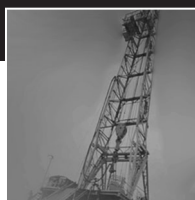


AVENIR DIVERSIFIED INCOME TRUST



**QUARTER 1
FINANCIAL STATEMENTS 2004**

FIRST QUARTER 2004

For the periods ended	Three months ended March 31	
	2004	2003
FINANCIAL		(restated)
Gross Revenue	\$ 2,468,461	\$ 989,005
Net Revenue	2,154,318	848,136
Cash Flow From Operations ¹	1,318,072	521,738
Cash Flow Per Unit1 - Basic	0.03	0.03
Distributions	754,968	254,039
Distributions Per Unit - Basic	0.0182	0.0123
Distribution Payout Ratio	57%	49%
Net Earnings (loss)	423,365	282,053
Net Earnings (loss) Per Basic Unit	0.01	0.01
Total Assets	44,888,909	10,501,964
Net Debt - energy	4,632,535	866,831
Net Debt - real estate (including mortgages)	16,656,268	—
Wtd. Avg. Common Shares Outstanding - Basic	41,558,090	20,656,554
Common Shares Outstanding - Basic	46,490,779	21,169,923
OPERATING		
Production (6:1)		
Oil and NGL's – bbls per day	258	194
Gas – mcf per day	2,538	315
Total Boe per day	681	246
Average Pricing		
Oil & NGL (\$/Bbl) before hedging	39.26	45.46
Oil & NGL (\$/Bbl) after hedging	34.84	45.46
Natural Gas (\$/mcf)	6.38	8.82
Average Price Per Boe before hedging \$	38.86	46.82
Average Price Per Boe after hedging \$	37.19	46.82

¹ Cash flow from operations and cash flow per unit are not recognized measures under Canadian generally accepted accounting principles (GAAP). Cash flow from operations is calculated by taking net earnings and adding back non-cash balances such as depletion and depreciation, site restoration and abandonment, gain on sale of investments, compensation expense and unsuccessful acquisition and re-organizational costs. Management believes that cash flow is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Trust's principal business activities. Avenir Diversified Income Trust's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.

Forward Looking Statements

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

The Trust continued its disciplined approach to growth in the first quarter of 2004. In its real estate business unit, the Trust completed its first acquisition on March 31, 2004 with the closing of the \$5.9 million Western Spirit Investments Ltd. ("Western Spirit") transaction at a very attractive 10% unlevered cap rate. As mentioned in our annual report, this transaction added real estate assets to our portfolio following through on our business plan and increasing diversification for the Trust.

In our energy business unit, current production is in excess of 650 BOE/day. Increases in production for the quarter are the result of participating in the drilling of two wells (0.26 net) and seven completions (1.01 net). One well was successful and one was dry and abandoned. Expenditures for this activity were approximately \$200,000 resulting in an estimated 20 to 40 BOE/day of production. In addition, a successful oil well was drilled on our Saskatchewan farm-out lands where the Trust retains a royalty interest, resulting in approximately 10 BOE/day of additional production. The Trust's operating costs for the quarter ending March 31, 2004 were down 33% on a BOE basis, averaging \$6.36 per BOE in the period, compared to \$9.51 per BOE in the first quarter of 2003. The reduction was a result of lower operating cost acquisitions made by the Trust in the latter part of 2003.

In the Trust's Financial Services division, current contracts continue to perform well with revenue also realized this quarter from the December 2003 \$2 million debenture investment the Trust entered into with Rentcash Inc. Also to note, subsequent to the quarter, the Trust invested an additional \$1 million in cash advance contracts with terms identical to its initial \$1.2 million contracts.

The Trust's cash flow for the first quarter was \$1,318,072 or \$0.03 per unit up 153% over the first quarter 2003 cash flow of \$521,738 and \$0.01 per unit. The Trust recorded earnings of \$423,365 for the three months ending March 31, 2004 compared to earnings of \$282,053 for the three months ended March 31, 2003. Distributions for the first quarter were \$754,968 or \$0.0182 per unit, up 47% on a per unit basis from the first quarter 2003 distribution of \$0.0123 per unit.

The Trust had a first quarter distribution payout ratio of 57% of funds available for distribution, significantly less than its targeted ratio of 75% to 80%. Production volumes and commodity prices exceeded forecast numbers resulting in a higher cash retention which was reinvested into drilling and growth opportunities.

As press released on May 7, 2004, the Trust is currently in the process of a financing with a syndicate of agents, led by First Associates Investments Inc., a "best efforts" public offering by way of a long form prospectus for proceeds of \$25 million. The offering is subject to regulatory approval including approval of the TSX Venture Exchange. The net proceeds of the offering will be used for continued growth and development in its oil and gas, financial services and real estate operations.

OUTLOOK

The Trust continues to see and evaluate several acquisitions within each business unit as it looks to close its current \$25 million financing in June 2004. Our ability to act and execute quickly is a key strength and we are confident that our disciplined approach to niche acquisitions will continue to result in accretive growth.

During the second quarter:

- we have completed an additional \$1 million financial services contract;
- we look to integrate our recent real estate acquisition;
- we will put the proceeds of our financing to work as soon as possible; and
- we expect continued strong cash flow given the current high commodity prices and solid production volumes.

We are confident that the opportunities before us will continue to yield attractive returns for our unit holders and allow the Trust to continue its growth strategy over diversified business segments.

Submitted on behalf of the Board of Directors by:



William M. Gallacher
President & CEO



Gary Dundas
Vice President Finance & CFO

MANAGEMENT'S DISCUSSION AND ANALYSIS should be read in conjunction with the unaudited interim financial for the three months ended March 31, 2004, the audited annual consolidated financial statements for the year ended December 31, 2003 and the management discussion and analysis thereto. This management discussion and analysis relates to events up to May 23, 2004.

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 counter parts, (xiii) impact of the Canadian economic conditions or the demand for real estate leasing opportunities, (xiv) fluctuations in currency exchange rates and interest rates.

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

Significant Events

- **Western Spirit Investments Ltd. ("Western Spirit")**

On March 31, 2004 the Trust closed its first real estate agreement pursuant to which the Trust would acquire Western Spirit under a plan of arrangement. Western Spirit was a public real estate investment company with a portfolio consisting of five properties with approximately 433,000 square feet of leasable area. The properties are located in Toronto, London (Ontario), Calgary and Edmonton. Through this transaction, shareholders of Western Spirit received \$3,000,000 in cash and approximately 4,987,497 trust units of Avenir. The Trust also assumed all of Western Spirit's outstanding debt, including mortgages, of approximately \$12.4 million as at March 31, 2004. The Trust also issued to each Western Spirit shareholder one performance right for each Western Spirit share, each right entitling the holder to acquire 0.05 of a trust unit, for no additional consideration, provided that, at any time on or prior to January 21, 2005, either a signed lease agreement is in place for that portion of the area in Western Spirit's Harris Building, which is currently vacant, or the Trust should sell the Harris Building for \$8.5 million or more.

- **Public Offering**

On May 7, 2004 the Trust announced that it had entered into an engagement agreement with a syndicate of agents, led by First Associates Investments Inc., in connection with a "best efforts" public offering by way of long form prospectus for maximum proceeds of \$25,000,000. The prospectus was filed on May 6, 2004 in the offering jurisdictions of

Alberta, British Columbia, Ontario and Nova Scotia. The Trust also granted the Agents an over-allotment option to acquire up to 15% of the number of trust units sold under the offering to cover over-allotments, if any, and for market stabilization purposes. The offering is expected to close on or about June 15, 2004 and is subject to regulatory approval, including approval of the TSX Venture Exchange. The Trust will use the net proceeds of the offering for continued growth and development in its oil and gas, financial services and real estate operations.

• **Property Rationalizations**

During the quarter, the Trust completed three property rationalizations in its core areas resulting in net acquisitions of approximately 20 BOE/day and net payment of \$400,000 in cash.

• **\$1 million Financial Services Contract**

As mentioned above, subsequent to the first quarter, on April 23, 2004, the Trust entered into an additional \$1 million cash advance contract, under identical terms to as its previous cash advance contracts.

Selected Annual Information

<i>(thousand of dollars except per share amounts)</i>	Year Ended December 31 ⁽¹⁾		
	2003	2002	2001
Revenue – oil and gas (net of royalties)	\$ 3,796	\$ -	\$ -
Total Net Revenue	4,455	187	2
Cash flow from operations	2,363	(71)	(162)
Per unit basic and diluted	0.09	(0.01)	(0.03)
Net Earnings (loss)	519	(71)	(162)
Per share basic and diluted	0.02	(0.01)	(0.03)
Working Capital	264	237	(102)
Bank indebtedness	4,505	-	-
Long-term debt	-	-	-
Shareholders' equity	14,404	837	(102)
Total Assets	21,301	2,028	2
Total Net Capital Expenditures	16,424	-	-

Note:

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

Selected Quarterly Information

	Quarter Ended ⁽¹⁾							
	2004	March 2003	December 31 2003	December 31 2002	September 30 2003	September 30 2002	2003	June 30 2002
Total Revenues,								
net of royalties	2,154,318	848,136	1,730,350	112,911	945,703	53,700	931,230	17,000
Net Income (loss)	423,365	282,053	(116,403)	174,780	216,167	\$30,770	98,706	(96,272)
Net Income (loss)								
per Unit basic	0.01	0.01	(0.00)	0.02	0.01	0.00	0.00	(0.01)
Total Assets	44,888,909	10,501,964	21,301,243	2,028,316	18,448,831	1,653,798	11,165,434	1,022,475
Distributions								
(per Unit)	\$0.0182	\$0.0123	\$0.0175	-	\$0.0207	-	\$0.0158	-

Note:

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

Revenue and Production

Oil and gas revenues (net of royalties) were \$1,989,298 for the first quarter of 2004, up 175% from the first quarter of 2003, attributable in most part to the acquisitions made throughout the 2003 year which included: Outback Energy Ltd., 728409 Alberta Ltd. and a large natural gas asset purchase. Gross revenue from petroleum and natural gas sales was \$2,303,441 for the first quarter up from \$864,376 in the first quarter of 2003. The average price received for crude oil and natural gas liquids during the first quarter of 2004 was \$34.84 per barrel, down 23% from the first quarter of 2003 and \$6.38 per mcf for natural gas, down 28% from the 2003 first quarter average of \$8.82 per mcf due primarily to a decline in the overall commodity prices, but also to the impact of the Trust's hedging program.

As a result of its hedging program to ensure stability of distributions, the Trust recorded a hedging loss of \$103,598 for the first quarter of 2004.

Average daily production volumes for the first quarter ended March 31, 2004 were 681 BOE/day, up 177%, compared to 246 BOE/day in the in the first quarter of 2003. First quarter 2004 production consisted of 258 bbls/day of crude oil and natural gas liquids and 2,538 mcf/day of natural gas (compared to 194 bbls/day and 315 mcf/day for the first quarter 2003, respectively). The 33% increase in oil and liquids production came mostly from acquisitions in the second quarter of 2003 and the tie in of production from wells drilled on those lands acquired. The 706% increase in natural gas production was the result of the natural gas asset acquisitions completed in late September and October 2003.

Netbacks

	Q1 2004	Q4 2003	Q3 2003	Q2 2003	Q1 2003
	\$/boe	\$/boe	\$/boe	\$/boe	\$/boe
Gross revenue after hedging	37.19	32.73	33.67	36.31	46.74
Royalties	5.24	5.99	4.96	5.81	7.62
Operating costs	6.36	7.48	7.76	8.46	9.51
Operating netback	25.59	19.26	20.95	22.05	29.61

Royalties

The Trust's royalty costs net of ARTC for the quarter ended March 31, 2004 were \$314,143 up 123% over the first quarter 2003; however, on a BOE basis, royalty costs averaged \$5.24 per BOE in the period, which is down 31% over the first quarter 2003 cost of \$7.62 per BOE. Royalties averaged 14% in the first quarter of 2004.

Operating Expenses

The Trust's operating costs for the quarter ending March 31, 2004 were \$389,562, up 129% over the first quarter 2003; however, on a BOE basis, operating costs averaged \$6.36 per BOE in the period, which is down 33% over the first quarter 2003 cost of \$9.51 per BOE. This reduction reflected the lower operating cost acquisitions made by the Trust in the latter part of 2003.

Financial Services

Since inception the Trust has held two cash advance contracts (totalling \$1,200,000), fully collateralized, with a 10-year term callable at the Trust's option. These contracts pay a fixed fee over the life of the contract. The Trust recognized income of \$75,600 relating to the financial services contracts in the first quarter of 2004 compared to \$63,000 in the first quarter of 2003. On April 23, 2004 the Trust entered into an additional contract with identical terms as noted above for \$1,000,000.

The Trust also holds a subordinated debenture with Rentcash Inc., which closed in December 2003. This debenture pays a 12% annualized yield plus 4% annualized administration fees. The Trust recognized income of \$79,672 relating to this debenture for the 3 months ended March 31, 2004.

Real Estate

On March 31, 2004 the Trust acquired Western Spirit Investments Ltd. ("Western Spirit"). The unaudited interim consolidated financial statements of the Trust reflect the purchase of Western Spirit for cash consideration of \$3,000,000 and the issue of 4,987,497 Trust Units at \$2,992,512. The transaction was recorded using the purchase method as follows:

Calculation of purchase price:

Cash consideration	\$	3,000,000
Trust units issued		2,992,512
Estimated transaction costs		406,863
Less: cash received (including restricted cash)		(488,176)
		<hr/>
		5,911,199

Allocation of purchase price:

Working capital	\$	(501,294)
Real estate properties		20,724,688
Deferred charges		232,179
Mortgages		(12,447,330)
Deferred revenue		(215,896)
Severance costs		(650,000)
Tenant improvement		(150,000)
Future income taxes		(1,081,148)
		<hr/>
		5,911,199

General and Administrative Expenses

General and administrative expenses were \$405,188 in the first quarter 2004, up from the first quarter 2003 of \$128,686. The 215% increase in G&A in the first quarter is the result of additional staffing costs associated with doubling the Trust's production, as well, cost increases with the new stock-based compensation rules and includes \$120,000 bonus for management, employees and consultants of the Trust based on the results of year ended December 31, 2003.

Interest Expense

Interest expense was \$67,314 for the first quarter 2004 with bank debt of \$8,155,000 at the quarter's end. Bank debt increased substantially from the first quarter of 2003, as a portion of the acquisitions made in 2003 and first quarter 2004 were funded by debt.

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was \$840,989 for the quarter ending March 31, 2004, with the Trust's depletion and depreciation rate at \$13.57/BOE up slightly from \$10.88/BOE in the first quarter of 2003. This increase reflects the increasing cost per BOE of acquisitions in the current market, as well as the increase in the asset value due to the adoption of the new accounting policy relating to asset retirement obligations.

Income Taxes

The Trust did not provide for income taxes, except for the future income taxes relating to the Western Spirit acquisition as noted above, as it expects that all taxable income will be passed to unit holders in the form of distributions. No capital tax expense was recorded during the first quarter associated with the holding of the oil and gas assets.

Financial Instruments

The Trust periodically enters into derivative financial instrument contracts to manage exposures related to interest rates, foreign currency exchange rates, and oil and natural gas prices. Settlement amounts on commodity and foreign currency hedge contracts are recognized in earnings as the related production revenues are recorded. The purpose of the hedging program is to reduce volatility in cash flows, protect acquisitions economics and to stabilize cash flow against the unpredictable commodity price environment. The hedging policy reflects the willingness to forfeit a portion of the pricing upside in return for protection against a significant downturn in prices.

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

The Trust was a party to certain off balance sheet derivative instruments in the first quarter of 2004 consisting of fixed price forward contracts. The contracts outstanding with respect to the hedging activities at March 31, 2004 are as follows:

- A fixed price swap for the period July 1, 2003 to June 30, 2004 on 33 bbls/day of oil at a price of US\$27.45 WTI.
- A fixed price swap for the period April 1, 2004 to June 30, 2004 on 85 bbls/day of oil at a price of US\$27.70 WTI.
- A fixed price swap for the period July 1, 2004 to June 01, 2005 on 100 bbls/day of oil at a price of US\$27.78 WTI.

Based on dealer quotes, had these contracts been closed on March 31, 2004, a loss of \$314,817 would have been realized.

Cash Flow and Earnings

Cash flow from operations was \$1,318,072 or \$0.03 per unit for the first quarter of 2004 up 153%, compared to \$521,738 in the first quarter 2003 or \$0.03 per unit. The increase in cash flow was primarily the result of the oil and gas acquisitions made in the second, third and fourth quarters of 2003, continued high commodity prices and the December 2003 financial services debenture with Rentcash.

The Trust recorded earnings of \$423,365 for the three months ending March 31, 2004 compared to earnings of \$282,053 for the three months ended March 31, 2003. The Trust distributed \$754,970 or \$0.0182 per unit, to unitholders in the first quarter 2004 and compared to \$254,039 and \$0.0123 per unit for the quarter ended March 31, 2003. The first quarter payout ratio of 57% was substantially less than the Trust's target ratio 75%. First quarter cash distributions per unit increased 47% from first quarter 2003. Monthly cash distributions declared per Trust unit issued and outstanding were as follows:

Period covered	Date of Distribution	\$ Per Unit
January 1, 2004 to January 31, 2004	02/13/2004	0.00583
February 1, 2004 to February 29, 2004	03/15/2004	0.00583
March 1, 2004 to March 31, 2004	04/15/2004	0.00583

Capital expenditures

	Quarter End Mar 31, 2004
Land	\$ —
Geological and geophysical	—
Drilling	200,426
Production equipment and facilities	61,127
Other	45,609
Development expenditures	307,162
Real estate corporate acquisition	20,724,688
Property acquisitions	1,644,088
Proceeds received on property dispositions	(1,234,372)
Other assets	10,615
Net capital expenditures	21,452,181
Property, plant and equipment March 31, 2004	36,733,862

Liquidity and Debt

	Total	Payments due by period		
		Less than		
		1 year	1 – 3 years	4 – 5 years
Mortgages	12,447,330	2,170,593	10,276,737	—
Capital lease obligations	78,785	46,326	32,459	—
Operating lease obligations	9,763	9,763	—	—
Total Contractual Obligations	12,535,878	2,226,682	10,309,196	—

As at March 31, 2004 the Trust had total net debt including working capital and mortgages of \$21,288,803. This consists of the following: total mortgages of \$12,447,330; a bridge facility to close the Western Spirit acquisition of \$3,000,000; a short term real estate loan to fund the transaction and closing costs of the Western Spirit acquisition of \$400,000; oil and gas related bank indebtedness of \$5,155,000 and a working capital deficiency of \$286,473 after accounting for the bridge facility above. The Trust has a revolving demand facility with up to \$5,200,000 bearing interest at bank prime plus one percent. The Trust also has an acquisition and development line of \$2,000,000, bearing interest at bank prime plus one and one-half percent, to fund additional oil and gas acquisitions and a bridge demand facility of \$3,000,000 bearing interest at bank prime plus two percent, to fund real estate acquisitions.

The Western Spirit bridge facility and the short term loan will be paid all in June 2004 from proceeds of the recently announced equity financing.

Subsequent to the quarter end, the revolving demand facility limit was increased to \$6,500,000 bearing interest at prime plus three-quarters percent.

Deficiencies in the working capital, on going operations and capital expenditures, will be managed by existing cash flow from operations (at March 31, 2004 - \$1,318,072) and the availability of the Trust's current revolving demand facility and proposed future financings. With the increase in the limit to \$6,500,000 the current availability of the revolving demand facility is approximately \$2.4 million.

Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas at March 31, 2004 are as follows:

- A physical fixed price swap for the period April 1, 2004 to October 31, 2004 on 700 GJ/day of gas at a price of \$5.91 per GJ.
- A physical fixed price swap for the period November 1, 2004 to October 31, 2005 on 700 GJ/day of gas at a price of \$5.94 per GJ.

The Trust also has a capital lease on gas compression equipment, which is repayable in monthly installments of \$5,537 including interest at a fixed interest rate of 8% per annum.

The Trust also has future minimum lease commitments in aggregate of \$9,763 due in 2004.

Share Capital

Trust Units	Number of Units	Amount
Balance December 31, 2003	41,503,282	\$ 15,851,942
Units issued on Western Spirit corporate purchase	4,987,497	2,992,512
Balance March 31, 2004	46,490,779	18,844,454

For the quarter ended March 31, 2004 the Trust had a weighted average of 41,558,090 trust units outstanding and the diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in 42,310,988. The Trust's weighted average unit price at the quarter end was \$0.57. As at March 31, 2004 the total units outstanding for the Trust were 46,490,779 (which include the 4,987,497 issued in the Western Spirit transaction on March 31, 2004).

Related Party Transactions

The Trust's three financial services contracts are with 19695 Yukon Inc., an affiliate of a financial services provider, one of the partners of which is related to a member of the Trust's Board of Directors. These contracts provide funding to a cash advance company providing cash advance, cheque cashing and payday loan services.

In addition, the Trust paid \$26,024 during the quarter ended March 31, 2004 for corporate administrative and financial services provided to Avenir Capital Corporation, a major unitholder of the Trust. The Trust has also entered into a loan agreement with Avenir Capital Corporation for \$400,000 to finance closing and deal costs of the Western Spirit acquisition. The loan is repayable June 30, 2004 and bears interest at bank prime plus 2%.

Risks and Uncertainties

The business of developing and producing oil and natural gas reserves is inherently risky. There is risk that the sale of the Trust's reserves may be delayed indefinitely due to process constraints, lack of pipeline capacity or lack of markets. The price the Trust receives for its oil and gas reserves fluctuates continuously and for the most part is beyond its control. The Trust is also subject to the risks associated with owning oil and gas properties, including environmental risks such as the pollution of air, land and water. In all areas of the Trust business, it competes against entities that have greater technical and financial resources. The Trust's growth is dependent upon external sources of financing which may not be available on acceptable terms.

The Trust mitigates these risks by contracting professional services when required. The Trust diversifies its oil and gas market portfolio among various marketers and aggregators and among a variety of contracts with respect to pricing and term. Finally, all levels of the Trust's operations are adequately insured.

The Trust's existing Financial Services Contracts are with affiliates of a financial services provider and with a chain of cash advance stores. The stated return on the Financial Services Contracts is subject to a degree of credit risk and risk of not realizing on collateral in the event of default. The Trust is afforded full collateral on a customer's pay cheque or other security on the transaction entered into by the cash advance stores. As each transaction is generally between \$100 and \$300, the impact of default on any one transaction is quite small when spread over a number of customers. As with respect to all financial instruments, the Trust could be exposed to losses if a counter party fails to perform in accordance with the terms of the contracts.

With respect to the Trust's real estate investments, profitability is impacted by interest rates as the interest expense is a significant cost of these investments. Avenir looks to reduce this risk by extending the maturity of its mortgages and limiting the use of floating rates to minimize exposure to fluctuations in rates. The Trust looks to reduce operating and leasing risks through staggered lease maturities, avoiding dependence on any one tenant, and by ensuring a considerable portion of its revenue is earned from established tenants.

Critical Accounting Estimates

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

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

Reserve Estimates

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

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

The present value of future net revenues should not be assumed to be the current market value of the Trust's estimated reserves. Actual future prices, costs and reserves may be materially higher or lower than the prices, costs and reserves used for the future net revenue calculations.

The estimates of reserves impact depletion, dry hole and site restoration expenses. If reserve estimates decline, the rate at which the Trust records depletion and site restoration expenses increases, reducing net earnings. In addition, changes in reserve estimates may impact the outcome of the Trust's assessment of its petroleum and natural gas properties for impairment.

Depletion and Depreciation Estimates

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

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

Costs of unproved properties on undeveloped land are initially excluded from oil and gas properties for the purposes of calculating depletion. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to oil and gas properties.

Income Taxes

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

RECENT ACCOUNTING PRONOUNCEMENTS AND IMPACT OF THE TRUST

Hedging Relationships

The CICA recently issued Accounting Guideline 13 – Hedging Relationships, which deals with the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The guideline establishes conditions for applying hedge accounting. The guideline is effective for fiscal years beginning on or after July 1, 2003. Where hedge accounting does not apply, any changes in the mark to market values of the option contracts relating to a financial period can either reduce or increase net income and net income per trust unit for that period. We enter into financial instruments to manage our commodity price risk that qualify as hedges under the new accounting guideline. Effective January 1, 2004 we have elected to apply hedge accounting to all of our financial instruments.

Asset Retirement Obligations

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook section 3110 – Asset Retirement Obligation, to harmonize Canadian GAAP with Financial Accounting Standards Board Statement No. 143. The section replaces previous guidance on future removal and site restoration costs and is effective for fiscal years beginning on or after January 1, 2004. The asset retirement obligation liability will initially be measured at fair value, which is the discounted future value of the liability. The liability accretes until the obligation is settled. The fair value is capitalized as part of the related asset and is depleted over the useful life of the asset. Prior periods have been restated in accordance with the new standard.

Full Cost Accounting

The CICA issued Accounting Guideline 16, "Oil & Gas Accounting – Full Cost". The guideline is effective for fiscal years beginning on or after January 1, 2004. The new guideline modifies how the ceiling test is performed, and requires that cost centres be tested for recoverability using undiscounted future cash flows from proved reserves which are determined by using forward indexed prices. When the carrying amount of a cost centre is not recoverable, the costs centre would be written down to its fair value. Fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows. There is no impact on the Trust's reported financial results as a result of applying the new guideline. There is no write down of the Trust's properties under the new method as of March 31, 2004.

Building Amortization

The Trust adopted the new Canadian Institute of Chartered Accountants ("CICA") recommendations that effectively disallow the use of the sinking fund method of amortization. The Trust is required to assess the useful lives of its income properties for purposes of determining the amount of building amortization to record on a quarterly and annual basis. With the new real estate assets that the Trust purchased on March 31, 2004, the Trust will amortize the cost of these buildings using the straight-line method over their estimated useful lives of approximately 30 to 40 years.

Continuous Disclosure Obligations

Effective March 31, 2004, the Trust and all reporting issuers in Canada will be subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations". This new instrument proposes shorter reporting periods for filing of annual interim financial statements, MD&A and Annual Information Form (AIF). The instrument also requires enhanced disclosure in the annual and interim financial statements, MD&A and AIF. Under this new instrument, it will no longer be mandatory for the Trust to mail annual and interim financial statements and MD&A to unitholders, but rather these documents will be provided on an "as requested" basis. The Trust continues to assess the implications of this new instrument which will be implemented in 2004.

For additional information on the Trust, please go to the company's profile on SEDAR at www.sedar.com or the Trust's website at www.avenirtrust.com.

Submitted on behalf of the Board of Directors by:



William M. Gallacher
President & CEO



Gary Dundas
Vice President Finance & CFO

CONSOLIDATED BALANCE SHEETS

(unaudited)

As at	March 31, 2004	December 31, 2003
ASSETS <i>[note 6]</i>		(restated – note 1)
Current		
Cash and cash equivalents	\$ 1,231,595	\$ 256,872
Restricted cash <i>[notes 2, 3 and 7]</i>	338,950	—
Accounts receivable and prepaid expenses	2,026,253	1,799,803
	3,596,798	2,056,675
Property and equipment <i>[notes 2, 4, 7 and 11]</i>	36,733,862	16,045,613
Financial services contracts <i>[note 17]</i>	3,239,341	3,241,963
Deferred charges <i>[notes 2 and 5]</i>	232,179	—
Goodwill	1,086,729	1,086,729
	44,888,909	22,430,980
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 6]</i>	8,155,000	4,505,000
Accounts payable and accrued liabilities <i>[note 14]</i>	3,750,008	1,489,755
Distributions payable <i>[note 12]</i>	271,041	241,964
Deferred revenue <i>[note 2]</i>	215,896	—
Current portion of capital lease obligations	46,326	61,162
Current portion of mortgages <i>[note 7]</i>	2,170,593	—
	14,608,864	6,297,881
Capital lease obligations	32,459	32,459
Mortgages <i>[notes 2 and 7]</i>	10,276,737	—
Asset retirement obligation <i>[notes 1 and 8]</i>	1,415,301	1,312,965
Future income taxes <i>[note 2]</i>	1,081,148	—
Commitments <i>[notes 2, 13 and 15]</i>		
Unitholders' equity		
Unitholder capital <i>[note 9]</i>	18,844,454	15,851,942
Contributed surplus <i>[note 10]</i>	145,686	119,868
Accumulated earnings	1,093,101	669,736
Accumulated cash distributions	(2,608,841)	(1,853,871)
	17,474,400	14,787,675
	44,888,909	22,430,980

See accompanying notes to the consolidated financial statements

On behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS/(DEFICIT)

(unaudited)

For the three months ended March 31,

	2004	2003
REVENUE		(restated – note 1)
Oil and gas	\$ 2,303,441	\$ 864,376
Royalties, net of ARTC	(314,143)	(140,869)
	1,989,298	723,507
Financial services fees	155,272	63,000
Investment income	—	50,700
Interest and other income	9,748	10,929
	2,154,318	848,136
EXPENSES		
Oil and gas operating	389,562	170,071
General and administrative <i>[notes 10 and 14]</i>	405,188	128,686
Interest and bank fees	67,314	27,641
Depletion and depreciation	840,989	222,092
Asset retirement obligation accretion <i>[note 8]</i>	27,900	17,593
	1,730,953	566,083
Income before income tax	423,365	282,053
Income tax expense	—	—
Net income for the period	423,365	282,053
Accumulated earnings, beginning of the period	285,808	(233,372)
Retroactive application of change in accounting policy <i>[note 1]</i>	383,928	306,000
Accumulated earnings, beginning of period, as restated	669,736	72,628
Accumulated earnings, end of period	1,093,101	354,681
Net income per unit basic and diluted <i>[note 9 and 17]</i>	0.01	0.01

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the three months ended March 31,

	2004	2003
OPERATING ACTIVITIES		(restated – note 1)
Net income for the period	\$ 423,365	\$ 282,053
Add (deduct) non-cash items		
Depletion and depreciation	840,989	222,092
Non-cash general and administrative <i>[note 10]</i>	25,818	—
Asset retirement obligation accretion	27,900	17,593
Funds from (used in) operations	1,318,072	521,738
Change in non-cash working capital	404,047	(166,618)
Cash provided by operating activities	1,722,119	355,120
FINANCING ACTIVITIES		
Issue of trust units/shares	—	5,663,152
Trust unit issue costs	—	(307,485)
Distribution to unitholders	(725,893)	(254,039)
Change in bank indebtedness	3,650,000	1,908,219
Repayments of capital lease obligations	(14,836)	—
Change in non-cash working capital	—	(595,473)
Cash provided by financing activities	2,909,271	6,414,374
INVESTING ACTIVITIES		
Purchase of Western Spirit Investments Ltd. <i>[note 2]</i>	(2,918,687)	—
Purchase and conversion of Onward Energy Inc.	—	(2,910,324)
Oil and gas property acquisitions <i>[note 4]</i>	(1,644,088)	(3,198,858)
Oil and gas property disposals <i>[note 4]</i>	1,234,372	—
Purchase of financial services contract	—	(600,000)
Oil and gas development expenditures	(307,162)	(14,203)
Purchase of other assets	(10,615)	(3,441)
Restricted cash <i>[note 2]</i>	(338,950)	—
Changes in non-cash working capital	328,463	—
Cash used in investing activities	(3,656,667)	(6,726,826)
Increase in cash and cash equivalents during the period	974,723	42,668
Cash and cash equivalents, beginning of period	256,872	82,497
Cash and cash equivalents, end of period	1,231,595	125,165
Cash interest paid	58,955	27,641

See accompanying notes to the consolidated financial statements

NOTES TO FINANCIALS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Avenir Diversified Income Trust (the "Trust") have been prepared by management in accordance with Canadian general 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, 2003, except as noted below. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the 2003 audited consolidated financial statements.

a) Asset retirement obligations

In the first quarter of 2004, the Trust adopted the new CICA Handbook section 3110, Asset Retirement Obligations. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement obligation is to be capitalized to the related asset and amortized into earnings over time. The new accounting policy has been applied retroactively with restatement of prior periods. As a result of the retroactive application, the comparative consolidated statements of operations and accumulated earnings/(deficit) have been restated. The opening adjustment to accumulated earnings at January 1, 2003 was an increase for the change in accounting policy in the amount of \$306,000. The effect of the change on the accumulated earnings for the three months ended March 31, 2003 was a decrease of \$38,657 relating to additional depletion of \$21,064 and accretion on the asset retirement obligation of \$17,593. The net income per unit basic and diluted also decreased by \$0.01.

The following December 31, 2003 balances were restated as a result of the change:

	As previously reported	Adjustment	As restated
Property and equipment	\$ 14,915,876	\$ 1,129,737	\$ 16,045,613
Provision for future site restoration and abandonment	567,156	(567,156)	—
Asset retirement obligation	—	1,312,965	1,312,965
Accumulated earnings	285,808	383,928	669,736

b) Hedge accounting

In 2003, the CICA issued Accounting Guideline 13, Hedging Relationships, effective for years beginning after July 1, 2003, to clarify circumstances in which hedge accounting is appropriate. It also establishes conditions for applying or discontinuing hedge accounting. Under the new guideline, hedge transactions must be documented and it must be demonstrated that the hedges are sufficiently effective in order to continue using hedge accounting. The Trust's hedges qualify for the use of hedge accounting and the Trust has elected to apply hedge accounting.

c) Full cost accounting

The Trust has adopted the new CICA Accounting Guideline 16, "Oil & Gas Accounting – Full Cost". The new guideline modifies how the ceiling test is performed, and requires that cost centres be tested for recoverability using undiscounted future cash flows from proved reserves which are determined by using forward indexed prices. When the carrying amount of a cost centre is not recoverable, the costs centre would be written down to its fair value. Fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows. There is no impact on the Trust's reported financial results as a result of applying the new guideline.

d) Real estate properties

The Trust amortizes the costs of its buildings using the straight-line method over their estimated useful lives ranging from approximately 30 to 40 years.

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

e) Deferred charges

Development charges represent property investigation costs, which are capitalized on acquisition of properties or expensed when investigations are no longer warranted.

Costs incurred to secure new tenants are amortized over the term of the lease.

f) Capitalized costs

The Trust capitalizes all direct costs relating to real estate acquisitions including carrying costs such as professional, transaction and overhead directly attributable to these activities.

2. WESTERN SPIRIT INVESTMENTS LTD.

On March 31, 2004 the Trust acquired all of the outstanding shares of Western Spirit Investments Ltd. ("Western Spirit"), a publicly traded real estate company, pursuant to which the Trust acquired Western Spirit under a plan of arrangement, for consideration consisting of cash of \$3,000,000 and the issuance of 4,987,497 Trust Units. The Trust Units were valued based on the average fair market value of the units immediately prior to the date the acquisition was announced. The Trust also issued an aggregate of 10,513,179 performance rights. Each performance right entitles the holder to acquire 0.05 of a Trust Unit for no additional consideration, provided that, at any time on or prior to January 21, 2005 either a signed lease agreement is in place for that portion of the area in Western Spirit's Harris Building, which is currently vacant, or the Trust sells the Harris Building for not less than \$8,500,000. The outcome of the conditions related to the exercise of these rights is uncertain and therefore, the rights have not been considered in the purchase price allocation below. However, if these rights are exercised the impact on the purchase price, based on current market conditions, would be an increase of \$315,395.

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

Calculation of purchase price:

Cash consideration	\$ 3,000,000
Trust units issued	2,992,512
Estimated transaction costs	406,863
Less: cash received (including restricted cash)	(488,176)
	<hr/>
	5,911,199

Allocation of purchase price:

Working capital	(501,294)
Real estate properties	20,724,688
Deferred charges	232,179
Mortgages	(12,447,330)
Deferred revenue	(215,896)
Severance costs	(650,000)
Tenant improvement	(150,000)
Future income taxes	(1,081,148)
	<hr/>
	5,911,199

3. RESTRICTED CASH

	March 31, 2004
Restricted – tenant renewal and leasing cost fund under terms of the mortgage agreement (see note 7)	\$ 338,950
	<hr/>
	338,950

4. PROPERTY AND EQUIPMENT

	March 31, 2004		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties/production equipment	\$ 18,260,030	\$ 2,366,292	\$ 15,893,738
Real estate properties	20,724,688	—	20,724,688
Assets under capital lease	175,689	79,549	96,140
Furniture and computer equipment	24,086	4,790	19,296
	39,184,493	2,450,631	36,733,862

- a) On March 25, 2004 the Trust sold non core oil and gas assets to an arm's length party for total cash consideration of \$904,016 including adjustments to date. On March 30, 2004 the Trust also sold non core oil and gas assets to an arm's length party for total cash consideration of \$330,356 including adjustments to date.
- b) On March 26, 2004 the Trust purchased oil and gas assets from two unrelated arm's length parties for total cash consideration of \$1,644,088 including adjustments to date. An additional asset retirement obligation of \$74,436 was recorded on these acquisitions.
- c) Undeveloped land of \$150,000 has been excluded for purposes of calculating depletion and depreciation (December 31, 2003 - \$150,000).
- d) In 2002 the Trust had not yet concluded any oil and gas transactions in which property, plant and equipment had been recorded on the balance sheet. The Trust had however entered into a Participation Agreement with Provident Energy Trust ("Provident"), which allowed the Trust to participate in oil and gas exploration and development on a large Southern Alberta land block where it had identified several prospects. The farm-in arrangement dated September 25, 2002 committed the Trust to expenditures of \$1,500,000 on development, exploration and recompletion work prior to December 31, 2003. The agreement was recorded at no cost.

Prior to the end of 2003, the Trust had met its proposal commitment but Provident, as was their option, chose not to approve any of the proposed operations. The Trust is currently in discussions on proposals on specific projects in the southern Alberta land block but no commitments have been made at this time.

5. DEFERRED CHARGES

	March 31, 2004
Deferred lease costs, net of accumulated amortization	\$ 232,179
	232,179

6. BANK INDEBTEDNESS

The Trust had a combined revolving demand facility with a major Canadian bank in the amount of \$5,200,000 bearing interest at bank prime plus one percent. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. In addition, the Trust has an acquisition and development line of \$2,000,000, bearing interest at bank prime plus one and one-half percent, to fund additional oil and gas acquisitions. The Trust also has a bridge demand loan of \$3,000,000 bearing interest at bank prime plus two percent, to fund real estate acquisitions. The effective interest rate at March 31, 2004 was 5.61%.

As at March 31, 2004 there was \$5,155,000 and \$3,000,000 outstanding on the revolving demand facility and the bridge demand loan, respectively. The bridge facility was used to close the March 31, 2004 Western Spirit real estate acquisition (see note 2). The Trust also had two letters of credit outstanding in the amounts of \$20,000 and \$25,000.

Subsequent to the quarter ended March 31, 2004 the revolving demand facility limit was increased to \$6,500,000 bearing interest at prime plus three-quarters percent.

7. MORTGAGES

March 31, 2004

Various mortgages with interest rates ranging from 5.75% to 8.15% (weighted average rate of 7.5%), maturities from August 2004 to September 2006, secured by first charges over the related properties, and restricted cash	\$ 12,447,300
Less current portion of mortgages	2,170,593
	<u>10,276,737</u>
Approximate principal repayments required to maturity are as follows:	
2004	\$ 2,170,593
2005	8,190,371
2006	2,086,366
	<u>12,447,330</u>

8. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its total asset retirement obligations to be \$1,415,301 as at March 31, 2004 based on a total future liability of \$2,632,881. These payments are expected to be made over the next 4 to 15 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 December 31, 2003, as restated	\$ 1,312,965
Change in liability due to activities during the period	74,436
Asset retirement obligation accretion for the period	27,900
Carrying amount, as at March 31, 2004	<u>1,415,301</u>

9. UNITHOLDERS' CAPITAL

a) Unitholders' capital

Authorized

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

Issued

Trust Units	Number of Units	Amount \$
Balance December 31, 2003	41,503,282	15,851,942
Units issued on Western Spirit corporate purchase (i)	4,987,497	2,992,512
Balance March 31, 2004	46,490,779	18,844,454

(i) On March 31, 2004 the value of the Western Spirit shares acquired by the Trust was \$5,992,512 for which the Trust paid cash of \$3,000,000 and issued 4,987,497 trust units of \$2,992,512 (see note 2).

b) Net income per unit/share

For the three months ended March 31, 2004 the Trust had a weighted average of 41,558,090 trust units outstanding (March 31, 2003 – 20,656,554). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in a weighted average number of trust units outstanding for the three months ended March 31, 2004 of 42,310,988 (March 31, 2003 – 20,834,332). At March 31, 2004 there were no anti-dilutive options. (see note 17).

10. STOCK-BASED COMPENSATION

Under the Trust's unit option plan, options to acquire trust units are granted to employees and directors from time to time at exercise prices equal to the market value of the units at the date of the grant. Options granted under the plan vest over a three-year period and have a five-year life. The exercise price of the options is periodically adjusted to reflect the Trust's monthly distributions. Any consideration paid on exercise of stock options is credited to share capital. A total of 2,116,992 units have been reserved under this plan.

At March 31, 2004 a total of 1,850,000 options vesting over three years had been granted under the Trust unit option plan and 533,332 of the outstanding options had vested. 1,600,000 of the options granted to date have an exercise price of \$0.40 and the remaining 250,000 options have an exercise price of \$0.50. The average remaining life of the options is 3.93 years and the weighted average remaining vesting period of the options is 0.97 years. For the three months ended March 31, 2004 no options were forfeited or expired.

Based on the period end unit price the Trust recorded compensation expense and contributed surplus of \$25,818 in the three months ended March 31, 2004.

11. REAL ESTATE CO-OWNERSHIP AGREEMENT

The unaudited interim consolidated financial statements include the Trust's 50% interest in the respective assets, liabilities, revenue and expenses of an unincorporated co-ownership agreement.

The following amounts are included in the unaudited interim consolidated financial statements of the Trust relating to this investment:

	March 31, 2004
Assets	\$ 1,364,371
Liabilities	948,905

12. CASH DISTRIBUTIONS

Cash distributions declared per Trust unit issued and outstanding:

Period covered	Date of Distribution	\$ Per Unit
January 1, 2004 to January 31, 2004	02/13/2004	0.00583
February 1, 2004 to February 29, 2004	03/15/2004	0.00583
March 1, 2004 to March 31, 2004	04/15/2003	0.00583

As at March 31, 2004 the Trust had distributions owing of \$271,041 (December 31, 2003 - \$241,964).

13. FINANCIAL INSTRUMENTS

a) Fair values of financial assets and liabilities

The Trust's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, financial services contracts, bank indebtedness, accounts payable, distributions payable, capital lease obligations and mortgages. Unless otherwise noted, as at March 31, 2004 and 2003, there were no significant differences between the carrying amounts of these financial instruments and their estimated fair values. The fair value of the financial services contracts at March 31, 2004 was \$3,822,222.

The Trust was a party to certain off balance sheet derivative instruments in the first quarter of 2004 consisting of fixed price forward contracts. The contracts outstanding with respect to the hedging activities at March 31, 2004 are as follows:

- A fixed price swap for the period July 1, 2003 to June 30, 2004 on 33 bbls/day of oil at a price of US\$27.45 WTI.
- A fixed price swap for the period April 1, 2004 to June 30, 2004 on 85 bbls/day of oil at a price of US\$27.70 WTI.
- A fixed price swap for the period July 1, 2004 to June 01, 2005 on 100 bbls/day of oil at a price of US\$27.78 WTI.

Based on dealer quotes, had these contracts been closed on March 31, 2004, a loss of \$314,817 would have been realized.

14. RELATED PARTY TRANSACTIONS

During three months ended March 31, 2004, the Trust paid \$26,024 (March 31, 2003 - \$18,000) in administration, consulting and rental fees to Avenir Capital Corporation ("Avenir"), a major unitholder of the Trust and in effect the sponsor of the Trust.

During the three months ended March 31, 2004 the Trust also entered into a loan agreement with Avenir for \$400,000 to help finance the acquisition of Western Spirit, which is currently recorded in accounts payable. The loan is repayable June 30, 2004 and interest is calculated at bank prime plus 2%.

15. COMMITMENTS

The contracts outstanding with respect to the physical deliveries of oil and gas at March 31, 2004 are as follows:

- A physical fixed price swap for the period April 1, 2004 to October 31, 2004 on 700 gigajoules/day of gas at a price of \$5.91.
- A physical fixed price swap for the period November 1, 2004 to October 31, 2005 on 700 gigajoules/day of gas at a price of \$5.94.

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

The Trust has future minimum lease commitments in aggregate of \$9,763 due in 2004.

16. SEGMENTED INFORMATION

The Trust determines its reportable segments based on the structure of its operations, which are primarily focused on three principal business segments – oil and gas, financial services and real estate. The following is the financial information as at March 31, 2004 and for the three months then ended.

	Oil and Gas	Financial Services	Real Estate	Total
Revenue				
Revenue, net of royalties	\$ 1,989,298	\$ —	\$ —	\$ 1,989,298
Financial services fees	—	155,272	—	155,272
Interest and other revenue	9,748	—	—	9,748
	1,999,046	155,272	—	2,154,318
Expense				
Oil and gas operating	389,562	—	—	389,562
General and administrative	387,582	17,606	—	405,188
Depletion and depreciation	840,989	—	—	828,588
Asset retirement obligation	27,900	—	—	22,412
Interest and bank fees	67,314	—	—	67,314
	1,713,347	17,606	—	1,730,953
Net income	285,699	137,666	—	423,365

	Oil and Gas	Financial Services	Real Estate	Total
Selected balance sheet items				
Property and equipment	\$ 16,009,174	\$ —	\$ 20,724,688	\$ 36,733,862
Financial services contracts	—	3,239,341	—	3,239,341
Goodwill	1,086,729	—	—	1,086,729
Bank indebtedness	5,155,000	—	3,000,000	8,155,000

17. SUBSEQUENT EVENTS

On April 23, 2004 the Trust entered into an additional financial services contract in the amount of \$1,000,000 which was funded through a bridge loan of \$1,000,000 which is an extension of the current bridge loan disclosed in note 4 under the same terms. This will be repaid through the funds raised on the financing disclosed below. The contract pays the Trust a fixed fee of \$0.07 per \$100 loaned per day and is callable at the Trust's option with thirty days notice.

On April 30, 2004 the Trust purchased oil and gas assets from an arm's length party in exchange for non-core oil and gas assets of \$80,893 and cash consideration of \$185,425 including adjustments to date.

On May 6, 2004 the Trust entered into an engagement agreement with a syndicate of agents, led by First Associates Investments Inc., in connection with a "best efforts" public offering by way of a long form prospectus for minimum proceeds of \$15,000,000 and maximum proceeds of \$25,000,000. The offering is subject to regulatory approval including approval of the TSX Venture Exchange. The net proceeds of the offering will be used for continued growth and development in its oil and gas, financial services and real estate operations.

On May 18, 2004 as disclosed in the Trust's information circular with respect to the annual and special meeting of Unitholders the Trust indicated its intentions upon unitholder approval to consolidate its stock. In order to pursue certain strategic objectives, the Trust believes it is necessary to effect the consolidation in order that the Trust's post-consolidation trading price would be in a range that would (i) allow the Trust to proceed with the listing on a more senior exchange; and (ii) be attractive to institutional investors who may wish to acquire the Trust's Units. Given the foregoing, the Trust wishes to obtain Unitholder approval such that management has the ability, in its discretion, to proceed with the proposed Consolidation, on a maximum 1 for 15 basis, over the course of the next year. This will be voted on by the Unitholders on June 10, 2004 at the annual and special meeting of Unitholders. If approved, the basic and diluted weighted average number of units outstanding at March 31, 2004 would be reduced to 2,770,539 and 2,820,732 respectively and the Trust's basic and diluted net income per unit would be \$0.15.

CORPORATE INFORMATION

Directors

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Calgary, Alberta

Gary Dundas
Avenir Diversified Income Trust
Calgary, Alberta

Alan Moon ^(1,2)
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David Butler ^(1,3)
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Stuart Chow ^(2,3)
Calgary, Alberta

Jeff Kohn ^(1,2)
Calgary, Alberta

1 Audit Committee

2 Governance and Compensation Committee

3 Reserves Committee

Officers & Key Personnel

William Gallacher, P.Eng
President & CEO

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

Jill Koskimaki
Manager Business Development

Michelle O'Grady, CA
Controller

Advisors

Tonko Realty Advisors
Calgary, Alberta

Corporate Secretary

Jeffrey Lawson
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Evaluation Engineers

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Legal Counsel

Burnet, Duckworth & Palmer, LLP
Calgary, Alberta

Transfer Agent

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