



March 15, 2004

SYMBOL: "SHN.UN" - TSX

**NEWS RELEASE – FOR IMMEDIATE RELEASE
SHININGBANK ENERGY ANNOUNCES 2003 FINANCIAL RESULTS**

Shiningbank Energy Income Fund (the "Fund" or "Shiningbank"), today announced its audited financial results for the year ended December 31, 2003.

2003 HIGHLIGHTS

- Revenues for the year increased by 70% in 2003 to \$242.2 million, as a result of higher production volumes and commodity prices
- Net earnings increased by 394% to \$64.4 million from \$13.0 million in 2002
- Cash flow doubled in 2003 to \$136.0 million, up from \$68.2 million in 2002
- Production volumes increased by 18% over 2002 to average 16,759 boe/d of which 74% was natural gas, mainly due to the acquisition of the Ferrier/O'Chiese properties in early 2003 and the subsequent development in the area
- Natural gas prices averaged \$6.82/mcf in 2003, the highest average annual price ever recorded by Shiningbank and 58% higher than 2002.
- Oil prices rose by 5% from 2002 despite downward pressure caused by weakness in the US dollar exchange rate
- Operating netbacks reached a record high level of \$24.19 per boe of production
- The Fund's balance sheet ended the year in very healthy condition with a debt to annual cash flow ratio of less than 1 to 1
- **Investors' total return for 2003 amounted to 42%, comprised of a 19% cash-on-cash distribution yield and a 23% increase in unit price**

Shiningbank Energy Income Fund

2003 Financial and Operating Highlights

	Three months ended Dec 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Financial						
(\$ thousands except per unit amounts)						
Oil and natural gas sales	\$ 57,181	\$ 42,116	36 %	\$ 242,157	\$ 142,661	70 %
Net earnings	5,006	(2,072)	(342)%	64,435	13,032	394 %
Cash flows before change in non-cash working capital	30,082	17,661	70 %	136,038	68,243	99 %
Distributable income	30,629	19,916	54 %	122,287	69,607	76 %
Distributions per Trust Unit	0.69	0.60	15 %	2.85	2.16	32 %
Acquisition and development costs	6,668	9,343	(29)%	179,760	63,144	185 %
Long term debt	121,691	115,283	6 %	121,691	115,283	6 %
Unitholders' equity	366,241	266,432	37 %	366,241	266,432	37 %
Operations						
Daily Production						
Oil (bbl/d)	2,018	1,886	7 %	2,023	2,054	(2)%
Natural gas (mmcf/d)	76.6	62.2	23 %	74.9	64.2	17 %
Natural gas liquids(bbl/d)	2,530	1,484	71 %	2,252	1,454	55 %
Oil equivalent (boe/d)	17,311	13,743	26 %	16,759	14,214	18 %
Average Prices						
Oil (\$/bbl)	\$ 33.62	\$ 38.92	(14)%	\$ 37.95	\$ 36.31	5 %
Natural gas (\$/mcf)	\$ 6.14	\$ 5.36	14 %	\$ 6.82	\$ 4.32	58 %
Natural gas liquids (\$/bbl)	\$ 32.93	\$ 33.28	(1)%	\$ 33.65	\$ 26.58	27 %
Oil equivalent (\$/boe)	\$ 35.90	\$ 33.31	8 %	\$ 39.59	\$ 27.50	44 %
Unit Trading						
Units traded (thousands)	9,073	5,757	58 %	37,262	25,011	49 %
Value traded (\$ thousands)	153,851	84,924	81 %	612,995	359,955	70 %
Unit price						
High	\$ 18.99	\$ 15.95		\$ 18.99	\$ 15.95	
Low	\$ 15.05	\$ 13.50		\$ 14.80	\$ 10.00	
Close	\$ 18.64	\$ 15.15		\$ 18.64	\$ 15.15	
Units outstanding (thousands)	44,343	33,194		44,343	33,194	

The following discussion analyzes Shiningbank's operating and financial results and financial position for the years ended December 31, 2003 and 2002. This discussion should be read in conjunction with the Fund's annual Management Discussion and Analysis, audited consolidated financial statements and notes for the years ended December 31, 2003 and 2002 contained in its annual report. Boe volumes are reported at 6:1 with 6 mcf = 1 bbl.

RESULTS OF OPERATIONS

PRODUCTION VOLUMES

Daily Production Volumes

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Oil (bbl/d)	2,018	1,886	7 %	2,023	2,054	(2)%
Natural gas (mmcf/d)	76.6	62.2	23 %	74.9	64.2	17 %
NGL (bbl/d)	2,530	1,484	71 %	2,252	1,454	55 %
Oil equivalent (boe/d)	17,311	13,743	26 %	16,759	14,214	18 %
Natural gas % of total production	74%	75%		74%	75%	

Fourth quarter daily average production grew 26% over fourth quarter 2002. Year over year, Shiningbank achieved 18% volume growth. Both of these increases were primarily due to the Ferrier/O'Chiese acquisition at the end of first quarter 2003, offset in part by the natural declines of producing properties that are estimated to average 13% per year.

PRICING (INCLUDING HEDGING ACTIVITY)

Average Prices – After Hedging

Average Prices	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Oil (\$/bbl)	\$33.62	\$38.92	(14)%	\$37.95	\$36.31	5 %
Natural gas (\$/mcf)	\$ 6.14	\$ 5.36	15 %	\$ 6.82	\$ 4.32	58 %
NGL (\$/bbl)	\$32.93	\$33.28	(1)%	\$33.65	\$26.59	27 %
Oil equivalent (\$/boe)	\$35.90	\$33.31	8 %	\$39.59	\$27.50	44 %
Benchmark Prices						
WTI (US\$/bbl)	\$31.21	\$28.14	11 %	\$31.04	\$26.08	19 %
AECO natural gas (Cdn\$/mcf)	\$ 5.59	\$ 5.26	6 %	\$ 6.70	\$ 4.07	65 %

Natural Gas

For the fourth quarter of 2003, Shiningbank's realized natural gas price averaged \$6.14/mcf, 15% higher than for the same period in 2002. Hedging increased the realized gas price by \$0.35/mcf for the quarter compared with a hedging loss of \$0.02/mcf in 2002.

For the year 2003, Shiningbank's realized gas price increased 58% from 2002 reaching \$6.82/mcf. Hedging contributed \$0.11/mcf, versus a \$0.16/mcf gain in 2002. Benchmark

prices in Alberta (AECO) rose 65% on average from 2002, primarily due to cold weather in the first quarter of 2003.

Gas pricing fundamentals remain strong. We expect that prices will weaken in first quarter 2004 with the end of winter, a normal seasonal effect. However, 2004 pricing should remain very strong with benchmark prices in the range of Cdn\$5.00 to \$6.00/mcf. High volatility will continue to be normal for the market. Shiningbank does not control the prices received for its production, but mitigates the market risk through various methods including hedges and geographical diversity.

Oil

Realized oil prices for the quarter were \$33.62/bbl, down 14% from fourth quarter 2002 due to strength in the Canadian dollar. Hedging reduced the realized price by \$1.50/bbl compared with a hedging reduction of \$0.18/bbl in fourth quarter 2002.

Shiningbank's oil prices in 2003 rose 5% to average \$37.95/bbl. Hedging activities reduced the realized price by \$1.33/bbl as compared to an \$0.08 reduction in 2002. The benchmark West Texas Intermediate (WTI) price averaged 19% higher than in 2002, however, the weakness in the US dollar greatly reduced the impact of this strength. Oil prices are expected to remain high in US dollar terms, with many analysts calling for a US\$30/bbl average price this year.

Current hedging

Shiningbank maintains an active hedging program for both oil and gas production. During 2003, the Fund hedged an average of 25% of total gas production and 37% of total oil production, as compared to 30% and 24% respectively in 2002. Under the Fund's hedging policy, not more than one-half of production volumes can be hedged at any one time. Hedging is intended to stabilize cash distributions by protecting the price on a portion of the production portfolio. Currently, Shiningbank has the following hedging contracts in place:

Period	Commodity	Volume	Price
January 1, 2004 – March 31, 2004	Gas	5,000 GJ/d	\$6.00/GJ floor \$8.55/GJ ceiling
January 1, 2004 – December 31, 2004	Gas	11,000 GJ/d	\$6.11/GJ
April 1, 2004 – October 31, 2004	Gas	5,000 GJ/d	\$5.25/GJ floor \$6.67/GJ ceiling
April 1, 2004 – October 31, 2004	Gas	5,000 GJ/d	\$5.45/GJ floor \$6.32/GJ ceiling
April 1, 2004 – March 31, 2005	Gas	5,000 GJ/d	\$5.91/GJ
April 1, 2005 – December 31, 2005	Gas	5,000 GJ/d	\$5.00/GJ floor \$6.39/GJ ceiling
January 1, 2004 – September 30, 2004	Oil	500 bbl/d	US\$25.00/bbl floor US\$30.00/bbl ceiling
March 1, 2004 – December 31, 2004	Oil	500 bbl/d	US\$31.87/bbl
October 1, 2004 – December 31, 2004	Oil	500 bbl/d	US\$25.00/bbl floor US\$30.00/bbl ceiling

REVENUES

(000s)	Three months ended December 31,				Year ended December 31,			
	2003	% of Revenue	2002	% of Revenue	2003	% of Revenue	2002	% of Revenue
Oil sales	\$ 6,520	11 %	\$ 6,785	16 %	\$ 29,000	12 %	\$ 27,276	19 %
Natural gas sales	40,823	71 %	30,821	73 %	183,404	76 %	97,476	68 %
NGL sales	7,664	14 %	4,545	11 %	27,667	11 %	14,106	10 %
Hedging - Gas	2,402	4 %	(64)	-	2,980	1 %	3,823	3 %
Hedging - Oil	(277)	-	(30)	-	(978)	-	(62)	-
Other	49	-	59	-	84	-	42	-
	\$57,181	100 %	\$42,116	100 %	\$242,157	100 %	\$142,661	100 %

The following table sets out the net effect on revenue of changes in commodity prices and volumes between 2002 and 2003.

Sales Variance Analysis – After Hedging

(000s)	Three months ended December 31,	Year ended December 31,
	2003/2002	2003/2002
Crude oil and NGL		
Volume increase	\$ 3,674	\$ 7,342
Price (decrease) increase	(1,067)	7,027
Increase	\$ 2,607	\$14,369
Natural gas		
Volume increase	\$ 7,073	\$16,811
Price increase	5,395	68,274
Increase	\$12,468	\$85,085

Higher revenues for the fourth quarter of 2003, and for the full year, were the result of higher natural gas volumes and prices. A drop in realized crude oil and NGL prices in the fourth quarter, due to exchange rates, slightly offset this effect.

ROYALTIES

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Total royalties, net (000s)	\$12,794	\$9,031	42 %	\$53,628	\$26,470	103 %
As % of revenue	22.4%	21.4%	5 %	22.1%	18.6%	19 %
Per boe	\$ 8.03	\$ 7.14	12 %	\$ 8.77	\$ 5.10	72 %

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The royalty rate was higher in 2003, mainly due to higher commodity prices under the price-sensitive rate structure for Alberta Crown natural gas royalties. The Fund expects that commodity prices in 2004 will be similar to those realized in 2003, resulting in little change to the 2004 realized royalty rate. The Alberta government provides a credit under the Alberta Royalty Credit program, which the Fund is eligible to access on a small portion of its properties. The Fund recorded the maximum credit of \$500,000 in both 2003 and 2002.

OPERATING COSTS

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Operating costs (000s)	\$11,058	\$7,973	39 %	\$40,536	\$31,583	28 %
Per boe	\$ 6.94	\$ 6.31	10 %	\$ 6.63	\$ 6.09	9 %

Operating costs increased 10% on a boe basis from fourth quarter 2002, and 9% year over year. These increases were due to increasing field service costs arising from the high level of industry activity, and rising fuel and electricity costs. The Fund expects 2004 costs to be similar to 2003 on a per boe basis due to continuing upward pressure on field costs, aging of the property portfolio and the likelihood of higher energy costs in 2004, all of which are expected to offset efficiencies gained in the Fund's operations.

OPERATING NETBACKS

(\$/boe)	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Gross revenue	\$35.90	\$33.31	8%	\$39.59	\$27.50	44%
Royalty expenses (net of ARTC)	(8.03)	(7.14)	12%	(8.77)	(5.10)	72%
Operating expenses	(6.94)	(6.31)	10%	(6.63)	(6.09)	9%
Operating netback	\$20.93	\$19.86	5%	\$24.19	\$16.31	48%

Operating netbacks increased 5% quarter over quarter and 48% year over year. Strong commodity prices drove these increases, but the growth in netbacks was partially offset by higher royalties and operating costs per boe.

GENERAL AND ADMINISTRATIVE COSTS

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
General and administrative costs (000s)	\$1,432	\$1,355	6 %	\$4,649	\$4,143	12 %
Per boe	\$ 0.90	\$ 1.07	(16)%	\$ 0.76	\$ 0.80	(5)%
Per average Trust Unit	\$ 0.03	\$ 0.04	(25)%	\$ 0.11	\$ 0.13	(15)%

General and administrative costs decreased 16% per boe from fourth quarter 2002, and 5% per boe year over year. The cost reductions on both a per boe and per average Trust Unit basis were due to efficiencies resulting from economies of scale. At year end, Shiningbank had 33 full-time employees and 22 full- and part-time consultants at its head office. Field and production staff consisted of one production superintendent, 20 full-

time employees and 39 contract operators. Costs of field and production staff are included in operating expenses.

MANAGEMENT FEES

All management and acquisition fees were eliminated after October 9, 2002 as a result of the transaction that internalized the Fund's management.

INTEREST

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Interest (000s)	\$1,093	\$1,330	(18)%	\$6,103	\$5,109	19 %
Per boe	\$ 0.69	\$ 1.05	(34)%	\$ 1.00	\$ 0.98	2 %
Per average Trust Unit	\$ 0.02	\$ 0.04	(50)%	\$ 0.15	\$ 0.16	(6)%

Interest expense, which includes bank charges, increased 19% year over year. This increase was the result of higher debt levels following the Ferrier/O'Chiese acquisition, higher annual renewal fees for the bank line of credit and higher interest rates. Fourth quarter 2003 interest expense dropped 18%, primarily due to lower interest rates and bank stamping fees.

At December 31, 2003, the Fund held an interest rate swap for \$10.0 million at an interest rate of 3.48% expiring October 30, 2004. All other debt bears interest at current short-term market rates.

DEPRECIATION, DEPLETION AND AMORTIZATION

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Depreciation, depletion and amortization (000s)	\$21,879	\$15,234	44 %	\$75,027	\$60,034	25 %
Per boe	\$ 13.74	\$ 12.05	14 %	\$ 12.27	\$ 11.57	6 %

Depreciation, depletion and amortization rose 44% for the fourth quarter and 25% year over year, due to increased production volumes and higher acquisition costs. The fourth quarter depletion calculation was based on December 31, 2003 reserve estimates. Proved reserves decreased 9% from 2002 primarily as a result of changes to reserve definitions under National Instrument 51-101 ("NI 51-101").

INTERNALIZATION OF MANAGEMENT CONTRACT

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Internalization of management contract (000s)	\$1,561	\$10,984	(86)%	\$5,989	\$10,984	(45)%
Per boe	\$ 0.98	\$ 8.69	(89)%	\$ 0.98	\$ 2.12	(54)%

Effective October 9, 2002, the Fund internalized its management by acquiring all of the shares of Shiningbank Energy Management Inc., the former manager of the Fund. Prior to the acquisition, the Fund paid fees of 3.25% of net operating income, a fee of 1.5% on the purchase price of acquisitions and a quarterly scheduled dividend in accordance with the terms of a management agreement. The acquisition resulted in the elimination of all future fees and dividends.

Of the total purchase price of \$20.6 million, \$11.0 million was deferred, representing Exchangeable Shares subject to escrow provisions, and is being amortized into income over specific vesting periods through 2007. During 2003, \$5.4 million (2002 – \$1.0 million) was expensed, representing the amortization of these escrowed Exchangeable Shares.

Total consideration for the internalization was reduced by \$1.8 million at the time of the transaction to provide for performance and retention bonuses to be paid to employees over the ensuing five years. During 2003, \$582,750 of this bonus pool was paid out in cash and included in internalization expense. This compares with \$400,000 in 2002. The pool has \$817,250 remaining.

TRUST UNIT INCENTIVE COMPENSATION

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Trust Unit incentive compensation (000s)	\$ 572	-	-	\$ 572	-	-
Per boe	\$0.36	-	-	\$0.09	-	-

During the fourth quarter 2003, the Fund elected to prospectively adopt the amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, “Stock-based compensation and other stock-based payments” for all rights issued on or after January 1, 2003. The fair value of rights issued was determined using the Black-Scholes model, and will be brought into income over the vesting period of the rights. The 2003 expense represents the fair value of the rights vesting within the year. (See “Financial Reporting.”)

TAXES

	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Capital and large corporation taxes (000s)	\$ 139	\$ 236	(41)%	\$ 595	\$ 665	(11)%
Future income tax expense (recovery) (000s)	\$ 807	(\$2,660)	130%	(\$12,443)	(\$14,160)	12%
Per boe	\$0.59	(\$1.92)	131%	(\$1.94)	(\$2.60)	25%

The Fund is obligated to pay provincial capital taxes and federal large corporations tax in its operating corporations. However, activities are managed so current income taxes are not payable in those entities.

On June 9, 2003 the federal government announced a five-year package of tax changes intended to lower tax on resource income for oil and gas producers. This package included decreased corporate income tax rates for resource activities, a full deduction for actual Crown royalties paid and the elimination of the existing 25% resource allowance. As a result, Shiningbank recorded a recovery of \$8.0 million of future taxes in second quarter 2003.

NET EARNINGS

Shiningbank's fourth quarter 2003 earnings were \$5.0 million or \$0.11 per Trust Unit (\$0.11 diluted). In fourth quarter 2002, the Fund recorded a loss of \$2.1 million or \$0.06 per Trust Unit (\$0.06 diluted).

For the year ended December 31, 2003, Shiningbank's net earnings were \$64.4 million or \$1.55 per Trust Unit (\$1.52 diluted). This compares with \$13.0 million or \$0.40 per Trust Unit (\$0.39 diluted – restated) in 2002. Higher commodity prices, higher production volumes and the \$8.0 million future tax recovery were partially offset by increased expenses.

DISTRIBUTABLE INCOME

Distributable income for 2003 increased to \$122.3 million from \$69.6 million in 2002 due to higher commodity prices and production volumes. On a per Trust Unit basis, distributions increased 32% to \$2.85 in 2003 from \$2.16 in 2002. The Fund paid out 90% of its cash flow in both 2003 and 2002, after removing the cash internalization costs.

Calculation of Distributable Income

(000s, except per Trust Unit amounts)	Three months ended December 31,			Year ended December 31,		
	2003	2002	%	2003	2002	%
Cash flow before change in non - cash working capital	\$30,082	\$17,661	70 %	\$136,038	\$68,243	99 %
Capital expenditures	(6,865)	(5,027)	37 %	(22,931)	(11,867)	93 %
Site restoration costs	(57)	(28)	104 %	(218)	(385)	(43)%
Internalization of management contract	582	4,509	(87)%	608	4,509	(87)%
Working capital adjustments	6,887	2,801	146%	8,790	9,107	(3)%
Distributable income	\$30,629	\$19,916	54%	\$122,287	\$69,607	76%
Distributions per Trust Unit	\$ 0.69	\$ 0.60	15 %	\$ 2.85	\$ 2.16	32 %
Trust Units outstanding	44,343	33,194		44,343	33,194	

2004 Distributable Income Sensitivities

The sensitivity of distributions to commodity price variables is shown in the table below.

	(\$000s)	Per Trust Unit
US \$1 per bbl	\$1,300	\$0.03
Cdn \$0.25 per mcf	\$4,000	\$0.10
US \$0.01 exchange	\$2,600	\$0.05
100 bbl/d	\$ 750	\$0.01
1 mmcf/d	\$1,300	\$0.03
1% prime rate	\$1,300	\$0.03

Note: These sensitivities take into account the issue of 8,800,000 new Trust Units in March 2004 and production volumes acquired in March 2004.

INCOME TAX INFORMATION

In 2003, 69.84% of cash distributions paid by the Fund were required to be included in the income of unitholders. The remaining 30.16% reduced each unitholder's adjusted cost base for income tax purposes. A summary of cash distributions paid in 2003 and the implications for Canadian taxpayers is shown below.

Record Date	Payment Date	Distribution* (\$ per unit)	Taxable Income (\$ per unit)	ACB Reduction (\$ per unit)
Dec. 31, 2002	Jan. 15, 2003	\$0.60	\$0.4190	\$0.1810
February 28, 2003	March 15, 2003	\$0.22	\$0.1536	\$0.0664
March 31, 2003	April 15, 2003	\$0.28	\$0.1956	\$0.0844
April 30, 2003	May 15, 2003	\$0.28	\$0.1956	\$0.0844
May 31, 2003	June 15, 2003	\$0.23	\$0.1606	\$0.0694
June 30, 2003	July 15, 2003	\$0.23	\$0.1606	\$0.0694
July 31, 2003	August 15, 2003	\$0.23	\$0.1606	\$0.0694
August 31, 2003	September 15, 2003	\$0.23	\$0.1606	\$0.0694
September 30, 2003	October 15, 2003	\$0.23	\$0.1606	\$0.0694
October 31, 2003	November 15, 2003	\$0.23	\$0.1606	\$0.0694
November 30, 2003	December 15, 2003	\$0.23	\$0.1606	\$0.0694
Total		\$2.99	\$2.0880	\$0.9020

*Note: Distributions for income tax purposes are based on cash received during 2003 rather than accrual based income reported elsewhere in this report.

For US unitholders, 50.87% of distributions were taxable in 2003. Unitholders in both Canada and the US should consult tax advisors as to the proper treatment of Shiningbank distributions for income tax purposes.

ANNUAL FINANCIAL INFORMATION

	2003	2002	2001
Oil and natural gas sales	\$242,157	\$142,661	\$170,714
Net earnings	64,435	13,032	50,651
Per Trust Unit – basic	1.55	0.40	2.08
Per Trust Unit – diluted	1.52	0.39	2.08
Total assets	601,618	494,303	503,065
Total long term debt	121,691	115,283	122,459
Distributions	122,287	69,607	81,979
Per Trust Unit	2.85	2.16	3.40
Dividends to former Manager	-	517	819

Shiningbank's growth is driven by acquisitions. The main drivers behind year over year increases in assets, revenue and earnings were the corporate acquisition of Ionic in 2001, a smaller property acquisition at Minehead in 2002, and the 2003 acquisition of the Ferrier/O'Chiese properties.

Shiningbank is primarily a natural gas producer – 74% of production. Weaker natural gas prices in 2002 offset the effect of additional volumes acquired, resulting in lower revenue and earnings. Gas prices rebounded in 2003 and are expected to remain strong in 2004.

QUARTERLY FINANCIAL INFORMATION

(000s except for Trust Unit amounts)

	March 31	June 30	Sept 30	Dec 31
2003				
Oil and natural gas sales	\$ 59,074	\$ 64,212	\$ 61,690	\$ 57,181
Net earnings	19,783	23,850	15,796	5,006
Per Trust Unit - basic	0.55	0.57	0.36	0.11
Per Trust Unit - diluted	0.55	0.56	0.35	0.11
Distributions	30,886	30,330	30,442	30,629
Per Trust Unit	0.78	0.69	0.69	0.69
2002				
Oil and natural gas sales	\$ 29,823	\$ 36,804	\$ 33,918	\$ 42,116
Net earnings (loss)	2,982	7,061	5,061	(2,072)
Per Trust Unit - basic	0.10	0.22	0.15	(0.06)
Per Trust Unit - diluted	0.10	0.22	0.15	(0.06)
Distributions	14,559	17,897	17,234	19,917
Per Trust Unit	0.50	0.54	0.52	0.60

As with Shiningbank’s annual results, quarterly fluctuations are primarily the result of changes in realized gas prices, which can be extremely volatile. Gas prices in 2003 peaked in the first quarter and then declined for most of the year. This effect offset production increases from the Ferrier/O’Chiese acquisition in the second quarter, reducing the quarter over quarter increases that might have been expected based on production volume growth. This is evident in revenue, earnings and distributions. Per unit earnings and long term debt were also affected by equity issues in the first and second quarters.

Gas prices in 2002 were relatively soft throughout the year as a result of a warm winter in 2001/2002. Prices did not firm up until late in 2002. Earnings in fourth quarter 2002 were affected by the costs of internalizing the management contract. Distributions were unaffected by this largely non-cash transaction and rose due to strengthening commodity prices in that quarter.

COSTS OF ACQUISITION AND DEVELOPMENT

During the year, Shiningbank spent a total of \$156.8 million on new properties in 10 transactions. The most significant acquisition was the first quarter purchase of properties at Ferrier/O’Chiese for \$133.7 million, after closing adjustments. Acquisitions during 2003 increased daily production by an average 3,309 boe/d. With the cumulative impact of 2003 acquisitions, daily production in the fourth quarter was up an average 4,469 boe/d.

The Fund disposed of non-core properties for \$5.8 million during the year, representing an estimated average of 117 boe/d of production for the year.

A total of \$22.9 million was spent on drilling and new facilities during 2003, compared with only \$11.9 million in the prior year. The substantial increase was due to funding of

a low risk, successful development drilling program at Ferrier/O'Chiese. Of the year's total, \$6.9 million was spent in the fourth quarter compared with \$5.0 million in fourth quarter 2002.

NET ASSET VALUE

Forecast Prices (000s)	Discount factor	
	10%	12%
Present value of reserves		
Proved	\$448,019	\$420,834
Probable	98,130	85,303
Undeveloped lands	18,100	18,100
Working capital (deficit)	(16,938)	(16,938)
Total assets	547,311	507,299
Long term debt	(121,691)	(121,691)
Net asset value	\$425,620	\$385,608
Trust Units outstanding (000s)	44,343	44,343
Net asset value per Trust Unit		
At December 31, 2003	\$ 9.60	\$ 8.70

Note: The present value of reserves is calculated based on price forecasts prepared by Paddock Lindstrom & Associates Ltd. in its December 31, 2003 evaluation.

LIQUIDITY AND CAPITAL RESOURCES

LONG TERM DEBT

The Corporation has a \$195 million revolving credit facility with a syndicate of four Canadian chartered banks of which \$121.7 million was drawn at December 31, 2003. The revolving period extends to April 28, 2004, at which time the facility reverts to a three-year term with principal repayments, if necessary, commencing July 28, 2004. The facility is secured by a \$300 million floating charge debenture on all assets of the Corporation. Borrowings under the facility bear interest at an annual rate ranging from the banks' prime rate to the banks' prime rate plus 0.95%, depending on the Corporation's total debt to cash flow ratio, or, at Shiningbank's option, the bankers' acceptance rate plus a stamping fee.

The Fund's governing documents restrict debt levels to 40% of the value of its properties, and debt service costs are not to exceed 30% of the projected annual cash flow. Neither of these limits was being approached at December 31, 2003.

UNITHOLDERS' EQUITY

On February 11, 2003, the Fund issued 3,841,000 new Trust Units at \$15.00 each for gross proceeds of \$57.6 million. On April 29, 2003 the Fund issued a further 6,497,500 new Trust Units at \$15.00 each for gross proceeds of \$97.5 million. In addition, a total of 810,978 units were issued during the year through the exercise of Exchangeable Shares,

under the Fund's Distribution Reinvestment Program, and the Trust Unit Rights Incentive Plan.

The Fund had 44,343,415 Trust Units outstanding at December 31, 2003.

As at December 31, 2003, 126,290 non-escrowed Exchangeable Shares and 555,678 escrowed Exchangeable Shares were outstanding. Exchangeable Shares held in escrow will be released over the next four years under the terms of two escrow agreements. Exchangeable shares are not eligible for distributions until they are exchanged for Trust Units at the discretion of the holder. The exchange rate was initially one Trust Unit for each Exchangeable Share. The exchange rate increases with each distribution by an amount equal to the per unit distribution divided by the 10-day weighted average trading price of the Trust Units preceding the record date for that distribution. As of December 31, 2003, the exchange rate was 1 to 1.18417.

On March 8, 2004, the Fund closed the issue of 8,800,000 Trust Units at a price of \$17.00 each for gross proceeds of \$149.6 million.

FUTURE GROWTH

Shiningbank's growth is based on its ability to raise debt and equity capital in Canadian financial markets. The Fund examines acquisition opportunities and selects those it believes to be accretive for such parameters as cash flows, distributions, net asset value, production and reserves.

Acquisitions are typically made using the Fund's credit facilities. Periodically, new Trust Units are issued, and the proceeds are used to pay down debt accumulated from previous acquisitions.

If the Canadian equity or debt markets were unable to satisfy Shiningbank's funding needs, it would impair the Fund's ability to continue to replace production and maintain distributions. The Fund has lines of credit held by four Canadian chartered banks, which provide sufficient debt capital to satisfy the Fund's ability to complete all but the largest acquisitions. However, the Fund's governing documents restrict debt levels to 40% of the value of its properties, and debt service costs are not to exceed 30% of the projected annual cash flow.

FINANCIAL REPORTING

During 2003, there were numerous changes to financial reporting and regulatory requirements. The most important changes for Shiningbank are described below. Some of these standards were adopted in 2003 and others will be adopted in 2004.

Stock-based Compensation

In September 2003, the CICA amended section 3870 of its handbook - "Stock-based compensation and other stock-based payments." Effective January 1, 2004, companies

are required to use the fair value to measure all stock-based payments and recognize compensation expense in their financial statements. The Fund elected to adopt these amendments in fourth quarter 2003 for all rights issued on or after January 1, 2003.

Previously the Fund followed common practice in the sector and used the excess of the unit price over the exercise price at the date of the financial statement as a surrogate for fair value. If the Fund were to continue to use this method under the amended standard, the Fund could experience large fluctuations, even recoveries, in compensation expense over the next 10 years. Because of the highly volatile nature of distributions and unit trading prices, management believes amounts expensed and/or recovered under this calculation do not properly represent the benefit conveyed to rights holders during the vesting period, and could be confusing when reading the financial statements.

Management considered numerous methods of determining the fair value of rights granted and has chosen to use the Black-Scholes option-pricing model to determine fair value. The calculation of fair value requires management to make numerous assumptions, as outlined in note 6 to the financial statements. Readers are cautioned that the assumptions made are estimates of future events and actual results could differ materially from those estimated.

Full Cost Accounting Guideline

In December 2003, the Fund adopted CICA Accounting Guideline 16, “Oil and gas accounting – full cost.” Under the new guideline, cash flows used in the ceiling test calculation are estimated using expected future product prices and costs. Future prices were obtained from third parties, adjusted for commodity differentials specific to the Fund, and then escalated based on factors in the Fund’s year-end independent reserves evaluation. At December 31, 2003, there was no impact under this calculation. There were no changes to net income, fixed assets or any other reported amounts as a result of adopting this guideline.

Hedging Relationships

Effective for the Fund’s 2004 fiscal year, the new CICA Accounting Guideline 13, “Hedging relationships” requires that hedging relationships be identified, designated, documented and measured in order for the Fund to apply hedge accounting. The Fund was in compliance with this new standard at December 31, 2003, and all hedges will continue to be accounted for using hedge accounting.

Asset Retirement Obligations

In March 2003, the CICA issued handbook section 3110, “Asset retirement obligations.” This requires the recognition and measurement of liabilities related to legal obligations to retire property, plant and equipment upon acquisition of the liability. The initial liability must be measured at fair value and subsequently adjusted for the accretion of discount and changes in the fair value. The asset retirement cost is capitalized and depleted into earnings over time. This section will be in effect for Shiningbank in 2004. The adoption of this standard at December 31, 2003 would have increased the asset retirement liability

by approximately \$15 million, and added an undepleted asset retirement cost of approximately \$13 million to fixed assets.

Consolidated Balance Sheets

December 31 (\$ thousands)

	2003	2002
ASSETS		
Current assets		
Accounts receivable	\$ 31,587	\$ 23,637
Prepaid expenses	2,630	2,878
	34,217	26,515
Fixed assets (note 4)		
Petroleum and natural gas properties and equipment	805,633	631,204
Accumulated depreciation and depletion	(240,482)	(165,668)
	565,151	465,536
Other assets	2,250	2,252
	\$ 601,618	\$ 494,303
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 30,727	\$ 20,985
Trust Unit distribution payable	20,428	19,916
	51,155	40,901
Long term debt (note 5)	121,691	115,283
Future income taxes (note 7)	51,336	63,340
Provision for future site restoration	11,195	8,347
Unitholders' equity		
Trust Units (note 6)	550,267	391,970
Exchangeable Shares (note 6)	5,267	6,475
Contributed surplus (note 6)	572	-
Accumulated earnings	171,737	107,302
Accumulated Trust Unit distributions	(361,602)	(239,315)
	366,241	266,432
	\$ 601,618	\$ 494,303

See accompanying notes to the consolidated financial statements

Consolidated Statements of Earnings and Unitholders' Equity

For the years ended December 31 (\$ thousands, except per Trust Unit amounts)

	2003	2002
Revenues		
Oil and natural gas sales	\$ 242,157	\$ 142,661
Royalties	(53,628)	(26,470)
	188,529	116,191
Expenses		
Operating	40,536	31,583
General and administrative	4,649	4,143
Management fees	-	1,939
Interest on long term debt	6,103	5,109
Depreciation, depletion and amortization	75,027	60,034
Provision for future site restoration	3,066	2,862
Capital and large corporation taxes (note 7)	595	665
Trust unit incentive compensation (note 6)	572	-
Internalization of management contract (note 10)	5,989	10,984
	136,537	117,319
Earnings (loss) before income taxes	51,992	(1,128)
Future income tax recovery (note 7)	(12,443)	(14,160)
Net earnings	\$ 64,435	\$ 13,032
Unitholders' equity, beginning of year	266,432	262,325
Issue of Trust Units	158,297	54,724
Exchangeable Shares, net (note 6)	(1,208)	6,475
Contributed surplus (note 6)	572	-
Trust Unit distributions	(122,287)	(69,607)
Dividends to Manager	-	(517)
Unitholders' equity, end of year	\$ 366,241	\$ 266,432
Net earnings per Trust Unit (note 6)		
Basic	\$ 1.55	\$ 0.40
Diluted	\$ 1.52	\$ 0.39

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31 (\$ thousands)

	2003	2002
Operating activities		
Net earnings	\$ 64,435	\$ 13,032
Items not requiring cash		
Depreciation, depletion and amortization	75,027	60,034
Internalization of management contract	5,381	6,475
Provision for future site restoration	3,066	2,862
Trust unit incentive compensation	572	-
Future income tax recovery	(12,443)	(14,160)
Cash flow before change in non-cash working capital	136,038	68,243
Site restoration costs	(218)	(385)
Changes in non-cash working capital	1,514	478
	137,334	68,336
Financing activities		
Increase (decrease) in long term debt	6,408	(7,176)
Distributions to unitholders	(122,287)	(69,607)
Issue of Trust Units	151,708	54,724
Dividends paid	-	(517)
	35,829	(22,576)
Changes in non-cash working capital	512	5,357
	36,341	(17,219)
Total cash provided	\$ 173,675	\$ 51,117
Investing activities		
Property acquisitions	\$ (156,829)	\$ (49,595)
Deposits on future property acquisitions	-	(1,682)
Capital expenditures	(22,931)	(11,867)
Long term investments	(211)	(655)
Proceeds on sale of fixed assets	5,770	11,470
	(174,201)	(52,329)
Changes in non-cash working capital	526	1,212
Total cash used	\$ (173,675)	\$ (51,117)
Cash taxes paid	\$ 625	\$ 748
Cash interest paid	\$ 6,077	\$ 5,103

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 2003 and 2002
(\$ thousands, except Trust Units and per Trust Unit amounts)

1. ORGANIZATION

Shiningbank Energy Income Fund (the "Fund") is an unincorporated open-end investment trust formed under the laws of the Province of Alberta pursuant to a trust indenture dated May 16, 1996 and subsequently amended. Operations commenced on July 1, 1996. The beneficiaries of the Fund are the holders (the "Unitholders") of trust units (the "Trust Units").

Effective October 9, 2002, the Fund effected an internalization of its management by acquiring, through its wholly-owned subsidiary Shiningbank Holdings Corporation ("SHC"), all of the shares of Shiningbank Energy Management Inc., (the "Former Manager"). Subsequently the Former Manager and Shiningbank Energy Ltd. (the "Corporation") were amalgamated, continuing as Shiningbank Energy Ltd. (see note 10).

The trust indenture provides that 300,000,000 Trust Units may be issued. Each Trust Unit represents an equal fractional beneficial interest in any distributions from the Fund and in the net assets of the Fund on termination or winding up of the Fund. All Trust Units rank among themselves equally and rateably without discrimination, preference or priority. The trust indenture provides that Trust Units are redeemable at any time on demand by the Unitholders at amounts as determined by a market price formula. The total amount payable by the Fund in respect of all Trust Units tendered for redemption, however, may not exceed \$100,000 in any calendar month.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management using Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

In particular, the amounts recorded for depletion, depreciation and amortization of the petroleum and natural gas properties, deferred charges, and for site reclamation and abandonment are based on estimates of reserves and future costs. By their nature, these estimates, and those related to future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Fund, SHC and the Corporation.

(b) Fixed assets

The Fund follows the full cost method of accounting for petroleum and natural gas properties under which all acquisition and development costs are capitalized. Such costs include land acquisition, geological, geophysical and drilling costs for productive and non-productive wells and directly related overhead charges. Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs. Gains or losses upon disposition of such properties are not recognized unless the disposition would alter the depletion and depreciation rate by 20% or more.

The costs of fixed assets, plus a provision for future development costs of proved undeveloped reserves, are depleted and depreciated using the unit-of-production method based on estimated total proved reserves volumes, before royalties, as determined by independent engineers. Proved reserves are converted to a common unit of measure on the basis of their approximate relative energy content. Other miscellaneous assets are depreciated on a declining balance basis at 20% per annum.

Oil and gas assets are evaluated annually to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is in excess, and is therefore assessed as not recoverable, an impairment loss would be recognized to the extent that the carrying value of assets exceeds the sum of the discounted cash flows from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate (see note 4).

(c) Future site restoration costs

Estimated future site restoration and abandonment costs are provided for using the unit-of-production method based on estimated total proved reserves volumes. Costs are estimated by the Fund based on current regulations, costs, technology and industry standards. Actual site restoration and abandonment costs are charged against the liability as incurred.

(d) Income taxes

The Fund is a taxable trust under the Income Tax Act (Canada). Any taxable income is allocated to the Unitholders and therefore no provision for income taxes relating to the Fund is included in these financial statements.

The Corporation and SHC follow the tax liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

The Corporation and SHC are taxable Canadian corporations and are liable for tax on income that they retain. The Corporation is also subject to capital taxes in jurisdictions where such taxes apply and these taxes are deducted from distributions to Unitholders.

(e) Financial instruments

Financial instruments of the Corporation consist mainly of accounts receivable, accounts payable and accrued liabilities, and long term debt. The carrying value of these items approximates their fair value at December 31, 2003. The Corporation from time to time employs financial instruments to manage exposures related to interest rates, Canada/US exchange rates and commodity prices. These instruments are not used for speculative trading purposes.

(f) Trust Unit incentive compensation plan

The Fund has a Trust Unit Rights Incentive Plan that is described in note 6. When Trust Unit rights are issued, Trust Unit incentive compensation is deferred and recognized into income over the vesting period of the rights, with a corresponding increase to contributed surplus. Consideration paid by employees and directors of the Corporation on the exercise of Trust Unit rights under the Fund's Trust Unit Rights Incentive Plan is recorded in Trust Units upon receipt, along with the amount of non-cash Trust Unit incentive compensation expense recognized in contributed surplus.

(g) Joint ventures

Substantially all of the Fund's petroleum and natural gas activities are conducted jointly with others and, accordingly, these financial statements reflect only the Fund's proportionate interest in such activities.

(h) Per Trust Unit amounts

Basic earnings per Trust Unit is computed by dividing net earnings by the weighted average number of Trust Units outstanding for the year. Diluted net earnings per Trust Unit amounts reflect the potential dilution that could occur if securities or other contracts to issue Trust Units were exercised or converted to Trust Units.

(i) Revenue recognition

Revenue from the sale of oil and natural gas is recognized when the product is delivered.

(j) Comparative figures

Comparative figures have been reclassified to conform to current year presentation.

3. CHANGE IN ACCOUNTING POLICIES

(a) Full Cost Accounting Guideline

In December 2003, the Fund adopted AcG-16 "Oil and Gas Accounting – Full Cost", the new guideline issued by the Canadian Institute of Chartered Accountants ("CICA"). Under the new guideline, cash flows used in the ceiling test calculation are estimated using expected future product prices and costs. Prior to adopting this new standard, constant dollar pricing was used to test impairment. There were no changes to net income, fixed assets or any other reported amounts in the financial statements as a result of adopting this guideline.

(b) Trust Unit incentive compensation plan

Effective January 1, 2003, the Fund elected to prospectively adopt the amendments to the CICA Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments.” Under the amended standard, Trust Unit incentive compensation expense must be recognized based on the fair value of rights granted. Shiningbank used a Black-Scholes option-pricing model to determine the fair value at the date of grant.

4. FIXED ASSETS

(a) Fixed asset additions

During 2003, the Fund acquired additional petroleum and natural gas properties in the amount of \$156,829,000 (2002 - \$49,595,000) that have been accounted for as purchases.

(b) Ceiling test

The Fund performed a ceiling test calculation at December 31, 2003 to assess the recoverable value of fixed assets. Future prices were obtained from third parties, adjusted for commodity differentials specific to the Fund, and then escalated based on factors in the Fund’s year-end independent reserves evaluation. The following table summarized the benchmark prices used in the ceiling test calculation. Based on these assumptions, the undiscounted value of future net revenues from proved reserves exceeded the carrying value of the Fund’s fixed assets at December 31, 2003.

Year	Oil		Gas	
	WTI	Edmonton Light	AECO	Alberta Reference
	US\$/bbl	C\$/bbl	C\$/Mmbtu	C\$/Mmbtu
2004	\$ 29.00	\$ 37.61	\$ 6.00	\$ 5.70
2005	26.50	34.25	5.31	5.07
2006	25.50	32.90	4.83	4.64
2007	25.00	32.21	4.87	4.68
2008	25.50	32.85	4.92	4.73
2009 – 2012	+ 2%/annum	+ 2%/annum	+ 1%/annum	+ 1%/annum
Thereafter	+ 2%/annum	+ 2%/annum	+ 2%/annum	+ 2%/annum

5. LONG TERM DEBT

The Corporation has a \$195 million revolving credit facility with a syndicate of four Canadian chartered banks of which \$121.7 million was drawn at December 31, 2003 (2002 - \$115.3 million). The revolving period extends to April 28, 2004, at which time the facility reverts to a three year term with principal repayments, if necessary, commencing July 28, 2004. The facility is secured by a \$300 million floating charge debenture on all assets of the Corporation. Borrowings under the facility bear interest at an annual rate ranging from the banks’ prime rate to the banks’ prime rate plus 0.95%, depending on the Corporation’s total debt to cash flow ratio, or, at Shiningbank’s option, the bankers’ acceptance rate plus a stamping fee.

6. TRUST UNITS

(a) Authorized

300,000,000 Trust Units

(b) Issued

	2003		2002	
	Number	Amount	Number	Amount
Balance, beginning of year	33,193,937	\$ 391,970	29,117,937	\$ 337,246
Issued for cash	10,652,661	159,925	4,076,000	57,844
Commissions and issue costs	-	(8,216)	-	(3,120)
Issued on conversion of Exchangeable Shares	496,817	6,588	-	-
Balance, end of year	44,343,415	\$ 550,267	33,193,937	\$ 391,970

(c) Exchangeable Shares

On October 9, 2002, SHC issued 1,136,614 Exchangeable Shares in connection with the management internalization transaction. The Exchangeable Shares are exchangeable, at the option of the holder, into Trust Units for no additional consideration. As at December 31, 2003, 555,678 (2002 - 757,742) Exchangeable Shares were held in escrow to be released over periods of up to four years under the terms of two escrow agreements. The number of Trust Units issuable upon conversion is based upon the exchange ratio in effect at the conversion date. The exchange ratio is adjusted by the distributions paid to unitholders divided by the 10 day weighted average unit price preceding the record date. The Exchangeable Shares are not eligible for distributions.

	2003		2002	
	Number	Amount	Number	Amount
Balance, beginning of year	378,872	\$ 6,475	-	\$ -
Non-escrowed issued to Former Manager shareholders	-	-	378,872	6,475
Released from escrow	202,064		-	
Conversion of Exchangeable Shares	(454,646)	(6,589)	-	-
Amortization of deferred portion		5,381		
Balance, end of year	126,290	\$ 5,267	378,872	\$ 6,475
Exchangeable ratio, end of year	1.18417		1.00000	
Trust Units issuable upon conversion of non-escrowed shares	149,549		378,872	
Trust Units issuable upon conversion of escrowed shares	658,016		757,742	
Total Trust Units issuable upon conversion	807,565		1,136,614	

(d) Trust Unit Rights Incentive Plan

Under Shiningbank's Trust Unit Rights Incentive Plan the initial exercise price of rights granted may not be less than the current market price of the Trust Units as of the date of grant and the maximum term of each right is not to exceed 10 years. The exercise price of the rights is to be adjusted downwards from time to time by the amount, if any, that distributions to unitholders in any calendar quarter exceed 2.5% percent (10% annually) of the Fund's consolidated net book value of fixed assets. A total of 2,710,483 Trust Units have been reserved for issuance under the

plan. At December 31, 2003, there were 1,460,067 (2002 - 1,059,000) rights outstanding, of which 583,401 (2002 – 452,333) were exercisable at a weighted average exercise price of \$14.20 (2002 - \$15.27).

Rights	2003		2002	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	1,059,000	\$ 15.00	625,000	\$ 16.92
Granted	525,000	15.24	485,000	13.97
Exercised	(123,933)	13.44	(51,000)	13.51
Balance before reduction of exercise price	1,460,067	\$ 15.22	1,059,000	\$ 15.71
Reduction of exercise price		(1.29)		(0.71)
Balance, end of period	1,460,067	\$ 13.93	1,059,000	\$ 15.00

Shiningbank recorded Trust Unit incentive compensation expense and contributed surplus of \$572,000 on rights granted and vesting during 2003. The amount of compensation expense was reduced for rights granted during the year but cancelled prior to vesting.

The fair value of rights issued during the year was estimated using a Black-Scholes option-pricing model with the following assumptions: risk-free interest rates ranging from 4.15 to 4.76%, volatility of 60%, life of 10 years, and a dividend yield rate of 10% representing the difference between the anticipated distribution and the anticipated drop in the strike price. Users are cautioned that the assumptions made are estimates of future events and actual results could differ materially from those estimated.

For rights issued in 2002, Shiningbank has elected to disclose the pro forma effect as if the amended accounting standard had been adopted January 1, 2002. For the years ended December 31, 2003 and 2002, Shiningbank’s net income would have decreased by \$508,000 (\$0.01 per basic and diluted Trust Unit in 2003. \$0.02 per basic and \$0.03 diluted Trust Unit in 2002) due to additional Trust Unit incentive compensation expense related to rights granted on January 1, 2002.

(e) Distribution Reinvestment Program

The Distribution Reinvestment Program (“DRIP”) entitles eligible Unitholders to purchase additional Trust Units by re-investing their cash distributions or by making additional optional cash payments of up to a maximum of \$3,000 per quarter for the purchase of additional Trust Units. Trust units are acquired on the open market at the prevailing market price or issued from treasury at the average market price over the last 10 days of trading. During 2003, 179,488 Trust Units were issued from treasury (2002 – nil) under the DRIP for proceeds of \$3.0 million.

(f) Per Trust Unit amounts

For the year ended December 31, 2003, the weighted average number of Trust Units and non-escrowed Exchangeable Shares outstanding was 41,594,854 (2002 - 31,677,071). In computing diluted net earnings per Trust Unit, the dilutive effect of unit rights and escrowed Exchangeable Shares, added 772,760 Trust Units (2002 – 305,555) to the weighted average number of Trust Units outstanding.

For the year ended December 31, 2002, diluted net earnings per Trust Unit was calculated using the if-converted method for the effect of the escrowed Exchangeable Shares. Net earnings available to current and potential unitholders were decreased by the deferred portion of the internalization of the management contract for purposes of the calculation. During the year, the Fund determined that it would be more appropriate to use the treasury stock method to calculate the effect of the escrowed Exchangeable Shares. Under the treasury stock method, the deferred portion of the internalization of the management contract is treated as funds from conversion and considered to have been used to repurchase units as the weighted average market price. For the year ended December 31, 2002, the diluted net earnings per Trust Unit would have been \$0.39, as compared to the \$0.08 previously reported.

7. INCOME TAXES

The provision for income taxes in the financial statements differs from the result that would have been obtained by applying the combined federal and provincial tax rate to the Corporation's and SHC's earnings before income taxes. This difference results from the following items:

	2003	2002
Taxable loss of the Corporation and SHC	\$(17,400)	\$(43,700)
Combined federal and provincial tax rate	40.60%	42.12%
Computed income tax recovery	(7,100)	(18,400)
Increase (decrease) in income taxes resulting from:		
Non-deductible Crown charges	1,800	100
Resource allowance	(1,900)	(300)
Change in tax rate	(7,700)	(860)
Other	57	700
Internalization of management contract	2,400	4,600
Future income tax recovery	(12,443)	(14,160)
Capital and large corporation taxes	595	665
Income and capital taxes	\$ (11,848)	\$ (13,495)

The components of the Corporation's and SHC's future income tax liability at December 31, are as follows:

	2003	2002
Future income taxes:		
Oil and natural gas properties	\$ 59,999	\$ 73,020
Provision for site restoration	(3,864)	(2,630)
Non-capital losses	(3,935)	(6,280)
Other	(864)	(770)
	\$ 51,336	\$ 63,340

8. RELATED PARTY TRANSACTIONS

Prior to the internalization transaction on October 9, 2002, the Former Manager provided services to the Fund and the Corporation pursuant to a management agreement. With the termination of this agreement, all such payments ceased. In 2002, the Fund, through the Corporation, paid the Former Manager \$7.1 million for management fees, recovery of general and administrative and financing expenses, including \$721,000 in respect of acquisition fees which were capitalized.

9. FINANCIAL INSTRUMENTS

As at December 31, 2003, there are no significant differences between the carrying amounts and the fair value of accounts receivable, accounts payable and accrued liabilities, and long-term debt. The Corporation is exposed to interest rate variance on the long term debt disclosed in the balance sheet. Gains and losses on exchange rate and commodity price hedges are included in revenues upon the sale of related production provided there is reasonable assurance that the hedge is and will continue to be effective.

At December 31, 2003, Shiningbank held certain oil and natural gas hedge contracts, the terms of which are listed in the following table. The estimated market value at December 31, 2003, had the contracts been settled at that time, would have been a loss of \$821,394.

Period	Commodity	Volume	Price
January 1, 2004 – December 31, 2004	Gas	11,000 GJ/d	\$6.11 /GJ
January 1, 2004 – March 31, 2004	Gas	5,000 GJ/d	\$6.00 /GJ floor \$8.55 /GJ ceiling
January 1, 2004 – September 30, 2004	Oil	500 bbl/d	US\$25.00/bbl floor US\$30.00/bbl ceiling
October 1, 2004 – December 31, 2004	Oil	500 bbl/d	US\$25.00/bbl floor US\$30.00/bbl ceiling

Subsequent to December 31, 2003, the Corporation entered into five additional hedging contracts.

Period	Commodity	Volume	Price
April 1, 2004 – October 31, 2004	Gas	5,000 GJ/d	\$5.25 /GJ floor \$6.67 /GJ ceiling
April 1, 2004 – October 31, 2004	Gas	5,000 GJ/d	\$5.45 /GJ floor \$6.32 /GJ ceiling
April 1, 2004 – March 31, 2005	Gas	5,000 GJ/d	\$5.91 /GJ
April 1, 2005 – December 31, 2005	Gas	5,000 GJ/d	\$5.00 /GJ floor \$6.39 /GJ ceiling
March 1, 2004 – December 31, 2004	Oil	500 bbl/d	US\$31.87/bbl

As at December 31, 2003, the Corporation held an interest rate swap for \$10.0 million at an interest rate of 3.48% expiring October 30, 2004. The estimated market value at December 31, 2003, had the contract been settled at that time, would have been a loss of \$85,800.

10. INTERNALIZATION OF MANAGEMENT CONTRACT

Effective October 9, 2002, the Fund acquired all of the outstanding shares of Shiningbank Energy Management Inc., the Former Manager of the Fund. Total consideration for the transaction consisted of a cash payment of \$2.91 million plus 1,136,614 Exchangeable Shares. Total consideration was reduced by \$1.8 million to provide for performance/retention bonuses to be

paid to employees over the next five years. During 2003, \$582,750 (2002 - \$400,000) of this bonus pool was paid out in cash.

Total consideration:

Cash	\$	2,910
Exchangeable Shares issued		16,490
Costs associated with the transaction		1,195
Total purchase price	\$	20,595

Prior to the acquisition, the Fund paid fees to the Former Manager of 3.25% of net operating income, a fees of 1.5% on the purchase price of acquisitions and a quarterly scheduled dividend in accordance with the terms of the management agreement. The acquisition resulted in the elimination of all fees and dividends under the management contract.

Exchangeable Shares in the amount of \$10.0 million were originally subject to escrow provisions and are being deferred and amortized into income as internalization of management contract expense over the specific vesting periods through 2007. For the year ending December 31, 2003, \$5,380,600 (2002 - \$978,200) has been recorded as expense representing the amortization of these escrowed Exchangeable Shares.

11. SUBSEQUENT EVENTS

(a) Acquisition of Birchill Resources Limited

Subsequent to December 31, 2003, the Fund entered into an agreement to acquire all of the outstanding shares of Birchill Resources Limited (“Birchill”), for \$175 million, subject to certain adjustments. The effective date of the acquisition is January 1, 2004 and the transaction closed on March 8, 2004.

Cash consideration	\$	169,660
Related fees and expenses		400
Cost of acquisition	\$	170,060
Working capital deficiency	\$	(10,069)
Working capital adjustment to acquisition date		4,729
Future income taxes		(59,000)
Future site restoration costs		(2,767)
Petroleum and natural gas properties and equipment		222,204
Goodwill		14,963
Total consideration	\$	170,060

(b) Equity offering

In conjunction with the Birchill acquisition, the Fund issued 8,800,000 subscription receipts at \$17.00 each for gross proceeds of \$149,600,000 effective March 8, 2004. On March 8, 2004, at the time of the close of the Birchill acquisition, the subscription receipts were converted to Trust Units on a 1 for 1 basis.

Shiningbank Energy Income Fund is a conventional oil and gas royalty trust and its units are listed on The Toronto Stock Exchange under the symbol “SHN.UN”.

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