



AVENIR DIVERSIFIED INCOME TRUST

SECOND QUARTER HIGHLIGHTS

For the periods ended	Three months ended		Six months ended*	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Net Revenue	\$931,230	\$17,000	\$1,779,364	\$17,000
Cash Flow From Operations	\$454,829	(\$96,272)	\$976,567	(\$275,522)
Cash Flow Per Unit	\$0.02	(\$0.01)	\$0.04	(\$0.04)
Distributions	\$357,927	-----	\$611,966	-----
Distributions Per Unit	\$0.01575	-----	\$0.02775	-----
Net Earnings	\$98,706	(\$96,272)	\$419,416	(\$275,522)
Net Earnings Per Unit	\$0.00	(\$0.01)	\$0.02	(\$0.04)
Total Net Debt	\$1,504,882	-----	\$1,504,882	-----
Oil and Ngl's – bbls per day	214	-----	205	-----
Average Price (\$/Bbl)	\$35.72	-----	\$39.74	-----
Gas – mcf per day	273	-----	293	-----
Average Price (\$/mcf)	\$6.90	-----	\$7.82	-----
Total Boe per day	259	-----	254	-----
Average Price Per Boe	\$36.71	-----	\$41.12	-----

*Trust was created January 16, 2003.

REPORT TO UNITHOLDERS

Avenir Diversified Income Trust (“Avenir” or the “Trust”) is comprised of three distinct business units: Oil and Gas, Financial Services, and Real Estate. These three units combine the stability of cashflows from both real estate and financial services together with a more volatile cash flow stream from oil and gas production.

The Trust, which was created in January of 2003, has had another very successful quarter, both operationally and financially. The Trust is pleased to report the financial results for the first half of 2003.

Operations

During the second quarter, Avenir continued to execute on its business plan. Diversification along with higher commodity prices, allowed the Trust to raise its monthly per unit distribution and, at the same time, retain a higher than targeted percentage of its cashflow.

Extremely wet conditions during the second quarter resulted in one of the Trust's producing wells in Twining to be down for a longer than normal period. This well is now back on production. The Trust's gas plant at Peco was also down for yearly maintenance, but is now operational again. Production volumes averaged 254 boepd in its first six months of operation and 259 boepd in the second quarter.

The Trust successfully closed the acquisition of Outback Energy Inc., a small private oil and gas company, in the second quarter. This acquisition initially added just over 50 boepd in June 2003. In conjunction with the transaction, the Trust issued 2,333,358 units and assumed approximately \$465,000 in debt and working capital deficiency. Post this acquisition, the reserve life index for the Trust remained relatively constant at just under 8 years on an established basis.

The Trust's financial services division continues to perform well, with current contracts paying at or slightly ahead of forecast. The Trust is confident that we will be able to execute on more contracts in the upcoming quarters.

During the second quarter, the Trust was involved in the evaluation of a large corporate acquisition. This transaction would have not only been accretive, but, as important, would have allowed the trust to quickly move beyond its start-up phase to a trust significantly larger in terms of market size and liquidity. Ultimately, and after considerable effort and expense, we were unable to reach a suitable agreement. We are and will continue to review and evaluate strategic acquisition opportunities.

Financial

The Trust's cashflow for the second quarter was \$454,829 or \$0.02 per unit. Distributions for the second quarter were \$357,927 or \$0.01575 per unit, up from \$254,039 or \$0.012 per unit in the first quarter of 2003. For the six-month period cashflow and distributions were \$976,567 and \$611,966 respectively, for a payout ratio of 63%. Second quarter cash flow was impacted by a 21% decrease in commodity prices and higher General and administrative costs associated with the annual meeting, annual reserve report cycle, initial audit review and start-up legal costs. Commodity prices for the quarter were \$35.72 per barrel of oil and natural gas liquids, and \$6.90 per mcf for natural gas versus \$45.12 per barrel and \$8.78 per mcf respectively in the first quarter.

At the end of the second quarter, Avenir's total net debt including working capital was approximately \$1,504,882, which is approximately nine months cash flow on an annualized basis.

Outlook

Going forward, the Trust will continue to implement its business plan and will strive to increase its cashflows across all three sectors (oil & gas, financial services and real estate). Higher commodity prices have made it more difficult to acquire properties at prices that will benefit the Trust. By adhering to our internal criteria for acquisition metrics we have been able to identify a number of opportunities which fall below the "radar screen" of most other Trusts but still meet our threshold.

The Trust participated in the drilling of two successful wells identified as part of the Outback transaction in Southern Alberta during the third quarter. These wells are currently producing approximately 25 boepd (net) to the Trust. The Trust has also been active in farming out its undeveloped land to third parties, allowing the Trust to preserve capital for acquisitions and still benefit from any discoveries. Avenir continues to aggressively evaluate potential acquisitions in all three core business sectors and is looking to secure a number of smaller transactions in the coming quarter. In this regard, we recently announced a private placement financing, which is expected to close mid September 2003. This capital will provide the Trust with the required funds to execute on existing opportunities identified.

The Trust is optimistic that if commodity prices remain attractive and financial services and real estate opportunities continue to present themselves to us, the Trust will be able to continue to provide attractive, stable returns along with additional capital appreciation.

Submitted on behalf of the Board of Directors by:

"William M. Gallacher"

William M. Gallacher
President & CEO

"Gary Dundas"

Gary Dundas
Vice President Finance & CFO

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 June 30, 2003.

Acquisition of Outback Energy Inc. ("Outback")

On May 21, 2003 the Trust acquired, indirectly, all of the issued and outstanding common shares of Outback, thereby acquiring a 32.7% working interest in a Bow Island Sawtooth oil pool and a royalty interest in a gas well in the Ferrybank area. Under the terms of the agreement, the Trust issued an aggregate of 2,333,358 Trust Units at a price of \$0.45 per unit to former shareholders of Outback as consideration. Net additions to the Trust's production as a result of this acquisition were approximately 50 barrels of oil equivalent per day (boepd) in the Trust's core area of Southern Alberta.

Financials/Distributions

Cash flow from operations was \$454,829 or \$0.02 per unit for the second quarter ending June 30, 2003 with net earnings totaling \$98,706 or \$0.00 per unit. The Trust distributed \$357,927 or \$0.016 per unit to unitholders in the second quarter. This amount is an increase over the \$254,039 distributed in first quarter due to the full effect of the March 2003 increase in distribution per unit and an increase in the number of units outstanding.

<i>Accumulated Cash Distributions</i>	3 months ended June 30, 2003 \$	6 months ended June 30, 2003 \$
Funds from operations	454,829	976,567
Development Capital	(64,367)	(78,570)
Acquisition and re-organizational costs not related to operating activities	(177,586)	(177,586)
Funds available for distribution	212,876	720,411
Funds retained for growth capital and future distributions	145,051	(108,445)
Cash distributions paid and payable	357,927	611,966
Accumulated cash distributions paid and payable, beginning of period	254,039	—
Accumulated cash distributions paid and payable, end of period	611,966	611,966

Oil & Gas Operations

Oil and gas revenues (net of royalties) were \$719,657 for the second quarter of 2003, up slightly from the first quarter due mostly to the number of producing days (91 days vs. 75 days). Gross revenue from petroleum and natural gas sales were \$857,344. The average price received for crude oil and natural gas liquids during the second quarter of 2003 was \$35.72 per barrel, down 21% from the previous quarter and \$6.90 per mcf for natural gas, down 22% from the first quarter average. 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 and 33 barrels per day hedged at US\$27.45 WTI per barrel for the period July 2003 to June 2004.

Average daily production volumes for the period ended June 30, 2003 were 259 boepd compared to 246 boepd in the first quarter. Second quarter production consisted of 214 barrels per day of crude oil and natural gas liquids and 273 mcf per day of natural gas. Added production from the Outback transaction for the month of June was somewhat offset by a plant turnaround at Peco, our largest gas property, and some downtime at the Twining oil property due to the wet spring.

The Trusts operating costs for the period ended June 30, 2003 were \$194,756. On a boe basis, operating costs averaged \$8.46 in the period, which is 12% lower than the first quarter, but remains slightly above forecast due to higher non-operating expenses. The Trust continues to focus on means of reducing overall operating costs and believes they will continue to decline on a comparative basis for the balance of the year.

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 second quarter ending June 30, 2003, the revenue from these contracts totalled \$75,600 before adjustments. Interest and Other Income together with Financial Services income, Investment income,

and General and administrative expenses contain a small reallocation adjustment related to the first 15 days of 2003 immediately prior to the Trust being created.

Investment Income

During the second quarter ending June 30, 2003, the Trust received \$61,200, before adjustments, in investment income through its ownership of 100,000 Provident Energy Trust units. Provident distributed \$0.60 per unit for the three-month period. The Trust disposed of such units on June 30, 2003 for net proceeds of \$1,085,190 recording a gain of \$75,190. On July 25, 2003 the Trust invested \$1,088,111 into a more diverse portfolio of three energy trusts.

General and Administrative Expenses

General and administrative expenses were \$169,243 in the second quarter 2003, up from the first quarter as the Trust incurred additional costs for initial audits, reviews, tax returns and legal work associated with the Trust's initial set-up, together with costs for the Trust's annual meeting and reserve report costs. We expect these costs will fall as a percentage of net revenues as the Trust grows beyond its early stages. There is a separate line item in the statements titled Acquisition and re-organizational costs not related to operating activities of \$177,585. This one time expense is primarily attributable to the evaluation of a large corporate acquisition that the Trust was considering, however a suitable agreement was not reached. We have chosen to expense this item rather than capitalize the cost.

Interest

Interest expense was \$37,212 for the second quarter with net debt including working capital totaling \$1,504,882 at June 30, 2003. This is up from the first quarter of \$866,831 representing the additional debt associated with the Outback transaction. Provision for depletion and depreciation was \$253,728 for the quarter ending June 30, 2003, with the Trust's depletion and depreciation rate at \$10.74/boe largely unchanged from \$10.88/boe in the first 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

On June 17, 2003 the Trust held a Special Meeting of Unit holders, where a resolution was passed approving a Dividend Reinvestment Plan that will be implemented once economics permit.

Recently the Trust announced a private placement financing, consisting of a minimum of \$4 million to a maximum of \$7 million at \$0.50 per Trust unit. The closing is expected to be mid September 2003 with the proceeds of the private placement providing the Trust with funds to expand, which may include the purchase of oil and gas interests, the further funding of financial services and/or a potential real estate acquisition.

Unaudited Consolidated Financial Statements

Avenir Diversified Income Trust

June 30, 2003

Avenir Diversified Income Trust

CONSOLIDATED BALANCE SHEETS

As at

	June 30, 2003 \$	December 31, 2002 \$
	(unaudited)	
ASSETS		
Current		
Cash	186,804	82,497
Accounts receivable	2,025,914	335,819
Short-term investments <i>[note 7]</i>	—	1,010,000
	2,212,718	1,428,316
Capital assets <i>[note 5]</i>	6,665,987	—
Financial services contracts <i>[note 9]</i>	1,200,000	600,000
Goodwill <i>[note 3]</i>	1,086,729	—
	11,165,434	2,028,316
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 10]</i>	2,460,000	602,859
Accounts payable and accrued liabilities	1,134,208	588,829
Distributions payable <i>[note 6]</i>	123,392	—
	3,717,600	1,191,688
Provision for future site restoration and abandonment	364,878	—
Shareholders'/Unitholders' equity		
Shareholder capital <i>[note 11]</i>	—	1,070,000
Unitholder capital <i>[note 11]</i>	7,508,878	—
Accumulated earnings/(deficit)	186,044	(233,372)
Accumulated cash distributions <i>[note 6]</i>	(611,966)	—
	7,082,956	836,628
	11,165,434	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 June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
REVENUE				
Oil and gas	857,344	—	1,721,720	—
Royalties net of ARTC	137,687	—	278,556	—
	719,657	—	1,443,164	—
Financial services fee	81,900	—	138,600	—
Investment income	71,310	17,000	122,010	17,000
Interest and other income	(16,827)	—	401	—
Gain on sale of marketable securities	75,190	—	75,190	—
	931,230	17,000	1,779,364	17,000
EXPENSES				
Oil and gas operating costs	194,756	—	364,826	—
General and administrative	169,243	113,272	297,929	292,522
Nonrecurring acquisition and re-organizational costs	177,585	—	177,585	—
Bank fees and interest expense	37,212	—	64,853	—
Depletion and depreciation	253,728	—	454,755	—
	832,524	113,272	1,359,948	292,522
Income (loss) before income tax	98,706	(96,272)	419,416	(275,522)
Income tax expense	—	—	—	—
Net income (loss) for the period	98,706	(96,272)	419,416	(275,522)
Accumulated earnings/(deficit), beginning of period	87,338	(341,733)	233,372	(162,483)
Accumulated earnings/(deficit), end of period	186,044	(438,005)	186,044	(438,005)
Net income (loss) per unit/share basic and diluted	0.00	(0.01)	0.02	(0.04)

See accompanying notes

Avenir Diversified Income Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

For the	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss) for the period	98,706	(96,272)	419,416	(275,522)
Add non-cash items				
Depletion and depreciation	253,728	—	454,756	—
Gain on sale of public trust units	(75,190)	—	(75,190)	—
Acquisition and re-organizational costs not related to operating activities	177,585	—	177,585	—
Funds from operations	454,829	(96,272)	976,567	(275,522)
Change in non-cash working capital	508,255	106,577	341,637	285,827
Cash provided by operating activities	963,084	10,305	1,318,204	10,305
FINANCING ACTIVITIES				
Issue of trust units	—	1,010,000	5,663,152	1,010,000
Trust unit issue costs	33,200	—	(274,285)	—
Distribution to unitholders <i>[note 5]</i>	(357,927)	—	(611,966)	—
Change in bank indebtedness	(311,078)	—	1,597,141	—
Change in non-cash working capital	214,116	—	(381,357)	—
Cash provided by financing activities	(421,689)	1,010,000	5,992,685	1,010,000
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)	—	(85,937)	—
Property acquisitions	(50,703)	—	(3,249,561)	—
Purchase of financial services contract	—	—	(600,000)	—
Prospect and development expenditures	(64,367)	—	(78,570)	—
Purchase and/or sale of Public trust units	1,085,190	(1,010,000)	1,085,190	(1,010,000)
Purchase of other assets	—	—	(3,441)	—
Acquisition and re-organizational costs	(177,585)	—	(177,585)	—
Changes in non-cash working capital	(1,186,354)	—	(1,186,354)	—
Cash used in investing activities	(479,756)	(1,010,000)	(7,206,582)	(1,010,000)
Increase in cash during the period	61,639	10,305	104,307	10,305
Cash, beginning of period	125,165	—	82,497	—
Cash, end of period	186,804	10,305	186,804	10,305

See accompanying notes

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 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, is 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 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.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2003

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 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).

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2003

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

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)

June 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)

June 30, 2003

l) 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:

	\$
<hr/>	
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
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

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)

June 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 transaction has been accounted for using the purchase method as follows:

	\$
Calculation of purchase price:	
Fair value of trust units issued	1,050,011
Transaction costs estimated	85,926
	<hr/> 1,135,937
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

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.

5. CAPITAL ASSETS

	2003		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Oil and gas properties/equipment	7,117,302	454,664	6,669,336
Furniture and computer equipment	3,441	92	3,349
	<hr/> 7,120,743	<hr/> 454,756	<hr/> 6,665,987

The Trust had no capital assets in 2002.

- a) The Onward oil and gas assets as described in Note 3 above were valued at \$2,129,595.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS
(unaudited)

June 30, 2003

- b)** 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. A final statement of adjustment is still outstanding.
- c)** 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 should be finalized in the third quarter of 2003.
- d)** The Outback assets described above in Note 4 were valued at \$1,648,106.

6. ACCUMULATED CASH DISTRIBUTIONS

	3 months ended June 30, 2003 \$	6 months ended June 30, 2003 \$
Funds from operations	454,829	976,567
Development Capital	(64,367)	(78,570)
Acquisition and re-organizational costs not related to operating activities	(177,586)	(177,586)
Funds available for distribution	212,876	720,411
Funds retained for growth capital and future distributions	145,051	(108,445)
Cash distributions paid and payable	357,927	611,966
Accumulated cash distributions paid and payable, beginning of period	254,039	—
Accumulated cash distributions paid and payable, end of period	611,966	611,966

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

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2003

7. 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 Trust's 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 25, 2003, the Trust invested \$1,088,111 into a portfolio of three publicly traded Energy Trusts (see Note 14).

8. 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 of 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 July 1, 2003 to June 30, 2004 on 33 bbls/day of oil at a price of US\$27.45 WTI.

Based on dealer quotes, had these contracts been closed on June 30, 2003, a loss of US \$10,757 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.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2003

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.

9. 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.

10. BANK INDEBTEDNESS

The Trust has a revolving demand facility with a major Canadian bank in the amount of \$2,000,000 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 June 30, 2003 the revolving line was drawn \$1,475,000 and the acquisition line was drawn \$775,000. In addition, in connection with the Outback acquisition described in Note 4, the Trust assumed Outback's \$450,000 revolving demand facility and had drawn \$260,000 against it as at June 30, 2003.

During the period cash interest of \$37,212 (2002 – nil) was paid.

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS
(unaudited)

June 30, 2003

11. 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	1,015,880	4,063,520
Units financing February 27, 2003	1,166,750	466,700
Units issued on Outback Acquisition	2,333,358	1,050,011
Trust Unit issue costs	—	(274,284)
Balance June 30, 2003	23,503,282	7,508,878

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, June 30, 2003	—	—

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2003

c) Net income (loss) per unit

For the three months ended and six months ended June 30 2003, respectively, the Trust had a weighted average of 22,067,367 (June 30, 2002 – 6,659,341) and 21,359,667 (June 30, 2002 – 6,331,492) Trust Units outstanding. The interval used to calculate the weighted average units outstanding was January 16, 2003 to June 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 June 30, 2003 of 22,400,135 (June 30, 2003 – 6,659,341) and 21,692,433 (June 30, 2002 – 6,331,492) for the six months ended June 30, 2003.

12. 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 June 30, 2003 a total of 1,600,000 options had been reserved under the Trust option plan. No options reserved under the Unit option plan had vested. All options granted to date have an exercise price of \$0.40.

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 June 2003 \$	Six months ended June 2003 \$
Net income (loss)		
As reported	98,706	419,416
Pro forma	91,781	405,904
Net income (loss) per unit – basic and diluted		
As reported	0.00	0.02
Pro forma	0.00	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

Avenir Diversified Income Trust

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2003

5.0%; dividend yield of 14%; weighted-average volatility factors of the expected market price of the Trust's units of 73%; 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.

13. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2003, the Trust paid \$39,600 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 June 30, 2002, Avenir Capital Corporation provided \$130,396 in corporate administrative, financial and operational services to 928719 as part of the Company'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.

14. SUBSEQUENT EVENTS

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. These units may be sold at anytime to finance activities in line with its business plan. 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.