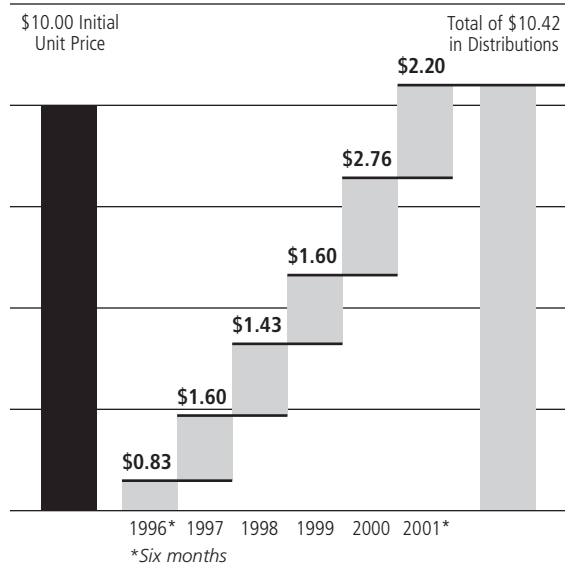


Q2

SECOND QUARTER REPORT TO UNITHOLDERS

In July 2001, Shiningbank completed its fifth year of operations. We also reached an important milestone. Investors who purchased units at the inception of the Fund have recovered their entire \$10 investment through distributions alone. In fact, with the \$1.10 distribution for this quarter, the 20th quarter for the Fund, unitholders have received cumulative distributions of \$10.42 – and still hold units trading in the \$14.00 range.

DISTRIBUTIONS SINCE INCEPTION



**104% returned**  
through distributions  
**in five years**

The Fund is named after Shiningbank Lake which is near the first property acquired by the Trust. Shiningbank comes from an Aboriginal name describing the lake's clay banks which shine like gold in the sun.

Five years of growth, value creation and distributions  
**A record to be proud of**



**HIGHLIGHTS**

- **Added 28 mmcf/d of natural gas production** when the Ionic Energy acquisition closed in early April.
- **Production growth resulted in a \$1.10 distribution** for the quarter, despite a reduction in natural gas prices.
- **Natural gas now accounts for 74% of production**, the highest weighting in the oil and gas trust sector.
- **Cumulative distributions total \$10.42 since inception**, which has returned our original unitholders' \$10 investment.

| (\$ thousands except per unit amounts) | Three months ended June 30, |           | Six months ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2001                        | 2000      | 2001                      | 2000      |
| <b>FINANCIAL</b>                       |                             |           |                           |           |
| Oil and natural gas sales              | \$ 53,472                   | \$ 18,962 | \$ 98,542                 | \$ 33,698 |
| Net earnings                           | 20,431                      | 5,215     | 40,491                    | 8,724     |
| Cash flow                              | 30,995                      | 10,197    | 57,154                    | 17,581    |
| Distributable income                   | 27,410                      | 8,274     | 49,138                    | 14,172    |
| Per unit                               | 1.10                        | 0.58      | 2.20                      | 1.08      |
| Acquisition and development costs      | 669                         | 4,554     | 5,867                     | 7,451     |
| Long term debt                         | 107,847                     | 48,356    | 107,847                   | 48,356    |
| Unitholders' equity                    | 232,540                     | 88,475    | 232,540                   | 88,475    |
| <b>OPERATIONS</b>                      |                             |           |                           |           |
| Average Daily Production               |                             |           |                           |           |
| Oil (bbl/d)                            | 2,363                       | 1,413     | 1,845                     | 1,452     |
| Natural gas (mmcf/d)                   | 68.0                        | 31.4      | 54.8                      | 29.3      |
| Natural gas liquids (bbl/d)            | 1,595                       | 855       | 1,331                     | 811       |
| Oil equivalent (boe/d @ 6 mcf/boe)     | 15,294                      | 7,507     | 12,313                    | 7,154     |
| Oil equivalent (boe/d @ 10 mcf/boe)    | 10,760                      | 5,411     | 8,658                     | 5,197     |
| Average Prices                         |                             |           |                           |           |
| Oil (Cdn\$/bbl)                        | \$ 38.76                    | \$ 38.13  | \$ 39.60                  | \$ 37.63  |
| Natural gas (Cdn\$/mcf)                | \$ 6.53                     | \$ 4.10   | \$ 7.74                   | \$ 3.60   |
| Natural gas liquids (Cdn\$/bbl)        | \$ 32.00                    | \$ 30.06  | \$ 34.95                  | \$ 30.68  |
| Oil equivalent (boe/d @ 6 mcf/boe)     | \$ 38.42                    | \$ 27.76  | \$ 44.22                  | \$ 25.88  |
| Oil equivalent (boe/d @ 10 mcf/boe)    | \$ 54.61                    | \$ 38.51  | \$ 62.88                  | \$ 35.63  |



## FELLOW UNITHOLDERS

### A RECORD TO BE PROUD OF

In July 2001, Shiningbank completed its fifth year of operations. The investment community considers five years to be a good test of a company's performance, and we are very proud of our record.

- **Distributions alone have returned \$10.42 per unit**, more than the initial \$10 per unit invested by our initial unitholders in July 1996.
- **Unitholders have received a 30% compound rate of return** since the Fund's inception five years ago.

Our excellent returns have been partly driven by the dramatic rise in gas prices since our inception. That was the strategy behind our focus on natural gas. But another performance factor should be considered.

- **There has been no erosion or dilution in our reserve base** – and therefore the value of the units – over the past five years.

The number of barrels of oil equivalent (boe) of reserves for each Trust Unit remains roughly the same as in July 1996. Today, as in 1996, each Trust Unit is supported by 2.3 boe of established reserves, despite production of over 13 million boe over the past five years. Our production has increased over three times from approximately 4,200 boe/d in third quarter 1996 to current production of 15,300 boe/d.

We are proud of these achievements, and in our growth in stature within the oil and gas industry. Royalty trusts have become an important part of the oil and gas sector, emerging from marginal status only a few years ago.

- **Shiningbank has grown to be a mid-sized trust** from its modest beginnings.
- **The Fund's significant financial growth** can be traced to our strategic focus on natural gas and a disciplined approach to acquisitions.

As we go forward, our primary goal will be to continue to generate superior returns through a disciplined approach to managing the Fund.

### IONIC ACQUISITION

The second quarter highlight was closing the acquisition of Ionic Energy – and seeing the impact on our results.

- **A significant production and income boost** was seen in second quarter 2001 from the Ionic acquisition in early April.
- **Production gains from the acquisition maintained distributions at \$1.10/unit** for the quarter in the face of reduced natural gas prices.

### GAS PRICES

Natural gas prices have fallen from their highs of last winter. Prices fell almost one-third from the first quarter average of \$9.74/mcf to average \$6.53/mcf in the second quarter, and have since fallen below \$4.00. It is normal to see gas prices decline in the second quarter, which is known as the shoulder season between winter's high demand for heating and another demand spike in the summer for air conditioning.



## Interim Report to the Unitholders

This price slide was more pronounced this year due to other factors: mild spring weather, the economic slowdown in the United States, and storage levels being adequately replenished. It was the threat of inadequate storage – and a possible continent-wide supply shortage – that caused gas prices to peak earlier this year. In the third quarter, we are seeing gas prices in the \$3-4/mcf range. Our hedges, which are detailed in the financial statements, will help to reduce the impact of these lower prices this summer. By the fourth quarter, rising demand should raise prices moderately.

**GAS PRICE IMPACT ON DISTRIBUTIONS**

- **Our distribution to unitholders was a record \$1.10/unit in the first quarter**, due to the highest gas prices ever seen.
- **The \$1.10/unit distribution in the second quarter was maintained** through growth in production volumes.
- **Distributions for the rest of the year** will reflect lower gas prices and are expected to be more in line with 2000 distributions which averaged \$0.69/unit.
- **Gas fundamentals are very strong.** Longer term, supply will continue to struggle to meet demand, and demand is continuing to grow, with natural gas being the fuel of choice for the foreseeable future.

**OUTLOOK**

Our growth strategy remains intact; to continue to acquire properties that fit our financial and operational criteria while maintaining a strong balance sheet.

- **On August 14, the Fund announced the acquisition** of a significant natural gas producing property in west-central Alberta. The effect of this acquisition will be seen in the third quarter.
- **Debt to cash flow ratios remain healthy at less than 2 to 1**, even using lower forward gas prices.

Our unitholders were able to benefit from an unprecedented gas pricing peak earlier this year, but our primary goal is to provide a superior return, consistency in our distributions and exposure to commodity price upside. We will see volatility in the market related to economic downturns and weather but, overall, the outlook for natural gas continues to be profitable for Shiningbank and its investors.

**Arne R. Nielsen***Chairman and Chief Executive Officer***David M. Fitzpatrick***President and Chief Operating Officer*

August 15, 2001



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**RESULTS OF OPERATIONS**

**Production Volumes**

Average daily production volumes grew 104% from second quarter 2000, mainly as a result of production added through the acquisitions of Raider Resources Ltd. in June 2000 and Ionic Energy Inc. in April 2001. The increase was partly offset by natural declines of producing properties, which are estimated to average 11% per year.

**DAILY PRODUCTION VOLUMES**

|                        | Three months ended June 30, |       |          | Six months ended June 30, |       |          |
|------------------------|-----------------------------|-------|----------|---------------------------|-------|----------|
|                        | 2001                        | 2000  | % change | 2001                      | 2000  | % change |
| Oil (bbl/d)            | <b>2,363</b>                | 1,413 | 67%      | <b>1,845</b>              | 1,452 | 27%      |
| Natural gas (mmcf/d)   | <b>68.0</b>                 | 31.4  | 116%     | <b>54.8</b>               | 29.3  | 87%      |
| NGL (bbl/d)            | <b>1,595</b>                | 855   | 87%      | <b>1,331</b>              | 811   | 64%      |
| Oil equivalent (boe/d) | <b>15,294</b>               | 7,507 | 104%     | <b>12,313</b>             | 7,154 | 72%      |

BOE volumes are reported at 6:1 with 6 mcf = 1 bbl.

**Pricing**

Benchmark West Texas Intermediate oil prices averaged US\$28.13/bbl for the second quarter and US\$28.43/bbl for the first half of 2001, both comparable to 2000 prices. Realized prices were slightly higher than the benchmark due to an erosion in the value of the Canadian dollar and an overall increase in the quality of Shiningbank's production.

Natural gas prices increased substantially over 2000 due to extremely high winter gas prices which remained strong into the second quarter. Prices have fallen substantially since then and are now at a level similar to the first half of 2000.

**AVERAGE PRICES**

|                            | Three months ended June 30, |       |          | Six months ended June 30, |       |          |
|----------------------------|-----------------------------|-------|----------|---------------------------|-------|----------|
|                            | 2001                        | 2000  | % change | 2001                      | 2000  | % change |
| Oil (Cdn\$/bbl)            | <b>38.76</b>                | 38.13 | 2%       | <b>39.60</b>              | 37.63 | 5%       |
| Natural gas (Cdn\$/mcf)    | <b>6.53</b>                 | 4.10  | 59%      | <b>7.74</b>               | 3.60  | 115%     |
| NGL (Cdn\$/bbl)            | <b>32.00</b>                | 30.06 | 6%       | <b>34.95</b>              | 30.68 | 14%      |
| Oil equivalent (Cdn\$/boe) | <b>38.42</b>                | 27.76 | 38%      | <b>44.22</b>              | 25.88 | 71%      |

**Hedging Policy and Results**

Shiningbank maintains an active hedging program for both oil and gas production. During the second quarter, the Fund hedged an average of 16.6 mmcf/d of natural gas (30% of total production), and 500 bbl/d of oil production (27% of total production). Under the Fund's hedging policy, not more than one-half of production volumes can be hedged at any one time. The objective of this activity is to assure acceptable distribution levels by fixing the price on a portion of the production portfolio.



Interim Report to the Unitholders

While the Fund's revenues were reduced in the first quarter by these price-fixing mechanisms, there was a small gain in the second quarter due to reduced market prices. For the first half of the year, the total reduction in revenue amounted to \$1.1 million (\$0.11/mcf) including a gain of \$309,000 (\$0.04/mcf) in the second quarter.

**Revenue**

Higher revenues in both the second quarter and first half of 2001 resulted from volume and price increases. The factors that contributed to higher revenues are shown in the following table:

**SALES VARIANCE ANALYSIS – BEFORE HEDGING**

|                           | Three months ended June 30, |           | Six months ended June 30, |           |
|---------------------------|-----------------------------|-----------|---------------------------|-----------|
|                           | 2001/2000                   | 2000/1999 | 2001/2000                 | 2000/1999 |
| <b>Crude oil and NGL</b>  |                             |           |                           |           |
| Volume increase           | \$ 5,566                    | \$ 1,109  | \$ 5,935                  | \$ 1,679  |
| Price increase (decrease) | (57)                        | 3,191     | 712                       | 7,464     |
| Net increase              | \$ 5,509                    | \$ 4,300  | \$ 6,647                  | \$ 9,143  |
| <b>Natural gas</b>        |                             |           |                           |           |
| Volume increase           | \$ 14,012                   | \$ 888    | \$ 16,811                 | \$ 1,413  |
| Price increase            | 14,089                      | 4,934     | 41,488                    | 6,407     |
| Net increase              | \$ 28,101                   | \$ 5,822  | \$ 58,299                 | \$ 7,820  |

**Royalties**

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalties paid to others. Royalty rates have risen in the first half of 2001 due mainly to the price-sensitive rate structure for Alberta Crown natural gas royalties. The average royalty rate for properties acquired in the Ionic Energy acquisition is also slightly higher than for Shiningbank's original properties.

|                             | Three months ended June 30, |          | Six months ended June 30, |          |
|-----------------------------|-----------------------------|----------|---------------------------|----------|
|                             | 2001                        | 2000     | 2001                      | 2000     |
| Total royalties, net (000s) | \$ 11,769                   | \$ 3,497 | \$ 23,738                 | \$ 6,393 |
| As % of revenue             | 22.0%                       | 18.4%    | 24.1%                     | 19.0%    |
| Per boe                     | \$ 8.46                     | \$ 5.12  | \$ 10.65                  | \$ 4.91  |

**Operating Costs**

Operating costs declined by 7% on a boe basis from second quarter 2000 (3% decline for the first half) due mainly to lower well workover costs, offset by higher electrical and field service costs.

|                        | Three months ended June 30, |          | Six months ended June 30, |          |
|------------------------|-----------------------------|----------|---------------------------|----------|
|                        | 2001                        | 2000     | 2001                      | 2000     |
| Operating costs (000s) | \$ 6,350                    | \$ 3,351 | \$ 10,497                 | \$ 6,347 |
| As % of revenues       | 11.9%                       | 17.7%    | 10.7%                     | 18.8%    |
| Per boe                | \$ 4.56                     | \$ 4.90  | \$ 4.71                   | \$ 4.88  |



Interim Report to the Unitholders

**General and Administrative Costs**

General and administrative costs increased 32% over second quarter 2000 and 55% for the first half due to additional staff and office costs resulting from the acquisitions of Raider Resources Ltd. and Ionic Energy Inc. However, these costs declined both as a percentage of revenue and on a boe basis due to efficiencies resulting from improved economies of scale. No general and administrative costs were capitalized.

|   | Three months ended June 30, |         | Six months ended June 30, |          |
|---|-----------------------------|---------|---------------------------|----------|
|   | 2001                        | 2000    | 2001                      | 2000     |
| General and administrative costs (000s) | \$ 1,015                    | \$ 771  | \$ 1,974                  | \$ 1,270 |
| As % of revenue                         | 1.9%                        | 4.1%    | 2.0%                      | 3.8%     |
| Per boe                                 | \$ 0.73                     | \$ 1.13 | \$ 0.89                   | \$ 0.98  |
| Per Trust Unit                          | \$ 0.04                     | \$ 0.06 | \$ 0.09                   | \$ 0.10  |

**Management Fees**

Management fees rose in 2001 due to higher operating income and were marginally higher as a percentage of revenue. The increase on a boe basis and per Trust Unit reflects the higher commodity prices received during the period.

|                              | Three months ended June 30, |         | Six months ended June 30, |         |
|------------------------------|-----------------------------|---------|---------------------------|---------|
|                              | 2001                        | 2000    | 2001                      | 2000    |
| Management fees (000s)       | \$ 1,108                    | \$ 385  | \$ 2,183                  | \$ 681  |
| As % of revenue              | 2.1%                        | 2.0%    | 2.2%                      | 2.0%    |
| As % of distributable income | 4.0%                        | 4.7%    | 4.4%                      | 4.8%    |
| Per boe                      | \$ 0.80                     | \$ 0.56 | \$ 0.98                   | \$ 0.52 |
| Per Trust Unit               | \$ 0.05                     | \$ 0.03 | \$ 0.10                   | \$ 0.06 |

**Interest**

Interest expense increased 127% from second quarter 2000 due to a higher average debt level during the period resulting from the Ionic acquisition.

|                 | Three months ended June 30, |         | Six months ended June 30, |          |
|-----------------|-----------------------------|---------|---------------------------|----------|
|                 | 2001                        | 2000    | 2001                      | 2000     |
| Interest (000s) | \$ 1,617                    | \$ 712  | \$ 2,211                  | \$ 1,301 |
| As % of revenue | 3.0%                        | 3.8%    | 2.2%                      | 3.9%     |
| Per boe         | \$ 1.16                     | \$ 1.04 | \$ 0.99                   | \$ 1.00  |
| Per Trust Unit  | \$ 0.07                     | \$ 0.06 | \$ 0.10                   | \$ 0.11  |

**Depreciation and Depletion**

Depreciation and depletion rose 172% from second quarter 2000 and 125% for the first half as a result of higher production volumes and a higher rate per boe. Per boe costs were up due to higher-priced acquisitions over the last two years.

|                                   | Three months ended June 30, |          | Six months ended June 30, |          |
|-----------------------------------|-----------------------------|----------|---------------------------|----------|
|                                   | 2001                        | 2000     | 2001                      | 2000     |
| Depreciation and depletion (000s) | \$ 12,632                   | \$ 4,643 | \$ 18,495                 | \$ 8,234 |
| As % of revenue                   | 23.6%                       | 24.5%    | 18.8%                     | 24.4%    |
| Per boe                           | \$ 9.08                     | \$ 6.80  | \$ 8.30                   | \$ 6.32  |



## Interim Report to the Unitholders

**Future Income Taxes**

As a result of a reduction in the Alberta corporate income tax rate, the recovery of future income taxes for the second quarter was increased by \$600,000.

**Net Earnings**

Shiningbank's net earnings increased to \$20.4 million (\$0.83 per Trust Unit) in second quarter 2001 from \$5.2 million (\$0.41 per Trust Unit) for the same period in 2000. For the first half, net earnings reached \$40.5 million (\$1.86 per Trust Unit) compared with \$8.7 million (\$0.70 per Trust Unit) in 2000. Increased commodity prices combined with higher production volumes, were the major contributors to the improved results.

**Distributable Income**

Distributable income for second quarter 2001 increased to \$27.4 million from \$8.3 million in 2000. For the first half of the year, distributions rose to \$49.1 million from \$14.2 million in 2000. On a per Trust Unit basis, distributions increased 90% to \$1.10 from \$0.58 in second quarter 2000, and were up 104% to \$2.20 from \$1.08 in the first half of last year.

**Costs of Acquisitions and Development**

In second quarter 2001, Shiningbank's acquisition activity was dominated by the purchase of Ionic Energy Inc. through the issue of 5.0 million Trust Units, payment of \$45 million in cash and the assumption of \$65.3 million in debt and working capital deficiency. The Fund continued the active development program which had been initiated by Ionic, but terminated all high risk exploratory activity. The high risk exploration opportunities identified by Ionic have been farmed out to other companies under arrangements in which these companies commit capital to drilling higher risk wells in exchange for a portion of Shiningbank's interest in the lands.

**LIQUIDITY AND CAPITAL RESOURCES****Long Term Debt**

Shiningbank maintains lines of credit with a syndicate of four Canadian chartered banks in the amount of \$165 million, of which \$107.8 million was drawn at June 30, 2001. The Fund's governing documents restrict debt levels to 40% of the value of its properties, and debt service costs are not to exceed 30% of the projected annual cash flow. Neither of these limits was being approached at June 30, 2001.

**Unitholders' Equity**

In February 2001, the Fund issued 2,875,000 new Trust Units at \$16.20 each for gross proceeds of \$46.6 million. These funds were used initially to reduce bank debt, but have since been redeployed as part of the Ionic transaction.



Interim Report to the Unitholders

**CONSOLIDATED BALANCE SHEETS**

| <i>(\$ thousands)</i>                              | <b>June 30, 2001</b> | December 31, 2000 |
|--|----------------------|-------------------|
|  | <i>(unaudited)</i>   | <i>(audited)</i>  |
| <b>Assets</b>                                      |                      |                   |
| Current assets                                     |                      |                   |
| Accounts receivable                                | <b>\$ 23,522</b>     | \$ 25,239         |
| Prepaid expenses                                   | <b>2,243</b>         | 1,924             |
|  | <b>25,765</b>        | 27,163            |
| Fixed assets                                       |                      |                   |
| Petroleum and natural gas properties and equipment | <b>536,102</b>       | 264,567           |
| Accumulated depletion and depreciation             | <b>(77,452)</b>      | (58,957)          |
|  | <b>458,650</b>       | 205,610           |
|  | <b>\$ 484,415</b>    | \$ 232,773        |
| <b>Liabilities and Unitholders' Equity</b>         |                      |                   |
| Current liabilities                                |                      |                   |
| Accounts payable                                   | <b>\$ 27,340</b>     | \$ 22,541         |
| Trust Unit distribution payable                    | <b>27,410</b>        | 16,829            |
|  | <b>54,750</b>        | 39,370            |
| Long term debt <i>(note 3)</i>                     | <b>107,847</b>       | 57,381            |
| Future income taxes                                | <b>84,600</b>        | 13,900            |
| Provision for future site restoration              | <b>4,678</b>         | 3,891             |
| Unitholders' equity                                |                      |                   |
| Trust Units <i>(note 4)</i>                        | <b>284,457</b>       | 161,005           |
| Accumulated income                                 | <b>84,950</b>        | 44,955            |
| Accumulated royalty distributions                  | <b>(136,867)</b>     | (87,729)          |
|  | <b>232,540</b>       | 118,231           |
|  | <b>\$ 484,415</b>    | \$ 232,773        |

See selected accompanying notes to interim consolidated financial statements



Interim Report to the Unitholders

**CONSOLIDATED STATEMENTS OF EARNINGS AND UNITHOLDERS' EQUITY**

| <i>(unaudited) (\$ thousands, except per Trust Unit amounts)</i> | Three months ended June 30, |           | Six months ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2001                        | 2000      | 2001                      | 2000      |
| Revenues   |                             |           |                           |           |
| Oil and natural gas sales  | \$ 53,472                   | \$ 18,962 | \$ 98,542                 | \$ 33,698 |
| Royalties  | (11,769)                    | (3,497)   | (23,738)                  | (6,393)   |
|  | <b>41,703</b>               | 15,465    | <b>74,804</b>             | 27,305    |
| Expenses   |                             |           |                           |           |
| Operating  | 6,350                       | 3,351     | 10,497                    | 6,347     |
| General and administrative                                       | 1,015                       | 771       | 1,974                     | 1,270     |
| Management fees  | 1,108                       | 385       | 2,183                     | 681       |
| Interest on long term debt                                       | 1,617                       | 712       | 2,211                     | 1,301     |
| Depreciation and depletion                                       | 12,632                      | 4,643     | 18,495                    | 8,234     |
| Provision for future site restoration                            | 632                         | 339       | 968                       | 623       |
| Capital and large corporation taxes                              | 618                         | 49        | 785                       | 125       |
|  | <b>23,972</b>               | 10,250    | <b>37,113</b>             | 18,581    |
| Earnings before income taxes                                     | 17,731                      | 5,215     | 37,691                    | 8,724     |
| Future income taxes (recovery)                                   | (2,700)                     | —         | (2,800)                   | —         |
| Net earnings   | 20,431                      | 5,215     | 40,491                    | 8,724     |
| Unitholders' equity, beginning of period                         | 160,831                     | 66,525    | 118,231                   | 68,935    |
| Issue of Trust Units   | 78,965                      | 25,092    | 123,452                   | 25,131    |
| Royalty distributions  | (27,410)                    | (8,274)   | (49,138)                  | (14,172)  |
| Dividends to manager   | (277)                       | (83)      | (496)                     | (143)     |
| Unitholders' equity, end of period                               | \$ 232,540                  | \$ 88,475 | \$ 232,540                | \$ 88,475 |
| Net earnings per Trust Unit                                      |                             |           |                           |           |
| Basic  | \$ 0.83                     | \$ 0.41   | \$ 1.86                   | \$ 0.70   |
| Diluted  | \$ 0.83                     | \$ 0.41   | \$ 1.86                   | \$ 0.70   |

See selected accompanying notes to interim consolidated financial statements



Interim Report to the Unitholders

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(unaudited) (\$ thousands)</i>           | Three months ended June 30, |                   | Six months ended June 30, |                   |
|---|-----------------------------|-------------------|---------------------------|-------------------|
|   | 2001                        | 2000              | 2001                      | 2000              |
| <b>Operating activities</b>                 |                             |                   |                           |                   |
| Net earnings                                | \$ 20,431                   | \$ 5,215          | \$ 40,491                 | \$ 8,724          |
| Depreciation and depletion                  | 12,632                      | 4,643             | 18,495                    | 8,234             |
| Provision for future site restoration       | 632                         | 339               | 968                       | 623               |
| Future income taxes (recovery)              | (2,700)                     | –                 | (2,800)                   | –                 |
| Cash flows from operating activities        | 30,995                      | 10,197            | 57,154                    | 17,581            |
| Changes in non-cash working capital         | (20,364)                    | (2,965)           | (12,102)                  | (1,820)           |
|   | 10,631                      | 7,232             | 45,052                    | 15,761            |
| <b>Financing activities</b>                 |                             |                   |                           |                   |
| Increase in long term debt                  | 51,635                      | 3,338             | 3,466                     | 2,625             |
| Financing costs                             | (685)                       | –                 | (685)                     | –                 |
| Distributions to unitholders                | (27,410)                    | (8,274)           | (49,138)                  | (14,172)          |
| Issue of Trust Units                        | 1,331                       | 244               | 45,818                    | 284               |
| Dividends paid                              | (277)                       | (83)              | (496)                     | (143)             |
|   | 24,594                      | (4,775)           | (1,035)                   | (11,406)          |
| Changes in non-cash working capital         | 5,682                       | 2,376             | 10,581                    | 2,968             |
|   | 30,276                      | (2,399)           | 9,546                     | (8,438)           |
| Total cash provided                         | \$ 40,907                   | \$ 4,833          | \$ 54,598                 | \$ 7,323          |
| <b>Cash flows from investing activities</b> |                             |                   |                           |                   |
| Property acquisitions                       | 279                         | (3,295)           | (1,963)                   | (5,565)           |
| Capital expenditures                        | (948)                       | (1,259)           | (3,904)                   | (1,886)           |
| Acquisition of business                     | (49,300)                    | (420)             | (49,300)                  | (420)             |
| Proceeds on sale of fixed assets            | 678                         | 154               | 750                       | 614               |
| Site restoration costs                      | (109)                       | (13)              | (181)                     | (66)              |
| <b>Total cash used</b>                      | <b>\$ (49,400)</b>          | <b>\$ (4,833)</b> | <b>\$ (54,598)</b>        | <b>\$ (7,323)</b> |
| Net decrease in cash                        | \$ (8,493)                  | \$ –              | \$ –                      | \$ –              |
| Cash taxes paid                             | \$ 695                      | \$ 24             | \$ 715                    | \$ 50             |
| Cash interest paid                          | \$ 1,382                    | \$ 717            | \$ 2,246                  | \$ 1,366          |

See selected accompanying notes to interim consolidated financial statements



**STATEMENTS OF NET PRODUCTION REVENUE AND DISTRIBUTABLE INCOME**

| <i>(unaudited) (\$ thousands, except per Trust Unit amounts)</i> | Three months ended June 30, |            | Six months ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2001                        | 2000       | 2001                      | 2000       |
| <b>Revenues</b>  |                             |            |                           |            |
| Oil and natural gas sales  | \$ 53,472                   | \$ 18,962  | \$ 98,542                 | \$ 33,698  |
| Non-crown royalties  | (1,325)                     | (399)      | (3,107)                   | (633)      |
|  | <b>52,147</b>               | 18,563     | <b>95,435</b>             | 33,065     |
| <b>Expenditures</b>  |                             |            |                           |            |
| Operating  | 6,350                       | 3,351      | 10,497                    | 6,347      |
| Capital  | 1,712                       | 1,103      | 4,668                     | 1,272      |
| Site restoration costs   | 109                         | 13         | 181                       | 66         |
|  | <b>8,171</b>                | 4,467      | <b>15,346</b>             | 7,685      |
| Net production revenue   | <b>43,976</b>               | 14,096     | <b>80,089</b>             | 25,380     |
| <b>Deductions</b>  |                             |            |                           |            |
| Administration   | 1,015                       | 771        | 1,974                     | 1,270      |
| Management fees  | 1,108                       | 385        | 2,183                     | 681        |
| Interest on long term debt                                       | 1,617                       | 712        | 2,211                     | 1,301      |
| Capital and large corporations taxes                             | 618                         | 49         | 785                       | 125        |
| Amounts not attributable to the royalty                          | 1,790                       | 247        | 2,605                     | 494        |
| Working capital adjustments                                      | 1,506                       | 726        | 2,698                     | 1,933      |
|  | <b>7,654</b>                | 2,890      | <b>12,456</b>             | 5,804      |
| Net production revenue in excess of deductions                   | <b>\$ 36,322</b>            | \$ 11,206  | <b>\$ 67,633</b>          | \$ 19,576  |
| Royalty income to the Fund – 99%                                 | <b>\$ 35,961</b>            | \$ 11,094  | <b>\$ 66,958</b>          | \$ 19,380  |
| Crown charges net of Alberta Royalty Credit – 99%                | <b>(10,341)</b>             | (3,067)    | <b>(20,425)</b>           | (5,702)    |
| Interest income to the Fund                                      | <b>1,790</b>                | 247        | <b>2,605</b>              | 494        |
| Distributable income   | <b>\$ 27,410</b>            | \$ 8,274   | <b>\$ 49,138</b>          | \$ 14,172  |
| Distributable income per Trust Unit                              | <b>\$ 1.10</b>              | \$ 0.58    | <b>\$ 2.20</b>            | \$ 1.08    |
| Trust Units outstanding  | <b>24,917,937</b>           | 14,265,239 | <b>24,917,937</b>         | 14,265,239 |

See selected accompanying notes to interim consolidated financial statements

**SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended June 30, 2001 and 2000*

**1. SIGNIFICANT ACCOUNTING POLICY**

The interim consolidated financial statements of Shiningbank Energy Income Fund ("Shiningbank") have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting principles and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2000. The disclosures provided below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Shiningbank's annual report for the year ended December 31, 2000.

**2. BUSINESS ACQUISITION**

Effective April 6, 2001, Shiningbank acquired the common shares of Ionic Energy Inc. ("Ionic"). The acquisition was accounted for by the purchase method and the results of operations of Ionic are included in the accounts from the effective date of acquisition.

|  |             |
|--|-------------|
| Fair value of Shiningbank Trust Units              | \$ 77,595   |
| Cash consideration                                 | 45,000      |
| Related fees and expenses                          | 4,300       |
|  | <hr/>       |
|  | \$ 126,895  |
| Working capital deficiency                         | \$ (18,299) |
| Long term debt                                     | (47,000)    |
| Future income taxes                                | (73,500)    |
| Petroleum and natural gas properties and equipment | 265,694     |
|  | <hr/>       |
|  | \$ 126,895  |

**3. LONG TERM DEBT**

During the second quarter, Shiningbank replaced its \$90 million revolving demand credit facility with a \$165 million revolving credit facility with a syndicate of four Canadian chartered banks. The facility has a 364 day extendable revolving period and a three year term. The facility is secured by a \$300 million floating charge debenture on all assets of the Corporation. Borrowings under the facility bear interest at the bank's prime rate or, at Shiningbank's option, the bankers' acceptance rate plus a stamping fee.

**4. TRUST UNITS****(a) Authorized**

300,000,000 Trust Units

**(b) Issued**

|                                  | June 30, 2001     |                   |
|----------------------------------|-------------------|-------------------|
|                                  | Number            | Amount            |
| Balance, beginning of period     | <b>16,828,712</b> | <b>\$ 161,005</b> |
| Issued for cash                  | <b>2,875,000</b>  | <b>46,575</b>     |
| Issued upon exercise of options  | <b>175,000</b>    | <b>1,747</b>      |
| Issued upon business acquisition | <b>5,039,225</b>  | <b>77,634</b>     |
| Commissions and issue costs      | –                 | <b>(2,504)</b>    |
| Balance, end of period           | <b>24,917,937</b> | <b>\$ 284,457</b> |

**(c) Existing Trust Unit Option Plan**

The existing Trust Unit Option Plan was terminated effective June 30, 2001. A Trust Units Rights Plan has been approved by the unitholders of Shiningbank. A total of 1,481,443 units have been reserved for issuance under the plan, which becomes effective, subject to regulatory approval, on July 1, 2001.

**(d) Net earnings per Trust Unit**

Net earnings per Trust Unit have been calculated using the weighted average number of Trust Units outstanding during the period of 21,485,739 (2000 – 12,173,444) and 24,381,010 (2000 – 12,684,592) for the three months ended June 30.



## 5. FINANCIAL INSTRUMENTS

At June 30, 2001, Shiningbank held certain oil and natural gas hedge contracts, the terms of which are listed in the following table. The estimated market value at June 30, 2001, had the contracts been settled at that time, would have been a gain of \$8,869,000.

| Period                              | Commodity | Volume     | Price  |
|-------------------------------------|-----------|------------|--|
| April 1, 2001 – October 31, 2001    | Gas       | 5.0 mmcf/d | \$5.53/mcf floor<br>\$10.75/mcf ceiling      |
| April 1, 2001 – October 31, 2001    | Gas       | 5.0 mmcf/d | \$6.32/mcf floor<br>\$10.79/mcf ceiling      |
| April 1, 2001 – October 31, 2001    | Gas       | 2.0 mmcf/d | \$6.32/mcf floor<br>\$7.09/mcf ceiling       |
| April 1, 2001 – October 31, 2001    | Gas       | 3.0 mmcf/d | \$6.32/mcf floor<br>\$6.85/mcf ceiling       |
| November 1, 2001 – October 31, 2002 | Gas       | 3.0 mmcf/d | \$5.27/mcf floor<br>\$9.11/mcf ceiling       |
| December 1, 2000 – October 31, 2001 | Gas       | 2.0 mmcf/d | \$6.69/mcf                                   |
| April 1, 2001 – October 31, 2001    | Gas       | 2.5 mmcf/d | \$7.85/mcf                                   |
| April 1, 2001 – October 31, 2001    | Gas       | 3.0 mmcf/d | \$6.59/mcf                                   |
| November 1, 2001 – October 31, 2002 | Gas       | 3.0 mmcf/d | \$6.68/mcf                                   |
| January 1, 2001 – December 31, 2001 | Oil       | 500 bbl/d  | US\$26.00/bbl floor<br>US\$31.20/bbl ceiling |

## 6. SUBSEQUENT EVENTS

Subsequent to June 30, 2001, the Fund purchased oil and gas producing properties in the Greencourt, Alberta area for total consideration of \$28.6 million. The acquisition was funded by increased borrowings on available credit facilities.



**CORPORATE INFORMATION**

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**TRUSTEE**

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**AUDITORS**

KPMG LLP  
 Calgary, Alberta

**ENGINEERING CONSULTANTS**

Paddock Lindstrom & Associates Ltd.  
 Calgary, Alberta

**LEGAL COUNSEL**

Gowling Lafleur Henderson LLP  
 Calgary, Alberta

**STOCK EXCHANGE LISTING**

The Toronto Stock Exchange  
 Symbol: SHN.UN

**BOARD OF DIRECTORS**

**Arne R. Nielsen**  
 Chairman & Chief Executive Officer

**David M. Fitzpatrick**  
 President & Chief Operating Officer

**D. Grant Gunderson**  
 Director

**Edward W. Best**  
 Director

**Warren D. Steckley**  
 Director

**OFFICERS**

**Arne R. Nielsen**  
 Chairman & Chief Executive Officer

**David M. Fitzpatrick**  
 President & Chief Operating Officer

**Bruce K. Gibson**  
 Vice President, Finance & Chief Financial Officer

**Gregory D. Moore**  
 Vice President, Operations

**Terry P. Prokopy**  
 Vice President, Land

**Richard W. Clark**  
 Corporate Secretary

**UNIT TRADING INFORMATION**

|  | Three months ended June 30, |        | Six months ended June 30, |        |
|--|-----------------------------|--------|---------------------------|--------|
|  | 2001                        | 2000   | 2001                      | 2000   |
| Units traded ( <i>thousands</i> )      | <b>8,239</b>                | 1,828  | <b>14,055</b>             | 2,557  |
| Value traded (\$ <i>thousands</i> )    | <b>142,767</b>              | 21,487 | <b>240,995</b>            | 29,069 |
| Unit price                             |                             |        |                           |        |
| High                                   | <b>18.70</b>                | 13.30  | <b>18.70</b>              | 13.30  |
| Low                                    | <b>14.51</b>                | 10.20  | <b>14.51</b>              | 9.90   |
| Close                                  | <b>15.00</b>                | 12.65  | <b>15.00</b>              | 12.65  |
| Units outstanding ( <i>thousands</i> ) | <b>24,918</b>               | 14,265 | <b>24,918</b>             | 14,265 |