

TKE.UN



SECOND  
QUARTER  
REPORT

*For the six months ended June 30, 2005*

**TKE** ENERGY  
TRUST

## CORPORATE PROFILE

TKE Energy Trust (“TKE” or the “Trust”) commenced business on November 2, 2004 upon the re-organization of TUSK Energy Inc. by way of Plan of Arrangement. The re-organization has been accounted for using the continuity of interest method. Accordingly, all financial and operating information has been reported as if TKE Energy Trust had always carried on the business of TUSK Energy Inc.

TKE is a new trust committed to delivering consistent distributions to the holders of its Units. The distribution level is set at \$0.12 per Unit per month. The eighth monthly distribution of \$0.12 per Unit will be paid to Unit holders on August 15th, 2005.

The Trust takes a conservative approach to business by: (i) striving to maintain commodity balance in both production and reserves; and (ii) pursuing a balanced program of exploration, development and, if it strengthens the Trust, acquisition. Commodity price risk is managed through a comprehensive price risk management program.

TKE Energy Trust trades on the Toronto Stock Exchange (“TSX”) under the symbol “TKE.UN”.

## FIRST HALF HIGHLIGHTS

- reserve additions exceeded total production in the six months by 193%;
- RLI of 11.7 years based upon reserves as of June 30, 2005 and production in first half of 2005;
- four new pool discoveries during the period:
  - two Montney oil pools (average 40%) in the Peace River Arch area of northwest Alberta;
  - one Montney gas pool (50%) in the same general area;
  - one multi-zone Mannville gas pool (100%) in our Northeast Alberta focus area.
- successful gas development well at Gage East (15%);
- successful oil development well at Epping (50%);
- completed private placement of 2.9 million units in March for gross proceeds of \$31.75 million;
- strong balance sheet with debt approximately equal to cash flow as of June 30th;
- more than \$24 million of available credit as of June 30th;
- distributions of \$0.12 per month per unit started on January 17th;
- negotiated and closed purchase of pipeline interest in Gage area;
- commissioned central battery and pipelines for Gage oil and gas pools in late June;
- approximately 700 boepd of production behind pipe and awaiting tie-in as of June 30th.

## HIGHLIGHTS (Note 1)

PRODUCT VOLUMES	June 30, 2005		June 30, 2004	
	6 Months	3 Months	6 Months	3 Months
Oil and NGLs, bpd	1,173	1,057	1,665	1,560
Natural Gas, Mcfd	15,212	14,901	23,352	23,650
BOEPD <small>(Notes 2 and 3)</small>	\$ 3,708	\$ 3,541	\$ 5,557	\$ 5,502

### SUMMARY OF PRODUCT PRICES

Oil per Barrel	\$ 52.67	\$ 58.88	\$ 40.24	\$ 44.04
NGL per Barrel	\$ 46.15	\$ 50.09	\$ 33.00	\$ 33.29
Natural Gas per MCF	\$ 6.95	\$ 7.12	\$ 6.67	\$ 6.85

### FINANCIAL

Cash Distributions Paid	\$ 12,874,949	\$ 7,055,072	\$ —	\$ —
Cash Flow	\$ 14,356,543	\$ 7,053,474	\$ 22,656,106	\$ 11,393,689
Net Income	\$ 3,789,690	\$ 1,120,663	\$ 4,905,722	2,329,955
Cash Distributions Per Unit	\$ 0.72	\$ 0.36	\$ —	\$ —
Cash Flow Per Unit <small>(Note 4)</small>	\$ 0.79	\$ 0.36	\$ 1.40	\$ 0.70
Net Income Per Unit <small>(Note 4)</small>	\$ 0.21	\$ 0.06	\$ 0.30	\$ 0.14
Capital Expenditures	\$ 16,033,767	\$ 9,892,001	\$ 18,320,484	\$ 8,005,916

- (1) TKE Energy Trust commenced business on November 2, 2004 upon the reorganization of TUSK Energy Inc. pursuant to a Plan of Arrangement. For purposes of financial reporting, the conversion is accounted for as a continuity of interest. Accordingly, the “comparative” figures shown are the results of operations and cash flow applicable to TUSK Energy Inc. and its subsidiaries for the six months and three months ended June 30, 2004. The Plan of Arrangement allocated a portion of the production of TUSK Energy Inc. to an ExploreCo (TUSK Energy Corporation) and, as a consequence, certain of the information included for prior periods is not directly comparable.
- (2) Production shown is for TUSK Energy Inc. (see Note 1). Average production from the Shane gas property decreased 1,351 boepd from 1,768 boepd during the first half of 2004 to 417 boepd during the first half of 2005. This high deliverability pool was in the high decline stage of it’s life in 2004. The properties transferred to TUSK Energy Corporation pursuant to the Plan of Arrangement represented 120 boepd of TUSK Energy Inc. production during the first half of 2004. As a consequence, the “comparative” production for the first half of 2004 is 4,086 boepd.
- (3) Production in the first half of fiscal 2005 was less than anticipated, principally due to delays in the completion construction of battery facilities and pipelines at Gage and construction of pipelines at Norbuck and Hairy Hills. As of June 30, 2005, TKE has 700 boepd of additional production capability behind pipe and awaiting tie-in.
- (4) The Plan of Arrangement provided for the issue of 0.50 units of TKE Energy Trust for each common share of TUSK Energy Inc. and, accordingly, the values shown for cash flow per unit and net income per unit shown for the six months and three months ended June 30, 2004 are double the per share values shown in the quarterly report of TUSK Energy Inc. for that period. No adjustment has been made to reflect the impact resulting from the transfer of a portion of assets producing during that period to TUSK Energy Corporation upon the close of the Plan of Arrangement.

# OBJECTIVE

# TKE.UN

provide sustainable and consistent distributions over the long term

## MESSAGE TO UNITHOLDERS

TKE Energy Trust is pleased to present financial and operating results for the second quarter of the 2005 fiscal year. This quarter represents our second full quarter of operations as an energy trust.

### New Discoveries & Reserves Growth

Three new pool discoveries in the Peace River Arch area, a 100% working interest new pool gas discovery in our northeast Alberta focus area, a gas development well in the Gage East area and an oil development well at Epping, all contributed to significant reserve growth in the first half of the year.

The growth in production, which will occur as a product of the tie-in and further development of these properties, will start after the middle of the third quarter with production expected to rise to approximately 4,500 boepd by the end of the fiscal year. The full impact on production and cash flow will not be felt until the early part of the 2006 fiscal year.

### Reserves Additions Underpin Value

Reserve additions by drilling during the first half were 1.3 million boe, while production during the period amounted to 671 Mboe. Net reserve additions increased the overall reserves of the Trust to 15.7 million boe as of June 30th.

### Reserve Life Index of 11.7 Years

Reserve life index as of the end of the period considering reserve additions, production and average production during the second quarter was 11.7 years.

### Payout Ratio

The payout ratio for the second half of 2005 is expected to be approximately 60%, resulting in a payout ratio for the 2005 fiscal year of approximately 72%.

### Production

Production during the second quarter was down about 9% from the levels of the first quarter. Rates will recover during the third quarter and increase in the fourth.

Efforts to replace production declines were frustrated in the second quarter by abnormally wet weather after spring breakup with record levels of precipitation in June. These circumstances were exacerbated by delays in regulatory approvals and land access in key areas. Production is expected to rise to approximately 4,000 boepd toward the end of the third quarter with commencement or resumption of production at a number of properties including Norbuck, Gage East, Hairy Hills and Epping.

### Operating Costs

Operating cost per boe was higher during the first half of the year due to general increases in the cost of services, the use of rental equipment and higher fluid handling costs on the single well batteries at Gage before the commissioning of our central battery facility, access issues related to anomalous weather conditions during the second quarter and the payment of municipal taxes in May. Operating cost per boe is expected to decrease to less than \$10 in the third quarter.

## Financial Stability Maintained

TKE maintains a strong balance sheet with a net debt level, at the end of the second quarter, of less than one times cash flow. The Trust has un-utilized credit lines of approximately \$24 million. Based on estimates of future production and cash flow for the balance of 2005, the debt to cash flow ratio is expected to decrease to approximately 0.75 times.

## Our Conundrum – Drill or Purchase?

Last March, TKE raised \$31.75 million dollars through the private placement of 2.9 million Trust Units at a price of \$10.95 per Unit. This put the Trust in excellent financial condition and we had to make some decisions on the allocation of this capital. Should we purchase or develop new reserves and production? An acquisition of seven to eight hundred boe of additional production would have provided greater cash flow and an improved payout ratio over the near term.

## A Decision to Drill

The management team at the Trust has demonstrated the ability to find and develop new oil and gas reserves cost effectively. Average FD&A cost is \$10.60 per boe over the last five years, substantially less than the cost of purchasing reserves.

In light of the opportunities facing the Trust and the track record of our management team in developing new reserves efficiently we chose to forego the benefits of purchasing assets in favour of the slower but more cost effective approach of development. Acquisitions may well fit into future strategy as current property development matures.

It takes many months, even in the best of times, to develop new prospects, drill and evaluate discovery wells, drill development wells and construct pipelines and facilities to minimize future production costs. Other factors, including bad weather and regulatory delays, can delay the onset of initial production and the full development of oil and gas pools. The Trust was bitten by both of these during the second quarter but has now returned to the path of gradually increasing production over time.

## Capital Expenditures

CAPEX during the second half is expected to be substantially lower than the first with total expenditures planned at \$11 million for latter part of the year – roughly equivalent to the cash flow expected to be remaining after distributions during that period. Capital spending has been effective as evidenced by the additional reserves which are attributable to the Trust.

## Outlook

TKE Energy Trust will continue to focus on developing its new pools over the coming months and on creating new prospects and projects for future growth and stability through both drilling and strategic acquisition. The management and directors of the Trust have a significant stake and all are committed to our objective – consistent distributions over the long term.

On Behalf of the management and board of TKE Energy Trust

“signed”

Norman W. Holton  
Chairman & Chief Executive Officer

August 10, 2005

## MANAGEMENT'S FINANCIAL ANALYSIS & DISCUSSION

The following analysis and discussion is provided by the management of TKE Energy Trust ("TKE" or the "Trust") and should be read in conjunction with the unaudited consolidated interim financial statements for the six and three months ended June 30, 2005 and 2004 and the audited consolidated financial statements for the year ended December 31, 2004.

**Basis of Presentation** – The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles. The reporting and the measurement currency is the Canadian dollar.

**Non-GAAP Measurements** – The Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian generally accepted accounting principles as an indicator of the Trust's performance. The Trust's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the unaudited interim consolidated financial statements and the audited consolidated financial statements. The Trust also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

*Barrels of Oil Equivalent* – BOE may be misleading, particularly if used in isolation. The BOE conversion ratio for natural gas used in this report is derived by converting natural gas to BOE in the ratio of six Mcf to one barrel of oil equivalent. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The conversion ratio is an industry accepted norm and is not based on either energy content or current prices.

**TKE Energy Trust commenced business on November 2, 2004 upon the reorganization of TUSK Energy Inc. pursuant to a Plan of Arrangement. For purposes of financial reporting, the conversion is accounted for as a continuity of interest. Accordingly, the "comparative" figures shown are the results of operations and cash flow applicable to TUSK Energy Inc. and its subsidiaries for the six and three months ended June 30, 2004. The Plan of Arrangement allocated a portion of the production of TUSK Energy Inc. to an ExploreCo (TUSK Energy Corporation) and, as a consequence, certain of the information included for prior periods is not directly comparable.**

### SUMMARY INFORMATION PER BOE

	June 30, 2005		June 30, 2004	
	6 Months	3 Months	6 Months	3 Months
	(\$)	(\$)	(\$)	(\$)
Gross Revenue	44.82	47.13	39.50	41.08
Royalties, Net of ARTC	9.42	11.33	8.32	9.20
Net Revenue	35.40	35.80	31.18	31.88
Operating Expense	11.47	12.06	6.06	6.16
Net Operating Revenue	23.93	23.74	25.12	25.72
General & Administrative	1.38	0.97	1.30	1.56
Interest Expense	1.08	0.92	1.09	1.03
Capital Taxes	0.08	(0.05)	0.20	0.37
Cash Flow Per BOE	21.39	21.90	22.53	22.76

## Oil and Gas Revenues

Oil and gas revenue, before royalties, for the six month period ended June 30, 2005 was \$30,082,944 compared to \$39,725,362 for the six month period ended June 30, 2004. This was due to a decrease in boe production, primarily due to the expected production declines at the Shane property, from 1,005,735 boe for the six months ended June 30, 2004 to 671,199 boe for the six months ended June 30, 2005, offset by an increase in \$12.43 per barrel in the average oil price and by a \$0.28 per mcf increase in the average price of natural gas.

For the three months ended June 30, 2005, oil and gas revenues, before royalties, were \$15,183,987 compared to \$20,568,756 for the three months ended June 30, 2004. Lower BOE production was offset by oil prices which were \$14.84 per barrel higher and gas prices of \$0.27 per MCF higher than the comparable period during the prior year.

	June 30, 2005		June 30, 2004	
	6 Months	3 Months	6 Months	3 Months
Oil and Gas Revenues, Before Royalties	\$ 30,082,944	\$ 15,183,987	\$ 39,725,362	\$ 20,568,756
Oil Production (bbls)	176,431	80,550	211,715	99,024
Oil Price (\$/bbl)	\$ 52.67	\$ 58.88	\$ 40.24	\$ 44.04
NGL Production (bbls)	35,869	15,633	89,572	42,939
NGL Price (\$/bbl)	\$ 46.15	\$ 50.09	\$ 33.00	\$ 33.29
Gas Production (MMcf)	2,753	1,356	4,227	2,152
Gas Price (\$/Mcf)	\$ 6.95	\$ 7.12	\$ 6.67	\$ 6.85
BOE Production	671,199	322,183	1,005,735	500,655
BOE per Day	3,708	3,541	5,557	5,502

## Royalties

Total royalties, net of ARTC, were \$6,320,725 (\$9.42 per BOE) for the six month period ended June 30, 2005 compared to \$8,368,158 (\$8.32 per BOE) for the same period ended June 30, 2004. Net royalties represented a similar percentage of gross revenues in both 2005 and 2004 (21%). For the three months ended June 30, 2005 total royalties, net of ARTC, were \$3,651,830 (\$11.33 per BOE) compared to \$4,605,078 (\$9.20 per BOE) for the same period in 2004.

	June 30, 2005		June 30, 2004	
	6 Months	3 Months	6 Months	3 Months
Crown Royalties	2,963,092	1,646,563	5,196,619	2,662,871
Indian Oil & Gas Canada Royalties	2,221,557	1,325,470	2,338,221	1,252,410
Freehold Royalties	562,838	281,761	548,329	306,914
Saskatchewan Production Tax	282,378	138,472	308,765	132,306
Gross Overriding Royalties	790,860	259,564	465,818	240,171
	6,820,725	3,651,830	8,857,752	4,594,672
Alberta Royalty Tax Credit	(500,000)	–	(489,594)	10,406
Net Royalties	6,320,725	3,651,830	8,368,158	4,605,078
Net Royalties per BOE (6:1)	9.42	11.33	8.32	9.20

## Operating Expenses

Operating expenses for the six months ended June 30, 2005 were \$7,700,135 (\$11.47 per BOE) compared to \$6,095,541 (\$6.06 per BOE) in the same period in 2004. For the three months ended June 30, 2005, operating costs were \$3,884,890 (\$12.06 per BOE) (2004 – \$3,083,922 / \$6.16 per BOE). Operating costs increased on a BOE basis due to a general increase in the cost of services, remedial work to bring certain of the acquired properties up to current regulatory requirements, processing and transportation costs for the first half of 2004 which were not billed until 2005 and, the use of rental equipment and single well batteries at the Gage property. A new central battery facility at Gage, commissioned June 24, 2005, has allowed for the release of rental tankage and a decrease in fluid handling costs. As a result, the Trust expects operating costs at Gage to be substantially reduced for the balance of the year. In addition, property taxes paid annually in the second quarter added approximately \$1.00 to the second quarter operating costs.

## Depletion, Depreciation and Amortization (DD&A)

Depletion and depreciation was \$11,431,970 for the six month period ended June 30, 2005, which represents a provision of \$17.03 per BOE of production. For the period ended June 30, 2004, the Trust recorded a DD&A provision of \$14,892,825 (\$14.81 per BOE). For the three month period ended June 30, 2005, the Trust recorded a DD&A provision of \$5,542,780 (\$17.20 per BOE) (2004 – \$7,041,225 / \$14.06 per BOE). The increase in DD&A is due to the very active drilling and development capital program in the fall of 2004 and first half of 2005.

## General and Administrative

Gross general and administrative costs for the six months ended June 30, 2005 have increased from \$2,496,413 in 2004 to \$3,042,938 in 2005 mainly due to the hiring of additional personnel and increases in most G&A expense categories with increased activity. For the three months ended June 30, 2005 gross general and administrative costs were \$1,414,889 compared to \$1,372,542 for the same period in 2004. Overhead recoveries were higher mainly due to recoveries from TUSK Energy Corporation, as part of the Technical Services Agreement (\$1,037,000 for six months ended June 30, 2005 and \$516,000 for three months ended June 30, 2005).

	June 30, 2005		June 30, 2004	
	6 Months	3 Months	6 Months	3 Months
Gross General and Administrative	3,043,510	1,414,889	2,496,413	1,372,542
Acquisition, Exploration & Development Costs Capitalized	(522,288)	(273,864)	(723,600)	(368,000)
Overhead Recoveries	(1,597,440)	(828,941)	(467,360)	(222,072)
Net General and Administrative	923,782	312,084	1,305,453	782,470
Per BOE	1.38	0.97	1.30	1.56

## Equity

In March, 2005, the Trust closed a financing of 2,900,000 units for gross proceeds of \$31,755,000. As of June 30, 2005 there were 19,714,325 units and 933,894 exchangeable shares issued and outstanding. At August 5, 2005, there were 19,718,956 units and 931,470 exchangeable shares issued and outstanding.

## Capital Expenditures

Capital additions, excluding acquisitions and divestitures, for the period ended June 30, 2005 were \$16,033,767 compared to \$18,320,484 for the same period ended in 2004. For the three months ended June 30, 2005 capital additions, excluding acquisitions and divestitures were \$9,892,001 compared to \$8,005,916 in 2004.

	June 30, 2005		June 30, 2004	
	6 Months	3 Months	6 Months	3 Months
Land	993,733	616,905	2,182,142	1,300,248
Seismic & Exploration	616,575	290,284	1,839,461	1,343,413
Drilling & Completion	9,527,795	5,762,650	11,794,851	2,202,498
Facilities	4,832,593	3,193,101	2,463,376	3,148,348
Corporate	63,071	29,061	40,654	11,409
Total	16,033,767	9,892,001	18,320,484	8,005,916

## Cash Distributions

Management monitors the Trust's distribution payout policy with respect to forecasted net cash flow, debt levels and capital expenditures. TKE expects to distribute approximately 72% of its annual cash flow to unitholders and retain remaining cash flow for capital expenditures and debt repayment. Exchangeable shares are convertible into trust units of the Trust based on the exchange ratio, which is adjusted monthly to reflect that distributions are not paid on the exchangeable shares and cash flow related to the exchangeable shares is retained by the Trust for additional capital expenditures or debt repayment. Key drivers of TKE's cash flow, as is generally the case with other energy trusts, are commodity prices and production. Since the Trust's production is weighted to natural gas (68 percent in the six months ended June 30, 2005), natural gas prices have a significant effect on its cash flow.

TKE's monthly cash distribution has been \$0.12 per trust unit for the month of December, 2004 to July, 2005. TKE has no plans to increase or decrease the distributions per unit for the foreseeable future.

## Liquidity and Capital Resources

TKE had a working capital deficiency, before bank indebtedness, of \$5,633,698 at June 30, 2005.

The Trust has a financing arrangement with two Canadian financial institutions whereby the Company was provided a \$47.5 million revolving production loan of which \$23.0 million was drawn as at June 30, 2005, leaving \$24.5 million undrawn at June 30, 2005.

On an ongoing basis TKE will typically utilize three sources of funding to finance its capital expenditure program and distributions: (i) internally generated cash flow from operations; (ii) debt where deemed appropriate; and (iii) new equity issues if available on favourable terms. When financing corporate acquisitions, TKE may also assume certain future liabilities. Commodity prices and production volumes have the largest impact on TKE's ability to generate adequate cash flow to meet all its obligations. A prolonged decrease in commodity prices would negatively affect TKE's cash flow from operations and would also likely result in a reduction in the amount of bank loan available. If TKE's capital expenditure program does not result in sufficient additional reserves and/or production it would likely have a negative impact on TKE's liquidity.

TKE may adjust its capital expenditure program depending on the commodity price outlook. TKE believes that internally generated cash flow and incremental bank debt should be sufficient to finance current operations and planned capital spending in the next year.

## Business Risks

The marketability and price of products owned or that may be acquired or discovered by TKE will be affected by numerous factors beyond the Trust's control. TKE must compete in all aspects of its operations with a number of other corporations that have equal or greater technical or financial resources. The ability of the Trust to market its natural gas may depend on its ability to acquire space in pipelines that deliver natural gas to commercial markets. The Trust is also subject to market fluctuations in the prices of products, exchange rates, uncertainties related to the proximity of its reserves to pipelines and processing facilities and extensive government regulation.

## Costless Collars & Puts

The Trust entered into several short term arrangements impacting the selling price of part of its oil and natural gas production applicable to the 2005 fiscal period. These agreements included both costless collars and floor price arrangements. The Company realized a net loss of \$660,420 (compared to a net loss of \$658,523 in 2004) on its oil and natural gas risk management program for the six months ended June 30, 2005. For the three months ended June 30, 2005 the Trust realized a net loss of \$375,254 (2004 – a loss of \$517,021). Additional information with respect to these arrangements is included in Note 6 to the June 30, 2005 Financial Statements.

## Quarterly Data

The following tables set forth selected quarterly financial information for the last eight financial quarters.

	Second Quarter 2005	First Quarter 2005	Fourth Quarter 2004	Third Quarter 2004
Production per Day				
Oil and NGLs (bbls)	1,057	1,290	1,372	1,548
Natural Gas (Mcf)	14,901	15,528	18,929	22,943
Boe	3,541	3,878	4,527	5,372
Netback per boe (\$)	23.74	20.92	19.33	19.61
Petroleum and Natural Gas Sales, Net (\$)	11,532,157	12,230,062	11,834,805	14,820,744
Funds from Operations (\$)	7,053,474	7,303,069	7,125,221	9,690,236
Per Unit (basic) (\$)	0.36	0.44	0.39	0.60
Per Unit (diluted) (\$)	0.34	0.41	0.39	0.58
Net Income (loss)	1,120,663	2,669,027	(237,413)	835,164
Per Unit (basic) (\$)	0.06	0.16	(0.03)	0.06
Per Unit (diluted) (\$)	0.05	0.15	(0.03)	0.06

	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003	Third Quarter 2003
<b>Production per Day</b>				
Oil and NGLs (bbls)	1,560	1,770	1,872	1,638
Natural Gas (Mcf)	23,650	23,056	23,416	20,329
Boe	5,502	5,612	5,775	5,026
Netback per boe (\$)	22.76	22.30	16.68	19.50
Petroleum and Natural Gas Sales, Net (\$)	15,693,678	15,393,526	13,637,220	12,737,001
Funds from Operations (\$)	11,393,689	11,262,417	8,860,103	9,014,351
Per Unit (basic) (\$)	0.70	0.70	0.48	0.60
Per Unit (fully diluted) (\$)	0.68	0.68	0.46	0.58
Net Income	2,329,955	2,575,817	(1,086,997)	1,082,751
Per Unit (basic) (\$)	0.14	0.16	(0.24)	0.08
Per Unit (fully diluted) (\$)	0.14	0.16	(0.14)	0.08

### Forward Looking Statements

Certain information regarding TKE set forth in the document, including management's assessment of TKE's future plans and operations, contain forward looking statements that involve substantial known and unknown risks and uncertainties. These forward looking statements are subject to numerous risks and uncertainties, certain of which are beyond TKE's control, including the impact of general imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. TKE's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurance can be given that any of events anticipated by the forward looking statement will transpire or occur, or if any of them do so, what benefits that TKE will derive therefrom.

### Additional Information

Additional information regarding the Trust and its business and operations, including the annual information form ("AIF"), the 2004 annual report, news releases and all statutory filings are available at [www.sedar.com](http://www.sedar.com). Copies of these documents can also be obtained by contacting TKE by mail at Suite 1950, 700 – 4th Avenue S.W., Calgary, Alberta T2P 3J4 or by e-mail at [mwiltshire@tketrust.com](mailto:mwiltshire@tketrust.com). This information is also accessible on the Trust's website at [www.tketrust.com](http://www.tketrust.com).



# **FINANCIAL INFORMATION**

*Consolidated Balance Sheets*

(Unaudited)

	June 30 2005	December 31 2004
		(restated – Note 2)
ASSETS	(\$)	(\$)
Current Assets		
Cash	26,000	33,226
Accounts Receivable	8,180,923	11,147,688
Prepaid Expenses	1,579,341	1,994,287
	9,786,264	13,175,201
Property, Plant and Equipment	156,194,309	143,844,993
Goodwill	11,160,724	11,160,724
	177,141,297	168,180,918
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	12,977,926	21,392,456
Bank Indebtedness	23,008,000	33,670,000
Cash Distribution Payable	2,250,467	1,880,307
Current Portion of Obligations Under Capital Lease	191,569	210,487
	38,427,962	57,153,250
Obligations Under Capital Lease	214,141	310,212
Asset Retirement Obligations (Note 3)	4,560,156	4,272,103
Non-Controlling Interest Exchangeable Shares (Note 4)	3,446,000	6,156,712
Future Income Taxes	37,405,480	39,120,480
Unitholders' Equity		
Unitholders Capital (Note 5)	98,212,343	59,536,353
Contributed Surplus	3,008,414	233,204
Accumulated Earnings	7,105,981	3,316,291
Accumulated Cash Distributions	(15,239,180)	(1,917,687)
	93,087,558	61,168,161
	177,141,297	168,180,918

See Accompanying Notes

## Consolidated Statement of Earnings and Accumulated Earnings

For the Six Months and Three Months Ended June 30, 2005 and 2004  
(Unaudited)

	June 30, 2005		June 30, 2004	
	6 Months (\$)	3 Months (\$)	6 Months (\$)	3 Months (\$)
<b>Revenue</b>				
Oil and Gas Revenues, Net	30,082,944	15,183,987	39,725,362	20,568,756
Royalties, Net of Alberta Royalty Tax Credit	6,320,725	3,651,830	8,368,158	4,605,078
	23,762,219	11,532,157	31,357,204	15,963,678
<b>Expenses</b>				
Oil and Gas Operating	7,700,135	3,884,890	6,095,541	3,083,922
Interest on Long-Term Debt	725,671	297,621	1,097,708	517,158
General and Administrative	923,782	312,084	1,305,453	782,470
Unit-Based Compensation	2,775,210	2,312,605	497,659	251,659
Depreciation and Depletion	11,431,970	5,542,780	11,892,825	7,041,225
Accretion	244,673	127,426	171,850	92,850
	23,801,441	12,477,406	24,061,036	11,769,284
<b>Net Income (Loss) for the Period Before Income Taxes</b>				
Taxes and Non-Controlling Interest	(39,222)	(945,249)	7,296,168	4,194,394
<b>Income Taxes</b>				
Capital	56,088	(15,912)	202,396	186,439
Future (Reduction)	(3,900,000)	(2,000,000)	2,188,000	1,678,000
	(3,843,912)	(2,015,912)	2,390,396	1,864,439
<b>Net Income For The Period</b>				
Non-Controlling Interest	3,804,690	1,070,663	4,905,772	2,329,955
Non-Controlling Interest – Exchangeable Shares	15,000	(50,000)	–	–
<b>Net Income for the Period</b>	<b>3,789,690</b>	<b>1,120,663</b>	<b>4,905,772</b>	<b>2,329,955</b>
<b>Accumulated Earnings, Beginning of Period</b>				
as Previously Reported	3,293,291	6,177,318	14,506,038	16,846,830
Non-Controlling Interest – Retroactive Adoption (Note 2)	23,000	(192,000)	–	–
Unit-Based Compensation – Retroactive Adoption	–	–	(616,000)	–
Asset Retirement Obligations – Retroactive Adoption	–	–	419,475	–
<b>Accumulated Earnings, Beginning of Period, as Restated</b>	<b>3,316,291</b>	<b>5,985,318</b>	<b>14,309,513</b>	<b>16,846,830</b>
Adjustment for Share Redemption	–	–	(38,500)	–
<b>Accumulated Earnings, End of Period</b>	<b>7,105,981</b>	<b>7,105,981</b>	<b>19,176,785</b>	<b>19,176,785</b>
<b>Net Income per Unit</b>				
Basic	0.21	0.06	0.30	0.14
Diluted	0.20	0.05	0.30	0.14

See Accompanying Notes

## Consolidated Statements of Cash Flows

For the Six Months and Three Months Ended June 30, 2005 and 2004

(Unaudited)

	June 30, 2005		June 30, 2004	
	6 Months (\$)	3 Months (\$)	6 Months (\$)	3 Months (\$)
<b>Operating Activities</b>				
Operating Activities:				
Net Income	3,789,690	1,120,663	4,905,772	2,329,955
Items not Requiring Cash:				
Non-Controlling Interest – Exchangeable Shares	15,000	(50,000)	–	–
Unit Based Compensation	2,775,210	2,312,605	497,659	251,659
Depreciation, Depletion and Accretion	11,676,643	5,670,206	15,064,675	7,134,075
Future Income Taxes (Reduction)	(3,900,000)	(2,000,000)	2,188,000	1,678,000
Funds from Operations	14,356,543	7,053,474	22,656,106	11,393,689
Change in Non-cash Working Capital	( 2,769,262)	(8,727,882)	(1,539,305)	(2,368,624)
Cash Provided by Operating Activities	11,587,281	(1,674,408)	21,116,801	9,025,065
<b>Financing Activities</b>				
Payments of Distributions	(12,874,949)	(7,055,072)	–	–
Issue of Units	32,319,311	328,337	48,500	48,500
Unit Issue Costs	(1,786,033)	(198,259)	(30,878)	–
Repurchase of Common Shares	–	–	(107,160)	(31,430)
Bank Indebtedness	(10,662,000)	14,500,000	(500,000)	101,546
Obligations Under Capital Lease	(114,989)	(45,783)	(322,381)	(162,697)
Change in Non-cash Working Capital	861,228	(367,818)	–	–
	7,742,568	7,161,405	(911,919)	(44,081)
<b>Investing Activities</b>				
Investment	–	–	31,645	31,645
Property, Plant and Equipment	(16,033,767)	(9,892,001)	(18,320,484)	(8,005,916)
Change in non-cash working capital	(3,303,308)	4,389,166	(1,969,637)	(1,030,509)
	(19,337,075)	(5,502,835)	(20,258,476)	(9,004,780)
Increase (Decrease) in Cash During the Period	(7,226)	(15,838)	(53,594)	(23,796)
Cash: Beginning of Period	33,220	41,838	84,249	54,451
Cash: End of Period	26,000	26,000	30,655	30,655
Interest Paid	811,808	356,676	1,008,083	427,863
Taxes Paid	(21,912)	(21,912)	202,396	186,439

See Accompanying Notes

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TKE Energy Trust (“TKE” or the “Trust”) is an open-ended, unincorporated investment trust governed by the laws of the province of Alberta. The Trust was established as part of a Plan of Arrangement (the “Arrangement”) that became effective on November 2, 2004.

The reorganization resulted in the shareholders of TUSK Energy Inc. receiving trust units or exchangeable shares in the Trust, a new energy trust that owns approximately 95 percent of the assets formerly held by TUSK Energy Inc. In addition, the shareholders of TUSK Energy Inc. received shares in a separate, publicly-listed, exploration-focused company TUSK Energy Corporation (“TUSKEx”). The remaining 5 percent of the assets of TUSK Energy Inc. were transferred to TUSKEx.

Pursuant to the Arrangement, shareholders of TUSK Energy Inc. received shares of TUSKEx and at their election, either units of the Trust, which pay monthly cash distributions or exchangeable shares of a subsidiary of the Trust which may be exchanged into units of the Trust. The Arrangement resulted in TUSK Energy Inc. shareholders receiving one trust unit or exchangeable share of the Trust and one of a share in TUSKEx for every two shares of TUSK Energy Inc.

The conversion of TUSK Energy Inc. to a Trust has been accounted for as a continuity of interest. The comparative figures are the results of TUSK Energy Inc. and its subsidiaries. Due to the conversion into an energy trust, certain information included in the financial statements for prior periods may not be directly comparable.

The term “units” has been used to identify both the Trust units and exchangeable shares of the Trust issued on or after November 2, 2004 as well as the common shares of TUSK Energy Inc. outstanding prior to the conversion on November 2, 2004.

### Relationship with TUSK Energy Corporation

In conjunction with the Plan of Arrangement, TUSKEx and TKE entered into a Technical Services Agreement which provides for the shared services required to manage TUSKEx’s activities and govern the allocation of general and administrative expenses between the entities. Under the Technical Services Agreement, TUSKEx is charged a technical services fee by TKE, on a cost recovery basis, in respect of management, development, exploitation, operations and marketing activities on the basis of relative production and capital expenditures. For the six month period ended June 30, 2005 the technical services fee was \$1,037,000 (\$516,000 for the three months ended June 30, 2005). The Technical Services Agreement has no set termination date and will continue until terminated by either party with six months prior written notice to the other party or at some other date as may be mutually agreed.

As a result of the Plan of Arrangement, TUSKEx and TKE have joint interest in certain properties and undeveloped land. These joint interest properties are governed by standard industry agreements.

As at June 30, 2005, accounts receivable and accounts payable included \$5.5 million due to TUSKEx, which includes standard joint venture amounts, including revenue.

### 1. Significant Accounting Policies

The interim consolidated financial statements of the Trust have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Trust as at December 31, 2004 other than described in Note 2. The disclosures included below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Trust’s consolidated financial statements and notes thereto for the year ended December 31, 2004.

### 2. Change in Accounting Policy

#### Exchangeable Securities – Non-Controlling Interest

On March 8, 2005 the accounting abstract “Exchangeable Securities Issued by Subsidiaries of Income Trusts” was amended effective for financial statements issued on or after June 30, 2005. Under the amended abstract, exchangeable share are presented as equity of the Trust only if the exchangeable shares are entitled to receive distributions of earnings economically equivalent to distributions received by units of the trust and the holders of exchangeable shares can only dispose of them by exchanging them for trust units. The exchangeable shares of the Trust’s subsidiary can be traded privately, thereby allowing holders of the exchangeable shares to dispose of them without having to exchange them for trust units and consequently, they must be classified as non-controlling interest outside of Unitholders’ Equity.

In accordance with the transitional provisions of the abstract, the Trust has retroactively restated prior periods dating back to the Arrangement dated November 2, 2004. As a result of this change in accounting policy, the Trust has reflected a non-controlling interest on the consolidated balance sheet of \$3,446,000 as at June 30, 2005 and \$6,156,712 as at December 31, 2004. Each redemption of exchangeable shares held by previous TUSK Energy Inc. shareholders are accounted for as a step-purchase, which for the six months ended June 30, 2005 and the year ended December 31, 2004 resulted in an increase in property, plant and equipment of \$7,452,000 and \$1,146,000 respectively, and increase of unitholders' capital of \$4,742,000 and \$700,500 respectively and an increase in future income tax liability of \$2,860,000 and \$445,500 respectively. Cash flow was not impacted by this change. The change in accounting policy had no impact to the consolidated net exchangeable shares were issued subsequent to those periods.

### 3. Asset Retirement Obligations

A reconciliation of the asset retirement obligations is provided below:

	Six Months Ended	
	June 30, 2005	June 30, 2004
<b>Asset retirement obligations</b>		
Balance, beginning of period	4,272,103	3,446,000
Liabilities, incurred in period	43,380	111,600
Liabilities, settled in period	–	–
Accretion expense	244,673	171,850
Balance, end of period	4,560,156	3,729,450

### 4. Non-Controlling Interest – Exchangeable Shares

The Trust retroactively applied the amended accounting abstract “Exchangeable Securities Issued by Subsidiaries of Income Trusts” whereby the exchangeable shares issued by the Trust’s subsidiary must be reflected as non-controlling interest on the consolidated balance sheet and in turn, net earnings must be reduced by the amount of net earnings attributed to the non-controlling interest.

The non-controlling interest on the consolidated balance sheet consists of the book value of exchangeable shares issued to TUSK Energy Inc. shareholders at the time of the Plan of Arrangement, plus net earnings attributable to the exchangeable shares, less exchangeable shares (and related cumulative earnings) redeemed. The non-controlling interest charge on the consolidated statement of earnings represents the share of net earnings attributable to the exchangeable shares based on the trust units issuable for exchangeable shares in proportion to total trust units issued and issuable each period end.

The activity for non-controlling interest for the six months ended June 30, 2005 is as follows:

	Six Months Ended June 30			
	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of period	1,679,647	6,156,712	–	–
Exchanged for trust units	(745,753)	(2,725,712)	–	–
Non-controlling interest expense	–	15,000	–	–
Balance, end of period	933,894	3,446,000	–	–

### 5. Unitholders' Equity

#### a) Trust Units of TKE Energy Trust

	June 30, 2005		June 30, 2004	
	Number	Amount	Number	Amount
Trust Units				
Balance Beginning of Period	15,984,926	59,536,353	–	–
Issued for Cash	2,961,011	32,319,311	–	–
Exchangeable Shares Converted	768,388	7,467,712	–	–
Balance, end of Period	19,714,325	99,323,376	–	–
Less: Unit Issue Expenses				
Net of Tax Effect of \$675,000	–	1,111,033	–	–
	19,714,325	98,212,343	–	–

## b) Per Unit Amounts

Per unit amounts have been calculated on the weighted average number of units outstanding. The weighted average units outstanding for the six months ended June 30, 2005 was 18,075,851 (2004 – 16,214,625) (three months ended June 30, 2005 – 19,600,458). In computing diluted earnings per unit, 244,124 units were added to the weighted average number of units outstanding during the six months ended June 30, 2005 (2004 – 476,395) (three months ended June 30, 2005 – 109,558 units) for the diluted effect of Trust Unit Incentive Rights and 1,004,468 units that would be issued on the conversion of the exchangeable shares outstanding at June 30, 2005.

## 6. Financial Instruments

### a) Commodity Price Contracts

The Trust has entered into several derivative financial instruments, including crude oil and natural gas costless collar and floor price contracts. The Trust enters into these contracts for the purpose of protecting its future earnings and cash flow from operations from the volatility of crude oil and natural gas commodity prices. The costless collar and floor price contracts reduce fluctuations in petroleum and natural gas revenues by locking in a floor price and, in the case of collars, also a maximum price.

The Trust has entered into several short-term arrangements for both oil and natural gas. For the six month period ended June 30, 2005, the Trust realized a net loss of \$660,420 (2004 – a loss of \$658,523) on its oil and natural gas price risk management. For the three months ended June 30, 2005 the Trust realized a net loss of \$375,254 (2004 – a loss of \$517,021).

Contracts outstanding in respect to financial instruments at June 30, 2005 were as follows:

Contract	Volume	Point	Strike Price	Premium	Term
Crude Oil:					
Put Option	1,300	WTI	\$40.00	\$2.17/bbl	Jan 01 – Dec 31
Natural Gas:					
Put Option	8,000	AECO	\$6.00	\$0.145/GJ	Apr 01 – Oct 31
Collar	8,000	AECO	\$6.00-\$8.80	N/A	Apr 01 – Oct 31

(1) Oil volumes are in barrels per day. Gas volumes are in gigajoules per day.

(2) Strike price and any cost or premium paid is in US dollars for oil.

(3) All dates occur in 2005.

### b) Fair Value of Financial Instruments

The Company's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable, bank indebtedness and obligations under capital leases. The fair value of these financial instruments approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank indebtedness.

Transactions entered into after June 30, 2005 are not reflected in the estimated fair market values shown below. At June 30, 2005 the estimated fair value of the financial instrument transactions were as follows:

\$ thousands receivable (payable)	
Crude oil contracts	20,300
Natural gas contracts	\$58,800

The above estimated fair values are based on the market value of these instruments as at June 30, 2005 and represent the amounts the Company would receive or pay to terminate the contracts at that date.

## 7. Measurement Uncertainty

The amounts recorded for depletion and depreciation of property and equipment, the asset retirement obligations and the ceiling test calculation are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

## CORPORATE INFORMATION

### Board of Directors

Jeffrey W. C. Arsenych <sup>(1)(2)</sup>  
Calgary, Alberta

Norman W. Holton  
Calgary, Alberta

Brian W. Mainwaring <sup>(2)</sup>  
Calgary, Alberta

Michael A. McVea <sup>(2)</sup>  
Victoria, B.C.

C. Alexander Squires <sup>(1)</sup>  
Toronto, Ontario

Murray B. Todd <sup>(1)</sup>  
Calgary, Alberta

*(1) Audit & Reserves Committee*

*(2) Compensation & Corporate  
Governance Committee*

### Officers

Norman W. Holton, P. Geol.  
Chairman &  
Chief Executive Officer

Gordon K. Case, CA  
Vice President &  
Chief Financial Officer

Ian T. Brown, P. Geol.  
Vice President, Exploration

Ed. A. Beaman, P. Eng.  
Vice President,  
Production & Engineering

Wayne B. Jessee, P. Eng.  
Vice President,  
Corporate Development

Brian W. Mainwaring  
Secretary

### Auditors

KPMG, LLP  
1200, 205 – 5th Avenue S.W.  
Calgary, Alberta  
T2P 4B9

### Legal Counsel

Gowling Lafleur Henderson LLP  
1400, 700 – 2nd Street S.W.  
Calgary, Alberta  
T2P 4V5

### Third Party Engineering

Chapman Petroleum Engineering Ltd.  
445, 708 – 11th Avenue S.W.  
Calgary, Alberta  
T2R 0E4

### Bankers

National Bank of Canada  
600, 407 – 8th Avenue S.W.  
Calgary, Alberta  
T2P 1E5

Canadian Western Bank  
1220, 606 – 4th Street S.W.  
Calgary, Alberta  
T2P 1T1

### Transfer Agent & Registrar

Computershare Trust Company of Canada  
710, 530 – 8th Avenue S.W.  
Calgary, Alberta  
T2P 3S8

### Subsidiaries

TKE Energy Inc.

TKE Energy Partnership

**TKE Energy Trust**  
1950, 700 – 4th Avenue S.W.  
Calgary, Alberta, T2P 3J4  
Bus: (403) 264-8875  
Fax: (403) 263-4247  
website: [www.tketrust.com](http://www.tketrust.com)  
e-mail: [tke@tketrust.com](mailto:tke@tketrust.com)

The units of TKE Energy Trust trade on Toronto Stock Exchange under trading symbol “TKE.UN”

## WEBSITE

TKE Energy Trust maintains an internet site at [www.tketrust.com](http://www.tketrust.com) which includes new releases, tax information, distribution history, analyst reports and other information of interest to holders of Units.



TKE Energy Trust

1950, 700 – 4th Avenue S.W.

Calgary, Alberta, T2P 3J4

Bus: (403) 264-8875 Fax: (403) 263-4247

E-mail: [tke@tketrust.com](mailto:tke@tketrust.com)