AVENIR DIVERSIFIED INCOME TRUST



QUARTER 2
FINANCIAL STATEMENTS 2004

SECOND QUARTER HIGHLIGHTS

For the periods ended	Three months Ended June 30		Six months Ended June 30	
	2004	2003	2004	2003
FINANCIAL				
Gross Revenue	3,599,852	1,068,917	6,068,313	2,057,921
Net Revenue	2,811,502	931,230	4,965,820	1,779,365
Cash Flow From Operations[1]	1,438,630	454,829	2,756,701	976,567
Cash Flow Per Unit[1] - Basic	0.45	0.31	0.92	0.69
Distributions	847,008	357,927	1,601,977	611,966
Distributions Per Unit - Basic	0.26	0.24	0.53	0.43
Distribution Payout Ratio	59%	79%	58%	63%
Net Earnings (loss)	(145,206)	60,049	278,159	342,103
Net Earnings (loss) Per Basic Unit	(0.04)	0.04	0.09	0.24
Total Assets	66,771,292	12,105,262	66,771,292	12,105,262
Oil and Gas Working Capital (Net Debt)	2,129,385	(1,504,882)	2,129,385	(1,504,882)
Financial Services Working Capital	10,080	–	10,080	–
Real Estate (incl. mortgs.) Working Capital (Net Debt)	(12,349,833)	–	(12,349,833)	–
Energy Services (incl. l. t. debt) Working Capital	43,562	–	43,562	–
Wtd. Avg. Common Shares Outstanding - Basic	3,228,639	1,471,158	2,999,564	1,423,978
Common Shares Outstanding	7,199,303	1,566,836	7,199,303	1,566,836
OPERATING				
Production (6:1)				
Oil and NGL's – bbls/ day	304	214	281	205
Gas – mcf/day	2,507	273	2,523	293
Total BOE/day	722	259	701	254
Average Pricing				
Oil & NGL ($/Bbl) before hedging	$41.87	$35.72	$40.67	$39.74
Oil & NGL ($/Bbl) after hedging	$36.21	$35.72	$35.58	$39.74
Natural Gas ($/mcf)	$6.56	$6.90	$6.47	$7.82
Average Price Per BOE before hedging	$40.50	$36.71	$39.71	$41.12
Average Price Per BOE after hedging	$38.11	$36.71	$37.67	$41.12

[1] Cash flow from operations and cash flow per unit are not recognized measures under Canadian generally accepted accounting principles (GAAP). Cash flow from operations is calculated by taking net earnings and adding back non-cash balances such as depletion, 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. Management believes that cash flow is a useful supplemental measure 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.

Continuing on its pattern of growth, in the second quarter of 2004 the Trust completed a financing for gross proceeds of approximately $28,750,000 that closed June 28, 2004. The equity offering effectively doubled the number of unitholders of the Trust to 7,199,303 (post consolidation). All of the funds from the financing were deployed by the end of July 2004 including the repayment of the Trust's bank debt. In addition, during the process of raising money, the Trust, with shareholder approval, consolidated the stock on a 15 for 1 basis. We believed this was a beneficial step in proceeding with our listing on the senior TSX exchange, as well as to place the Trust at a more comparable price-point with its peers. The application was successful and the Trust now trades under the symbol AVF.UN on the TSX.

During the second quarter the Trust began the integration process of the recently acquired (March 31, 2004) real estate assets. Tonko Realty Advisors, the management company that administers this business unit for the Trust, handled the transition efficiently and continues to administer the day to day operations of the Trust's real estate business unit. The Trust's management continues to evaluate new opportunities in the real estate sector as we look to grow this segment. The Trust continues to be diligent in its evaluations as competitive pressures in a number of market segments have driven yields down significantly below our 10% cap target.

In our energy business unit, current production is approximately 970 BOE/day. Increases in production for the quarter are mainly the result of the oil and gas asset purchase at the end of June 2004, as well as production from Q1 drilling in our Northeast Alberta gas area. The acquisitions totalled approximately 340 BOE per day, comprising an estimated 1,680 mcf per day of natural gas and 60 BOE per day of light oil. No production or cash flow from these acquisitions is reflected in our second quarter financial statements.

In the Trust's Financial Services division, current contracts continue to perform well with revenue also realized this quarter from an additional $1 million cheque cashing contract added at the end of April and the $600,000 contract added June 1, 2004. Both of these contracts have terms identical to the Trust's initial financial services contracts. Subsequent to the end of the quarter, the Trust completed $2.25 million in cheque cashing contracts and $1.5 million in debenture financings, increasing the Trust's financial services portfolio to $8.55 million.

As a diversified Trust, we continually look for diversification opportunities and in doing so were able to capitalize on the purchase of an Energy Services business, Cascade Steaming Ltd. ("Cascade") at the end of June 2004. This purchase provided diversification within the Energy business unit and was an accretive acquisition with respect to cash flow. Cascade's founder and President, Ken Wagner, retained a 10% partnership interest and remains with the new partnership as President and COO, responsible for all aspects of the day to day operations of the business.

In July the Trust purchased the shares of Indy Oilfield Ltd. and transferred the assets into the Cascade Energy Partnership. The approximate $394,000 transaction provided an expansion of the Cascade business model beyond Northeast British Columbia into Northwest Alberta.

The Trust's cash flow for the second quarter was $1,438,630 or $0.45 per unit up significantly over the second quarter 2003 cash flow of $454,829 and $0.31 per unit. For the first half of this year, cash flow was $2,756,701 compared to $976,567 for the first half of 2003. Distributions for the second quarter were $847,008 or $0.26 per unit, up 8% on a per unit basis from the second quarter 2003 distribution of $0.24 per unit. The Trust recorded a loss of $145,206 for the three months ending June 30, 2004 and a profit of $278,159 for the six month period, compared to earnings of $60,049 for the three months ended June 30, 2003 and $342,103 for the six month period. The June 30, 2004 earnings have been impacted by recognition of $386,301 non-cash mark-to-market opportunity costs related to risk management contracts. The Trust does not follow hedge accounting for these contracts. As well there was $61,473 in non-cash stock compensation expense.

The Trust had a second quarter distribution payout ratio of 59% (and year to date ratio of 58%) of funds available for distribution, significantly less than its targeted ratio of 75% to 80%. The Trust continues to monitor its payout ratio to enable capital expenditures and some growth opportunities to be funded out of retained funds. Funds retained are also used for managing volatility associated with commodity prices.

The cash distribution for August 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 afforded the Trust the opportunity to increase distributions.

OUTLOOK

The Trust continues to see and evaluate several opportunities in each business unit and feel a key strength is our ability to execute quickly.

During the third quarter the Trust:

- completed an additional $2.25 of million financial services contracts;
- completed an additional $1.5 million in debenture financing loans;
- integrated and grew our energy services division;
- we expect continued strong cash flow given the current high oil and gas commodity prices and solid production volumes; and
- completed a successful gas well on Trust lands at no cost to the Trust and we expect to drill two shallow gas wells in one of our newly acquired properties at the end of September.

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 & six months ended June 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 August 27, 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, (xiv) fluctuations in currency exchange rates and interest rates.

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

Significant Events

- **Integration of Real Estate Business Unit**

  With the close of the Western Spirit Investments Ltd. ("Western Spirit") transaction on March 31, 2004, Avenir began the integration process of the first real estate assets into the Trust. Tonko Realty Advisors, the management company that administers this business unit for the Trust, handled the transition efficiently and continue to administer the day to day operations of the Trust's real estate business unit.

- **Trust Unit Consolidation**

  On June 4, 2004, the Trust press released the intention to consolidate its stock on a 15 to 1 basis and on June 10, 2004 the proposed consolidation was approved by unit holders at the Annual and Special Meeting of unit holders. The reasons for the consolidation included the ability of the Trust to proceed with the listing on the senior TSX exchange, be more attractive to institutional investors, be comparable price-wise to other Trusts and be able to meet margin requirements for retail clients. The Trust began trading on a consolidated basis on Monday June 14, 2004 under the symbol AVF.UN.

- **Prospectus Financing**

  June 28, 2004, the Trust successfully completed by way of a public offering, a financing for gross proceeds of $28,749,750, consisting of 3,833,300 trust units at a price of $7.50 per unit, including the exercise of an over-allotment option for 499,967 trust units.

The offering was completed through a syndicate of agents led by First Associates Investments Inc. and included Canaccord Capital Corporation, Raymond James Ltd., Acumen Capital Finance Partners Ltd. and GMP Securities Ltd.

- **Energy Services Acquisition**

Post the close of the above financing, the Trust acquired 90% of Cascade Services Partnership ("Cascade"), which provides vacuum truck, steaming and hydro-vac services to the energy, utility and construction industries in Northeast British Columbia. Consideration for the acquisition was approximately $5.8 million, comprised of $3.8 million in cash and 266,667 trust units of the Trust at a deemed price of $7.50 per unit. 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. The acquisition of this energy services business provides the Trust with further diversification of its portfolio of energy assets and is expected to be accretive to the Trust's cash flow.

Subsequent to the quarter, on July 15, 2004, the Trust, through its Energy Services business unit, purchased Indy Oilfield Services ("Indy") for approximately $394,000. The business focus of Indy is also vacuum truck and steaming services, but their operations area was Northwest Alberta.

- **Oil & Gas Property Acquisitions**

On June 30, 2004, the Trust successfully 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, comprising of an estimated 1,680 mcf per day of natural gas and 60 BOE per day of light oil. The $9.8 million acquisitions (plus related costs and fees), were also funded by the proceeds of the equity offering.

Total reserves for the property purchase based on internal evaluations, were 699 Mboe of total proved producing reserves and 1,005 Mboe of total proved plus probable reserves. The reserve life index for these properties, based on a proved plus probable reserve estimate was 8.0 years. The acquisition equated to an approximate $30,000 per producing BOE, based on the existing production levels.

- **Financial Services Contracts**

During the second 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:

Q2	April 23, 2003	$1,000,000 funded
Q2	June 1, 2004	$600,000 funded
Q3	July 23, 2004	$1,500,000 funded
Q3	August 19, 2004	$750,000 funded

The contracts have identical terms to the previous cheque cashing contracts which include the payment of $0.07 per $100 loaned per day, representing an approximate 25% annualized yield. The term of the loan is 10 years recallable on 30 days notice. Total cheque cashing contracts currently outstanding now total $5,050,000.

Additionally, subsequent to the quarter on July 15th, 2004, the Trust entered into a $1mm 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 build out of furniture rental kiosks in the Brick/United Furniture Warehouse chain of stores.

On July 19, 2004, subsequent to the quarter, 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.

- **TSX Listing**

  Subsequent to the quarter, the Trust received TSX listing approval and began trading on the senior exchange under the symbol AVF.UN on July 26, 2004.

- **Increase in Distributions**

  On August 19, 2004, the cash distribution 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.

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)	336	(71)	(162)
Per share basic and diluted	0.18	(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]							
	June 30		March		December 31		September 30	
	2004	**2003**	**2004**	**2003**	**2003**	**2002**	**2003**	**2002**
Total Revenues, net of royalties	2,811,502	931,230	2,154,318	848,136	1,730,350	112,911	945,703	53,700
Net Income (loss)	(145,206)	60,049	423,365	282,053	(183,658)	174,780	177,510	$30,770
Net Income (loss) per Unit basic	(0.04)	0.04	0.15	0.20	(0.07)	0.02	0.10	0.00
Total Assets	66,771,292	12,105,262	44,888,909	10,501,964	22,430,980	2,028,316	19,619,601	1,653,798
Distributions (per Unit)	0.2623	0.2433	0.2725	0.1845	0.2623	–	0.3112	–

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 (net of royalties) were $2,101,314 for the second quarter of 2004, up 192% from the second quarter of 2003, attributable in most part to the acquisitions made throughout the 2003 year which included: Outback Energy Ltd., 728409 Alberta Ltd. and a large natural gas asset purchase. For the six months ended June 30, 2004, revenue (net of royalties) was $4,090,611 compared to $1,443,164 for the same period in 2003.

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

Gross revenue from petroleum and natural gas sales was $2,503,363 for the second quarter up from $857,344 in the second quarter of 2003. The average price received for crude oil and natural gas liquids during the second quarter of 2004 was $36.21 per barrel, up 1% from the second quarter of 2003 and $6.56 per mcf for natural gas, down 5% from the 2003 second quarter average of $6.90 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 loss of $156,584 for the second quarter of 2004 and an unrealized loss on existing contracts of $386,301.

Average daily production volumes for the second quarter ended June 30, 2004 were 722 BOE/day, up 179%, compared to 259 BOE/day in the second quarter of 2003. Second quarter 2004 production consisted of 304 bbls/day of crude oil and natural gas liquids and 2,507 mcf/day of natural gas (compared to 214 bbls/day and 273 mcf/day for the second quarter 2003, respectively). The 42% increase in oil and liquids production came mostly from acquisitions in the third and fourth quarter of 2003. The 818% increase in natural gas production was the result of the natural gas asset acquisitions completed in late September and October 2003 and additions from first quarter 2004 drilling.

Netbacks

	Q2 2004 $/boe	Q1 2004 $/boe	Q4 2003 $/boe	Q3 2003 $/boe	Q2 2003 $/boe	Q1 2003 $/boe
Gross revenue after hedging	38.11	37.19	32.73	33.67	36.31	46.74
Royalties	6.12	5.24	5.99	4.96	5.81	7.62
Operating costs	8.61	6.36	7.48	7.76	8.46	9.51
Operating netback	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 June 30, 2004 were $402,049 up 192% over the second quarter 2003; however, on a BOE basis, royalty costs averaged $6.12 per BOE in the period, which is up only 5% over the second quarter 2003 cost of $5.81 per BOE. Royalties averaged 16.1% in the second quarter of 2004 and 14.9% for the six months ended June 30, 2004 reflecting a gassier product mix in 2004.

Operating Expenses

The Trust's operating costs for the quarter ending June 30, 2004 were $565,249, up 190% over the second quarter 2003; however, on a BOE basis, operating costs averaged $8.61 per BOE in the period, which is up only 2% over the second quarter 2003 cost of $8.46 per BOE. Second quarter 2004 operating costs reflect higher property tax, utility, gas processing and non-operating charges. On a year to date basis the Trust's $7.48 per BOE is at budgeted levels.

Financial Services

Since inception the Trust has held two cash advance contracts (totalling $1.2 million), 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 second quarter, as mentioned above under financial services contracts, the Trust added $1.6 million in contracts. The Trust recognized income of $147,420 relating to the financial services contracts in the second quarter of 2004 compared to $81,900 in the second quarter of 2003, up 80% due to the addition of the $1.6 million of contracts.

The Trust also holds a subordinated debenture of $2 million with Rentcash Inc., which closed in December 2003. This debenture pays a 12% annualized yield plus 4% annualized administration fees. The Trust recognized income of $79,672 relating to this debenture for the 3 months ended June 30, 2004. An additional $1 million debenture was added in July 2004.

In total the financial services business unit had income of $227,092 for the three months ended June 30, 2004 compared to $81,900 in the second quarter of 2003, an increase of 177% as a result of the additional cheque cashing contracts and the Rentcash debenture.

Real Estate

On March 31, 2004 the Trust acquired Western Spirit. The revenue from Western Spirit for the three months ended June 30, 2004 was $865,182. No revenue was recorded for the real estate business unit prior to this quarter.

Energy Services

On June 30, 2004 the Trust acquired Cascade Steaming Ltd. ("Cascade"). The unaudited interim consolidated financial statements of the Trust reflect the purchase of Cascade for cash consideration of approximately $3.8 million and the issuance of 266,667 Trust units at a deemed price of $7.50 per unit. The Trust has not yet completed it 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	209,080
Less: cash received	(562,772)
	5,481,773
Allocation of purchase price:	
Non-cash working capital	693,688
Capital assets	2,950,193
Goodwill	2,996,014
Long-term debt	(901,125)
Non-controlling interest	(256,997)
	5,481,773

General and Administrative Expenses

General and administrative expenses were $524,638 in the second quarter 2004, up from the second quarter 2003 amount of $169,243. The 210% increase in G&A in the second quarter 2004 is the result of additional staffing costs associated with increasing the Trust's market size four-fold, particularly in areas of legal, accounting, regulatory reporting, tax planning and staff additions.

Interest Expense

Interest expense was $286,283 for the second quarter 2004 with no amount drawn on the bank facilities at the quarter's end. Bank debt decreased from the second quarter of 2003, as proceeds from the June financing were used to pay down the debt.

Depletion, Depreciation and Amortization

Provision for depletion, depreciation and amortization was $1,094,113 for the quarter ended June 30, 2004, with the Trust's depletion and depreciation rate at $13.29/BOE up from the $10.74/BOE rate in the second 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. Capital tax expense was recorded at $11,310 for the second quarter associated with the holding of the oil and gas assets.

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:

	June 30, 2004 $
Risk management liability, January 1, 2004	125,676
Net Change in mark-to-market unrealized loss	285,455
Risk management liability, June 30, 2004	411,131
Deferred financial instrument loss, January 1, 2004	125,676
Loss recognized relating to expired contracts	100,846
Deferred financial instrument loss, June 30, 2004	24,830

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 WTI.

Cash Flow and Earnings

Cash flow from operations was $1,438,630 or $0.45 per unit for the second quarter of 2004 up 216%, compared to $454,829 in the second quarter 2003 or $0.31per 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 in the third and fourth quarters of 2003, 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.

The Trust recorded net earnings (loss) of ($145,206) for the three months ending June 30, 2004 compared to earnings of $60,049 for the three months ended June 30, 2003. The June 30, 2004 earnings have been impacted by recognition of $386,301 non-cash mark-to-market opportunity costs related to risk management contracts. The Trust does not follow hedge accounting for these contracts. In addition, there was $61,473 in non-cash stock compensation expense. The Trust distributed $847,008 or $0.26 per unit, to unitholders in the second quarter 2004 compared to $357,927 and $0.24 per unit for the quarter ended June 30, 2003. The second quarter payout ratio of 59% was substantially less than the Trust's target ratio 75%. The second quarter cash distributions per unit increased 8% from the second quarter 2003. Monthly cash distributions declared per Trust unit issued and outstanding were as follows:

Period covered	Date of Distribution	$ Per Unit
January 1, 2004 to January 31, 2004	02/13/2004	0.08745
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

Capital expenditures

	Six Months Ended June 30, 2004
	$
Land	3,450
Geological and geophysical	–
Drilling	317,312
Production equipment and facilities	209,682
Development expenditures	530,444
Energy services acquisition	2,950,193
Real estate corporate acquisition	20,524,688
Property acquisitions	11,697,446
Proceeds received on property dispositions	(1,233,365)
Other assets	25,560
Net capital expenditures	34,494,966
Property, plant and equipment June 30, 2004	**49,355,094**

Liquidity and Debt

As at June 30, 2004 the Trust had total net debt including working capital and mortgages of $10,166,806. This consists of the following: real estate mortgages of $12,345,421; energy services long-term debt of $901,125 and working capital of $3,079,740. The Trust has a revolving demand facility up to $6,500,000 bearing interest at bank prime plus three-quarters 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. The $4 million bridge loan and the $1 million short term loans were paid in full on June 28, 2004 from the proceeds of the June equity financing.

	Payments due by period		
	Total	Less than 1 year	1 – 3 years
Mortgages	12,345,421	6,163,870	6,181,551
Capital lease obligations	63,650	63,650	–
Long-term debt	901,125	387,293	513,832
Total Contractual Obligations	13,310,196	6,614,813	6,695,383

Deficiencies in the working capital, on going operations and capital expenditures, will be managed by existing cash flow from operations (at June 30, 2004 - $2,756,701) and the availability of the Trust's current revolving demand facility and proposed future financings. With the bank facility limit of $6,500,000 the current availability of the revolving demand facility is $6.5 million as there is no balance drawn on the facility.

Contractual Obligations

The contracts outstanding with respect to the physical deliveries of oil and gas at June 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.
- 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.

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

- 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.
- 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.
- 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.

On May 31, 2004 the Trust entered into a put/call agreement with Avenir Capital Corporation ("Avenir"), a major unit holder of the Trust, in which the Trust obtained the right to purchase certain oil and gas properties from Avenir in return for guaranteeing a credit facility for Avenir. On June 30, 2004 the Trust exercised its call option and acquired the oil and gas assets under the agreement.

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

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**

For the quarter ended June 30, 2004 the Trust had a weighted average of 3,228,639 trust units outstanding and the diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in 3,277,150 trust units. The weighted average units outstanding for the six months ended June 30, 2004 was 2,999,564. As at June 30, 2004 the total units outstanding for the Trust were 7,199,303 (which include the 266,667 issued in the Cascade transaction on June 30, 2004).

Related Party Transactions

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

In addition, the Trust paid $25,114 during the quarter ended June 30, 2004 for corporate administrative and financial services provided to Avenir Capital Corporation, a major unitholder of the Trust. The Trust had also entered into a loan agreement with Avenir Capital Corporation for $400,000 to finance closing and deal costs of the Western Spirit acquisition and Avenir Growth Fund for $600,000 to finance an additional financial services contract. These loans were repaid June 28, 2004.

Risks and Uncertainties

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

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

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

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

Critical Accounting Policies

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

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

Reserve Estimates

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

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

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

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

Depletion and Depreciation Estimates

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

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

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

Income Taxes

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

Asset Retirement Obligations

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook section 3110 – Asset Retirement Obligations, to harmonize Canadian GAAP with United States GAAP. The section replaces previous guidance on future removal and site restoration costs and was effective for fiscal years beginning on or after January 1, 2004. The asset retirement obligation liability is initially measured at fair value, which is the discounted future value of the liability. The liability accretes until the obligation is settled. The fair value is capitalized as part of the related asset and is depleted over the useful life of the asset. Prior periods have been restated in accordance with the new standard.

RECENT ACCOUNTING PRONOUNCEMENTS AND IMPACT OF THE TRUST

Hedging Relationships

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

Full Cost Accounting

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

Continuous Disclosure Obligations

Effective March 31, 2004, the Trust and all reporting issuers in Canada are subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations". 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 unitholders, 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
President & CEO

Gary Dundas
Vice President Finance & CFO

CONSOLIDATED BALANCE SHEETS

(unaudited)

As at	June 30, 2004	December 31, 2003
ASSETS *[note 8]*		(restated – note 1)
Current		
Cash and cash equivalents	**$ 4,350,031**	$ 256,872
Restricted cash *[notes 2 and 4]*	**338,950**	—
Accounts receivable and prepaid expenses	**3,521,144**	1,799,803
	8,210,125	2,056,675
Property and equipment *[notes 2, 3, 5, 9 and 14]*	**49,355,094**	16,045,613
Financial services contracts *[note 7]*	**4,878,580**	3,241,963
Deferred charges *[notes 6 and 16b]*	**244,750**	—
Goodwill	**4,082,743**	1,086,729
	66,771,292	22,430,980
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 8]*	**—**	4,505,000
Accounts payable and accrued liabilities *[note 17]*	**4,158,957**	1,489,755
Distributions payable *[note 15]*	**304,925**	241,964
Deferred revenue	**191,722**	—
Risk management liability *[note 16b]*	**411,131**	—
Current portion of capital lease obligations	**63,650**	61,162
Current portion of long-term debt *[notes 3 and 10]*	**387,293**	—
Current portion of mortgages *[note 9]*	**6,163,870**	—
	11,681,548	6,297,881
Capital lease obligations	**—**	32,459
Mortgages *[note 9]*	**6,181,551**	—
Long-term debt *[notes 3 and 10]*	**513,832**	
Asset retirement obligation *[notes 1 and 11]*	**2,132,430**	1,312,965
Future income taxes *[note 2]*	**1,081,148**	—
Non-controlling interest *[note 3]*	**256,997**	—
Commitments *[notes 2 and 18]*		
Unitholders' equity		
Unitholder capital *[note 12]*	**47,224,580**	15,851,942
Contributed surplus *[note 13]*	**207,159**	119,868
Accumulated earnings	**947,895**	669,736
Accumulated cash distributions	**(3,455,848)**	(1,853,871)
	44,923,786	14,787,675
	66,771,292	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		Six months ended	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
	$	**$**	**$**	**$**
		(restated – note 1)		*(restated – note 1)*
REVENUE				
Oil and gas	**2,503,363**	857,344	**4,806,803**	1,721,720
Royalties, net of ARTC	**(402,049)**	(137,687)	**(716,192)**	(278,556)
Unrealized loss on financial instruments	**(386,301)**	—	**(386,301)**	—
	1,715,013	719,657	**3,704,310**	1,443,164
Real estate income	**865,182**	—	**865,182**	—
Financial services fees	**227,092**	81,900	**382,364**	138,600
Investment income	**—**	71,310	**—**	122,010
Interest and other income	**4,215**	(16,827)	**13,964**	401
Gain on sale of marketable securities	**—**	75,190	**—**	75,190
	2,811,502	931,230	**4,965,820**	1,779,365
EXPENSES				
Oil and gas operating	**565,249**	194,756	**954,811**	364,826
Real estate operating	**433,166**	—	**433,166**	—
General and administrative [notes 13 and 17]	**524,638**	169,243	**929,826**	297,929
Interest and bank fees	**286,283**	37,212	**353,598**	64,853
Capital taxes	**11,310**	—	**11,310**	—
Depletion, depreciation and amortization	**1,094,113**	274,792	**1,935,101**	496,883
Asset retirement obligation accretion [notes 1 and 11]	**41,949**	17,593	**69,849**	35,186
Unsuccessful acquisition and re-organizational costs	**—**	177,585	**—**	177,585
	2,956,708	871,181	**4,687,661**	1,437,262
Income (loss) before income tax	**(145,206)**	60,049	**278,159**	342,103
Income tax expense	**—**	—	**—**	—
Net income (loss) for the period	**(145,206)**	60,049	**278,159**	342,103
Accumulated earnings (deficit), beginning of period	**1,093,101**	87,338	**285,808**	(233,372)
Retroactive application of change in accounting policy [note 1]	**—**	267,344	**383,928**	306,000
Accumulated earnings, beginning of period, as restated	**1,093,101**	354,682	**669,736**	72,628
Accumulated earnings, end of period	**947,895**	414,731	**947,895**	414,731
Net income (loss) per unit basic and diluted [notes 1 and 12]	**(0.04)**	0.04	**0.09**	0.24

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the	Three months ended		Six months ended	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
	$	**$**	**$**	**$**
OPERATING ACTIVITIES		*(restated – note 1)*		*(restated – note 1)*
Net income (loss) for the period	**(145,206)**	60,049	**278,159**	342,103
Add (deduct) non-cash items				
Depletion, depreciation and amortization	**1,094,113**	274,792	**1,935,101**	496,883
Gain on sale of marketable securities	**—**	(75,190)	**—**	(75,190)
Non-cash general and administrative [note 13]	**61,473**	—	**87,291**	—
Asset retirement obligation accretion	**41,949**	17,593	**69,849**	35,186
Unrealized loss on financial instruments	**386,301**	—	**386,301**	—
Unsuccessful acquisition and re-organizational costs	**—**	177,585	**—**	177,585
Funds from operations	**1,438,630**	454,829	**2,756,701**	976,567
Change in non-cash working capital	**(700,549)**	508,255	**(297,701)**	341,637
Cash provided by operating activities	**738,081**	963,084	**2,459,000**	1,318,204
FINANCING ACTIVITIES				
Issue of trust units	**28,749,750**	—	**28,749,750**	5,663,152
Trust unit issue costs	**(2,369,624)**	33,200	**(2,369,624)**	(274,285)
Distributions to unitholders	**(813,123)**	(357,927)	**(1,539,016)**	(611,966)
Change in bank indebtedness	**(8,155,000)**	(311,078)	**(4,505,000)**	1,597,141
Repayment of mortgages	**(101,909)**	—	**(101,909)**	—
Repayments of capital lease obligations	**(15,135)**	—	**(29,971)**	—
Increase in long-term debt	**531,580**	—	**531,580**	—
Change in non-cash working capital	**181,032**	214,116	**181,032**	(381,357)
Cash provided by (used in) financing activities	**18,007,571**	(421,689)	**20,916,842**	5,992,685
INVESTING ACTIVITIES				
Purchase of Western Spirit Investments Ltd. [note 2]	**—**	—	**(2,918,687)**	—
Purchase of Onward Energy Inc.	**—**	—	**—**	(2,910,324)
Purchase of Outback Energy Inc.	**—**	(85,937)	**—**	(85,937)
Purchase of Cascade Services Partnership [note 3]	**(3,481,773)**	—	**(3,481,773)**	—
Oil and gas property acquisitions [note 5]	**(10,053,357)**	(50,703)	**(11,697,446)**	(3,249,561)
Oil and gas property disposals [note 5]	**(1,007)**	—	**1,233,365**	—
Oil and gas development expenditures	**(224,483)**	(64,367)	**(530,444)**	(78,570)
Purchase of other assets	**(14,945)**	—	**(25,560)**	(3,441)
Purchase of financial services contracts	**(1,642,571)**	—	**(1,642,571)**	(600,000)
Proceeds on sale of Public trust units	**—**	1,085,190	**—**	1,085,190
Unsuccessful acquisition and re-organizational costs	**—**	(177,585)	**—**	(177,585)
Restricted cash [note 2]	**—**	—	**(338,950)**	—
Changes in non-cash working capital	**(209,080)**	(1,186,354)	**119,383**	(1,186,354)
Cash used in investing activities	**(15,627,216)**	(479,756)	**(19,282,683)**	(7,206,582)
Increase in cash and cash equivalents during the period	**3,118,436**	61,639	**4,093,159**	104,307
Cash and cash equivalents, beginning of period	**1,231,595**	125,165	**256,872**	82,497
Cash and cash equivalents, end of period	**4,350,031**	186,804	**4,350,031**	186,804
Cash interest paid	54,038	34,506	**112,993**	62,147

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 12a(iv)).

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 June 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 six months ended June 30, 2003 was a decrease of $77,314 relating to additional depletion of $42,128 and accretion on the asset retirement obligation of $35,186. The net income per unit basic and diluted also decreased by $0.03 and $0.05 for the three and six months ended June 30, 2003, 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 costs centre would be written down to its fair value. Fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows. There is no impact on the Trust's reported financial results as a result of applying the new guideline.

d) Real estate properties

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

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

e) Deferred charges

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

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

f) Capitalized costs

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

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%

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 12(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 700,879 performance rights (post consolidation – see note 12(a)(iv)). Each performance right entitles the holder to acquire 0.05 of a Trust Unit for no additional consideration, provided that, at any time on or prior to January 21, 2005 either a signed lease agreement is in place for that portion of the area in Western Spirit's Harris Building, which is currently vacant, or the Trust sells the Harris Building for not less than $8,500,000. The outcome of the conditions related to the exercise of these rights is uncertain and therefore, the rights have not been considered in the purchase price allocation below. However, if these rights 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 it 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	406,863
Less: cash received (including restricted cash)	(488,176)
	5,911,199
Allocation of purchase price:	
Non-cash working capital	(301,294)
Real estate properties	20,524,688
Deferred charges	232,179
Mortgages	(12,447,330)
Deferred revenue	(215,896)
Severance costs	(650,000)
Tenant improvement	(150,000)
Future income taxes	(1,081,148)
	$ 5,911,199

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 $5,481,773 consisting of cash of $3,835,465 and the issuance of 266,667 Trust Units at $7.50 per unit. The Cascade Partnership, representing the Trust's new energy services business unit, 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	209,080
Less: cash received	(562,772)
	$ 5,481,773
Allocation of purchase price:	
Non-cash working capital	$ 693,688
Capital assets	2,950,193
Goodwill	2,996,014
Long-tern debt	(901,125)
Non-controlling interest	(256,997)
	$ 5,481,773

4. RESTRICTED CASH

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

5. PROPERTY AND EQUIPMENT

	June 30, 2004		
	Cost	**Accumulated Depletion and Depreciation**	**Net Book Value**
Oil and gas properties/production equipment	$ 29,194,645	$ 3,303,600	$ 25,891,045
Real estate properties	20,524,688	132,540	20,392,148
Energy services equipment	2,950,193	—	2,950,193
Oil and gas assets under capital lease	175,689	85,078	90,611
Furniture and computer equipment	39,032	7,935	31,097
	$ 52,884,247	$ 3,529,153	$ 49,355,094

a) On March 25 and March 30, 2004 the Trust sold non core oil and gas assets to an arm's length party for total cash consideration of $903,009 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 $1,649,664 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 $183,485 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 $9,864,297 including adjustments to date. An additional asset retirement obligation of $490,556 was recorded on these acquisitions.

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

6. DEFERRED CHARGES

	June 30, 2004
Deferred lease costs, net of accumulated amortization [note 2]	$ 219,920
Deferred financial instrument loss [note 16b]	24,830
	$ 244,750

7. FINANCIAL SERVICES CONTRACTS

On April 23, 2004 the Trust entered into a financial services contract in the amount of $1,000,000. 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. Costs incurred in establishing the contract in the amount of $39,924 have been capitalized and are being amortized over the term of the loan which is ten years.

On June 1, 2004 the Trust entered into an additional financial services contract in the amount of $600,000. The contract 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. Costs incurred in establishing the contract in the amount of $2,647 have been capitalized and are being amortized over the term of the loan which is ten years.

8. BANK INDEBTEDNESS

The Trust has a combined revolving demand facility with a major Canadian bank in the amount of $6,500,000 bearing interest at prime plus three-quarters 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. As at June 30, 2004 no amounts were drawn on these facilities. The effective interest rate on borrowings under these lines for the six months ended June 30, 2004 including services fees was 5.77%.

As at June 30, 2004 there were no amounts outstanding on these facilities. The Trust also had two letters of credit outstanding in the aggregate amount of $85,000.

9. MORTGAGES

	June 30, 2004
Various mortgages with interest rates ranging from 5.75% to 8.15% (weighted average rate of 7.5%), maturities from August 2004 to September 2006, secured by first charge over the related properties, and restricted cash	$ 12,345,421
Current portion of mortgages	(6,163,870)
	$ 6,181,551

Approximate principal repayments required to maturity are as follows:	
2004	$ 2,068,684
2005	8,190,371
2006	2,086,366
	$ 12,345,421

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

10. LONG-TERM DEBT

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

	June 30, 2004
Loan payable in monthly instalments of $7,558.05 including interest at prime plus 2.65%, maturing January 19, 2007	$ 217,631
Loan payable in monthly instalments of $10,880.51 including interest at prime plus 2.65%, maturing December 26, 2006	303,727
Loan payable in monthly instalments of $3,023.21 including interest at prime plus 2.65%, maturing February 23, 2007	90,023
Loan payable in monthly instalments of $6,070.88 including interest at prime plus 2.65%, maturing August 20, 2006	147,609
Loan payable in monthly instalments of $8,249.26 including interest at prime plus 2.61%, maturing December 10, 2005	142,135
	901,125
Current portion	387,293
	$ 513,832

Approximate principal repayments required to maturity are as follows:	
2004	$ 193,646
2005	387,293
2006	288,603
2007	31,583
	$ 901,125

11. 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 $2,132,430 as at June 30, 2004 based on a total future liability of $4,299,386. 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	749,616
Asset retirement obligation accretion for the period	69,849
Carrying amount, as at June 30, 2004	$ 2,132,430

12. 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
	7,199,303	**47,224,580**

(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 $2,369,624.

(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 (loss) per unit

For the three and six months ended June 30, 2004, respectively, the Trust had a weighted average number of trust units outstanding of 3,228,639 (June 30, 2003 – 1,471,158) and 2,999,564 (June 30, 2003 – 1,423,978 (post consolidation - see note 12(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 six months ended June 30, 2004, of 3,277,150 (June 30, 2003 – 1,493,342) and 3,050,843 (June 30, 2003 – 1,446,162) respectively. At June 30, 2004 there were no anti-dilutive options.

13. STOCK-BASED COMPENSATION

Under the Trust's unit option plan, options to acquire trust units are granted to employees and directors from time to time at exercise prices equal to the market value of the units at the date of the grant. Options granted under the plan vest over a three-year period and have a five-year life. The exercise price of the options is periodically adjusted to reflect the Trust's monthly distributions. Any consideration paid on exercise of stock options is credited to share capital. A total of 309,933 units have been reserved under this plan.

At June 30, 2004 a total of 129,996 options vesting over three years had been granted under the Trust unit option plan and 35,555 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 3.98 years and the weighted average remaining vesting period of the options is 0.86 years. For the six months ended June 30, 2004 no options were forfeited or expired.

Based on the period end unit price the Trust recorded compensation expense and contributed surplus of $61,473 and $87,291 in the three and six months ended June 30, 2004 respectively.

14. 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:

	June 30, 2004
Assets	2,606,944
Liabilities	1,847,067
Revenue	78,256
Operating expenses	33,273
Net income	37,864
Cash flow from operating activities	44,983

15. 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

As at June 30, 2004 the Trust had distributions owing of $304,925 (December 31, 2003 - $241,964). The per unit distributions paid are post consolidation (see note 12(a)(iv)).

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, financial services contracts, bank indebtedness, accounts payable, distributions payable, capital lease obligations and mortgages. Unless otherwise noted, as at June 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 fair value of the financial services contracts at June 30, 2004 was $6,251,852 (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:

	June 30, 2004 $
Risk management liability, January 1, 2004	125,676
Change in mark-to-market unrealized loss	285,455
Risk management liability, June 30, 2004	411,131
Deferred financial instrument loss, January 1, 2004	125,676
Loss recognized relating to expired contracts	100,846
Deferred financial instrument loss, June 30, 2004	24,830

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 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 three and six months ended June 30, 2004, the Trust paid $25,114 and $51,138 respectively (June 30, 2003 - $21,600 and $39,600) to Avenir Capital Corporation ("Avenir"), a significant unitholder of the Trust for rent, administration and advisory services.
- During the six months ended June 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 six months ended June 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 $138,926 owing to Avenir relating to the acquisition of certain oil and gas properties disclosed in note 5(d) with no fixed terms of repayment.

18. COMMITMENTS

The contracts outstanding with respect to the physical deliveries of oil and gas at June 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.
- 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.

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

- 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.
- 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.
- 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.

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.

On May 31, 2004 the Trust entered into a put/call agreement with Avenir Capital Corporation ("Avenir"), a major unitholder of the Trust, in which the Trust obtained the right to purchase certain oil and gas properties from Avenir in return for guaranteeing a credit facility for Avenir. On June 30, 2004 the Trust exercised its call option and acquired the oil and gas properties as described in note 5(b).

19. 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	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	$	$	$	$
Total Revenue, net				
Oil and Gas	**1,717,006**	849,021	**3,716,052**	1,640,456
Financial Services	**227,092**	82,209	**382,364**	138,909
Real Estate	**867,404**	—	**867,404**	—
Energy Services	**—**	—	**—**	—
Consolidated	**2,811,502**	931,230	**4,965,820**	1,779,365

	For the three months ended		For the six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	$	$	$	$
Net Income (loss)				
Oil and Gas	**(377,237)**	(13,698)	**(88,916)**	218,090
Financial Services	**201,651**	73,747	**336,695**	124,013
Real Estate	**30,380**	—	**30,380**	—
Energy Services	**—**	—	**—**	—
Consolidated	**(145,206)**	60,049	**278,159**	342,103

	For the three months ended		For the six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	$	$	$	$
Depletion, depreciation and amortization				
Oil and Gas	**945,981**	274,792	**1,784,347**	496,883
Financial Services	**3,332**	—	**5,954**	—
Real Estate	**144,800**	—	**144,800**	—
Energy Services	**—**	—	**—**	—
Consolidated	**1,094,113**	274,792	**1,935,101**	496,883

	For the three months ended		For the six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	$	$	$	$
Interest and bank fees				
Oil and Gas	**60,384**	37,212	**127,699**	64,853
Financial Services	**—**	—	**—**	—
Real Estate	**225,899**	—	**225,899**	—
Energy Services	**—**	—	**—**	—
Consolidated	**286,283**	37,212	**353,598**	64,853

					June 30, 2004
	Oil and Gas	**Financial Services**	**Real Estate**	**Energy Services**	**Total**
	$	**$**	**$**	**$**	**$**
Selected balance sheet items					
Property and equipment	26,012,753	—	20,392,148	2,950,193	49,355,094
Financial services contracts	—	4,878,580	—	—	4,878,580
Goodwill	1,086,729	—	—	2,996,014	4,082,743
Bank indebtedness	—	—	—	—	—

					December 31, 2003
	Oil and Gas	**Financial Services**	**Real Estate**	**Energy Services**	**Total**
	$	**$**	**$**	**$**	**$**
Selected balance sheet items					
Property and equipment	16,045,613	—	—	—	16,045,613
Financial services contracts	—	3,241,963	—	—	3,241,963
Goodwill	1,086,729	—	—	—	1,086,729
Bank indebtedness	4,505,000	—	—	—	4,505,000

20. SUBSEQUENT EVENTS

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 15, 2003 the Trust purchased all of the outstanding shares of Indy Oilfield Ltd., an energy services company, for cash consideration of $393,710.

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 the Trust entered into an additional financial services contract in the amount of $750,000. 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.

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