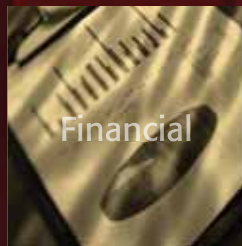


AVENIR DIVERSIFIED INCOME TRUST

Q2
Second Quarter Interim Report | *for the period ending June 30, 2006*



SECOND QUARTER 2006 FINANCIAL HIGHLIGHTS & REVIEW

For the periods ended	Three months ended June 30			Six months ended June 30		
	2006	2005 (restated) ⁴	% Change	2006	2005 (restated) ⁴	% Change
Gross Revenue	\$171,034,177	\$61,297,621	179%	\$340,348,433	\$73,369,845	364%
Net Revenue	\$169,126,889	\$59,325,819	185%	\$335,827,608	\$64,101,566	424%
Funds From Operations (FFO) ¹	\$15,747,172	\$9,351,360	68%	\$36,342,738	\$16,630,304	119%
FFO Per Unit ¹ - Basic	\$0.38	\$0.38	0%	\$0.90	\$0.88	2%
Distributions ²	\$13,448,537	\$7,953,581	69%	\$28,185,194	\$12,143,662	132%
Distributions Per Unit - Basic	\$0.33	\$0.33	0%	\$0.69	\$0.65	6%
Distribution Payout Ratio ³	85%	85%	0%	78%	73%	7%
Income from continuing operations	\$9,782,609	\$2,332,049	319%	\$16,897,956	\$863,722	1856%
Income from continuing operations Per Unit - Basic	\$0.24	\$0.10	140%	\$0.42	\$0.05	740%
Income from discontinued operations	\$527,106	\$412,296	28%	\$3,517,261	\$1,276,741	175%
Income discontinued operations Per Unit - Basic	\$0.01	\$0.01	0%	\$0.08	\$0.06	33%
Net Income	\$10,309,715	\$2,744,345	276%	\$20,415,217	\$2,140,463	854%
Net Income Per Unit - Basic	\$0.25	\$0.11	127%	\$0.50	\$0.11	355%
Total Assets	\$476,204,685	\$317,216,981	50%	\$476,204,685	\$317,216,981	50%
Working Cap. (Net Debt) including mortgages ¹	\$(34,385,547)	\$(42,210,037)	(19)%	\$(34,385,547)	\$(42,210,037)	(19)%
Wtd. Avg. Units Outstanding - Basic	41,047,398	24,441,653	68%	40,601,009	18,815,761	116%
Units Outstanding (including escrowed units)	41,763,367	25,011,258	67%	41,763,367	25,011,258	67%

- 1 Funds from operations, Funds from operations per unit, net back, and working capital (net debt) including mortgages 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 Distributions represents the actual cash distribution paid during the period. It does not include the special distribution in June 2006 of the Essential Energy Services Trust Units
- 3 Distribution Payout Ratio is calculated by dividing the Distributions by the Funds from operations.
- 4 Comparative periods have been restated to conform to current period presentation – specifically relating to the discontinued operations of the Energy Services Division of the Trust.

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

The second quarter was in line with expectations taking into account the spin-off of the energy services division on May 31, 2006. The Trust is now approximately 40% energy (oil and gas production) and 60% non-energy (financial services and real estate) and the Trust will continue to target a 75% annual payout ratio, as it has since inception in 2003. The energy services division is included in the Trust's operations for the months of January through May only and is accounted for as a discontinued operation in the financial statements accompanying this write-up. The second quarter is traditionally the Trust's weakest quarter with the seasonal slowdown in the Elbow River natural gas liquids marketing division, some production restrictions due to spring break-up and turnarounds in the oil and gas division and the impact of spring rains and break-up in the energy services division. This year was no exception as the energy services division was particularly impacted by early spring rains that reduced contributions from the Southern Alberta business units in April and May. The Elbow River division had a solid quarter and will benefit in the coming quarters from a larger than usual sales in transit volume at quarter end and significant product presales which will be recognized when deliveries are made. The Enervest fund management group had a very good quarter despite a general weakness in the Trust and energy segment of the market and the continued uncertainty around the direction of interest rates throughout the quarter. The oil and gas division has been able to keep production volumes flat at approximately 3,400 BOE per day for the past three quarters and has increased cashflow despite significantly lower natural gas prices in the second quarter of 2006. The benefits of a balanced product mix of 52% natural gas and 48% oil was proved out in Q2 2006. Real Estate continued to perform well but to date is a very small contributor to our monthly distributions.

The second quarter of 2006 was largely focused on the spin-off of our energy services division into a publicly-traded oilfield services trust, Essential Energy Services Trust ("Essential"). Since inception, the Avenir Trust's business strategy has been consistent; in addition to providing sustainable distributions across energy and non-energy businesses, the Trust has and continues to look at unlocking additional value for the Avenir Trust unitholders through the disposition or the spinning-off of its divisions. By spinning-off a division which has grown to a sufficient independent size and stability, the market is better able to value them on their own. While the Avenir Trust continues to provide and focus on sustainable distributions through diversified businesses, the Trust has also been able to achieve distribution growth through accretive acquisitions. Built in to the May 31, 2006 spin-off of the energy service division was a small distribution increase which represented the 7th distribution increase in the three years since the Trusts inception. In conjunction with the spin-off, the Trust's monthly distribution was reduced from \$0.12 per month to \$0.083 per month; however Trust unitholders also now receive the equivalent of \$0.0415 per month (1/2 of the \$0.083 being distributed

PRESIDENT'S MESSAGE

by Essential monthly) from the Essential units they received in the spin-off. On a combined basis this results in a distribution increase from \$1.44 per year to \$1.495 per year or 4%.

With respect to Essential, its name was chosen for the reason that "Essential" correctly described the nature of the services provided, as they focus on oilfield maintenance activities after a well has been drilled. From the beginning it was our view that by focusing in the post drilling segment, the division would be buffered by any reduction in the level of drilling activity and better suited to the trust model. From experience, oil and gas companies will continue to require the cashflow that comes from the thousands of producing and mature wells throughout the Western Canadian basin, even in the event of a slow down. All of these wells will continue to need servicing both through regulation requirements and general maintenance. These services help provide ongoing cashflow to oil and gas companies and in effect become "essential" to the oil and gas producers. With almost 300 employees and now over \$35 million per year in EBITDA, the energy services division reached a juncture in its evolution that required a focused management team that could dedicate 100% of their efforts to the energy services division. From the Avenir Trust unitholder perspective, Avenir had invested approximately \$80 million in energy services assets and new equipment and spun the division out such that Avenir unitholders would have a current market value of approximately \$165 million. Management felt the spin-off was a means of crystallizing the value for unitholders that had been added within the division. We firmly believe that once the market better understands the Essential story and sees their profitable results, the Essential units will perform as expected. We also must take into consideration that the second quarter is by far the weakest quarter for the energy services division, with the fourth and first quarters being the strongest. The future looks very bright for this group.

Essential is now trading on the TSX under the symbol "ESN.UN" and is led by James Burns, Duncan Au, Ken Wagner, Stuart King and the respective presidents/general managers of each of the businesses within the transportation and rig focused services. An experienced independent board of directors consisting of Neil Mackenzie, Dennis Balderston, Jeff Scott, Bill Gallacher and Gary Dundas provides guidance and governance to the management team. We encourage the Avenir Trust unitholders to take the time to better understand the opportunities and growth potential that lie ahead for Essential Energy Services Trust by going to Essential's website at www.essentialenergy.ca to view their most recent information and presentations.

Submitted on behalf of the Board of Directors by:



William M. Gallacher
President & CEO

REVIEW OF FINANCIAL RESULTS

REVIEW OF FINANCIAL RESULTS

Due to the seasonal nature of the energy services division and its Elbow River natural gas marketing division, the second quarter of the year will tend to be the Trust's weakest quarter; Energy Services impacted by weather and spring breakup and marketing revenues tending to decline in the spring shoulder months after the busy winter sales season. However, taking this into consideration, along with only two months of revenue from the energy service division prior to its spin-off, the Trust had a solid second quarter that was ahead of forecast.

The Trust had net earnings for the quarter ended June 30, 2006 of \$10,309,715 as profits were recorded across each of its operating divisions. Net Income was up 276% over the \$2,744,345 net income for the quarter ended June 30, 2005. Net income for the six months ended June 30, 2006 was \$20,415,217 or \$0.50 per unit versus \$2,140,463 or \$0.11 per unit for the first six months of 2005. The funds from operations for the second quarter 2006 were \$15,747,172 or \$0.38 per unit versus \$9,351,360 or \$0.38 per unit for the second quarter 2005. For the six months ended June 30, 2006, funds from operations were \$36,342,738 compared to \$16,630,304 for the same period in 2005, a 119% increase.

The increase in funds from operations was primarily the result of the growth in the Trust's business units, including an August 2005 oil and gas acquisition, a much larger energy services division due to acquisitions throughout the second half of 2005 and the first quarter of 2006, and the addition of the EnerVest Management contract in October 2005. The Trust distributed \$13,448,537 or \$0.33 per unit for the quarter ended June 30, 2006 versus \$7,953,581 or \$0.33 per unit distributed for the quarter ended June 30, 2005. This does not include the special distribution of the Essential Trust Units on a ratio of one Essential Trust unit for each two Avenir Trust units held. For the quarter ended June 30, 2006 the payout ratio was 85% of funds from operations. For the six months ended June 30, 2006 the payout ratio was 78% versus 73% for the first six months of 2005 and a target payout ratio of 75% to 80%. With traditionally stronger third and fourth quarters ahead, the Trust is well positioned to be at or less than its payout ratio target.

REVIEW OF BUSINESS UNIT OPERATIONS

I. OIL AND GAS

For the periods ended	Three months ended June 30			Six months ended June 30		
	2006	2005	% Change	2006	2005	% Change
Production						
Oil and NGLs – bbls per day	1,653	1,609	3	1,683	1,623	4
Gas – Mcf per day	10,447	9,819	6	10,019	8,503	18
Total BOE ¹ per day	3,394	3,246	5	3,353	3,040	10
Average Pricing						
Oil & NGL (\$/Bbl) before hedging ²	\$66.76	\$47.28	41	\$56.78	\$45.85	24
Oil & NGL (\$/Bbl) after hedging ²	\$60.94	\$42.28	44	\$50.91	\$42.20	21
Natural Gas (\$/Mcf)	\$6.15	\$7.06	(13)	\$7.08	\$7.06	0
Average Price Per BOE1 before hedging ²	\$50.76	\$44.01	15	\$49.93	\$43.65	12
Average Price Per BOE1 after hedging ²	\$47.93	\$41.65	15	\$45.99	\$41.71	10

1 Natural Gas conversion ratio of 6mcf:1bbl

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

REVIEW OF FINANCIAL RESULTS

For the second quarter of 2006, production volumes for the Trust have remained flat through continued focus on optimization and capital projects on the existing asset base. Oil and gas sales averaged 3,394 BOE per day in the second quarter compared to an average production rate of 3,373 BOE per day in the previous two quarters. Weather impacts and maintenance outages in the second quarter caused a restriction of 62 BOE per day indicating a current production capability for the Trust of approximately 3,450 BOE per day.

Oil and natural gas liquid sales for the second quarter averaged 1,653 Bbls per day down 4% from the first quarter due primarily to weather related lease access and power reliability issues. Natural gas sales were up 9% to 10,447 Mcf per day with fewer third party restrictions at Noel and the completion of turnaround work at Liege.

Total gross revenue from petroleum and natural gas sales in the second quarter was \$15,016,412 up 20% from \$12,499,460 in the first quarter 2006. Stronger oil and liquids pricing along with prior year royalty revenue adjustments helped to offset the lower gas prices experienced in the second quarter. The average price received for crude oil and natural gas liquids during the second quarter was \$60.94 per barrel after hedging (a majority of the hedges were put in place in 2004 to support the Prime West acquisition) representing a 44% increase over first quarter pricing. Natural gas pricing for the second quarter of 2006 was \$6.15 per Mcf versus \$8.10 per Mcf in the first quarter, a decrease of 24%. The lower gas pricing and a prior year gas cost allowance adjustment resulted in a decreased overall royalty rate of 11% compared to 17% in the first quarter.

Oil and Gas operating expenses in the current period reflects normal course adjustments relating to prior period activity. Additional workover and turnaround costs in the first quarter of 2006 resulted in an accounting period adjustment of \$406,600 while adjustments relating to prior period activity from non-operated properties increased the overall operating expenses by \$276,400. The total operating expense for the second quarter including these adjustments was \$4,599,650 resulting in a division operating expense of \$14.89 per BOE. Without these adjustments, the division operating expense for the second quarter production period was \$12.68 per BOE. The average year to date division operating expense excluding these adjustments was \$13.60 per BOE. The Trust expects the average division operating expense to remain in the range of \$12.50 to \$13.00 per BOE for the remainder of the year.

The total second quarter net capital expenditure by the Trust was \$2.4 million bringing the total year to date net capital expenditure to \$6.3 million. Activity in the second quarter continued to focus on optimization and re-completions and included the drilling of 4 gross (3 net) operated wells in South and East Central Alberta. All 4 wells were cased as gas targets and are currently awaiting completion and evaluation for tie-in.

Activity also continued on the non-operated development program in the Deer Mountain Oil Unit in which the Trust holds a 4% working interest. To date in 2006, 4 wells have been drilled and cased in the Beaverhill Lake Pool. An additional 8 wells and facilities are planned by year end at an estimated net capital expenditure of \$1.1 million. Coal bed methane development in the non-operated areas of Central Alberta progressed in the first half of 2006 based on the successful results of 2005. The Trust has agreed to participate in 23 wells planned for 2006 at an average working interest of 4%.

The current focus for the Trust in the second half of 2006 will include the advancement of the gas development programs in South and East Central Alberta combined with oil development opportunities in Saskatchewan and Central Alberta. The Trust remains flexible on the timing of the capital programs based on the commodity pricing in the third and fourth quarters of 2006. Total capital spending is estimated at \$10 to \$11 million for the 2006 budget year.

REVIEW OF FINANCIAL RESULTS

As part of the ongoing rationalization of the asset base, the Trust has completed the divestiture of the Rigel assets in Northeast British Columbia effective May 2006. The sale of this operated property is consistent with the mandate of the Trust to focus resources on the core areas of Central and South Alberta and Saskatchewan. Total consideration for the property was \$1.56 million for approximately 25 BOE per day of net production, yielding an approximate \$62,400 per flowing BOE disposition price. In the second half of 2006, the Trust will continue to evaluate accretive acquisition opportunities to strengthen the core areas with the focus being opportunities in the 250 to 1,000 BOE per day range.

2. FINANCIAL SERVICES

At June 30, 2006 the Trust's financial services business unit consisted of:

i. ENERVEST LIMITED PARTNERSHIP ("EnerVest") – MANAGEMENT CONTRACT

Despite declines in the Canadian equity markets and a rising interest rate environment, EnerVest's assets under management remained relatively static during the quarter with the launch of two new projects. As of June 30, 2006 the value of the total "assets under management" was just under \$2 billion. During the quarter, \$50 million was raised in April with the closing of the EnerVest Energy and Oil Sands Total Return Trust and \$29 million was raised in June for the EnerVest FTS Limited Partnership 2006 flow through fund. Funds from operations for the quarter were 14% higher than the previous quarter as a result of EnerVest growing through the 2006 Rights Offering of the EnerVest Diversified Trust for a full quarter. Avenir Trust receives a fee based on the percentage of the total assets under management for managing the EnerVest group of funds. Looking ahead, EnerVest is working to bring new products to the market over the next few months to further diversify their offerings and add to their total assets under management.

In June, EnerVest joined the Investment Funds Institute of Canada. Most of Canada's investment managers belong to this organization to promote the investment funds industry and establish "Best Practices" procedures.

ii. ELBOW RIVER RESOURCES MARKETING LP ("Elbow")

Elbow posted very solid second quarter results in a quarter that is traditionally Elbow's weakest by a significant margin due to little shoulder season weather demand. Second quarter 2006 funds from operations were slightly ahead of forecast after accounting for foreign exchange movements and product sales in transit and well ahead of second quarter 2005. Additionally, this quarter did not have transitional issues, as was the case in Q2 2005, which allowed Elbow to focus solely on their business. Propane sales were on par with typical years whereby Q2 is historically the slowest quarter with little weather demand and minimal sales for storage. Butane sales were strong due to favourable spread opportunities related to volatile crude and unleaded gasoline prices as well as shifting market conditions related to Alberta Oil Sands activity. Ethanol sales also had a strong quarter as a result of significant demand increases as the U.S. adds new ethanol markets related to their Renewable Fuels Energy Bill. Bio-diesel sales started to gain momentum with several spot deals and some term deals being consummated as the market started to see significant growth again aided by the Renewable Fuels Energy Bill.

REVIEW OF FINANCIAL RESULTS

The balance of the year looks positive based on record presales and opportunities identified by the Elbow team. Propane is well positioned for the winter with some favourable storage positions and term deals in place. Butane presales are at record levels as Elbow has been able to capture spread opportunities through the balance of the year. Ethanol also has strong presales as buyers were scrambling earlier in the year to secure supply for the upcoming winter due to demand growing faster than new plant construction. Bio-diesel should continue to show strong growth as new plants continue to come on-stream and the company will soon be adding a second marketer to help develop this segment.

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 had since expanded this business and at the peak held \$19.9 million in contracts. Although the Trust continues to be comfortable with this investment and its returns based on results to date, since July of 2005 the Trust has not entered into any new contracts and has since redeemed \$4.13 million. Currently the Trust holds \$15.77 million in outstanding contracts.

As the Trust identifies other opportunities, it may choose to reallocate investments within its portfolio into other areas providing greater long term impact.

3. REAL ESTATE

On April 1, 2006 the real estate division changed management companies and is now under the direction of MDC Property Services Ltd. ("MDC"), a Calgary based firm that currently has approximately \$150 million under management. The Trust's management is excited to have MDC as advisors and is looking forward to working with MDC in locating opportunities to grow this business unit.

The business unit currently has over 430,000 square feet of light industrial and smaller commercial properties located in Toronto and London, Ontario and Edmonton and Calgary, Alberta. During the first quarter the remaining vacancy at the Harris location was filled and the Trust's real estate properties are now 100% leased.

In the near term, the Trust would like to increase its investments in real estate in order to make this division a more meaningful contributor to the Trust's total assets and funds from operations. Although cap rates remain at historically low levels, the Trust believes it can identify niche opportunities which will provide returns that meet our 9% to 10% hurdle targets. The new relationship with MDC should allow the Trust to more aggressively source opportunities that fit our investment criteria.

4. DISCONTINUED OPERATIONS - ENERGY SERVICES

During the second quarter the main focus of this division was its spin-off into the publicly-traded oilfield services trust, Essential Energy Services Trust ("Essential") that occurred on May 31, 2006. For 2006, the energy services division is included in the Trust's operations for the period from January 1 through May 31 only and is accounted for as a discontinued operation in the financial statements. The second quarter is traditionally the energy services division's weakest quarter with the impact of wet weather and spring break-up and this year was no exception. The division was particularly impacted by early spring rains that reduced contributions from the Southern Alberta business units in April and May.

Second quarter 2006 includes only partial results from energy services as the division was spun-out on May 31, 2006 and therefore includes two rather than three months of operations for the quarter. The results are outlined in the MD&A and financial statements to follow.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 30, 2006, 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 August 11, 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.

Comparative periods have been restated to conform to current period presentation – specifically relating to the discontinued operations of the Energy Services Division of the Trust.

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 SECOND QUARTER ENDED JUNE 30, 2006

- **Energy Service Division Spin-Off**

On May 11, 2006 the unitholders of the Trust approved the Plan of Arrangement (the "Arrangement") to spin-off the Energy Services division of the Trust into a new publicly traded oilfield services trust called Essential Energy Services Trust ("Essential").

With the effective date of the transaction being May 31, 2006, the Trust received two months of second quarter revenue and funds from operations from the Energy Service division up until that date. The units of Essential were distributed to existing unitholders of the Trust on record May 31, 2006 whereby they received one (1) trust unit of Essential for each two (2) trust units held of the Trust.

- **Distribution Increase in Conjunction with Spin-Off**

For the June 2006 distribution, for those on record June 30, 2006, Essential distributed \$0.083 per unit for the month, equating to \$0.996 per unit per year. The Trust's distribution policy was adjusted such that the Trust distributed an amount equal to \$0.083 per trust unit for the month of June, equating to \$0.996 per unit per year. Accordingly, on a combined basis, unitholders who held one (1) trust unit immediately prior to the completion of the Arrangement received, after the Arrangement, a combined distribution of \$0.1245 per month which on an annualized basis would be \$1.494 per unit, compared to the \$0.12 per month or \$1.44 per unit on an annualized basis that the Trust was previously distributing.

Selected Quarterly Information

<i>(thousand of dollars except per unit amounts)</i>	June 30 2006	Mar 31 2006	Dec 31 2005	Sept 30 2005	June 30 2005	Mar 31 2004	Dec 31 2004	Sept 30 2004
Total Net Revenue	169,127	166,701	184,245	86,942	59,326	4,776	11,038	3,833
Net Income (loss)	10,310	10,106	14,207	6,592	2,744	(604)	2,955	781
Net Income (loss) per Unit basic	0.25	0.25	0.36	0.27	0.11	(0.05)	0.31	0.11
Funds from Operations	15,747	20,596	23,153	16,360	9,351	7,279	4,991	2,806
Total Assets	476,205	567,628	583,627	401,227	317,217	274,220	155,315	109,945
Distributions paid	13,449	14,737	13,941	8,389	7,954	4,190	3,053	2,016
Distributions per Unit basic	0.33	0.37	0.35	0.34	0.33	0.32	0.32	0.28

The Trust was very busy over the first half of 2006 organically growing Elbow River and EnerVest, acquiring Energy Service companies and completing the spin off of Essential Energy Services Trust and maintaining oil and gas production. The second quarter of the year is typically the Trust's weakest quarter due to the seasonal nature of the energy services division and its Elbow River natural gas marketing division. Energy services is impacted by weather and spring breakup and Elbow's marketing revenues decline in the spring shoulder months after the busy winter sales season.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Income (loss)

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

	For the three months ended		For the six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	\$	\$	\$	\$
Net Income (loss)				
Oil and Gas	4,638,982	1,796,162	5,449,481	(679,758)
Financial Services	6,650,062	989,624	13,942,677	1,705,637
Real Estate	139,060	(33,083)	143,184	427,973
Corporate	(1,645,495)	(420,654)	(2,637,386)	(590,130)
Discontinued operations	527,106	412,296	3,517,261	1,276,741
Consolidated Net Income	10,309,715	2,744,345	20,415,217	2,140,463

The Trust had net earnings for the quarter ended June 30, 2006 of \$10,309,715 as profits were recorded across each of its operating divisions. Net Income was up 276% over the \$2,744,345 net income for the quarter ended June 30, 2005. Net income for the six months ended June 30, 2006 was \$20,415,217 or \$0.50 per unit versus \$2,140,463 or \$0.11 per unit for the first six months of 2005. Net income for the six months was positively impacted by the recognition of \$1,998,138 in unrealized gains on financial instruments on financial hedges primarily put in place to support the PrimeWest acquisition in December 2004. This compares to an unrealized loss of \$5,194,055 in the comparable period in 2005. In its oil and gas division, consistent with most oil and gas firms of the Trust's size, the Trust does not follow hedge accounting for those contracts due to the onerous monitoring and regulatory requirements. Also, the corporate division recognized a stock based compensation expense of \$2,103,135 in conjunction with the spin-off of its energy services division in the second quarter.

1. Oil & Gas Division

The oil and gas net income was \$4,638,982 for the quarter ended June 30, 2006 versus net income of \$1,796,162 for the quarter ended June 30, 2005. For the six months ended June 30, 2006 net income was \$5,449,481 compared to a net loss of \$679,758 for the first six months of 2005. The 158% increase quarter over quarter and the 902% increase for the six month period 2006 over 2005 was the result of growth in the division from 2005 acquisitions and the recognition of an unrealized gain on financial instruments of \$1,998,138 in the six months ended June 2006 versus an unrealized loss of \$5,194,055 in the same six month period in 2005.

2. Financial Services

Net income in the financial services business unit increased to \$6,650,062 in the second quarter of 2006 from \$989,624 in the second quarter of 2005. For the six months ended June 30, 2006 the net income for this business unit was \$13,942,677 compared to \$1,705,637 for the first six months of 2005. The 717% increase is due to the addition of the EnerVest Management contract that was acquired in October 2005, the larger value of financial services contracts outstanding during 2006 versus 2005, stronger quarterly results at Elbow River and the inclusion of six months of Elbow River operations in 2006 versus only three months in 2005. Net income from the EnerVest Management contract was \$3,907,916 for the quarter ended June 30, 2006, net income from financial service contracts totaled \$1,165,725, while Elbow River recorded net income of \$1,576,421.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. Real Estate

The Real Estate business unit had net income for the second quarter ended June 30, 2006 of \$139,060 compared to net loss of \$33,083 in the second quarter of 2005. For the six months ended June 30, 2006 net income was \$143,184 compare to \$427,973 in the first six months of 2005. The six month 2006 net income is in line with forecast while 2005 figures were positively impacted by a one-time gain on the sale of properties.

4. Energy Services Division - Discontinued Operations

Net Income for the second quarter 2006 totaled \$527,106 which is a 28% increase over the second quarter of 2005 which was \$412,296. Second quarter 2006 includes only partial results from energy services as the division was spun-out on May 31, 2006 and therefore includes two rather than three months of revenue for the quarter. The six month 2006 net income numbers were substantially above the results from the comparative six months in 2005 due to significant growth through acquisition.

DISCONTINUED OPERATIONS – ENERGY SERVICES DIVISION

On May 31, 2006, the Trust completed the formation of a new publicly traded oilfield services trust called Essential Energy Services Trust ("Essential"). Pursuant to a plan of arrangement, the Trust conveyed its entire Energy Services Division to Essential in return for Essential Trust Units. All of the Essential Trust Units received were distributed to existing unitholders of the Trust pro rata to their respective interest in the Trust, for every two Trust Units one Essential Trust Unit was distributed. The total net asset value that was conveyed to Essential was \$77,847,372. Total costs associated with the plan of arrangement were \$2,383,243 consisting of cash that was conveyed of \$946,877, cash paid of \$236,366 on settlement of vested Energy Service division employee options and an accrual of \$1,200,000 for additional costs. The total carrying value of \$79,047,372, made up of the net asset value and the accrual of \$1,200,000 in costs has been recorded as a non-cash distribution to unitholders. Comparative periods have been restated to conform to current period presentation – specifically relating to the discontinued operations of the Energy Services Division of the Trust.

The following table represents the net asset value of the assets and liabilities conveyed to Essential on May 31, 2006:

Item	\$
Working Capital	12,076,382
Property and equipment	58,408,877
Goodwill	38,730,288
Bank indebtedness	(27,400,000)
Capital lease obligations	(338,296)
Long-term debt	(1,812,668)
Future income tax	(299,000)
Non-controlling interest	(1,518,211)
Net Asset Value Conveyed to Essential	77,847,372

MANAGEMENT'S DISCUSSION AND ANALYSIS

Details of the results for discontinued operations are as follows:

	For the three months ended		For the six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	\$	\$	\$	\$
REVENUE				
Energy services revenue	11,093,855	6,617,465	30,542,596	10,821,516
Gain (loss) on sale of property and equipment	(6,250)	6,075	(6,499)	6,075
	11,087,605	6,623,540	30,536,097	10,827,591
EXPENSES				
Energy services operating	7,100,229	3,680,501	16,870,243	5,693,445
General and administrative	1,491,344	1,258,837	3,874,573	1,938,138
Interest and bank fees	381,685	55,356	645,128	62,080
Interest on long-term debt and capital leases	9,757	(18,168)	58,478	—
Depreciation and amortization	1,526,136	1,229,004	5,110,910	1,754,086
	10,509,151	6,205,530	26,559,332	9,447,749
Income from discontinued operations				
before non-controlling interest	578,454	418,010	3,976,765	1,379,842
Non-controlling interest	(51,348)	(5,714)	(459,504)	(103,101)
Net income from discontinued operations	527,106	412,296	3,517,261	1,276,741

FUNDS FROM OPERATIONS

The funds from operations for the second quarter 2006 were \$15,747,172 or \$0.38 per unit versus \$9,351,360 or \$0.38 per unit for the second quarter 2005. For the six months ended June 30, 2006, funds from operations were \$36,342,738 compared to \$16,630,304 for the same period in 2005, a 119% increase. The increase in funds from operations was primarily the result of the growth in the Trust's business units, including an August 2005 oil and gas acquisition, a much larger energy services division due to acquisitions throughout the second half of 2005 and the first quarter of 2006, and the addition of the EnerVest Management contract in October 2005.

DISTRIBUTIONS

The Trust distributed \$13,448,537 or \$0.33 per unit for the quarter ended June 30, 2006 versus \$7,953,581 or \$0.33 per unit distributed for the quarter ended June 30, 2005. This does not include the special distribution of the Essential Trust Units. Since the second quarter of 2005, the Trust has increased the monthly distribution approximately 17.5% over three separate increases including the increase associated with the Essential spin-out. For the quarter ended June 30, 2006 the payout ratio was 85% of funds from operations similar to the same quarter in 2005. For the six months ended June 30, 2006 the payout ratio was 78% versus 73% for the first six months of 2005 and a target payout ratio of 75% to 80%. With stronger third and fourth quarters ahead the Trust is on track to be at or less than target payout by yearend.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reconciliation of Unaudited Non-GAAP Financial Measures to GAAP Measures Funds Available for Distribution and Retention for the Six Months Ended June 30

	2006	2005
Income from continuing operations	\$ 16,897,956	\$ 863,722
Depletion, depreciation and amortization	13,427,246	8,753,365
Non-cash general and administrative	2,103,135	408,423
Loss (gain) on sale of property and equipment	–	(222,360)
Asset retirement obligation accretion	453,462	370,046
Unrealized foreign exchange	(1,778,184)	–
Unrealized (gain) loss on financial instruments	(1,998,138)	5,194,055
Future income tax expense (recovery)	(1,856,913)	(1,864,800)
Funds from continuing operations	\$ 27,248,564	\$ 13,502,451
Funds from discontinued operations	\$ 9,094,174	\$ 3,127,853
Funds from operations	\$ 36,342,738	\$ 16,630,304
Funds retained for growth and maintenance capital	(8,157,544)	(4,486,642)
Distributions declared	\$ 28,185,194	\$ 12,143,662
Payout ratio	78%	73%

i. Monthly Cash Distributions

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, 2006	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
April 1, 2006 to April 30, 2006	15/05/2006	0.1200
May 1, 2006 to May 31, 2006	15/06/2006	0.1200
*June 1, 2006 to June 30, 2006	17/07/2006	0.0830

* June's distribution does not include the Energy Services division as the division was spun-out on May 31, 2006 as Essential Energy Services Trust. Essential Energy Services Trust's distribution for the month of June was \$0.083 per unit. The combined distribution to Avenir unitholders of May 31, 2006 was \$0.1245 per unit.

ii. Special Distribution of Essential Energy Services Trust Units

Although achieved through a plan of arrangement, the spin-out of the Energy Services Division is similar to a special distribution in the form of units of Essential. The amount of the distribution received in respect of each Avenir unit held by an Avenir unitholder at May 31, 2006 was equal to the initial fair market value of the Essential units received by such unitholder. One indicative method that could be used to calculate the fair value is the volume weighted average trading price of the Essential units over the initial four hours of trading which equated to \$9.58 (although not binding on the Canada Revenue Agency or the Internal Revenue Service).

MANAGEMENT'S DISCUSSION AND ANALYSIS

For Canadian unitholders: using \$9.58 as the initial cost base of each Essential unit, each Avenir unitholder, on the basis of receiving one Essential unit for every two Avenir units held, effectively received a distribution equal to \$4.79 (1/2 of \$9.58). Of this an estimated \$1.96 will be treated as return of capital and should reduce the cost base of their Avenir units and approximately \$2.83 will be treated as a capital gain and will be subject to 2006 capital gains tax treatment. The final split values will not be available until the yearend 2006 accounting is completed.

For United States ("US"): using C\$9.58 as the initial cost base of each Essential unit, each Avenir unitholder will have received a special distribution equal to C\$4.79 (1/2 of \$9.58). It is estimated that an estimated C\$1.96 will be treated as a return of capital and would reduce the cost base of the Avenir units and approximately C\$2.83 would be treated as dividend income and subject to only 15% Canadian withholding tax. As no cash is involved in the spin-off, the withholding tax will be taken in the form of units withheld, an approximate 8.87% or C\$0.42 value reduction (15% of C\$2.83 non-return of capital). Given that Avenir is more likely than not a qualified corporation for US tax reporting there should be no additional US tax owing on the distribution. Again, final values will not be determined until yearend 2006 accounting is completed.

OPERATING INCOME

1. Oil & Gas

i. Revenue and Production

For the quarter ended June 30, 2006, oil and gas gross revenue was \$15,016,412 compared to \$12,499,460 for the same period in 2005, up 20%, attributable in most part to the acquisitions made in August 2005 and December 2005 and the increase in oil and natural gas liquid pricing.

Revenue from petroleum and natural gas sales (net of royalties and unrealized losses on financial instruments) for the quarter ended June 30, 2006 was \$13,781,871 up 27% compared to \$10,890,825 for the quarter ended June 30, 2005. The average price received for crude oil and natural gas liquids during the quarter ended June 30, 2006 was \$60.94 per BOE an increase versus \$42.28 per BOE which was received for the quarter ended June 30, 2005 and \$6.15 per mcf for natural gas, down 13% from the 2005 first quarter average of \$7.06 per mcf.

Although the Trust hedges a portion of its production to add stability to its distributions, to guard against fluctuations in commodity prices and to support acquisition economics, it has been determined that its oil and gas swap transaction does not qualify under new hedge accounting guidelines. Accordingly, the Trust recorded realized hedging loss of \$874,655 for the quarter ended June 30, 2006. In addition, hedge accounting treatment requires the Trust to recognize an unrealized gain of \$1,998,138 for the change in the mark-to-market position on existing contracts for the six months ended June 30, 2006.

Average daily production volumes for the quarter ended June 30, 2006 were 3,394 BOE per day up 5% over 2005 production of 3,246 BOE per day. Second quarter 2005 production consisted of 1,653 bbls per day of crude oil and natural gas liquids and 10,447 mcf per day of natural gas (compared to 1,609 bbls per day and 9,819 mcf per day for the second quarter 2005, respectively). The 3% increase in oil and liquids production came mostly from the acquisition of the oil property in Southeast Alberta in December 2005. The 6% increase in natural gas production was the result of the Makah acquisition in August 2005. Production for the six months ended June 30, 2006 averaged 3,353 per day versus 3,040 BOE per day in the same period ended June 30, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ii. Royalties

The Trust's royalty costs net of ARTC for the quarter ended June 30, 2006 were \$1,694,088 or 11% of revenue, down 4% over the second quarter 2005 of \$1,771,474 or 13.6% of revenue. Royalties were positively impacted by additional ARTC qualifying royalties from the Makah acquisition, prior year gas cost allowance adjustments and lower natural gas prices. On a BOE basis, royalty costs averaged \$5.49 per BOE in the period, which is down 9% over the second quarter 2005 cost of \$6.00 per BOE.

iii. Operating Expenses

The Trust's operating costs; net of processing income, for the quarter ended June 30, 2006 were \$4,599,650, up 25% over the second quarter 2005 of \$3,689,805, a result of increased production from acquisition activity and increased costs due to workover activity and turnarounds in the first half of 2006. On a BOE basis, operating costs for the quarter averaged \$14.89 per BOE, which is up 19% over the second quarter 2005 cost of \$12.51 per BOE. Second quarter 2006 operating costs were negatively impacted by the inclusion of adjustments in the current period relating to prior period activity including approximately \$275,000 or (\$0.90 per BOE for the quarter) for prior year equalizations on non-operated properties and approximately \$407,000 (\$1.32 per boe for the quarter) for non-operated workover and turnaround activity completed in Q1. Without these adjustments, operating costs per BOE would have been \$12.68 for the second quarter of 2006. For the six month period ended June 30, 2006 operating costs totaled \$8,512,976 or \$14.03 per BOE versus \$6,402,344 and \$11.64 per BOE in the same period in 2005. Without these adjustments, the unit operating costs for the first half of 2006 would have been \$13.60 per BOE. The Trust expects overall operating costs to be between \$12.50 and \$13.00 per BOE for the remainder of 2006.

iv. Netbacks

	2006			2005		
	Q2 \$/BOE	Q1 \$/BOE	Q4 \$/BOE	Q3 \$/BOE	Q2 \$/BOE	Q1 \$/BOE
Gross revenue after hedging	47.93	43.98	52.79	54.83	41.65	41.77
Royalties	5.49	8.01	9.36	7.99	6.00	7.82
Operating costs	14.89	13.37	12.51	12.07	12.51	10.63
Operating netback	27.55	22.60	30.93	34.77	23.15	23.32

2. FINANCIAL SERVICES

i. Revenue

The Trust recognized revenue in the financial services business unit of \$154,286,797 for the quarter ended June 30, 2006 and \$308,199,579 for the six months ended June 30, 2006, up 224% and 536% respectively over the comparative second quarter and first six months of 2005 of \$47,681,876 and \$48,434,778, respectively. The increase is due to the acquisition of the Ener Vest Management contract acquired in October 2005, the larger value of financial services contracts outstanding during 2006 versus 2005, stronger quarterly results at Elbow River and the inclusion of six months of Elbow River operations in 2006 versus only three months in 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ii. Operating Costs

The Trust's operating costs for Financial Services for the quarter ended June 30, 2006 was \$145,007,238 compared to \$45,278,305 for the quarter ended June 30, 2005. The increase in operating costs is almost entirely due to the matching of operating and product costs, to the larger revenue at Elbow River.

3. REAL ESTATE

i. Revenue

The revenue from the Real Estate business unit for the quarter ended June 30, 2006 was \$989,995 compared to \$695,355 for the second quarter of 2005. For the six months period ended June 30, 2006 revenue totaled \$1,728,897 compared to \$1,385,658 for the first six months of 2005. The increase is primarily due to a higher occupancy rate and the acquisition of our 50% partner in the Trust's Vaughn, Ontario building. Currently the real estate portfolio is 100% leased.

ii. Operating Costs

The Trust's operating costs for Real Estate for the quarter ended June 30, 2006 were \$380,447 compared to \$185,131 for the quarter ended June 30, 2005. For the six month period ended June 30, 2005 operating costs totaled \$562,466 compared to \$407,180 for the first six months of 2005. The increase is a result of higher electricity costs compared to 2005 and additional repairs and maintenance on the properties.

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.

4. DISCONTINUED OPERATIONS – ENERGY SERVICES DIVISION

i Revenue

During the second quarter of 2006 the Trust spun-out its Energy Services division. Revenue for the Energy Services division from April 1, 2006 to May 31, 2006 totaled \$11,093,855 and for the six months ended June 30, 2006 \$30,542,596. For the previous quarter ended June 30, 2005, revenues were \$6,617,465 for the three months and \$10,821,516 for the six months. The large increase over the comparative 2005 figures reflects the inclusion of revenue from several new acquisitions in the latter half of 2005 and the first quarter of 2006.

ii. Operating Costs

The Trust's operating costs for Energy Services for the quarter ended June 30, 2006 were \$7,100,229 compared to \$3,680,501 for the quarter ended June 30, 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

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative ("G&A") expenses for the quarter ended June 30, 2006 were \$4,472,533 compared to \$1,758,533 for the quarter ended June 30, 2005. For the six months ended June 30, 2006 G&A expenses totaled \$8,361,789 compared to \$2,530,796 for the first six months of 2005. Non-cash stock based compensation expense of \$2,103,135 is included in the six months ended June 30, 2006 reflecting the cost incurred with the options held by Energy Service division employees at the time of the Energy Services division spin-off. G&A expenses on the split between the respective business units for the second quarter 2006 were: \$1,281,424 for oil and gas, \$1,399,552 for financial services, \$100,882 for real estate and \$1,690,675 for corporate costs. The 230% increase in G&A expenses for the six months ended June 30, 2006 is the result of recognition of over \$2.0 million in non-cash stock based compensation expense on the Energy Service spin-off, higher costs associated with the 50% increase in the Trust's asset base from June 2005, with large staff components being added in EnerVest, Oil and Gas and increased costs associated with multiple business units, including higher audit, reserve, legal and computer expenses. Looking forward to the balance of 2006, G&A is expected to average approximately \$3.0 million per quarter excluding any non-cash stock based compensation expense or performance bonuses.

Interest and Bank Fees

Interest expense and bank fees were \$860,956 for the three months and \$1,525,539 for the six months ended June 30, 2006. For the three and six months ended June 30, 2005, interest expense and bank fees were \$509,024 and \$1,124,691. The 2006 figures reflect a 69% and 36% increase over the comparative 2005 figures. Interest expense for the second quarter of 2006 includes bank fees of \$27,887 compared to fees of \$10,753 for the second quarter of 2005. The oil and gas division accounted for \$790,360 of the interest expense for the six months ended June 30, 2006, the financial services division accounted for \$180,284 of interest expense the majority of which relates to the outstanding balance on the banking facility for Elbow River, the corporate division accounted for \$186,545. The remaining interest expense of \$368,350 was in the real estate division where the Trust had \$14,427,444 in mortgages outstanding at the quarter ended June 30, 2006 versus June 30, 2005 mortgages of \$13,915,410.

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was \$6,696,570 in the quarter ended June 30, 2006, compared to \$5,197,293 for the second quarter of 2005 and \$13,427,246 for the six months ended June 30, 2006 versus \$8,753,365 for the six months ended June 30, 2005. The Trust's depletion and depreciation rate in its oil and gas division was \$16.64 per BOE during the second quarter 2006 up from the \$14.12 per BOE rate in the second quarter of 2005. The depletion rate continues to reflect the historically high cost per BOE of acquisitions in the current market. For the period ended June 30, 2006, \$10,071,219 of the depletion and depreciation cost was on oil and gas assets, \$2,778,446 for amortization of intangibles in the financial services division and \$577,581 of depreciation and amortization was from real estate.

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, 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 \$11,727,412 as at June 30, 2006 based on a total future liability of \$25,254,202. These figures compare to \$9,222,269 at June 30, 2005 with a total future liability of \$20,369,585.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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.

Income Taxes

The Trust did not provide for current income taxes, as it expects that all taxable income will be passed to unitholders in the form of distributions. Future income tax recovery totaled \$2,656,179 for the three months ended June 30, 2006 and \$1,856,913 for the six months ended June 30, 2006, compared to \$nil and \$1,864,800 for the three and six months ended June 30, 2005. The future income tax recovery for the three months ended June 30, 2006 resulted from tax rate reductions enacted in the second quarter of 2006 and timing differences on deductions between tax and accounting.

Also, on June 22, 2006, the Canadian federal budget proposal eliminated the large corporations tax effective January 1, 2006 and hence the Trust has reversed the estimates previously recorded as capital taxes on the income statements.

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.

Elbow had commodity hedge contracts outstanding at June 30, 2006 that resulted in an unrealized loss of \$174,548 and forward exchange contracts resulting in an unrealized gain of \$99,981. The resulting net unrealized loss of \$74,567 is offset by the increase in the market value of the inventory over the carrying cost as at June 30, 2006.

The following table presents those transactions that do not qualify for hedge accounting together with a reconciliation of the risk management liability and the deferred financial instrument loss as at June 30, 2006. These amounts are reflected in the financial statements as unrealized loss on financial instruments:

	\$
Risk management asset (liability), January 1, 2006	(5,256,170)
Change in mark-to-market unrealized gain (loss)	1,998,138
Risk management asset (liability), June 30, 2006	(3,258,032)

The Trust has the following fixed price forward contracts outstanding:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- A fixed price WTI floor for the period from August 1, 2006 to December 31, 2007 on 200 barrels/day of crude oil with a floor of \$65.00 and the Trust participates in 77% of the upside above the floor price
- A fixed price WTI floor for the period from August 1, 2006 to July 31, 2007 on 200 barrels/day of crude oil with a floor of \$60.00 and the Trust participates in 88% of the upside above the floor price

Subsequent to June 30, 2005, the Trust entered into the following forward contract:

- A fixed price AECO natural gas swap for the period September 1, 2006 to October 31, 2006 on 2,000 GJ/day of gas at a price of \$6.17 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 derivative financial instruments, the Trust could be exposed to losses if the counter party fails to perform in accordance with the terms of the contract. This risk is managed by diversifying the portfolio among counter parties meeting certain financial criteria.

The Trust's financial services contracts are with RentCash. The stated return on the financial services contracts and the principal are subject to significant credit risk. The Trust has attempted to mitigate this risk by advancing amounts to various counterparties; however, some credit risk remains. Under the Trust's revenue recognition policy, fees earned on these contracts are adjusted to reflect anticipated credit losses. No credit loss provision currently exist, but a credit loss provision will be established when management deems the risk to be significant.

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

Liquidity and Debt

At June 30, 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 June 30, 2006, \$28,430,000 was drawn on the revolving demand 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 June 30, 2006, \$22,810,731 was drawn on the demand loan facility. Subsequent to June 30, 2006, the revolving loan facility was increased from \$30,000,000 to \$70,000,000. The interest rate was adjusted as follows, for advances of \$50,000,000 or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%, for advances greater than \$50,000,000 a 0.125% premium shall apply to applicable interest rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Trust also had \$2,708,026 in bank overdraft as at June 30, 2006.

The average effective interest rate on borrowings under all of the above lines for the period ended June 30, 2006 including service fees was 6.40% (June 30, 2005 – 5.75%).

As at June 30, 2006, the Trust had eighteen letters of credit outstanding in the aggregate amount of \$958,488. The Trust also has guarantees to third parties for an amount up to \$48,736,752 to provide Elbow River Marketing Partnership additional credit on natural gas liquids inventory purchases.

	Total	Payments due by period		
		Less than 1 year	1 – 3 years	4+ years
Mortgages	14,427,444	8,223,511	6,124,236	79,697
Lease Commitments	12,303,207	2,175,498	7,491,267	2,636,442
Total Contractual Obligations	26,730,651	10,399,009	13,615,503	2,716,139

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

Investment and Capital Expenditures

	Quarter Ended June 30, 2006 \$	Quarter Ended June 30, 2005 \$
Land	267,995	76,978
Drilling	1,101,516	659,726
Production equipment and facilities	897,487	661,733
Other	172,181	87,941
Development expenditures	2,439,179	1,486,378
Oil and gas acquisitions	–	160,849
Energy services acquisitions	2,119,876	26,358,143
Financial services acquisitions	–	51,852,069
Real estate acquisitions	183,660	–
Financial services development expenditure	24,061	71,830
Energy services property and equipment	2,144,433	4,209,638
Proceeds received on oil and gas property dispositions	(1,543,346)	(65,910)
Proceeds received on energy services dispositions	(19,667)	–
Other assets	19,932	35,077
Net capital expenditures	5,368,128	84,108,074

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas as at June 30, 2006 are as follows:

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

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

Settlement dates	Futures contracts:		March 31, 2005
	Volume (bbl)	Prices \$/(bbl)	Unrealized gain (loss)
September, 2006	1,405	87.64 – 89.46	3,646
	1,405		3,646
		Exchange rate	1.1112
		Total CDN dollars	4,051

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

The payments over the remaining terms are as follows:	\$
2006	2,175,498
2007	2,859,965
2008	2,597,007
2009	2,034,295
2010	1,664,181
2011	639,152
2012	270,605
2013	62,504
Total	12,303,207

Unitholder's 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
Units released from escrow	76,452	833,327
Units issued on exercise of stock options	218,605	1,934,628
Balance June 30, 2006	41,166,049	413,519,814

For the three months ended June 30, 2006, the Trust had a weighted average number of trust units outstanding of 41,047,398 (June 30, 2005 – 24,441,653) reflecting the exercise of options and the release of escrow units relating to the acquisition of Elbow River in 2005. During the quarter the Trust also issued 123,312 from treasury, escrow units for energy service employees who had unvested Trust options at the time of the spin-out May 31, 2006. These units will remain in escrow until the vesting date is reached on the respective Trust options based on the original grant date of the options, which will occur over the next one to two and a half years. During the quarter no options were granted. At June 30, 2006, the Trust had a total of 695,895 options which represents 17% of the options available for issuance. Subsequent to the quarter ended June 30, 2006, an additional 1,307,500 options were granted.

Related Party Transactions

During the three and six months ended June 30, 2006, the Trust paid \$34,555 and \$71,446, respectively (three and six months ended June 30, 2005 - \$30,579 and \$59,518, respectively) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable at June 30, 2006 is \$12,720 owing to Avenir relating to administration and advisory services.

During the three and six months ended June 30, 2006, the Trust incurred marketing fees of \$18,000 and \$36,000 (three and six months ended June 30, 2005 - \$18,000 and \$36,000, respectively) 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 June 30, 2006.

On April 1, 2006 the Trust changed management companies for its Real Estate business unit. MDC Property Services Ltd. ("MDC") located in Calgary, is the new management company. A principal of MDC 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

For the second half of 2006 the Trust plans to remain active on the acquisition front. We are now beginning to see attractive opportunities in the Real Estate and Oil and Gas industries that meet our acquisition criteria. We will look to focus on growing these divisions. Additionally, we will look to rebuild the Energy Services division in a manner that does not compete in a business area with Essential. We continue to be committed to providing 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

	June 30, 2006 \$	December 31, 2005 \$
ASSETS <i>[note 4]</i>		
Current		
Cash	–	6,767,724
Restricted cash <i>[note 5]</i>	203,000	366,057
Accounts receivable and prepaid expenses	65,772,334	95,663,009
Inventory	31,596,301	31,786,855
Marketable securities	12,500	12,500
Notes receivable	–	1,050,000
	97,584,135	135,646,145
Property and equipment <i>[note 5]</i>	162,582,134	204,615,394
Investment in financial services contracts <i>[note 13]</i>	19,370,000	20,440,209
Intangibles and other assets	144,127,094	146,572,446
Goodwill	52,541,322	76,352,738
	476,204,685	583,626,932
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 4]</i>	53,948,757	58,881,771
Accounts payable and accrued liabilities <i>[note 10]</i>	56,620,697	68,922,316
Distributions payable	3,466,359	4,883,041
Deferred revenue	248,393	200,439
Due to non-controlling interest owner	–	43,674
Risk management liability <i>[note 9]</i>	3,258,032	5,256,170
Notes payable	–	7,500,000
Current portion of capital lease obligations	–	155,127
Current portion of long-term debt	–	1,159,521
Current portion of mortgages <i>[note 5]</i>	8,223,511	7,684,571
	125,765,749	154,686,630
Capital lease obligations	–	325,521
Mortgages <i>[note 5]</i>	6,203,933	6,203,933
Long-term debt	–	1,124,424
Asset retirement obligation <i>[note 6]</i>	11,727,412	11,479,561
Future income taxes	17,967,163	20,123,076
Non-controlling interest	–	1,004,965
Unitholders' equity		
Unitholder capital <i>[note 7]</i>	413,519,814	401,918,365
Contributed surplus <i>[note 7]</i>	3,213,536	2,136,030
Accumulated earnings	48,038,743	27,623,526
Accumulated cash distributions <i>[note 3]</i>	(150,231,665)	(42,999,099)
	314,540,428	388,678,822
	476,204,685	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 (unaudited)

For the	Three months ended June 30, 2006 \$		Six months ended June 30, 2006 \$	
	June 30, 2005 \$ (restated note3)		June 30, 2005 \$ (restated note3)	
REVENUE				
Oil and gas revenue	15,016,412	12,499,460	28,353,593	23,259,287
Oil and gas transportation costs	(213,200)	(200,328)	(439,968)	(309,029)
Royalties, net of ARTC	(1,694,088)	(1,771,474)	(4,080,857)	(3,765,195)
Unrealized gain (loss) on financial instruments <i>[note 9]</i>	672,747	363,167	1,998,138	(5,194,055)
	13,781,871	10,890,825	25,830,906	13,991,008
Real estate revenue	989,995	695,355	1,728,897	1,385,658
Financial services revenue	154,286,797	47,681,876	308,199,579	48,434,778
Interest and other revenue	68,226	57,763	68,226	67,762
Gain on sale of property and equipment	-	-	-	222,360
	169,126,889	59,325,819	335,827,608	64,101,566
EXPENSES				
Oil and gas operating	4,599,650	3,689,805	8,512,976	6,402,344
Real estate operating	380,447	185,131	562,466	407,180
Financial services operating	145,007,238	45,278,305	288,646,314	45,290,305
General and administrative <i>[notes 8 and 10]</i>	4,472,533	1,758,533	8,361,789	2,530,796
Foreign exchange	(257,321)	(29,632)	(870,396)	(29,632)
Interest and bank fees	678,254	308,768	1,157,189	716,549
Interest on long-term interest and capital leases	182,702	200,256	368,350	408,142
Capital taxes	30,986	206,254	167,169	253,549
Depletion, depreciation and amortization	6,696,570	5,197,293	13,427,246	8,753,365
Asset retirement obligation accretion <i>[note 6]</i>	209,400	199,057	453,462	370,046
	162,000,459	56,993,770	320,786,565	65,102,644
Income (loss) from continuing operations before income tax	7,126,430	2,332,049	15,041,043	(1,001,078)
Future income tax recovery <i>[note 11]</i>	2,656,179	-	1,856,913	1,864,800
Net income from continuing operations	9,782,609	2,332,049	16,897,956	863,722
Net income from discontinued operations <i>[note 3]</i>	527,106	412,296	3,517,261	1,276,741
Net income for the period	10,309,715	2,744,345	20,415,217	2,140,463
Accumulated earnings, beginning of the period	37,729,028	4,080,306	27,623,526	4,684,188
Accumulated earnings, end of the period	48,038,743	6,824,651	48,038,743	6,824,651
Net income from continuing operations per unit <i>[note 7]</i>				
Basic	0.24	0.10	0.42	0.05
Diluted	0.24	0.07	0.42	0.03
Net income from discontinued operations per unit <i>[note 7]</i>				
Basic	0.01	0.01	0.08	0.06
Diluted	0.01	0.01	0.08	0.05
Net income per unit <i>[note 7]</i>				
Basic	0.25	0.11	0.50	0.11
Diluted	0.25	0.08	0.50	0.08

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the	Three months ended June 30, 2006 \$	June 30, 2005 \$ (restated note3)	Six months ended June 30, 2006 \$	June 30, 2005 \$ (restated note3)
OPERATING ACTIVITIES				
Net income from continuing operations	9,782,609	2,332,049	16,897,956	863,722
Add (deduct) non-cash items:				
(Gain) on sale of property and equipment	-	-	-	(222,360)
Non-cash general and administrative [note 8]	1,471,990	345,189	2,103,135	408,423
Depletion, depreciation and amortization	6,696,569	5,197,293	13,427,246	8,753,365
Asset retirement obligation accretion	209,400	199,057	453,462	370,046
Unrealized foreign exchange	(1,195,310)	-	(1,778,184)	-
Unrealized (gain) loss on financial instruments	(672,747)	(363,167)	(1,998,138)	5,194,055
Future income tax expense (recovery)	(2,656,179)	-	(1,856,913)	(1,864,800)
Funds from continuing operations	13,636,332	7,710,421	27,248,564	13,502,451
Funds from discontinued operations	2,110,840	1,640,939	9,094,174	3,127,853
Funds from operations	15,747,172	9,351,360	36,342,738	16,630,304
Asset retirement costs incurred during period	(69,423)	-	(136,856)	-
Change in non-cash working capital	(14,375,269)	(17,179,439)	11,318,970	(17,374,182)
Cash provided by (used in) operating activities	1,302,480	(7,828,079)	47,524,852	(743,878)
FINANCING ACTIVITIES				
Issue of trust units, net of issue costs	1,149,823	-	1,149,823	118,286,431
Distributions to unitholders	(14,952,752)	(7,018,107)	(29,601,876)	(10,729,651)
Increase in bank indebtedness	19,257,848	31,950,217	22,466,986	625,217
Decrease in notes payable	-	-	(7,500,000)	-
Decrease in note receivable	1,050,000	-	1,050,000	-
Increase in mortgages	-	1,900,000	-	3,915,000
Repayment of mortgages	(133,361)	(103,249)	(263,611)	(2,133,271)
Repayments of capital lease obligations	(21,659)	(16,391)	(51,174)	(32,459)
Increase in long-term debt	-	4,388	-	197,065
Repayment of long-term debt	(171,080)	(214,406)	(2,993,521)	(406,176)
Change in non-cash working capital	(74,764)	(305,668)	(41,076)	43,292
Cash provided by (used in) financing activities	6,104,055	26,196,784	(15,784,449)	109,765,448
INVESTING ACTIVITIES				
Purchase of Val Vista Energy Ltd.	-	(160,849)	-	(12,768,670)
Energy Services Division acquisitions	(4,244,642)	(30,567,781)	(30,994,706)	(32,655,346)
Purchase of Elbow River	-	(51,852,069)	-	(52,616,448)
Disposition of Energy Services Division [note 3]	(2,383,243)	-	(2,383,243)	-
Oil and gas property disposals	1,543,346	65,910	1,638,196	140,230
Oil and gas development expenditures	(2,439,179)	(1,486,378)	(6,347,618)	(2,511,872)
Financial services expenditures	(24,061)	(71,830)	(25,361)	(56,830)
Purchase of other assets	(19,932)	(35,077)	(41,150)	(150,518)
Purchase of financial services contracts	-	(6,763,380)	-	(9,513,380)
Redemption of financial services contracts	1,030,000	-	1,030,000	-
Purchase of real estate properties	(183,660)	-	(1,225,294)	(2,915,290)
Proceeds on sale of real estate properties	-	-	-	3,718,794
Change in restricted cash	-	(681)	163,057	(1,338)
Change in non-controlling interest	(418,763)	-	(524,318)	-
Changes in non-cash working capital	(266,401)	(2,771,207)	202,310	(18,119)
Cash used in investing activities	(7,406,535)	(93,643,342)	(38,508,127)	(109,348,787)
Decrease in cash during the period	-	(75,274,637)	(6,767,724)	(327,217)
Cash, beginning of period	-	75,274,637	6,767,724	327,217
Cash, end of period	-	-	-	-
Cash interest paid	999,584	529,126	1,845,355	1,156,934
Cash taxes paid	335,248	25,066	338,379	64,040

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2006 (unaudited)

1. NATURE OF ORGANIZATION

Avenir Diversified Income Trust (the "Trust") is an open-end unincorporated trust governed by the laws of the Province of Alberta. Funds from operations are currently provided to the Trust from oil and gas properties, financial services income real estate income and energy services income.

The operating results for the three and six month period ended June 30, 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 natural gas marketing divisions traditionally have stronger results in the first and fourth quarters of the fiscal year. 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.

Comparative periods have been restated to conform with current period presentation.

2. 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 to make the information presented not misleading. The following notes are incremental to and should be read in conjunction with the December 31, 2005 audited consolidated financial statements.

3. DISCONTINUED OPERATIONS

On May 31, 2006, the Trust completed the formation of a new publicly traded oilfield services trust called Essential Energy Services Trust ("Essential"). Pursuant to a plan of arrangement, the Trust conveyed its entire Energy Services Division to Essential in return for Essential Trust Units. All of the Essential Trust Units received were then distributed to existing unitholders of the Trust pro rata to their respective interest in the Trust - for every two Trust Units one Essential Trust Unit was distributed. The total net asset value that was conveyed to Essential was \$77,847,372. Total costs associated with the plan of arrangement were \$2,383,243 consisting of cash that was conveyed of \$946,877, cash paid of \$236,366 on settlement of vested options and an accrual of \$1,200,000 for additional costs. The total carrying value of \$79,047,372, made up of the net asset value and the accrual of \$1,200,000 in costs has been recorded as a non-cash distribution to unitholders.

The following table represents the net asset value of the assets and liabilities conveyed to Essential on May 31, 2006:

	\$
Working Capital	12,076,382
Property and equipment	58,408,877
Goodwill	38,730,288
Bank indebtedness	(27,400,000)
Capital lease obligations	(338,296)
Long-term debt	(1,812,668)
Future income tax	(299,000)
Non-controlling interest	(1,518,211)
	77,847,372

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

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	\$	\$	\$	\$
REVENUE				
Energy services revenue	11,093,855	6,617,465	30,542,596	10,821,516
Gain (loss) on sale of property and equipment	(6,250)	6,075	(6,499)	6,075
	11,087,605	6,623,540	30,536,097	10,827,591
EXPENSES				
Energy services operating	7,100,229	3,680,501	16,870,243	5,693,445
General and administrative	1,491,344	1,258,837	3,874,573	1,938,138
Interest and bank fees	381,685	55,356	645,128	62,080
Interest on long-term debt and capital leases	9,757	(18,168)	58,478	—
Depreciation and amortization	1,526,136	1,229,004	5,110,910	1,754,086
	10,509,151	6,205,530	26,559,332	9,447,749
Income from discontinued operations				
before non-controlling interest	578,454	418,010	3,976,765	1,379,842
Non-controlling interest	(51,348)	(5,714)	(459,504)	(103,101)
Net income from discontinued operations	527,106	412,296	3,517,261	1,276,741

4. BANK INDEBTEDNESS

At June 30, 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 June 30, 2006, \$28,430,000 was drawn on the revolving demand 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. These facilities are collateralized by a charge over the Elbow River's assets. As at June 30, 2006, \$22,810,731 was drawn on the demand loan facility. Subsequent to June 30, 2006, the revolving loan facility was increased from \$30,000,000 to \$70,000,000. The interest rate was adjusted as follows; for advances of \$50,000,000 or less the interest rate is bank prime rate plus 0.125% or US bank base rate plus 0.125%; for advances greater than \$50,000,000 a 0.125% premium shall apply to applicable interest rates.

The Trust also had \$2,708,026 in bank overdraft as at June 30, 2006.

The average effective interest rate on borrowings under all of the above lines for the period ended June 30, 2006 including service fees was 6.40% (June 30, 2005 – 5.75%).

As at June 30, 2006, the Trust also had eighteen letters of credit outstanding in the aggregate amount of \$958,488.

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 \$48,736,752. 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.

5. 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	14,427,444
Less current portion of mortgages	<u>(8,223,511)</u>
	<u>6,203,933</u>

Approximate principal repayments required to maturity are as follows:

	\$
2006	8,223,511
2007	691,984
2008	4,954,069
2009	478,183
2010	79,697
	<u>14,427,444</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 June 30, 2006 market rates for debt of similar terms. Based on these assumptions, the fair value of the mortgages as at June 30, 2006 has been estimated at \$14,515,978.

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 \$11,727,412 as at June 30, 2006 based on a total future liability of \$25,254,202. 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 activities during the period	154,577
Oil and gas divestitures during the period	(223,332)
Abandonment cost incurred during the period	(136,856)
Asset retirement obligation accretion for the period	453,462
Carrying amount, as at June 30, 2006	<u>11,727,412</u>

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
Units released from escrow (ii)	76,452	833,327
Units issued on exercise of stock options (iii)	218,605	1,934,628
Balance June 30, 2006	41,166,049	413,519,814

(i) Trust Units issued in relation to the acquisition of Kodiak on March 31, 2006. Kodiak became part of Essential pursuant to the plan of arrangement described in Note 3.

(ii) Release of Escrowed Trust Units in relation to the acquisition of Elbow River in 2005. The units were released from escrow on the first anniversary date of the close of the acquisition. The units were valued at the time of the acquisition at \$10.90.

(iii) Trust Units issued upon exercise of stock options in May 2006. Total cash received amounted to \$1,149,823 and the difference of \$784,804 represents the movement from contributed surplus to unitholders' equity relating to the stock based compensation expense previously recognized.

(iv) During the quarter the Trust also issued 123,312 units from treasury, which were escrowed for energy service employees who had unvested Trust options at the time of the spin-out May 31, 2006. These units will remain in escrow until the vesting date is reached on the respective Trust options based on the original grant date of the options, which will occur over the next one to two and a half years.

b) Net income per unit

For the three and six months ended June 30, 2006, the Trust had a weighted average number of trust units outstanding of 41,047,398 and 40,601,009, respectively (three and six months ended June 30, 2005 – 24,441,653 and 18,815,761, respectively). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in a weighted average number of trust units outstanding for the three and six months ended June 30, 2006, of 41,065,736 and 40,663,544, respectively (three and six months ended June 30, 2005 – 32,810,728 and 27,190,310, respectively).

c) Contributed surplus

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

	2006 \$
Contributed surplus, beginning of period	2,136,030
Compensation expense	879,020
Settlement of options relating to Energy Services Division	987,749
Options exercised	(784,804)
Settlement of options	(4,459)
Contributed surplus, end of period	3,213,536

8. STOCK-BASED COMPENSATION

The following table summarizes the status and changes during the period ended June 30, 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
Exercised	(218,605)	8.74
Energy Services Division Options settlement	(470,200)	10.86
Expired	(36,001)	(10.85)
Outstanding, June 30, 2006	695,895	\$10.48
Exercisable, June 30, 2006	109,835	\$10.64

As a result of the grind feature of the options, the price on the date of grant is ground down by the distributions paid to unitholders. Accordingly, the weighted average strike price at June 30, 2006 on all outstanding options was \$4.36 and the weighted average strike price at June 30, 2006 on all exercisable options is \$4.18.

The following table summarizes information about the unit options outstanding at June 30, 2006:

June 30, 2006 strike price	Grant date exercise price	Number of options outstanding	remaining life (years)	Weighted average Number of options exercisable
2.06	9.00	80,668	3.4	15,223
5.03	10.69	147,500	4.4	–
4.53	10.90	402,727	3.8	91,279
4.23	11.00	30,000	3.5	3,333
5.05	11.20	35,000	4.0	–
		695,895	3.8	109,835

The total value of stock-based compensation of \$3,604,185 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 \$1,471,990 and \$2,103,135 for the three and six months ended June 30, 2006, respectively (three and six months ended June 30 2005 - \$345,189 and 408,423).

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:			June 30, 2006 Unrealized gain (loss)
Settlement dates	Volume (bbl)	Prices \$/(bbl)	\$
July, 2006	524,090	38.85 - 74.25	31,537
August, 2006	332,890	38.85 - 75.02	241,622
September, 2006	256,440	38.55 - 97.09	5,077
October, 2006	215,740	41.37 - 97.09	(10,014)
November, 2006	244,565	41.37 - 97.09	(45,252)
December, 2006	325,815	41.37 - 97.09	(258,522)
January, 2007	247,915	41.37 - 97.09	(165,173)
February, 2007	176,415	41.37 - 97.09	13,160
March, 2007	142,665	41.37 - 93.52	123,695
April, 2007	15,500	68.95 - 91.06	(102,023)
May, 2007	1,000	89.13 - 90.72	1,592
June, 2007	1,000	88.25 - 90.72	2,474
July, 2007	1,000	88.54 - 90.72	2,180
August, 2007	1,000	89.32 - 90.72	1,403
September, 2007	1,000	90.05 - 90.72	668
October, 2007	1,000	90.85 - 91.35	500
	2,488,035		(157,076)
		Exchange rate	1.1112
		Total CDN dollars	(174,548)

Forward exchange contracts:

Term Due	Amount	Forward Rates	June 30, 2005
			Unrealized Gain (loss)
			\$
July, 2006	3,695,000	1.0979 – 1.1699	2,932
August, 2006	3,050,000	1.105 – 1.1688	58,807
September, 2006	1,190,000	1.1677 – 1.1667	62,713
October, 2006	2,820,000	1.1025 – 1.1667	22,771
November, 2006	1,195,000	1.1015 – 1.1199	(1,276)
December, 2006	1,350,000	1.1005 – 1.1189	(2,755)
January, 2007	4,190,000	1.0993 – 1.1352	26,206
February, 2007	2,920,000	1.0918 – 1.1179	(53,083)
March, 2007	1,240,000	1.0974 – 1.1172	(12,802)
April, 2007	360,000	1.1163 – 1.1163	468
May, 2007	1,000,000	1.111 – 1.111	(4,000)
Total US dollars	23,010,000		99,981
Exchange rate	1.1112		
Total CDN dollars	25,568,712		

The net unrealized loss of \$74,567 is offset by the increase in the market value of the inventory over the carrying cost as at June 30, 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)	1,998,138
Risk management asset (liability), June 30	(3,258,032)

The Trust has the following forward contracts outstanding as at June 30, 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 200 barrels/day of crude oil at a price of \$40.50 US/Bbl
- A fixed price WTI collar for the period November 1, 2004 to October 31, 2007 on 70 barrels/day of crude oil with a floor price of \$38.00 US/Bbl and a ceiling price of \$44.65 US/Bbl
- A fixed price WTI floor for the period December 1, 2004 to November 30, 2007 on 170 barrels/day of crude oil with a floor price of \$40.00 US/Bbl
- A fixed price WTI floor for the period from August 1, 2006 to December 31, 2007 on 200 barrels/day of crude oil with a floor of \$65.00 and the Trust participates in 77% of the upside above the floor price
- A fixed price WTI floor for the period from August 1, 2006 to July 31, 2007 on 200 barrels/day of crude oil with a floor of \$60.00 and the Trust participates in 88% of the upside above the floor price

Subsequent to June 30, 2006, the Trust entered into the following forward contract:

- A fixed price AECO natural gas swap for the period September 1, 2006 to October 31, 2006 on 2,000 GJ/day of gas at a price of \$6.17 Cdn/GJ

10. 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 and six months ended June 30, 2006, the Trust paid \$34,555 and \$71,446, respectively (three and six months ended June 30, 2005 - \$30,579 and \$59,518, respectively) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services. Included in accounts payable as at June 30, 2006 is \$12,720 owing to Avenir relating to administration and advisory services.
- During the three and six months ended June 30, 2006, the Trust incurred marketing fees of \$18,000 and \$36,000 (three and six months ended June 30, 2005 - \$18,000 and \$36,000, respectively) 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 June 30, 2006.

11. INCOME TAXES

The Trust recognized a future tax recovery for the three and six months ended June 30, 2006 of \$2,656,179 and \$1,856,913, respectively (for the three and six months ended June 30, 2005 - \$nil and \$1,864,800, respectively), mainly due to Canadian federal and provincial tax rate reductions. Also, on June 22, 2006, the Canadian federal budget proposal eliminated the large corporations tax effective January 1, 2006 and hence the Trust has reversed the estimates previously recorded as capital taxes on the income statements.

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:

	For the three months ended June 30, 2006				
	Oil and Gas	Financial	Real	Corporate	Total
	\$	\$	\$	\$	\$
Gross Revenue	13,781,871	154,286,797	989,995	68,226	169,126,889
Inter-segment eliminations	–	–	–	–	–
Net total revenue	13,781,871	154,286,797	989,995	68,226	169,126,889
Operating expenses	4,644,905	145,007,238	380,447	–	150,032,590
Inter-segment eliminations	(45,255)	–	–	–	(45,255)
Net operating expenses	4,599,650	145,007,238	380,447	–	149,987,335
Income before inter-segment eliminations	4,684,237	6,650,062	139,060	(1,645,495)	9,827,864
Inter-segment eliminations	(45,255)	–	–	–	(45,255)
Income from continuing operations	4,638,982	6,650,062	139,060	(1,645,495)	9,782,609
Discontinued operations	–	–	–	–	527,106
Net Income	4,638,982	6,650,062	139,060	(1,645,495)	10,309,715

	For the six months ended June 30, 2006				
	Oil and Gas	Financial	Real	Corporate	Total
	\$	\$	\$	\$	\$
Gross Revenue	25,830,906	308,345,058	1,728,897	213,705	336,118,566
Inter-segment eliminations	–	(145,479)	–	(145,479)	(290,958)
Net total revenue	25,830,906	308,199,579	1,728,897	68,226	335,827,608
Operating expenses	8,630,875	288,646,314	562,466	–	297,839,655
Inter-segment eliminations	(117,899)	–	–	–	(117,899)
Net operating expenses	8,512,976	288,646,314	562,466	–	297,721,756
Income before inter-segment eliminations	5,331,582	13,797,198	143,184	(2,491,907)	16,780,057
Inter-segment eliminations	117,899	145,479	–	(145,479)	117,899
Income from continuing operations	5,449,481	13,942,677	143,184	(2,637,386)	16,897,956
Discontinued operations	–	–	–	–	3,517,261
Net Income	5,449,481	13,942,677	143,184	(2,637,386)	20,415,217

There were no inter-segment eliminations for the three and six months ended June 30, 2005.

For the three months ended June 30, 2006

(restated - note 3)

	Oil and Gas \$	Financial Services \$	Real Estate \$	Corporate \$	Total \$
Net Revenue	10,890,825	47,681,876	695,355	57,763	59,325,819
Net operating expenses	3,689,805	45,278,305	185,131	—	49,153,241
Income from continuing operations	1,796,162	989,624	(33,083)	(420,654)	2,332,049
Discontinued operations	—	—	—	—	412,296
Net Income	1,796,162	989,624	(33,083)	(420,654)	2,744,345

For the six months ended June 30, 2006

(restated - note 3)

	Oil and Gas \$	Financial Services \$	Real Estate \$	Corporate \$	Total \$
Net Revenue	13,991,008	48,434,778	1,608,018	67,762	64,101,566
Net operating expenses	6,402,344	45,290,305	407,180	—	52,099,829
Income from continuing operations	(679,758)	1,705,637	427,973	(590,130)	863,722
Discontinued operations	—	—	—	—	1,276,741
Net Income	(679,758)	1,705,637	427,973	(590,130)	2,140,463

June 30, 2006

	Oil and Gas \$	Financial Services \$	Real Estate \$	Corporate \$	Total \$
Selected balance sheet items					
Property and equipment	141,208,443	695,555	20,478,136	200,000	162,582,134
Investment in financial services contracts	—	19,370,000	—	—	19,370,000
Intangibles and other assets	—	142,280,640	1,846,454	—	144,127,094
Goodwill	21,234,733	31,306,589	—	—	52,541,322
Total assets	179,438,129	273,497,283	23,043,951	225,322	476,204,685
Bank indebtedness	32,240,697	22,165,721	(368,395)	(89,266)	53,948,757
Mortgages	—	—	14,427,444	—	14,427,444

13.SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the Trust recalled \$3,100,000 in financial services contracts.

CORPORATE INFORMATION

DIRECTORS

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

Gary H. Dundas
VP Finance & CFO

David E. Butler (1,3)

Stuart Y. Chow (2,3)

Jeffery Kohn

Alan Moon (1,2)

William E. Patterson (1,2)

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

CORPORATE SECRETARY

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

AUDITORS

Ernst & Young, LLP

BANKERS

National Bank of Canada
HSBC Bank Canada
Canadian Western Bank

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.

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

Oil & Gas Management

Grant Leslie, P.Eng, C.O.O.
Bob Guy, VP Production
Debbie Carter, Controller

EnerVest Management

Kevin Wolfe, President
Ward Mallabone, C.O.O.
Sean Morgan, C.F.O.

Elbow River Marketing LP

Ed Malcolm, President
George Petrolpoulos, Mgr. LPG Mktg
Mitch Brown, General Manager

Real Estate Management

MDC Property Services Ltd., Calgary, Alberta

HEAD OFFICE

300, 808 - First Street SW
Calgary, Alberta T2P 1M9
Phone: (403) 237-9949
Fax: (403) 237-0903
Email: info@avenirtrust.com

www.avenirtrust.com

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.



AVENIR DIVERSIFIED INCOME TRUST
Suite 300, 808 - 1st Street SW, Calgary, AB T2P 1M9

www.avenirtrust.com