AVENIR DIVERSIFIED INCOME TRUST

QUARTER 3
FINANCIAL STATEMENTS 2004

THIRD QUARTER HIGHLIGHTS

For the periods ended	Three months Ended September 30		Nine months Ended September 30	
	2004	2003	2004	2003
FINANCIAL				
Gross Revenue	6,125,974	1,082,105	12,194,287	3,140,026
Net Revenue	5,327,850	945,703	10,293,670	2,725,086
Cash Flow From Operations[1]	2,806,379	532,540	5,563,080	1,509,107
Cash Flow Per Unit1 - Basic	0.39	0.32	1.26	1.00
Distributions	2,015,805	516,012	3,617,782	1,127,978
Distributions Per Unit - Basic	0.28	0.31	0.82	0.75
Distribution Payout Ratio	72%	97%	65%	75%
Net Earnings (loss)	780,599	177,570	1,058,758	519,612
Net Earnings (loss) Per Basic Unit	0.11	0.11	0.24	0.34
Total Assets	109,945,145	19,367,595	109,945,145	19,367,595
Oil and Gas Working Cap. (Net Debt)	(35,862,568)	3,981,188	(35,862,568)	3,981,188
Financial Services Working Cap.	217,375	—	217,375	—
Real Estate (Net Debt including mortgages)	(12,496,556)	—	(12,496,556)	—
Energy Services (Net Debt)	(166,551)	—	(166,551)	—
Wtd. Avg. Common Shares Outstanding - Basic	7,199,303	1,658,190	4,409,696	1,508,854
Common Shares Outstanding	7,199,303	2,766,836	7,199,303	2,766,836
OPERATING				
Production (6:1)				
Oil and NGL's – bbls/ day	344	241	302	232
Gas – mcf/day	3,901	378	2,986	344
Total BOE/day	995	304	800	289
Average Pricing				
Oil & NGL ($/Bbl) before hedging	44.38	33.48	42.09	37.29
Oil & NGL ($/Bbl) after hedging	38.28	31.85	36.61	36.48
Natural Gas ($/mcf)	6.24	6.77	6.37	7.38
Average Price Per BOE before hedging	39.69	34.96	39.70	38.68
Average Price Per BOE after hedging	37.58	33.67	37.63	38.03

[1] Cash flow from operations, cash flow per unit and working capital (net debt) 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, depreciation and amortization, asset retirement obligation accretion, gain on sale of investments, compensation expense, unrealized loss on financial instruments and unsuccessful acquisition and re-organizational costs. Working capital (net debt) is calculated by taking current assets less current liabilities, long-term debt and mortgages. Management believes that these measures are useful supplemental measures to analyze operating performance and provide an indication of the funds 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 counterparts, (xiii) impact of the Canadian economic conditions or the demand for real estate leasing opportunities, (xiv) fluctuations in currency exchange rates and interest rates.

With the completion of the Trust's financing at the close of the second quarter 2004 the Trust quickly and efficiently began deploying the $28.75 million in proceeds.

Firstly, in the Energy division, on June 30, 2004, the Trust completed two oil and gas property acquisitions in two of its core areas, Northeast Alberta and Southern Alberta. The acquisitions totalled approximately 340 BOE per day, for a purchase price of $9.8 million (plus related costs and fees). As well on this date, the Trust purchased 90% of Cascade Steaming Partnership ("Cascade") for approximately $5.5 million, and throughout the third quarter began the integration process of this newly formed division of our Energy business unit. The purchase provided diversification within the Energy business unit and was accretive with respect to cash flow. The Manager of this unit, Mr. Ken Wagner, previous President of Cascade, continues to head up Energy services and maintains a 10% ownership of the division. Subsequent to this acquisition, on July 15, 2004, the Trust purchased another energy services business, Indy Oilfield Ltd., for approximately $374,000 in cash. The Indy business focus is synergistic to Cascade as the company was also in the vacuum truck and steaming services business providing expansion into Northwest Alberta.

Secondly, within the Trust's Financial Services division, $2.85 million in new cheque cashing contracts were entered into during the quarter. The additional contracts had terms identical to the Trust's initial financial services contracts. Subsequent to the quarter, a $500,000 cheque cashing contract was added in October 2004. As well, two separate debenture agreements were entered into in July and August, one for $1.0 million with RentCash Inc. and one for $0.5 million with Pacrim Hospitality Services Inc. Currently, the Trust's Financial Services portfolio now totals $9.65 million.

And finally, the remaining funds were placed against the $3 million bridge facility that was outstanding on the Western Spirit real estate acquisition and paid down remaining bank debt, priming the company for further acquisitions.

Corporately, the Trust reached another significant milestone in the third quarter, the successful application to the senior Toronto Stock Exchange (TSX). They began trading under the symbol AVF.UN on July 26, 2004. Moving to the TSX provides the Trust with increased access to capital, unit trading liquidity and opportunities.

With the combination of continued strong commodity prices within the Oil and Gas division and the Energy Services acquisitions and Financial Services contracts entered into in July, the Trust was very comfortable increasing distributions in August. The cash distribution paid to unit holders was increased 10% from $0.08745 per unit to $0.09625 per Trust Unit moving the payout ratio into our target range of 75 to 80%.

At the end of the third quarter, September 30, 2004, the Trust closed a larger oil and gas acquisition totaling approximately $32.5 million using available bank financing. Outstanding shares of an arms-length private company, essentially doubling the production per day in the oil and gas division. No production or cash flow from this acquisition has been reflected in the third quarter financial statements, however current production for the Trust's Oil and Gas division now totals approximately 1,950 BOE per day.

The Trust's cash flow for the third quarter was $2,806,379 or $0.39 per unit up significantly over the third quarter 2003 cash flow of $532,540 and $0.32 per unit. For the first nine months of this year, cash flow was $5,563,080 compared to $1,509,107 for the first nine months of 2003. Distributions for the third quarter were $2,015,805 compared to the third quarter 2003 distribution of $516,012. The Trust recorded net income of $780,599 for the three months ending September 30, 2004 and a profit of $1,058,758 for the nine month period, compared to earnings of $177,510 for the three months ended September 30, 2003 and $519,612 for the nine month period.

The Trust had a third quarter distribution payout ratio of 72% (and year to date ratio of 65%), less than its targeted ratio of 75% to 80%. The Trust continues to monitor its payout ratio to enable capital expenditures and growth opportunities. Funds retained are also used for managing volatility associated with commodity prices.

OUTLOOK

On October 13, 2004 the Trust entered into an engagement agreement with a syndicate of agents, co-led by Raymond James Ltd. and GMP Securities Ltd., in connection with a "best efforts" public offering of Trust Units at $9.00 per unit by way of a long form prospectus for minimum proceeds of $25,000,000 and maximum proceeds of $35,000,000 and an over-allotment of 15%. The offering was completed on November 15, 2004 with total Trust Unit of 4,472,221 issued, including the exercise of an over-allotment option for 583,333 Trust Units, at a price of $9.00 per Trust Unit for gross proceeds of $40,249,989. The net proceeds of the offering will be used for continued growth and development in its oil and gas, financial services, real estate and energy services operations.

The proceeds of this financing will be used to pay down debt on the acquisition mentioned above, as well as initiatives in place in the Energy Services division and the Financial Services and Real Estate business units. The Trust continues to see and evaluate several opportunities in each business unit and feels confident the funds raised will quickly be invested in accretive opportunities in the same way our June financing was deployed. Of our three business sectors, the real estate unit continues to be the most competitive with cap rates being driven down below our target yields. The Trust is committed to adding additional real estate but will continue to be prudent in only adding real estate that is accretive to our model.

During the fourth quarter we will be:

- closing the financing described above on November 15, 2004;
- putting to work the proceeds from the financing;
- continuing to integrate and grow our energy services division;
- expecting strong cash flows from our oil and gas division, given the current high oil and gas commodity prices;
- looking to add up to $3 million in additional cheque cashing contracts; and
- continuing to look at opportunities to further diversify our energy and financial services business units.

We are confident that the opportunities before us will provide 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	Gary Dundas
President & CEO	Vice President Finance & CFO

MANAGEMENT'S DISCUSSION AND ANALYSIS should be read in conjunction with the unaudited interim consolidated financial statements for the three & nine months ended September 30, 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 November 15, 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 counterparts, (xiii) impact of the Canadian economic conditions or the demand for real estate leasing opportunities, and (xiv) fluctuations in currency exchange rates and interest rates.

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

Significant Events

- **Integration of Energy Services Division**

  With the June 30, 2004 acquisition of 90% of the Cascade Services Partnership ("Cascade"), the integration of the Energy Services division was implemented in the third quarter. Cascade provides vacuum truck, steaming and hydro-vac services to the energy, utility and construction industries in Northeast British Columbia. The transaction was effected by way of a partnership structure whereby Cascade founder Ken Wagner retained a 10% partnership interest and remained with the Cascade Services Partnership as President and Chief Operating Officer. Mr. Wagner will be responsible for all aspects of the day to day operations of the Partnership's business.

  On July 15, 2004, the Trust, through its Energy Services business unit, purchased Indy Oilfield Services ("Indy") for approximately $374,000. This acquisition provided the platform to expand Cascade's hydro-vac, steaming and vacuum truck business into Northwest Alberta.

- **Financial Services Contracts**

  During the third quarter, and subsequent to the quarter, the Trust completed a number of financial services contracts with its cheque cashing partner. The contracts are as follows:

Q3	July 23, 2004	$1,500,000 funded
Q3	August 19, 2004	$750,000 funded
Q3	September 16, 2004	$600,000 funded
Q4	October 29, 2044	$500,000 funded

The contracts have identical terms to the previous cheque cashing contracts which include the payment of $0.07 per $100 loaned per day. The term of the loan is 10 years recallable on 30 days notice. Total cheque cashing contracts currently outstanding now total $6.15 million.

On July 15th, 2004, the Trust entered into a $1million debenture agreement with Rentcash Inc. ("Rentcash"). The $1 million debenture brings the total amount of debentures outstanding with Rentcash to $3 million. As per the previous debenture agreement, the new debenture will yield a monthly coupon equivalent to a 12% annualized yield plus associated fees of 4% per year. The debenture will fund the further build out of furniture rental kiosks in the Brick/United Furniture Warehouse chain of stores.

On August 19, 2004, the Trust entered into a $500,000 debenture agreement with a new company, Pacrim Hospitality Services ("PHS"). Terms of the debenture include a 14% annualized coupon paid monthly and a 20% net profit interest in four properties managed by PHS. The debenture will provide equity funding in the building of four Super 8 Motels in Eastern Canada and is secured by both the equity in the hotels and PHS's management contracts across all hotels.

- **TSX Listing (AVF.UN)**

  The Trust received TSX listing approval and began trading on the senior exchange under the symbol AVF.UN on July 26, 2004. The move to the TSX will provide the Trust with greater access to capital and opportunities while affording its unit holders with increased liquidity and greater margin ability.

- **Increase in Distributions**

  On August 19, 2004, the August 2004 distribution payable September 15, 2004, was increased 10% from $0.08745 per unit to $0.09625 per Trust Unit for its monthly distributions. The recently concluded oil and gas and energy services acquisitions, the new financial services contracts and continued high commodity prices allowed the Trust the opportunity to increase distributions.

- **Purchase of Shares of Private oil and Gas Company**

  On September 30, 2004, the Trust acquired the shares of a private oil and gas company from Lightning Energy Ltd. The oil and gas assets acquired consist of the (i) Shekilie property located approximately 280 miles north of Grande Prairie, Alberta, (ii) the Killam property, located 90 miles southeast of Edmonton, Alberta, (iii) the Three Hills Creek property located 10 miles southeast of Red Deer, Alberta, (iv) the Noel property, located 70 miles south of Fort St. John, Alberta, and (v) various minor properties. The acquisition totalled approximately 1,000 BOE per day of stabilized production. The $32.5 million acquisition (plus related costs and fees), was funded by existing bank facilities including a $6 million bridge facility with a Canadian Chartered Bank. With the recently announced equity financing expected to close in mid November, at least $20 million is expected to be paid against the bank facility for this purchase.

- **Prospectus Financing**

  On October 13, 2004 the Trust entered into an engagement agreement with a syndicate of agents, co-led by Raymond James Ltd. and GMP Securities Ltd., in connection with a "best efforts" public offering of Trust Units at $9.00 per unit by way of a long form prospectus for minimum proceeds of $25,000,000 and maximum proceeds of $35,000,000 and an over-allotment of 15%. The offering was completed on November 15, 2004 with total Trust Unit of 4,472,221 issued, including the exercise of an over-allotment option for 583,333 Trust Units, at a price of $9.00 per Trust Unit for gross proceeds of $40,249,989. The net proceeds of the offering will be used for continued growth and development in its oil and gas, financial services, real estate and energy services operations.

Selected Annual Information

	Year Ended December 31[1]		
(thousand of dollars except per share amounts)	**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	1.28	(0.01)	(0.03)
Net Earnings (loss)	447	(71)	(162)
Per share basic and diluted	0.24	(0.01)	(0.03)
Working Capital	264	237	(102)
Bank indebtedness	4,505	–	–
Long-term debt	–	–	–
Shareholders' equity	14,788	837	(102)
Total Assets	22,431	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]							
	September 30		**June 30**		**March**		**December 31**	
	2004	**2003**	**2004**	**2003**	**2003**	**2002**	**2003**	**2002**
Total Revenues, net of royalties	5,328	946	2,811	931	2,154	848	1,730	112
Net Income (loss)	781	177	(145)	60	423	282	(183)	174
Net Income (loss) per Unit basic	0.11	0.11	(0.04)	0.04	0.15	0.20	(0.07)	0.02
Total Assets	109,945	19,620	66,771	12,105	44,888	10,501	22,430	2,028
Distributions (per Unit)	0.28	0.31	0.26	0.24	0.27	0.18	0.26	–

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.

Oil and Gas Revenue and Production

Oil and gas revenues were $3,438,522 for the third quarter of 2004, up 269% from the third quarter of 2003, attributable in most part to the acquisitions made in the fourth quarter of 2003 and those made on June 30, 2004. For the nine months ended September 30, 2004, oil and gas revenue was $8,245,325 compared to $2,652,625 for the same period in 2003.

Production and cash flow from the oil and gas acquisition purchased at the end of the third quarter, September 30, 2004, will begin to be reflected in the fourth quarter.

Revenue from petroleum and natural gas sales (net of royalties) was $2,836,835 for the third quarter up from $794,503 in the third quarter of 2003. The average price received for crude oil and natural gas liquids during the third quarter of 2004 was $38.28 per barrel, up 20% from the third quarter of 2003 and $6.24 per mcf for natural gas, down 8% from the 2003 third quarter average of $6.77 per mcf.

Although the Trust hedges to ensure stability of its distributions, to guard against fluctuations in commodity prices and to support acquisition economics, it has been determined that its oil swap transaction does not qualify under new hedge accounting guidelines. Accordingly, the Trust recorded a hedging cost of $193,094 for the third quarter of 2004, $453,275 on a year to date basis. In addition, the accounting treatment requires the Trust to recognize an unrealized loss of $196,437 for the change in the mark to market position on existing contracts from June 30, 2004 to September 30, 2004.

Average daily production volumes for the third quarter ended September 30, 2004 were 995 BOE/day, up 227%, compared to 304 BOE/day in the third quarter of 2003. Third quarter 2004 production consisted of 344 bbls/day of crude oil and natural gas liquids and 3,901 mcf/day of natural gas (compared to 241 bbls/day and 378 mcf/day for the third quarter 2003, respectively). The 43% increase in oil and liquids production came mostly from acquisitions in the second quarter of 2004. The 932% increase in natural gas production was the result of the natural gas asset acquisitions completed in October 2003 and June 2004.

Netbacks

	Q3 2004 $/boe	Q2 2004 $/boe	Q1 2004 $/boe	Q4 2003 $/boe	Q3 2003 $/boe	Q2 2003 $/boe	Q1 2003 $/boe
Gross revenue after hedging	37.58	38.11	37.19	32.73	33.67	36.31	46.74
Royalties	6.58	6.12	5.24	5.99	4.96	5.81	7.62
Operating costs	7.37	8.61	6.36	7.48	7.76	8.46	9.51
Operating netback	23.63	23.39	25.59	19.26	20.95	22.05	29.61

Royalties

The Trust's royalty costs net of ARTC for the quarter ended September 30, 2004 were $601,687 up 341% over the third quarter 2003; however, on a BOE basis, royalty costs averaged $6.58 per BOE in the period, which is up only 27% over the third quarter 2003 cost of $5.19 per BOE. Royalties averaged 16.57% in the third quarter of 2004 and 15.15% for the nine months ended September 30, 2004 reflecting a slightly gassier product mix in 2004.

Operating Expenses

The Trust's operating costs for the quarter ending September 30, 2004 were $674,706, up 200% over the third quarter 2003; however, on a BOE basis, operating costs averaged $7.37 per BOE in the period, which is down 15% over the third quarter 2003 cost of $8.69 per BOE. Third quarter 2004 operating costs reflect the impact of the lower operating costs associated with the fourth quarter 2003 and second quarter 2004 acquisitions. On a year to date basis the Trust's $7.44 per BOE is below budgeted levels of $8.00 per BOE.

Financial Services

Since inception the Trust has cash advance contracts, fully collateralized, with a 10-year term recallable at the Trust's option with 30 days notice. These contracts pay a fixed fee over the life of the contract. In the third quarter, as mentioned above under financial services contracts, the Trust added $2.85 million in contracts bringing the total cash advance contracts to $5.65 million at September 30, 2004. The Trust holds a subordinated debenture of $2 million with Rentcash Inc., which closed in December 2003 and an additional $1 million debenture which was added on July 15, 2004. These debentures pay a 12% annualized yield plus 4% annualized administration fees. As well in the third quarter 2004, on August 19, 2004, the Trust added a $500,000 debenture with Pacrim Hospitality Services. Terms of this debenture include a 14% annualized coupon paid monthly and a 20% net profit interest in four properties managed by PHS.

The Trust recognized revenue and net operating income in the financials services business unit of $400,454 in the third quarter of 2004 (no operating costs for the business unit) compared to $75,600 in the third quarter of 2003, up 429% due to the addition of $4.45 million of cheque cashing contracts and $3.5 million in debenture agreements added at the end of 2003 and throughout 2004.

Real Estate

The revenue and net operating income respectively from the Real Estate business unit for the three months ended September 30, 2004 was $703,836 and $471,858. No revenue was recorded in this business unit in third quarter of 2003 as the real estate assets were brought into the Trust on March 31, 2004, through the Western Spirit acquisition. For the previous quarter ended June 30, 2004 revenues and net operating income totaled $865,182 and $432,016.

Energy Services

On June 30, 2004 the Trust created Cascade Energy Services Partnership ("Cascade Partnership") through the acquisition of 90% of Cascade Steaming Ltd. ("Cascade"). Cascade was the first Energy services acquisition made by the Trust. Revenues from the Energy Services division totaled $1,493,312 for the quarter ended September 30, 2004, while net operating income totaled $717,154 for the period.

General and Administrative Expenses

General and administrative expenses were $780,414 in the third quarter 2004, up from the third quarter 2003 amount of $140,524. General and administrative expenses on the split between the respective business units are as follows: $465,948 for oil and gas, $8,334 for financial services, $51,913 for real estate and $254,219 for energy services. The 455% increase in g

& a expenses in the third quarter 2004 is the result of additional staffing costs associated with increasing the Trust's market size and diversifying its business units, particularly in areas of staffing, legal, accounting, regulatory reporting, tax planning and staff additions.

Interest Expense

Interest expense was $252,384 for the third quarter 2004, compared to $47,631 for the third quarter ended 2003. Interest expense was $248,339 while bank fees were $4,045 as the majority of the interest expense was in the real estate division where the Trust had $12,241,600 in mortgages outstanding at the quarter ended September 30, 2004.

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was $1,742,712 for the quarter ended September 30, 2004, with the Trust's depletion and depreciation rate at $15.35/BOE up from the $12.20/BOE rate in the third quarter of 2003. The depreciation rate reflects the historically high cost per BOE of acquisitions in the current market, as well as increases in 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 it expects that all taxable income will be passed to unit holders in the form of distributions.

Financial Instruments

As disclosed in note 1(b), as at January 1, 2004 the fair value of all outstanding instruments was recorded on the balance sheet with an offsetting deferred financial instrument loss. The deferred financial instrument loss is recognized in net income over the life of the associated contracts. Changes in fair value after that time are recorded on the balance sheet with the associated unrealized gain or loss recorded in net income. The estimated fair value of all financial instruments is based on quoted market prices or, in their absence, third party market indicators and forecasts.

The following table presents a reconciliation of the risk management liability and the deferred financial instrument loss:

	September 30, 2004 $
Risk management liability, January 1, 2004	125,676
Net Change in mark-to-market unrealized loss	475,685
Risk management liability, September 30, 2004	601,361
Deferred financial instrument loss, January 1, 2004	125,676
Loss recognized relating to expired contracts	107,053
Deferred financial instrument loss, September 30, 2004	18,623

The Trust has the following fixed price forward contracts outstanding:

- 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/bbl WTI.

Subsequent to the quarter end the Trust entered into the following fixed price forward contracts outstanding:

- A fixed price swap for the period November 1, 2004 to October 31, 2006 on 1000 gigajoules/day of gas at a price of $7.17/gigajoule AECO.
- A fixed price collar for the period November 1, 2004 to October 31, 2007 on 100 bbls/per day of oil at a price ranging from US$38.00/bbl to US$44.65/bbl WTI.
- A fixed price floor for the period November 1, 2004 to October 31, 2006 on 200 bbls/per day of oil at a price of US$40.00/bbl WTI.

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

Of the Trust's significant individual accounts receivable as at September 30, 2004, approximately 29% was due from two companies relating to oil and gas sales in relation to trade accounts receivable.

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's 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 and the principal are subject to significant credit risk. The Trust has attempted to mitigate this risk through the advancing of amounts through various counterparties, however, some credit risk remains. Under the Trust's revenue recognition policy, fees earned on these contracts are adjusted to reflect anticipated credit losses. Although no credit loss provision currently exists, a credit loss provision will be established when management deems the risk of credit loss to be significant.

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

Cash Flow and Earnings

Cash flow from operations was $2,806,379 or $0.39 per unit for the third quarter of 2004 up 427%, compared to $532,540 in the third quarter 2003 or $0.32 per unit. The increase in cash flow was primarily the result of the growth in the Trust's business units including oil and gas acquisitions made, continued high commodity prices, additional financial services contracts, and the initial inclusion of the Western Spirit real estate acquisition at the end of March 2004.

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

For the periods ended	Three months Ended September 30		Nine months Ended September 30	
	2004	**2003**	**2004**	**2003**
Net Income (loss)				
Oil and Gas	114,195	96,349	27,567	299,758
Financial Services	387,594	81,161	724,256	219,854
Real Estate	48,108	–	76,233	–
Energy Services	230,702	–	230,702	–
Consolidated	780,599	177,510	1,058,758	519,612

The increase in net income in the oil and gas business unit of $17,846 over the third quarter of 2003 is due primarily to the increase in production. The decrease in the net income for the nine months ended September 30, 2004 over 2003 is recognition of the non-cash mark-to-market opportunity costs relating to risk management contracts in relation to the rules for accounting for hedging contracts. The increases in net income in the financial services business unit from $81,161 in the third quarter of 2003 to $387,594 in the third quarter of 2004, as well as the increase on a year to date basis over 2003 of $504,402 are due to the additional financial services contracts and the debentures that were entered into after the remainder of 2003 and throughout 2004. The third quarter of 2004 is first quarter with operating results for the Trust's energy services business unit as the Cascade acquisition closed on June 30, 2004.

The Trust recorded net earnings of $780,599 for the three months ending September 30, 2004 compared to earnings of $177,510 for the three months ended September 30, 2003. The September 30, 2004 earnings have been impacted by recognition of $601,361 non-cash mark-to-market opportunity costs related to risk management contracts. The Trust does not follow hedge accounting for these contracts.

The Trust distributed $2,015,805 ($0.28 per unit), to unitholders in the third quarter 2004 compared to $516,012 ($0.31 per unit) for the quarter ended September 30, 2003. On August 19, 2004 the Trust announced a 10% increase in the monthly distribution beginning with the August distribution payable September 15, 2004. The third quarter payout ratio of 72% was less than the Trust's target ratio 75%.

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	0.08745
February 1, 2004 to February 29, 2004	03/15/2004	0.08745
March 1, 2004 to March 31, 2004	04/15/2004	0.08745
April 1, 2004 to April 30, 2004	05/14/2004	0.08745
May 1, 2004 to May 31, 2004	06/15/2004	0.08745
June 1, 2004 to June 27, 2004	07/15/2004	0.07870
June 28, 2004 to June 30, 2004	07/15/2004	0.00880
July 1, 2004 to July 31, 2004	08/16/2004	0.09625
August 1, 2004 to August 31, 2004	09/15/2004	0.09625
September 1, 2004 to September 30, 2004	10/15/2004	0.09625

Capital expenditures

	Nine Months Ended September 30, 2004
	$
Land	8,217
Geological and geophysical	—
Drilling	674,278
Production equipment and facilities	273,400
Development expenditures	955,895
Energy services acquisition	3,425,193
Real estate corporate acquisition	20,652,698
Property acquisitions	44,388,772
Energy services property and equipment	421,233
Proceeds received on property dispositions	(1,251,503)
Other assets	37,150
Net capital expenditures	68,629,438
Property, plant and equipment September 30, 2004	88,764,604

Liquidity and Debt

As at September 30, 2004 the Trust had total net debt including working capital and mortgages of $48,308,300. This consists of the following: bank indebtedness of $33,650,000; real estate mortgages of $12,241,600; energy services long-term debt of $956,032 and net debt of ($1,460,668). The bank indebtedness was primarily incurred on September 30, 2004 in order to fund the $32,500,000 oil and gas acquisition. The Trust has a revolving demand facility up to $29,850,000 bearing interest at bank prime plus one-quarter of one percent. The Trust also has an acquisition and development line of $5,000,000, bearing interest at bank prime plus one percent, to fund additional oil and gas acquisitions. In addition, the Trust has a $6,000,000 bridge loan which is repayable November 15, 2004 and bears interest at prime plus two percent.

	Payments due by period		
	Total	Less than 1 year	1 – 3 years
Mortgages	12,241,600	8,107,641	4,133,959
Capital lease obligations	48,210	48,210	–
Long-term debt	956,032	433,368	522,664
Total Contractual Obligations	13,245,842	8,589,219	4,656,623

Deficiencies in the working capital, on going operations and capital expenditures, will be managed by existing cash flow from operations (at September 30, 2004 - $2,806,379) and the availability of the Trust's current revolving demand facility and proposed future financings. With the bank facility limit of $29,850,000 the current availability of the revolving demand facility is $2,200,000 million.

Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas at September 30, 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/gigajoule.
- 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/gigajoule.
- A physical fixed price swap for the period October 1, 2004 to October 31, 2004 on 1,600 gigajoules/day of gas at a price of $6.92/gigajoule.
- A physical fixed price swap for the period November 1, 2004 to November 30, 2004 on 500 gigajoules/day of gas at a price of $6.67/gigajoule.
- A physical fixed price swap for the period November 1, 2004 to March 31, 2005 on 500 gigajoules/day of gas at a price of $7.18/gigajoule.

Subsequent to the quarter the Trust entered into the following physical delivery contract:

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

Share Capital

Trust Units	**Number of Units**	**Amount $**
Balance March 31, 2004 (as previously reported)	46,490,779	18,844,454
Consolidation of Units June 10, 2004 (on a 15 for 1 basis)	3,099,336	18,844,454
Units issued for Private Placement June 28, 2004 (net of costs)	3,833,300	26,380,126
Units issued in Cascade purchase	266,667	2,000,000
Balance June 30, 2004	**7,199,303**	**47,244,580**
Trust unit issue costs	—	(6,924)
Balance September 30, 2004	**7,199,303**	**47,217,656**

For the quarter ended September 30, 2004 the Trust had a weighted average of 7,199,303 trust units outstanding and the diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in 7,256,125 trust units. The basic weighted average units outstanding for the nine months ended September 30, 2004 was 4,409,696. As at September 30, 2004 the total units outstanding for the Trust were 7,199,303.

Related Party Transactions

The Trust paid $25,092 during the quarter ended September 30, 2004 for corporate administrative and financial services provided to Avenir Capital Corporation, a major unitholder of the Trust.

As outlined in the original offering circular dated December 19, 2002, converting Onward Energy Inc. into a trust and the amalgamation with 928719 Alberta Ltd., a commitment was made to the chief executive and financial officers of the Trust that they would be entitled to a combined payment of $240,000 in cash or Trust Units if the business plan of the Trust was filled out through a real estate acquisition under specific conditions. Accordingly, with the closing of the Western Spirit acquisition, the Trust has included $240,000 in accounts payable.

During the period, $150,000 was paid to a director of the Trust for consulting fees relating to financial consulting services provided.

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. The Trust 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 Policies

The MD&A is based on the Trust's consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The application of Canadian 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 Trust'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 such as projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, 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. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depreciation, depletion and amortization.

A downward revision in the reserve estimate could result in a higher depletion, depreciation and amortization ("DD&A") charge to earnings (see depletion and depreciation below). In addition, it the net capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserve estimates (see asset impairment below), the excess must be written off as an expense charged against earnings.

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) 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.

Asset Impairments

The Trust's oil and gas assets are subject to impairment tests. An impairment charge is recorded in the year an asset is determined to be impaired. The impairment provision is based on the excess of carrying value over fair value. Fair value is defined as the present value of the estimated future net revenues from production of total proved and probable petroleum and natural gas reserves, as estimated by the Trust on the balance sheet date. Reserve estimates, as well as estimates for petroleum and natural gas prices and production costs may changes, and there can be no assurance that impairment provisions will not be required in the future.

Management's assessment of, among other things, commodity price outlooks and future planned development, and sales, impacts the amount and timing of impairment provisions.

Asset Retirement Obligations

The asset retirement obligation provision recorded in the consolidated financial statements is based on an estimate for total costs for future restoration and abandonment of the Trust's petroleum and natural gas properties. This estimate is based on management's analysis of production structure, reservoir characteristics and depth, market demand for equipment, currently available procedures, and discussions with construction and engineering consultants. Estimating these future costs requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changing technology and political and regulatory environments.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired and was a result of various acquisitions, is assessed by the Trust for impairment at least annually. Goodwill was allocated to the business unit at the time of the acquisition based on the respective book values compared to fair values. If it is determined that the fair value of the assets and liabilities of the business units is less than the book value of the business unit at the time of assessment, an impairment amount is determined by deducting fair value from the book value and applying it against the book balance of goodwill. The offset is charges to the consolidated statement of operations as additional DD&A.

Income Taxes

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

RECENT ACCOUNTING PRONOUNCEMENTS AND IMPACT OF THE TRUST

Hedging Relationships

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 and only apply hedge accounting where it is appropriate to do so under the new standard.

Full Cost Accounting

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.

Continuous Disclosure Obligations

Effective March 31, 2004, the Trust and all reporting issuers in Canada are subject to new disclosure requirements as per NI 51-102. This new instrument requires 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 unit holders, but rather these documents will be provided on an "as requested" basis.

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	Gary Dundas
President & CEO	Vice President Finance & CFO

CONSOLIDATED BALANCE SHEETS

(unaudited)

As at	September 30, 2004	December 31, 2003
ASSETS *[note 9]*		(restated – note 1)
Current		
Cash and cash equivalents	**457,169**	256,872
Restricted cash *[notes 2 and 5]*	**338,950**	—
Accounts receivable and prepaid expenses	**3,534,325**	1,799,803
	4,330,444	**2,056,675**
Property and equipment *[notes 2, 3, 4, 6 and 10]*	**88,764,604**	16,045,613
Financial services contracts *[notes 8 and 16]*	**9,250,495**	3,241,963
Deferred charges *[notes 7 and 16b]*	**233,784**	—
Goodwill *[notes 3 and 4]*	**7,365,818**	1,086,729
	109,945,145	22,430,980
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 9]*	**33,650,000**	4,505,000
Accounts payable and accrued liabilities *[note 17]*	**4,270,371**	1,489,755
Distributions payable *[note 21]*	**692,933**	241,964
Deferred revenue	**178,237**	—
Risk management liability *[note 16b]*	**601,361**	—
Current portion of capital lease obligations	**48,210**	61,162
Current portion of long-term debt *[notes 3, 4 and 11]*	**433,368**	—
Current portion of mortgages *[notes 2 and 10]*	**8,107,641**	—
	47,982,121	6,297,881
Capital lease obligations	**—**	32,459
Mortgages *[notes 2 and 10]*	**4,133,959**	—
Long-term debt *[notes 3, 4 and 11]*	**522,664**	—
Asset retirement obligation *[note 12]*	**4,539,672**	1,312,965
Future income taxes *[notes 2 and 6f]*	**8,786,180**	—
Non-controlling interest *[notes 3, 4 and 19]*	**256,296**	—
Commitments *[notes 2 and 18]*		
Unitholders' equity		
Unitholder capital *[note 13]*	**47,217,656**	15,851,942
Contributed surplus *[note 14]*	**249,756**	119,868
Accumulated earnings	**1,728,494**	669,736
Accumulated cash distributions	**(5,471,653)**	(1,853,871)
	43,724,253	14,787,675
	109,945,145	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		Nine months ended	
	Sept. 30, 2004	**Sept. 30, 2003**	**Sept. 30, 2004**	**Sept. 30, 2003**
	$	**$**	**$**	**$**
		(restated – note 1)		*(restated – note 1)*
REVENUE				
Oil and gas revenue	**3,438,522**	930,905	**8,245,325**	2,652,625
Royalties, net of ARTC	**(601,687)**	(136,402)	**(1,317,879)**	(414,958)
Unrealized loss on financial instruments *[note 16b]*	**(196,437)**	—	**(582,738)**	—
	2,640,398	794,503	**6,344,708**	2,237,667
Real estate revenue	**703,836**	—	**1,569,018**	—
Energy services revenue	**1,493,312**	—	**1,493,312**	—
Financial services revenue	**400,454**	75,600	**782,818**	214,200
Investment revenue	**—**	73,542	**—**	195,552
Interest and other revenue	**89,850**	2,058	**103,814**	2,459
Gain on sale of marketable securities	**—**	—	**—**	75,190
	5,327,850	945,703	**10,293,670**	2,725,068
EXPENSES				
Oil and gas operating	**674,706**	225,008	**1,629,517**	589,833
Real estate operating	**231,978**	—	**665,144**	—
Energy services operating	**776,158**	—	**776,158**	—
General and administrative *[notes 14 and 17]*	**780,414**	140,524	**1,710,240**	438,454
Interest and bank fees	**252,384**	47,631	**605,982**	112,484
Capital taxes	**19,206**	—	**30,516**	—
Depletion, depreciation and amortization	**1,742,712**	337,437	**3,677,813**	834,321
Asset retirement obligation accretion *[note 12]*	**44,059**	17,593	**113,908**	52,779
Unsuccessful acquisition and re-organizational costs	**—**	—	**—**	177,585
	4,521,617	768,193	**9,209,278**	2,205,456
Income before income tax	**806,233**	177,510	**1,084,392**	519,612
Income tax expense	**—**	—	**—**	—
Net income before non-controlling interest	**806,233**	177,510	**1,084,392**	519,612
Non-controlling interest	**(25,634)**	—	**(25,634)**	—
Net income for the period	**780,599**	177,510	**1,058,758**	519,612
Accumulated earnings (deficit), beginning of period	**947,895**	186,044	**285,808**	(233,372)
Retroactive application of change in accounting policy *[note 1]*	**—**	228,686	**383,928**	306,000
Accumulated earnings, beginning of period, as restated	**947,895**	414,730	**669,736**	72,628
Accumulated earnings, end of period	**1,728,494**	592,240	**1,728,494**	592,240
Net income per unit *[notes 1 and 13]*				
Basic	**0.11**	0.11	**0.24**	0.34
Diluted	**0.11**	0.11	**0.24**	0.32

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the	Three months ended		Nine months ended	
	Sept. 30, 2004	**Sept. 30, 2003**	**Sept. 30, 2004**	**Sept. 30, 2003**
	$	**$**	**$**	**$**
OPERATING ACTIVITIES		*(restated – note 1)*		*(restated – note 1)*
Net income (loss) for the period	**780,599**	177,510	**1,058,758**	519,612
Add (deduct) non-cash items				
Depletion, depreciation and amortization	**1,742,712**	337,437	**3,677,813**	834,321
Gain on sale of marketable securities	**—**	—	**—**	(75,190)
Non-cash general and administrative *[note 14]*	**42,597**	—	**129,888**	—
Asset retirement obligation accretion	**44,034**	17,593	**113,883**	52,779
Unrealized loss on financial instruments	**196,437**	—	**582,738**	—
Unsuccessful acquisition and re-organizational costs	**—**	—	**—**	177,585
Funds from operations	**2,806,379**	532,540	**5,563,080**	1,509,107
Change in non-cash working capital	**(128,042)**	3,086,445	**231,576**	294,488
Cash provided by operating activities	**2,678,337**	3,618,985	**5,794,656**	1,803,595
FINANCING ACTIVITIES				
Issue of trust units	**—**	8,000,000	**28,749,750**	12,530,217
Trust unit issue costs	**(6,924)**	(657,104)	**(2,376,548)**	(931,388)
Distributions to unitholders	**(1,627,797)**	(397,440)	**(3,166,813)**	(886,014)
Change in bank indebtedness	**33,650,000**	(2,120,000)	**29,145,000**	(522,859)
Repayment of mortgages	**(103,821)**	—	**(205,730)**	—
Repayments of capital lease obligations	**(15,440)**	—	**(45,411)**	—
Increase in long-term debt	**—**	—	**542,258**	—
Repayment of long-term debt	**(354,673)**		**(896,932)**	
Change in non-cash working capital	**—**	36,858	**—**	(129,312)
Cash provided by (used in) financing activities	**31,541,345**	4,862,314	**51,745,576**	10,060,644
INVESTING ACTIVITIES				
Purchase of Onward Energy Inc.	**—**	—	**—**	(1,643,458)
Purchase of Outback Energy Inc.	**—**	—	**—**	(136,649)
Purchase of 728409 Alberta Ltd.	**—**	(1,144,634)	**—**	(1,144,634)
Purchase of Western Spirit Investments Ltd. *[note 2]*	**(60,010)**	—	**(3,218,697)**	—
Purchase of Cascade Services Partnership *[note 3]*	**(10,678)**	—	**(3,492,451)**	—
Purchase of Indy Oilfield Ltd. *[note 4]*	**(265,961)**	—	**(265,961)**	—
Oil and gas property acquisitions *[note 6]*	**(32,691,326)**	—	**(44,388,772)**	(3,224,969)
Oil and gas property disposals *[note 6]*	**18,137**	—	**1,251,503**	—
Oil and gas development expenditures	**(511,664)**	(650,930)	**(955,896)**	(692,937)
Purchase of energy services assets	**(421,233)**		**(421,233)**	
Purchase of other assets	**(11,590)**	(3,488)	**(37,150)**	(6,929)
Purchase of financial services contracts	**(4,376,441)**	—	**(6,019,013)**	(600,000)
Sale of marketable securities	**—**	—	**—**	1,085,190
Purchase of marketable securities	**—**	(3,047,690)	**—**	(3,047,690)
Unsuccessful acquisition and re-organizational costs	**—**	—	**—**	(177,585)
Restricted cash *[note 2]*	**—**	—	**(338,950)**	—
Change in deferred charges	**(19,634)**	—	**(19,634)**	—
Change in non-controlling interest	**(2,144)**	—	**(2,144)**	—
Changes in non-cash working capital	**240,000**	(1,387,714)	**568,463**	76,572
Cash used in investing activities	**(38,112,544)**	(6,234,456)	**(57,339,935)**	(9,513,089)
Increase in cash and cash equivalents during the period	**(3,892,862)**	2,246,843	**200,297**	2,351,150
Cash and cash equivalents, beginning of period	**4,350,031**	186,804	**256,872**	82,497
Cash and cash equivalents, end of period	**457,169**	2,433,647	**457,169**	2,433,647
Cash interest paid	**248,339**	32,279	**587,231**	91,706

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 generally accepted accounting principles and in a manner consistent with the accounting policies in the audited consolidated financial statements of the Trust for the year ended December 31, 2003, except as noted below. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the 2003 audited consolidated financial statements.

The unit and per unit amounts presented in the unaudited interim consolidated financial statements reflect the 15 for 1 reverse stock split which was approved by the Trust's unitholders on June 10, 2004 (see note 13a(iv)).

Due to seasonality, the operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the full fiscal year revenues and expenses during the reporting period. Actual results may differ from those estimates.

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 September 30, 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 effect of the change on the accumulated earnings for the nine months ended September 30, 2003 was a decrease of $115,971 relating to additional depletion of $63,192 and accretion on the asset retirement obligation of $52,779. The basic net income per unit decreased by $0.02 and $0.08 for the three and nine months ended September 30, 2003, respectively and the diluted net income per unit also decreased by $0.01 and $0.07 for the three and nine months ended September 30, 2004, respectively.

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

Effective January 1, 2004, the Trust adopted the new CICA accounting guideline AcG-13 "Hedging Relationships". Financial instruments that are not designated as hedges under the guideline are recorded on the balance sheet as either an asset or liability with the change in the fair value recognized in net earnings. The Trust has elected not to designate any of its risk management activities as accounting hedges under AcG-13, and accordingly has marked to market its financial instruments.

The impact on the Trust's financial statements as at January 1, 2004 is the recognition of a risk management liability and a deferred financial instrument loss of $125,676. The deferred financial instrument loss is being recognized in earnings as the contracts expire. See note 16 for additional information regarding the financial instruments and risk management.

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 cost 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.

g) Restricted cash

Restricted cash consists primarily of deposits for property specific tenant improvement expenditures and funding of future capital expenditures and repairs for one of the Trust's buildings.

h) Energy services equipment

The Trust amortizes the costs of its energy services equipment using the diminishing balance method. The rates used as set out below are estimated to be sufficient to amortize the cost of the assets by the expiration of their useful lives:

Automotive	30%
Equipment	20%
Computer	30%
Radio	25%
Furniture and fixtures	20%

i) Revenue recognition for real estate properties

Income from properties includes rents from tenants under leases, percentage participation rents, property taxes and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income. Percentage participation rent is recognized after the minimum sales level has been achieved in accordance with each lease. All other rental revenue is recognized in accordance with each lease.

Income from properties recorded in the statements of income during free rent periods represents future cash receipts and is reflected in the balance sheets in receivables and recognized in the income statements on a straight-line basis over the initial term of the lease.

Effective January 1, 2004, the Trust accounts for stepped rents on a straight-line basis applied prospectively as required under the primary source of Canadian GAAP. Income from leases existing as at December 31, 2003 for the nine months ended September 30, 2004, is higher by $64,159 than would have been reported under the previous policy.

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, for consideration consisting of cash of $3,000,000 and the issuance of 332,500 Trust Units (post consolidation – see note 13(a)(iv)). 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 (post consolidation – see note 13(a)(iv)). Each performance right entitles the holder to acquire 0.003333 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 were 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 closing date of acquisition. The Trust has not yet completed its final evaluation of the fair value of the assets acquired and the liabilities assumed at the date of acquisition. The transaction has been accounted for using the purchase method as follows:

Calculation of purchase price:	
Cash consideration	$ 3,000,000
Trust units issued	2,992,512
Estimated transaction costs	706,863
Less: cash received (including restricted cash)	(488,176)
	6,211,209
Allocation of purchase price:	
Non-cash working capital	(301,294)
Real estate properties	20,652,698
Deferred charges	232,179
Mortgages	(12,447,330)
Deferred revenue	(215,896)
Severance costs	(550,000)
Tenant improvement	(78,000)
Future income taxes	(1,081,148)
	$ 6,211,209

3. CASCADE SERVICES PARTNERSHIP

On June 30, 2004 the Trust acquired 90% of the partnership units of Cascade Services Partnership ("Cascade Partnership"), for total consideration of $5,492,451 consisting of cash of $3,835,465 and the issuance of 266,667 Trust Units at $7.50 per unit. The Cascade Partnership, was the first investment by the Trust's new energy services business unit and is involved in providing steaming, vacuum truck and hydro vac services to the energy, utility and construction industries in Northeast British Columbia and Northwest Alberta. The Trust Units were valued based on the average fair market value of the units immediately prior to the date the acquisition was announced.

Results from operations for the Cascade Partnership are included in the Trust's consolidated financial statements from the closing date of acquisition. The Trust has not yet completed its final evaluation of the fair value of the assets acquired and the liabilities assumed at the date of acquisition. The transaction has been accounted for using the purchase method as follows:

Calculation of purchase price:	
Cash consideration	$ 3,835,465
Trust units issued	2,000,000
Estimated transaction costs	219,758
Less: cash received	(562,772)
	$ 5,492,451
Allocation of purchase price:	
Non-cash working capital	$ 694,759
Capital assets	2,950,193
Goodwill	3,004,840
Long-tern debt	(903,425)
Non-controlling interest	(253,916)
	$ 5,492,451

4. INDY OILFIELD LTD.

On July 15, 2004 the Trust acquired all the outstanding shares of Indy Oilfiled Ltd. ("Indy"), for net cash consideration of $265,961. Indy represents the second acquisition in the Trust's new energy services business unit and is involved in providing steaming, vacuum truck and hydro vac services to the energy, utility and construction industries in Northwest Alberta.

Results from operations for Indy are included in the Trust's consolidated financial statements from the closing date of acquisition. The Trust has not yet completed its final evaluation of the fair value of the assets acquired and the liabilities assumed at the date of acquisition. The transaction has been accounted for using the purchase method as follows:

Calculation of purchase price:	
Cash consideration	322,840
Estimated transaction costs	51,411
Less: cash received	(108,290)
	265,961
Allocation of purchase price:	
Non-cash working capital	26,140
Property and equipment	475,000
Goodwill	176,625
Long-term debt	(394,847)
Due to Cascade	(12,433)
Non-controlling interest	(4,524)
	265,961

5. RESTRICTED CASH

	September 30, 2004
Restricted cash – tenant renewal and leasing cost fund required by mortgage agreements	$ 338,950
	$ 338,950

6. PROPERTY AND EQUIPMENT

	September 30, 2004		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties/production equipment	69,353,229	4,693,091	64,660,138
Real estate properties	20,652,698	263,697	20,389,001
Energy services equipment	3,787,447	196,624	3,590,823
Oil and gas assets under capital lease	175,689	88,850	86,839
Furniture and computer equipment	50,619	12,816	37,803
	94,019,682	5,255,078	88,764,604

a) On March 25 and March 30, 2004 the Trust sold non-core oil and gas assets to two unrelated arm's length parties for total cash consideration of $881,147 and $330,356 respectively, 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 $1,616,097 including adjustments to date. An additional asset retirement obligation of $74,436 was recorded on these acquisitions.

c) 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 $183,782 including adjustments to date. An additional asset retirement obligation of $16,678 was recorded on this acquisition.

d) On June 30, 2004 the Trust purchased oil and gas assets from two unrelated arm's length parties for total cash consideration of $9,983,299 including adjustments to date. An additional asset retirement obligation of $490,556 was recorded on these acquisitions.

e) On September 15, 2004 the Trust sold non-core oil and gas assets to an arm's length party for total cash consideration of $40,000, including adjustments to date

f) On September 30, 2004 the Trust purchased oil and gas assets through the acquisition of all of the outstanding shares of 111578 Alberta Ltd. from an unrelated party for total cash consideration of $32,605,592 including adjustments to date. The purchase price has been allocated as follows:

	$
Allocation of purchase price:	
Oil and gas properties/production equipment	39,576,208
Goodwill	3,097,624
Asset retirement obligation	(2,363,208)
Future income tax	(7,705,032)
	32,605,592

g) Included in Oil and Gas Properties is undeveloped land of $150,000 which has been excluded from the calculation of depletion and depreciation (September 30, 2003 - $50,000).

7. DEFERRED CHARGES

	June 30, 2004
Deferred lease costs, net of accumulated amortization *[note 2]*	215,161
Deferred financial instrument loss *[note 16b]*	18,623
	233,784

8. INVESTMENT IN FINANCIAL SERVICES CONTRACTS

On July 15, 2004 the Trust entered into an agreement to provide a debenture in the amount of $1,000,000 to RENTCASH Inc. ("RENTCASH"). The non-revolving loan pays the Trust interest at a rate of 12% and a financing fee of 4% per annum. The loan matures July 15, 2007.

On July 23, 2004 the Trust entered into two additional financial services contracts in the amount of $1,000,000 and $500,000 respectively. The contracts have a term of ten years, pay the Trust a fixed fee of $0.07 per $100 loaned per day and are recallable at the Trust's option with thirty days notice.

On August 19, 2004 the Trust entered into an agreement to provide a debenture in the amount of $500,000 to an unrelated third party in the hotelling business. The non-revolving loan pays the Trust interest at a rate of 14% plus net profit and incentive fees of 20% of annual net profits from the hotel investments. The loan matures August 19, 2008.

On August 19, 2004 and September 16, 2004 the Trust entered into two additional financial services contracts in the amount of $750,000 and $600,000 respectively. The contracts have a term of ten years and pay the Trust a fixed fee of $0.07 per $100 loaned per day and is recallable at the Trust's option with thirty days notice.

9. BANK INDEBTEDNESS

The Trust has a combined revolving demand facility with a major Canadian bank in the amount of $29,850,000 bearing interest at prime plus one-quarter of 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 $5,000,000, bearing interest at bank prime plus one percent, to fund additional oil and gas acquisitions. The Trust also received a term sheet from a Canadian Chartered Bank for a bridge demand loan in the amount of $6,000,000 bearing interest at prime plus two percent. Any amounts drawn on the bridge demand loan are reduced from the amount available on the acquisition and development line.

As at September 30, 2004 $27,650,000 was drawn on the revolving demand facility and $6,000,000 was drawn on the bridge demand loan. The effective interest rate on borrowings under these lines for the nine months ended September 30, 2004 including services fees was 6.40%.

The Trust also had two letters of credit outstanding in the aggregate amount of $105,000.

10. MORTGAGES

	September 30, 2004
Various mortgages with interest rates ranging from 5.75% to 8.15% (weighted average rate of 7.5%), maturities from March 2005 to September 2006, secured by first charge over the related properties, and restricted cash	12,241,600
Current portion of mortgages	(8,107,641)
	4,133,959

Approximate principal repayments required to maturity are as follows:	
2004	1,964,863
2005	8,190,371
2006	2,086,366
	12,241,600

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

11. LONG-TERM DEBT

The Trust has the following long-term loans outstanding which are secured by automotive equipment:

	September 30, 2004
Various loans payable in monthly instalments ranging from $3,023.21 and $7,558.05, interest rates ranging from prime plus 2.61% to prime plus 2.65%, and maturities from December 10, 2005 to February 23, 2007	803,970
Various loans payable in monthly instalments ranging from $599.40 to $2,972.21, interest rates ranging from 0.00% to 4.30% , and maturities from September 23, 2007 to July 18, 2008	152,062
	956,032
Current portion	433,368
	522,664

Approximate principal repayments required to maturity are as follows:	
2004	108,342
2005	433,368
2006	335,195
2007	70,267
2008	8,860
	956,032

12. 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 $4,539,672 as at September 30, 2004 based on a total future liability of $7,913,236. These payments are expected to be made over the next 4 to 16 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	3,112,825
Asset retirement obligation accretion for the period	113,882
Carrying amount, as at September 30, 2004	4,539,672

13. UNITHOLDERS' CAPITAL (REVERSE STOCK SPLIT – SEE NOTE 1)

a) Unitholders' capital

Issued

Trust Units	**Number of Units**	**Amount $**
Balance December 31, 2003	**2,766,836**	**15,851,942**
Units issued on Western Spirit corporate purchase (i)	332,500	2,992,512
Balance March 31, 2004	**3,099,336**	**18,844,454**
Units issued on financing June 28, 2004 (ii)	3,833,300	28,749,750
Trust unit issue costs (ii)	—	(2,369,624)
Units issued on Cascade Partnership purchase (iii)	266,667	2,000,000
Balance June 30, 2004	**7,199,303**	**47,224,580**
Trust unit issue costs (ii)	—	(6,924)
	7,199,303	**47,217,656**

(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 332,500 trust units at a value of $2,992,512 (see note 2).

(ii) On June 28, 2004 the Trust completed a public offering by way of a prospectus for proceeds of $28,749,750. Costs associated with this transaction amounted to $2,376,548.

(iii) On June 30, 2004 the value of the Cascade Partnership units acquired by the Trust was $5,835,465 for which the Trust paid cash of $3,835,465 and issued 266,667 trust units at a value of $2,000,000 (see note 3).

(iv) On June 10, 2004, as disclosed in the Trust's information circular with respect to the annual and special meeting of Unitholders, the Trust obtained unitholder approval to consolidate the number of outstanding units on a 1 for 15 basis. To pursue certain strategic objectives, the Trust believed it was 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. These unaudited interim consolidated financial statements have been updated to reflect the impact on the net income (loss) per unit as if the reverse stock split had occurred prior to the periods presented in these unaudited interim consolidated financial statements.

b) Net income per unit

For the three and nine months ended September 30, 2004, respectively, the Trust had a weighted average number of trust units outstanding of 7,199,303 (September 30, 2003 – 1,658,190) and 4,409,696 (September 30, 2003 – 1,508,854 (post consolidation - see note 13(a)(iv)). Prior period per unit amounts have been restated to take into account the reverse stock split. The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in a weighted average number of trust units outstanding for the three and nine months ended September 30, 2004, of 7,256,125 (September 30, 2003 – 1,768,480) and 4,466,134 (September 30, 2003 – 1,609,371), respectively. At September 30, 2004 there were no anti-dilutive options.

14. 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 fiveyear 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 309,933 units have been reserved under this plan.

At September 30, 2004 a total of 129,996 options vesting over three years had been granted under the Trust unit option plan and 41,109 of the outstanding options had vested. 106,665 of the options granted to date have an exercise price of $6.00, 16,665 options have an exercise price of $7.50 and the remaining 6,666 options have an exercise price of $7.65. The average remaining life of the options is 3.49 years and the weighted average remaining vesting period of the options is 0.67 years. For the nine months ended September 30, 2004 no options were forfeited or expired.

Based on the period end unit price the Trust recorded compensation expense and contributed surplus of $42,597 and $129,888 in the three and nine months ended September 30, 2004, respectively.

15. 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 represent 100% of the related assets, liabilities, revenue and expenses relating to the co-ownership agreement as at and for the nine months ended:

	September 30, 2004
Assets	2,606,398
Liabilities	1,834,484
Revenue	163,608
Operating expenses	74,379
Net income	75,068
Cash flow from operating activities	89,229

16. 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, investment in financial services contracts, bank indebtedness, accounts payable, distributions payable, capital lease obligations and mortgages. Unless otherwise noted, as at September 30, 2004 and December 31, 2003, there were no significant differences between the carrying amounts of these financial instruments and their estimated fair values. The estimated fair value of the financial services contracts at September 30, 2004 was $12,079,630 (December 31, 2003 - $4,822,222).

b) Risk management liability and deferred financial instrument loss

As disclosed in note 1(b), as at January 1, 2004 the fair value of all outstanding instruments was recorded on the balance sheet with an offsetting deferred financial instrument loss. The deferred financial instrument loss is recognized in net income over the life of the associated contracts. Changes in fair value after that time are recorded on the balance sheet with the associated unrealized gain or loss recorded in net income. The estimated fair value of all financial instruments is based on quoted market prices or, in their absence, third party market indicators and forecasts.

The following table presents a reconciliation of the risk management liability and the deferred financial instrument loss:

	September 30, 2004 **$**
Risk management liability, January 1, 2004	125,676
Change in mark-to-market unrealized loss	475,685
Risk management liability, September 30, 2004	**601,361**
Deferred financial instrument loss, January 1, 2004	125,676
Loss recognized relating to expired contracts	107,053
Deferred financial instrument loss, September 30, 2004	**18,623**

The Trust has the following fixed price forward contracts outstanding:

- A fixed price swap for the period July 1, 2004 to June 1, 2005 on 100 bbls/day of oil at a price of US$27.78/bbl WTI.

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions described elsewhere in these unaudited interim consolidated financial statements, the Trust entered into the following transactions with related parties:

- During the three and nine months ended September 30, 2004, the Trust paid $25,092 and $76,231, respectively (three and nine months ended September 30, 2003 - $21,163 and $60,763, respectively) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services.
- During the nine months ended September 30, 2004 the Trust entered into a loan agreement with Avenir for $400,000 to help finance the acquisition of Western Spirit and interest was calculated at bank prime plus 2%. The loan was repaid June 28, 2004 and interest of $5,644 was paid and recorded as a cost of the transaction.
- During the nine months ended September 30, 2004 the Trust entered into a loan agreement with Avenir Growth Fund, a company for which a significant unitholder of the Trust sits on the board of directors, for $600,000 to help finance an additional financial services contract (see note 7). Interest on the loan was calculated at bank prime plus 2%. The loan was repaid June 28, 2004 and interest of $2,647 was paid and recorded as a cost of the transaction.
- Included in accounts payable is $4,628 owing to Avenir relating to administration and advisory services and $202,592 owing to Avenir relating to the acquisition of certain oil and gas properties disclosed in note 6(d) with no fixed terms of repayment.
- As outlined in the original offering circular converting Onward Energy Inc. into a trust and the amalgamation with 928719 Alberta ltd., a commitment was made to the chief executive and financial officers of the Trust that they would be entitled to a combined payment of $240,000 in cash or Trust Units if the business plan of the Trust was filled out through a real estate acquisition under specific conditions. Accordingly, with the closing of the Western Spirit acquisition (see note 2), the Trust has included $240,000 in accounts payable.
- During the period, $150,000 was paid to a director of the Trust for consulting fees relating to financial consulting services provided.

18. COMMITMENTS

The contracts outstanding with respect to the physical deliveries of oil and gas at September 30, 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/ gigajoule.
- 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/ gigajoule.
- A physical fixed price swap for the period October 1, 2004 to October 31, 2004 on 1,600 gigajoules/day of gas at a price of $6.92/ gigajoule.
- A physical fixed price swap for the period November 1, 2004 to November 30, 2004 on 500 gigajoules/day of gas at a price of $6.67/ gigajoule.
- A physical fixed price swap for the period November 1, 2004 to March 31, 2005 on 500 gigajoules/day of gas at a price of $7.18/ gigajoule.

Subsequent to September 30, 2004 the Trust entered into the following physical delivery contracts:

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

The Trust indemnifies its directors and officers who are, 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.

19. NON-CONTROLLING INTEREST

Non-controlling interest arose from the Trust's acquisition of 90% of Cascade Services Partnership and the acquisition of Indy Oilfield Ltd.

	Three months ended September 30, 2004
	$
Opening non-controlling interest, June 30, 2004	256,997
Adjustment to Cascade Partnership purchase price	(3,081)
Acquisition of Indy Oilfield Ltd.	4,524
Non-controlling interest in earnings for the period	25,634
Distributions payable to non-controlling interest holders	(27,778)
Closing non-controlling interest, September 30, 2004	**256,296**

20. SEGMENTED INFORMATION

The Trust determines its reportable segments based on the structure of its operations, which are primarily focused on four principal business segments – oil and gas, financial services, real estate and energy services. The following is selected financial information for each business segment:

	For the three months ended		**For the six months ended**	
	Sept. 30, 2004	**Sept. 30, 2003**	**Sept. 30, 2004**	**Sept. 30, 2003**
	$	**$**	**$**	**$**
Total Revenue, net				
Oil and Gas	**2,730,248**	796,561	**6,448,522**	2,437,233
Financial Services	**400,454**	149,142	**782,818**	287,835
Real Estate	**703,836**	—	**1,569,018**	—
Energy Services	**1,493,312**	—	**1,493,312**	—
	5,327,850	945,703	**10,293,670**	2,725,068

	For the three months ended		**For the six months ended**	
	Sept. 30, 2004	**Sept. 30, 2003**	**Sept. 30, 2004**	**Sept. 30, 2003**
	$	**$**	**$**	**$**
Net Income				
Oil and Gas	**114,195**	96,349	**27,567**	299,758
Financial Services	**387,594**	81,161	**724,256**	219,854
Real Estate	**48,108**	—	**76,233**	—
Energy Services	**230,702**	—	**230,702**	—
	780,599	177,510	**1,058,758**	519,612

					Sept. 30, 2004
	Oil and Gas	**Financial Services**	**Real Estate**	**Energy Services**	**Total**
	$	**$**	**$**	**$**	**$**
Selected balance sheet items					
Property and equipment	64,784,780	—	20,389,001	3,590,823	88,764,604
Investment in financial services contracts	—	9,250,495	—	—	9,250,495
Goodwill	4,184,353	—	—	3,181,465	7,365,818
Bank indebtedness	33,650,000	—	—	—	33,650,000
Mortgages	—	—	12,241,600	—	12,241,600
Long-term debt	—	—	—	956,032	956,032

21. 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	0.08745
February 1, 2004 to February 29, 2004	03/15/2004	0.08745
March 1, 2004 to March 31, 2004	04/15/2004	0.08745
April 1, 2004 to April 30, 2004	05/14/2004	0.08745
May 1, 2004 to May 31, 2004	06/15/2004	0.08745
June 1, 2004 to June 27, 2004	07/15/2004	0.07870
June 28, 2004 to June 30, 2004	07/15/2004	0.00880
July 1, 2004 to July 31, 2004	08/16/2004	0.08750
August 1, 2004 to August 31, 2004	09/15/2004	0.09625
September 1, 2004 to September 30, 2004	10/15/2004	0.09625

As at September 30, 2004 the Trust had distributions owing of $692,933 (December 31, 2003 - $241,964). The per unit distributions paid are post consolidation (see note 13(a)(iv)).

22. SUBSEQUENT EVENTS

a) On October 29, 2004 the Trust entered into an additional financial services contract in the amount of $500,000. The contract has a term of ten years, pays the Trust a fixed fee of $0.07 per $100 loaned per day and is recallable at the Trust's option with thirty days notice.

b) Subsequent to the quarter end the Trust entered into the following fixed price forward contracts outstanding:

- A fixed price swap for the period November 1, 2004 to October 31, 2006 on 1000 gigajoules/day of gas at a price of $7.17/gigajoule AECO.
- A fixed price collar for the period November 1, 2004 to October 31, 2007 on 100 bbls/per day of oil at a price ranging from US$38.00/bbl to US$44.65/bbl WTI.
- A fixed price floor for the period November 1, 2004 to October 31, 2006 on 200 bbls/per day of oil at a price of US$40.00/bbl WTI.

On October 13, 2004 the Trust entered into an engagement agreement with a syndicate of agents, co-led by Raymond James Ltd. and GMP Securities Ltd., in connection with a "best efforts" public offering of Trust Units at $9.00 per unit by way of a long form prospectus for minimum proceeds of $25,000,000 and maximum proceeds of $35,000,000 and an over-allotment of 15%. The offering was completed on November 15, 2004 with total Trust Unit of 4,472,221 issued, including the exercise of an over-allotment option for 583,333 Trust Units, at a price of $9.00 per Trust Unit for gross proceeds of $40,249,989. The net proceeds of the offering will be used for continued growth and development in its oil and gas, financial services, real estate and energy services operations.

CORPORATE INFORMATION

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Vice President, Finance & CFO
Calgary, Alberta

Alan Moon [1,2]
Calgary, Alberta

David Butler [1,3]
Calgary, Alberta

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
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