

**AVENIR DIVERSIFIED INCOME TRUST**  
**NOTICE OF ANNUAL AND SPECIAL MEETING**  
**and**  
**MANAGEMENT PROXY CIRCULAR**

**with respect to the**  
**Annual and Special Meeting of Unitholders**

**To be Held On May 25, 2005**

**AVENIR DIVERSIFIED INCOME TRUST  
NOTICE OF THE ANNUAL AND SPECIAL MEETING  
OF UNITHOLDERS TO BE HELD  
MAY 25, 2005**

**TO: THE UNITHOLDERS OF AVENIR DIVERSIFIED INCOME TRUST**

Notice is hereby given that an Annual and Special Meeting (the "**Meeting**") of the holders ("**Unitholders**") of trust units (the "**Trust Units**") of Avenir Diversified Income Trust (the "**Trust**") will be held at the Metropolitan Conference Centre, 333 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta at 9:00 a.m. (Calgary time), for the following purposes:

- (a) to receive and consider the consolidated financial statements of the Trust for the year ended December 31, 2004 and the auditors' report thereon;
- (b) to fix the number of directors of Avenir Operating Corp. ("**Avenir**" or the "**Manager**") to be elected at the Meeting at seven (7) members;
- (c) to elect the directors of the Manager of the Trust;
- (d) to re-appoint the Trustee of the Trust;
- (e) to appoint the auditors of the Trust and to authorize the directors to fix their remuneration as such;
- (f) to consider and, if deemed advisable by the Unitholders to pass an ordinary resolution to ratify approve certain grants of options to purchase trust units in excess of the number of Trust Units authorized for issuance under the Trust's current unit option plan, as more particularly described in the Information Circular;
- (g) to consider and, if deemed advisable by the Unitholders, to pass an ordinary resolution to ratify and approve a new trust unit option plan of the Trust, as more particularly described in the Information Circular; and
- (h) to transact such further and other business as may properly come before the meeting or adjournment or adjournments hereof.

The nature of the business to be transacted at the Meeting is described in further detail in the accompanying Information Circular.

The record date for the determination of unitholders entitled to receive notice of and to vote at the Meeting is April 18, 2005 (the "**Record Date**"). Unitholders of the Trust whose names have been entered in the register of Unitholders at the close of business on that date will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent a Unitholder transfers the ownership of any of such Unitholder's units after such date and the transferee of those units establishes that the transferee owns the units and requests, not later than 10 days before the Meeting, to be included in the list of Unitholders eligible to vote at the Meeting, such transferee will be entitled to vote those units at the Meeting.

**A Unitholder may attend the Meeting in person or may be represented by proxy. Unitholders who are unable to attend the Meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. To be effective, the enclosed proxy must be mailed so as to reach or be deposited with Olympia Trust Company (the "Trustee"), Proxy Department, 2300, 125 – 9th Avenue S.E., Calgary, Alberta, T2G 0P6, not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time set for the Meeting or any adjournment thereof.**

**The persons named in the enclosed form of proxy are directors and/or officers of the Manager. Each Unitholder has the right to appoint a proxyholder other than such persons, who need not be a Unitholder, to attend and to act for such Unitholder and on such Unitholder's behalf at the Meeting. To exercise such right,**

**the names of the nominees of management of the Manager should be crossed out and the name of the Unitholder's appointee should be legibly printed in the blank space provided.**

**In the event of a strike, lockout or other work stoppage involving postal employees, all documents required to be delivered by the Unitholder should be delivered by facsimile to the Trustee at (403) 265-1455.**

DATED at Calgary, Alberta this 27<sup>th</sup> day of April, 2005.

**BY ORDER OF THE BOARD OF DIRECTORS  
OF AVENIR OPERATING CORP.**

(signed) "William M. Gallacher"  
President and Chief Executive Officer

## AVENIR DIVERSIFIED INCOME TRUST

Information Circular - Proxy Statement  
for the Annual and Special Meeting of Unitholders  
to be held on May 25, 2005

### SOLICITATION OF PROXIES

**This Information Circular - Proxy Statement is furnished in connection with the solicitation of proxies by Avenir Operating Corp. ("Avenir" or the "Manager") the manager of Avenir Diversified Income Trust (the "Trust"), for use at the Annual and Special Meeting (the "Meeting") of the holders (the "Unitholders") of trust units ("Trust Units") of the Trust to be held on the 25<sup>th</sup> day of May, 2005 at the Metropolitan Conference Centre, 333 - 4<sup>th</sup> Avenue S.W., Calgary, Alberta at 9:00 a.m. (Calgary time) and at any adjournment(s) thereof, for the purposes set forth in the Notice of Meeting.**

The Trust has two types of securities that entitle holders to vote generally at meetings of Unitholders: Trust Units and special voting units ("**Special Voting Units**"). Each holder of Trust Units outstanding on the Record Date (as defined below) is entitled to one vote at all meetings of Unitholders for each Trust Unit held. Each holder of Special Voting Units outstanding on the Record Date (as defined below) is entitled to that number of votes per Special Voting Unit as may be prescribed by the board of directors of Avenir in the resolution authorizing the issuance of such. As of the date hereof, there are 24,949,031 Trust Units and no Special Voting Units issued and outstanding.

Instruments of Proxy must be received by the Assistant Corporate Secretary of Avenir, c/o Olympia Trust Company (the "**Trustee**"), 2300, 125 - 9th Avenue S.E., Calgary, Alberta, T2G 0P6 not less than 48 hours before the time set for the holding of the Meeting or any adjournment(s) thereof. The Board of Directors of Avenir has fixed the record date for the Meeting at the close of business on April 18, 2005 (the "**Record Date**"). Only Unitholders of the Trust of record as at the Record Date are entitled to receive notice of the Meeting and to vote their Trust Units included in the list of Unitholders entitled to vote at the Meeting prepared as at the Record Date. Unitholders of record will be entitled to vote those Trust Units or Special Voting Units, as the case may be, included in the list of Unitholders entitled to vote at the Meeting prepared as at the Record Date even though the Unitholder has since that time disposed of his or her Trust Units. No Unitholder who becomes a Unitholder after the Record Date shall be entitled to vote at the Meeting.

The instrument appointing a proxy shall be in writing and shall be executed by the Unitholder or his or her attorney authorized in writing or, if the Unitholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized.

**The persons named in the enclosed Instrument of Proxy are directors and/or officers of the Manager. Each Unitholder has the right to appoint a proxyholder other than the persons designated in the Instrument of Proxy furnished by the Manager, who need not be a Unitholder, to attend and act for the Unitholders and on the Unitholder's behalf at the Meeting. To exercise such right, the names of the persons designated by management should be crossed out and the name of the Unitholder's appointee should be legibly printed in the blank space provided.**

### REVOCABILITY OF PROXY

A Unitholder who has submitted a proxy may revoke it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the Unitholder or his or her attorney authorized in writing or, if the Unitholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized and deposited either at the head office of the Manager at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits, the proxy is revoked.

## PERSONS MAKING THE SOLICITATION

**The solicitation is made on behalf of the management of the Manager.** The costs incurred in the preparation and mailing of the Instrument of Proxy, Notice of Meeting and this Information Circular - Proxy Statement will be borne by the Trust. In addition to solicitation by mail, proxies may be solicited by personal interviews, telephone or other means of communication and by directors, officers and employees of the Manager, who will not be specifically remunerated therefor.

## EXERCISE OF DISCRETION BY PROXY

The Trust Units represented by the Instrument of Proxy enclosed with this Notice of Meeting and this Information Circular will be voted in accordance with the instructions of the Unitholder, but if no specification is made, the Trust Units will be voted in favour of the matters set forth in the proxy. If any amendments or variations are proposed at the Meeting or any adjournment thereof to matters set forth in the proxy and described in the accompanying Notice of Meeting and this Information Circular, or if any other matters properly come before the Meeting or any adjournment thereof, the proxy confers upon the Unitholder's nominee discretionary authority to vote on such amendments or variations or such other matters according to the best judgment of the person voting the proxy at the Meeting. At the date of this Information Circular, management of the Manager knows of no such amendments or variations or other matters to come before the Meeting.

## ADVICE TO BENEFICIAL HOLDERS OF SECURITIES

The information set forth in this section is of significant importance to many public Unitholders of the Trust, as a substantial number of the public Unitholders of the Trust do not hold Trust Units in their own name. Unitholders who do not hold their Trust Units in their own name (referred to in this Information Circular as "**Beneficial Unitholders**") should note that only proxies deposited by Unitholders whose name appears on the records of the Trust as a registered holder of Trust Units can be recognized and acted upon at the Meeting. If Trust Units are listed in an account statement provided to a Unitholder by a broker, then in almost all cases those Trust Units will not be registered in the Unitholder's name on the records of the Trust. Such Trust Units will more likely be registered under the name of the Unitholder's broker or an agent of that broker. In Canada, the vast majority of such Trust Units are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). Trust Units held by brokers or their nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Unitholder. Without specific instructions, brokers/nominees are prohibited from voting Trust Units for their clients. The Trust does not know for whose benefit the Trust Units registered in the name of CDS & Co. are held.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Unitholders in advance of Unitholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Unitholders in order to ensure that their Trust Units are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Unitholder by its broker is identical to the form of proxy provided to registered Unitholders. However, its purpose is limited to instructing the registered Unitholders how to vote on behalf of the Beneficial Unitholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to the Independent Investor Communications Company ("**ADP Canada**"). ADP Canada typically mails a scannable Voting Instruction Form in lieu of the form of Proxy. The Beneficial Holder is requested to complete and return the Voting Instruction Form to them by mail or facsimile. Alternatively, the Beneficial Unitholder can call a toll-free telephone number to vote the Trust Units held by the Beneficial Unitholder. ADP Canada then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of the Trust Units to be represented at the Meeting. **A Beneficial Unitholder receiving a Voting Instruction Form cannot use that Voting Instruction Form to vote Trust Units directly at the Meeting as the Voting Instruction Form must be returned as directed by ADP Canada well in advance of the Meeting in order to have the Trust Units voted.**

## VOTING TRUST UNITS AND PRINCIPAL HOLDERS THEREOF

The Trust is, an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created through a trust indenture dated as of September 24, 2002 (the "**Trust Indenture**") between the Trustee and the Manager. The Trust is authorized to issue an unlimited number of Trust Units. As at the date hereof, an

aggregate of 29,949,031 Trust Units are issued and outstanding. The Trust is also authorized to issue an unlimited number of Special Voting Units. As of the date hereof, no Special Voting Units are issued and outstanding.

At the Meeting, upon a show of hands, every Unitholder present in person or represented by proxy and entitled to vote shall have one vote. On a poll or ballot, every Unitholder present in person or by proxy has one vote for each Trust Unit of which such Unitholder is the registered holder. All votes on special resolutions shall be by a ballot and no demand for a ballot shall be necessary.

When any Trust Unit is held jointly by several persons, any one of them may vote at the Meeting in person or by proxy in respect of such Trust Unit, but if more than one of them shall be present at the Meeting in person or by proxy, and such joint owners of the proxy so present disagree as to any vote to be cast, the joint owner present or represented whose name appears first in the register of Unitholders maintained by the Trustee shall be entitled to such vote.

To the best of the knowledge of the Trustee, the Manager, and the directors of the Manager, there is no person or corporation which beneficially owns, directly or indirectly, or exercises control or direction over the Trust Units carrying more than 10% of the voting rights attached to the issued and outstanding Trust Units.

#### **QUORUM FOR MEETING**

At the Meeting, a quorum shall consist of one person either present in person or represented by proxy and representing in the aggregate not less than 10% of the outstanding Trust Units. If a quorum is not present at the Meeting within one half hour after the time fixed for the holding of the Meeting, it shall stand adjourned to such day being not less than twenty-one (21) days later and to such place and time as may be determined by the Chairman of the Meeting. At such Meeting, the Unitholders present either personally or by proxy shall form a quorum. In the case of a meeting at which a special resolution is under consideration, such adjournments are required to be for not less than 21 days nor more than 60 days and notice to be given at least 10 days prior to the date of the adjourned meeting.

#### **APPROVAL REQUIREMENTS**

All of the matters to be considered at the Meeting are ordinary resolutions requiring approval by more than 50% of the votes cast in respect of the resolution by or on behalf of Unitholders present in person or represented by proxy at the Meeting.

#### **MATTERS TO BE ACTED UPON AT THE MEETING**

##### **Fixing the Number of Directors**

At the meeting, Unitholders will be asked to fix the number of directors of the Manager at seven (7).

##### **Election Of Directors of the Manager**

At the Meeting, Unitholders will be asked to elect the proposed directors set forth below to hold office until the next annual meeting or until their successors are elected or appointed. There are presently six directors of the Manager, each of whom retire from office at the Meeting.

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of a resolution electing as directors the seven (7) nominees hereinafter set forth:

William M. Gallacher  
Gary H. Dundas  
Stuart Y. Chow  
William E. Patterson

David E. Butler  
Alan C. Moon  
Jeffrey D. Kohn

The names and municipalities of residence of the persons nominated for election as directors of the Manager, the number of voting securities of the Trust beneficially owned, directly or indirectly, or over which each exercises control or direction, the offices held by each in the Trust, the period served as director and the principal occupation of each are as follows:

Name and Municipality of Residence	Position Held	Year Became Director or Officer	Number of Trust Units Held <sup>(1)</sup>	Principal Occupation and Positions for the Past Five Years
William M. Gallacher <sup>(2)(3)(4)</sup> Calgary, Alberta	President, Chief Executive Officer and a Director	2003	184,579 (0.7%)	President & Chief Executive Officer of Avenir; Partner & Managing Director Avenir Capital Corporation; co-founder of Maxim Power Corp., Highland Energy Ltd., Peak Energy Services and Atlas Energy Ltd.
Gary H. Dundas <sup>(1)(2)</sup> Calgary, Alberta	Vice-President, Finance, Chief Financial Officer and a Director	2003	185,605 (0.7%)	Vice-President and Chief Financial Officer of the Manager; prior thereto, Chief Financial Officer and Vice-President Finance; General Manager Corporate Development, Marketing; and Controller at Maxx Petroleum Ltd., a publicly traded junior exploration & production company.
David E. Butler <sup>(1)(3)</sup> Calgary, Alberta	Director	2003	28,666 (0.11%)	President of Passport Petroleums Ltd., a private oil and gas company.
Stuart Y. Chow <sup>(2)(3)</sup> Calgary, Alberta	Director	2003	29,090 (0.12%)	President of Bravo Energy Inc.; former President of Onward Energy Inc. (prior to its acquisition by the Trust in January 2003).
Alan C. Moon <sup>(1)(2)(8)</sup> Calgary, Alberta	Director	2003	6,500 (0.03%)	President of Crescent Enterprise Inc., a private consulting firm.
Jeffery D. Kohn <sup>(1)(2)</sup> Calgary, Alberta	Director	2003	113,000 (0.45%)	President TGS North American REIT. Previously a Partner with Tonko Realty Advisors, a private real estate advisory firm.
William E. Patterson <sup>(6)(7)</sup> Calgary Alberta	Proposed Director	2005	Nil	Currently an Independent Chartered Accountant and Tax and Business Consultant; previously Vice-President, Finance and Chief Financial Officer for Energy North Inc. (January 1999 – July 2004).

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Corporate Governance and Compensation Committee.
- (3) Member of the Reserves Committee.
- (4) 43,545 Trust Units are held through 960349 Alberta Ltd., a company owned by Messrs. Gallacher and Dundas as to an undivided 50% interest each.
- (5) The Manager does not have an Executive Committee of its Board of Directors.
- (6) Proposed member of the Audit Committee.
- (7) Proposed member of the Corporate Governance Compensation Committee.
- (8) Mr. Moon serves as the Lead Director. See "Compliance with Corporate Governance Guidelines" – Item 1(e).

As at April 26, 2005, the directors and executive officers of the Manager, as a group, beneficially owned, directly or indirectly, an aggregate of 936,660 Trust Units or approximately 3.8% of the issued and outstanding Trust Units.

Deleted: 3

The information as to Trust Units beneficially owned, directly or indirectly, or over which control or direction is exercised, is based upon information furnished to the Trust by the respective nominees as at April 26, 2005.

### **Appointment of Trustee**

The Trust Indenture provides that the Trustee shall be reappointed annually by Unitholders of the Trust. Accordingly, Unitholders will consider and, if thought advisable, pass an ordinary resolution to reappoint Olympia Trust Company as the Trustee of the Trust until the next annual meeting of the Unitholders.

### **Appointment Of Auditors**

The Trust Indenture provides that the auditors of the Trust will be selected at each annual meeting of Unitholders. Accordingly, Unitholders will consider and, if thought advisable, pass an ordinary resolution to appoint the firm of Ernst & Young LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of the Trust until the next annual meeting of the Unitholders and to authorize the directors of Avenir to fix their remuneration as such. Ernst & Young LLP have been the auditors of the Trust since January 16, 2003.

### **Approval and Ratification of Certain Option Grants**

Unitholders will be asked at the Meeting to consider and, if thought advisable, to ratify certain grants of options to purchase Trust Units in excess of the number of Trust Units authorized for issuance under the Trust's current unit option plan (the "**Old Plan**") by an amount as set forth below. Accordingly, at the Meeting, the following ordinary resolution will be presented:

"BE IT RESOLVED, as an ordinary resolution of the Unitholders of Avenir Diversified Income Trust (the "**Trust**"), that:

1. the grant of options of the Trust effective January 4, 2005 and April 26, 2005 resulting in the Trust exceeding the maximum number of Trust Units reserved for issuance under the Plan by an amount of 216,937, be and is hereby ratified and approved, subject to approval of the Toronto Stock Exchange; and
2. any one officer or director of Avenir Operating Corp. be and is hereby authorized to execute and deliver all such agreements and documents, whether under the corporate seal or otherwise, and to take all action, as such officer or director shall deem necessary or appropriate to give effect to the foregoing resolution."

In order for this resolution to be passed, it must be approved by a simple majority of the votes cast by Unitholders who vote in person or by proxy at the Meeting.

### **Approval of Trust Unit Option Plan**

Unitholders will be asked at the Meeting to consider and, if thought advisable, to ratify and approve a new Trust Unit option plan (the "**New Plan**") for the Trust. Effective January 1, 2005, the Toronto Stock Exchange (the "**TSX**") has amended its rules relating to share compensation arrangements for option plans. As a result of the TSX's revisions to compensation arrangements for stock option plans, we propose to amend the Plan as follows:

1. delete reference to a maximum number of Trust Units issuable or reserved pursuant to the Plan, and provide that the maximum number of Trust Units issuable pursuant to the New Plan shall be a "rolling" maximum equal to 10% of the outstanding Trust Units. Any increase in the issued and outstanding Trust Units will result in an increase in the available number of Trust Units issuable under the New Plan, and any exercises of options will make new grants available under the New Plan;
2. amend the definition of "market price", being the lowest price that an exercise price of an option (an "**Option**") may be issued, to be in accordance with the revised TSX rules. Currently, the exercise price of an Option cannot be lower than the closing price of the Trust Units on the TSX on the last trading day prior

to the date of grant. The revised rules specify that the market price be based on the volume weighted average trading price of the Trust Units for the 5 trading days prior to the date of grant; and

3. in compliance with the TSX's rules, amend the Plan to allow for the directors by resolution to amend the New Plan without Unitholder approval, however, the directors will not be entitled to amend an Option grant for an Option held by an insider to lower the exercise price or to extend the expiry date. Any amendments would remain subject to TSX approval. Examples of amendments that would be permitted pursuant to this approval include amendments of a "housekeeping" nature, a change to the vesting provisions of an Option or the New Plan, a change to the termination provisions of an Option or the New Plan which does not entail an extension beyond the original expiry date or the addition of a cashless exercise feature, payable in securities or cash, which provides for a full deduction of the number of underlying securities from the New Plan reserve. This approval would not allow the directors by resolution to increase the maximum number of Trust Units issuable under the New Plan without appropriate shareholder and TSX approval.

The TSX's changes include that all security based compensation arrangements, including option plans, must be approved by Unitholders every 3 years. If the New Plan is reapproved as proposed to be amended at the Meeting, it will need to be approved by Unitholders again in 3 years to continue in effect past that time.

The New Plan would continue to have the following features:

1. our directors, officers, employees and consultants, or those of our subsidiaries, are eligible to receive Options under the New Plan;
2. when exercising an Option, the person exercising it has the right to require us to pay an "in the money" amount to him or her and the Option will be terminated. The "in the money" amount is calculated by subtracting the exercise price of an Option from the weighted average trading price of the Trust Units for the 5 days prior to giving notice to us of the election to exercise the right. The Board has the ability to determine not to accept the notice and require the individual to exercise the Option instead. The advantage to us of allowing for this right is that if the holder of the Option exercises the right instead of exercising the Option in the traditional manner, shares would not be issued, resulting in less dilution during the term of the New Plan;
3. the New Plan will provide that:
  - (a) the aggregate number of Trust Units reserved for issuance to any one person under the New Plan, together with all of our other share compensation arrangements, must not exceed 5% of the then outstanding Trust Units;
  - (b) in the aggregate, no more than 10% of the outstanding issue of Trust Units (on a non-diluted basis) may be reserved at any time for Insiders under the New Plan, together with all other share compensation arrangements of the Trust; and
  - (c) the aggregate number of Trust Units issued to Insiders pursuant to the New Plan and all other share compensation arrangements of the Trust, within a one year period, shall not exceed 10% of the outstanding issue of Trust Units (on a non-diluted basis);
4. the vesting arrangements are within the discretion of the Board;
5. the term of Option grants are within the discretion of the Board, but cannot be longer than 5 years;
6. Options terminate within a period of time following an Optionholder ceasing to be at least one of an employee, director, officer or consultant of ours or a subsidiary of ours. However, in the event of death, the Board has the discretion to extend the expiry date, but in any event the Option cannot have a term greater than 5 years;

7. Options granted under the New Plan are non-assignable; and
8. Options granted to non-employee directors are approved by the Corporate Governance and Compensation Committee of the Board of Directors and in aggregate will not exceed one percent of our issued Trust Units.

Accordingly, at the Meeting, the following ordinary resolution (the "**Option Plan Resolution**") will be presented:

"BE IT RESOLVED, as an ordinary resolution of the Unitholders of Avenir Diversified Income Trust (the "**Trust**"), that:

1. the new option plan of the Trust shall be approved as described under the heading "Approval of Trust Unit Option Plan" in the information circular relating to this meeting; and
2. any one officer or director of Avenir Operating Corp. be and is hereby authorized to execute and deliver all such agreements and documents, whether under the corporate seal or otherwise, and to take all action, as such officer or director shall deem necessary or appropriate to give effect to the foregoing resolution."

The Option Plan Resolution must be approved by a simple majority of votes cast by Unitholders who vote in person or by proxy at the Meeting in respect of this resolution.

#### **EXECUTIVE COMPENSATION**

The Manager's compensation program consists of base salary and/or consulting fees, options and in appropriate circumstances, incentive bonuses. Other compensation may include medical and insurance coverage, which is generally available to employees of the Manager.

##### **Summary Compensation Table**

The following table provides a summary of compensation earned during the last fiscal year ended December 31, 2004, 2003 and 2002 by the Chief Executive Officer and Chief Financial Officer of the Manager, and each of the Manager's most highly compensated executive officers, whose total salary and bonus exceed \$150,000 per year, who were serving as executive officers at the end of the most recently completed financial year, and any additional individuals who would have been included except for the fact that such individual was not serving as an officer of the Manager at the end of the most recently completed financial year (the "**Executive Officers**"). The Manager presently has two Executive Officers, namely Mr. William Gallacher, the Manager's President and Chief Executive Officer and Mr. Gary Dundas, the Manager's Vice President, Finance and Chief Financial Officer (the "**Named Executive Officers**"). The following table sets out all compensation awarded to, earned by or paid to the Named Executive Officers for the last completed three fiscal years of the Trust:

Name and Principal Position	Twelve Months Ended December 31	Annual Compensation			Long Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	All Other Compensation
					Securities Under Stock Options Granted (#)	Shares or Units subject to Resale Restrictions Restricted Share Units (\$)	LTIP Payouts (\$)	
William M. Gallacher, President and Chief Executive Officer	2004	\$75,000	\$100,000	Nil	25,000	Nil	Nil	\$120,000 <sup>(2)</sup>
	2003	\$75,000	\$35,000	Nil	30,000	Nil	Nil	Nil
	2002	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gary H. Dundas, Vice President, Finance and Chief Financial Officer	2004	\$75,000	\$100,000	Nil	25,000	Nil	Nil	\$120,000 <sup>(2)</sup>
	2003	\$75,000	\$35,000	Nil	30,000	Nil	Nil	Nil
	2002	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jeffery D. Kohn Director	2004	Nil	Nil	Nil	15,000	Nil	Nil	\$150,000 <sup>(3)</sup>

Note:

- (1) Perquisites and other personal benefits do not exceed the lesser of \$50,000 and 10% of the total annual salary and bonus of the named executive officer for the period indicated.
- (2) William M. Gallacher and Gary H. Dundas received a payment of \$120,000 each in conjunction with identifying a real estate acquisition prior to the formation of the Trust.
- (3) Jeffrey D. Kohn was paid a financial consulting fee by the Trust.

### Option Grants

The table sets forth the options granted by the Trust during the financial year ended December 31, 2004:

Name	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
William M. Gallacher, President and Chief Executive Officer	30,000	9%	\$6.00	\$6.00	February 3, 2008
	25,000	7.5%	\$9.00	\$9.00	November 15, 2009
Gary H. Dundas, Vice President, Finance, and Chief Financial Officer	30,000	9%	\$6.00	\$6.00	February 3, 2008
	25,000	7.5%	\$9.00	\$9.00	November 15, 2009

### Aggregated Option Exercises During the Year Ended December 31, 2004 and Year End Option Values

No Options were exercised by the Named Executive Officers of the Manager for the year ended December 31, 2004. The following table sets forth the year end option values of the outstanding options held by the Named Executive Officers as at December 31, 2004.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options / SARs at December 31, 2004 (#)Exercisable / Unexercisable	Value of Unexercised in-the-Money Options / SARs at December 31, 2004 (\$) Exercisable / Unexercisable
William M. Gallacher, President and Chief Executive Officer	-	-	10,000 / 45,000	\$72,442 / \$204,940
Gary A. Dundas, Vice-President, Finance and Chief Financial Officer	-	-	10,000 / 45,000	\$72,442 / \$204,940
Directors	-	-	13,332 / 6,668	\$91,962 / \$231,911

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Option Plan approved by shareholders	309,893	\$8.17	Nil
Option Plan not approved by shareholders - January 5, 2005	16,937 <sup>(1)</sup>	\$11.00	Nil
Option Plan not approved by shareholders - April 26, 2005	200,000 <sup>(1)</sup>	\$10.90	Nil
Total	526,830		Nil

Notes:

- (1) See "Approval and Ratification of Certain Option Grants".
- (2) The Trust also received Unitholder approval to implement a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "**Distribution Plan**") at its last annual and special meeting of Unitholders, however, the Manager has yet to make operational the Distribution Plan and will issue a press release upon its implementation.

#### Retirement Plans

The Manager has no retirement plans, pension plans or other forms of funded or unfunded retirement compensation for its employees.

#### Employment Contracts and Termination of Employment

There are no employment contracts or other compensation plans or arrangements with regard to any of the Named Executive Officers which provide for specific compensation in the event of resignation, retirement, other termination of employment or from a change of control of the Manager or the Trust or from a change in a Named Executive Officer's responsibilities following a change of control.

#### Trust Unit Options

Directors, officers and employees of the Manager are eligible to participate in the Old Plan and, subject to its approval at the Meeting, will be eligible to participate in the New Plan. Grants of Options are made from time to time to participants at varying levels, which are generally consistent with the individual's level of responsibility within the Trust. Options are priced at the closing price per Trust Unit on the TSX for the trading day immediately preceding the date of grant, and the Option exercise price is reduced, on an ongoing basis, by an amount equal to distributions paid on Trust Units subsequent to the date of grant. The term, vesting provisions and other provisions of the Options are subject to the terms of the Plan and to the discretion of the Board of Directors.

Both the Old Plan and the New Plan are intended to provide the Board with the ability to issue Options to provide the employees, officers and directors of the Manager with long term equity based performance incentives, which are a key component of the Trust's compensation strategy. The Manager believes it is important to align the interests of management and employees with Unitholder interests and to link performance compensation to enhancement of

Unitholder value. This is accomplished through the use of Options whose value over time is dependent on market value.

Subject to obtaining the approvals sought under "Matters to be Acted Upon at the Meeting – Approval of Trust Unit Option Plan", the maximum number of Trust Units which may be reserved for issuance under the Plan is 309,893. The maximum number of Trust Units which may be reserved for issuance to any one person under the Plan is 5% of the Trust Units outstanding at the time of grant (calculated on a non diluted basis). Options granted under the Old Plan and the New Plan may be exercised during a period not exceeding ten years, subject to earlier termination upon the termination of the optionee's employment, upon the optionee ceasing to be an employee, senior officer, director or service provider of the Trust or any of its subsidiaries, as applicable, or upon the optionee retiring or dying. Both the Old Plan and the New Plan contain provisions for adjustment in the number of Trust Units issuable thereunder in the event of a sub-division, consolidation, re-classification or change of the Trust Units, a merger or other relevant changes in the Trust's capitalization. The board of directors of the Manager may from time to time amend or revise the terms of the Plan. Both the Old Plan and the New Plan do not contain any provision for financial assistance by the Trust or the Manager in respect of options granted thereunder.

The following table sets forth information in respect of options issued and outstanding as of the date hereof.

Group (number of persons)	Number of Trust Units Under Option	Date(s) of Grant	Date(s) of Expiry	Exercise Price(s) per Unit (Cdn \$)	Market Price at Date of Grant
Named Executive Officers	60,000	February 3, 2003	February 3, 2008	\$6.00	\$6.00
	50,000	November 15, 2004	November 15, 2009	\$9.00	\$9.00
	140,000	April 26, 2005	April 26, 2010	\$10.90	\$11.10
Directors (who are not Named Executive Officers)	33,334	February 3, 2003	February 3, 2008	\$6.00	\$6.00
	6,666	September 2, 2003	September 2, 2008	\$7.50	\$7.65
	20,000	November 15, 2004	November 15, 2004	\$9.00	\$9.00
	60,000	April 26, 2005	April 26, 2005	\$10.90	\$11.10
Other Officers and Employees	6,666	February 3, 2003	February 3, 2008	\$6.00	\$6.00
	72,400	January 4, 2005	January 4, 2010	\$11.00	\$11.00
	47,098	November 15, 2004	November 15, 2004	\$9.00	\$9.00
Consultants	6,666	February 3, 2003	February 3, 2008	\$6.00	\$6.00
	9,999	September 17, 2003	September 17, 2008	\$7.50	\$7.50
	3,333	June 1, 2004	June 1, 2009	\$7.65	\$7.65
	10,668	November 15, 2004	November 15, 2009	\$9.00	\$9.00
TOTAL	526,830 <sup>(1)</sup>				

Note:

(1) See "Approval and Ratification of Certain Option Grants".

#### Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan

The Trust also has in place a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "**Distribution Plan**"). Generally, the Distribution Plan provides eligible holders of Trust Units the opportunity to either receive a premium cash payment in lieu of the cash distribution declared payable by the Trust (the "**Premium Distribution**") or accumulate additional Units at a 5% discount to the Average Market Price (as such term is defined in the Distribution Plan) (the "**Distribution Reinvestment**"). Participants may also purchase additional Units by investing additional sums within the limits and subject to the terms of the Distribution Plan (the "**Optional Unit Purchase**"). The Plan is designed to provide an efficient and cost effective way to issue additional equity to existing Unitholders.

An eligible Unitholder may, by enrolling in the Distribution Plan, direct that distributions in respect of all Trust Units of such Unitholder enrolled in the Distribution Plan be applied to the purchase of additional Trust Units, and may elect to either (i) exchange the additional Trust Units for the Premium Distribution on the distribution payment date, or (ii) have the additional Trust Units purchased under the distribution plan credited to the account of such Unitholder. In either case, the price of Trust Units purchased with reinvested distributions will be 95% of the Average Market Price.

Unitholders participating in either the Premium Distribution component or the Distribution Reinvestment component of the Distribution Plan may also purchase additional Trust Units under the Distribution Plan with optional cash payments, subject to a maximum of CDN\$100,000 per participant per calendar year and a certain prescribed minimum per participant per remittance. Optional cash payments will be used to purchase additional Trust Units on the distribution payment dates. The price of Trust Units purchased with optional cash payments will be the average market price as determined in accordance with the Trust Indenture.

Although the Distribution Plan has been approved by the Board of Directors of the Manager and the Unitholders of the Trust, given the expense of administering the same, the Manager has yet to bring the Distribution Plan into operation. If the Manager does implement the Distribution Plan, the Trust will issue a press release to this effect.

#### **Compensation of Directors**

For the year-ended December 31, 2005, the directors of the Manager will be remunerated in their capacities as such: each independent Director will be paid \$15,000 per year; the Lead Director will be paid \$25,000 per year; and each independent director will be paid \$1,000 per formal meeting and \$500 per informal meeting of the board. The Manager will pay out of pocket expenses of directors incurred as a result of attending meetings of the Board of Directors. Directors are also eligible to participate in the Old Plan and following its approval and implementation will be eligible to participate in the New Plan. For the period from inception to March 31, 2005, the Directors received no financial remuneration.

#### **Payments to the Trustee and The Manager**

Pursuant to the Trust Indenture, the Trust pays an annual fee of \$18,000 to the Trustee as consideration for services provided under the Trust Indenture. Pursuant to an Administration Agreement between the Manager and the Trust dated effective September 24, 2002, the Trust pays the Manager an annual fee of \$100 as consideration for acting as administrator of the Trust.

#### **INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS**

None of the directors and officers of the Manager nor any of their associates or affiliates is now or has been indebted to the Trust or the Manager or any of its subsidiaries since the commencement of the last completed fiscal year, other than for routine indebtedness, nor is, or at any time since the beginning of the most recently completed financial year of the Trust has, any indebtedness of any such person been subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Trust or any of its subsidiaries.

#### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

There were no material interests, direct or indirect, of directors and senior officers of the Manager, nominees for director, any Unitholder who beneficially owns more than 10% of the shares of the Manager or the Trust Units of the Trust, or any known associate or affiliate of such persons, or any other informed person (as defined in *National Instrument 51-102*), in any transaction during 2004 or in any proposed transaction which has materially affected or would materially affect the Trust or the Manager or any of its subsidiaries other than as disclosed elsewhere herein or set forth below.

In conjunction with the conversion of Onward Energy Inc. to the Trust, Onward Energy Inc. also completed the acquisition of a private company (928719 Alberta Ltd.) holding certain liquid securities valued at approximately \$1,010,000, certain finance contracts generating risked annualized cash flow of approximately \$153,300 per annum and approximately \$2,040,000 of oil and gas assets. This acquisition was completed through the issuance of an aggregate of 510,000 Trust Units to the sole shareholder of the private company. Of the Trust Units so issued, Mr. Gary Dundas has a direct beneficial interest in 153,000 Trust Units, Avenir Capital Corporation, a company of which Mr. Gallacher is an officer and shareholder, has a beneficial interest in 153,000 Trust Units and 960349 Alberta Ltd., a company owned and controlled by Messrs. William Gallacher and Gary Dundas, as to an undivided 50% each, has a beneficial interest in 18,545 Trust Units.

## **Report On Executive Compensation**

The Corporate Governance and Compensation Committee of the Board of Directors administer the Manager's executive compensation program. The principal mandate of this Committee is to provide evaluations and recommendations to the Board of Directors concerning management structure and compensation of key management personnel, including the Chief Executive Officer, based on management's recommendations. The overall philosophy of the program is that, to attract and retain high quality and experienced executives and employees, compensation should be fair and equitable compared to compensation paid generally in the energy industry. The compensation is based on responsibility and performance, and principally in the case of the executive group, is related to the performance of the Trust as a whole.

Compensation is comprised of a base salary, benefits package and performance or incentive bonuses. The base salary and benefits package of the Manager has been reviewed by an independent compensation, actuarial and benefits consultant and, on the basis of such consultant's report, Avenir has attempted to align this package with the industry average and prevailing standards for peer group companies.

The policy of the Trust is designed to produce optimum, current and long-term results focusing upon overall performance as measured by divisional and corporate cash flow and operating margins, net income, and distributions to Unitholders.

The incentive compensation package for 2005 will be based on the Trust's performance in relation to targets set upon the establishment of the Trust. Compensation will be reviewed by the board in relation to changes in the size and scope of the Trust.

Mr. Gallacher is the President and Chief Executive Officer of the Manager and is not present at meetings where his compensation is considered and, at the board level, abstains from voting on any issues relating to his personal compensation. See "Interests of Informed Persons in Material Transactions".

Submitted by:

The Corporate Governance and Compensation Committee:

Alan C. Moon – Chairman  
 Stuart Y. Chow – Committee Member  
 William M. Gallacher – Committee Member  
 Jeffery D. Kohn – Committee Member

### ***Compensation of Directors***

The Corporate Governance and Compensation Committee of the Board of Directors administer the Manager's director's compensation program. The principal mandate of this Committee is to provide evaluations and recommendations to the Board of Directors concerning board structure and compensation of directors. The overall philosophy of the program is that to retain high quality board members, compensation should be fair and equitable compared to compensation paid generally in the industry.

For the year-ended December 31, 2005, the directors of the Manager will be remunerated in their capacities as such: each independent Director will be paid \$15,000 per year; the Lead Director will be paid \$25,000 per year; and each independent director will be paid \$1,000 per formal meeting and \$500 per informal meeting of the board. The Manager will pay out-of-pocket expenses of directors incurred as a result of attending meetings of the Board of Directors. Directors will also be eligible to participate in the Plan. For the period from inception to March 31, 2005, the Directors received no financial remuneration.

Submitted by:

The Corporate Governance and Compensation Committee:

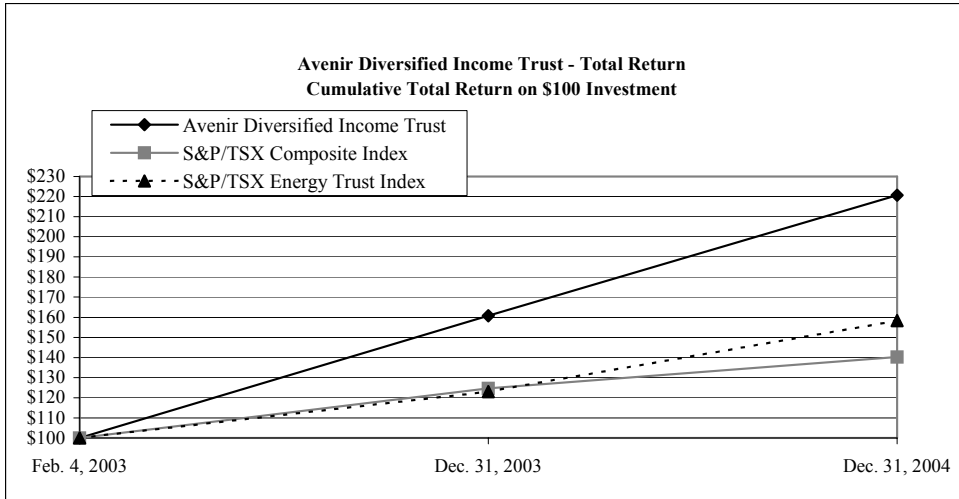
- Alan C. Moon – Chairman
- Stuart Y. Chow – Committee Member
- William M. Gallacher – Committee Member
- Jeffery D. Kohn – Committee Member

**Payments to the Trustee and the Manager**

Pursuant to the Trust Indenture, the Trust pays an annual fee of \$18,000 to the Trustee as consideration for services provided under the Trust Indenture. Pursuant to an Administration Agreement between the Manager and the Trust dated effective September 24, 2002, the Trust pays the Manager an annual fee of \$100 as consideration for acting as administrator of the Trust.

**Performance Chart**

The following graph illustrates changes from inception to December 31, 2004, in cumulative Unitholder return, assuming an initial investment of \$100 in Trust Units, with all cash distributions included, compared to the S&P/TSX Composite Index and the S&P/TSX Energy Trust Index with all dividends and distributions reinvested.



	February 4, 2003	December 31, 2003	December 31, 2004
Avenir Diversified Income Trust	\$100.00	\$160.68	\$220.74
S&P/TSX Composite Index	\$100.00	\$124.68	\$140.23
S&P/TSX Energy Trust Index	\$100.00	\$123.09	\$158.39

**CORPORATE GOVERNANCE**

**General**

The TSX has adopted a set of guidelines (the "Guidelines") relating to corporate governance matters. The Guidelines address such matters as the constitution and independence of boards of directors, the functions to be performed by boards and their committees, and the relationship among a corporation's board, management and

shareholders. The TSX has prescribed that all corporations listed on the TSX must now annually disclose their approach to corporate governance with specific reference to each of the Guidelines.

Set out below is a description of the Trust's corporate governance practices, as established and approved by the Board of Directors of the Manager. The Board of Directors of the Manager has established a separate Corporate Governance Committee and Compensation, which has assumed responsibility for developing the Manager's approach to corporate governance for the Manager and the Trust. In some cases, compliance with the Guidelines is or could be inconsistent with the terms of the Trust Indenture.

In general, the Manager has been delegated the significant management decisions of the Trust. The Unitholders are entitled to elect the Board of Directors of the Manager.

#### **Mandate of the Board of Avenir**

The Board of Directors of the Manager has a mandate to supervise the management of the business and affairs of the Trust and the Manager and to act with a view to the best interests of the Trust and the Manager. The Board of Directors of the Manager supervises the management of the business and affairs of the Manager. In particular, significant operational decisions and all decisions relating to: (i) the acquisition and disposition of properties; (ii) the approval of capital expenditure budgets; and (iii) establishment of credit facilities are made by the Board of Directors of the Manager. In addition, the Trustee has delegated certain matters to the Board of Directors of the Manager including all decisions relating to: (i) issuances of additional Trust Units; and (ii) the determination of the amount of distributable income. The Board of Directors of the Manager holds regularly scheduled meetings at least quarterly to review the business and affairs of the Manager and make any necessary decisions relating thereto.

The Board of Directors of the Manager is also responsible for the strategic planning process, identifying the principal risks of the business of the Manager and implementing appropriate systems to manage these risks, the communication policy for the Trust, the integrity of the internal controls and management information systems of the Manager and monitoring senior management. The Board of Directors of the Manager participates in the strategic planning process through the review of forecasts and capital budgets. This review is performed on an annual basis and also in connection with material transactions undertaken by the Trust. Directly and through the Audit Committee, the Board of Directors of the Manager monitors and receives periodic reports respecting operations, internal controls and business risks from the Manager and external auditors. Business risks and the systems in place to manage these risks are described in annual reports and other public filings. The Board of Directors of the Manager or individual members approve all major compliance and communication documents including annual and quarterly reports, financing documents, press releases and other disclosure documents.

#### **Compliance with Corporate Governance Guidelines**

The Manager's Board of Directors and senior management considers good corporate governance to be central to the effective and efficient operation of the Trust. Management and the Board have developed a set of guidelines that form the corporate governance framework for the Manager and the Trust. The guidelines reflect the substance of the TSX Guidelines. The following analysis uses definitions contained in the TSX Guidelines and is numbered in response to the specific guidelines contained therein.

Guidelines	Does the Corporation Align?	Comments
1. The Board should explicitly assume responsibility for stewardship of the Trust and specifically for:		
(a) adoption of a strategic planning process;	Yes	The Board as a whole retains responsibility for generating a long range or strategic plan for the Manager and the Trust on an annual basis. The process includes a presentation to the Board by the President and Chief Executive Officer of the Manager, supported by its management team, of a proposed 5-year plan for the Trust.
(b) identification of principal risks and implementing risk-managing systems;	Yes	The full Board is responsible for monitoring the Trust's risks. Specific risk areas, as the committee name's imply, are also monitored by the Audit Committee, Reserves Committee and Corporate Governance and Compensation Committee.
(c) succession planning and appointing, training and monitoring of senior management;	Yes	<p>The Corporate Governance and Compensation Committee of the Board plays a special role evaluating senior officers and recommending compensation levels and arrangements to the Board.</p> <p>The Corporate Governance and Compensation Committee of the Board is also responsible for, among other things, leading the Board in succession planning for the Chief Executive Officer and working with the Chief Executive Officer and the Board in developing succession plans for the entire management group.</p> <p>The duties of the Audit Committee include monitoring performance of the Chief Financial Officer of the Manager, in conjunction with the President and Chief Executive Officer, and to advise the Board of any necessary changes required.</p>
(d) a communications policy; and	No	The Board is in the process of considering a formal written Disclosure Policy, which may be adopted within the next six months. At present, the Manager's practices seek effective communication between the Trust, its unitholders and the public, while ensuring avoidance of selective disclosure. Currently, the President and other directors respond to inquiries, largely on an informal basis. The Board proposes to launch a proposal for a written policy. The Board has adopted a policy that no material news releases in respect of the Trust shall be issued without the Board being made aware of the content.

Guidelines	Does the Corporation Align?	Comments
(e) integrity of internal controls and management information systems.	Yes	<p>The Board has, through its Audit Committee and Corporate Governance and Compensation Committee, established the necessary oversight of management to implement and maintain systems of internal controls and information systems appropriate to the size and scope of the Trust and the Manager. Management formally reports to the Board at least monthly. Also, the Audit Committee has engaged the Trust's auditors to review interim financial disclosure.</p> <p>Mr. Moon also serves as the Lead Director. The Lead Director is an independent contact for other members of the Board of Directors on matters which may initially be considered inappropriate to be discussed with the Chair and Chief Executive Officer, who also currently serves on the Board of Directors, or when such individual is not available. At the completion of each meeting of the Board of Directors, the Chair and the Chief Executive Officer shall leave the meeting to enable the Lead Director to conduct an in-camera session with the remaining board members. The Lead Director is also available to consult with the Chair and Chief Executive Officer on matters appropriate for review in advance of meetings of the entire Board of Directors. The Lead Director holds office until such time as he resigns or is replaced by a majority vote of the independent Directors.</p>
2. The majority of directors should be unrelated (independent of management and free from any conflict of interest), and in addition, if the Trust has a significant unitholder, the board should include a number of directors who are independent of that significant shareholder.	Yes	<p>Provided the six (6) nominees set forth under the heading "Election of Directors of the Manager" are elected at the Meeting, the Board of Directors of the Manager shall be structured such that four of the six members are considered "unrelated". As of the date hereof and following the election of the nominees as set forth above, there is and shall be no "significant shareholder" on the Board of Directors as defined by the TSX.</p>

Guidelines	Does the Corporation Align?	Comments
<p>3. Disclose for each director, whether he or she is unrelated, or if not, how he or she is related and how that conclusion was reached.</p>	<p>Yes</p>	<p><i>William M. Gallacher</i> – Related director – President and Chief Executive Officer, is part of management and exercises control or direction over approximately 1.4% of the outstanding Trust Units.</p> <p><i>Gary H. Dundas</i> – Related director – Chief Financial Officer of the Manager, is part of management and exercise control or discretion over 1.4% of the outstanding Trust Units.</p> <p><i>Stuart Y. Chow</i> – Unrelated director - Exercises control or discretion over approximately less than 1% of the outstanding Trust Units.</p> <p><i>Alan C. Moon</i> – Unrelated director. - Exercises control or discretion over approximately less than 1% of the outstanding Trust Units. Mr. Moon also serves as the Lead Director.</p> <p><i>David E. Butler</i> – Unrelated director. - Exercises control or discretion over approximately less than 1% of the outstanding Trust Units</p> <p><i>Jeffrey D. Kohn</i> – Unrelated director. – Exercises control or discretion over approximately less than 1% of the outstanding units.</p> <p><i>Bill Patterson (Proposed Director)</i> – Unrelated director. – Does not exercise control or discretion over outstanding units.</p>
<p>4. The Board should appoint a committee, composed exclusively of non-management directors, the majority of whom are unrelated, responsible for the appointment and assessment of directors.</p>	<p>Yes</p>	<p>The Corporate Governance and Compensation Committee is made up of a majority of outside directors responsible for evaluating current Board Member performance.</p>
<p>5. Every corporation should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the Board, its committees and of individual directors.</p>	<p>Yes</p>	<p>The Board as a whole has an informal process in place for assessing the effectiveness of the Board, the committees of the Board and the contributions of individual directors. The process is used with respect to both the appointment of new and the assessment of continuing directors.</p> <p>In addition, the Corporate Governance and Compensation Committee, comprised of a majority of unrelated and outside directors, is responsible for developing job descriptions for Board Members, Committee Chairmen, the Board Chairman as well as terms of reference for the various Committees.</p> <p>The independent and non-executive Chairman of the Corporate Governance and Compensation Committee, Mr. Moon, is an "unrelated" and "outside" director who has been assigned responsibility for ensuring that Board Committees function properly.</p> <p>The Corporate Governance and Compensation Committee is responsible for evaluating current Board Member performance including attendance at</p>

Guidelines	Does the Corporation Align?	Comments
		meetings and making recommendations to Board Members to replace retired Board Members.
6. Every corporation should provide orientation and education programs for new directors.	Yes	No formal orientation programs are in place, although new directors are provided opportunities to meet with management and receive reports relating to the Manager's business and affairs. The responsibility of liaising between the Board of Directors and management of the Manager is borne, together, by the Chairman of the Corporate Governance and Compensation Committee and the Chief Executive Officer of the Manager.
7. Every corporation should examine the size and, where appropriate, consider reducing the size of the Board with a view to improving effectiveness.	Yes	The Corporate Governance and Compensation Committee of the Board is specifically responsible for evaluating current Board Member performance including attendance at meetings and making recommendations to the Board Members to replace retired Board Members and to change the structure of the Board. In addition, the Committee from time to time reviews the contributions of the directors, and considers whether the current size of the board promotes effectiveness and efficiency. The Committee believes its current size does so.
8. The Board should review the adequacy and form of compensation of the directors in light of risks and responsibilities.	Yes	The Corporate Governance and Compensation Committee has recently been assigned the task to review the adequacy and form of the compensation of the directors and to report to the Board. The Committee will consider the time commitment, comparative fees and responsibilities in determining remuneration.

Guidelines	Does the Corporation Align?	Comments
9. Committees should be generally composed of non-management directors, the majority of whom are unrelated to management.	Yes	<p>As of the date hereof, all of the committees of the Board of Directors are composed of a majority of non-management directors, the structure of each being set forth below:</p> <p>Reserve Committee  Stuart Y. Chow – Chairman (non-management)  David E. Butler – Committee Member (non-management)  William M. Gallacher – Committee Member</p> <p>Corporate Governance and Compensation Committee  Alan C. Moon – Chairman (non-management)  Bill Patterson - Proposed Committee Member (non-management)  Stuart Y. Chow – Committee Member (non-management)  William M. Gallacher – Committee Member  Jeffery D. Kohn – Committee Member</p> <p>Audit Committee  Bill Patterson, CA – Proposed Chairman (non-management).  David E. Butler – Chairman (non-management).  Alan C. Moon – Committee Member (non-management).  Gary H. Dundas – Committee Member  Jeffery D. Kohn – Committee Member</p>
10. The Board should expressly assume responsibility for, or appoint a committee for, developing the Manager's approach to corporate governance issues.	Yes	The Board of Directors have established a four (4) member Corporate Governance and Compensation Committee comprised of a majority of unrelated, outside directors with responsibility for developing and monitoring the Manager's and the Trust's approach to corporate governance issues.
11. (a) The Board, together with the CEO, should develop position descriptions for:		
(i) the Board; and	Yes	The Corporate Governance and Compensation Committee has developed job descriptions for Board Members, Board Chairman and Committee Chairmen as well as Terms of Reference for the committees of the Board.
(ii) the CEO, including the limits to his responsibilities	Yes	The Corporate Governance and Compensation Committee has developed a job description for the President and Chief Executive Officer.
(b) The Board should approve the CEO's corporate objectives.	Yes	The Chief Executive Officer's objectives are generally set out and agreed upon in establishing the Trust's budget and performance targets for each fiscal year, which are regularly discussed at Board meetings. The longer-term objectives are established and approved through the long range planning process.

Guidelines	Does the Corporation Align?	Comments
12. The Board should establish structures and procedures to enable the Board to function independently of management.	Yes	Each of the existing Committees of the Board is comprised of a majority of unrelated directors of the Board who meet, as required, without management present. In addition, part of the mandate of the Chairman is to ensure that all the unrelated and outside directors have the opportunity from time to time to meet independently of management.
13. The Board should establish an Audit Committee, composed only of outside directors, with specifically defined roles and responsibilities, direct communication channels with the internal and external auditors and oversight responsibility for management reporting on internal control.	Yes	<p>The Audit Committee is comprised of a majority of outside directors. The Audit Committee's mandate includes:</p> <ul style="list-style-type: none"> <li>- monthly review of financial statements;</li> <li>- quarterly review and approval of public financial statements, in consultation with the Trust's outside auditors, and oversight of the process leading to the release of the same;</li> <li>- review and approval of annual financial statements and the Trust's annual report;</li> <li>- ensuring quality and timely financial reporting and systems;</li> <li>- monitoring performance of the Trust's Chief Financial Officer in conjunction with the President and Chief Executive Officer and to advise the Board of any necessary changes required; and</li> <li>- ensuring internal control procedures and security of management information systems.</li> </ul>
14. The Board should implement a system to enable individual directors to engage outside advisors at the Manager's expense, in appropriate circumstances, subject to the approval of an appropriate committee.	Yes	The Board has not formally established a system that enables an individual director to engage an outside advisor at the Company's expense with respect to matters requiring a directors' approval. However, it does not anticipate that, in the appropriate circumstances, it would have any objection to such an engagement.

#### **INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

None of the directors and officers of the Manager nor any of their associates or affiliates is now or has been indebted to the Trust or the Manager or any of its subsidiaries since the commencement of the last completed fiscal year, other than for routine indebtedness, nor is, or at any time since the beginning of the most recently completed financial year of the Trust has, any indebtedness of any such person been subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Trust or any of its subsidiaries.

#### **OTHER MATTERS**

Avenir knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

**ADDITIONAL INFORMATION**

Additional information relating to the Trust is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information with respect to the Trust and its affairs is provided in the Trust's annual audited financial statements for the period ended December 31, 2004 and the related management's discussion and analysis. Copies of the Trust's financial statements and related management discussion and analysis are available upon request from the Trust at Avenir Diversified Income Trust, 300, 808 – 1<sup>st</sup> Street, SW, Calgary, AB T2P 1M9, attention: William Gallacher, by at telephone (403) 237-9949 or by email at [info@avenirtrust.com](mailto:info@avenirtrust.com). This information is also accessible on our website at [www.avenirtrust.com](http://www.avenirtrust.com).