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**NEWS RELEASE
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Shiningbank Energy Announces 2005 Financial Results

Shiningbank Energy Income Fund (the "Fund" or "Shiningbank"), today announced its financial results for the year ended December 31, 2005.

2005 HIGHLIGHTS

- Production volumes increased by 5% over 2004 to average 20,876 boe/d of which 74% was natural gas. Fourth quarter production averaged 23,288 boe/d, up 12% from fourth quarter 2004.
- Production increases were mainly due to the 2005 drilling development program and the acquisition of Blizzard Energy Inc. in fourth quarter 2005.
- Revenues increased by 36% in 2005 to \$419.7 million, as a result of higher commodity prices and production volumes.
- Net earnings before income taxes increased by 104% to \$107.5 million from \$52.6 million in 2004.
- Net earnings after income taxes decreased by 18% to \$114.2 million from \$138.8 million due to a \$74.8 million one-time recovery of future income taxes related to a corporate restructuring recorded in the fourth quarter of 2004. This had no effect on funds flow or distributions.
- Funds flow from operations increased 45% in 2005 to \$252.8 million, up from \$174.9 million in 2004.
- Fourth quarter distributions totaling \$61.4 million resulted in a payout ratio of 65% in the quarter and 72% for the year.
- Strong commodity prices in 2005, resulted in record operating netbacks of \$35.86 per boe for the year.
- The Fund's balance sheet ended the year in very healthy condition with a debt to annual funds flow ratio of 0.8 to 1.
- **Investors' pre-tax total return for 2005 amounted to 49%, comprised of a 14% cash-on-cash distribution yield and a 35% increase in unit price.**

Shiningbank Energy Income Fund - 2005 Financial and Operating Highlights

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
FINANCIAL (\$ thousands except per Trust Unit amounts)						
Oil and natural gas sales	\$ 144,539	\$ 82,453	75	\$ 419,663	\$ 307,514	36
Net earnings before income taxes	49,336	13,974	253	107,499	52,607	104
Future income tax recovery	(749)	(74,064)	(99)	(6,737)	(86,199)	(92)
Net earnings after income taxes	50,085	88,038	(43)	114,236	138,806	(18)
Funds flow from operations	94,181	47,220	99	252,764	174,878	45
Distributions to unitholders	61,391	37,390	64	182,266	146,360	25
Distributions per Trust Unit	0.90	0.69	30	2.97	2.76	8
Long term debt	199,129	182,147	9	199,129	182,147	9
Unitholders' equity	736,992	515,944	43	736,992	515,944	43
OPERATIONS						
Daily Production						
Oil (bbl/d)	2,421	2,502	(3)	2,346	2,381	(1)
Natural gas (mmcf/d)	106.4	90.4	18	93.2	86.6	8
Natural gas liquids (bbl/d)	3,133	3,259	(4)	3,003	3,125	(4)
Oil equivalent (boe/d)	23,288	20,833	12	20,876	19,933	5
Average Prices (including hedging)						
Oil (\$/bbl)	\$ 64.48	\$ 42.61	51	\$ 61.78	\$ 43.14	43
Natural gas (\$/mcf)	\$ 11.70	\$ 7.20	63	\$ 9.13	\$ 7.06	29
Natural gas liquids (\$/bbl)	\$ 54.83	\$ 43.70	25	\$ 50.42	\$ 40.24	25
Oil equivalent (\$/boe)	\$ 67.52	\$ 43.23	56	\$ 54.96	\$ 42.14	30
UNIT TRADING						
Units traded (thousands)	16,826	12,715	32	52,965	44,001	20
Value traded (\$ thousands)	\$ 450,590	\$ 277,894	62	\$ 1,273,646	\$ 865,687	47
Unit price						
High	\$ 30.99	\$ 23.98		\$ 30.99	\$ 23.98	
Low	\$ 22.00	\$ 20.01		\$ 19.60	\$ 16.51	
Close	\$ 29.15	\$ 21.49		\$ 29.15	\$ 21.49	
Units outstanding (thousands), end of year	68,186	54,141		68,186	54,141	

The following discussion and analysis of the operating and financial results of Shiningbank Energy Income Fund ("Shiningbank" or the "Fund") is for the three months and year ended December 31, 2005. This information is provided as of February 28, 2006. The fourth quarter and year-end results have been compared with the corresponding periods in 2004. Certain comparative figures have been restated to reflect the accounting changes described in note 3 to the consolidated financial statements. This discussion and analysis should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2005 and 2004, together with the accompanying notes. These financial statements and additional information about the Fund are available on SEDAR at www.sedar.com.

NON-GAAP MEASURES

Management believes that funds flow and operating netbacks are useful supplemental measures. All references to funds flow throughout this discussion and analysis are based on funds flow from operations, which management uses to analyze operating performance and leverage. Funds flow as presented is not intended to represent operating cash flow or operating profits, nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian generally accepted accounting principles ("GAAP"). The Fund considers funds flow a key measure of performance as it demonstrates the Fund's ability to generate the cash flow necessary to fund future distributions and capital investments and repay indebtedness. Operating netback, which is calculated as average unit sales price less royalties, transportation costs and operating costs, represents the cash margin for product sold, calculated on a boe basis. The Fund considers operating netback a key measure as it indicates the relative performance of crude oil and natural gas assets. Funds flow and operating netback as presented do not have any standardized meanings prescribed by Canadian GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

FORWARD-LOOKING STATEMENTS

This discussion and analysis contains forward-looking statements relating to future events. In some cases, forward-looking statements can be identified by such words as “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” or similar expressions. These statements represent management’s best projections, but undue reliance should not be placed upon them as they are derived from numerous assumptions. These assumptions are subject to known and unknown risks and uncertainties, including the business risks discussed in this discussion and analysis and in the Annual Information Form, which may cause actual performance and financial results to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

BARREL OF OIL EQUIVALENT

Barrel of oil equivalent (boe) volumes are reported at 6:1 with 6 mcf = 1 bbl. The 6:1 boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. While it is useful for comparative measures, it may not accurately reflect individual product values and may be misleading if used in isolation.

REPORTING CURRENCY

All figures are in Canadian dollars unless otherwise noted.

RESULTS OF OPERATIONS

PRODUCTION VOLUMES

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Oil (bbl/d)	2,421	2,502	(3)	2,346	2,381	(1)
Natural gas (mmcf/d)	106.4	90.4	18	93.2	86.6	8
Natural gas liquids (bbl/d)	3,133	3,259	(4)	3,003	3,125	(4)
Oil equivalent (boe/d)	23,288	20,833	12	20,876	19,933	5
Natural gas % of production	76%	72%	4	74%	72%	2

Daily production for the fourth quarter averaged 23,288 boe/d, up 12% from the same period last year. 2005 daily production averaged 20,876 boe/d, 5% higher than in 2004. Natural gas accounted for all of the volume increases, while oil and NGL production declined slightly in both periods due to natural declines and the Fund’s emphasis on natural gas.

The growth in natural gas volumes resulted from two corporate acquisitions: the Blizzard Energy Inc. (“Blizzard”) acquisition for \$269.3 million, including \$43.9 million in working capital deficiency, which closed August 2, 2005; and the \$31.9 million purchase of Outlook Energy Corp. (“Outlook”) which closed June 21, 2005. The combined purchases contributed 18% to fourth quarter 2005 production and 9% to 2005 production. These acquisitions were partially offset by the natural declines of producing properties, which are estimated to average 15% per year. Additional production volumes from drilling activities, originally anticipated to be on-stream in late 2005, did not materialize due to delays caused by weather and regulatory backlogs. Production for 2006 is anticipated to average 22,500 to 23,000 boe/d.

PRICING - INCLUDING HEDGING ACTIVITY

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Average Prices - Including Hedging						
Oil (\$/bbl)	\$ 64.48	\$ 42.61	51	\$ 61.78	\$ 43.14	43
Natural gas (\$/mcf)	\$ 11.70	\$ 7.20	63	\$ 9.13	\$ 7.06	29
Natural gas liquids (\$/bbl)	\$ 54.83	\$ 43.70	25	\$ 50.42	\$ 40.24	25
Oil equivalent (\$/boe)	\$ 67.52	\$ 43.23	56	\$ 54.96	\$ 42.14	30
Benchmark Prices						
WTI (US\$/bbl)	\$ 60.02	\$ 48.28	24	\$ 56.56	\$ 41.40	37
AECO natural gas (Cdn\$/mcf)	\$ 11.68	\$ 7.08	65	\$ 8.48	\$ 6.79	25

Natural Gas

Shiningbank's realized natural gas prices averaged \$11.70/mcf for the quarter, 63% higher than fourth quarter 2004. For the full year, the average price was up 29% at \$9.13/mcf. Hedging decreased the realized gas price by \$0.36/mcf for the quarter and \$0.15/mcf for the year. This compares with a 2004 hedging loss of \$0.11/mcf for the quarter and \$0.07/mcf for the year. Shiningbank has historically received a premium gas price to AECO benchmark monthly prices, but this was reduced in the fourth quarter due to a reduction in daily versus monthly index gas prices in November. This variation is not expected to continue into 2006 but could occur again in periods of rapidly weakening daily prices. Benchmark futures prices remain high with prices for the rest of 2006 averaging over \$7.00/mcf.

Oil and Natural Gas Liquids

Realized oil prices for the quarter averaged \$64.48/bbl, up 51% from fourth quarter 2004. Realized oil prices for the year were \$61.78/bbl, 43% higher than in 2004. Hedging reduced the realized price by \$1.13/bbl for the quarter and \$1.08/bbl for the year, compared with 2004 hedging losses of \$8.36/bbl for the quarter and \$5.46/bbl for the year.

The benchmark West Texas Intermediate ("WTI") price averaged 24% higher for the fourth quarter and 37% higher for the year than the comparable periods in 2004. Oil prices are expected to remain high in US dollar terms, with many analysts expecting WTI to average over US\$60.00/bbl in 2006. Benchmark futures prices for the rest of 2006 at the time of writing were over US\$65.00/bbl.

NGL prices were also strong reflecting high oil prices. The quarterly average NGL price was 25% higher than in fourth quarter 2004 at \$54.83/bbl, and 25% higher for the full year at an average \$50.42/bbl. Shiningbank's NGL prices typically average approximately 80% of Edmonton par oil prices. In fourth quarter 2005, the Fund's NGL prices averaged 84%, slightly higher than usual due to a strong market in November.

Hedging

Shiningbank maintains an active hedging program designed to reduce the variability of funds flow and stabilize distributions. Under the Fund's hedging policy, not more than one-half of production volumes of any commodity can be hedged at any one time. Gains and losses from hedging activities are typically recorded when they are realized and are included in oil and natural gas sales unless a particular hedge is considered ineffective. During 2005, the Fund hedged an average of 17% of total gas production (26% - 2004) and 30% of total oil production (39% - 2004). Currently, Shiningbank has the following hedging contracts in place:

Period	Commodity	Volume	Price
November 1, 2005 – March 31, 2006	Gas	5,000 GJ/d	\$7.50/GJ floor \$12.00/GJ ceiling
November 1, 2005 – March 31, 2006	Gas	5,000 GJ/d	\$10.00/GJ floor \$15.15/GJ ceiling
April 1, 2006 – October 31, 2006	Gas	5,000 GJ/d	\$7.50/GJ floor \$12.00/GJ ceiling
January 1, 2006 – June 30, 2006	Oil	500 bbl/d	US\$55.00/bbl floor US\$89.00/bbl ceiling
July 1, 2006 – December 31, 2006	Oil	500 bbl/d	US\$55.00/bbl floor US\$89.10/bbl ceiling

REVENUES

(000s)	Three months ended December 31,				Year ended December 31,			
	2005	% of Revenue	2004	% of Revenue	2005	% of Revenue	2004	% of Revenue
Oil	\$ 14,613	10	\$ 11,731	14	\$ 53,830	13	\$ 42,352	14
Natural gas	118,031	82	60,850	74	315,448	75	226,040	74
Natural gas liquids	15,803	11	13,102	15	55,260	13	46,019	15
Other income (loss)	(121)	-	(398)	-	916	-	91	-
Gas hedging	(3,536)	(3)	(909)	(1)	(4,860)	(1)	(2,229)	(1)
Oil hedging	(251)	-	(1,923)	(2)	(931)	-	(4,759)	(2)
	\$ 144,539	100	\$ 82,453	100	\$ 419,663	100	\$ 307,514	100

The accompanying table demonstrates the net effect of price and volume variances on revenues.

Sales Variance Analysis (Including Hedging Activity)

(000s)	Three months ended December 31,		Year ended December 31,	
	2005/2004		2005/2004	
Oil and natural gas liquids				
Volume decrease	\$ (825)		\$ (2,571)	
Price increase	8,080		27,118	
Net increase	\$ 7,255		\$ 24,547	
Natural gas				
Volume increase	\$ 10,585		\$ 16,396	
Price increase	43,969		70,381	
Net increase	\$ 54,554		\$ 86,777	

ROYALTIES

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Total royalties, net (000s)	\$ 29,154	\$ 19,159	52	\$ 88,078	\$ 63,930	38
As a % of revenue	20.2%	23.2%	(13)	21.0%	20.8%	1
Per boe	\$ 13.61	\$ 10.00	36	\$ 11.56	\$ 8.76	32

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The royalty rate was slightly higher in 2005 mainly due to a one-time credit received in the third quarter of 2004 relating to 2003 Crown royalties. Increasing production from the Sousa area, where the Fund has lower royalty rates, slightly reduced the overall rate in the fourth quarter and should reduce rates in 2006. The Fund expects royalty rates to average 21.5% for 2006.

TRANSPORTATION COSTS

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Transportation costs (000s)	\$ 1,662	\$ 1,186	40	\$ 5,304	\$ 5,550	(4)
Per boe	\$ 0.78	\$ 0.62	26	\$ 0.70	\$ 0.76	(8)

On a boe basis, fourth quarter transportation costs increased 26% from 2004 as a result of prior quarter adjustments flowing through fourth quarter 2005. The 8% year over year decrease resulted from lower pricing and the termination of certain unutilized transportation service commitments early in 2005. These terminations did not impact the Fund's ability to market its production. Transportation costs are expected to average \$0.80/boe in 2006.

OPERATING COSTS

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Operating costs (000s)	\$ 13,290	\$ 11,465	16	\$ 53,045	\$ 48,692	9
Per boe	\$ 6.20	\$ 5.98	4	\$ 6.96	\$ 6.67	4

Operating costs on a boe basis increased 4% from 2004 for both periods due to higher field and plant maintenance costs in most areas, and extra costs associated with flooding in southern Alberta during the second quarter. This was partially offset by the incorporation of the Blizzard properties which have lower operating costs. Operating costs are expected to average \$7.25/boe in 2006.

OPERATING NETBACKS

(\$/boe)	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Natural Gas Wells						
Oil and natural gas sales	\$ 69.34	\$ 44.46	56	\$ 55.14	\$ 42.89	29
Hedging loss	(1.81)	(1.22)	48	(0.74)	(0.78)	(5)
Royalties	(13.64)	(10.09)	35	(11.52)	(8.83)	30
Transportation costs	(0.82)	(0.64)	28	(0.74)	(0.79)	(6)
Operating costs	(5.98)	(5.59)	7	(6.43)	(6.29)	2
Operating netbacks	\$ 47.09	\$ 26.92	75	\$ 35.71	\$ 26.20	36
Oil Wells						
Oil and natural gas sales	\$ 68.67	\$ 49.85	38	\$ 61.99	\$ 47.10	32
Hedging loss	(1.28)	(7.54)	(83)	(1.03)	(4.45)	(77)
Royalties	(13.26)	(8.07)	64	(11.95)	(7.55)	58
Transportation costs	(0.17)	(0.15)	13	(0.17)	(0.16)	6
Operating costs	(8.95)	(14.29)	(37)	(12.78)	(14.15)	(10)
Operating netbacks	\$ 45.01	\$ 19.80	127	\$ 36.06	\$ 20.79	73
All Wells						
Oil and natural gas sales	\$ 69.29	\$ 44.71	55	\$ 55.72	\$ 43.10	29
Hedging loss	(1.77)	(1.48)	20	(0.76)	(0.96)	(21)
Other income (loss)	(0.06)	(0.21)	(71)	0.12	0.01	1,100
Royalties	(13.61)	(10.00)	36	(11.56)	(8.76)	32
Transportation costs	(0.78)	(0.62)	26	(0.70)	(0.76)	(8)
Operating costs	(6.20)	(5.98)	4	(6.96)	(6.67)	4
Operating netbacks	\$ 46.87	\$ 26.42	77	\$ 35.86	\$ 25.96	38

Total operating netback increased 77% quarter over quarter and 38% year over year due mainly to higher commodity prices. This was partially offset by higher royalty and operating costs.

GENERAL AND ADMINISTRATIVE COSTS

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
General and administrative costs (000s)	\$ 4,216	\$ 1,686	150	\$ 10,244	\$ 6,681	53
Per boe	\$ 1.97	\$ 0.88	124	\$ 1.34	\$ 0.92	46
Per average Trust Unit	\$ 0.06	\$ 0.03	100	\$ 0.17	\$ 0.13	31

General and administrative costs on a boe basis increased 124% from fourth quarter 2004 and 46% year over year. These increases were due to higher activity levels related to acquisitions and development activities, increasing costs due to additional regulatory requirements and significant pressure on salary

and benefit costs in a very competitive environment for staff. At year end, Shiningbank had 55 full-time employees and 25 full-time and part-time consultants at its head office. Field and production staff consisted of three production superintendents, 17 full-time employees and 52 contract operators. Costs of field and production staff are included in operating costs. General and administrative costs for 2006 are expected to trend upward to approximately \$1.40/boe.

INTEREST ON LONG TERM DEBT

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Interest on long term debt (000s)	\$ 2,031	\$ 1,759	15	\$ 8,423	\$ 6,159	37
Per boe	\$ 0.95	\$ 0.92	3	\$ 1.11	\$ 0.84	32
Per average Trust Unit	\$ 0.03	\$ 0.03	-	\$ 0.14	\$ 0.12	17

Interest expense per average Trust Unit remained consistent with fourth quarter 2004 and increased 17% for the year due to higher debt levels resulting from the funding of acquisitions and capital expenditures. Shiningbank is currently in compliance with all external debt covenants. All of Shiningbank's debt is floating rate bank debt. Interest expense in 2006 is expected to be approximately \$1.25/boe due to higher projected debt levels and interest rates.

DEPLETION, DEPRECIATION AND ACCRETION

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Depletion, depreciation and accretion (000s)	\$ 43,915	\$ 32,035	37	\$ 142,370	\$ 118,547	20
Per boe	\$ 20.50	\$ 16.71	23	\$ 18.68	\$ 16.25	15

Depletion, depreciation and accretion per boe rose 23% for the fourth quarter and 15% year over year. These increases were primarily related to the effect of the acquisitions in 2004 and 2005.

TRUST UNIT INCENTIVE COMPENSATION

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Trust Unit incentive compensation (000s)	\$ 641	\$ 333	92	\$ 2,506	\$ 1,263	98
Per boe	\$ 0.30	\$ 0.17	76	\$ 0.33	\$ 0.17	94

During 2005, eight new issues aggregating 847,500 Trust Unit rights were granted (2004 – six issues aggregating 580,000). No new issues were granted during the fourth quarter (2004 – one issue aggregating 15,000). The fair value of rights issued was determined using a Black-Scholes model and will be brought into income over the vesting period of the rights. The total fourth quarter 2005 expense of \$641,000 (2004 - \$333,000) represented the fair value of rights issued during 2003 through to 2005 and which vested in fourth quarter 2005. During the year, the total expense was \$2.5 million (2004 - \$1.3 million). All of these costs are “non-cash” costs and are not deducted in determining distributions to unitholders.

INTERNALIZATION OF MANAGEMENT CONTRACT

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Internalization of management contract (000s)	\$ 205	\$ 1,307	(84)	\$ 1,309	\$ 3,511	(63)
Per boe	\$ 0.10	\$ 0.68	(85)	\$ 0.17	\$ 0.48	(65)

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 a fee equal to 3.25% of net operating income, a fee equal to 1.5% of the purchase price of acquisitions and a quarterly scheduled dividend in accordance with the terms of a management agreement. The acquisition eliminated 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 which are being amortized into income over specific vesting periods through 2007. During fourth quarter 2005, \$205,000 (2004 - \$1.3 million) was expensed, representing the amortization of these escrowed Exchangeable Shares. During the year, \$1.3 million was expensed (2004 - \$3.5 million).

TAXES

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Capital and large corporation taxes (000s)	\$ 89	\$ (451)	(120)	\$ 885	\$ 574	54
Future income tax recovery (000s)	\$ (749)	\$ (74,064)	(99)	\$ (6,737)	\$ (86,199)	(92)
Per boe	\$ (0.31)	\$ (38.88)	(99)	\$ (0.76)	\$ (11.74)	(94)

The Fund is obligated to pay provincial capital taxes and federal large corporations tax in its operating entities. Under the Fund's structure, payments are made between Shiningbank Energy Ltd. and the Fund. These payments provide the mechanism for transferring income to unitholders along with tax benefits and future tax liabilities. Current income taxes are not presently payable by the Fund or its operating entities.

During fourth quarter 2004, the Fund changed its organizational structure to take advantage of certain tax attributes of a partnership acquired through the acquisition of Birchill Resources Limited ("Birchill"). The change eliminated future income taxes payable within the Fund on income earned from the Birchill assets by taking advantage of the tax flow-through structure of the acquired partnership.

As a result of the Fund's restructuring, a reduction in future income taxes was credited to income in the fourth quarter of 2004 in accordance with Canadian GAAP. This increased earnings for 2004 by \$78.4 million, or \$1.50 per Trust Unit (\$1.47 diluted). Net earnings were also affected by increased depletion charges as future income taxes were recorded in the cost of the assets at the time of the Birchill acquisition. This additional depletion reduced 2004 earnings by \$8.1 million, or \$0.15 per Trust Unit, basic and diluted. The costs of the restructuring were included in general and administrative costs in fourth quarter 2004.

NET EARNINGS

The following table sets out changes in net earnings before and after income taxes.

	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Net earnings before income taxes (000s)	\$ 49,336	\$ 13,974	253	\$ 107,499	\$ 52,607	104
Per Trust Unit - basic	\$ 0.72	\$ 0.26	177	\$ 1.80	\$ 1.01	78
Per Trust Unit - diluted	\$ 0.71	\$ 0.25	184	\$ 1.77	\$ 0.99	79
Net earnings after income taxes (000s)	\$ 50,085	\$ 88,038	(43)	\$ 114,236	\$ 138,806	(18)
Per Trust Unit - basic	\$ 0.73	\$ 1.62	(55)	\$ 1.91	\$ 2.66	(28)
Per Trust Unit - diluted	\$ 0.72	\$ 1.60	(55)	\$ 1.88	\$ 2.61	(28)

DISTRIBUTIONS TO UNITHOLDERS

(000s except per Trust Unit amounts)	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Funds flow from operations	\$ 94,181	\$ 47,220	99	\$ 252,764	\$ 174,878	45
Capital expenditures	(31,350)	(13,323)	135	(81,772)	(56,339)	45
Asset retirement expenditures	(619)	(208)	198	(1,497)	(684)	119
Working capital adjustments	(821)	3,701	(122)	12,771	28,505	(55)
Distributions to unitholders	\$ 61,391	\$ 37,390	64	\$ 182,266	\$ 146,360	25
Distributions per Trust Unit	\$ 0.90	\$ 0.69	30	\$ 2.97	\$ 2.76	8
Trust Units outstanding, end of period	68,186	54,141	26	68,186	54,141	26
Payout ratio	65%	79%		72%	84%	

Total distributions to unitholders increased 64% for the fourth quarter and 25% for full-year 2005. Both increases were attributable to improved funds flow due to large gains in commodity pricing. The increase in the number of Trust Units outstanding and larger deductions for capital expenditures offset the higher funds flow. The Fund paid out 65% of its funds flow for fourth quarter 2005, and 72% for full-year 2005. Total accumulated Trust Unit distributions were \$690.2 million.

On a per Trust Unit basis, distributions increased 30% for fourth quarter 2005 to \$0.30 per Trust Unit from \$0.23 per Trust Unit which had been paid since June 2003. This increase reflected stable production performance and continued strength in natural gas prices. Future distributions are subject to change as dictated by commodity prices, operations and future business development.

FUNDS FLOW FROM OPERATIONS

The following table reconciles a non-GAAP measure, funds flow from operations, to the nearest GAAP measure, cash flow from operating activities.

(000s except per Trust Unit amounts)	Three months ended December 31,			Year ended December 31,		
	2005	2004	%	2005	2004	%
Cash flow from operating activities	\$ 81,319	\$ 41,829	94	\$ 205,470	\$ 152,903	34
Change in non-cash working capital	12,243	5,183	136	45,797	21,291	115
Asset retirement expenditures	619	208	198	1,497	684	119
Funds flow from operations	\$ 94,181	\$ 47,220	99	\$ 252,764	\$ 174,878	45

2006 Funds Flow Sensitivities

The estimated sensitivity of funds flow to important variables is shown in the table below.

	(\$000s)	Per Trust Unit
US \$1 per bbl	\$ 1,500	\$ 0.02
Cdn \$0.25 per mcf	\$ 8,200	\$ 0.12
US \$0.01 exchange	\$ 970	\$ 0.01
100 bbl/d	\$ 2,500	\$ 0.03
1 mmcf/d	\$ 3,600	\$ 0.06
1% prime rate	\$ 2,000	\$ 0.03

INCOME TAX INFORMATION

In 2005, 84.41% of cash distributions paid by the Fund were required to be included in the income of unitholders. The remaining 15.59% reduced each unitholder's adjusted cost base ("ACB") for income tax purposes. A summary of cash distributions paid in 2005 and the implications for Canadian taxpayers are shown below.

Record Date	Payment Date	Distribution ¹ (\$ per Trust Unit)	Taxable Income (\$ per Trust Unit)	ACB Reduction (\$ per Trust Unit)
December 31, 2004	January 15, 2005	\$ 0.23	\$ 0.1941	\$ 0.0359
January 31, 2005	February 15, 2005	0.23	0.1941	0.0359
February 28, 2005	March 15, 2005	0.23	0.1941	0.0359
March 31, 2005	April 15, 2005	0.23	0.1941	0.0359
April 30, 2005	May 15, 2005	0.23	0.1941	0.0359
May 31, 2005	June 15, 2005	0.23	0.1941	0.0359
June 30, 2005	July 15, 2005	0.23	0.1941	0.0359
July 31, 2005	August 15, 2005	0.23	0.1941	0.0359
August 31, 2005	September 15, 2005	0.23	0.1941	0.0359
September 30, 2005	October 15, 2005	0.23	0.1941	0.0359
October 31, 2005	November 15, 2005	0.23	0.1941	0.0359
November 30, 2005	December 15, 2005	0.30	0.2532	0.0468
Total		\$ 2.83	\$ 2.3883	\$ 0.4417

¹ Distributions for income tax purposes are based on cash received during 2005 rather than accrual-based income reported elsewhere in this report.

For US unitholders, 86.79% of distributions were taxable in 2005. 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

(000s except per Trust Unit amounts)	2005	2004	2003
Oil and natural gas sales	\$ 419,663	\$ 307,514	\$ 247,207
Net earnings before income taxes	107,499	52,607	51,232
Per Trust Unit – basic	1.80	1.01	1.23
Per Trust Unit – diluted	1.77	0.99	1.21
Net earnings after income taxes	114,236	138,806	63,954
Per Trust Unit – basic	1.91	2.66	1.54
Per Trust Unit – diluted	1.88	2.61	1.51
Total assets	1,169,580	826,797	614,149
Total long term debt	199,129	182,147	121,691
Property acquisitions	28,389	2,615	156,829
Corporate acquisitions	256,859	177,067	-
Capital expenditures	81,772	56,339	22,931
Funds flow from operations	252,764	174,878	136,038
Per weighted average Trust Unit	4.23	3.35	3.27
Distributions to unitholders	182,266	146,360	122,287
Per Trust Unit	2.97	2.76	2.85
Payout ratio	72%	84%	90%
Trust Units outstanding	68,186	54,141	44,343
Weighted average	59,711	52,209	41,595

Shiningbank's growth has been driven by acquisitions. In 2003, the Fund completed a major acquisition of properties at Ferrier/O'Chiese. In 2004, the Fund completed the large corporate acquisition of Birchill and a much smaller corporate acquisition of Good Ridge Explorations Ltd. In 2005, the Fund completed the major corporate acquisitions of Blizzard and Outlook. Such acquisitions add to production volumes, revenues, earnings and assets. Revenues and earnings are also greatly affected by commodity prices, particularly natural gas prices as 74% of the Fund's 2005 production was natural gas. With such a high weighting to natural gas, the Fund's revenues and earnings closely track changes in natural gas pricing.

In 2003, substantial production growth through acquisitions and a rebound in oil and gas prices boosted revenues and earnings. In 2004 and again in 2005, the same combination of acquisition-driven production growth and high commodity prices led to improved revenues and funds flow. Earnings

increased as a percentage of revenue in 2004 through the recovery of future income taxes related to the Fund's internal restructuring.

QUARTERLY FINANCIAL INFORMATION

(000s except per Trust Unit amounts)	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Oil and natural gas sales	\$ 144,539	\$ 111,763	\$ 83,222	\$ 80,139
Net earnings before income taxes	49,336	28,259	17,015	12,889
Per Trust Unit - basic	0.72	0.46	0.31	0.24
- diluted	0.71	0.46	0.31	0.23
Net earnings after income taxes	50,085	30,995	18,781	14,375
Per Trust Unit - basic	0.73	0.51	0.34	0.26
- diluted	0.72	0.50	0.34	0.26
Funds flow from operations	94,181	67,721	46,353	44,509
Per weighted average Trust Unit	1.38	1.11	0.85	0.81
Distributions to unitholders	61,391	45,750	37,628	37,497
Per Trust Unit	0.90	0.69	0.69	0.69
Payout ratio	65%	68%	81%	84%
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Oil and natural gas sales	\$ 82,453	\$ 74,713	\$ 80,723	\$ 69,625
Net earnings before income taxes	13,974	12,297	12,851	13,485
Per Trust Unit - basic	0.26	0.24	0.24	0.29
- diluted	0.25	0.23	0.24	0.28
Net earnings after income taxes	88,038	15,900	16,072	18,796
Per Trust Unit - basic	1.62	0.30	0.30	0.40
- diluted	1.60	0.29	0.29	0.39
Funds flow from operations	47,220	42,924	45,190	39,544
Per weighted average Trust Unit	0.87	0.80	0.84	0.84
Distributions to unitholders	37,390	37,226	36,977	34,767
Per Trust Unit	0.69	0.69	0.69	0.69
Payout ratio	79%	87%	82%	88%

Quarterly fluctuations primarily result from production increases due to acquisitions, volumes added through the Fund's development drilling program and realized commodity prices which can be extremely volatile.

Volume increases occurred through the acquisition of Birchill in second quarter 2004, the acquisition of Outlook in second quarter 2005 and again with the acquisition of Blizzard in third quarter 2005. The Fund's development drilling program strives to replace natural declines on the production base, with results affected by such factors as field conditions, availability of drilling and production equipment and drilling success. Shiningbank's drilling success rate in 2005 was 98%.

Natural gas prices remained strong through the past eight quarters with a sharp increase in third quarter 2005. Oil prices increased substantially in late 2004 and continued to rise in 2005. Distributions per Trust Unit increased 30% in fourth quarter 2005 to \$0.30 from \$0.23 based on stable production volumes and high commodity prices, particularly for natural gas. The increase in funds flow from higher commodity prices was used to fund capital expenditures and to pay distributions on a greater number of Trust Units outstanding.

COSTS OF ACQUISITIONS AND DEVELOPMENT

During second quarter 2005, Shiningbank acquired all the outstanding shares of Outlook for \$31.9 million. In its largest acquisition to date, Shiningbank acquired all the outstanding shares of Blizzard pursuant to a Plan of Arrangement for \$269.3 million, including \$43.9 million in working capital deficiency, during third quarter 2005.

A total of \$31.4 million was spent on drilling and new facilities during the fourth quarter (\$13.3 million in 2004) and \$81.8 million for the full year (\$56.3 million in 2004). Funds flow funded all of the fourth quarter capital expenditures and \$70.5 million of the full year expenditures, with the balance funded by proceeds from the Fund's Distribution Reinvestment Plan of \$8.3 million and bank debt drawdown of \$3.0 million.

A total of 104 wells (32.9 net) were drilled in 2005, 91 (28.2 net) of which were successful gas wells, 11 (4.5 net) were successful oil wells and two (0.2 net) were dry and abandoned. In addition, Shiningbank farmed-out an additional 33 wells resulting in 23 successful wells in which Shiningbank retained royalty or working interests at no cost to the Fund.

In 2006, the Fund plans to spend approximately \$90 million on drilling, new facilities and maintenance capital. This will be funded through a combination of funds flow and debt financing.

NET ASSET VALUE

(000s except per Trust Unit amounts)	Discount factor		
	8%	10%	12%
Present value of reserves ¹			
Proved	\$ 1,236,548	\$ 1,158,674	\$ 1,092,336
Probable	408,025	356,983	316,377
Undeveloped lands	82,693	82,693	82,693
Working capital deficiency	(35,590)	(35,590)	(35,590)
Total assets	1,691,676	1,562,760	1,455,816
Long term debt	(199,129)	(199,129)	(199,129)
Net asset value	\$ 1,492,547	\$ 1,363,631	\$ 1,256,687
Trust Units outstanding at December 31, 2005	68,186	68,186	68,186
Net asset value per Trust Unit at December 31, 2005	\$ 21.89	\$ 20.00	\$ 18.43

¹ The present value of reserves is calculated based on the reserves estimates and price forecast prepared by Paddock Lindstrom & Associates Ltd. in their December 31, 2005 evaluation.

LIQUIDITY AND CAPITAL RESOURCES

Shiningbank's ability to grow depends on access to bank lines of credit and periodic issues of new equity to fund acquisitions. Smaller acquisitions through the course of a year may be funded by a combination of bank debt, funds flow and proceeds from the Fund's Distribution Reinvestment Plan. Equity is issued to fund single large acquisitions, or to pay down bank debt accumulated following a number of smaller acquisitions. When the proceeds of an equity issue are greater than acquisition costs, the excess is used to reduce bank debt.

Since the Fund's initial public offering in 1996, 12 public equity issues have been completed, all in conjunction with a major acquisition. These acquisitions and strong commodity prices have led to steady accretion in value to unitholders. While the issue of new equity has the potential to dilute existing unitholders, over time, that has not been the case. This is evident in the growth of the Net Asset Value ("NAV") per unit. At the inception of the Fund, the NAV was \$9.43 per unit, discounted at 10%. At the end of 2005, the NAV per unit was \$20.00, discounted at 10%, despite payment of over \$22 per unit in distributions over nine years. That level of per unit growth indicates that unitholders have not been diluted.

LONG TERM DEBT

The Fund has a \$330 million revolving credit facility with a syndicate of Canadian chartered banks of which \$199.1 million was drawn at December 31, 2005. This facility was increased from \$250 million on August 2, 2005 as a result of the Blizzard acquisition. The revolving period extends to April 27, 2006, at

which time the facility, unless renewed, reverts to a two-year term with principal payments, if necessary, commencing on July 28, 2006. The facility is secured by a \$600 million floating charge debenture on all assets of Shiningbank together with supporting debentures and guarantees from the Fund's material

subsidiaries and affiliates. 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 Fund's total debt to funds flow ratio or, at Shiningbank's option, the bankers' acceptance rate plus a stamping fee. The Fund's total debt to funds flow ratio at year end was 0.5:1 based on fourth quarter annualized funds flow.

UNITHOLDERS' EQUITY

On August 2, 2005, the Fund issued 8,837,793 Trust Units at \$20.12 each to Blizzard shareholders as part of the Blizzard acquisition. On September 28, 2005, the Fund issued 4,100,000 Trust Units at \$24.45 to repay bank indebtedness incurred in connection with the Blizzard and Outlook acquisitions. An additional 128,023 Trust Units were issued during the fourth quarter (704,899 full-year 2005) under the Trust Unit Rights Incentive Plan and the Distribution Reinvestment Plan.

When equity is raised in a public equity issue, the intended use of proceeds is specified in the related prospectus. Each major equity issue has been undertaken to acquire properties or to reduce debt incurred from prior acquisitions. In all cases, the proceeds were used according to the purpose specified.

As of February 28, 2006, the Fund had 68,349,351 Trust Units, 184,326 non-escrowed Exchangeable Shares and 151,549 escrowed Exchangeable Shares outstanding. Exchangeable Shares held in escrow will be released over the next two years under the terms of an escrow agreement. 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, 2005, the exchange rate was 1.44988 Trust Units for each Exchangeable Share.

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 funds flow, 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 six Canadian chartered banks, which provide sufficient debt capital to complete all but the largest acquisitions. However, Shiningbank'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 funds flow.

CONTRACTUAL OBLIGATIONS

(000s)	Total	Payments Due by Period			
		Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long term debt principal ¹	\$ 199,129	\$ -	\$ 199,129	\$ -	\$ -
Operating leases	11,131	1,790	4,994	4,347	-
Pipeline transportation	3,442	1,144	2,289	9	-
Total obligations	\$ 213,702	\$ 2,934	\$ 206,412	\$ 4,356	\$ -

¹ Assumes that the revolving credit facility is not renewed in April 2006.

Shiningbank has on-going capital commitments in the ordinary course of business for development drilling, equipment and facilities. These are funded through a combination of funds flow, debt financing and periodic equity financing.

IMPACT OF NEW ACCOUNTING POLICIES

NON-CONTROLLING INTEREST

On March 8, 2005 and effective for second quarter 2005, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants amended its position on the reporting of exchangeable securities issued by subsidiaries of income trusts. The amendment states that exchangeable securities issued by a subsidiary of an income trust should be reflected as either non-controlling interest or debt on the consolidated balance sheet unless they meet certain criteria. Shiningbank's Exchangeable Shares meet the specified criteria and therefore, the current treatment of reporting exchangeable securities as equity on the balance sheet continues to be appropriate.

CRITICAL ACCOUNTING ESTIMATES

The Fund makes numerous accounting estimates in its financial statements in order to provide timely information to users. A critical accounting estimate is one that requires management to make assumptions about matters that are highly uncertain at the time the estimate is made and, if a different estimate was used, financial results would be materially different. The following estimates are considered critical:

RESERVES

The Fund must estimate its oil and gas reserves. Reserves are evaluated and reported on annually by independent petroleum reserve evaluators who use various subjective factors and assumptions, including forecasts of costs based on geological and engineering data, projected future rates of production, and timing and amounts of future development costs. Although reserves are estimated, management believes the estimates are reasonable based on information available at the time the estimates were prepared. Management, the Fund's internal engineers, and the Environmental, Corporate Governance and Reserve Review Committee of the Board of Directors of Shiningbank Energy Ltd. all review the estimates reported by the independent reserve evaluators.

As new information becomes available, changes are made to the reserve estimates and future development cost estimates. Historically, the Fund has had no significant changes to these estimates, with the exception of adjusting reserves for acquisitions and divestitures and the results of new drilling. Future actual results could vary greatly from the estimates made, resulting in material changes to the depletion calculation and the asset impairment test.

ASSET RETIREMENT OBLIGATION

The Fund's estimated asset retirement obligation is based on estimated timing and costs to abandon and restore properties.

FINANCIAL REPORTING

During 2004 and 2005, there were some changes to financial reporting and regulatory requirements. The most important changes for Shiningbank are described below.

Asset Retirement Obligations

Effective January 1, 2004, Shiningbank adopted CICA handbook section 3110, "Asset Retirement Obligations." The standard 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.

Hedging Relationships

Effective January 1, 2004, the Fund adopted Accounting Guideline 13, "Hedging Relationships" which establishes standards for the documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting. The adoption of this standard had no effect on the Fund's financial results.

RELATED PARTY TRANSACTIONS

During 2005, Shiningbank paid \$1.0 million for legal services (2004 - \$1.1 million) provided by a firm in which a current director is a partner, \$29,000 of which was outstanding at December 31, 2005. These payments were made in the normal course of operations, on commercial terms, and therefore were recorded at the exchange amount.

BUSINESS RISKS

Shiningbank is faced with a number of business risks that are inherent in the oil and gas business, and which can have a material impact on distributions to unitholders. To mitigate these risks, the Fund employs policies and procedures in its day-to-day operations and in its longer-term planning. These risk factors include, but are not limited to, the following influences:

MARKET RISKS

Commodity Prices

The primary risk to funds flow and therefore, distributions, is fluctuations in oil and gas prices. With Shiningbank's production weighted heavily to natural gas, changes in natural gas markets and pricing are the primary driver behind the level of distributions.

To mitigate price risk, the Fund actively manages the sales of its production to optimize pricing. The Fund has an active hedging program through which management attempts to minimize the effect of

commodity price drops in the short run, while retaining exposure to upward price changes. This is accomplished by use of simple hedging instruments, primarily “costless collars” and fixed price swaps.

Under the Fund's hedging policy, not more than 50% of production volumes can be hedged at any one time. Shiningbank's hedging practices are not designed to have a material impact on the medium- and long-term effects of commodity prices on distributions to unitholders. Unitholders remain exposed to price fluctuations over time. Hedging is employed only as a risk-management tool to stabilize short-term distributions, or to improve the economics of an acquisition, and not for speculation.

Interest Rates

Shiningbank is exposed to changes in interest rates, however, interest rates have significantly less of an impact on distributions than changes in commodity prices. 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 funds flow. All of Shiningbank's debt is currently exposed to short-term interest rate fluctuations.

Currency Rates

Exposure to currency exchange risk arises from the fact that prices for oil and, to a lesser degree natural gas, are determined in international markets, usually in US dollars. As a result, the amount received by Shiningbank may depend on the strength of the Canadian dollar versus the US dollar.

Shiningbank has the ability to hedge its currency exposure to manage currency fluctuations. The Fund currently has no hedges of this type in place.

ENVIRONMENTAL RISKS

Environmental laws and regulatory initiatives impact Shiningbank financially and operationally. The Fund may incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. In particular, the Fund may be required to incur significant costs to comply with the 1997 Kyoto Protocol to the United Nations Framework Convention on Climate Change.

POLITICAL AND LEGAL RISKS

Shiningbank's activities are affected by the political and legal environment in which it operates. Some examples of these uncertainties include:

- Changes in securities regulations which could affect the Fund's ability to raise additional equity or debt capital or its cost structure related thereto;
- Changes in income tax laws which could affect either tax costs to the Fund or to its unitholders;
- Changes in provincial Crown royalty regulation and compliance; and,
- Changes in law that affect the price or ownership of oil and gas reserves and production.

OPERATING RISKS

Field Operations

Oil and gas production activities carry a number of inherent risks including production risks related to the ability to produce and process crude oil and natural gas from existing wells; the ability to develop or acquire sufficient quantities of crude oil and natural gas to replace production and maintain reserves; risks of environmental damage; and risks to the safety of its employees, contractors and the public.

To mitigate these risks, the Fund maintains financial flexibility to ensure its ability to operate efficiently in the field. The Fund employs skilled personnel, both in the field and in its head office, and ensures that they are equipped with efficient and effective tools and training. Shiningbank's strategy of operating a significant portion of its production provides greater control over operational factors, including ensuring properties are operated in accordance with its policy to minimize impacts on the environment.

Insurance coverage is maintained in order to minimize the impact of events that might cause substantial financial damage.

Reserve Replacement

As oil and gas reserves are produced, they naturally deplete over time. Shiningbank's ability to replace production depends on acquiring new reserves and developing existing reserves. Acquisition of oil and gas assets depends on the availability of economically desirable opportunities and on management's assessment of the value of the assets.

To mitigate these risks, the Fund subjects all potential prospects to stringent investment criteria, due diligence and review. All acquisitions over \$20 million require Board of Directors' review and approval.

CONSOLIDATED BALANCE SHEETS

December 31 (\$ thousands)	2005	2004
	(unaudited)	(audited)
ASSETS		
Current assets		
Accounts receivable	\$ 76,945	\$ 50,712
Prepaid expenses	6,747	4,471
	83,692	55,183
Fixed assets <i>(note 5)</i>		
Petroleum and natural gas properties and equipment	1,539,488	1,133,426
Accumulated depletion and depreciation	(505,150)	(364,814)
	1,034,338	768,612
Goodwill	51,124	1,710
Other assets	426	1,292
	\$ 1,169,580	\$ 826,797
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 78,332	\$ 40,268
Trust Unit distributions payable	40,950	24,930
	119,282	65,198
Long term debt <i>(note 7)</i>	199,129	182,147
Future income taxes <i>(note 8)</i>	83,829	33,266
Asset retirement obligation <i>(note 6)</i>	30,348	30,242
Unitholders' equity		
Trust Units <i>(note 9)</i>	996,855	706,954
Exchangeable Shares <i>(note 9)</i>	4,248	7,019
Contributed surplus <i>(note 9)</i>	3,364	1,416
Deficit	(267,475)	(199,445)
	736,992	515,944
Commitments and contingencies <i>(note 13)</i>		
	\$ 1,169,580	\$ 826,797

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

Year Ended December 31 (\$ thousands, except per Trust Unit amounts)	2005	2004
	(unaudited)	(audited)
Revenues		
Oil and natural gas sales	\$ 419,663	\$ 307,514
Royalties	88,078	63,930
	331,585	243,584
Expenses		
Transportation	5,304	5,550
Operating	53,045	48,692
General and administrative	10,244	6,681
Interest on long term debt	8,423	6,159
Depletion, depreciation and accretion	142,370	118,547
Trust Unit incentive compensation (<i>note 9</i>)	2,506	1,263
Internalization of management contract (<i>note 12</i>)	1,309	3,511
	223,201	190,403
Earnings before taxes	108,384	53,181
Capital and large corporation taxes (<i>note 8</i>)	885	574
Future income tax recovery (<i>note 8</i>)	(6,737)	(86,199)
Net earnings	\$ 114,236	\$ 138,806
Deficit, beginning of year	(199,445)	(191,891)
Distributions to unitholders	(182,266)	(146,360)
Deficit, end of year	\$ (267,475)	\$ (199,445)
Net earnings per Trust Unit (<i>note 9</i>)		
Basic	\$ 1.91	\$ 2.66
Diluted	\$ 1.88	\$ 2.61

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (\$ thousands)	2005	2004
	(unaudited)	(audited)
Operating activities		
Net earnings	\$ 114,236	\$ 138,806
Items not requiring cash		
Depletion, depreciation and accretion	142,370	118,547
Internalization of management contract	1,309	2,693
Trust Unit incentive compensation	2,506	1,263
Gain on sale of other assets	(920)	(232)
Future income tax recovery	(6,737)	(86,199)
Funds flow from operations	252,764	174,878
Asset retirement expenditures	(1,497)	(684)
Change in non-cash working capital <i>(note 10)</i>	(45,797)	(21,291)
	205,470	152,903
Financing activities		
Increase in long term debt	16,982	60,456
Distributions to unitholders	(182,266)	(146,360)
Issue of Trust Units	107,447	155,327
	(57,837)	69,423
Change in non-cash working capital <i>(note 10)</i>	16,020	4,502
	(41,817)	73,925
Investing activities		
Property acquisitions	(28,389)	(2,615)
Corporate acquisitions <i>(note 4)</i>	(79,043)	(177,067)
Capital expenditures	(81,772)	(56,339)
Long term investments	-	(23)
Proceeds on sale of properties	13,061	3,496
Proceeds on sale of other assets	1,486	1,000
	(174,657)	(231,548)
Change in non-cash working capital <i>(note 10)</i>	11,004	4,720
	(163,653)	(226,828)
Change in cash	\$ -	\$ -
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 2005 and 2004

(Tabular amounts are in \$ thousands, except Trust Units and per Trust Unit amounts) (unaudited)

1. ORGANIZATION

Shiningbank Energy Income Fund (“Shiningbank” or 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”).

The business of the Fund is carried on by Shiningbank Energy Ltd. (the “Corporation”) and Shiningbank Limited Partnership (“SLP”). The Fund owns, directly and indirectly, 100% of the common shares [excluding the Exchangeable Shares – see note 9 (c)] of the Corporation and 100% of the units of SLP. The activities of the Corporation and SLP are financed through interest bearing notes from the Fund and third party debt as described in the notes to the financial statements.

Pursuant to the terms of an agreement (the “Royalty Agreement”), the Fund is entitled to a payment from the Corporation and SLP each month equal to the amount by which 99% of the gross proceeds from the sale of production exceed 99% of certain deductible expenditures (as defined). Under the terms of the Royalty Agreement, deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures and to repay third party debt of the Corporation and SLP.

The Fund may declare payable to the unitholders all or any part of the net income of the Fund earned from interest income on the notes and from the income generated under the Royalty Agreement, less any expenses of the Fund.

On June 21, 2005, the Fund acquired all of the shares of Outlook Energy Corp. (“Outlook”) through the Corporation. On August 2, 2005, the Corporation acquired Blizzard Energy Inc. (“Blizzard”) pursuant to a Plan of Arrangement. Also on August 2, 2005, the Corporation, Outlook and Blizzard were amalgamated, continuing as Shiningbank Energy Ltd.

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.

Significant items subject to such estimates and assumptions include the amounts recorded for depletion and depreciation of the petroleum and natural gas properties, accretion of discount on asset retirement obligations, and asset retirement expenditures which are based on estimates of reserves and future costs and the amounts recorded for Trust Unit incentive compensation which are based on the estimated fair

value of rights granted. By their nature, these estimates, and those related to future fund 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 and its direct and indirect subsidiaries, including the Corporation, SLP, Shiningbank Operating Trust, Shiningbank Holdings Corporation (“SHC”) and 1130243 Alberta Inc.

(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 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 fund flows expected from the production of proved reserves, the lower of cost and market of unproved properties excluded from the depletion base 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 fund 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 fund flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate [see note 5 (a)].

(c) Goodwill

Goodwill is recorded upon a corporate acquisition when the total purchase price exceeds the fair value of identifiable assets and liabilities of the acquired company. The goodwill balance is not amortized but instead is assessed for impairment annually or more frequently, if necessary. Impairment is determined based on the fair value of the reporting entity compared to the carrying or net book value of the reporting entity. Any impairment will be charged to earnings in the period in which the fair value of the reporting entity is below the carrying value.

(d) Asset retirement obligation

Shiningbank recognizes the fair value of an Asset Retirement Obligation (“ARO”) in the period in which it is incurred when a reasonable estimation of the fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying value of the asset. In periods subsequent to initial measurement, the passage of time results in liability increases and the

amount of accretion is charged against current period income. The liability is also adjusted for revisions to previously used estimates.

(e) 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 Fund's corporate subsidiaries 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 Fund's corporate subsidiaries 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.

(f) Financial instruments

The Corporation from time to time employs financial instruments to manage exposures related to interest rates and commodity prices. These instruments are not used for speculative trading purposes. The Fund formally documents all relationships between hedging instruments and hedged items and assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or fund flows of hedged items. Gains and losses on 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.

Realized and unrealized gains and losses associated with hedging instruments that have been terminated or cease to be effective prior to maturity, are deferred on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized.

For transactions that do not qualify for hedge accounting, the Fund applies the fair value method of accounting by recording an asset or liability on the consolidated balance sheet and recognizing changes in the fair value of the instruments in the current period statement of earnings.

(g) Trust Unit Rights Incentive Plan

The Fund accounts for the Trust Unit Rights Incentive Plan using the fair value based method. Under this method, compensation costs attributed to the Trust Unit rights are measured at fair value at the grant date and recognized over the vesting period, with a corresponding increase to contributed surplus. Consideration paid by employees and directors of the Corporation on the exercise of Trust Unit rights under this plan is recorded in Trust Units equity upon receipt, along with the amount of non-cash Trust Unit incentive compensation expense recognized in contributed surplus.

(h) 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.

(i) Per Trust Unit amounts

Basic net 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.

(j) Revenue recognition

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

(k) Comparative figures

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

3. CHANGE IN ACCOUNTING POLICIES

(a) Asset retirement obligation

Effective January 1, 2004, Shiningbank adopted Canadian Institute of Chartered Accountants handbook section 3110, “Asset Retirement Obligations.” The standard 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.

The estimated asset retirement obligation is based upon the Fund’s net ownership interest in each area, estimated costs to abandon and reclaim wells and facilities in the area, and the anticipated timing of such expenditures.

(b) Hedging relationships

Effective January 1, 2004, the Fund adopted Accounting Guideline 13, “Hedging Relationships” that establishes standards for the documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting. The adoption of this standard had no effect on the Fund’s financial results.

4. CORPORATE ACQUISITIONS

(a) Acquisition of Blizzard Energy Inc.

Effective August 2, 2005, the Corporation acquired all the outstanding shares of Blizzard pursuant to a Plan of Arrangement for \$225.4 million. The acquisition was accounted for by the purchase method and the results of operations of Blizzard are included in the accounts from the closing date.

Fair value of 8,837,793 Shiningbank Trust Units	\$ 177,816
Cash consideration	46,600
Related fees and expenses	1,001
Cost of acquisition	\$ 225,417
Working capital deficiency	\$ (43,852)
Deferred marketing contract	(400)
Future income taxes	(49,400)
Asset retirement obligation	(2,802)
Goodwill	41,631
Petroleum and natural gas properties and equipment	280,240
Total consideration	\$ 225,417

(b) Acquisition of Outlook Energy Corp.

Effective June 21, 2005, the Corporation acquired all the outstanding shares of Outlook for \$31.4 million. The acquisition was accounted for by the purchase method and the results of operations of Outlook are included in the accounts from the closing date.

Cash consideration	\$ 31,210
Related fees and expenses	232
Cost of acquisition	\$ 31,442
Working capital deficiency	\$ (496)
Future income taxes	(7,900)
Asset retirement obligation	(806)
Goodwill	7,783
Petroleum and natural gas properties and equipment	32,861
Total consideration	\$ 31,442

(c) Acquisition of Birchill Resources Limited

Effective January 1, 2004, the Corporation acquired all the outstanding shares of Birchill Resources Limited (“Birchill”) for \$170.1 million. The transaction closed on March 8, 2004. The acquisition was accounted for by the purchase method and the results of operations of Birchill are included in the accounts from the closing date. Birchill and the Corporation were subsequently amalgamated.

Cash consideration	\$ 169,639
Related fees and expenses	463
Cost of acquisition	\$ 170,102
Working capital deficiency	\$ (5,724)
Future income taxes	(66,700)
Asset retirement obligation	(3,028)
Petroleum and natural gas properties and equipment	245,554
Total consideration	\$ 170,102

(d) Acquisition of Good Ridge Explorations Ltd.

Effective January 1, 2004, the Corporation acquired all the outstanding shares of Good Ridge Explorations Ltd. (“Good Ridge”) for \$7.0 million. The transaction closed on March 5, 2004. The acquisition was accounted for by the purchase method and the results of operations of Good Ridge are included in the accounts from the closing date. Good Ridge and the Corporation were subsequently amalgamated.

Cash consideration	\$ 6,935
Related fees and expenses	30
Cost of acquisition	\$ 6,965
Working capital	\$ 578
Future income taxes	(2,201)
Asset retirement obligation	(147)
Goodwill	1,710
Petroleum and natural gas properties and equipment	7,025
Total consideration	\$ 6,965

5. FIXED ASSETS

(a) Ceiling test

The Fund performed a ceiling test calculation at December 31, 2005 to assess the recoverable value of fixed assets. Escalated future prices were obtained from third parties and adjusted for commodity differentials specific to the Fund. The following table summarizes 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, 2005.

Year	Oil		Gas	
	WTI US\$/bbl	Edmonton Light C\$/bbl	AECO C\$/mmbtu	Alberta Reference C\$/mmbtu
2006	\$ 60.00	\$ 69.57	\$ 10.54	\$ 10.30
2007	57.50	66.61	9.52	9.30
2008	55.00	63.64	8.32	8.13
2009	52.50	60.68	7.71	7.52
2010	50.00	57.72	7.10	6.90
2011	47.50	54.76	7.24	7.04
2012	48.45	55.85	7.39	7.18
2013	49.42	56.97	7.53	7.33
2014	50.41	58.11	7.68	7.47
2015	51.42	59.27	7.84	7.62
Thereafter	+ 2.0%/annum	+ 2.0%/annum	+ 2.0%/annum	+ 2.0%/annum

(b) Depletion

The Fund does not exclude any value for undeveloped land in the depletion calculation. The depletion calculation does include future development costs of \$57.2 million.

6. ASSET RETIREMENT OBLIGATION

Undiscounted expenditures totalling \$45.4 million are expected to be made over the next 30 - 40 years. The Fund's credit adjusted risk free rate of 7% and an inflation rate of 2% were used to calculate the present value of the obligation.

The Fund's asset retirement obligation is as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
Carrying amount, beginning of year	\$ 30,242	\$ 26,524
Liability incurred during the year, net of dispositions and adjustments	(4,120)	(963)
Settlement of liability during the year	(1,497)	(684)
Acquisitions during the year	3,608	3,175
Accretion expense	2,115	2,190
Carrying amount, end of year	\$ 30,348	\$ 30,242

7. LONG TERM DEBT

The Corporation maintains a \$330 million revolving credit facility with a syndicate of Canadian chartered banks of which \$199.1 million was drawn at December 31, 2005. Borrowings under the credit facility bear interest at an annual rate ranging from the banks' prime rate to the banks' prime rate plus 0.95%, depending on the total debt to funds flow ratio, or, at the Corporation's option, the bankers' acceptance rate plus a stamping fee. The credit facility is secured by a \$600 million floating charge debenture on all assets of the Corporation together with supporting debentures and guarantees from the Fund's material subsidiaries and affiliates. The revolving period extends to April 27, 2006, at which time the credit facility, unless renewed, reverts to a two-year term with the principal payments, if necessary, commencing on July 28, 2006.

8. 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 earnings before income taxes. This difference results from the following items:

	2005	2004
Income before income tax	\$ 108,384	\$ 53,181
Combined federal and provincial tax rate	37.62%	38.62%
Expected tax	40,774	20,539
Increase (decrease) in income taxes resulting from:		
Non-deductible Crown charges	5,700	3,500
Other	833	2,901
Internalization of management contract	500	1,400
Internal restructuring	-	(78,400)
Change in tax rate	(100)	(3,100)
Resource allowance	(3,400)	(1,800)
Non-taxable portion of net income	(51,044)	(31,239)
Future income tax recovery	(6,737)	(86,199)
Capital and large corporation taxes	885	574
Income and capital taxes	\$ (5,852)	\$ (85,625)

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

	2005	2004
Future income taxes:		
Oil and natural gas properties	\$ 101,729	\$ 49,151
Asset retirement obligation	(9,153)	(9,084)
Non-capital losses	(3,465)	(4,383)
Other	(5,282)	(2,418)
	<u>\$ 83,829</u>	<u>\$ 33,266</u>

The non-capital losses expire as follows: 2006 – \$4.3 million; 2007 – \$113,000; 2008 – \$4.7 million and 2009 - \$6.1 million.

For the entities not subject to tax, the net difference between the tax bases and the reported amount is \$107.5 million.

9. TRUST UNITS

(a) Authorized

300,000,000 Trust Units

(b) Issued

	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of year	54,140,619	\$ 706,954	44,343,415	\$ 550,267
Issued on acquisition [note 4 (a)]	8,837,793	177,816	-	-
Issued for cash	4,100,000	100,245	8,800,000	149,600
Issued on conversion of Exchangeable Shares	402,887	4,080	82,500	941
Issued for cash under Distribution Reinvestment Plan	355,498	8,302	296,538	5,846
Issued on exercise of rights	349,401	4,451	618,166	8,024
Less: Commissions and issue costs		(5,551)		(8,143)
Transfer from contributed surplus on exercise of rights		558		419
Balance, end of year	<u>68,186,198</u>	<u>\$ 996,855</u>	<u>54,140,619</u>	<u>\$ 706,954</u>

(c) Exchangeable Shares

On October 9, 2002, SHC issued 1,136,614 Exchangeable Shares in connection with the management internalization transaction (see note 12). The Exchangeable Shares are exchangeable, at the option of the holder, into Trust Units for no additional consideration. As at December 31, 2005, 151,549 (2004 - 353,614) Exchangeable Shares were held in escrow to be released over periods up to October 2007 under the terms of an escrow agreement. 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.

	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of year	263,482	\$ 7,019	126,290	\$ 5,267
Released from escrow	202,065	-	202,064	-
Conversion of Exchangeable Shares	(281,221)	(4,080)	(64,872)	(941)
Amortization of deferred portion		1,309		2,693
Balance, end of year	184,326	\$ 4,248	263,482	\$ 7,019
Exchange ratio, end of year	1.44988		1.32647	
Trust Units issuable upon conversion of non-escrowed shares	267,251		349,501	
Trust Units issuable upon conversion of 151,549 escrowed shares	219,728		469,058	
Total Trust Units issuable upon conversion of all shares	486,979		818,559	

(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% (10% annually) of the Fund's consolidated net book value of fixed assets. A total of 3,995,692 Trust Units have been reserved for issuance under the plan, of which 3,002,297 rights had been issued as at December 31, 2005. At December 31, 2005, there were 1,855,000 (2004 - 1,396,901) rights outstanding, of which 500,833 (2004 - 395,234) were exercisable at a weighted average exercise price of \$12.84 (2004 - \$13.34). In January 2006, a further 844,000 Trust Unit rights were granted.

Rights	2005		2004	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	1,396,901	\$ 14.74	1,460,067	\$ 13.93
Granted	847,500	\$ 21.63	580,000	\$ 18.75
Forfeited	(40,000)	\$ 19.76	(25,000)	\$ 16.44
Exercised	(349,401)	\$ 12.74	(618,166)	\$ 12.98
Balance before reduction of exercise price	1,855,000	\$ 18.16	1,396,901	\$ 16.31
Reduction of exercise price		(1.42)		(1.57)
Balance, end of year	1,855,000	\$ 16.74	1,396,901	\$ 14.74

The following table summarizes information about Trust Unit rights outstanding and exercisable at December 31, 2005:

Range of Exercise Prices	Rights Outstanding		Rights Exercisable		
	Number Outstanding At 12/31/05	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Number Exercisable At 12/31/05	Weighted Average Exercise Price
\$9.00 to \$13.99	542,501	6.4	\$ 11.55	372,501	\$ 11.66
\$14.00 to \$19.99	509,999	8.1	\$ 16.38	128,332	\$ 16.25
\$20.00 to \$24.50	802,500	9.1	\$ 20.49	-	\$ -
\$9.00 to \$24.50	1,855,000	8.0	\$ 16.74	500,833	\$ 12.84

Shiningbank recorded Trust Unit incentive compensation expense of \$2.5 million for the year ended December 31, 2005 (2004 – \$1.3 million) for rights issued between 2003 and 2005, and which vested in 2005. This expense is related to costs reported in general and administrative expenses on the statement of earnings and deficit.

The following table reconciles the movement in the contributed surplus balance:

Contributed surplus	2005	2004
Balance, beginning of year	\$ 1,416	\$ 572
Trust Unit incentive compensation	2,506	1,263
Net benefit on rights exercised ¹	(558)	(419)
Balance, end of year	\$ 3,364	\$ 1,416

¹ Upon exercise, the net benefit is reflected as a reduction of contributed surplus and an increase to unitholders' equity.

The \$4.0 million fair value of the 847,500 rights issued during the year (\$4.67 per right; 2004 - \$4.12 per right) was estimated using a Black-Scholes option-pricing model with the following assumptions: risk-free interest rates ranging from 3.8% to 4.2% (2004 – 4.3% to 4.8%), volatility of 60%, life of 10 years, and a dividend yield rate of 10% representing the difference between the anticipated distribution and the anticipated reduction 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. The rights granted on January 1, 2002 fully vested on January 1, 2005 and therefore, no Trust Unit incentive compensation expense related to those rights would have been recorded during the year. For the year ended December 31, 2004, Shiningbank's net income would have decreased by \$508,000 (\$0.01 per basic and diluted Trust Unit) due to additional Trust Unit incentive compensation expense related to those rights.

(e) Distribution Reinvestment Plan

The Distribution Reinvestment and Optional Unit Purchase Plan (“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 \$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 2005, 355,498 Trust Units were issued from treasury (2004 – 296,538) under the DRIP for proceeds of \$8.3 million (2004 - \$5.8 million).

(f) Per Trust Unit amounts

For the year ended December 31, 2005, the weighted average number of Trust Units and non-escrowed

Exchangeable Shares outstanding was 59,711,327 (2004 - 52,208,852). In computing diluted net earnings per Trust Unit, the dilutive effect of unit rights and escrowed Exchangeable Shares, added 965,690 Trust Units (2004 – 984,155) to the weighted average number of Trust Units outstanding.

10. OTHER CASH FLOW DISCLOSURES

	2005	2004
Change in non-cash operating working capital		
Corporate acquisitions (<i>note 4</i>)	\$ (44,348)	\$ (5,146)
Accounts receivable	(26,233)	(19,125)
Prepaid expenses	(2,276)	(1,841)
Accounts payable and accrued liabilities	27,060	4,821
	<u>\$ (45,797)</u>	<u>\$ (21,291)</u>
Change in non-cash financing working capital		
Distributions payable to unitholders	\$ 16,020	\$ 4,502
Change in non-cash investing working capital		
Accounts payable for capital accruals	\$ 11,004	\$ 4,720
Cash payments		
Cash payments made for taxes	\$ 772	\$ 1,231
Cash payments made for interest	\$ 8,474	\$ 6,023

11. FINANCIAL INSTRUMENTS

As at December 31, 2005, there are no significant differences between the carrying amounts and the fair value of accounts receivable, accounts payable, accrued liabilities, and Trust Unit distributions payable due to the short-term nature, or to long-term debt due to the floating interest rate. The Corporation is exposed to interest rate variance on the long term debt disclosed in the balance sheet. Gains and losses on 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.

Substantially all of the Fund's accounts receivable are due from customers in the oil and gas industry and are subject to the normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risk. Substantially all derivative financial instruments are entered into with Canadian chartered banks in order to reduce credit risk.

At December 31, 2005, Shiningbank held certain derivative financial instruments which are not recognized on the consolidated balance sheets. The estimated market value at December 31, 2005, had the contracts been settled at that time, would have been a loss of \$239,000.

Period	Commodity	Volume	Price
November 1, 2005 – March 31, 2006	Gas	5,000 GJ/d	\$7.50 /GJ floor \$12.00/GJ ceiling
November 1, 2005 – March 31, 2006	Gas	5,000 GJ/d	\$10.00 /GJ floor \$15.15/GJ ceiling
April 1, 2006 – October 31, 2006	Gas	5,000 GJ/d	\$7.50 /GJ floor \$12.00/GJ ceiling
January 1, 2006 – June 30, 2006	Oil	500 bbl/d	US\$55.00/bbl floor US\$89.00/bbl ceiling

Subsequent to December 31, 2005, Shiningbank entered into an additional hedge contract.

Period	Commodity	Volume	Price
July 1, 2006 – December 31, 2006	Oil	500 bbl/d	US\$55.00/bbl floor US\$89.10/bbl ceiling

12. 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 \$2.9 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. During 2004, the remainder of this bonus pool, or \$817,000 was paid out in cash and expensed.

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 fee equal to 1.5% of 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, 2005, \$1.3 million (2004 - \$2.7 million) has been recorded as expense representing the amortization of these escrowed Exchangeable Shares.

13. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Fund's contractual obligations and commitments as at December 31, 2005:

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Operating leases	\$ 11,131	\$ 1,790	\$ 4,994	\$ 4,347	\$ -
Pipeline transportation	3,442	1,144	2,289	9	-
Total obligations	\$ 14,573	\$ 2,934	\$ 7,283	\$ 4,356	\$ -

The Fund is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that any resulting settlements would not materially affect the Fund's financial position or reported results of operations.

14. RELATED PARTY TRANSACTIONS

During 2005, Shiningbank paid \$1.0 million for legal services (2004 - \$1.1 million) provided by a firm in which a current director is a partner, \$29,000 of which was outstanding at December 31, 2005. These payments were made in the normal course of operations, on commercial terms, and therefore were recorded at the exchange amount.

Shiningbank Energy Income Fund is a natural gas focused energy trust founded in 1996. The Fund purchases, develops and operates producing properties for the direct benefit of its unitholders. Shiningbank has one of the highest weightings of natural gas production in the energy trust sector at 78%.

Shiningbank is listed on the Toronto Stock Exchange under the symbol SHN.UN. For further information please visit our website, www.shiningbank.com, or contact us at:

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