



AVENIR DIVERSIFIED INCOME TRUST

THIRD QUARTER HIGHLIGHTS

For the periods ended	Three months ended		Nine months ended ¹	
	Sept 30/03	Sept 30/02	Sept 30/03	Sept 30/02
Net Revenue	\$945,703	\$57,300	\$2,725,068	\$74,300
Cash Flow From Operations ²	\$502,298	\$30,770	\$1,479,525	(\$245,669)
Cash Flow Per Unit ²	\$0.01	---	\$0.04	(\$0.03)
Distributions	\$516,012	---	\$1,127,978	---
Distributions Per Unit	\$0.01	---	\$0.04	---
Net Earnings (loss)	\$186,585	\$30,770	\$606,001	(\$245,669)
Net Earnings Per Unit	\$0.01	---	\$0.03	(\$0.03)
Total Cash and Working Capital	\$4,079,494	---	\$4,079,494	---
Oil and Ngl's – bbls per day	241	---	232	---
Average Price (\$/Bbl) before hedging	\$33.48	---	\$37.29	---
Average Price (\$/Bbl) after hedging	\$31.85	---	\$36.48	---
Gas – mcf per day	378	---	344	---
Average Price (\$/mcf)	\$6.77	---	\$7.38	---
Total Boe per day	304	---	289	---
Average Price Per Boe before hedging	\$34.96	---	\$38.68	---
Average Price Per Boe after hedging	\$33.67	---	\$38.03	---

¹ Trust was created January 16, 2003.

² Cash flow from operations and cash flow per unit are not recognized measures under Canadian generally accepted accounting principles (GAAP). Management believes that cash flow is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Trust's principal business activities. Avenir Diversified Income Trust's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.

REPORT TO UNITHOLDERS

Avenir Diversified Income Trust's ("Avenir" or the "Trust") strategy is comprised of having three distinct business units: Oil and Gas, Financial Services, and Real Estate. These three units combine the stability of cash flows from both real estate and financial services with a more volatile cash flow stream from oil and gas production. To date, the Trust has made investments in oil and gas and financial services and is pleased to report the financial results for the three and nine months ended September 30, 2003.

Operations

The Trust continued its disciplined approach to growth, both financially and operationally. During the third quarter the Trust acquired a small, privately owned, oil and gas company for a total consideration of \$2,175,000, paid for by the issuance of 2,000,000 trust units at a deemed value of \$0.50 per unit and \$1,175,000 cash. This acquisition added approximately 90 boe/day of natural gas production. The Trust also announced an agreement in September to purchase certain gas assets from a major oil and gas producer. This transaction, which closed subsequent to the quarter on October 24, 2003, added approximately 215 boe/day of natural gas production. This cash transaction was funded by the proceeds of the September financing as described in the financial section of this report. Production volumes averaged 304 boed/day during the quarter up 17% from the second quarter reflecting the impact of the Outback acquisition for the full quarter.

The Trust was very active operationally, participating in the drilling of four wells in the Bow Island area during the quarter which resulted in three oil wells and one disposal well. In addition, a gas pipeline was completed to conserve and tie-in gas at Cherhill and a successful oil well was drilled on our Saskatchewan farm-out lands where the Trust retains a royalty interest.

The Trust's Financial Services division continues to perform well and we are confident this division will continue to provide a very stable contribution to the Trust. Several opportunities are being evaluated and we would expect to have concluded a transaction within the fourth quarter.

Financial

The Trust's cash flow for the third quarter was \$502,298 or \$0.01 per unit up 10% from the second quarter cash flow of \$454,829. Distributions for the third quarter were \$516,012 or \$0.01749 per unit, up 11% from the second quarter distribution of \$0.01575 per unit. For the nine-month period, cash flow and distributions were \$1,479,525 and \$1,127,978 respectively, for a payout ratio of 76%. Commodity prices for the quarter were \$31.85 per barrel of oil and natural gas liquids, and \$6.77 per mcf for natural gas versus \$35.23 per barrel and \$6.90 per mcf respectively in the second quarter.

The Trust closed an \$8 million gross financing on September 24, 2003. As a result, our total number of units outstanding has increased to 41,503,282 at the end of the third quarter from 23,503,282 at the end of the second quarter. This significant milestone broadened our unit holder base and laid the groundwork for continued growth and execution of our business plan.

At the end of the third quarter, the Trust had cash and working capital of approximately \$4,079,494 available for acquisitions and investment.

Outlook

The Trust continues to see and evaluate several acquisitions within each of its business units. Our ability to act and execute quickly is our key strength. Our disciplined approach to these opportunities has resulted in continued accretive growth. We are confident that we will continue to add to our financial services business unit and we are currently targeting to execute on a real estate transaction, which will allow us to have fulfilled one of our key business plan objectives.

With respect to our Oil and Gas operations, the Trust completed a large gas acquisition in late October, which will increase cash flow in November and December 2003. The Trust is also proactively farming-out its undeveloped lands to third parties as this allows for the flexibility to deploy capital for acquisitions. We will continue to invest capital in low risk development drilling prospects.

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

Submitted on behalf of the Board of Directors by:

William M. Gallacher
President & CEO

Gary Dundas
Vice President Finance & CFO

Forward Looking Statements

Certain information regarding the Trust set forth in this document, including management's assessment of the Company's future plans and operations contains forward looking statements that involve substantial known and unknown risks and uncertainties. These forward looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's and management's control, including but not limited to, the impact of general economic conditions, industry conditions, fluctuation of commodity prices, fluctuation of foreign exchange rates, imperfection of reserve estimates, environmental risks, industry competition, availability of qualified personnel and management, stock market volatility, timely and cost effective access to sufficient capital from internal and external sources. The Trust's actual results, performance or achievement could differ materially from those expressed in or implied by, these forward looking statements and accordingly, no assurance can be given that any of the events anticipated to occur or transpire from the forward looking statements will provide what, if any benefits to the Trust.

A Discussion of Operational and Financial Results

MANAGEMENT'S DISCUSSION AND ANALYSIS should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended September 30, 2003.

Drilling

During the quarter, the Trust was successful in drilling three oil wells and one water disposal well in the Bow Island area adding 20 boe/day of production to the Trust. A gas pipeline was also completed adding approximately 10 boe/day in Cherhill. Total capital expenditures for the quarter totaled \$673,926. The Trust also farmed out, for a royalty interest, a successful oil well in Saskatchewan, which will lead to a least two follow-on locations in late 2003 and early 2004.

Financing

On September 24, 2003, the Trust closed an \$8,000,000 (gross) over-subscribed financing. There were a total of 16,000,000 units issued from treasury, at a price of \$0.50 per unit. Subsequent to the quarter, approximately \$6.2 million of the proceeds from the financing were used towards the late October purchase of 215 boe/day of natural gas assets. The remaining funds from the financing were invested in a portfolio of trust units until the funds are deployed for an investment in one of our business units.

Acquisition of 728409 Alberta Ltd. ("728409")

On September 24, 2003 the Trust acquired all of the issued and outstanding common shares of 728409, thereby acquiring approximately 90 boe/day of natural gas. Under the terms of the agreement, the Trust issued an aggregate of 2,000,000 Trust Units from treasury at a price of \$0.50 per unit and \$1,175,000 million in cash to former shareholders of 728409 as consideration.

Cash and Working Capital

As a result of the September 24, 2003 equity financing, the Trust retained a \$4,079,494 cash and working capital position at the end of the third quarter 2003. Bank debt of \$2,120,000 was paid off and funds were invested in short-term investments in advance of closing the October 24, 2003 natural gas asset purchase.

Financials/Distributions

Cash flow from operations was \$502,298 or \$0.01 per unit for the third quarter and \$1,479,525 or \$0.04 for the nine months ended September 30, 2003. Net earnings totaled \$186,585 or \$0.01 per unit for the three months and \$606,001 for the nine months ended September 30, 2003. The September 24th financing and purchase of 728409 resulted in the number of unit holders increasing to 41,503,282 from 23,503,282. This led to a substantially larger distribution requirement for the month of September even though the capital raised had not yet been deployed to cash flow generating assets until late October. The Trust distributed \$516,012 or \$0.01 per unit to unit holders in the third quarter and has distributed \$1,127,978 on a year to date basis. The year to date distribution payout ratio is 76%.

	3 months ended Sept 30, 2003	9 months ended Sept 30, 2003
	\$	\$
<i>Accumulated Cash Distributions</i>		
Funds from operations	502,298	1,479,525
Development Capital	(673,926)	(752,496)
Funds financed for growth capital	687,640	578,534
Acquisition and re-organizational costs not related to operating activities	-----	(177,585)
Cash distributions paid and payable	516,012	1,127,978
Accumulated cash distributions paid and payable, beginning of period	611,966	-----
Accumulated cash distributions paid and payable, end of period	1,127,978	1,127,978

Oil & Gas Operations

Oil and gas revenues (net of royalties) were \$794,503 for the third quarter of 2003, up 10% from the second quarter as higher volumes were somewhat offset by lower prices. Oil prices were negatively

impacted by the strengthening Canadian dollar. Gross revenue from petroleum and natural gas sales were \$930,905. The average price received for crude oil and natural gas liquids during the third quarter of 2003 was \$31.85 per barrel, down 10% from the previous quarter and \$6.77 per mcf for natural gas, flat to the second quarter average of \$6.90 per mcf. The Trust has a hedging program in place with 85 barrels per day hedged at US\$28.00 WTI per barrel for the period April 2003 to March 2004; 33 barrels per day hedged at US\$27.45 WTI per barrel for the period July 2003 to June 2004; and 85 barrels per day hedged at US\$27.70 WTI per barrel for the period April 2004 to June 2004.

Average daily production volumes for the quarter ending September 30, 2003 were 304 boe/day compared to 259 boe/day in the second quarter. Third quarter production consisted of 241 barrels per day of crude oil and natural gas liquids and 378 mcf per day of natural gas. Added production from the Outback transaction and new drilling additions contributed to the production increase.

The Trusts operating costs for the quarter ending September 30, 2003 were \$240,232. On a boe basis, operating costs averaged \$8.69 in the period, which is 3% higher than the second quarter. The Trust continues to focus on means of reducing overall operating costs and believes they will decline on a comparative basis for the balance of the year. Higher well servicing costs and property taxes offset lower operating costs on the new acquisitions.

Financial Services

Since inception the Trust has held two cash advance contracts, fully collateralized, with a 10-year term recallable at the Trust's option. These contracts pay a fixed fee over the life of the contract. For the third quarter ending September 30, 2003, the revenue from these contracts totalled \$75,600. On a year to date basis the Trust has received \$214,200 in financial services income.

Investment Income

During the third quarter ending September 30, 2003, the Trust received \$73,542 in investment income through its ownership of a basket of Income Trust units. On July 25, 2003 the Trust invested \$1,088,111 into a more diverse portfolio of three energy trusts, and further on September 25, 2003 an additional \$1,959,759 was invested from financing proceeds into four income trust vehicles prior to the funds being used for the natural gas asset purchase at the end of October 2003.

General and Administrative Expenses

General and administrative expenses were \$170,106 in the third quarter 2003, similar to the \$169,243 in the second quarter. In October 2003 the Trust incurred additional costs for the hiring of a full time controller, and production and land consultants to meet its needs as it effectively doubled its unit holder and production base.

Interest and Banking Charges

Interest expense was \$47,631 for the third quarter with all but \$340,000 of bank debt paid off with proceeds from the equity financing. The quarterly expense included banking fees associated with increasing the Trust's revolving line to \$3.1 million. Provision for depletion and depreciation was \$316,373 for the quarter ending September 30, 2003, with the Trust's depletion and depreciation rate at \$11.42/boe up from \$10.71/boe in the second quarter. The Trust did not provide for income taxes as the Trust expects that all taxable income will be passed to unit holders in the form of distributions.

Corporate

The Trust is moving forward executing on its original business plan as it grows each business unit. We are currently evaluating additional financial services investments and a real estate opportunity that we hope to complete in the first quarter of 2004 to fully round out our diversification.

Unaudited Consolidated Financial Statements

Avenir Diversified Income Trust

September 30, 2003

Avenir Diversified Income Trust

CONSOLIDATED BALANCE SHEETS

As at

	September 30, 2003 \$	December 31, 2002 \$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	2,433,647	82,497
Accounts receivable	1,516,298	335,819
Short-term investments [note 8]	3,047,690	1,010,000
	6,997,635	1,428,316
Capital assets [note 6]	9,109,642	—
Financial services contracts [note 10]	1,200,000	600,000
Goodwill [note 3]	1,086,729	—
	18,394,006	2,028,316
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness [note 11]	340,000	602,859
Accounts payable and accrued liabilities	2,336,177	588,829
Distributions payable [note 7]	241,964	—
	2,918,141	1,191,688
Provision for future site restoration and abandonment	364,878	—
Shareholders'/Unitholders' equity		
Shareholder capital [note 12]	—	1,070,000
Unitholder capital [note 12]	15,866,336	—
Accumulated earnings/(deficit)	372,629	(233,372)
Accumulated cash distributions [note 7]	(1,127,978)	—
	15,110,987	836,628
	18,394,006	2,028,316

See accompanying notes

On behalf of the Board

Avenir Diversified Income Trust

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND ACCUMULATED LOSS/DEFICIT**
(unaudited)

For the	Three months ended		Nine months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
REVENUE				
Oil and gas	930,905	—	2,652,625	—
Royalties net of ARTC	(136,402)	—	(414,958)	—
	794,503	—	2,237,667	—
Financial services fee	75,600	6,300	214,200	6,300
Investment income	73,542	51,000	195,552	68,000
Interest and other income	2,058	—	2,459	—
Gain on sale of marketable securities	—	—	75,190	—
	945,703	57,300	2,725,068	74,300
EXPENSES				
Oil and gas operating	225,008	—	589,833	—
General and administrative	170,106	26,139	468,036	319,571
Non-recurring acquisition and re-organizational costs	—	—	177,585	—
Bank fees and interest	47,631	391	112,484	398
Depletion and depreciation	316,373	—	771,129	—
	759,118	26,530	2,119,067	319,969
Income (loss) before income tax	186,585	30,770	606,001	(245,669)
Income tax expense	—	—	—	—
Net income (loss) for the period	186,585	30,770	606,001	(245,669)
Accumulated earnings/(deficit), beginning of period	186,044	(438,922)	(233,372)	(162,483)
Accumulated earnings/(deficit), end of period	372,629	(408,152)	372,629	(408,152)
Net income (loss) per unit/share basic and diluted	0.01	—	0.03	(0.03)

See accompanying notes

Avenir Diversified Income Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the	Three months ended		Nine months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss) for the period	186,585	30,770	606,001	(245,669)
Add non-cash items				
Depletion and depreciation	316,373	—	771,129	—
Gain on sale of public trust units	—	—	(75,190)	—
Acquisition and re-organizational costs not related to operating activities	—	—	177,585	—
Funds from operations	502,298	30,770	1,479,525	(245,669)
Change in non-cash working capital	3,193,954	(6,108)	158,722	280,636
Cash provided by operating activities	3,696,912	24,662	1,638,247	34,967
FINANCING ACTIVITIES				
Issue of trust units <i>[note 12]</i>	8,000,000	—	13,663,152	1,010,000
Trust unit issue costs	(642,542)	—	(916,827)	—
Distribution to unitholders <i>[note 7]</i>	(516,012)	—	(1,127,978)	—
Change in bank indebtedness	(2,120,000)	600,361	(522,859)	600,361
Change in non-cash working capital	155,430	—	(142,533)	—
Cash provided by financing activities	4,876,876	600,361	10,952,955	1,610,361
INVESTING ACTIVITIES				
Purchase and conversion of Onward Energy Inc. <i>[note 3]</i>	—	—	(2,910,324)	—
Purchase of Outback Energy Inc. <i>[note 4]</i>	—	—	(85,937)	—
Purchase of 728409 Alberta Ltd. <i>[note 5]</i>	(1,082,614)	—	(1,082,614)	—
Property acquisitions	—	—	(3,249,561)	—
Purchase of financial services contract	—	(600,000)	(600,000)	(600,000)
Prospect and development expenditures	(673,926)	—	(752,496)	—
Sale of Public trust units	—	—	1,085,190	—
Purchase of public trust units <i>[note 8]</i>	(3,047,690)	—	(3,047,690)	(1,010,000)
Purchase of other assets	(3,488)	—	(6,929)	—
Acquisition and re-organizational costs	—	—	(177,585)	—
Changes in non-cash working capital	(1,519,227)	—	587,894	—
Cash used in investing activities	(6,326,945)	(600,000)	(10,240,052)	(1,610,000)
Increase in cash during the period	2,246,843	25,023	2,351,150	35,328
Cash and cash equivalents, beginning of period	186,804	10,305	82,497	—
Cash and cash equivalents, end of period	2,433,647	35,328	2,433,647	35,328
Cash interest paid	32,279	—	91,706	—

See accompanying notes

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

1. NATURE OF THE ORGANIZATION AND BASIS OF PRESENTATION

Organization

Avenir Diversified Income Trust ("ART" or the "Trust") is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created through a trust indenture dated effective September 24, 2002 between Onward Energy Inc. ("Onward") and Olympia Trust Company. Pursuant to a Plan of Arrangement (the "Arrangement") dated effective January 16, 2003 involving the Trust and Onward, Onward was converted from a corporate entity to the Trust. To facilitate this conversion, all of the common shares and options of Onward were exchanged for an aggregate of 2,194,373 Trust Units and \$2,351,305 in cash.

In conjunction with the completion of the Arrangement, the Trust acquired all the issued and outstanding shares of a private company, 928719 Alberta Ltd. ("928719"), in exchange for an aggregate of 7,650,000 Trust Units. This transaction was in effect a reverse takeover as the shareholders of 928719 controlled the majority of units in the Trust and the management and directors of 928719 have carried on the management of the Trust.

Also as part of the Arrangement, the Trust acquired all of the trust units of Avenir Operating Trust and the shares of the general partners of two newly created limited partnerships involved in oil and gas and financial services activities.

In connection with the Arrangement, the Trust also completed a private placement of an aggregate of 11,325,551 Trust Units at \$0.40 per unit, which closed in a series of two allocations.

The Trust, a public income trust trading on the TSX Venture exchange, distributes a portion of its cash flow on a monthly basis to its Unitholders. It currently carries on businesses in the areas of exploration and development of oil and gas properties in western Canada and financial services.

Basis of presentation

The unaudited interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies. The unaudited interim consolidated financial statements are prepared on the same basis as, and should be read in conjunction with, 928719's financial statements for the year ended December 31, 2002.

While the Trust commenced operations on January 16, 2003, these unaudited interim consolidated financial statements follow the continuity of interest basis of accounting as if Avenir Diversified

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

Income Trust had always been a trust. This basis is intended to provide Unitholders with meaningful financial information and a quarterly comparison. As a result, certain comparative figures are those of 928719 Alberta Ltd., while the results of operations include 928719 Alberta Ltd. results from January 1, 2003 to January 15, 2003, and the Trust's results of operations from January 16, 2003 to June 30, 2003. Also, certain comparative figures have been reclassified to conform to the current presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared based on the consistent application of the accounting policies and procedures as in the December 31, 2002 928719 Alberta Ltd. annual audited financial statements.

a) Principles of Consolidation

The consolidated financial statements include the amounts of the Trust and its wholly owned subsidiaries and partnerships.

b) Capitalized costs

The Trust follows the full cost method of accounting for 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, equipping and that portion of administrative costs directly related to exploration and development activities. No indirect general and administrative expenses have been capitalized.

Proceeds from the disposal of properties are normally applied as a reduction of the costs unless a significant disposal occurs, in which case a gain or loss is recorded.

c) Depletion and amortization

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

Furniture and computer equipment are amortized using the declining balance method at rates of 20% and 30% respectively.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

d) Future site restoration and abandonment costs

Future site restoration and abandonment costs are provided for using the unit-of-production method based on the estimated proved reserves before royalties. Costs are estimated each year by management in consultation with the Trust's reservoir engineer based on current regulations, costs, technology and industry standards. Such costs are expensed annually and accumulated in the provision account based on proven reserve estimates and current production levels. When expenditures are made to restore a property, the accrued provision is charged with these expenditures.

e) Ceiling test

The net carrying value of the Trust's oil and gas properties and production equipment is limited to an ultimate recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances less future estimated production costs, administrative costs, financing costs, site restoration and abandonment costs and income taxes. Future net revenues are estimated using prices and costs without escalation or discounting, and the income tax and Alberta Royalty Tax Credit legislation in effect at period end.

f) Joint activities

The Trust's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Trust's proportionate interest in such activities.

g) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The amounts recorded for depletion and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil prices, future costs and other assumptions. By their nature, these estimates are subject to measurement uncertainty and effect on the financial statements of changes in such estimates in future periods could be significant. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

h) Stock Based Compensation

The Trust does not recognize compensation expense when stock options are granted to employees and directors under stock option plans with no cash settlement features.

Direct awards of units to employees and stock option awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock based compensation. The fair value of direct awards of units is determined by the quoted market price of the Trust's units on the date of grant and the fair value of options are determined using the Black Scholes option pricing model.

i) Per unit amounts

The Trust utilizes the treasury stock method in determining diluted per unit amounts whereby the diluted number of units is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase units of the Trust at their average market price for the period.

j) Goodwill

The Trust has adopted the new Canadian Institute of Chartered Accountants recommendations on accounting for Goodwill and Other Intangible Assets. In accordance with these recommendations, goodwill is not subject to amortization, but is tested for impairment on an annual basis by applying a fair value based test. Any goodwill impairment will be recognized as an expense if the carrying amount of the goodwill exceeds its fair value.

k) Short-term investments

Short-term investments are recorded at the lower of cost or market value. Any reduction in the carrying value of the investments and any gains or losses on ultimate disposition will be reflected in the statement of operations and accumulated earnings.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

1) Income taxes

The Trust, and its operating entity, are taxable entities under the Income Tax Act of Canada and are taxable only on income that is not distributed or distributable to the Unitholders. As the Trust distributes all of its taxable income to the Unitholders pursuant to the Trust Indenture and meets the requirements of the Income Tax Act of Canada applicable to the Trust, no provision for income taxes has been made in these consolidated interim financial statements.

3. ONWARD ENERGY INC. ACQUISITION

Pursuant to the Plan of Arrangement more fully described in note 1, on January 16, 2003 Onward shareholders voted to convert to an income trust through a reverse takeover with 928719. The Onward shareholders and optionholders received \$2,351,305 in cash and \$877,749 in Trust Units. The Trust acquired oil and gas assets and \$409,865 in working capital. The transaction has been accounted for using the purchase method as follows:

	\$
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Calculation of purchase price:	
Fair value of cash consideration	2,351,305
Fair value of trust units issued	877,749
Transaction costs	91,135
	<hr/>
	3,320,189
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Allocation of purchase price:	
Working capital	409,865
Fair value of oil and gas capital assets	2,129,595
Fair value of goodwill	1,086,729
Fair value of future site restoration	(306,000)
	<hr/>
	3,320,189
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As the Trust does not recognize income taxes, the future income tax liability associated with the underlying business of Onward has not been recognized in the allocation of the purchase price noted above.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

4. OUTBACK ENERGY LTD. ACQUISITION

On May 27, 2003 the Trust agreed to acquire all of the outstanding shares of Outback Energy Inc. ("Outback"), a private oil and gas company for consideration consisting of the issuance of 2,333,358 Trust units.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Trust has not yet completed its final evaluation of the assets acquired and the liabilities assumed. Therefore, the purchase price is subject to change.

	\$
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Calculation of purchase price:	
Fair value of trust units issued	1,050,011
Transaction costs estimated	85,926
	<hr/>
	1,135,937
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Allocation of purchase price:	
Working capital	(194,057)
Bank debt	(260,000)
Fair value of oil and gas capital assets	1,648,106
Fair value of future site restoration	(58,112)
	<hr/>
	1,135,937
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As the Trust does not recognize income taxes, the future income tax liability associated with the underlying business of Outback has not been recognized in the allocation of the purchase price noted above.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

5. 728409 ALBERTA LTD. ACQUISITION

On September 24, 2003 the Trust agreed to acquire all of the outstanding shares of 728409 Alberta Ltd. ("728409"), a private oil and gas company for consideration consisting of the issuance of 2,000,000 Trust units at \$0.50 per unit and cash consideration of \$1,142,446 net of preliminary adjustments.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Trust has not yet completed its final evaluation of the assets acquired and the liabilities assumed. Therefore, the purchase price is subject to change.

	\$
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Calculation of purchase price:	
Fair value of trust units issued	1,000,000
Fair value of cash consideration	1,142,446
Transaction costs estimated	78,976
	<hr/> 2,221,422 <hr/>
Allocation of purchase price:	
Working capital	132,860
Fair value of oil and gas capital assets	2,088,562
	<hr/> 2,221,422 <hr/>

As the Trust does not recognize income taxes, the future income tax liability associated with the underlying business of 728409 has not been recognized in the allocation of the purchase price noted above.

A holdback in the amount of \$110,000 is scheduled to be released November 28, 2003 if certain conditions are met.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

6. CAPITAL ASSETS

	2003		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Oil and gas properties/equipment	9,873,842	770,545	9,103,297
Furniture and computer equipment	6,929	584	6,345
	9,880,771	771,129	9,109,642

- a) On January 16, 2003, in conjunction with the Onward Plan of Arrangement, the Trust purchased oil and gas assets from an arms length third party for a total of \$2,037,615 including adjustments to date.
- b) On January 31, 2003 the Trust purchased oil and gas assets from another arms length party for a total of \$1,179,021 including adjustments to date. A final statement of adjustment was finalized in the third quarter of 2003.

The Trust had no capital assets in 2002.

7. CASH DISTRIBUTIONS

Cash distributions declared per Trust unit issued and outstanding:

Period covered	Date of Distribution	Per Unit \$
January 16, 2003 to February 28, 2003	03/14/2003	0.00675
March 1, 2003 to March 31, 2003	04/15/2003	0.00525
April 1, 2003 to April 30, 2003	05/15/2003	0.00525
May 1, 2003 to May 31, 2003	06/15/2003	0.00525
June 1, 2003 to June 30, 2003	07/15/2003	0.00525
July 1, 2003 to July 31, 2003	08/15/2003	0.00583
August 1, 2003 to August 31, 2003	09/15/2003	0.00583
September 1, 2003 to September 30, 2003	10/15/2003	0.00583

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

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8. SHORT-TERM INVESTMENTS

The Trust held a portfolio investment of 100,000 units in Provident Energy Trust, an oil and gas Trust. In order to lock in returns and diversify the Trusts' investment exposure, the units were sold on June 30, 2003 and a gain of \$75,190 has been recorded in the Trust's financial statements. The gain represents the difference between the \$1,010,000 cost of investment and the net sales proceeds of \$1,085,190.

On July 26, 2003 the Trust purchased units of three publicly trading energy trusts as part of its financial services investments. Total cost of the acquisitions was \$1,088,111. On September 25, 2003, in order to partially deploy funds prior to investment in long-term opportunities, the Trust purchased additional units of at a cost of \$1,959,579. The market value of the total unit portfolio at September 30, 2003 was \$3,059,119. These units may be sold at anytime to finance activities in line with its business plan. Had the Trust sold these investments on September 30, 2003 a gain of \$11,429 would have been realized.

In conjunction with the purchases, the Trust has obtained a \$520,000 line of credit from an investment banking firm collateralized by the public trust units.

9. FINANCIAL INSTRUMENTS

a) Fair values of financial assets and liabilities

The Trust's financial instruments consist of cash and cash equivalents, accounts receivable, short-term investments, financial services contracts, bank indebtedness, accounts payable and distributions payable. Unless otherwise noted, as at June 30, 2003 and December 31, 2002, there were no significant differences between the carrying amounts of these financial instruments as reported on the balance sheets and their estimated fair values.

The Trust is a party to certain off balance sheet derivative financial instruments in 2003 consisting of physical delivery fixed price forward contracts. The contracts outstanding with respect to the hedging activities at June 30, 2003 are as follows:

A physical fixed price swap for the period April 1, 2003 to March 31, 2004 on 85 bbls/day of oil at a price of US\$28.00 West Texas Intermediate ("WTI").

A physical fixed price swap for the period April 1, 2004 to June 30, 2004 on 85 bbls/day of oil at a price of US\$27.70 WTI.

A physical fixed price swap for the period July 1, 2003 to June 30, 2004 on 33 bbls/day of oil at a price of US\$27.45 WTI.

Avenir Diversified Income Trust

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Based on dealer quotes, had these contracts been closed on September 30, 2003, a loss of US \$9,622 would have been realized.

b) Credit risk

The Trust's financial instruments that are exposed to credit risk consist primarily of cash and cash equivalents, trade accounts receivable and financial services contracts. Cash and cash equivalents are with a major Canadian financial institution. Although a substantial portion of trade receivables is dependant upon the 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.

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 is subject to significant credit risk and risk of not realizing on collateral in the event of default. 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 will be adjusted to reflect anticipated credit losses. A credit loss provision will be established when management deems the risk of credit loss to be significant. 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.

c) Interest rate risk

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

10. FINANCIAL SERVICES CONTRACTS

The Trust has entered into financial services contracts with 19695 Yukon Inc., an affiliate of a financial services provider which is related to a member of the Trust's Board of Directors, to provide funding on two ten year contracts to a cash advance company providing cash advance, cheque cashing and payday loan services. The initial \$600,000 contract pays the Trust a fixed fee of \$0.07 per \$100 loaned per day and is callable at the Trust's option with sixty days notice. An additional \$600,000 contract was funded on January 31, 2003, under the same terms as the initial contract.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

11. BANK INDEBTEDNESS

The Trust had a combined revolving demand facility with a major Canadian bank in the amount of \$3,100,000 bearing interest at bank prime plus one percent. The revolving facility is collateralized by a floating charge debenture over all of the Trust's assets. The Trust also has an acquisition and development line of \$2,000,000, bearing interest at bank prime plus one and one-half percent, to fund additional oil and gas acquisitions. As at September 30, 2003 there was \$340,000 outstanding on the demand line which was paid in full subsequent to the end of the third quarter.

12. SHAREHOLDERS'/UNITHOLDERS' CAPITAL

a) Unitholders' capital

Authorized

Authorized capital consists of an unlimited number of Trust Units and an unlimited number of Special Voting Units. No Special Voting Units have been issued to date.

Issued

Trust Units	Number of Units	Amount \$
Balance December 31, 2002	—	—
Units issued on 928719 corporate purchase	7,650,000	1,325,182
Units issued on Onward Trust conversion	2,194,373	877,749
Units from Special Warrants financing January 16, 2003	10,158,801	4,063,520
Units financing February 27, 2003	1,166,750	466,700
Trust unit issue costs	—	(269,284)
Balance March 31, 2003	21,169,924	6,463,867
Units issued on Outback Acquisition	2,333,358	1,050,011
Trust unit issue costs	—	(5,000)
Balance June 30, 2003	23,503,282	7,508,878
Units issued on private placement	16,000,000	8,000,000
Units issued on 728409 Acquisition	2,000,000	1,000,000
Trust unit issue costs	—	(642,542)
Balance September 30, 2003	41,503,282	15,866,336

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

b) Shareholders' capital

Authorized

928719's authorized share capital consists of an unlimited number of common shares.

Issued

	Number of Shares	Amount \$
Balance, December 31, 2002	8,000,000	1,070,000
Converted to trust units	(8,000,000)	(1,070,000)
Balance, September 30, 2003	—	—

c) Net income (loss) per unit

For the three months ended and nine months ended September 30 2003, respectively, the Trust had a weighted average of 24,872,847 (September 30, 2002 – 8,000,000) and 22,632,814 (September 30, 2002 – 7,120,879) Trust Units outstanding. The interval used to calculate the weighted average units outstanding was January 16, 2003 to September 30, 2003 inclusive. The diluted per unit amount was calculated assuming the exercise of outstanding in the money, options resulting in a weighted average number of Trust Units outstanding for the three months ended September 30, 2003 of 26,527,195 (September 30, 2003 – 8,000,000) and 24,140,565 (September 30, 2002 – 7,120,879) for the nine months ended September 30, 2003.

13. STOCK-BASED COMPENSATION

Under the Trust's option plan, stock 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 shares at the date of the grant. Options granted under the plan vest over a three year period and have a five year life. The exercise price of the options is periodically adjusted to reflect the Trust's monthly distributions. Any consideration paid on exercise of stock options is credited to share capital.

At September 30, 2003 a total of 1,850,000 options had been reserved under the Trust option plan. No options reserved under the Unit option plan had vested. 1,600,000 of the options granted to date have an exercise price of \$0.40 and the remaining 250,000 options have an exercise price of \$0.50.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

September 30, 2003

Pro-forma net income as if the Trust had accounted for its employee stock options granted after December 31, 2001 under the fair value method is as follows:

	Three months ended September 30, 2003 \$	Nine months ended September 30, 2003 \$
Net income (loss)		
As reported	186,585	606,001
Pro forma	177,550	583,454
Net income (loss) per unit		
As reported – basic and diluted	0.01	0.03
Pro forma - basic	0.01	0.03
Pro forma - diluted	0.01	0.02

The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions: weighted-average risk-free interest rate of 4.50%; dividend yield of 14%; weighted-average volatility factors of the expected market price of the Trust's units of 44.1%; and a weighted-average expected life of the options of 5 years.

Of the options granted, 200,000 were granted to non-employees. Compensation expense of \$nil on these options has been recorded during the period.

14. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2003, the Trust paid \$60,763 for corporate administrative and financial services provided by Avenir Capital Corporation, a major unitholder of the Trust and in effect the sponsor of the Trust.

For the period ended September 30, 2002, Avenir Capital Corporation provided \$130,587 in corporate administrative, financial and operational services to 928719 as part of the Trust's initial start-up. These costs were recorded as a payable at year end and subsequently exchanged for equity in 928719 as part of the Plan of Arrangement reorganization. During 2002, shareholders of 928719 agreed to fund debts incurred by 928719 relating to geological and engineering consulting costs. At December 31, 2002, \$300,000 was recorded as a payable and subsequently exchanged for equity in 928719 as part of the Onward Plan of Arrangement reorganization.

15. SUBSEQUENT EVENTS

On October 24, 2003 the Trust purchased oil and gas assets from an arm's length party for a total of \$6,203,377 plus normal industry adjustments.