

Shiningbank Energy Income Fund

RENEWAL ANNUAL INFORMATION FORM
for the year ended December 31, 2001

April 10, 2002

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GLOSSARY OF TERMS

The following are defined terms used in this Annual Information Form:

“923720” means 923720 Alberta Inc., a wholly-owned subsidiary of the Fund used for the purpose of the acquisition of Ionic, which was amalgamated with the Corporation and Ionic on May 4, 2001;

“Acquisition Fee” means a fee paid to the Manager by the Corporation equal to: (i) 1.5% of the purchase price of any assets acquired by the Corporation. The Acquisition Fee is described in detail in the Fund’s Information Circular which is incorporated herein by reference and forms an integral part of this Annual Information Form;

“Cash Distribution Date” means the date Distributable Income is paid to Unitholders, which is not later than the fifteenth day of the month following the applicable Distribution Record Date;

“Corporation” means Shiningbank Energy Ltd.;

“Debt Service Charges” means all interest and principal repayments relating to the borrowing of funds by the Corporation. See “Incorporation and Organization – Intercorporate Relationships - The Corporation - Borrowing”;

“Deferred Purchase Price Obligation” means the ongoing obligation of the Fund to pay to the Corporation, in certain circumstances, an amount equal to 99% of the cost of any additional Canadian resource properties (as defined in the Tax Act) which may be subsequently acquired by the Corporation, directly or by way of corporate or other take-over, to the extent that such cost is not financed by the borrowings of the Corporation, 99% of indebtedness incurred by the Corporation for the purposes of acquiring any additional Canadian resource properties and 99% of any capital expenditures incurred in respect of the Properties and so designated by the Corporation. See “Incorporation and Organization – Intercorporate Relationships - The Royalty - Deferred Purchase Price Obligation”;

“Distributable Income” means, for any particular period, the Royalty Income received or receivable by the Fund plus interest and dividend income received or receivable and Alberta Royalty Credit received, if any, and other payments or distributions from the Corporation, less the aggregate of Crown charges and any other direct cash expenses of the Fund;

“Distribution Record Date” means such dates as the Trustee may from time to time, upon written direction from the Manager, designate as a “Distribution Record Date” except that December 31 shall be a Distribution Record Date;

“Exempt Plan” means an RRSP, DPSP or RRIF;

“Fund” means Shiningbank Energy Income Fund;

“Ionic” means Ionic Energy Inc.;

“Ionic Acquisition Notes” means the promissory notes issued by a predecessor to the Corporation in exchange for shares of Ionic. See “Incorporation and Organization - Intercorporate Relationships - The Ionic Acquisition Notes”;

“Manager” means Shiningbank Energy Management Inc.;

“Management Agreement” means the management agreement dated July 31, 1996, as amended, among the Manager, the Corporation and the Trustee pursuant to which the Manager provides management services to the Corporation and the Fund. See “Incorporation and Organization - Intercorporate Relationships - Management Agreement”;

“Management Fee” means a management fee which is payable by the Corporation to the Manager on the Cash Distribution Date. The Management Fee is described in detail in the Fund’s Information Circular which is incorporated herein by reference and forms an integral part of this Annual Information Form;

“Net Operating Income” means Net Production Revenue plus capital expenditures less all applicable Crown charges net of Alberta Royalty Credit, if applicable;

“Net Production Revenue” means the amount received or receivable by the Corporation in respect of the sale of its interest in all Petroleum Substances collected from the Properties less: (i) expenditures paid or payable by or on behalf of the Corporation in respect of the operation of the Properties including, without limitation, the cost of gathering, compressing, processing, lifting, transporting and marketing all Petroleum Substances produced therefrom, the cost of equipment repair and maintenance and all other amounts paid or payable to third parties which are calculated with reference to production from the Properties including, without limitation, gross overriding royalties, lessors’ royalties, but excepting Crown charges and other applicable charges; and (ii) capital and site restoration expenditures paid or payable;

“Paddock” means Paddock Lindstrom & Associates Ltd., independent petroleum consultants of Calgary, Alberta;

“Paddock Report” means a report dated January 28, 2002 prepared by Paddock as at December 31, 2001, which reports on the reserves attributable to the Properties and the estimated future net cash flow attributable thereto;

“Participating Notes” means the promissory notes issued by a predecessor to the Corporation pursuant to a promissory note trust indenture dated December 1, 1997. See “Incorporation and Organization – Intercorporate Relationships - The Participating Notes”;

“Petroleum Substances” means oil, natural gas and related hydrocarbons (except coal) including, without limitation, all liquid hydrocarbons and all other substances, including sulphur, whether gaseous, liquid or solid and whether hydrocarbon or not, produced in association with such petroleum, natural gas or related hydrocarbons;

“Properties” means the working, royalty or other interests of the Corporation in any petroleum and natural gas rights, tangibles and miscellaneous interests which the Corporation may own from time to time. See “Narrative Description of the Business – General - Principal Properties”;

“Raider” means Raider Resources Ltd.;

“Raider Acquisition Notes” means the promissory notes issued by a predecessor to the Corporation in exchange for shares of Raider. See “Incorporation and Organization - Intercorporate Relationships - The Raider Acquisition Notes”;

“Royalty” means the entitlement to receive Royalty Income derived from the Corporation's working interests in the Properties. See “Intercorporate and Organization – Intercorporate Relationships - The Royalty”;

“Royalty Agreement” means the royalty agreement dated July 31, 1996, as amended, between the Corporation and the Trustee. See “Incorporation and Organization – Intercorporate Relationships - The Royalty”;

“Royalty Income” means 99% of the amount by which Net Production Revenue exceeds the aggregate of Debt Service Charges, costs, expenses, taxes and other applicable charges payable by the Corporation in respect of its Properties. See “Incorporation and Organization – Intercorporate Relationships - The Royalty”;

“Special Resolution” means a resolution passed by a majority of not less than 66 2/3% of the votes cast by the Unitholders who voted in respect of that resolution;

“Tax Act” means the *Income Tax Act* (Canada), as amended from time to time;

“Trustee” means Computershare Trust Company of Canada, or its successors, as trustee of the Fund;

“Trust Indenture” means the trust indenture dated May 16, 1996, as amended, between the Trustee and the Manager. See “Incorporation and Organization - Intercorporate Relationships - Trust Units”;

“Trust Unit” means an equal undivided beneficial interest in the Fund;

“TSE” means The Toronto Stock Exchange;

“Unanimous Shareholder Agreement” means the unanimous shareholder agreement dated July 31, 1996 among the Corporation, the Manager and the Trustee for and on behalf of the Fund, pursuant to which, among other things, the Unitholders are entitled to elect a majority of the Board of Directors of the Corporation. See “Incorporation and Organization – Intercorporate Relationships - The Corporation - Unanimous Shareholder Agreement”;

“Unitholder” means a holder of one or more Trust Units.

ABBREVIATIONS, TERMS AND CONVERSIONS

Certain terms and abbreviations used in this Annual Information Form are defined below:

“bbl”	barrel of oil or NGL;
“bcf”	billion cubic feet of natural gas;
“boe”	barrel of oil equivalent determined by converting a volume of natural gas to barrels using the ratio of 6 mcf to one barrel; this conversion is not based on either energy content or prices;
“boepd”	barrel of oil equivalent per day;
“bpd”	barrel of oil or NGL per day;
“Established Reserves”	Proved Reserves plus 50% of Probable Reserves (See “Narrative Description of the Business - Reserves”);
“mdbl”	thousand barrels;
“mboe”	thousand barrels of oil equivalent;
“mmbtu”	million British Thermal Units;
“mcf”	thousand cubic feet of natural gas;
“mcf/d”	thousand cubic feet of natural gas per day;
“mmcf”	million cubic feet of natural gas;
“mmcf/d”	million cubic feet of natural gas per day;
“mstb”	thousand stock tank barrels;
“NGL”	natural gas liquids;

In this Annual Information Form measurements are given in standard Imperial or metric units only. The following table sets forth certain standard conversions.

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbl	cubic metres	0.159
cubic metres	bbl	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

Unless stated otherwise, all sums of money referred to in this Annual Information Form are expressed in Canadian dollars.

INCORPORATION AND ORGANIZATION

THE FUND

The Fund is an unincorporated open-end investment trust formed pursuant to the Trust Indenture. Effective November 1, 2001, Computershare Trust Company of Canada replaced Montreal Trust Company of Canada as the trustee of the Fund. The head and principal offices of the Fund are located at 1310, 111 – 5th Avenue S.W., Calgary, Alberta T2P 3Y6. The registered office of the Fund is located at Suite 1200, 700 – 2nd Street S.W., Calgary, Alberta, T2P 4V5.

The Fund's assets consist primarily of the Royalty granted by the Corporation, the Raider Acquisition Notes, the Participating Notes and the Ionic Acquisition Notes. The Royalty entitles the Fund to receive Royalty Income earned by the Corporation. See "Incorporation and Organization - Intercorporate Relationships - The Royalty". The Raider Acquisition Notes and the Ionic Acquisition Notes entitle the Fund to receive payments of principal and interest from the Corporation in accordance with the terms of promissory notes exchanged for shares of Raider and Ionic. The Participating Notes entitle the Fund to receive payments of principal and interest in accordance with the terms of a promissory note trust indenture.

Holders of Trust Units are the beneficiaries of the Fund. Unitholders indirectly receive the benefit of the Royalty consisting of the entitlement to receive an amount equal to the Royalty Income and also indirectly receive the benefit of the interest income on the Raider Acquisition Notes and the Ionic Acquisition Notes and the Participating Notes received by the Fund from the Corporation.

THE CORPORATION

Shiningbank Energy Ltd. was incorporated under the *Business Corporations Act* (Alberta) on March 7, 1996 as Proximity Energy Ltd. Its articles were amended by Certificate of Amendment dated April 9, 1996 to change the Corporation's name to Shiningbank Energy Ltd. Effective July 1, 2000, and pursuant to the provisions of the *Business Corporations Act* (Alberta), the Corporation amalgamated with Shiningbank Energy Acquisitions Ltd. ("SEAL"), Raider and Raider's wholly-owned subsidiary Cambright Gas Corporation ("Cambright") and continued under the name Shiningbank Energy Ltd. Effective May 4, 2001, and pursuant to the provisions of the *Business Corporations Act* (Alberta), the Corporation amalgamated with 923720 Alberta Inc. and Ionic Energy Inc. and continued under the name Shiningbank Energy Ltd. The Corporation is a wholly-owned subsidiary of the Manager. The head and principal office of the Corporation is located at 1310, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 3Y6. The registered office of the Corporation is located at Suite 1200, 700 – 2nd Street S.W., Calgary, Alberta, T2P 4V5.

The Corporation was incorporated for the purpose of acquiring, developing, exploiting, owning and disposing of oil and natural gas properties. The Corporation does not have employees nor does it maintain its own premises. All management services are provided by the Manager pursuant to the Management Agreement.

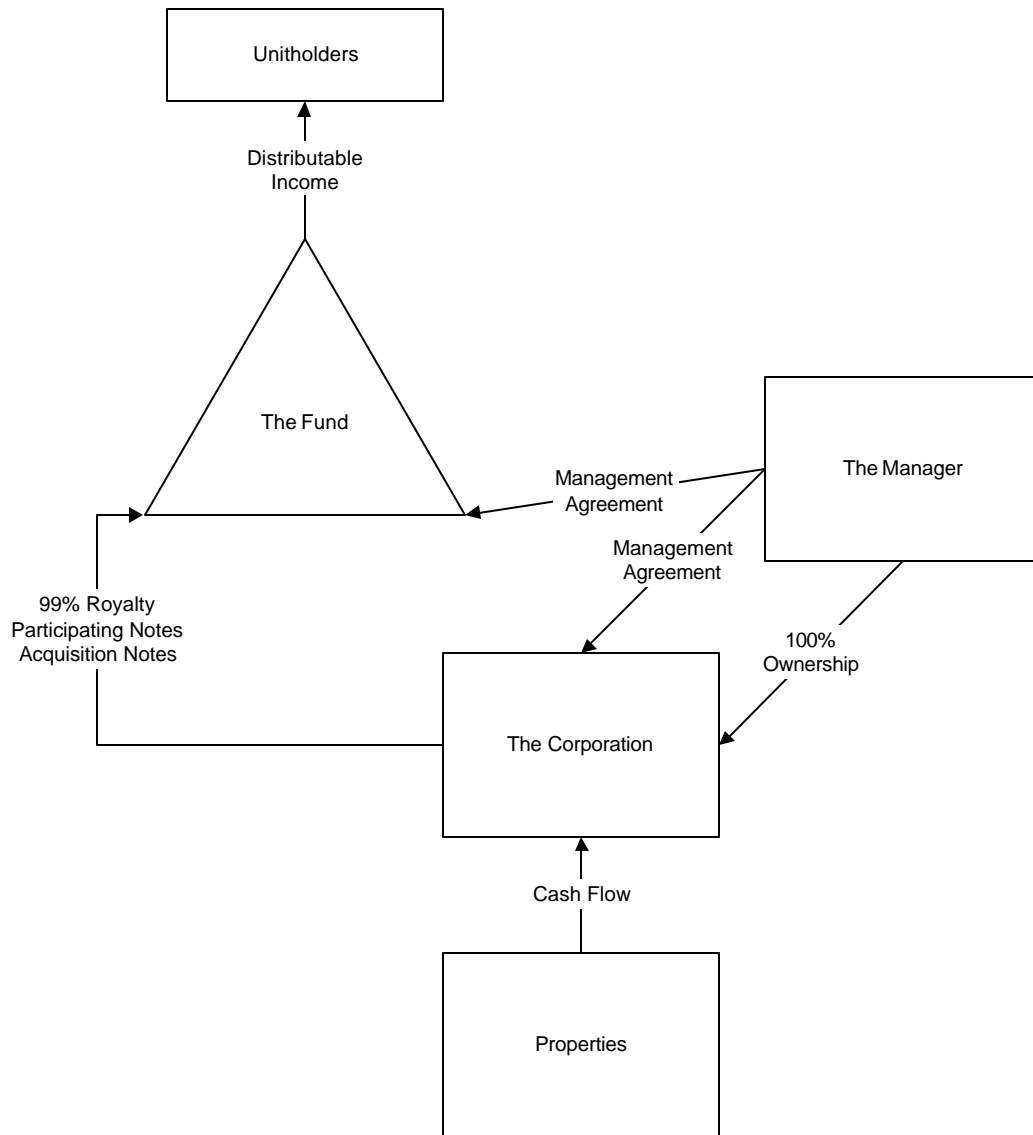
THE MANAGER

The Manager was incorporated on February 15, 1996 under the *Business Corporations Act* (Alberta) as 684264 Alberta Ltd. Its articles were amended by Certificate of Amendment dated April 9, 1996, to change its name to Shiningbank Energy Management Inc. The head and principal offices of the Manager are located at 1310, 111 – 5th Avenue S.W., Calgary, Alberta T2P 3Y6. The registered address of the Manager is Suite 1200, 700 – 2nd Street S.W., Calgary, Alberta T2P 3C4.

The Manager was formed for the purpose of managing oil and natural gas properties and owns no material assets other than its right to receive certain fees in exchange for services under the Management Agreement

INTERCORPORATE RELATIONSHIPS

The following diagram describes the flow of cash from the Properties to the Fund and from the Fund to the Unitholders. Reference should be made to the appropriate sections of this Annual Information Form for a complete description of the structure of the Fund:



The Royalty

Pursuant to the Royalty Agreement, the Corporation has granted the Royalty to the Fund. The Royalty does not constitute an interest in land and the Fund is not entitled to take its share of production in kind or to separately sell or market its share of Petroleum Substances.

The Corporation is required to pay all Crown charges in respect of the Properties and the Fund is required to reimburse the Corporation for 99% of the same. At the option of the Corporation, such reimbursement may be effected by set off against amounts of Royalty Income which the Corporation is obliged to pay the Fund.

The Royalty Agreement provides that the Fund will be entitled to be paid by the Corporation, by way of cash payments, the amount payable in respect of the Royalty for each quarter on or before the fifteenth day of the month following the completion of such quarter.

Deferred Purchase Price Obligation

In recognition that cash flows from properties acquired by the Corporation will be subject to the Royalty for the benefit of Unitholders, the Royalty Agreement imposes the obligation to pay a Deferred Purchase Price upon the Fund. The Deferred Purchase Price Obligation constitutes an ongoing obligation of the Fund to pay to the Corporation, as additions to the purchase price for the Royalty: (i) 99% of the cost of any Canadian resource properties, (as defined in the Tax Act), which may be subsequently acquired by the Corporation, directly or by way of corporate or other take-over, to the extent that such cost is not financed by the borrowings of the Corporation; (ii) 99% of the indebtedness incurred by the Corporation for the purpose of acquiring any additional Canadian resource properties; and (iii) 99% of any capital expenditures incurred in respect of the Properties and so designated by the Corporation. If the Corporation does not make a designation in respect of capital expenditures at the time they are incurred, the Deferred Purchase Price Obligation shall not be applicable to such expenditures. The Royalty Agreement provides that only the net proceeds realized by the Fund from any offerings of Trust Units which occur subsequent to the initial public offering of Trust Units, and proceeds of disposition allocable to the Fund in connection with the release of the Royalty from any of the Properties, shall be payable by the Fund to the Corporation pursuant to the Deferred Purchase Price Obligation.

Other Properties

The Manager may cause the Corporation, in the future, to acquire properties which shall be subject to the Royalty. Where required to do so by virtue of the Deferred Purchase Price Obligation, the Fund shall finance 99% of the portion of such acquisitions which constitutes Canadian resource property (as defined in the Tax Act). The remaining 1%, and the entire cost of depreciable tangible equipment relating to any such additional properties, shall be borne by the Corporation utilizing its own working capital or funds borrowed by it for such purposes from the Fund or otherwise. (note deleted in changes to Trust Indenture in 2001)

The Corporation may also acquire additional properties and related tangible equipment and fund the entire portion of such acquisitions with available working capital or borrowing.

Release of Royalty and Acquisition of Replacement Properties

Pursuant to the terms of the Royalty Agreement, the Corporation may assign, sell, exchange or otherwise dispose of all or any portion of the Properties and may release the Royalty therefrom provided that it determines that such assignments, sales, exchanges or other dispositions would be in the best interests of the Unitholders and that such sales are in accordance with the following:

1. all assignments, sales, exchanges or other dispositions of Properties for proceeds in excess of 5% of the net asset value (as defined in the Royalty Agreement) of all Properties must be approved by the Board of Directors of the Corporation and, in connection with such approval, the Board of Directors of the Corporation must determine whether the net proceeds of any sales allocatable to the Fund should be distributed to Unitholders or used to purchase additional properties; and
2. all assignments, sales, exchanges or other dispositions of Properties having a value (as defined in the Royalty Agreement) greater than 25% of the net asset value of all Properties must be approved by a Special Resolution of the Unitholders and, in connection with such approval, the Unitholders, subject to the recommendation by the Board of Directors of the Corporation, are also required to consider whether the net proceeds of the assignment, sale, exchange or other disposition, allocable to the Fund should be distributed to the Unitholders or used to purchase additional properties.

The Royalty Agreement provides that, as consideration for any such release of the Royalty:

1. the proceeds of disposition of an interest in any of the Properties (excluding proceeds in respect of related tangible equipment and certain other miscellaneous interests) to the extent not applied to repay borrowings of the Corporation shall be allocated 99% to the Fund and 1% to the residual interest of the Corporation and 100% of the proceeds in respect of related tangible equipment and certain other miscellaneous interests shall be allocated to the Corporation;
2. the proceeds of disposition allocable as aforesaid to the Fund ("Royalty Disposition Proceeds") shall be forthwith deposited in an interest bearing account maintained by the Corporation in trust for the Fund with a Canadian chartered bank (the "Proceeds Account");
3. interest received on the Proceeds Account during any quarter shall be paid by the Corporation to the Fund on or before the fifteenth day of the month following the end of such quarter;

4. the Corporation is empowered to apply, on behalf of the Fund, as a further addition to the purchase price for the Royalty, the funds deposited in the Proceeds Account towards the acquisition of additional properties to the extent of 99% of the purchase price thereof which is allocable to Canadian resource properties (as defined in the Tax Act) and the Corporation shall fund the remaining 1% of such portion and the entire cost of the depreciable tangible equipment relating to any such replacement properties with available working capital or funds borrowed for such purposes;

5. to the extent that Royalty Disposition Proceeds create a negative balance in the cumulative Canadian oil and gas property expense account (as defined in the Tax Act) as at the end of any calendar year, the Corporation shall forthwith remit to the Fund an amount from the Proceeds Account equal to such negative balance so as to permit the distribution thereof; and

6. to the extent that Royalty Disposition Proceeds are not used to purchase replacement properties within one year from the date such proceeds are deposited in the Proceeds Account, such proceeds shall be forthwith paid by the Corporation to the Fund and distributed to Unitholders.

The Raider Acquisition Notes

On May 10, 2000, the Fund mailed a takeover bid offer (the "Raider Offer") to the shareholders of Raider to acquire all of the outstanding common shares of Raider (the "Raider Shares") on the basis of, at the election of the Raider shareholders, either 0.0831 of a Trust Unit or 0.0582 of a Trust Unit and \$0.264 for each Raider Share. The Raider Offer expired on June 2, 2000. The Fund, together with its wholly-owned subsidiary SEAL, acquired approximately 94% of the issued and outstanding Raider Shares pursuant to the Raider Offer. On June 15, 2000, the Fund and SEAL acquired all of the Raider Shares that were not tendered to the Raider Offer pursuant to the compulsory acquisition provisions of the *Business Corporations Act* (Alberta).

SEAL paid approximately \$420,000 in cash and the Fund issued approximately 2.44 million Trust Units in order to acquire 100% of the Raider Shares.

Approximately 65% of the Raider's total production originated from oil and natural gas assets located in the central Alberta area and consisted primarily of liquids-rich natural gas. The balance of Raider's production, which also consisted primarily of natural gas, originated from properties located in southwestern Ontario. The major Alberta assets acquired pursuant to the acquisition of Raider are located either within or adjacent to the Fund's pre-existing areas of operations resulting in synergies and operational efficiencies. The Raider assets have also enhanced the Fund's prospect inventory within these areas. Approximately 80% of Raider's assets were comprised of natural gas reserves and production with future development drilling potential.

Effective July 1, 2000, the Corporation, SEAL, Raider and Cambright were amalgamated, continuing as Shiningbank Energy Ltd., wholly-owned subsidiary of the Manager. Prior to such amalgamation (the "Amalgamation"), the Fund transferred to SEAL all of the Raider Shares acquired by it pursuant to the Raider Offer in exchange for the Raider Acquisition Notes. The Raider Acquisition Notes issued by SEAL to the Fund in connection with the acquisition of Raider total approximately \$26.2 million and bear interest at a rate equal to the prime rate of interest announced from time to time by a major Canadian chartered bank for Canadian dollar loans. The Raider Acquisition Notes are now obligations of the Corporation.

The Ionic Acquisition Notes

On March 15, 2001, the Fund mailed a take-over bid offer (the "Ionic Offer") to the shareholders of Ionic to acquire all of the outstanding common shares of Ionic (the "Ionic Shares") on the basis of, at the election of the Ionic shareholders, either 0.306 of a Trust Unit or \$5.10 in cash for each Ionic Share, subject to a maximum of \$45 million in cash. The Ionic Offer expired on April 6, 2001, on which date the Fund, together with 923720, acquired approximately 95% of the issued and outstanding Ionic Shares. On April 12, 2001, the Fund and 923720 acquired all of the Ionic Shares that were not tendered to the Ionic Offer pursuant to the compulsory acquisition provisions of the *Business Corporations Act* (Alberta).

The Fund and 923720 paid approximately \$45 million in cash and the Fund issued 5,035,362 Trust Units in order to acquire 100% of the Ionic Shares.

All of Ionic's production originated from oil and natural gas assets located in Alberta and consisted primarily of liquids-rich natural gas. Ionic's most significant asset was the Whitecourt property, in which the Corporation held a small interest prior to the acquisition of Ionic. The Whitecourt property was operated by Ionic and is geographically nearby a significant portion of the Corporation's assets, which will allow the Corporation to realize operating synergies and efficiencies. The Ionic assets have also enhanced the Corporation's inventory of undeveloped land and prospects in this active area.

Effective May 4, 2001, the Corporation, 923720 and Ionic were amalgamated pursuant to the provisions of the ABCA, continuing as Shiningbank Energy Ltd., a wholly-owned subsidiary of the Manager. Prior to such amalgamation (the

“Amalgamation”), the Fund transferred to 923720 all of the Ionic Shares acquired by it pursuant to the Ionic Offer in exchange for demand promissory notes and the Fund transferred the shares of 923720 to the Corporation. These demand promissory notes issued by 923720 to the Fund in connection with the acquisition of Ionic total approximately \$77.6 million (the “Ionic Acquisition Notes”), bear interest at a rate equal to the prime rate of interest announced from time to time by a major Canadian chartered bank for Canadian dollar loans plus one quarter of one percent. The Ionic Acquisition Notes remain outstanding and, as a result of the Amalgamation, are now obligations of the Corporation.

The Participating Notes

Pursuant to a promissory note trust indenture dated December 1, 1997 between SEAL and the Fund, SEAL was obligated to pay interest and principal to the Fund over a period of five years. The principal amount of the obligation was \$6.6 million, which funds were used to acquire the shares of 724581 Alberta Ltd., a company holding an interest in the Virginia Hills Unit #1, an oil producing property in Alberta. 724581 Alberta Ltd. was amalgamated with SEAL on December 30, 1997. Interest is calculated and paid quarterly in arrears and consists of the income earned by SEAL from its oil and gas properties, calculated in a manner similar to the calculation of the Royalty, subject to a minimum quarterly interest of 1.375% of the principal amount and maximum quarterly interest of 3.75% of the principal amount. No principal is payable until the maturity of the notes on December 1, 2002. Effective July 1, 2000, SEAL amalgamated with Raider, Cambright and the Corporation, continuing as the Corporation. The Participating Notes are now obligations of the Corporation.

Trust Units

A maximum of 300,000,000 Trust Units are authorized for issuance pursuant to the Trust Indenture, of which 29,117,937 were issued and outstanding as at March 28, 2002. The Trust Units represent equal and undivided beneficial interests in the Fund. All Trust Units share equally in all distributions from the Fund and all Trust Units carry equal voting rights at meetings of Unitholders. No conversion or pre-emptive rights are attached to the Trust Units.

The following is a summary of certain provisions of the Trust Indenture. For a complete description of the Trust Indenture, reference should be made to the Trust Indenture, a copy of which may be obtained from the Trustee or viewed at the offices of the Manager at Calgary, Alberta.

Trustee

Computershare Trust Company of Canada is the Trustee of the Fund and also acts as the transfer agent for the Trust Units. The Trustee is responsible for: (i) receiving and reviewing subscriptions for Trust Units and issuing Trust Units pursuant thereto; (ii) maintaining books and records of the Fund and providing timely reports to holders of Trust Units; (iii) paying Distributable Income to Unitholders; and (iv) monitoring, on a continuous basis, the activities of the Fund. The Trustee may require declarations as to the jurisdictions in which beneficial owners of Trust Units are resident.

The Trust Indenture provides that the Trustee shall exercise its powers and carry out its functions thereunder as Trustee honestly, in good faith and in the best interests of the Fund and the Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The term of the Trustee's appointment was renewed at the Special and Annual Meeting of Unitholders held on May 9, 2000 for an additional two year period ending at the annual general meeting of the Unitholders in 2002. Thereafter, the Trustee shall be reappointed or changed every two years as may be determined by a majority of the votes cast at a meeting of the Unitholders. The Trustee may resign upon 60 days' notice to the Fund and the Manager. The Trustee may also be removed by Special Resolution of the Unitholders if the Trustee becomes bankrupt or insolvent or otherwise incapable of performing its responsibilities under the Trust Indenture. Such resignation or removal becomes effective upon the acceptance or appointment of a successor trustee. Prior to November 1, 2001, Montreal Trust Company of Canada was the trustee of the Fund and was replaced by Computershare, the successor in interest to Montreal Trust by virtue of the take-over of Montreal Trust by Computershare earlier in 2001. The term of the Trustee's appointment expires at the annual general meeting of the unitholders in 2002.

The Fund has retained the Manager to administer the Fund on behalf of the Trustee. The Manager, on behalf of the Trustee, keeps such books and records as are necessary for the proper recording of the business transactions of the Fund. Where it is practical to do so, these records are similar to those required to be maintained by a distributing corporation incorporated under the *Business Corporations Act* (Alberta). Unitholders generally have access to such records to the same extent as though they were shareholders of such a corporation. All such records are kept by the Manager at its offices in Calgary, Alberta.

The Trust Indenture provides that the Trustee shall be under no liability for any action taken in good faith in reliance on any documents that are, prima facie, properly executed, for any depreciation of, or loss to, the Fund incurred by reason of the sale of any property, for any inaccuracy in any evaluation provided by the Manager or any other appropriately qualified person, for relying on any such evaluation, for any action or failure to act of the Manager, or for any other action or failure to act (including, without limitation, the failure to compel in any way any former trustee to redress any breach of trust or any failure by the Manager to perform its duties under the Trust Indenture or the material contracts as set forth in the Trust Indenture), unless such liabilities arise out of the Trustee's gross negligence, wilful default or fraud. If the Trustee has retained an appropriate expert or advisor with respect to any matter connected with its duties under the Trust Indenture, the Royalty Agreement or the Management Agreement, the Trustee may act or refuse to act based on the advice of any such expert or advisor without liability. The Trustee, where it has met its standard of care, shall be indemnified out of the assets of the Fund and shall have no additional recourse against Unitholders for: (i) any taxes or other government charges imposed upon the Trustee in consequence of its performance of its duties; (ii) losses suffered by it arising out of the performance of its duties under the Trust Indenture; and (iii) for losses arising in respect of third party environmental claims, provided: (a) that such losses do not arise out of the Trustee's gross negligence, wilful default or fraud; and (b) the assets of the Fund are sufficient to satisfy the above losses of the Trustee. The Corporation has similarly indemnified the Trustee in respect of third party environmental claims.

The Trust Indenture provides that all written instruments signed by or on behalf of the Fund must contain a provision to the effect that the obligations in such instrument will not be binding upon Unitholders personally. The principal investment of the Fund is in the Royalty, pursuant to the Royalty Agreement, which contains such a provision. Notwithstanding the terms of the Trust Indenture, Unitholders may not be protected from liabilities of the Fund to the same extent that a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely. See "Risk Factors - Unitholder Liability".

Cash Distributions of Income

The amount of cash to be distributed annually per Trust Unit is equal to a pro rata share of the Fund's Distributable Income for the year. Cash distributions of Distributable Income are made on a quarterly basis on the Cash Distribution Date. The Manager determines the Royalty Income and interest income accrued to the Fund on the Raider Acquisition Notes, the Ionic Acquisition Notes and the Participating Notes for a particular period and arranges for payment of all direct expenses of the Fund from such income.

Future Offerings

The Fund may offer additional Trust Units or rights to purchase additional Trust Units (up to the authorized maximum) at such times and on such terms and conditions as the Manager may determine with the approval of the Board of Directors of the Corporation. The Royalty will attach to the interests of the Corporation in any additional properties it may acquire, whether directly or by way of corporate or other take-over, from time to time. Accordingly, the proceeds from any further offerings may be used to finance the acquisition of additional properties, whether directly or by way of corporate or other take-over, should such be available on terms and conditions acceptable to the Manager with the approval of the Board of Directors of the Corporation, in certain circumstances.

Meetings and Voting

Annual meetings of the Unitholders have been held since the inception of the Fund. Special meetings of Unitholders may be called at any time by the Trustee and shall be called by the Trustee upon the written request of Unitholders holding in the aggregate not less than 20% of the issued and outstanding Trust Units. Notice of all meetings of Unitholders shall be given to Unitholders at least 21 days (or such other period of time as may be prescribed by applicable securities legislation) prior to the meeting.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxy holder need not be a holder of Trust Units. Two persons present in person or represented by proxy and representing in the aggregate not less than 5% of the votes attaching to all outstanding Trust Units constitute a quorum for the transaction of business at all such meetings.

Unitholders are entitled to one vote per Trust Unit at all meetings of Unitholders. A Special Resolution of the Unitholders is required to, among other things, amend the Trust Indenture or the Royalty Agreement, remove the Trustee, remove the Manager or terminate the Fund.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada (“non-residents”) within the meaning of the Tax Act. Accordingly, the Trust Indenture provides that at no time may non-residents be the beneficial owners of a majority of the Trust Units. The Trustee may require declarations as to the jurisdictions in which beneficial holders of Trust Units are resident. If the Trustee becomes aware, as a result of requiring such declarations or otherwise, that the beneficial owners of 49% of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Trustee shall make a public announcement thereof and shall not accept a subscription for Trust Units from, or issue or register a transfer of Trust Units to, a person unless the person provides a declaration that the person is a resident of Canada. If, notwithstanding the foregoing, the Trustee determines that a majority of the Trust Units are held by non-residents, the Trustee shall send a notice to non-resident holders of Trust Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustee may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the Trustee with satisfactory evidence that they are not non-residents within such period, the Trustee shall on behalf of such Unitholders sell such Trust Units and in the interim, shall suspend the voting and distribution rights attached to such Trust Units. Any such sale shall be made on any stock exchange on which the Trust Units are listed and, upon such sale, the affected holders shall cease to be holders of Trust Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Trust Units.

Laws in certain jurisdictions outside Canada may also limit the ownership of Trust Units by certain non-residents, and the Trustee may from time to time take steps similar to the foregoing to minimize any adverse consequences to non-resident Unitholders arising from such laws.

Management of the Fund

Pursuant to the provisions of the Management Agreement, the Manager provides administrative and support services pertaining to the Fund, the Royalty, the Raider and Ionic Acquisition Notes, the Participating Notes and the Trust Units and all matters incidental thereto including those necessary: (i) for the Corporation to consider or participate in any future acquisitions, development or divestiture of any interest in Properties; (ii) to calculate or cause to be calculated Distributable Income to be paid to Unitholders; (iii) to ensure compliance by the Fund with continuous disclosure obligations under all applicable securities legislation; (iv) to provide investor relations services; (v) to provide Unitholders with periodic reports on the Royalty and Properties; and (vi) to provide Unitholders with financial reports and tax information relating to the Properties, the Royalty and the Fund.

Voting at Meetings of the Corporation

The Unitholders are entitled to certain voting rights at meetings of the Corporation. See “Incorporation and Organization – Intercorporate Relationships – The Corporation – Unanimous Shareholder Agreement”.

Termination of the Fund

The Unitholders may vote to terminate the Fund at any meeting of the Unitholders, subject to the following: (a) a vote may be held if requested in writing by the holders of not less than 20% of the Trust Units or if the Trust Units have become ineligible for investment by Exempt Plans; (b) a quorum of holders of 50% of the issued and outstanding Trust Units is present in person or by proxy; and (c) the termination must be approved by Special Resolution of the Unitholders.

Unless the Fund is terminated or extended by vote of the Unitholders earlier, the Trustee shall commence to wind up the affairs of the Fund on December 31, 2096. In the event that the Fund is wound-up, the Trustee will liquidate all the assets of the Fund, pay, retire, discharge or make provision for some or all obligations of the Fund and then distribute the remaining proceeds of sale, if any, to Unitholders.

Reporting to Unitholders

The Fund furnishes to Unitholders, within 60 days of the end of the first, second and third quarters of each year, a report which includes an unaudited statement of receipts and disbursements attributable to the Royalty for the quarter. Within 90 days of the end of each calendar year, the Fund furnishes tax reporting information to each person who received Distributable Income at any time during the previous calendar year.

The financial statements of the Fund are audited at least annually by an independent recognized firm of chartered accountants and the audited financial statements of the Fund, together with the report of such chartered accountants, are mailed by the Trustee to Unitholders within 140 days of the end of each calendar year. The fiscal year end of the Fund is December 31.

The Fund also furnishes annually to Unitholders a summary review of the acquisitions and dispositions of Properties that have occurred during the preceding year and activities conducted thereon, including locations of Properties and aggregate amounts of crude oil, natural gas and natural gas liquids produced therefrom and related operating costs. A summary description of material changes in the Fund's financial affairs and their expected impact on Unitholders are also provided.

If any material change occurs in relation to the Fund, Unitholders are provided with all such reports as applicable laws or regulatory policies may require and are advised of the material change by letter accompanying the payment of Distributable Income following such material change. The Fund complies with the continuous disclosure obligations under all applicable securities legislation.

Take-over Bids and Unitholder Rights Plan

The Trust Indenture contains provisions to the effect that if a take-over bid is made for Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror shall be entitled to acquire the Trust Units held by Unitholders who did not accept the offer on the terms offered by the offeror, subject to compliance with the relevant provisions of the Trust Indenture. On January 25, 2000, the board of directors of the Corporation approved the adoption by the Fund of a unitholder rights plan (the "Rights Plan"). The Unitholders ratified the adoption of the Rights Plan at the Special and Annual General Meeting of Unitholders held on May 9, 2000. The provisions of the Rights Plan require that Unitholders ratify the continued existence of the Rights Plan at the first annual meeting of Unitholders of the Fund following the second anniversary of the date of the Rights Plan, and at every second annual meeting of Unitholders of the Fund held thereafter. In addition, pursuant to amendments to the Trust Indenture approved by Unitholders on May 9, 2000, the Trustee has delegated its authority to the Corporation to address all matters pertaining to the Unitholder Rights Plan or the maximization of Unitholder value in the context of a response to an offer for Trust Units or for all or substantially all of the assets of the Trust or any of the managed entities.

Retraction Rights

Trust Units will be retractable at any time on demand by the holder thereof upon delivery to the Fund of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requesting retraction. Upon receipt of the retraction request by the Fund, all rights to and under the Trust Units tendered for retraction shall be surrendered and the holder thereof shall be entitled to receive a price per Trust Unit ("Redemption Price") equal to the lesser of: (i) 95% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Trust Units are surrendered for retraction; and (ii) the "closing market price" on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units are surrendered for retraction.

The "market price" for the purposes of a retraction of Trust Units will be an amount equal to the simple average of the closing price of the Trust Units for each of the 10 trading days on the principal market on which the Trust Units are quoted for trading and on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the "closing price" shall be an amount equal to the simple average of the highest and lowest prices for that trading day if there was a trade; and provided further that if there was a trade on the applicable exchange or market for fewer than 5 of the 10 trading days, the "market price" shall be the simple average of the "closing market price" on each of the 10 trading days. The "closing market price" shall be an amount equal to the closing price of the Trust Units if there was a trade on the date; an amount equal to the average of the highest and lowest prices of Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; and the average of the last bid and last ask prices of the Trust Units if there was no trading on the date.

The aggregate cash Redemption Price payable by the Fund in respect of any Trust Units surrendered for retraction during any calendar month shall be satisfied by way of a cash payment on the last day of the following month; provided that the entitlement of Unitholders to receive cash upon redemption of their Trust Units is subject to the limitations that: (i) the total amount payable by the Fund in respect of such Trust Units and all other Trust Units tendered for retraction in the same calendar month shall not exceed \$100,000 provided that such limitation may be waived at the discretion of the board of directors of the Corporation; (ii) at the time such Trust Units are tendered for retraction the outstanding Trust Units of the Fund shall be listed

for trading on a stock exchange or traded or quoted on any other market which the board of directors of the Corporation consider, in their sole discretion, provides representative fair market value prices for the Trust Units; or (iii) the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the date that the Trust Units are tendered for retraction or for more than 5 trading days during the 10 day trading period commencing immediately after the date on which the Trust Units are tendered for retraction.

If a Unitholder is not entitled to receive cash upon the redemption of Trust Units as a result of the foregoing limitations, then the Redemption Price for such Trust Units shall be the fair market value thereof as determined by the Board of Directors of the Corporation and shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie of the Fund's property (the "Fund Property"). The Fund Property may include interests in shares and/or debt instruments (the "Securities"). No fractional Securities will be distributed and where the number of Securities to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. The Fund shall be entitled to all interest paid or accrued and unpaid and to all dividends paid or declared payable with respect to the Fund Property on or before the date of such distribution in specie. The holders of the Fund Property will be subject to the provisions of all material agreements that relate to the Fund Property.

It is not anticipated that the retraction right will be the primary mechanism for Unitholders to liquidate their investment. The Securities which may be distributed to Unitholders in connection with any retraction may be subject to resale restrictions under applicable securities laws, will not be listed on any stock exchange and no market is expected to develop for such Securities. The Securities received as a result of a retraction of Trust Units may not be qualified investments for Exempt Plans, depending upon the circumstances existing at that time. The holders of the Securities will be subject to the provisions of all agreements that relate to the Securities. See "Incorporation and Organization – Intercorporate Relationships - The Royalty, The Raider Acquisition Notes, The Ionic Acquisition Notes and Participating Notes".

Management Agreement

The Trustee, the Corporation and the Manager originally entered into the Management Agreement. Amendments to the Management Agreement were approved by Unitholders in 1999. The term of the Management Agreement is five years, renewable automatically thereafter for successive three year periods by the Board of Directors of the Corporation. By virtue of an extension to the initial term of the Management Agreement approved by Unitholders in 1999, the current term ends July 31, 2004. The Management Agreement may be terminated by the Manager on the earlier of 12 months from the date of notice of termination by the Manager and the date on which a satisfactory replacement manager is appointed. If any party other than the Manager wishes to terminate the Management Agreement, except where the Manager is in default of the Management Agreement, then the Manager will be paid a termination fee. A Special Resolution of the Unitholders is required in the case of a termination by the Trustee.

In the event that the Manager is terminated pursuant to the Management Agreement and a new manager is appointed, the Manager is required to transfer all of the issued and outstanding shares of the Corporation to the subsequently appointed manager of the Corporation and the Fund for nominal consideration.

The Management Agreement may be terminated by the Corporation or the Trustee at any time if the Manager fails to carry out its material obligations thereunder and does not commence to cure such failure within 30 days of written notice being given or is otherwise in default under the Management Agreement (defaults include, among other things, bankruptcy or insolvency of the Manager). Disputes relating to the obligation of the parties under the Management Agreement may, with the consent of the parties, be resolved by mediation.

The main duties of the Manager under the Management Agreement include:

- ▶ managing all of the business and other affairs of the Fund and the Corporation;
- ▶ managing the Properties and any other assets of the Corporation;
- ▶ advising the Corporation in respect of its Properties, including the acquisition, development and disposition thereof and advising the Fund in respect of the Royalty;
- ▶ administering all matters respecting the Royalty, the Raider and Ionic Acquisition Notes, the Participating Notes and the Trust Units;
- ▶ providing or causing to be provided to Unitholders all information to which Unitholders are entitled under the Trust Indenture;

- ▶ determining the timing and terms of future offerings of Trust Units, if any, and all other services necessary for the Fund to carry on its business;
- ▶ ensuring compliance by the Fund and the Corporation with continuous disclosure obligations under all applicable securities legislation;
- ▶ providing investor relations services to the Fund;
- ▶ calling and holding all necessary meetings of Unitholders and distributing materials including notices of meetings and information circulars in respect thereof;
- ▶ determining the amounts payable from time to time to Unitholders and arranging for distributions to Unitholders of Distributable Income; and
- ▶ providing office space, equipment, clerical, technical, managerial and accounting services for the Fund and the Corporation.

In exercising its powers and discharging its duties under the Management Agreement, the Manager is required to exercise that degree of care, diligence and skill that a reasonably prudent advisor and manager in respect of oil and natural gas properties would exercise in comparable circumstances.

The Manager may acquire oil and gas properties or market Petroleum Substances on behalf of persons other than the Unitholders. There may be circumstances in which the interests of the Manager will conflict with those of Unitholders. The Manager may manage and administer such additional properties or market such other Petroleum Substances as well as enter into other types of energy-related management and advisory activities. In the event of such conflicts, decisions will be made by the Manager on a basis consistent with the objectives of each group of parties and the time limitations on investments of such parties, all consistent with the duty of the Manager to deal fairly and in good faith with each such group of persons.

The Manager will be indemnified by the Fund and the Corporation in respect of certain damages which it may suffer in discharging its obligations under the Management Agreement provided that such damages do not arise from the fraud, wilful default or negligence of the Manager.

The Board of Directors of the Corporation reviews the provision and costs of services under the Management Agreement on an ongoing basis. Any significant amendment to the Management Agreement must be approved by the Board of Directors of the Manager, the Corporation, the Trustee and by resolution of the Unitholders.

The Manager's Business Strategy

The Manager manages the Fund and the Corporation according to the terms and conditions set forth in the Management Agreement. A business strategy has been set out which utilizes the extensive management, technical and business experience of the directors and officers of the Manager with the objective of maintaining and enhancing Distributable Income to Unitholders and the value of the Trust Units. Optimizing income and value will be achieved by increasing both the quality and quantity of the assets underlying the Royalty and the quality and quantity of the assets held by the Corporation. To achieve this strategy the Manager:

- ▶ plans to acquire additional producing assets having a long reserve life;
- ▶ operates a significant number of the Properties in order to proactively manage the factors impacting Distributable Income, including operating costs, capital costs, development plans and timing, abandonment liabilities, commodity markets, joint venture billings and receipts;
- ▶ does not spend capital on high risk drilling activities;
- ▶ uses capital to exploit oil and natural gas assets and optimize cash flow where the Manager considers the risk to be low;
- ▶ has developed a production marketing strategy to provide a competitive commodity price portfolio as well as to reduce price volatility; and
- ▶ endeavours to optimize netback margins by reducing operating costs and general and administrative costs.

The Manager endeavours to capitalize on the operating, exploitation, evaluation and management experience of its officers and the directors of the Corporation in order to be competitive in the asset acquisition and cash flow enhancement process.

Manager's Acquisition Criteria

The Corporation may periodically purchase additional oil and natural gas properties or acquire corporations or other entities holding such assets, with a view to increasing Distributable Income for Unitholders. Such acquisitions are made based on the advice of the Manager and comply with the following criteria and procedures:

- ▶ each must be evaluated by an independent engineer except for properties from a single vendor acting at arm's length where the purchase price of the properties is not in excess of \$3 million or additions to properties in areas in which the Corporation already has an interest where the purchase price of the properties is not in excess of \$7.5 million;
- ▶ each is evaluated using industry accepted pricing and reserve definitions, and discount rates, payout periods and acquisition costs per boe are rigorously evaluated as part of the process to attempt to ensure a competitive Distributable Income will result from such acquisitions;
- ▶ not more than 50% of the net asset value of all Properties can be attributable to a single pool;
- ▶ at least 60% of the net asset value of all Properties must be represented by proved reserves;
- ▶ the Properties must be selected, in part, on the basis that the amount of anticipated capital expenditures required thereon will be modest and that such expenditures will be of the type which are intended to maintain, realize or improve production from such properties; and
- ▶ the approval of the Board of Directors of the Corporation is required for acquisitions exceeding \$10 million per transaction.

The oil and natural gas industry continues to go through a period of consolidation and rationalization which has resulted in an increase in property divestitures by industry participants. The Manager believes that this process will continue, thereby providing the Corporation with opportunities to acquire oil and natural gas producing properties which meet the acquisition criteria.

The Corporation

Business

The Corporation was incorporated and organized for the purpose of, and its business is restricted to, acquiring, developing, exploiting and disposing of oil and natural gas properties and granting the Royalty to the Fund. The Corporation owns the Properties and has granted the Royalty to the Fund.

Appointment of the Manager

The Manager is retained for the purposes of managing the Corporation, its subsidiaries and the subsidiaries of the Fund identifying, evaluating and assisting in the acquisition, disposition and ongoing management of the Properties and administering the Royalty. See "Incorporation and Organization – Intercorporate Relationships – Trustee - Management of the Fund".

In discharging its duties under the Management Agreement, the Manager is required to exercise that degree of care, diligence and skill that a reasonably prudent oil and natural gas industry advisor and manager would exercise in comparable circumstances.

Borrowing

The Corporation has a \$170 million credit facility with a syndicate of four Canadian chartered banks. The facility has a 364 day extendable revolving period ending on February 28, 2003, and a three year term-out. In addition, the credit facility reduces by \$5 million at the beginning of each calendar quarter commencing July 1, 2002 through January 1, 2003. The credit facility is accessed through the use of funding instruments as provided for under the credit facility and is secured by: (i) a \$300 million floating charge demand debenture pursuant to which all of the Corporation's assets are pledged; and (ii) a general security agreement under which all personal property of the Corporation has been mortgaged and charged. The facility contains provisions which may restrict the ability of the Manager to pay the Royalty and which may compel a sale of the working interests underlying the Royalty in certain circumstances, with all proceeds from such sale going to the bank and not to the Fund. The Corporation may borrow certain amounts to finance its ongoing operations as well as certain costs incurred on behalf of the Fund.

Limitations on Borrowing

Pursuant to the Royalty Agreement, the Corporation is permitted to borrow funds to finance the purchase of Properties, for capital expenditures, for other financial obligations or encumbrances in respect of the Properties or for working capital purposes and to grant security on the Properties in priority to the Royalty to secure the loan of such monies. However, the Royalty Agreement restricts the ability of the Corporation to borrow from third parties if: (i) the amounts borrowed from such third parties to finance the purchase of Properties exceeds 40% of the asset value of all of the Properties at the time of borrowing; or (ii) the Debt Service Charges on amounts borrowed from such third parties to finance the purchase of properties or capital expenditures to maintain or improve production from the Properties or other borrowings exceed 30% of the aggregate of the projected annual Royalty Income and the projected annual income from the Participating Notes, the Raider Acquisition Notes and the Ionic Acquisition Notes.

The Corporation's by-laws include such restrictions, and pursuant to the Unanimous Shareholder Agreement, any amendment to the Corporation's by-laws must be confirmed by the Unitholders.

Capital Expenditures

The Corporation may approve and fund capital expenditures under the terms of the Royalty Agreement. Future capital expenditures are intended to maintain or improve production and to exploit the Corporation's assets. Capital expenditures will not be incurred to fund what management considers to be high risk drilling activities. Capital expenditures may be financed from Royalty Income, additional issuances of Trust Units, borrowings or by joint venture agreements on the basis that the joint venture partner will assume the capital expenditures in exchange for some working interest participation in the Properties. Under the terms of the Royalty Agreement, annual capital expenditures are not to exceed 15% of the annual Net Operating Income from the Properties unless financed with borrowings or additional issuances of Trust Units. Capital expenditures which are funded from Royalty Income may have a negative short-term effect on the Fund's cash flow and Distributable Income.

Environmental Obligations

The Corporation is liable for its working interest share of ongoing environmental obligations and for the ultimate reclamation of the Properties upon abandonment. Ongoing environmental obligations are expected to be funded as incurred. The Manager believes that funding environmental obligations in this manner is appropriate given that the Corporation operates a significant number of the Properties. The Manager pro-actively manages the factors giving rise to environmental liabilities.

The Corporation's provision for abandonment costs is estimated and provided for over the remaining life of the Corporation's reserves using the unit-of-production method. Actual abandonment costs incurred in a specific period are charged against the provision. For the Royalty Income calculation, actual abandonment costs paid or payable are charged as an expense. All salvaged equipment is re-used or sold to help offset well abandonment and site reclamation costs.

Insurance

The Corporation carries insurance policies to provide protection for its assets, providing coverage at or above industry standards. Insurance policies cover property damage, business interruption and general liability. The ongoing level, type and maintenance of insurance will be determined by the Manager based upon the availability and cost of such insurance and the Manager's perception of the risk of loss. The Corporation carries insurance which provides standard industry levels of coverage to individuals for all good faith acts carried out by them on behalf of the Corporation in their capacity as directors or officers of the Corporation.

Unanimous Shareholder Agreement

The Corporation, the Manager and the Trustee have entered into the Unanimous Shareholder Agreement which provides that the Unitholders will be entitled to receive notice of and to attend all meetings of the shareholders of the Corporation and except as set forth below, to direct the manner in which the Manager will vote its shares in the Corporation at all such meetings. Prior to the Manager voting its shares in the Corporation, each Unitholder is entitled to vote in respect of the matter on the basis of one vote per Trust Unit held and the Manager is required to vote its shares in the Corporation in accordance with the result of the votes of Unitholders. Holders of Trust Units are entitled to direct the Manager as to how to vote in respect of all matters placed before the shareholders of the Corporation, including the election of directors of the Corporation (other than the two directors of the Corporation to be elected by the Manager pursuant to the Unanimous Shareholder Agreement) and the appointment of the auditors of the Corporation and the Fund. In addition, Unitholders are entitled to direct the Manager as to how to vote its shares in the Corporation on any proposed amendment to the Unanimous Shareholder Agreement, the Trust Indenture or the Management Agreement, which amendments are required to be approved by

Special Resolution. The Manager, despite being the sole shareholder of the Corporation, is not entitled, without the direction of the Unitholders, to exercise its rights as a shareholder except as set forth above.

The Unanimous Shareholder Agreement also provides that the board of directors of the Corporation shall consist of a minimum of three and a maximum of seven directors; the number of directors is currently set at five. As long as it is a party to the Management Agreement, the Manager is entitled to elect two members to the board of directors of the Corporation, with the balance to be elected by a vote of the Unitholders.

The Unanimous Shareholder Agreement provides that the Corporation is prohibited from declaring or paying any dividends on its shares, redeeming or otherwise acquiring any of its shares or paying any salaries, bonuses or other remuneration to the Manager or its directors, officers or employees except for the dividend of one percent of Net Operating Income remaining in the Corporation after payment of the Royalty and as may otherwise be specifically permitted under the Management Agreement.

The DRIP Plan

On March 14, 2000, the board of directors of the Corporation approved the adoption by the Fund of a distribution reinvestment and optional trust unit purchase plan (the "DRIP Plan"). On May 9, 2000, the adoption of the DRIP Plan was ratified by the Unitholders at the Special and Annual Meeting of Unitholders. The purpose of the DRIP Plan is to allow eligible Unitholders to purchase additional Trust Units by either 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. During 2001, all purchases of Trust Units pursuant to the DRIP Plan were made through the facilities of the TSE.

Rights Incentive Plan

Effective July 1, 2001, the Fund replaced its trust unit option plan with a trust unit rights incentive plan (the "Rights Incentive Plan"). The Rights Incentive Plan permits the board of directors of the Corporation to grant rights to purchase Trust Units to employees, officers, directors or other service providers of the Manager. The purpose of the Rights Incentive Plan is to provide an effective long term incentive to eligible participants and to reward them on the basis of the long-term Trust Unit trading price performance and distributions of the Fund, thereby reflecting the total return to Unitholders. Further information on the Rights Incentive Plan is available in the Fund's Information Circular dated March 28, 2002 which relates to the Special and Annual General Meeting of the Unitholders of the Fund to be held on May 7, 2002.

GENERAL DEVELOPMENT OF THE BUSINESS OF THE FUND

GENERAL

The Fund was created in July 1996 through the issuance of \$53 million in Trust Units to acquire the Royalty. The Fund is a conventional oil and gas royalty trust which earns income from the Royalty for the benefit of Unitholders and operates as an open-end mutual fund trust, providing Unitholders with quarterly payments of Distributable Income. Pursuant to the management services provided by the Manager, the Corporation acquires, develops and operates oil and gas properties, the cash flow from which pays the Royalty and the principal and interest under the Raider Acquisition Notes, the Ionic Acquisition Notes and the Participating Notes.

THREE YEAR HISTORY

On February 1, 1999, the Fund issued 1,100,000 Special Warrants at \$9.50 each for gross proceeds of \$10,450,000 which was used to reduce the Fund's obligation under its Deferred Purchase Price Obligation to the Corporation. The Corporation used the monies to reduce debt on its operating credit facility which accumulated through purchases of properties. The special warrants were converted into Trust Units on March 17, 1999 pursuant to their terms.

On July 8, 1999, the Fund issued 1,980,000 Trust Units at \$10.00 each for gross proceeds of \$19,800,000 which was used to reduce the Fund's obligation under its Deferred Purchase Price Obligation to the Corporation. The Corporation applied the proceeds to the acquisition of the Caroline property. See also "Narrative Description of Business – General – Caroline Cardium "B" Sand Unit No. 1".

During 1999, the Corporation purchased various properties for a total of \$25.6 million in 27 separate transactions ranging in size from under \$1,000 to \$19.0 million. All of the acquisitions were structured as asset acquisitions and, with the exception of the acquisition of the Caroline property, were financed by bank debt. Essentially all of the Caroline acquisition was

financed by the issue of Trust Units described in the previous paragraph. The only other significant property acquisition during 1999 was the acquisition of the Radial Lake property effective April 1, 1999, for consideration of \$4.2 million.

On August 15, 2000, the Fund issued 2,415,000 Trust Units at \$12.20 each for gross proceeds of \$29,463,000 which was subsequently used to finance the purchase of long-life natural gas assets.

During 2000, the Corporation purchased a total of \$96.4 million in properties in 30 separate transactions ranging in size from under \$1,000 to \$47.7 million. With the exception of the acquisition of Raider for approximately \$40.6 million (excluding future income taxes) in June 2000, the acquisitions were structured as asset acquisitions and were financed by the issue of Trust Units described in the previous paragraph, and by debt. The other significant acquisition in 2000 was the acquisition of long-life natural gas assets in Dunvegan and Anselmo, in October, 2000 for \$47.7 million acquired from the Receiver of Sunoma Energy Corporation.

On February 6, 2001, the Fund issued 2,875,000 Trust Units at \$16.20 each for gross proceeds of \$46,575,000 which initially reduced the Fund's obligation under its Deferred Purchase Price Obligation to the Corporation and was subsequently used to fund the cash component of the acquisition of Ionic Energy Inc. On September 28, 2001, the Fund completed a private placement offering of 1,200,000 Trust Units to one arm's length purchaser at a price of \$12.67 per Trust Unit resulting in gross proceeds to the Fund of approximately \$15.2 million. On November 9, 2001, the Fund issued 3,000,000 Trust Units at \$13.40 each for gross proceeds of \$40,200,000. In both cases, the proceeds were used initially to reduce the Fund's Deferred Purchase Price Obligation and subsequently to reduce debt incurred on the earlier acquisitions of long-life natural gas assets.

During 2001, the Corporation purchased various properties for a total of \$323.2 million in 11 separate transactions ranging in size from \$2,500 to the \$265.7 million Ionic Energy Inc. acquisition. With the exception of the acquisition of Ionic in April 2001, the acquisitions were structured as asset acquisitions and were financed by the issue of Trust Units described in the previous paragraph, and by debt. The other significant acquisition in 2001 was the \$28.6 million acquisition of long-life natural gas assets in Greencourt Alberta in August 2001 from Barrington Petroleum Ltd. and Petrobank Energy and Resources Ltd.

SIGNIFICANT ACQUISITIONS AND SIGNIFICANT DISPOSITIONS

On March 15, 2001, the Fund mailed a take-over bid offer (the "Ionic Offer") to the shareholders of Ionic to acquire all of the outstanding common shares of Ionic (the "Ionic Shares") on the basis of, at the election of the Ionic shareholders, either 0.306 of a Trust Unit or \$5.10 in cash for each Ionic Share subject to a maximum of \$45 million in cash. The Ionic Offer expired on April 6, 2001, on which date the Fund, together with 923720 Alberta Inc., acquired approximately 95% of the issued and outstanding Ionic Shares. On April 12, 2001, the Fund and 923720 acquired all of the Ionic Shares that were not tendered to the Ionic Offer pursuant to the compulsory acquisition provisions of the *Business Corporations Act* (Alberta).

The Fund and 923720 paid approximately \$45 million in cash and the Fund issued 5,035,362 Trust Units in order to acquire 100% of the Ionic Shares.

Trends

Commodity prices are cyclical. In recent years, the price of oil has moved through a large range and is currently in the middle of that range. It is the Manager's expectation that the price of oil over the longer term will average in the area of US\$20 to US\$22 per bbl.

Natural gas prices have also moved through a large range in the last several years, reaching peak prices of over \$10 per mcf in December 2000. These prices were not sustainable and the price dropped back to roughly \$3 per mcf by the third quarter of 2001. It is the Manager's expectation that the price of natural gas will fluctuate in the \$3 to \$5 per mcf area in the medium and long term. This expectation is based on the Manager's view of supply and demand fundamentals in the North American energy markets.

These expectations for natural gas prices are widely held and accordingly have led to significant increases in the prices paid to acquire natural gas producing properties. The Fund is dependent on a steady supply of newly acquired properties in order to offset natural production declines and to continue to grow. In order to maintain its natural gas focus, acquisition costs will likely rise in light of this trend, but the economics of such acquisitions remain viable due to the higher commodity prices being realized.

NARRATIVE DESCRIPTION OF THE BUSINESS

GENERAL

Drilling and Development Activities

The number of wells drilled by the Corporation in each of the last two years is set out below:

	2001		2000	
	Gross	Net	Gross	Net
Oil	11	0.5	11	0.8
Gas	17	3.5	26	3.7
Dry	1	0.5	1	0.0
Service	1	0.0	2	0.1
Total	30	4.5	40	4.6

The Corporation expended a total of \$5.0 million in the year ended December 31, 2001 and \$3.7 million in the year ended December 31, 2000 on development drilling activities.

PRINCIPAL PROPERTIES

The assets of the Corporation are the oil and natural gas interests upon which the Royalty has been granted and the oil and natural gas interests underlying the Raider Acquisition Notes, the Ionic Acquisition Notes and the Participating Notes. The assets of the Corporation include operated and non-operated interests. These Properties contain reserves which are being enhanced through further exploitation. Current production volumes from the Properties consist of approximately 73% natural gas and 27% oil and NGLs.

The Properties are all located in the provinces of British Columbia, Alberta and Ontario. References to net volumes refer to production before the deduction of royalties payable to others. Set out below is a description of the principal producing properties.

Dunvegan, Alberta

The Corporation owns a 4.29% working interest in the Dunvegan Gas Unit No. 1 (the "Unit"), located approximately 400 km northwest of Edmonton, Alberta. The Unit consists of 130 gross (5.6 net) producing natural gas wells. Production comes from as many as seven pay zones, but primarily the Debolt zone. The Unit was initially placed on production in 1973 and is currently producing approximately 62 mmcf of natural gas (gross). The Paddock Report assigns Established Reserves to the Corporation's interest in the Unit, of 12,634 mmcf of natural gas and 675 mbbbl of oil and NGL over the 25 year project life and estimates net 2002 gas production to be 2.5 mmcf.

Paddle River/Leaman, Alberta

The Corporation owns various interests averaging 58% in 26 gross (15.0 net) producing oil and natural gas wells in this area, located approximately 120 km northwest of Edmonton, Alberta, which produce primarily from the Nordegg formation. The natural gas produced from this area is liquids-rich with an average ratio of 35 barrels of NGL per mmcf of natural gas. The natural gas is processed at a third party owned and operated gas plant. Net production from the area in 2001 averaged 4.1 mmcf and 178 bpd of NGL. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 9,934 mmcf of natural gas and 379 mbbbl of oil and NGL over the 30 year project life and estimates net 2002 gas production to be 4.6 mmcf.

Kakut, Alberta

The Corporation owns and operates a 100% working interest in the Kakut Field which produces oil, natural gas and NGLs from seven wells in the main Charlie Lake "B" Pool and natural gas from one well in the Gething formation. The property, located approximately 50 km northeast of Grande Prairie, Alberta, was discovered in 1984. A waterflood pressure maintenance scheme was implemented in 1988 and the Alberta Energy Utilities Board granted the "B" Pool good production practice status in 1991. Natural gas conservation commenced in 1993. Net production from the four producing oil wells and one producing natural gas well averaged 141 bpd of oil and NGLs and 2.3 mmcf of gas in 2001. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 2,577 mmcf of natural gas and 298 mbbbls of oil and NGL over the remaining 11 years of project life.

Monias, British Columbia

The Corporation holds an average 48% working interest in, and operates, the Monias gas field and related facilities, located approximately 50 km southwest of Fort St. John, British Columbia. Production is from the Triassic Halfway formation which exhibits low decline rates and long producing life. This property provides an important diversification of gas pricing to the Fund by selling into British Columbia and northwestern U.S. gas markets. Net production during 2001 from the 13 (6.5 net) producing wells averaged 4.5 mmcf of natural gas and 42 bpd of NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 12,588 mmcf of natural gas and 31.5 mbbbls of NGL over the remaining 25 years of project life.

Penhold, Alberta

The Corporation owns and operates an average 59% working interest in 37 gross (23.5 net) producing natural gas wells and 14 gross (6.8 net) oil wells in the Penhold area. This property is located immediately southwest of the city of Red Deer, Alberta. Production for 2001 averaged 3.4 mmcf and 186 bpd of oil and NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 12,170 mmcf of natural gas and 555 mbbbls of oil and NGL.

Caroline Cardium 'B' Sand Unit No. 1, Alberta

The Corporation owns and operates an 82% working interest in the Caroline Cardium 'B' Sand Unit No. 1. The Unit consists of 21 gross (17.1 net) producing oil wells. This property is located immediately southwest of the town of Caroline, Alberta. Production for 2001 averaged 3.4 mmcf and 433 bpd of oil and NGLs. The Paddock Report estimates the remaining Established Reserves assigned to the Corporation's interest in the Unit to be 4,966 mmcf of natural gas and 773 mbbbls of oil and NGL.

Whitecourt, Alberta

The Corporation owns and operates an average 47% working interest in 42 gross (19.9 net) producing natural gas wells and two gross (0.8 net) producing oil wells. The natural gas is processed in the Corporation operated Whitecourt gas plant. The property is located approximately 150 km northwest of Edmonton, Alberta. Production for 2001 averaged 7.1 mmcf and 63 bpd of oil and NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 24,409 mmcf of natural gas and 169 mbbbls of oil and NGL.

St. Anne, Alberta

The Corporation owns and operates an average 88% working interest in 23 gross (20.2 net) producing oil and natural gas wells. The property is located approximately 100 km west of Edmonton, Alberta. Production for 2001 averaged 4.4 mmcf and 85 bpd of oil and NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 14,116 mmcf of natural gas and 164 mbbbls of oil and NGL.

Long Coulee, Alberta

The Corporation owns and operates an 82% in the Long Coulee Unit #2 which consists of 32 gross (26.2 net) producing oil wells. The property is located approximately 90 km southeast of Calgary, Alberta. Production for 2001 averaged 532 mcf and 394 bpd of oil and NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 2,415 mmcf of natural gas and 1,276 mbbbls of oil and NGL.

PRODUCTION

2001 Production Volumes

The following table summarizes production of oil, natural gas, and NGLs from the Properties, before deduction of royalties payable to others, for each of the last two years.

	Year ended	
	December 31	
	2001	2000
Natural gas		
Annual Total (mmcf)	22,475	13,063
Average daily (mmcf/d)	61.6	35.7
Oil		
Annual Total (mmbbl)	734.9	513.2
Average daily (bpd)	2,013	1,402
Natural gas liquids		
Annual Total (mmbbl)	470.2	352.1
Average daily (bpd)	1,288	962
Annual Total Production (mboe) @ 6 mcf/boe	4,951	3,042
Total Average Daily (boepd) @ 6 mcf/boe	13,564	8,312

Producing Wells

The following table shows the number of wells located on the Properties producing or capable of producing as at December 31, 2001:

	Oil		Natural Gas		Total	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Mcleod	2	0.8	36	12.8	38	13.6
Kakut	7	7.0	3	3.0	10	10.0
Ferrier	-	-	9	4.5	9	4.5
Caroline	36	21.5	6	2.6	42	24.1
Lochend	46	30.0	-	-	46	30.0
Morse River	12	8.8	-	-	12	8.8
Whitecourt	-	-	5	1.3	5	1.3
Penhold	4	1.7	30	17.3	34	19.0
Virginia Hills	72	2.7	-	-	72	2.7
Kaybob	43	0.6	18	0.7	61	1.3
Lator	4	2.7	-	-	4	2.7
Monias, BC	-	-	14	7.3	14	7.3
Rodney, Ontario	90	90.0	-	-	90	90.0
Dunvegan	3	0.1	114	4.8	117	4.9
Innerkip, Ontario	-	-	64	57.4	64	57.4
Other	225	19.7	301	33.3	526	53.0
Total	544	185.6	600	145.0	1,144	330.6

- Notes: (1) "Gross" refers to the number of wells in which the Corporation holds an interest.
(2) "Net" refers to the number of gross wells multiplied by the net working interest share of the Corporation.
(3) Gross wells include 24 oil and 418 natural gas wells in which the Corporation holds only a royalty interest.

Marketing Arrangements

Crude oil and NGL production is sold under 30 day evergreen contracts to various marketers. Approximately 45% of the Fund's natural gas production is sold under long term reserve-dedicated contracts to major aggregators. Approximately 55% of the Fund's natural gas production is sold on the Alberta spot market for daily or monthly terms. The Corporation also manages an active oil and natural gas hedging program where floating prices are fixed using financial instruments. The hedging strategy limits the total amount of hedged production to 50% of the Corporation's production of any single commodity.

Undeveloped Lands

As of December 31, 2001, the Fund held working interests in 452,200 gross (208,100 net) acres of undeveloped lands, principally in its core producing areas. The undeveloped lands were not evaluated in the Paddock Report.

Reserves

Paddock Lindstrom & Associates Ltd., independent petroleum and natural gas consultants, Calgary, Alberta, have prepared a report dated January 28, 2002 which evaluates the reserves of the Corporation, as at December 31, 2001, and the estimated future net cash flow, before income taxes, attributable thereto.

The following tables are based on the Paddock Report and show the estimated share of the remaining oil, natural gas and NGLs attributable to the Royalty, the Raider Acquisition Notes, the Ionic Acquisition Notes and the Participating Notes and the present value of estimated future net cash flow for these reserves, using escalated and constant prices and costs as indicated. All evaluations of the present value of estimated future net cash flow in the Paddock Report include Alberta Royalty Tax Credit and are stated after provision for estimated future capital expenditures and prior to provision for income and capital taxes, Debt Service Charges, general and administrative expenses, the Management Fee, abandonment and reclamation costs and other indirect costs and do not necessarily represent the fair market value of the reserves. The probable additional reserves and related cash flow have been reduced by 50% to reflect the risk of recovery. See "Narrative Description of the Business – General – Principal Properties" and "Incorporation and Organization – Intercorporate Relationships - The Royalty". The assumptions and qualifications utilized are summarized in the notes following the table. The Manager is not aware of any material adverse changes to the information contained in the Paddock Report.

Estimated Petroleum and Natural Gas Reserves and Present Value Escalated Prices and Costs

	Gross Reserves			Net Reserves			Estimated Present Value of Future Net Cash Flow (\$millions)			
	Oil (mstb)	NGL (mstb)	Natural Gas (bcf)	Oil (mstb)	NGL (mstb)	Natural Gas (bcf)	Undis- counted	Discounted at		
								10%	15%	20%
Proved Producing	5,721	3,180	155.2	4,980	2,286	126.5	589.2	341.6	287.3	249.7
Proved Non-producing	40	400	23.5	34	280	18.7	70.5	36.7	29.0	23.7
Proved Undeveloped	711	19	3.0	634	13	2.3	19.1	9.6	7.0	5.2
Total Proved	6,471	3,599	181.7	5,649	2,579	147.5	678.8	387.8	323.3	278.6
Risked Probable	1,422	552	29.1	1,213	391	23.1	116.2	43.1	31.8	24.8
Total Proved plus Risked Probable	7,893	4,151	210.8	6,862	2,970	170.6	795.0	430.9	355.1	303.4

**Estimated Net Cash Flows from Established Reserves
Escalated Prices and Cost (\$millions)**

Year	Oil & NGL Production (mdbl)	Natural gas Production (bcf)	Production (mboe)	Revenue	Crown	Net	Operating Expenses	Net Operating Income	Capital	Cash Flow
					and Freehold Royalties	Revenue after Royalties				
2002	1,313.2	25.8	5,613.2	134	24	110	25	86	10	76
2003	1,273.4	24.1	5,290.0	140	25	115	26	90	8	82
2004	1,169.3	20.2	4,535.9	124	22	103	24	79	6	73
2005	1,001.2	16.9	3,817.9	107	17	90	23	67	1	66
2006	866.8	14.7	3,308.5	94	16	78	22	57	1	56
2007	763.7	12.7	2,872.0	83	14	70	20	50	1	49
2008	666.0	11.3	2,541.0	75	12	64	19	45	-	45
2009	566.6	9.9	2,208.3	67	11	56	17	39	-	39
2010	489.6	8.8	1,956.3	60	10	50	16	34	-	34
2011	426.3	7.8	1,718.0	54	9	46	15	31	-	31
2012	367.3	6.9	1,517.3	49	7	42	13	29	-	29
2013	332.1	6.0	1,323.8	43	7	37	13	24	-	24
2014	302.5	5.3	1,185.8	39	7	33	12	21	-	21
2015	277.1	4.8	1,068.8	36	6	30	12	19	-	19
2016	253.4	4.1	936.7	33	5	28	11	17	-	17
2017	229.6	3.6	829.6	30	5	25	10	15	-	15
	10,297.9	182.6	40,722.9	1,165	193	972	276	697	26	671
Remainder	1,746.1	28.2	6,446.1	285	43	242	117	125	-	125
Total	12,044.0	210.8	47,169.0	1,449	236	1,214	392	822	26	796

(1) The figures used in the foregoing table have been rounded. Because of this rounding, certain columns may not add.

**Estimated Petroleum and Natural Gas Reserves and Present Value
Constant Prices and Costs**

	Gross Reserves			Net Reserves			Estimated Present Value of Future Net Cash Flow (\$millions)			
	Oil (mstb)	Natural		Oil (mstb)	Natural		Undis- counted	Discounted at		
		NGL (mstb)	Gas (bcf)		NGL (mstb)	Gas (bcf)		10%	15%	20%
Proved Producing	5,721	3,174	154.9	4,978	2,282	126.9	465.2	291.8	249.9	220.1
Proved Non-producing	40	400	23.4	34	280	18.9	53.5	29.5	23.6	19.6
Proved Undeveloped	711	19	3.0	632	13	2.3	16.5	8.3	6.1	4.4
Total Proved	6,471	3,593	181.4	5,645	2,575	148.2	535.1	329.6	279.6	244.1
Risked Probable	1,422	551	29.0	1,212	391	23.3	80.3	34.1	25.7	20.4
Total Proved plus Risked Probable	7,894	4,143	210.4	6,856	2,966	171.5	615.4	363.7	305.4	264.5

**Estimated Net Cash Flows Constant from Established Reserves
Constant Prices and Cost**

Year	Oil & NGL Production (mdbl)	Natural gas Production (bcf)	Production (mboe)	Revenue	Crown and Freehold Royalties	Net Revenue after Royalties	Operating Expenses	Net Operating Income	Capital	Cash Flow
2002	1,313.2	25.8	5,613.2	134	24	110	24	86	10	76
2003	1,273.6	24.1	5,290.2	126	22	105	25	79	8	72
2004	1,169.1	20.2	4,535.8	109	17	91	23	68	5	63
2005	1,001.5	17.0	3,826.5	92	14	78	21	57	1	56
2006	866.8	14.7	3,308.5	80	12	67	20	47	-	47
2007	764.1	12.7	2,880.7	69	10	59	18	41	-	40
2008	666.1	11.3	2,549.4	61	9	52	17	35	-	34
2009	566.7	9.9	2,216.7	53	8	45	15	30	-	30
2010	489.7	8.8	1,956.3	47	8	39	14	26	-	26
2011	426.2	7.8	1,717.9	41	7	34	12	22	-	22
2012	367.3	6.9	1,517.3	36	5	31	11	21	-	21
2013	331.5	6.0	1,323.2	31	4	27	10	17	-	17
2014	302.1	5.3	1,177.1	28	4	24	9	14	-	14
2015	276.9	4.7	1,060.2	25	4	21	9	13	-	13
2016	252.8	4.1	927.8	23	3	20	8	11	-	11
2017	228.5	3.6	828.5	20	3	17	7	10	-	10
	10,295.7	182.6	40,729.0	975	156	819	245	574	24	550
Remainder	1,741.0	28.0	6,407.6	157	22	135	67	69	-	69
Total	12,036.7	210.6	47,136.7	1,133	178	954	312	643	24	619

Notes:

- (1) The figures used in the foregoing table have been rounded. Because of this rounding, certain columns may not add.
- (2) Gross reserves are defined as the total share of reserves from which the Royalty is generated. Net reserves are defined as the Corporation's gross reserves less all royalties payable to the Crown and others.
- (3) Paddock has used its best engineering judgement in estimating production rates in evaluating the Properties. It should be recognized, however, that uncertainties in the oil and gas industry may result in actual production rates and product prices being different from those used in the Paddock Report.
- (4) Proved Reserves: Those reserves estimated as recoverable with a high degree of certainty under current technology and existing economic conditions in the case of constant price and cost analysis and anticipated economic conditions in the case of escalated price and cost analysis, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

Proved Producing Reserves: Those reserves that are actually on production and could be recovered from existing wells and facilities or, if facilities have not been installed, that would involve a small investment relative to cash flow. In multi-well pools involving a competitive situation, reserves may be subdivided into producing and non-producing reserves in order to reflect allocation of reserves to specific wells and their respective development status. 100% of the reserves classified in the Paddock Report as "Proved Producing Reserves" are on production.

Proved Non-Producing Reserves: Those proved reserves that are not classified as producing.

Probable Reserves: Those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved, but where such analysis suggests the likelihood of their existence and future recovery under current technology and existing or anticipated economic conditions. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

Established Reserves: Proved Reserves plus 50% of Probable Reserves.

- (5) Net cash flow is income derived from the sale of net reserves of oil, natural gas and gas by-products, less all capital costs, production taxes and operation costs and before provision for income taxes and administrative overhead costs. The constant price case is based upon a price forecast that freezes the price at the 2002 values from Paddock's price forecast.
- (6) All values are shown in Canadian dollars.
- (7) The escalating price assumptions assume the continuance of current laws and regulations and any forecast changes in wellhead selling prices and takes into account inflation with respect to future operating and capital costs. In the escalating price assumptions evaluation contained in the Paddock Report, operating and capital costs have been escalated in accordance with Paddock's estimate thereof.

The escalated prices used in the Paddock Report are as follows:

Year	Crude Oil		Natural Gas	Foreign
	West Texas Immediate US\$/bbl	Edmonton Light Crude Cdn\$/bbl	Alberta Reference Price Cdn \$/mmbtu	Exchange \$US/\$Cdn
2002	21.00	32.31	3.40	0.63
2003	21.50	32.55	3.96	0.64
2004	21.93	32.68	4.16	0.65
2005	22.37	33.33	4.27	0.65
2006	22.82	34.00	4.39	0.65
2007	23.27	34.68	4.48	0.65
2008	23.74	35.37	4.57	0.65
2009	24.21	36.08	4.66	0.65
2010	24.70	36.80	4.75	0.65
2011	25.19	37.54	4.85	0.65
2012	25.69	38.29	4.94	0.65
2013	26.21	39.05	5.04	0.65
2014	26.73	39.83	5.14	0.65
2015	27.27	40.63	5.25	0.65
2016	27.81	41.44	5.35	0.65
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	constant

- (8) Operating costs are based on actual costs determined from a review of operating statements. Capital costs have been included to drill, complete, equip and tie-in wells where applicable. The Paddock Report estimates the future capital expenditures necessary to achieve the estimated present worth of future net cash flows from established reserves based on escalating costs to be \$10 million in 2002, \$8 million in 2003 and \$8 million thereafter; a total of \$26 million over the life of the reserves. The Paddock Report estimates the future capital expenditures necessary to achieve the estimated present worth of future net cash flows from established reserves based on constant costs to be \$10 million in 2002, \$8 million in 2003 and \$6 million thereafter; a total of \$24 million over the life of the reserves. Capital costs have been escalated similarly to operating costs. All operating costs, capital costs and prices are in current dollars for referenced year.
- (9) The actual prices received may not correspond to the price forecast due to varying natural gas contracts, transportation and quality adjustments.

Reserves Reconciliation

The following table sets forth a reconciliation of the changes in the Fund's reserves for the year ended December 31, 2001.

	Oil and NGL (mdbl)			Natural Gas (bcf)			Barrels of Oil Equivalent (mboe)		
	Proved	Risked Probable	Established	Proved	Risked Probable	Established	Proved	Risked Probable	Established
December 31, 2000	7,791	1,570	9,361	132.1	19.2	151.3	29,812	4,771	34,583
Net acquisitions	3,284	611	3,895	68.0	11.1	79.1	14,599	2,455	17,054
Development	70	14	84	3.2	0.5	3.7	603	100	703
Revisions	130	(221)	(91)	0.9	(1.7)	(0.8)	288	(506)	(218)
Production	(1,205)	-	(1,205)	(22.5)	-	(22.5)	(4,951)	-	(4,951)
December 31, 2001	10,070	1,974	12,044	181.7	29.1	210.8	40,351	6,820	47,171

History

Average Daily Sales Volumes

2001

	March 31	June 30	September 30	December 31
Oil bpd	1,321	2,363	2,170	2,189
Gas mcf	41,480	68,018	66,444	69,991
NGL bpd	1,065	1,595	1,056	1,436
Boe (6:1)	9,299	15,294	14,300	15,290

2000

	March 31	June 30	September 30	December 31
Oil bpd	1,491	1,413	1,351	1,355
Gas mcf	27,251	31,434	38,285	45,654
NGL bpd	767	855	991	1,232
Boe (6:1)	6,800	7,507	8,723	10,196

Average prices

2001

	March 31	June 30	September 30	December 31
Oil (\$/bbl)	41.13	38.76	37.64	27.18
Gas (\$/mcf)	9.74	6.53	4.85	3.76
NGL (\$/bbl)	39.41	32.00	35.36	15.57
Boe (\$/boe 6:1)	53.86	38.42	30.69	22.60
Revenue	53.86	38.42	30.69	22.60
Royalties	14.30	8.46	7.23	3.98
Operating expenses	4.96	4.56	6.45	6.59
Netback	34.60	25.40	17.01	12.03

2000

	March 31	June 30	September 30	December 31
Oil (\$/bbl)	37.16	38.13	45.86	47.20
Gas (\$/mcf)	3.03	4.10	4.86	8.28
NGL (\$/bbl)	31.36	30.06	32.38	41.24
Boe (\$/boe 6:1)	23.81	27.76	32.16	48.26
Revenue	23.81	27.76	32.16	48.26
Royalties	4.68	5.12	6.71	10.43
Operating expenses	4.84	4.90	5.30	4.64
Netback	14.29	17.74	20.15	33.19

Acquisition and Development costs (\$000's)

2001

	March 31	June 30	September 30	December 31
Acquisition	2,242	(279)	34,489	
Exploration costs	-	-	-	-
Development and facilities	2,956	948	2,853	

2000

	March 31	June 30	September 30	December 31
Acquisition	2,270	3,295	2,789	47,415
Exploration costs	-	-	-	-
Development and facilities	628	1,259	2,901	2,397

Future Commitments

Commodity	Term Commence	Termination	Volume	Floor	Ceiling	Fixed Price
Crude oil	1-Jan-02	30-Jun-02	500 bpd	US\$20.00/bbl	US\$26.50/bbl	-
Natural gas	1-Nov-01	31-Mar-02	10,000 mcf	\$3.16/mcf	\$4.80/mcf	-
Natural gas	1-Jan-02	31-Mar-02	5,000 mcf	-	-	\$3.81/mcf
Natural gas	1-Nov-01	31-Oct-02	3,000 mcf	\$5.27/mcf	\$9.11/mcf	-
Natural gas	1-Nov-01	31-Oct-02	3,000 mcf	-	-	\$6.68/mcf
Natural gas	1-Apr-02	31-Oct-02	10,000 mcf	\$3.16/mcf	\$3.87/mcf	-
Natural gas	1-Apr-02	31-Oct-02	5,000 mcf	\$3.69/mcf	\$5.64/mcf	-
Crude oil	1-Jul-02	31-Dec-02	500 bpd	US\$24.00/bbl	US\$28.50/bbl	-

Exploration and Development

There are no material exploration or development plans currently in place.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected financial information of the Fund for the year.

SELECTED ANNUAL FINANCIAL INFORMATION

(\$thousands except per Trust Unit amounts)	2001	2000	1999
Oil and natural gas sales	170,714	104,772	44,129
Net earnings (loss)	52,151	37,764	4,663
Per Trust Unit - basic	2.08	2.64	0.42
- diluted	2.08	2.63	0.42
Distributable Income	81,979	42,410	17,400
Per Trust Unit	3.40	2.76	1.60
Total assets	503,066	232,773	118,242
Long term debt	122,459	57,381	35,519

DISTRIBUTABLE INCOME

Unitholders of record on the Distribution Record Date are entitled to receive cash distributions of the Distributable Income. The Manager will calculate the Distributable Income which will be paid by the Trustee to the Unitholders on the Cash Distribution Date. The accompanying table summarizes cash distributions from the Fund since its inception.

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Trust Unit</u>
September 30, 1996	October 15, 1996	\$0.407
December 31, 1996	January 15, 1997	\$0.420
March 31, 1997	April 15, 1997	\$0.400
June 30, 1997	July 15, 1997	\$0.400
September 30, 1997	October 15, 1997	\$0.400
December 31, 1997	January 15, 1998	\$0.400
March 31, 1998	April 15, 1998	\$0.370
June 30, 1998	July 15, 1998	\$0.350
September 30, 1998	October 15, 1998	\$0.350
December 31, 1998	January 15, 1999	\$0.360
March 31, 1999	April 15, 1999	\$0.350
June 30, 1999	July 15, 1999	\$0.380
September 30, 1999	October 15, 1999	\$0.420
December 31, 1999	January 15, 2000	\$0.450
March 31, 2000	April 15, 2000	\$0.500
June 30, 2000	July 15, 2000	\$0.580
September 30, 2000	October 15, 2000	\$0.680
December 31, 2000	January 15, 2001	\$1.000
March 31, 2001	April 15, 2001	\$1.100
June 30, 2001	July 15, 2001	\$1.100
September 30, 2001	October 15, 2001	\$0.700

Record Date
December 31, 2001

Payment Date
January 15, 2002

Distribution per Trust Unit
\$0.500

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the information under the heading "Management's Discussion & Analysis" contained on pages 20 through 27 of the Fund's Annual Report for the year ended December 31, 2001, which information is incorporated by reference herein.

MARKET FOR SECURITIES

The outstanding Trust Units of the Fund are listed and posted for trading on the TSE under the symbol SHN.UN.

DIRECTORS AND OFFICERS

The Board of Directors of the Corporation is currently set at five members; two are appointed by the Manager and three are elected in accordance with a vote of Unitholders taken at the annual meeting of Unitholders of the Fund. The Fund does not have any directors or officers.

The following are the names, municipalities of residence and principal occupations of the directors and officers of the Manager and the Corporation.

<u>Name and Municipality of Residence</u>	<u>Position with the Corporation</u>	<u>Principal Occupation</u>
Arne R. Nielsen Calgary, Alberta	Executive Chairman and Director	Executive Chairman of the Manager and the Corporation
David M. Fitzpatrick Calgary, Alberta	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Manager and the Corporation
Warren D. Steckley ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Director	President and Chief Operating Officer, Barnwell of Canada Limited, a private oil and gas company
Edward W. Best ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Director	Consultant to international and domestic companies, governments and associations, primarily in the petroleum industry.
D. Grant Gunderson ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Director	Associate with Sayer Securities Limited (an investment banking company)
Gregory D. Moore Calgary, Alberta	Vice President, Operations	Vice President, Operations of the Manager and the Corporation
Terry P. Prokopy Calgary, Alberta	Vice President, Land	Vice President, Land of the Manager and the Corporation
Bruce K. Gibson Calgary, Alberta	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Manager and the Corporation
Richard W. Clark Calgary, Alberta	Corporate Secretary	Partner with Gowling Lafleur Henderson LLP, lawyer

Notes: (1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Environmental and Corporate Governance Committee

Each of the Directors has been a director since the inception of the Fund in July, 1996. Directors are elected at each annual general meeting of Unitholders to hold office until the next such meeting. The next annual general meeting of

Unitholders will be held on May 7, 2002. As a group, the Directors and Officers of the Corporation beneficially own, directly or indirectly, or exercise control over less than 1% of issued and outstanding Trust Units.

ARNE R. NIELSEN

Mr. Nielsen was President of Mobil Oil Canada Ltd. ("Mobil") from 1967 through 1977 and thereafter through 1982 was President and Chief Executive Officer of Canadian Superior Oil Ltd. also serving as Chairman from 1982 through 1986. Pursuant to the acquisition of Canadian Superior Oil Ltd. by Mobil, Mr. Nielsen served as Chairman and CEO of Mobil from 1986 through 1989. Since that time, Mr. Nielsen has served as Chairman and Chief Executive Officer of Bowtex Energy (Canada) Corporation and thereafter through May of 1994 in executive positions with POCO Petroleum Ltd. Since May of 1994, Mr. Nielsen has consulted to various western Canadian and international oil companies. In April of 1995, Mr. Nielsen was appointed Chairman and a director of Serenpet Inc., a position he held until July 31, 1996 when he resigned upon closing of the Fund's initial public offering. Mr. Nielsen currently is also a director of the following companies: Enerplus Resources Corporation, VAALCO Energy Inc., Grand River Resources Ltd. and Softrock Petroleum Ltd. Mr. Nielsen graduated from the University of Alberta in 1949 with an Honors Bachelor of Science Degree in Geology and, subsequently, a Master's Degree in Geology in 1950. In 2000 he received an Honorary Doctorate of Science Degree from the University of Alberta. He is a member of the Association of Professional Engineers, Geologists, and Geophysicists of Alberta, the Canadian Society of Petroleum Geologists, the American Association of Petroleum Geologists and the American Institute of Professional Geologists.

DAVID M. FITZPATRICK

Mr. Fitzpatrick was employed in various senior management positions at Serenpet Inc. including Chief Operating Officer and, most recently, Senior Vice-President, Corporate Development and Gas Marketing from 1990 until July 31, 1996 when he resigned upon closing of the Fund's initial public offering. Prior to joining Serenpet Inc., Mr. Fitzpatrick held engineering and supervisory positions with Canadian Hunter Exploration Ltd. and Amoco Canada Petroleum Co. Ltd. Mr. Fitzpatrick is currently a member of the Board of Governors of the Canadian Association of Petroleum Producers. Mr. Fitzpatrick graduated from Queen's University in 1981 with a degree in Geological Engineering and received an Executive Management Program certificate from Queen's University in 1994. He is a member of the Association of Professional Engineers, Geologists, and Geophysicists of Alberta and the Society of Petroleum Engineers.

WARREN D. STECKLEY

Mr. Steckley is currently President and Chief Operating Officer of Barnwell of Canada Limited, an oil and gas company and wholly-owned subsidiary of Barnwell Industries Inc., a public company which trades on the American Stock Exchange. From 1994 to 1998, he was an independent consultant providing a range of technical and financial services to emerging oil and gas companies. Prior to 1994, Mr. Steckley was employed at PowerWest Financial Ltd. (now ARC Financial Corporation) as a Senior Investment Analyst and then as a Vice-President. Mr. Steckley is currently a director of Bolt Energy Ltd., a public company listed on the Canadian Venture Exchange, as well as Revolution Energy Inc. and Great Northern Exploration Ltd., private oil and gas companies.

EDWARD W. BEST

Mr. Best was President of the Oil and Gas Division and a director of BP Canada Inc. from 1980 to 1985 when he retired after being employed with BP Canada Inc. and related companies in various management and professional functions for 30 years. From 1985 to June, 1995 he was a partner of Foster Research, a management and economic consulting firm. He has consulted internationally and domestically for a number of companies, governments and associations, primarily in the petroleum industry. Mr. Best has been a director for a variety of Canadian companies such as NOVA Corporation, Polysar Energy and Chemical Corporation, Canterra Energy Ltd., ProGas Ltd. and CanWest Gas Supply Inc. He is also a director of a number of junior oil and gas companies and a member of the Alberta Environmental Appeal Board.

D. GRANT GUNDERSON

Mr. Gunderson was Vice-President, Economics and Planning of Canadian Superior Oil Ltd. from 1981 through January 1986, when that Company was acquired by Mobil Oil Canada. From 1986 through 1987, Mr. Gunderson was Manager of Mobil Canada's heavy oil division. From 1988 until July 1990, Mr. Gunderson worked in Mobil Oil's head offices in New York and Fairfax, Virginia, in a planning capacity. Returning to Canada in July 1990, Mr. Gunderson served as Vice President, Business Development of Bowtex Energy (Canada) Corporation until 1992, and as President and Director of that Company until July 1, 1993 when Bowtex was merged with Luscar Oil and Gas Ltd. Mr. Gunderson joined Sayer Securities Limited in February 1994, as an associate, and continues in that position.

GREGORY D. MOORE

Prior to joining the Manager, Mr. Moore held various engineering and senior management positions with a number of oil and gas exploration and production companies in western Canada and Australia with emphasis on field operations, drilling and completions, production engineering, property acquisitions and dispositions and reservoir exploitation. Most recently, Mr. Moore was Vice President, Production and Operations with Omega Hydrocarbons Ltd. Prior to this, he held positions of increasing responsibility with Suncor Inc., Delhi Petroleum Pty. Ltd. in Australia, Husky Oil Operations Ltd. and Amoco Canada Petroleum Co. Ltd. Mr. Moore graduated from Nova Scotia Technical College in 1970 with a degree in Chemical Engineering and received a Western Executive Program Certificate in 1989 from the University of Western Ontario. He is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta, the Society of Petroleum Engineers and the Canadian Institute of Mining, Metallurgy and Petroleum.

TERRY P. PROKOPY

Mr. Prokopy has over 29 years of land experience with both major and junior oil and gas companies. Mr. Prokopy was appointed Vice President, Land in July 2001. Prior to joining the Manager in December 2000, Mr. Prokopy consulted to Cabre Exploration from 1999. From 1996 through 1999, Mr. Prokopy was Vice President, Land for Gardiner Exploration Limited. He was Vice President, Land for Gardiner Oil and Gas Ltd. (formerly Asamera Inc.) from 1988 through 1996 and he served as Land Manager for Asamera Inc. from 1986 through 1988. Prior to this, he held various senior positions with Unicorp Resources, Shelter Hydrocarbons Ltd., Francana Oil & Gas Ltd., Provident Resources Ltd., Amoco Canada Petroleum Company Ltd. and Red River Oils. Mr. Prokopy has a Bachelor of Arts Degree in Economics from the University of Calgary and is a member of the Canadian Association of Professional Landmen.

BRUCE K. GIBSON

Bruce K. Gibson was appointed Vice President, Finance and Chief Financial Officer of the Manager on September 16, 1997. From January, 1996 to September, 1997, Mr. Gibson was Vice-President, Finance of Magrath Energy Corporation. From September, 1987 to July, 1995, Mr. Gibson was Vice President, Finance of Northridge Exploration Ltd. Mr. Gibson obtained a Bachelor of Commerce Degree from the University of Calgary in 1978, is a member of the Canadian and Alberta Institutes of Chartered Accountants, a member of the Canadian Petroleum Tax Society, and a member of the Petroleum Accountants Society of Canada.

RICHARD W. CLARK

Mr. Clark is a partner at the Calgary office of the national law firm of Gowling Lafleur Henderson LLP, and practices primarily in the areas of securities and corporate finance law. He is the Corporate Secretary of both the Corporation and the Manager, a position he has held since the inception of the Fund in July 1996. Mr. Clark is a director of Shaker Petroleum Inc., Toro Energy Inc. and Landmark Capital Corp., each of which is listed on the Canadian Venture Exchange. Mr. Clark is the Corporate Secretary of Rise Healthcare Inc., a company listed on the Canadian Venture Exchange. In addition, Mr. Clark is also a director or officer of a number of private companies.

INFORMATION CONCERNING THE OIL AND NATURAL GAS INDUSTRY

GOVERNMENT REGULATION

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. It is not expected that any of such controls or regulations would affect the operations of the Fund or the Corporation in a manner materially different that they would affect other companies of similar size in the oil and natural gas industry. All current legislation is a matter of public record and the Manager and the Corporation are unable to predict what additional legislation or amendments may be enacted.

PRICING AND MARKETING - OIL

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of the refined products and the supply/demand balance. Oil exports may be made pursuant to export contracts with terms not exceeding one year in the case of light crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board ("NEB"). Any oil export to be made pursuant to a

contract of longer duration requires an exporter to obtain an export license from the NEB and the issue of such a license requires the approval of the Governor in Council.

PRICING AND MARKETING - NATURAL GAS

In Canada, the price of natural gas sold is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts in excess of two years must continue to meet certain criteria prescribed by the NEB and the government of Canada. As is the case with oil, natural gas exports for a term of less than two years must be made pursuant to an NEB order, or, in the case of exports for a longer duration, pursuant to an NEB license and Governor in Council approval. The price received by the Corporation depends, in part, on the prices of competing natural gas and other substitute fuels, access to downstream transportation, distance to markets, length of the contract term, weather conditions, the supply and demand balance and other contractual terms.

The governments of Alberta and British Columbia also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

THE NORTH AMERICAN FREE TRADE AGREEMENT

On January 1, 1994 the North American Free Trade Agreement (“NAFTA”) among the governments of Canada, the U.S. and Mexico became effective. The NAFTA carries forward most of the material energy terms contained in the Canada - U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S. or Mexico will be allowed provided that the restrictions are justified under certain provisions of the General Agreement on Tariffs and Trade and then only if the export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of the energy resource (based upon the proportion prevailing in the most recent 36 month period), (ii) impose an export price higher than the domestic price, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

ROYALTIES AND INCENTIVES

In addition to federal regulation, the provinces of Alberta and British Columbia have legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on the prescribed reference prices, well productivity, geographical location, field discovery date, the method of recovery and the type or quality of the petroleum product produced.

From time to time the governments of Canada and Alberta have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced production projects.

Regulations made pursuant to the *Mines and Minerals Act* (Alberta) provide various incentives for exploring and developing oil reserves in Alberta. Oil produced from horizontal extensions commenced at least five years after the well was originally spudded may qualify for a royalty reduction. An 8,000 cubic metre exemption is available for production from a well that has not produced for a 12 month period, if resuming production after September 30, 1992 and prior to February 1, 1993, or for a 24 month period if resuming production after January 31, 1993. Oil produced from pools discovered after September 30, 1992 is generally eligible for a 12 month royalty holiday, subject to a \$1 million cap. Oil produced from low productivity wells, enhanced recovery schemes (such as injection wells) and experimental projects is also subject to royalty reductions.

The royalty reserved to the Alberta Crown, subject to various incentives, is between 15% and 30%, in the case of new gas, and between 15% and 35%, in the case of old gas, depending upon a prescribed or corporate average reference price. Gas produced from qualifying exploratory gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 continues to be eligible for a royalty exemption for a period of 12 months, up to a prescribed maximum amount. In the case of oil, the Alberta

government generally collects lower royalties from eligible oil pools discovered after September 30, 1992, at which time royalty rates and rate caps were reduced on prior existing oil production.

In Alberta, a producer of oil or natural gas from certain properties is entitled to a credit against the royalties payable to the Crown by virtue of the Alberta Royalty Tax Credit program. The Alberta Royalty Tax Credit program is based on a price-sensitive formula, and is a function of the Royalty Tax Credit reference price (RTCPR). The RTCPR is set quarterly by the Minister of Energy, and is based on the oil and gas par prices for the previous quarter. The Alberta Royalty Tax Credit rate varies between 75% when the RTCPR falls below \$100 per cubic metre, and 25% when the RTCPR exceeds \$210 per cubic metre. The Alberta Royalty Tax Credit rate is currently applied to a maximum of \$2,000,000 of Alberta Crown Royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from corporations claiming maximum entitlement to Alberta Royalty Tax Credit will generally not be eligible for Alberta Royalty Tax Credit. There is no assurance that the Alberta Royalty Tax Credit program will carry on indefinitely. However, the Alberta Royalty Tax Credit program is based on a three year rolling term and there is currently no sunset provision.

In British Columbia, the amount payable as a royalty in respect of oil depends on a number of factors including the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), whether the oil is considered to be incremental oil, whether the oil is produced from a well shut-in for at least 36 months immediately preceding January 1, 1981, the quantity of oil produced in a month and the value of the oil. Oil produced from pools discovered after June 30, 1974 may be exempt from the payment of a royalty for the first 36 months of production. The royalty payable on natural gas is determined by a sliding scale based on a reference price which is the greater of the amount obtained by the producer and a prescribed minimum price. Gas produced in association with oil has a minimum royalty of 8% while the royalty in respect of other gas may not be less than 15%.

Oil and natural gas royalty holidays and reductions for specific wells reduce the amount of Crown royalties paid by the Corporation to governments. These incentives increase the net income of the Corporation.

There are no assurances that the government's programs or other incentives currently in place will remain so. The termination of any of the current incentives may have a significant effect upon the Fund and the amount of Distributable Income available to Unitholders. Alberta Royalty Tax Credit may be claimed in respect of eligible properties only by the Corporation and not by holders of Trust Units. Substantially all of the Properties are not eligible producing properties under the Alberta Royalty Tax Credit program.

LAND TENURE

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences and permits for varying terms and on conditions set forth in provincial legislation, including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

ENVIRONMENTAL REGULATION

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations and can effect the location and operation of wells and other facilities and the extent to which exploration and development is permitted. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in the imposition of fines or clean-up orders. Environmental legislation in the Province of Alberta has been consolidated into the *Environmental Protection and Enhancement Act* (the "EPEA"), which came into force on September 1, 1993. The EPEA imposes stricter environmental standards, requires more stringent compliance, reporting and monitoring obligations and significantly increases penalties. In British Columbia, the *Environmental Assessment Act* came into effect on June 30, 1995. This Act consolidates two previous processes for revision of major energy projects into one environmental assessment process and includes public participation.

The Fund is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature, as a result of the increasingly stringent laws relating to the protection of the environment. The Fund's internal procedures are designed to ensure that the environmental aspects of new developments are taken into account prior to proceeding. The Manager of the Fund believes that it is reasonable likely that the trend towards stricter standards in environmental legislation and regulation will continue.

RISK FACTORS

The Trust Units do not represent a traditional investment in the oil and natural gas industry. Prospective purchasers of the Trust Units should carefully consider the information set forth below and the other information set forth herein before deciding to invest in the Trust Units.

DEVELOPMENT OF ADDITIONAL RESERVES

The Fund's future success and its Distributable Income are dependent upon the Corporation's ability to develop or acquire additional oil and natural gas reserves that are economically recoverable at attractive acquisition prices. Except to the extent that the Corporation conducts successful activities or acquires properties containing proved reserves, or both, the proved reserves and production of the Corporation will generally decline as reserves are produced. If prevailing oil and natural gas prices were to increase significantly, the Corporation's costs to add reserves could be expected to increase. The drilling of oil and natural gas wells involves a high degree of risk, especially the risk of a dry hole or of a well that is not sufficiently productive to provide an economic return on the capital expended to drill the well.

To the extent that external sources of capital, including the issuance of additional Trust Units, become limited or unavailable, the Corporation's ability to make the necessary capital investments to maintain or expand its oil and natural gas reserves will be impaired. To the extent that the Corporation is required to use Net Production Revenue to finance capital expenditures or property acquisitions, the level of Distributable Income will be reduced.

There is strong competition relating to all aspects of the oil and gas industry. The Corporation will actively compete for reserve acquisitions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Corporation. There can be no assurance that the Corporation will be successful in developing additional reserves or acquiring reserves on terms that meet the Fund's investment criteria.

Exploitation and development risks are due to the uncertain results of searching for and producing oil and natural gas using imperfect scientific methods. These risks are mitigated by using highly skilled staff, focussing exploitation efforts in areas in which the Corporation has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods and controlling costs to maximize returns. Advanced oil and natural gas related technologies such as three dimensional seismography, reservoir simulation studies and horizontal drilling may, where appropriate, be used by the Corporation to improve its ability to find, develop and produce oil and natural gas.

OIL AND NATURAL GAS PRICES - MARKETABILITY OF PRODUCTION

The Fund's revenues are dependent upon prevailing prices for oil and natural gas. Oil and natural gas prices can be extremely volatile and are affected by the actions of foreign governments, international cartels and the Canadian federal and provincial governments. In addition, the marketability of the production underlying the Royalty and the interest payable on the Participating Notes depends upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial regulation on such production and general economic conditions. All of these factors are beyond the control of the Manager, the Corporation and the Fund.

The Fund operates in a competitive environment, wherein the commodity price is and could be affected by a number of factors beyond the control of the Fund. The Corporation's results of operations and financial position, and therefore the amounts paid to the Fund pursuant to the Royalty, the Raider and Ionic Acquisition Notes and the Participating Notes, are dependent on the prices received for its oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil producing regions, which are beyond the control of the Manager, the Corporation and the Fund. Any decline in oil or natural gas prices could have a material adverse effect on the Corporation's operations, financial condition, proved reserves and the level of expenditures for the development of its oil and natural gas reserves. Distributable Income will therefore be sensitive to prevailing oil and natural gas prices.

The Manager may manage the risk associated with changes in commodity prices and foreign exchange rates by causing the Corporation, from time to time, to enter into crude oil or natural gas price hedges and forward foreign exchange contracts. To the extent that the Fund engages in risk management activities related to commodity prices and foreign exchange rates, it will be subject to credit risks associated with counter parties with which it contracts.

TITLE

Although satisfactory title reviews of the Properties are conducted in accordance with industry standards, those title reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of the Corporation to a Property. A reduction of Royalty Income could result in those circumstances.

ENVIRONMENTAL CONCERNS

The operation of oil and natural gas wells involves a number of natural hazards which may result in blowouts, environmental damage or other unexpected or dangerous conditions resulting in liability to the Manager and the Corporation and possibly liability to third parties. The oil and natural gas industry is subject to extensive environmental regulation which provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in fines or the issuance of clean-up orders. The Corporation will make reasonable provision for well abandonment where appropriate, however there can be no assurance that such provision will be sufficient to satisfy all such obligations. No sinking fund or reserve will be established for the purpose of site reclamation or abandonment costs. Actual abandonment costs incurred in a specific period are deducted for purposes of the Royalty Income, the Raider and Ionic Acquisition Notes and Participating Notes interest calculations and will reduce the amount of Distributable Income available for distribution to Unitholders.

RESERVES

Although Paddock and the Fund have carefully prepared the reserve figures included herein and believe that the methods of estimating reserves have been verified by judgment and operating experience, such figures are estimates and no assurance can be given that the indicated levels of reserves will be produced. Probable reserves estimated for properties may require revision based on the actual development strategies employed to prove such reserves. Declines in the reserves of the Corporation that are not offset by the acquisition or development of additional reserves may reduce the underlying value of Trust Units to Unitholders. Trust Units will have little or no value once all of the oil and natural gas reserves of the Corporation have been produced. As a result, holders of Trust Units will have to obtain the return of capital invested out of cash flow derived from their investment in such Trust Units.

PURCHASE OF RESERVES

Acquisitions of resource issuers and resource assets by the Corporation will be based on engineering and economic assessments made by management and reviewed by independent engineers. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other governmental levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Manager, the Corporation or the Fund. In particular, changes in the prices of and markets for oil and natural gas from those anticipated at the time of making such assessments will affect the return on and value of the Trust Units. In addition, all such assessments involve a measure of geological and engineering uncertainty which could result in lower production and reserves than anticipated.

DEPLETION OF RESERVES

The Fund has certain unique attributes that differentiate it from other oil and gas industry participants. Distributions of Distributable Income in respect of the Corporation's oil and gas properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. The Corporation will not be reinvesting cash flow in the same manner as other industry participants. Accordingly, absent capital injections, the Corporation's initial production levels and reserves will decline.

The Corporation's future oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on the Corporation's success in exploiting its reserve base and acquiring additional reserves. Without reserve additions through acquisition or development activities, the Corporation's reserves and production will decline over time as reserves are exploited.

To the extent that external sources of capital, including the issuance of additional Trust Units, become limited or unavailable, the Corporation's ability to make the necessary capital investments to maintain or expand its oil and natural gas reserves will be impaired. To the extent that the Corporation is required to use cash flow to finance capital expenditures or property acquisitions, the level of Distributable Income will be reduced.

There can be no assurance that the Manager, on behalf of the Corporation, will be successful in developing or acquiring additional reserves on terms that meet the Fund's investment objectives.

RELIANCE ON KEY PERSONNEL

Unitholders will be entirely dependent on the management of the Manager in respect of administration of all matters relating to the Properties and the Trust Units for so long as the Management Agreement and any renewals of that agreement are in force. Investors who are not willing to rely on the management of the Manager should not invest in the Trust Units.

The Fund is highly dependent upon the executive officers and key employees of the Manager. The unexpected loss of the services of any of these individuals could have a detrimental effect on the Fund. In particular, termination of the Management Agreement between the Manager, the Corporation and the Trustee, could result in a significant loss to the Fund. See "Directors and Officers". The directors and officers of the Manager and the Corporation and have extensive experience in oil and natural gas production activities.

CREDIT FACILITY

The Corporation has credit facilities in the amount of \$170 million. Variations in interest rates could result in significant changes in the amount required to be applied to debt service before payment of the Royalty and principal and interest on the Raider and Ionic Acquisition Notes and the Participating Notes. Certain covenants of the agreements of the Corporation with the bank could limit distributions to the Fund. Although the Manager believes that the bank lines of credit are sufficient, there can be no assurance that the amount will be adequate for the financial obligations of the Corporation or that additional funds can be obtained. If the Corporation does not earn sufficient income from the Properties to meet its debt service obligations, the bank could foreclose on the Properties and, if the Properties are sold, also cause the Royalty, the Raider and/or Ionic Acquisition Notes and/or the Participating Notes to be sold. The credit facilities have no scheduled principal repayments and no principal repayments are expected to be required during 2001. Upon annual review of the underlying assets pledged as security for the credit facilities, the bank may adjust the size of the credit facilities. Principal repayments as required by the bank or as determined by the Corporation will reduce Distributable Income. The credit facilities contain provisions which may restrict the ability of the Manager to pay the Royalty, principal or interest on the Raider and Ionic Acquisition Notes or on the Participating Notes and which may compel a sale of the working interests underlying the Royalty, the Raider and Ionic Acquisition Notes or the Participating Notes in certain circumstances, with all proceeds from such sale going to the bank and not to the Fund.

FOREIGN EXCHANGE

Operating costs incurred by the Corporation are generally paid in Canadian dollars. World oil prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact the Corporation's net production revenue. To the extent that the Corporation has engaged or will in the future engage in risk management activities related to commodity prices and foreign exchange rates, through entry into oil and natural gas price hedges and forward foreign exchange contracts or otherwise, the Corporation will be subject to unfavourable price changes and credit risks associated with the counterparties with which it contracts.

CAPITAL INVESTMENT

The timing and amount of capital expenditures will directly affect the amount of Distributable Income for distribution to Unitholders. Distributions may be reduced, or even eliminated, at times when significant capital or other expenditures are made.

POTENTIAL CONFLICTS OF INTEREST

Some of the directors of the Manager and the Corporation are also directors of other oil and natural gas companies, which may from time to time be in competition with the Manager, the Corporation and the Fund for working interest partners, property acquisitions, or other limited resources. Where required by law, appropriate disclosure of such conflicts will be made by the applicable directors. In particular, the Manager and the Corporation follow the provisions of the *Business Corporations Act* (Alberta). These provisions state that in the event that a director has an interest in a contract or proposed contract or agreement, such director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise permitted by the *Business Corporations Act* (Alberta).

COMPETITION

The oil and natural gas industry is intensely competitive and the Corporation will compete for joint venture partners and capital with a substantial number of other companies which have greater resources. Many such companies not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on a worldwide basis and as such have greater and more diverse resources upon which to draw. There is also competition between the oil industry and other industries with respect to the supply of energy and fuel to industrial, commercial and individual

customers. Oil and natural gas operations involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome.

OPERATING RISKS

The oil and natural gas business involves a variety of operating risks, including the risk of fire, explosions, blowouts and encountering formations with abnormal pressure and oil spills, the occurrence of any of which could result in substantial losses to the Fund. The Corporation maintains insurance against some, but not all, of these risks, in amounts which meet or exceed standard industry practice. There can be no assurance that any insurance will continue to be available at premium levels that justify its purchase or whether insurance will be available at all.

Continuing production from the Properties, and to some extent the marketing of production therefrom, are dependent upon the ability of the operator of such Properties. To the extent that the operator of a Property fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent or experiences cash flow problems.

CHANGES IN LEGISLATION

There can be no assurance that income tax laws, other laws or government incentive programs relating to the oil and gas industry, such as the status of investment trusts and resource allowance, will not be changed in a manner which will adversely affect the Fund and Unitholders. There can be no assurance that tax authorities having jurisdiction will agree with how the Fund calculates its income for tax purposes or that such tax authorities will not change their administrative practices to the detriment of the Fund or the Unitholders.

INVESTMENT ELIGIBILITY

The Manager will seek to ensure that the Trust Units are qualified investments for Exempt Plans under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time. If the Fund ceases to qualify at any relevant time as a "mutual fund trust" under the Tax Act, the Trust Units will cease to be qualified investments for Exempt Plans.

NATURE OF TRUST UNITS

Securities such as the Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. Trust Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. The Trust Units do not represent a traditional investment in the oil and natural gas industry and should not be viewed by investors as shares in the Fund. The Trust Units represent an equal undivided beneficial interest in the Fund. As holders of Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The market price per Trust Unit is a function of anticipated Distributable Income, the market's perception of the value of Fund Property and the Manager's ability to effect long-term growth in the value of the Fund.

UNITHOLDER LIABILITY

The Trust Indenture provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be, with certain exceptions, enforceable only against, and will be satisfied only out of the Fund's assets. Pursuant to the Trust Indenture, the Fund will indemnify and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of the Fund must contain a provision to the effect that the obligations in such instrument will not be binding upon Unitholders personally. The principal investment of the Fund is the Royalty Agreement which contains that provision. Notwithstanding the terms of the Trust Indenture, Unitholders may not be protected from liabilities of the Fund to the same extent that a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the Unitholders for claims against the Fund.

ADDITIONAL FINANCING

To the extent that external sources of capital, including the issuance of additional Trust Units, become limited or unavailable, the Fund's and the Corporation's ability to make the necessary capital investments to maintain or expand their oil and gas reserves and to invest in assets, as the case may be, will be impaired. To the extent that the Corporation is required to use distributable cash flow to finance capital expenditures, property acquisitions or asset acquisitions, as the case may be, the level of Distributable Income will be reduced.

RETURN OF CAPITAL

Trust Units will have limited value when reserves from the Properties can no longer be economically produced. Distributions of Distributable Income may not represent a "yield" in the traditional sense as they may represent either a return of capital, a return on investment or both.

DISTRIBUTION OF INCOME

The amount of cash available for distribution to holders of Trust Units is subject to a number of factors, including prevailing prices for oil and natural gas, operating costs, general and administrative costs, borrowing costs, the cost of capital, Crown and freehold royalty payments and other forms of taxation applied to the Corporation and its production, as well as the magnitude of other direct expenses of the Corporation. **It is possible that no Distributable Income will be available for distribution to holders of Trust Units due to these or other factors.**

ENFORCEMENT OF OPERATING AGREEMENTS

Operations of the wells located on properties not operated by the Corporation are generally governed by operating agreements that typically require the operator to conduct operations in a good and workmanlike manner. Operating agreements generally provide, however, that the operator will have no liability to the other non-operating working interest owners for losses sustained or liabilities incurred, except such as may result from gross negligence or wilful misconduct. In addition, third-party operators are generally not fiduciaries with respect to the Corporation, the Fund or the Unitholders. The Corporation, as owner of working interests in properties not operated by it, will generally have a cause of action for damages arising from a breach of such duty. Although not established by definitive legal precedent, it is unlikely that the Fund or Unitholders would be entitled to bring suit against third-party operators to enforce the terms of the operating agreements; thus, Unitholders will be dependent on the Corporation, as owner of the working interest, to enforce such rights.

DELAYS IN CASH DISTRIBUTIONS

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of oil and gas properties, and by the operator to the Corporation, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of oil and gas properties or the establishment by the operator of reserves for such expenses. Any of these delays could adversely affect distributions made by the Fund.

POTENTIAL FOR WRITE-DOWNS

Under Canadian accounting rules, the net capitalized cost of oil and gas properties may not exceed a "ceiling limit", which is based, in part, upon estimated future net cash flows from reserves. If the net capitalized costs exceed this limit, the Corporation must charge the amount of the excess against earnings. As oil and gas prices decline, the Corporation's net capitalized cost may approach and, in certain circumstances, may exceed this cost ceiling resulting in a charge against earnings. While these write-downs would not affect cash flow, the charge to earnings could be viewed unfavourably in the market or could limit the Corporation's ability to borrow funds or comply with covenants contained in current or future credit agreements or other debt instruments.

ADDITIONAL FINANCIAL AND OTHER INFORMATION

Additional financial information is provided in the Fund's Audited Consolidated Financial Statements for the fiscal year ended December 31, 2001.

PRINCIPAL HOLDERS OF TRUST UNITS

As at the date hereof, to the best of the knowledge the Corporation and the Manager no person or company owned of record or beneficially, directly or indirectly, more than 10% of the issued and outstanding Trust Units. As at December 31, 2001, the directors and senior officers of the Corporation and the Manager, as a group beneficially owned, directly or indirectly 140,770 Trust Units or approximately 0.48% of the issued and outstanding Trust Units.

REQUESTS FOR INFORMATION

The Manager will provide to any person, upon request to the Corporate Secretary of the Manager:

1. when the securities of the Fund are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a proposed distribution of its securities:
 - a) one copy of the Annual Information Form of the Fund, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;
 - b) one copy of the Financial Statements of the Fund for its most recently completed financial year ended December 31, 2001, together with the accompanying report of the auditors thereon, as well as one copy of any interim financial statements of the Fund subsequent to December 31, 2001;
 - c) one copy of the Fund's Information Circular -Proxy Statement dated March 28, 2002; and
 - d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus that are not required to be provided under paragraphs a, b, or c above; or
2. at any time, one copy of any of the document referred to in paragraphs 1(a), (b), and (c) above, provided the Manager may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Fund.

Additional information related to the remuneration and indebtedness of the Manager and of the directors and officers of the Manager and the Corporation, and the principal holders of Units of the Fund, options to purchase Units and interests of insiders in material transactions, where applicable, is contained in the Fund's Information Circular dated March 28, 2002 which relates to the Special and Annual General Meeting of the Unitholders of the Fund held on May 7, 2002. Additional financial information is contained in the Fund's consolidated financial statements for the periods ended December 31, 2001 and 2000 which are included in the Fund's Annual Report for the year ended December 31, 2001. A copy of such information and additional copies of this Annual Information Form may be obtained from the Manager. Please contact:

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