil and gas operations during the period	55,191
Abandonment cost incurred during the period	(67,433)
Asset retirement obligation accretion for the period	244,062
Carrying amount, as at March 31	11,711,381

Income Taxes

The Trust does not provide for current income taxes, as it expects that all taxable income will be passed to unitholders in the form of distributions. Future income tax expense totaled \$799,266 for the quarter ended March 31, 2006. The future income tax expense for the quarter largely resulted from the recognition of the future tax costs on the unrealized loss on the Trust's fixed price commodity transactions and timing differences on deductions between tax and accounting. Conversely, in the first quarter of 2005 the Trust recognized a future tax benefit due to a large mark-to-market hedging loss. The first quarter 2006 capital tax of \$136,183 reflects the growth in the asset base of the Trust and greater Saskatchewan surcharge.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Risk Management and Financial Instruments

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

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

Commodities hedging contracts:

Settlement dates	Volume (bbl)	Prices \$/(bbl)	March 31, 2006
			Unrealized gain (loss) \$
April, 2006	225,790	38.85 – 79.55	(442,988)
May, 2006	233,540	38.85 – 82.74	(495,205)
June, 2006	248,890	38.85 – 68.85	(551,666)
July, 2006	189,790	38.85 – 69.20	(276,060)
August, 2006	189,790	39.08 – 69.42	(231,360)
September, 2006	193,640	38.85 – 69.74	(150,920)
October, 2006	144,940	41.49 – 69.66	(95,865)
November, 2006	158,940	41.75 – 69.74	(75,021)
December, 2006	135,440	42.53 – 69.79	(49,621)
January, 2007	135,440	42.38 – 69.83	(47,361)
February, 2007	113,940	42.12 – 69.85	(55,904)
March, 2007	103,940	48.41 – 69.86	(47,985)
	<u>2,074,080</u>		<u>(2,519,956)</u>
		Exchange rate	1.1671
		Total CDN dollars	<u>(2,941,041)</u>

Forward exchange contracts:

Term Due	Amount	Forward Rates	March 31, 2005
			Unrealized Gain (loss) \$
April, 2006	12,937,304	1.1377 – 1.2243	(147,596)
May, 2006	3,367,084	1.1504 – 1.1627	(38,397)
June, 2006	1,371,343	1.154 – 1.1619	(14,010)
Total US dollars	17,675,731		(200,003)
Exchange rate	1.1671		1.1671
Total CDN dollars	<u>20,629,346</u>		<u>(233,424)</u>

The net unrealized loss of \$3,174,465 is offset by the increase in the market value of the inventory over the carrying cost as at March 31, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2006 \$
Risk management asset (liability), January 1	(5,256,170)
Change in mark-to-market unrealized gain (loss)	1,325,391
Risk management asset (liability), March 31	(3,930,779)

The Trust has the following forward contracts outstanding as at March 31, 2006:

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

Subsequent to March 31, 2006, the Trust entered into the following forward contract:

- A fixed price AECO natural gas swap for the period April 1, 2006 to April 30, 2006 on 2,000 GJ/day of gas at a price of \$6.03 Cdn/GJ

Credit Risk

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Liquidity and Debt

At March 31, 2006 in relation to its oil and gas division, the Trust has a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$47,000,000 bearing interest ranging from prime plus one-quarter of one percent to prime plus one percent depending on the debt to cash flow ratio of the Trust. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. As at March 31, 2006, approximately \$23,580,000 was drawn on the revolving demand facility.

The Trust also has an extendible revolving loan facility with another major Canadian bank in the amount of \$5,000,000 bearing interest at prime plus one-half of one percent. In addition, the Trust has an extendible revolving term loan facility with a syndicate of two banks in the amount of \$20,000,000 bearing interest at prime plus three-quarters of one percent. These facilities are available for the operations and acquisitions in the Trust's energy services division. As at March 31, 2006, approximately \$4,800,000 was drawn on the revolving loan facility and \$20,000,000 was drawn on the revolving term loan facility.

The Trust has a demand revolving loan facility with a Canadian bank in the amount of \$30,000,000 and a foreign exchange loan facility in the amount of \$10,500,000 bearing interest at bank prime plus one quarter of a percent or US bank base rate plus one quarter of a percent. The facility is primarily used to provide credit for natural gas liquids inventory purchases through its subsidiary Elbow River Marketing Partnership. As at March 31, 2006, \$9,224,585 was drawn on the demand loan facility.

The Trust also had \$4,486,323 in bank overdraft as at March 31, 2006.

The average effective interest rate on borrowings under all of the above lines for the quarter ended March 31, 2006 including services fees was 6.21% (March 31, 2005 – 6.39%).

As at March 31, 2006, the Trust had twenty-one letters of credit outstanding in the aggregate maximum amount of \$1,345,455 to provide Elbow River Marketing Partnership with additional credit on natural gas liquids inventory purchases, the Trust also provides guarantees to third parties for an amount up to \$40,349,346. These guarantees provided by the Trust, to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

On September 1, 2005, the Trust borrowed \$7,500,000 from a third party to fund additional opportunities in its Elbow River business. The note payable carries interest at 12% and was repaid February 28, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Payments due by period

	Total	Less than 1 year	1 – 3 years	4+ years
Capital lease obligations	411,133	113,742	297,391	–
Mortgages	14,560,805	8,356,873	6,124,235	79,697
Long-term debt	1,983,748	970,001	1,013,747	–
Lease Commitments	17,372,750	3,369,108	10,686,004	3,317,638
Total Contractual Obligations	34,328,436	12,809,724	18,121,377	3,397,335

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

As at March 31, 2006, the Trust had inventory of \$15,265,204 consisting of \$15,044,896 in pre-sold natural gas liquids inventory and \$220,308 in energy services equipment and parts. Also at March 31, 2006, the Trust held 500,000 shares of a Toronto Stock Exchange listed junior oil and gas company, recorded at a cost of \$12,500 with a market value at March 31, 2006 of \$2,740,000.

Investment and Capital Expenditures

	Year Ended March 31, 2006 \$	Quarter Ended March 31, 2005 \$
Land	161,594	46,046
Drilling	2,151,565	528,919
Production equipment and facilities	1,493,737	478,427
Other	101,543	–
Development expenditures	3,908,439	1,053,392
Oil and gas acquisitions	–	13,273,649
Energy services acquisitions	13,416,783	771,833
Real estate acquisitions	1,035,516	2,915,290
Financial services development expenditures	1,300	749,379
Energy services property and equipment	13,499,156	1,315,732
Proceeds received on oil and gas property dispositions	(94,850)	(74,320)
Proceeds received on energy services dispositions	(166,125)	–
Proceeds received on real estate property dispositions	–	(3,718,794)
Other assets	21,219	115,441
Net capital expenditures	31,621,438	16,401,602

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas as at March 31, 2006 are as follows:

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

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

Futures contracts:

Settlement dates	Volume (bbl)	Prices \$(/bbl)	March 31, 2005 Unrealized gain (loss) \$
June, 2006	3,452	101.64 – 107.94	21,750
July, 2006	3,452	101.47 – 107.94	22,330
August, 2006	3,452	101.64 – 102.90	4,350
September, 2006	6,905	90.078 – 100.80	11,890
October, 2006	690	88.20 – 90.30	1,450
	17,951		61,770
		Exchange rate	1.1671
		Total CDN dollars	72,092

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

The payments over the remaining terms are as follows:

	\$
2006	3,369,108
2007	4,135,886
2008	3,711,669
2009	2,838,449
2010	2,161,450
2011	796,458
2012	292,230
2013	67,500
Total	17,372,750

Unitholder Capital

Trust Units	Number of Units	Amount \$
Balance December 31, 2005	40,141,554	401,918,365
Units issued on Kodiak acquisition	729,438	8,833,494
Balance March 31, 2006	40,870,992	410,751,859

For the first quarter ended March 31, 2006 the Trust had weighted average trust units outstanding of 40,149,659. The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in trust units of 40,412,413 for the quarter ended March 31, 2006. As at March 31, 2006 the total units outstanding for the Trust were 40,870,992 (not including units under escrow of 550,458 relating to the Elbow River acquisition). Subsequent to March 31, 2006, 76,452 of the escrowed units relating to the acquisition of Elbow River were released from escrow upon Elbow River management meeting their initial one year anniversary time release commitment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Related Party Transactions

During the quarter ended March 31, 2006, the Trust paid \$36,891 (March 31, 2005 - \$28,939) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable is \$27,191 owing to Avenir relating to administration and advisory services.

During the quarter ended March 31, 2006, the Trust incurred marketing fees of \$18,000 (March 31, 2005 - \$18,000) payable to a company with a shareholder who is also a director of the Trust.

Risks & Uncertainties, Disclosure Controls & Procedures and Recent Accounting Pronouncements

For a discussion of Risks and Uncertainties, Disclosure Controls and Procedures and Recent Accounting Pronouncements, please refer to the audited consolidated financial statements for the year ended December 31, 2005 available on SEDAR (www.sedar.com) and our website (www.avenirtrust.com).

OUTLOOK

We remain focused and diligent with respect to our operations and acquisitions. We continue to see and evaluate opportunities and plan to remain active on the acquisition front. With the spin-out of our Energy Services division, we will turn our attention to establishing a foothold in a new business line that will provide opportunities to grow both organically and through consolidation. We firmly believe we will continue to provide 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:



William M. Gallacher
President & CEO



Gary Dundas
Vice President Finance & CFO

CONSOLIDATED BALANCE SHEETS

	March 31, 2006 \$	March 31, 2005 \$
ASSETS <i>[note 3]</i>		
Current		
Cash	–	6,767,724
Restricted cash <i>[note 4]</i>	203,000	366,057
Accounts receivable and prepaid expenses	72,102,278	95,663,009
Inventory	15,265,204	31,786,855
Marketable securities	12,500	12,500
Notes receivable	1,050,000	1,050,000
	88,632,982	135,646,145
Property and equipment <i>[notes 2, 4 and 5]</i>	224,120,432	204,615,394
Investment in financial services contracts	20,400,000	20,440,209
Intangibles and other assets <i>[note 2]</i>	146,155,998	146,572,446
Goodwill	88,318,407	76,352,738
	567,627,819	583,626,932
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 3]</i>	62,090,908	58,881,771
Accounts payable and accrued liabilities <i>[note 11]</i>	51,340,241	68,922,316
Distributions payable	4,970,574	4,883,041
Deferred revenue	248,393	200,439
Due to non-controlling interest owner	61,418	43,674
Risk management liability <i>[note 9]</i>	3,930,779	5,256,170
Notes payable	–	7,500,000
Current portion of capital lease obligations	113,743	155,127
Current portion of long-term debt <i>[note 5]</i>	970,001	1,159,521
Current portion of mortgages <i>[note 4]</i>	8,356,873	7,684,571
	132,082,930	154,686,630
Capital lease obligations	297,390	325,521
Mortgages <i>[note 4]</i>	6,203,932	6,203,933
Long-term debt <i>[note 5]</i>	1,013,747	1,124,424
Asset retirement obligation <i>[note 6]</i>	11,711,381	11,479,561
Future income taxes	20,922,342	20,123,076
Non-controlling interest <i>[note 10]</i>	1,885,626	1,004,965
Unitholders' equity		
Unitholder capital <i>[note 7]</i>	410,751,859	401,918,365
Contributed surplus <i>[note 7]</i>	2,765,340	2,136,030
Accumulated earnings	37,729,028	27,623,526
Accumulated cash distributions	(57,735,756)	(42,999,099)
	393,510,471	388,678,822
	567,627,819	583,626,932

See accompanying notes to the consolidated financial statements

On behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS

	Three months ended	
	March 31, 2006	March 31, 2005
	\$	\$
REVENUE		
Oil and gas revenue	13,337,181	10,759,880
Oil and gas transportation costs	(226,768)	(108,701)
Royalties, net of ARTC	(2,386,769)	(1,993,721)
Unrealized gain (loss) on financial instruments <i>[note 17]</i>	1,325,391	(5,557,222)
	12,049,035	3,100,236
Real estate revenue	738,902	690,303
Energy services revenue	19,448,741	4,204,051
Financial services revenue	153,912,782	752,902
Interest and other revenue	-	9,946
Gain on sale of property and equipment	(249)	222,360
	186,149,211	8,979,798
EXPENSES		
Oil and gas operating	3,913,326	2,712,539
Real estate operating	182,019	222,049
Energy services operating	9,770,014	2,012,944
Financial services operating	143,639,076	12,000
General and administrative <i>[notes 8 and 11]</i>	6,272,485	1,451,564
Foreign exchange	(613,075)	-
Interest and bank fees	742,378	414,505
Interest on long-term interest and capital leases	234,369	226,054
Capital taxes	136,183	47,295
Depletion, depreciation and amortization	10,315,450	4,081,154
Asset retirement obligation accretion <i>[note 6]</i>	244,062	170,989
	174,836,287	11,351,093
Income (loss) before income tax and non-controlling interest	11,312,924	(2,371,295)
Future income tax recovery (expense)	(799,266)	1,864,800
Net income (loss) before non-controlling interest	10,513,658	(506,495)
Non-controlling interest <i>[note 10]</i>	(408,156)	(97,387)
Net income (loss) for the period	10,105,502	(603,882)
Accumulated earnings, beginning of the period	27,623,526	4,684,188
Accumulated earnings, end of the period	37,729,028	4,080,306
Net income per unit <i>[note 7]</i>	0.25	(0.05)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended	
	March 31, 2006 \$	March 31, 2005 \$
OPERATING ACTIVITIES		
Net income (loss) for the period	10,105,502	(603,882)
Add (deduct) non-cash items:		
Loss (gain) on sale of property and equipment	249	(222,360)
Non-cash general and administrative <i>[note 8]</i>	631,145	63,234
Depletion, depreciation and amortization	10,315,450	4,081,154
Asset retirement obligation accretion	244,062	170,989
Unrealized foreign exchange	(582,874)	-
Unrealized (gain) loss on financial instruments	(1,325,391)	5,557,222
Future income tax expense (recovery)	799,266	(1,864,800)
Non-controlling interest	408,156	97,387
Funds from operations	20,595,565	7,278,944
Asset retirement costs incurred during period	(67,433)	-
Change in non-cash working capital	25,688,125	480,864
Cash provided by operating activities	46,216,257	7,759,808
FINANCING ACTIVITIES		
Issue of trust units, net of issue costs	-	118,286,431
Distributions to unitholders	(14,649,124)	(3,711,544)
Decrease in bank indebtedness	(1,277,186)	(31,325,000)
Increase in bank indebtedness	4,486,323	-
Decrease in notes payable	(7,500,000)	-
Increase in mortgages	-	2,015,000
Repayment of mortgages	(130,250)	(2,030,022)
Repayments of capital lease obligations	(29,764)	(16,068)
Increase in long-term debt	-	192,677
Repayment of long-term debt	(2,822,443)	(191,770)
Change in non-cash working capital	33,688	348,960
Cash provided by financing activities	(21,888,756)	83,568,664
INVESTING ACTIVITIES		
Purchase of Val Vista Energy Ltd.	-	(13,273,649)
Purchase of Eagle Oilfield Services Ltd.	-	(771,833)
Purchase of Kodiak <i>[note 2]</i>	(13,416,783)	-
Oil and gas property disposals	94,850	74,320
Oil and gas development expenditures	(3,908,439)	(1,053,392)
Financial services development expenditures	(1,300)	(749,379)
Purchase of energy services assets	(13,499,156)	(1,315,732)
Sale of energy services assets	166,125	-
Purchase of other assets	(21,219)	(115,441)
Purchase of financial services contracts	-	(2,750,000)
Purchase of real estate properties	(1,035,516)	(2,915,290)
Proceeds on sale of real estate properties	-	3,718,794
Change in restricted cash	163,057	(657)
Change in non-controlling interest	(105,555)	-
Changes in non-cash working capital	468,711	2,771,207
Cash used in investing activities	(31,095,225)	(16,381,052)
Increase in cash during the period	(6,767,724)	74,947,420
Cash, beginning of period	6,767,724	327,217
Cash, end of period	-	75,274,637
Cash interest paid	705,427	560,009

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2006 (*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, 2005. Certain information has been condensed or omitted although the Trust believes that the disclosures are adequate and the information presented is not misleading. The following notes are incremental to and should be read in conjunction with the 2005 audited consolidated financial statements.

The operating results for the three month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the full fiscal year revenues and expenses during the reporting period, due to seasonal factors. The Trust's energy services and natural gas marketing divisions traditionally have stronger results in the first and fourth quarters of the fiscal year. In energy services the requirement for services increases in the winter months while spring and parts of the summer months are negatively affected by the weather and access problems. In the natural gas liquids marketing business colder winter weather also provides more opportunity for sale of propane and butane. Actual results may differ from those estimates.

2. ACQUISITION

The following acquisition represents those which were completed during the period that were significant acquisitions to the Trust

a) Kodiak Coil Tubing

On March 31, 2006 the Trust acquired a 90% partnership interest in Kodiak Coil Tubing ("Kodiak"), for total consideration of \$22,250,277 consisting of net cash of \$13,016,783, estimated transaction costs of \$400,000 and the issuance of 729,438 Trust Units at \$12.11 per unit. The Trust Units were valued based on a 5% discount to the average fair market value of the units immediately prior to the date the acquisition was announced. The Trust further agreed to pay an additional contingent amount based on a predetermined multiple times of the Kodiak 2006 earnings before interest, depreciation and taxes in excess of \$5,200,000. As the additional consideration is contingent on future earnings which are not readily determinable it has not been reflected in the purchase price.

Results from operations for Kodiak are included in the Trust's consolidated financial statements from the closing date of acquisition. The purchase price has not yet been finalized and is still subject to change. The transaction has been accounted for using the purchase method of accounting as follows:

	\$
Calculation of purchase price:	
Cash consideration	13,879,171
Trust units issued	8,833,494
Estimated transaction costs	400,000
Less cash acquired	(862,388)
	22,250,277
Allocation of purchase price:	
Non-cash working capital	3,190,891
Property and equipment	9,226,632
Intangibles and other assets	967,389
Goodwill	11,965,669
Long-term debt	(2,522,244)
Non-controlling interest	(578,060)
	22,250,277

3. BANK INDEBTEDNESS

At March 31, 2006 in relation to its oil and gas division, the Trust has a combined revolving demand facility with a syndicate of two major Canadian banks in the amount of \$47,000,000 bearing interest ranging from prime plus one-quarter of one percent to prime plus one percent depending on the debt to cash flow ratio of the Trust. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. As at March 31, 2006, \$23,580,000 was drawn on the revolving demand facility.

The Trust also has an extendible revolving loan facility with another major Canadian bank in the amount of \$5,000,000 bearing interest at prime plus one-half of one percent. In addition, the Trust has an extendible revolving term loan facility with a syndicate of two Canadian banks in the amount of \$20,000,000 bearing interest at prime plus three-quarters of one percent. These facilities are available for the operations and acquisitions in the Trust's energy services division. As at March 31, 2006, \$4,800,000 was drawn on the revolving loan facility and \$20,000,000 was drawn on the revolving term loan facility.

The Trust has a demand revolving loan facility with a Canadian bank in the amount of \$30,000,000 and a foreign exchange loan facility in the amount of \$10,500,000 bearing interest at bank prime plus one quarter of a percent or US bank base rate plus one quarter of a percent. The facility is primarily used to provide credit for natural gas liquids inventory purchases through its subsidiary Elbow River Marketing Partnership. As at March 31, 2006, \$9,224,585 was drawn on the demand loan facility.

The Trust also had \$4,486,323 in bank overdraft as at March 31, 2006.

The average effective interest rate on borrowings under all of the above lines for the period ended March 31, 2006 including services fees was 6.21% (March 31, 2005 – 6.39%).

As at March 31, 2006, the Trust also had twenty-one letters of credit outstanding in the aggregate amount of \$1,345,455.

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 \$40,349,346. These guarantees, provided by the Trust to third party counterparties of Elbow River, require the Trust to be responsible for inventory settlements if Elbow River was unable to do so. The Trust has no specific assets pledged and the amounts exposed against the total outstanding guarantees will vary depending on the transactions in place at a specific point in time.

4. MORTGAGES

	2006 \$
Various mortgages with interest rates ranging from 4.24% to 7.24% (weighted average rate of 5.12%), maturities from September 2006 to February 2010 and collateralized by a first charge over the related properties, and restricted cash	14,560,805
Less current portion of mortgages	(8,356,873)
	<u>6,203,932</u>

Approximate principal repayments required to maturity are as follows:

	\$
2006	8,356,873
2007	691,984
2008	4,954,069
2009	478,182
2010	79,697
	<u>14,560,805</u>

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

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using March 31, 2006 market rates for debt of similar terms. Based on these assumptions, the fair value of the mortgages as at March 31, 2006 has been estimated at \$14,674,308.

5. LONG-TERM DEBT

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

	2006 \$
Various loans payable in monthly instalments with interest rates ranging from prime plus 1.8% to prime plus 2.65%, and maturities from September 2006 to December 2008	804,753
Various loans payable in monthly instalments with interest rates ranging from 0.00% to 10.95%, and maturities from July 2006 to November 2009	1,178,995
	1,983,748
Current portion	(970,001)
	<u>1,013,747</u>

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

6. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities in its oil and gas segment, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$11,711,381 as at March 31, 2006 based on a total future liability of \$25,520,332. 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, 2006	11,479,561
Oil and gas operations during the period	55,191
Abandonment cost incurred during the period	(67,433)
Asset retirement obligation accretion for the period	244,062
Carrying amount, as at March 31, 2006	11,711,381

7. UNITHOLDERS' CAPITAL

a) Unitholders' capital

Authorized

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

Issued

Trust Units	Number of Units	Amount \$
Balance December 31, 2005	40,141,554	401,918,365
Units issued on Kodiak acquisition (i)	729,438	8,833,494
Balance March 31, 2006	40,870,992	410,751,859

(i) Trust Units issued in relation to the acquisition of Kodiak Coil Tubing ("Kodiak") on March 31, 2006 (see note 2).

Subsequent to March 31, 2006, 76,452 of the escrowed units relating to the acquisition of Elbow River were released from escrow. These units represent the release for the first anniversary date of the close of the acquisition. The units were valued at the time of the acquisition at \$10.90.

b) Net income per unit

For the three months ended March 31, 2006, the Trust had a weighted average number of trust units outstanding of 40,149,659 (three months ended March 31, 2005 – 13,127,359). 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 months ended March 31, 2006, of 40,412,413 (three months ended March 31, 2005 – 13,127,359).

c) Contributed surplus

	2006
	\$
Contributed surplus, beginning of period	2,136,030
Compensation expense [note 8]	631,145
Settlement of options	(1,835)
Contributed surplus, end of period	2,765,340

8. STOCK-BASED COMPENSATION

The following table summarizes the status and changes during the period ended March 31, 2006:

	Number of options outstanding	Weighted average grant date exercise price
Outstanding, December 31, 2005	1,386,201	\$10.28
Granted	34,500	13.00
Expired	(14,251)	(10.32)
Outstanding, March 31, 2006	1,406,450	\$10.34
Exercisable, March 31, 2006	179,643	\$7.38

The following table summarizes information about the unit options outstanding at March 31, 2006:

Grant date exercise price	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
6.00	106,666	1.8	106,666
7.50	16,665	2.4	11,110
7.65	3,333	3.2	1,111
9.00	120,267	3.6	37,423
10.69	375,600	3.8	23,333
10.90	624,419	4.1	-
11.00	70,000	4.3	-
11.20	55,000	4.6	-
13.00	34,500	4.9	-
	1,406,450	3.7	179,643

The total value of stock-based compensation of \$4,983,659 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 2006 are as follows:

	2006 Granted Options
Expected volatility	39.56%
Risk – free interest rate	3.83%
Expected life of options	5 years
Dividend yield	nil

The Trust recorded compensation expense and contributed surplus of \$631,145 for the three months ended March 31, 2006 (three months ended March 31, 2005 - \$63,234).

9. FINANCIAL INSTRUMENTS

The Elbow River Marketing division of the Trust sells natural gas liquids product in the United States and Canada, giving rise to significant exposure to market risks from foreign exchange rates and commodity price changes. The Trust uses derivative financial instruments to reduce risks including foreign exchange and commodities hedging contracts.

These financial instruments are subject to normal credit standards, financial controls, risk management and monitoring procedures.

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

Commodities hedging contracts:			March 31, 2006
Settlement dates	Volume (bbl)	Prices \$/(bbl)	Unrealized gain (loss) \$
April, 2006	225,790	38.85 – 79.55	(442,988)
May, 2006	233,540	38.85 – 82.74	(495,205)
June, 2006	248,890	38.85 – 68.85	(551,666)
July, 2006	189,790	38.85 – 69.20	(276,060)
August, 2006	189,790	39.08 – 69.42	(231,360)
September, 2006	193,640	38.85 – 69.74	(150,920)
October, 2006	144,940	41.49 – 69.66	(95,865)
November, 2006	158,940	41.75 – 69.74	(75,021)
December, 2006	135,440	42.53 – 69.79	(49,621)
January, 2007	135,440	42.38 – 69.83	(47,361)
February, 2007	113,940	42.12 – 69.85	(55,904)
June, 2007	103,940	48.41 – 69.86	(47,985)
	2,074,080		(2,519,956)
		Exchange rate	1.1671
		Total CDN dollars	(2,941,041)

Forward exchange contracts:			March 31, 2005
Term Due	Amount	Forward Rates	Unrealized Gain (loss) \$
April, 2006	12,937,304	1.1377 – 1.2243	(147,596)
May, 2006	3,367,084	1.1504 – 1.1627	(38,397)
June, 2006	1,371,343	1.154 – 1.1619	(14,010)
Total US dollars	17,675,731		(200,003)
Exchange rate	1.1671		1.1671
Total CDN dollars	20,629,346		(233,424)

The net unrealized loss of \$3,174,465 is offset by the increase in the market value of the inventory over the carrying cost as at March 31, 2006.

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

	2006 \$
Risk management asset (liability), January 1	(5,256,170)
Change in mark-to-market unrealized gain (loss)	1,325,391
Risk management asset (liability), March 31	(3,930,779)

The Trust has the following forward contracts outstanding as at March 31, 2006:

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

Subsequent to March 31, 2006, the Trust entered into the following forward contract:

- A fixed price AECO natural gas swap for the period April 1, 2006 to April 30, 2006 on 2,000 GJ/day of gas at a price of \$6.03 Cdn/GJ

10. NON-CONTROLLING INTEREST

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

	2006
	\$
Opening non-controlling interest, January 1	1,004,965
Energy Services acquisitions	578,060
Non-controlling interest in earnings for the period	408,156
Distributions to non-controlling interest holders	(105,555)
Closing non-controlling interest, March 31	1,885,626

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions described elsewhere in these unaudited 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 months ended March 31, 2006, the Trust paid \$36,891 (three months ended March 31, 2005 - \$28,939) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at March 31, 2006 is \$27,191 owing to Avenir relating to administration and advisory services.

- During the three months ended March 31, 2006, the Trust incurred marketing fees of \$18,000 (three months ended March 31, 2005 - \$18,000) payable to a company with a shareholder who is also a director of the Trust. Of this balance, \$18,000 is included in accounts payable and accrued liabilities as at March 31, 2006.

12.SEGMENTED INFORMATION

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

The following is selected financial information for each business segment:

	March 31, 2006					
	Oil and Gas	Financial	Real	Energy	Corporate	Total
	\$	\$	\$	\$	\$	\$
Total Revenue before						
inter-segment eliminations	12,049,035	154,058,261	738,902	19,521,385	145,479	186,512,813
Inter-segment eliminations	-	(145,479)	-	(72,644)	(145,479)	(363,602)
Gain (loss) on sale of property and equipment	-	-	-	(249)	-	(249)
Net Total Revenue	12,049,035	153,912,782	738,902	19,448,492	-	186,149,211
Operating expenses before						
inter-segment eliminations	3,985,970	143,639,076	182,019	9,770,014	-	157,577,079
Inter-segment eliminations	(72,644)	-	-	-	-	(72,644)
Net Operating Expenses	3,913,326	143,639,076	182,019	9,770,014	-	157,504,435
Net Income before						
inter-segment eliminations	737,855	7,147,136	4,124	3,062,799	(846,412)	10,105,502
Inter-segment eliminations	72,644	145,479	-	(72,644)	(145,479)	-
Net Income	810,499	7,292,615	4,124	2,990,155	(991,891)	10,105,502

There were no inter-segment eliminations for the three months ended March 31, 2005.

	March 31, 2005					
	Oil and Gas	Financial	Real	Energy	Corporate	Total
	\$	\$	\$	\$	\$	\$
Net Revenue	3,100,236	752,902	912,663	4,204,051	9,946	8,979,798
Net Operating Expenses	2,712,539	12,000	222,049	2,012,944	-	4,959,532
Net Income	(2,607,795)	748,995	494,038	864,445	(103,565)	(603,882)

	March 31, 2006					
	Oil and Gas	Financial	Real	Energy	Total	
	\$	\$	\$	\$	\$	
Selected balance sheet items						
Property and equipment	145,461,901	712,700	21,045,546	56,900,285	224,120,432	
Investment in financial services contracts	-	20,400,000	-	-	20,400,000	
Intangibles and other assets	-	143,594,455	1,594,154	967,389	146,155,998	
Goodwill	21,234,733	30,473,262	-	36,610,412	88,318,407	
Total assets	183,739,323	245,677,913	23,195,206	115,015,377	567,627,819	
Bank indebtedness	16,583,261	8,634,682	(183,244)	37,056,209	62,090,908	
Mortgages	-	-	14,560,805	-	14,560,805	
Long-term debt	-	-	-	1,983,748	1,983,748	

13.SUBSEQUENT EVENTS

On April 5, 2006, the Trust announced that it is proceeding with the formation of a new publicly traded oilfield services trust called Essential Energy Services Trust, to which the Trust will convey its entire Energy Services Division. The Trust Units of Essential Energy Services Trust will be distributed to existing unitholders of the Trust pro rata to their respective interest in the Trust. The Trust unitholders voted on and approved the plan of arrangement to create Essential Energy Services Trust at its special and annual meeting on May 11, 2006. The plan of arrangement will be effective May 31, 2006 with the Trust retaining the division's results from operations until that date.

CORPORATE INFORMATION

DIRECTORS

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

Gary H. Dundas
VP Finance & CFO

David E. Butler (1,3)

Stuart Y. Chow (2,3)

Jeffery Kohn

Alan Moon (1,2)
Lead Director

William E. Patterson (1,2)

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

CORPORATE SECRETARY

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

AUDITORS

Ernst & Young, LLP

BANKERS

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

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.

LEGAL COUNSEL

Burnet, Duckworth & Palmer, LLP

TRANSFER AGENT

Olympia Trust Company

OFFICERS & KEY PERSONNEL

William Gallacher, P.Eng
President & CEO

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

Jill Koskimaki, BBA
Manager Bus. Development

Michelle O'Grady, CA
Controller

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

Grant Leslie, P. Eng.
VP Operations, Energy

Debbie Carter
Controller, Energy

Stuart King, CA
Controller, Energy Services

Duncan Au, CA, CFA
Senior VP Business Development,
Energy Services

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EnerVest Management Ltd.
Kevin Wolfe, President /
Ward Mallabone, C.O.O.

Elbow River Marketing LP
Ed Malcolm, President

Cascade Services LP
Ken Wagner, President

Cardinal Well Services LP
Dean Halifax, General Manager

Endless Tubing LP
Steve Sykes, General Manager

Millard Oilfield Services LP
Clyde Moch, President

Westvac Energy Services Partnership
Rod MacDonald, President

Richmond Energy Services LP
Geoff Derouin, General Manager

HK Well Services
Dennis Drescher, General Manager

OIL & GAS ABBREVIATIONS

Oil, Natural Gas and Natural Gas Liquids

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

Other

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

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