

Shiningbank Energy Income Fund

RENEWAL ANNUAL INFORMATION FORM
for the year ended December 31, 2002

March 28, 2003

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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;

"Administrative Services Agreement" means the agreement between the Corporation and the Trustee on behalf of the Fund, dated October 9, 2002, pursuant to which the Corporation agreed to provide certain management, advisory and administrative services in connection with the Royalty, the Fund, the Trust Units and any entity of the Fund administered by the Corporation;

"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.;

"Corporation USA" means the unanimous shareholders agreement of the Corporation dated October 9, 2002 among the Corporation, SHC and the Trustee;

"Crown" means Her Majesty the Queen in Right of Canada or a Province thereof;

"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 take-over or other business combination, 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, "net income" as calculated pursuant to the terms of the Trust Indenture, and means 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 Corporation, designate as a "Distribution Record Date" except that December 31 shall be a Distribution Record Date;

"Exchangeable Shares" means the non-voting exchangeable shares of SHC, which are exchangeable into Trust Units based on the Exchange Ratio of which 1,136,614 were issued to Kivacorp and Proximus collectively, on October 9, 2002, pursuant to the Management Internalization Transactions, 757,743 of which are subject to escrow. See "General Development of the Business of the Fund – Three Year History – Management Internalization Transactions";

"Exchange Ratio" means the ratio pursuant to which Exchangeable Shares can be converted to Trust Units. See "General Development of the Business of the Fund – Three Year history – Management Internalization Transactions";

"Exempt Plan" means an RRSP, DPSP or RRIF;

"Former Manager" means Shiningbank Energy Management Inc.;

"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";

"Kivacorp" means Kivacorp Petroleum Ltd.;

"Management Agreement" means the management agreement dated July 31, 1996, as amended, and terminated October 9, 2002, among the Former Manager, the Corporation and the Trustee pursuant to which the Former Manager provided management services to the Corporation and the Fund;

"Management Fee" means a management fee which was payable by the Corporation to the Former Manager prior to October 9, 2002.

"Management Internationalization Transactions" means the series of transactions by which the Fund effected an internalization of its management by acquiring, through its wholly-owned subsidiary SHC, all of the shares of the Former Manager and subsequently amalgamating the Former Manager with the Corporation and continuing as the Corporation. See "General Development of the Business of the Fund – Three Year History – Management Internalization Transaction";

"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, 2003 prepared by Paddock as at December 31, 2002, 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;

"Property or 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";

"Proximus" means Proximus Energy Corporation;

"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 and restated as of February 28, 2003 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;

"SHC" means Shiningbank Holdings Corporation;

"SHC USA" means the unanimous shareholders agreement of SHC dated October 9, 2002 among SHC, the Trustee, Proximus and Kivacorp;

"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 and restated on October 9, 2002, by the Trustee and the Corporation. See "Incorporation and Organization - Intercorporate Relationships - Trust Units";

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

"TSX" means The Toronto Stock Exchange;

"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 open-ended investment trust, formed pursuant to the Trust Indenture. 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.

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. Effective October 9, 2002, the Corporation amalgamated with Shiningbank Energy Management Inc. and continued under the name Shiningbank Energy Ltd. The Corporation is a wholly-owned subsidiary of SHC and an indirect wholly-owned subsidiary of the Fund. 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 is in the business of acquiring, developing, exploiting, owning and disposing of oil and natural gas properties and also provides certain administrative services to the Fund. The Corporation has approximately 50 employees. The Corporation has agreed, pursuant to the Administrative Services Agreement, to provide certain management, advisory and administrative services in connection with the Royalty, the Fund, the Trust Units and any entity of the Fund administered by the Corporation. Pursuant to the Administrative Services Agreement, the Corporation receives no management fees and is reimbursed only for administrative expenses incurred.

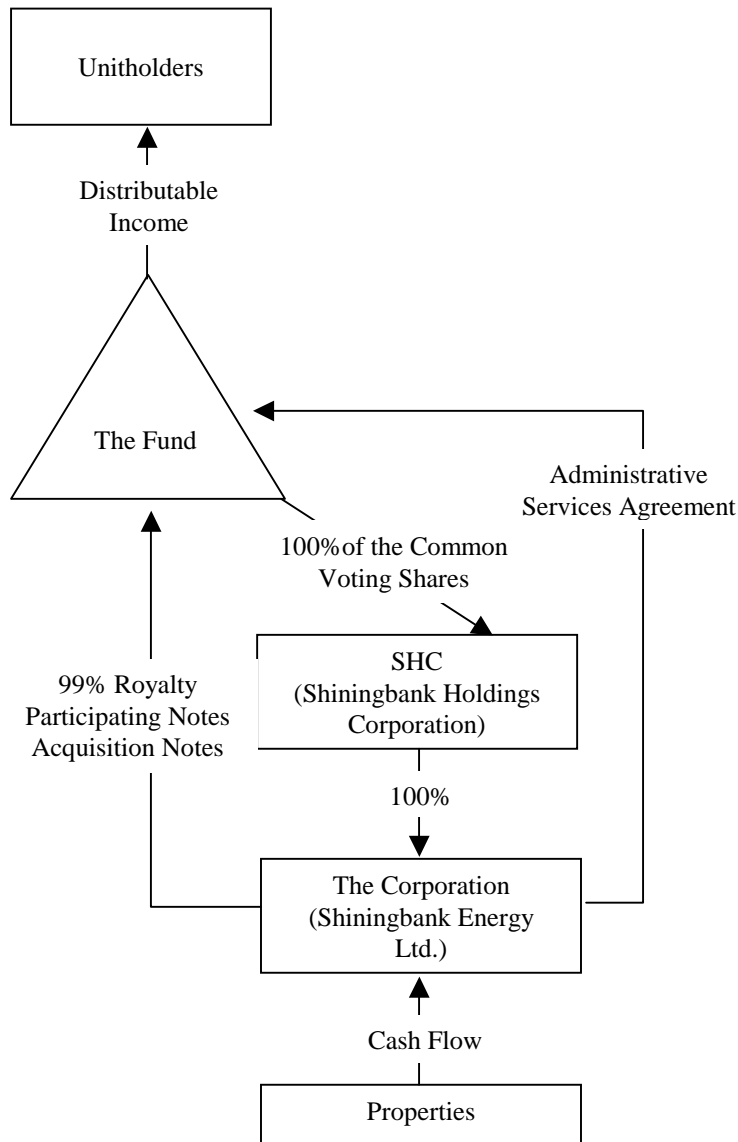
Shiningbank Holdings Corporation

Shiningbank Holdings Corporation was incorporated under the *Business Corporations Act* (Alberta) on July 24, 2002 as 999972 Alberta Inc. Its articles were amended by a Certificate of Amendment dated October 8, 2002 to, among other things, change its name to Shiningbank Holdings Corporation and authorize the issuance of an unlimited number of non-voting exchangeable shares. With the exception of the non-voting Exchangeable Shares, the Fund owns all of the issued and outstanding shares of SHC. The head and principal office of SHC is located at 1310, 111 - 5th Avenue S.W., Calgary, Alberta, T2P 3Y6. The registered office of SHC is located at Suite 1200, 700 - 2nd Street S.W., Calgary, Alberta, T2P 4V5.

SHC was incorporated for the purpose of acquiring all of the shares of the Former Manager, for cash and Exchangeable Shares, to effect the internalization of the Fund's management. SHC has no business or employees other than holding the shares of the Corporation.

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% thereof. 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 month or quarter (a "Period"), at the election of the Corporation, on or before the fifteenth day of the month following the completion of each Period.

Deferred Purchase Price Obligation

Recognizing that cash-flows from properties acquired by the Corporation will be subject to the Royalty for the benefit of Unitholders, the Royalty Agreement imposes upon the Fund the obligation to pay a deferred purchase price (the "Deferred Purchase Price"). The Deferred Purchase Price 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 business combination, to the extent that such cost is not financed by the debt incurred or assumed by the Corporation; and (ii) 99% of any capital expenditures incurred in respect of the Properties and so designated by the Corporation to the extent that such cost is not financed by debt incurred or assumed 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 shall not be applicable to such expenditures. The Royalty Agreement also provides that the net proceeds realized by the Fund from any offerings of Trust Units which occur subsequent to the initial public offering of Trust Units may be payable by the Fund to the Corporation pursuant to the Deferred Purchase Price outstanding at the relevant time.

Other Properties

Any Additional Properties (as defined in the Royalty Agreement) acquired by the Corporation shall be subject to the Royalty and upon acquisition shall give rise to an obligation to pay an additional amount on account of the Deferred Purchase Price in the manner set out above. Accordingly, the Fund shall finance 99% of the price of such acquisitions that constitute 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.

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:

- (i) 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
- (ii) 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, allocatable to the Fund should be distributed to the Unitholders or used to purchase additional properties.

The Royalty Agreement provides with respect to the release of the Royalty that:

- (i) 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;

- (ii) 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");
- (iii) interest received on the Proceeds Account during any Period shall be paid by the Corporation to the Fund on or before the fifteenth day of the month following the end of such Period;
- (iv) 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 remit to the Fund an amount from the Proceeds Account equal to such negative balance so as to permit the distribution thereof; and
- (v) 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 Shiningbank Energy Acquisitions Ltd. ("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.

Effective July 1, 2000, Shiningbank Energy Ltd., SEAL, Raider and Cambright were amalgamated, continuing as the Corporation. Prior to this 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 \$24.8 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.

Effective May 4, 2001, the Corporation, 923720 and Ionic were amalgamated pursuant to the provisions of the *Business Corporations Act* (Alberta), continuing as Shiningbank Energy Ltd., which was a wholly-owned subsidiary of the Former Manager. Prior to such 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 this 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.

The remaining balance of the promissory note trust indenture was repaid by the issuance of a new promissory note in the amount of \$1.6 million on October 8, 2002, which bears interest at the prime rate of interest announced from time to time by a major Canadian Chartered Bank for Canadian dollar loans.

Trust Units

A maximum of 300,000,000 Trust Units are authorized for issuance pursuant to the Trust Indenture, of which 37,242,172 were issued and outstanding as at March 28, 2003. 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 Corporation at Calgary, Alberta.

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. As of January 1, 2003 cash distributions of Distributable Income are made on a monthly basis on the Cash Distribution Date. The Corporation 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 Corporation 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 business combination, 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 business combination, should such be available on terms and conditions acceptable to the Corporation 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, the Royalty Agreement, the Administrative Services Agreement, the Corporation USA, the SHC USA, to remove the Trustee, or terminate the Fund.

In addition, holders of Exchangeable Shares have the right to receive notice of and to vote at meetings of Unitholders. The holders of the Exchangeable Shares are entitled to vote at meetings of Unitholders through a Special Voting Unit issued by the Fund, on the basis of one vote for each outstanding Exchangeable Share. These rights are governed by a Voting and Exchange Trust Agreement dated October 9, 2002 among the Fund, SHC and the Corporation, and a Support Agreement dated October 9, 2002 among the Fund, SHC and the Trustee as the trustee of the Exchangeable Shares. See "General Development of the Business of the Fund – Three Year History – Management Internalization Transactions".

Corporation USA

The Corporation, SHC and the Trustee, have entered into the Corporation USA 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 SHC will vote its shares in the Corporation at all such meetings. Prior to SHC voting its shares of the Corporation, each Unitholder will be entitled to vote in respect of the matter on the basis of one vote per Trust Unit held and SHC will be required to vote its shares of the Corporation in accordance with the result of the votes of Unitholders. Holders of Trust Units are entitled to direct SHC as to how to vote in respect of all matters placed before it as the holder of all voting shares of the Corporation, including the election of directors of the Corporation and the appointment of the auditors of the Corporation and the Fund. In addition, Unitholders are entitled to direct SHC as to how to vote its shares in the Corporation on any proposed amendment to the Corporation USA, the Trust Indenture or the Administrative Services Agreement, which amendments are required to be approved by Special Resolution. SHC is not entitled, without the direction of the Unitholders, to exercise its rights as a shareholder except as set forth above.

The Corporation USA also provides that the Board of directors of the Corporation shall consist of a minimum of three and a maximum of nine directors; the number of directors is currently set at five.

SHC USA

SHC, the Trustee, Proximus and Kivacorp have entered into the SHC USA which provides that the Unitholders will be entitled to receive notice of and to attend all meetings of the shareholders of SHC and, except as set forth below, to direct the manner in which the Trustee on behalf of the Fund votes its shares in SHC at all such meetings. Prior to the Trustee voting the Fund's shares in SHC, each Unitholder will be entitled to vote in respect of the matter on the basis of one vote per Trust Unit held and the Trustee will be required to vote the Fund's shares in SHC in accordance with the result of the votes of Unitholders. Holders of Trust Units are entitled to direct the Trustee as to how to vote in respect of all matters placed before the shareholders of SHC, including the election of directors of SHC and the appointment of the auditors of SHC. In addition, Unitholders are entitled to direct the Trustee as to how to vote the Fund's shares in SHC on any proposed amendment to the SHC USA, the Trust Indenture or the Administrative Services Agreement, which amendments are required to be approved by Special Resolution. The Fund is not entitled, without the direction of the Unitholders, to exercise its rights as a shareholder, except as set forth above.

The SHC USA also provides that the Board of directors of the SHC shall consist of a minimum of three and a maximum of nine directors; the number of directors is currently set at five.

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 then 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.

Voting at Meetings of SHC and the Corporation

The Unitholders are entitled to certain voting rights at meetings of SHC and the Corporation. See "Incorporation and Organization - Intercorporate Relationships - Corporation USA" and "Incorporation and Organization - Intercorporate Relationships - SHC USA".

Termination of the Fund

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

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. The Unitholders reconfirmed the Rights Plan at the Special and Annual General Meeting of Unitholders held on May 7, 2002.

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".

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, or has delegated to the Corporation, the following: (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, subject to compliance by the Trustee with any agreements contemplated by the Trust Indenture, which may be binding upon the Trustee or the Fund.

The term of the Trustee's appointment was renewed at the Special and Annual Meeting of Unitholders held on May 7, 2002, for an additional two year period ending at the annual general meeting of the Unitholders in 2004. 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 Corporation. 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 or as the result of a material increase in the fees charged by the Trustee. 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.

Prior to the Management Internalization Transactions, the Fund retained the Former Manager to administer the Fund on behalf of the Trustee. On October 9, 2002 the Trust Indenture was amended and restated and the Corporation replaced the Former Manager as administrator of the Fund on behalf of the Trustee. The Corporation, 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 Corporation at its offices in Calgary, Alberta.

The Trust Indenture provides that the Trustee shall be under no liability to any holder of Trust Units for any action taken in good faith reliance upon 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 Corporation or any other appropriately qualified person, for relying on any such evaluation, for any action or failure to act of the Corporation, 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 Corporation to perform its duties under the Trust Indenture, or the Royalty Agreement, the Administrative Services Agreement, the Corporation USA, the SHC USA or any underwriting agreement to which the Fund is a party), 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 or the Royalty Agreement, the Trustee may act or refuse to act based on the advice of any such expert or advisor without liability. The Trustee 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. Pursuant to the Administrative Services Agreement, the Trustee and any person who is serving or has served as a director, officer, employee or agent of the Trustee shall be indemnified by the Corporation out of the assets of the Corporation against all liabilities (including environmental liabilities), obligations, costs and expenses (including judgments, fines, penalties, amount paid in settlement with the approval of the Corporation, as the case may be, and reasonable counsel fees) arising from or related to any manner of breach of the Administrative Services Agreement by the Corporation or in any way arising from or related in any manner to the fraud, wilful misconduct, or gross negligence of the Corporation in the performance of its obligations thereunder, provided any other person claiming indemnification hereunder shall be indemnified only to the extent such person is not finally adjudged in said action, suit or proceeding to have acted with wilful misfeasance, bad faith, or gross negligence and provided that any such person shall not be indemnified if such person is finally adjudged to have acted other than honestly and in good faith.

The Trust Indenture provides that all contracts signed by or on behalf of the Fund must (except as the Trustee or Corporation may otherwise, in any respect, determine) contain a provision to the effect that the obligations in such agreement will not be binding upon Unitholders personally. 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".

Administrative Services Agreement

The Trustee and the Corporation entered into the Administrative Services Agreement on October 9, 2002. The Administrative Services Agreement may be terminated by the Trustee on the earlier of the expiry of 3 months written notice of termination given by the Trustee to the Corporation, and the date on which a satisfactory replacement administrator is appointed.

The main duties of the Corporation under the Administrative Services Agreement include:

- ▶ managing all of the operations and other affairs of the Fund;
- ▶ advising the Fund in respect of the Royalty;
- ▶ administering all matters respecting the assets of the Fund 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 as may be necessary for the Trustee to discharge its responsibilities under the Trust Indenture;
- ▶ ensuring compliance by the Fund 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 and staff, including clerical, technical, managerial and accounting services for the Fund and the Corporation.

In exercising its powers and discharging its duties under the Administrative Services Agreement, the Corporation is required to exercise that degree of care, diligence and skill that a reasonably prudent administrator would exercise in comparable circumstances.

The Corporation will be indemnified by the Fund in respect of certain liabilities, obligations, costs and expenses which it may suffer in discharging its obligations under the Administrative Services Agreement provided that such liabilities, obligations, costs and expenses do not arise from the fraud, wilful misconduct or gross negligence of the Corporation.

The Board of directors of the Corporation reviews the provision of services under the Administrative Services Agreement on an ongoing basis. Any significant amendment to the Administrative Services Agreement must be approved by the Board of directors of the Corporation, the Trustee and by Special Resolution of the Unitholders.

The Corporation's Business Strategy

The Corporation manages and administers the assets of the Fund according to the terms and conditions set forth in the Administrative Services Agreement. A business strategy has been set out which utilizes the extensive management, technical and business experience of the directors and officers of the Corporation 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 Corporation:

- ▶ 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 Corporation considers the risk to be reasonable;
- ▶ 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 Corporation endeavours to capitalize on the operating, exploitation, evaluation and management experience of its officers and the directors in order to be competitive in the asset acquisition and cash flow enhancement process.

Corporation'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 maintaining or increasing Distributable Income for Unitholders. Such acquisitions generally 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 Corporation believes that this process will continue, thereby providing it with opportunities to acquire oil and natural gas producing properties which meet the foregoing acquisition criteria.

The Corporation

Business

The Corporation was incorporated and organized for the purpose of, and carries on the business of acquiring, developing, exploiting and disposing of oil and natural gas properties, granting the Royalty to the Fund. It also performs its duties under the Administrative Services Agreement. The Corporation owns the Properties and has granted the Royalty to the Fund.

Borrowing

The Corporation has a \$230 million revolving committed credit facility with a syndicate of four Canadian chartered banks. The borrowing base under the facility reduces to \$195 million on the earlier of the completion of an equity issue by the Fund and July 31, 2003. The facility has a revolving period ending on April 27, 2004, at which time the facility reverts to a three year term. 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 Corporation 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.

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 management of the Corporation believes that funding environmental obligations in this manner is appropriate given that the Corporation operates a significant number of the Properties. The Corporation pro-actively monitors 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 Corporation based upon the availability and cost of such insurance and the Corporation'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.

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 2002, all purchases of Trust Units pursuant to the DRIP Plan were made through the facilities of the TSX.

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 Corporation. 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, 2003 which relates to the Special and Annual General Meeting of the Unitholders of the Fund to be held on May 6, 2003.

GENERAL DEVELOPMENT OF THE BUSINESS OF THE FUND

General

The Fund was created in July 1996, pursuant to an initial public offering of \$53 million of Trust Units, the proceeds of which were used to acquire the Royalty. The Fund is a conventional oil and gas royalty trust which earns income from the Royalty, the Participating Notes and the Raider and Ionic Acquisition Notes, for the benefit of Unitholders and operates as an open-end mutual fund trust, providing Unitholders with regular payments of Distributable Income. 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

Year Ended December 31, 2000

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 by the Corporation to finance the purchase of long-life natural gas assets.

During 2000, the Corporation purchased various properties for a total consideration of \$96.4 million, 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 tax obligations) in June 2000, the acquisitions were structured as asset acquisitions and were financed by proceeds obtained from the issue of the 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 the Dunvegan and Anselmo areas in October, 2000 for \$47.7 million from the Receiver of Sunoma Energy Corporation.

Year Ended December 31, 2001

On February 6, 2001, the Fund issued 2,875,000 Trust Units at \$16.20 per Trust Unit, for gross proceeds of \$46,575,000, which initially reduced the Fund's obligation under its Deferred Purchase Price Obligation to the Corporation and were subsequently used to fund the cash component of the acquisition of Ionic. 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 per Trust Unit, for gross proceeds of \$40.2 million. In both cases, the proceeds were used initially to reduce the Fund's Deferred Purchase Price Obligation and subsequently to reduce the Corporation's 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 acquisition of Ionic. With the exception of the acquisition of Ionic in April 2001, the acquisitions were structured as asset acquisitions and were financed using proceeds of 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 the Greencourt, Alberta area, in August 2001 from Barrington Petroleum Ltd. and Petrobank Energy and Resources Ltd.

Year Ended December 31, 2002

On May 2, 2002, the Fund issued 4,025,000 Trust Units at \$14.20 each for gross proceeds of \$57,155,000 which was used to finance the purchase of long-life oil and natural gas properties.

During 2002, the Corporation purchased a total of \$49.6 million in properties in 16 separate transactions ranging in size from \$22,000 to \$21.1 million. All the acquisitions were structured as asset acquisitions and were funded by a combination of debt and the proceeds from the issue of Trust Units described above. The largest transaction was the purchase in May 2002 of a natural gas producing property at Minehead in west-central, Alberta at a cost of \$21.1 million.

On October 9, 2002, the Fund, through SHC, purchased all of the outstanding shares of the Former Manager for net aggregate consideration of \$19.4 million consisting of \$2.91 million in cash and 1,136,614 Trust Units (or Exchangeable Shares) valued at \$16.49 million, at a deemed value of \$14.508 per Trust Unit. See "Management Internalization Transactions".

At a special meeting of Unitholders held on October 8, 2002, Unitholders approved changes to the Trust Indenture and Royalty Agreement to allow for monthly distributions of Distributable Income to Unitholders. The Fund commenced monthly distributions in the first quarter of 2003. The record date for each monthly distribution is the last day of the calendar month with such distribution being paid on the 15th day of the following month. The record date for the first monthly distribution was February 28, 2003 and the payment date was March 15, 2003.

Management Internalization Transactions

After receiving the approval of Unitholders at the special meeting held on October 8, 2002, the Fund effected an internalization of its management structure by acquiring, through its wholly-owned subsidiary SHC, all of the shares of the Former Manager, and subsequently amalgamating the Former Manager with the Corporation and continuing as the Corporation. The purposes of the transaction were to lower the Fund's on-going management fees and improve its competitiveness and flexibility in making acquisitions, while at the same time retaining the executive officers and key personnel of the Former Manager and better aligning their interests with those of the Unitholders. The consideration paid for the shares of the Former Manager was \$19.4 million, of

which \$2.91 million was paid in cash and the balance was paid by the issuance of 1,136,614 Exchangeable Shares of SHC at a deemed value of \$14.508 per Exchangeable Share.

Prior to the internalization, the shareholders of the Former Manager were Proximus, as to 50%, a corporation wholly-owned by Arne R. Nielsen, the Executive Chairman and a director of the Former Manager and the Corporation, and Kivacorp as to 50%, a corporation wholly-owned by David M. Fitzpatrick, the President, Chief Executive Officer and a director of the Former Manager and the Corporation. The transaction was negotiated on behalf of the Fund by an independent committee of the Board of directors of the Corporation (the "Independent Committee") consisting of the three directors of the Corporation who are independent of management of the Corporation. The Independent Committee obtained independent legal advice and obtained an independent opinion with respect to the fairness, from a financial point of view, of the consideration payable under the transactions from National Bank Financial Inc. Mr. Nielsen and Mr. Fitzpatrick abstained from voting on the approval of the transactions, both as directors of the Corporation and as Unitholders.

The Trustee, for and on behalf of the Fund, the Corporation and the Former Manager had entered into the Management Agreement dated July 31, 1996, as amended, which required the Former Manager to provide management services to the Fund and the Corporation. Under the terms of the Management Agreement, the Former Manager received annual management fees equal to 3.25% of the net operating income of the Corporation (as that term was defined in the Management Agreement) and acquisition fees equal to 1.5% of the purchase price of acquisitions made by the Corporation or its affiliates. A quarterly dividend was also paid to the Former Manager by the Corporation. The dividend amount was equal to approximately 1% of the Distributable Income for such quarter. During the year ended December 31, 2002, the fees received by the Former Manager under the Management Agreement consisted of management fees of \$1,938,795, acquisition fees of \$720,742 and dividends of \$517,130. Following the acquisition of the Former Manager and its subsequent amalgamation with the Corporation, the Management Agreement was terminated and replaced with the Administrative Services Agreement. Pursuant to the Administrative Services Agreement, the Corporation provides certain management, advisory and administrative services in connection with the Royalty, the Fund, the Trust Units and any entity of the Fund managed by the Corporation. In return, the Corporation is reimbursed only for administrative expenses incurred, with the intention that the Corporation not derive any financial gain, nor suffer any financial loss, as a result of providing such services.

The Exchangeable Shares are exchangeable into Trust Units at the election of the holder. The number of Trust Units required to be issued for each Exchangeable Share tendered at the time of the exchange (the "Exchange Ratio") was initially one to one, based on the deemed value of \$14.508 per Exchangeable Share at their issue date of October 9, 2002. The Exchange Ratio is increased at the time of payment of each distribution of Distributable Income to Unitholders by an amount equal to the distribution per Trust Unit divided by the weighted average trading price of the Trust Units on the TSX for the 10 trading days ending on the record date for that distribution. The initial Exchange Ratio of 1:1 was increased at January 15, 2003 by the distribution of \$0.60 per Trust Unit, which made the Exchange Ratio 1.03883 Trust Units for each Exchangeable Share.

Holders of Exchangeable Shares have the right to receive notice of and to vote at meetings of Unitholders. The holders of the Exchangeable Shares are entitled to vote at meetings of Unitholders through a Special Voting Unit issued by the Fund, on the basis of one vote for each outstanding Exchangeable Share. These rights are governed by a Voting and Exchange Trust Agreement dated October 9, 2002 among the Fund, SHC and the Corporation, and a Support Agreement dated October 9, 2002 among the Fund, SHC and the Corporation as the trustee of the Exchangeable Shares.

In order to encourage the retention of the management of the Fund, 378,871 of the 568,307 Exchangeable Shares received by each of Kivacorp and Proximus, and the underlying Trust Units into which they may be exchanged, have been placed in escrow with Valiant Trust Company as the escrow agent. Under the terms of the escrow agreement with Kivacorp, one fifth of the escrowed securities will be released to Kivacorp on October 9th in each of 2003, 2004, 2005, 2006 and 2007 as long as Mr. Fitzpatrick remains the President and CEO

of the Corporation. If Mr. Fitzpatrick voluntarily terminates his employment with the Corporation before October 9, 2007, the Exchangeable Shares or Trust Units remaining in escrow at the time of such termination will be cancelled without consideration. Proximus has a similar escrow agreement but for a period of three years, respecting Mr. Nielsen and his position of Chairman or Executive Chairman of the Corporation, the release dates of which are October 9th in each of 2003, 2004 and 2005.

Under the provisions of the unanimous shareholders agreement of the Corporation, as amended and restated on November 1, 2001, the Former Manager had the right to appoint two directors to the Board of directors of the Corporation, with the balance of the directors being elected by the Unitholders. This unanimous shareholder agreement has been terminated and replaced by a unanimous shareholders agreement of the Corporation dated October 9, 2002. Pursuant to the terms of this new unanimous shareholders agreement of the Corporation, all of the directors of the Corporation are to be elected annually by the Unitholders; however, the Corporation has agreed that Mr. Fitzpatrick will be a nominee director for at least five years and Mr. Nielsen for at least three years, provided their respective employment with the Corporation continues.

Trends

Commodity prices are cyclical. In recent years, the price of oil has moved through a large range and is currently in the high end of that range. It is the Corporation'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 \$13 per mcf in February, 2003. The Corporation expects that the price of natural gas will fluctuate in the \$4 to \$6 per mcf area in the medium and long term. This expectation is based on the Corporation's view of supply and demand fundamentals in the North American energy markets.

The expectations for natural gas prices are currently in a state of flux, 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, tempered by the requirement for the economics of such acquisitions to remain viable in light of 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:

	2002		2001	
	Gross	Net	Gross	Net
Oil	15	3.2	11	0.5
Gas	224	14.8	17	3.5
Dry	-	-	1	0.5
Service	-	-	1	0.0
Total	239	18.0	30	4.5

The Corporation expended a total of \$4.1 million in the year ended December 31, 2002 and \$5.0 million in the year ended December 31, 2001 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 that are being enhanced through further exploitation. Current production volumes from the Properties consist of approximately 76% natural gas and 24% 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 holds an average 4.2% working interest in 140 gross (5.8 net) producing wells in the Dunvegan area, located approximately 400 km northwest of Edmonton, Alberta. Included in this is a 4.29% working interest in the Dunvegan Gas Unit No. 1 (the "Unit"), which consists of 120 gross (5.2 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 65 mmcf/d of natural gas (gross). Net production from the area in 2002 averaged 2.7 mmcf/d and 140 bpd of oil and NGL. The Paddock Report assigns Established Reserves to the Corporation's interest in the property, of 12,110 mmcf of natural gas and 689 mbbbl of oil and NGL over the 28 year project life.

Paddle River, Alberta

The Corporation owns various interests averaging 37% in 54 gross (19.9 net) producing oil and natural gas wells in the Paddle River 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 44 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 2002 averaged 5.0 mmcf/d of natural gas and 293 bpd of oil and NGL. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 11,499 mmcf of natural gas and 614 mbbbl of oil and NGL over the 30 year project life.

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. There is also one shut-in natural gas 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 seven producing oil wells averaged 115 bpd of oil and NGLs and 2.3 mmcf/d of natural gas in 2002. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 2,546 mmcf of natural gas and 255 mbbbl of oil and NGL over the remaining 10 years of project life.

Monias, British Columbia

The Corporation holds an average 57% 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 2002 from the 15 gross (8.6 net) producing wells averaged 3.8 mmcf/d of natural

gas and 3 bpd of NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 11,741 mmcf of natural gas and 12.7 mbbbl of NGL over the remaining 25 years of project life.

Penhold, Alberta

The Corporation owns and operates an average 58% working interest in 42 gross (24.9 net) producing natural gas wells and 6 gross (3.0 net) oil wells in the Penhold area. This property is located immediately southwest of the city of Red Deer, Alberta. Production for 2002 averaged 3.3 mmcf/d of natural gas and 198 bpd of oil and NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 10,857 mmcf of natural gas and 461 mbbbl of oil and NGL.

Caroline, Alberta

The Corporation holds an average 56% working interest in 37 gross (24.7 net) oil wells and 16 gross (4.9 net) natural gas wells in the Caroline area. The property consists of varying working interests in four separate units, including an 86.5% working interest in 21 gross (18.2 net) producing oil wells in the Company operated Caroline Cardium 'B' Sand Unit No. 1, along with an interest in 25 gross (11.3 net) non-unit producing oil and natural gas wells. This property is located immediately southwest of the town of Caroline, Alberta. Production for 2002 averaged 3.5 mmcf/d of natural gas and 434 bpd of oil and NGLs. The Paddock Report estimates the remaining Established Reserves assigned to the Corporation's interest in the property to be 10,865 mmcf of natural gas and 1,116 mbbbl of oil and NGL.

Whitecourt, Alberta

The Corporation owns and operates an average 54% working interest in 48 gross (25.8 net) producing natural gas wells and two gross (1.3 net) producing oil wells in the Whitecourt area. The natural gas is processed in the Company operated Whitecourt gas plant. The property is located approximately 150 km northwest of Edmonton, Alberta. Production for 2002 averaged 9.2 mmcf/d of natural gas and 74 bpd of oil and NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 22,595 mmcf of natural gas and 188 mbbbl of oil and NGL.

St. Anne, Alberta

The Corporation owns and operates an average 81% working interest in 32 gross (25.9 net) producing oil and natural gas wells in the St. Anne area. The property is located approximately 100 km west of Edmonton, Alberta. Production for 2002 averaged 3.9 mmcf/d of natural gas and 132 bpd of oil. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 7,868 mmcf of natural gas and 272 mbbbl of oil and NGL.

Long Coulee, Alberta

The Corporation owns and operates a 99% interest in the Long Coulee Unit #2, which consists of 31 gross (30.7 net) producing oil wells. The Company also holds an interest in 15 gross (9.2 net) non-unit producing oil and natural gas wells in the Long Coulee area. The property is located approximately 90 km southeast of Calgary, Alberta. Production for 2002 averaged 624 mcf/d of natural gas and 390 bpd of oil and NGLs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 2,590 mmcf of natural gas and 1,560 mbbbl of oil and NGL.

Medicine Hat, Alberta

The Corporation owns an overriding royalty interest in approximately 400 producing natural gas wells in the Medicine Hat area. The property is located immediately northeast of the City of Medicine Hat. The Corporation's

share of production for 2002 averaged 4.1 mmcf/d of natural gas. By virtue of the terms of the overriding royalty agreement, the Corporation receives revenue from the wells through the operator and is not responsible for operating or capital costs. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 12,751 mmcf of natural gas.

McLeod, Alberta

The Corporation owns and operates an average 55% working interest in 26 gross (14.2 net) producing natural gas wells in the McLeod area. The property is located between the towns of Whitecourt and Edson, Alberta. The Corporation's share of production for 2002 averaged 3.0 mmcf/d of natural gas and 111 bbl/d of oil and NGL. The Paddock Report estimates the Corporation's interest in the remaining Established Reserves to be 8,434 mmcf of natural gas and 258 mbbbl of oil and NGL.

Production

2002 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	
	2002	2001
Natural gas		
Annual Total (mmcf)	23,448	22,475
Average daily (mmcf/d)	64.2	61.6
Oil		
Annual Total (mbbl)	749.7	734.9
Average daily (bpd)	2,054	2,013
Natural gas liquids		
Annual Total (mbbl)	530.6	470.2
Average daily (bpd)	1,454	1,288
Annual Total Production (mboe) @ 6 mcf/boe	5,188	4,951
Total Average Daily (boepd) @ 6 mcf/boe	14,214	13,564

Producing Wells

The following table shows the number of wells located on the Properties producing or capable of producing as at December 31, 2002:

	<u>Oil</u>		<u>Natural Gas</u>		<u>Total</u>	
	<u>Gross⁽¹⁾</u>	<u>Net⁽²⁾</u>	<u>Gross⁽¹⁾</u>	<u>Net⁽²⁾</u>	<u>Gross⁽¹⁾</u>	<u>Net⁽²⁾</u>
Caroline	37	24.7	16	4.9	53	29.6
Dunvegan	2	-	138	5.8	140	5.8
Kakut	7	7.0	1	1.0	8	8.0
Long Coulee	45	39.6	1	0.2	46	39.9
McLeod	1	0.7	26	14.2	27	14.9
Medicine Hat	-	-	399	-	399	-
Monias	-	-	15	8.6	15	8.6

	<u>Oil</u>		<u>Natural Gas</u>		<u>Total</u>	
	<u>Gross⁽¹⁾</u>	<u>Net⁽²⁾</u>	<u>Gross⁽¹⁾</u>	<u>Net⁽²⁾</u>	<u>Gross⁽¹⁾</u>	<u>Net⁽²⁾</u>
Paddle River	7	4.5	47	15.5	54	19.9
Penhold	6	3.0	42	24.9	48	27.9
St. Anne	14	12.5	18	13.4	32	25.9
Whitecourt	2	1.3	48	25.8	50	27.1
Other	491	135.7	826	183.3	1,317	319.0
Total	612	229.0	1,577	297.6	2,189	526.6

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 32 oil and 502 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, 2002, the Fund held working interests in 408,900 gross (170,700 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, 2003 which evaluates the reserves of the Corporation, as at December 31, 2002, and the estimated future net cash flow, before income taxes, attributable thereto. The Paddock Report includes reserves attributed to properties acquired with an effective date of January 1, 2003, which were in the acquisition process at December 31, 2002, but which were not closed until January 15, 2003. The aggregate cost of these reserves was \$16.7 million.

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 Corporation 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, 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 Corporation 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)	Natural		Oil (mstb)	Natural		Undis- counted	Discounted at		
		NGL (mstb)	Gas (bcf)		NGL (mstb)	Gas (bcf)		10%	15%	20%
Proved Producing	4,928	3,864	155.9	4,376	2,728	127.8	649,213	388,786	331,689	291,780
Proved Non-producing	128	477	20.9	112	331	16.6	65,748	38,292	31,492	26,661
Proved Undeveloped	677	107	4.5	607	76	3.5	24,927	10,092	6,869	4,738
Total Proved	5,733	4,448	181.3	5,094	3,136	147.9	739,888	437,170	370,050	323,179
Risked Probable	1,074	638	28.7	937	443	22.9	114,538	45,192	33,628	26,383
Total Proved plus Risked Probable	6,807	5,086	210.0	6,032	3,579	170.8	854,425	482,361	403,679	349,562

Note:

- 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	4,931	3,864	156.0	4,363	2,699	127.9	717,865	434,101	368,737	322,752
Proved Non-producing	126	478	20.9	110	328	16.7	75,434	44,120	36,264	30,667
Proved Undeveloped	677	107	4.5	600	75	3.5	27,681	12,180	8,636	6,246
Total Proved	5,733	4,450	181.4	5,073	3,102	148.0	820,980	490,400	413,637	359,665
Risked Probable	1,076	638	28.7	935	438	23.0	123,387	52,113	39,121	30,848
Total Proved plus Risked Probable	6,810	5,088	210.1	6,008	3,540	171.0	944,367	542,513	452,758	390,512

Notes:

- The figures used in the foregoing table have been rounded. Because of this rounding, certain columns may not add.
- 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.
- 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.
- 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 operating 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 2003 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 Exchange \$US/\$Cdn
	West Texas Intermediate bbl US\$	Edmonton Light Crude bbl Cdn\$	Alberta Reference Price mmbtu Cdn\$	
2003	26.00	38.96	5.25	0.65
2004	24.00	35.86	4.91	0.65
2005	22.50	33.53	4.64	0.65
2006	22.95	34.20	4.76	0.65
2007	23.41	34.89	4.81	0.65
2008	23.88	35.59	4.87	0.65
2009	24.35	36.30	4.93	0.65
2010	24.84	37.02	4.98	0.65
2011	25.34	37.76	5.04	0.65
2012	25.85	38.52	5.09	0.65
2013	26.36	39.29	5.15	0.65
2014	26.89	40.08	5.20	0.65
2015	27.43	40.88	5.25	0.65
2016	27.98	41.69	5.31	0.65
2017	28.54	42.53	5.40	0.65
2018	29.11	43.38	5.51	0.65
2019	29.69	44.25	5.62	0.65
2020	30.28	45.13	5.73	0.65
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.65

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 \$12.4 million in 2003, \$8.4 million in 2004 and \$6.6 million thereafter; a total of \$27.4 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 \$12.4 million in 2003, \$8.3 million in 2004 and \$6.9 million thereafter; a total of \$27.6 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, 2002.

	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, 2001	10,070	1,974	12,044	181.7	29.1	210.8	40,351	6,820	47,171
Acquisitions	1,726	180	1,906	32.9	4.0	36.9	7,208	836	8,044
Dispositions	(689)	(346)	(1,035)	(7.5)	(0.8)	(8.3)	(1,936)	(483)	(2,419)
Development	113	27	140	4.2	0.3	4.5	812	82	894
Revisions	241	(123)	118	(6.6)	(3.9)	(10.5)	(848)	(764)	(1,612)
Production	(1,280)	-	(1,280)	(23.4)	-	(23.4)	(5,188)	-	(5,188)
December 31, 2002	10,181	1,712	11,893	181.3	28.7	210.0	40,399	6,491	46,890

Quarterly Information

Average Daily Sales Volumes

2002

	March 31	June 30	September 30	December 31
Oil bpd	2,189	2,190	1,953	1,886
Gas mcfd	64,630	66,591	63,541	62,235
NGL bpd	1,463	1,432	1,435	1,484
Boe (6:1)	14,424	14,721	13,978	13,743

2001

	March 31	June 30	September 30	December 31
Oil bpd	1,321	2,363	2,170	2,189
Gas mcfd	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

Average prices

2002

	March 31	June 30	September 30	December 31
Oil (\$/bbl)	29.88	36.61	40.49	38.92
Gas (\$/mcf)	3.66	4.32	3.91	5.37
NGL (\$/bbl)	20.10	25.35	27.34	33.29
Boe (\$/boe)	22.97	27.47	26.37	33.31
Revenue	22.97	27.47	26.37	33.31
Royalties	3.35	5.46	4.49	7.14
Operating expenses	5.84	5.31	6.94	6.31
Netback	13.78	16.70	14.94	19.86

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

Acquisition and Development costs
(\$000's)

2002

	March 31	June 30	September 30	December 31
Acquisition	1,846	24,009	21,106	2,634
Exploration costs	-	-	-	-
Development and facilities	2,717	1,676	2,447	5,027

2001

	March 31	June 30	September 30	December 31
Acquisition	2,242	(279)	34,489	8,450
Exploration costs	-	-	-	-
Development and facilities	2,956	948	2,853	5,851

Future Commitments

Commodity	Term Commence	Termination	Volume	Floor	Ceiling	Fixed Price
Crude oil	Jan 1/03	Dec 31/03	500 bpd	US\$24.00/bbl	US\$27.62/bbl	
Natural gas	Nov 1/02	Oct 31/03	2,000 mcf	\$4.22/mcf	\$8.70/mcf	
Natural gas	Nov 1/02	Mar 31/03	5,000 mcf	\$4.22/mcf	\$7.69/mcf	
Natural gas	Nov 1/02	Mar 31/03	5,000 mcf	\$4.74/mcf	\$7.52/mcf	
Natural gas	Apr 1/03	Oct 31/03	5,000 mcf	\$5.01/mcf	\$7.06/mcf	
Natural gas	Apr 1/03	Oct 31/03	5,000 mcf	\$5.27/mcf	\$8.43/mcf	
Natural gas	Apr 1/03	Oct 31/03	5,000 mcf			\$5.38/mcf
Crude oil	July 1/03	Dec 31/03	500 bpd	US\$26.00/bbl	US\$30.10/bbl	
Natural gas	Apr 1/03	Dec 31/03	13,000 mcf			\$7.75/mcf
Natural gas	Jan 1/04	Dec 31/04	11,000 mcf			\$6.44/mcf

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)	2002	2001	2000
Oil and natural gas sales	142,661	170,714	104,772
Net earnings	13,032	50,651	37,764
Per Trust Unit – basic	0.40	2.08	2.64
- diluted	0.08	2.08	2.63
Distributable Income	69,607	81,979	42,410
Per Trust Unit	2.16	3.40	2.76
Total assets	494,303	503,065	232,773
Long term debt	115,283	122,459	57,381

Distributable Income

Unitholders of record on each Distribution Record Date are entitled to receive cash distributions of the Distributable Income. The Corporation will calculate the Distributable Income which will be paid by the Trustee to the Unitholders on each Cash Distribution Date. The accompanying table summarizes cash distributions from the Fund since its inception. Effective January 1, 2003, the Fund began paying cash distributions monthly.

<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
December 31, 2001	January 15, 2002	\$0.500
March 31, 2002	April 15, 2002	\$0.500
June 30, 2002	July 15, 2002	\$0.540
September 30, 2002	October 15, 2002	\$0.520

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Trust Unit</u>
December 31, 2002	January 15, 2003	\$0.600
February 28, 2003	March 15, 2003	\$0.220

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the information under the heading "Management's Discussion & Analysis" contained on pages 21 through 32 of the Fund's Annual Report for the year ended December 31, 2002, 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 TSX under the symbol SHN.UN.

DIRECTORS AND OFFICERS

The Board of directors of the Corporation is currently set at five members, all of whom 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 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 Corporation
David M. Fitzpatrick Calgary, Alberta	President, Chief Executive Officer and Director	President and Chief Executive Officer of 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 in the international and domestic 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 Corporation
Terry P. Prokopy Calgary, Alberta	Vice President, Land	Vice President, Land of the Corporation
Bruce K. Gibson Calgary, Alberta	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of 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, Reserve Review 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 6, 2003. Including the Exchangeable Shares held beneficially by Mr. Nielsen and Mr. Fitzpatrick, as a group, the Directors and Officers of the Corporation beneficially own, directly or indirectly, or exercise control over approximately 3% 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 a 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 Revolution Energy Inc., a private oil and gas company and Great Northern Exploration Ltd., a public oil and gas company.

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 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 was 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 Corporation, 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 of the Corporation in July 2001. Prior to joining the Corporation 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 Corporation 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 the Corporation, 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 TSX Venture Exchange. Mr. Clark is the Corporate Secretary of Rise Healthcare Inc., a company listed on the TSX 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 than 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 Corporation is 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

(RTCRP). The RTCRP 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 RTCRP falls below \$100 per cubic metre, and 25% when the RTCRP 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 or the Fund 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 affect 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 December 30, 2002. While the new Act repeals the former act completely, it provides for a transition

phase as well as for the grandparenting of certain classes of projects. The new Act will require major energy projects to undergo an environmental assessment process which includes public participation and consultation.

The Corporation 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 Corporation's internal procedures are designed to ensure that the environmental aspects of new developments are taken into account prior to proceeding. The Corporation believes that it is reasonably 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 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 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 Corporation 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 Corporation 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 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 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 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 Corporation, will be successful in developing or acquiring additional reserves on terms that meet the Fund's investment objectives.

Reliance on Key Personnel

Unitholders are entirely dependent on the Corporation in respect of administration of all matters relating to the Properties and the Trust Units. Investors who are not willing to rely on the Corporation should not invest in the Trust Units.

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

Credit Facility

The Corporation has credit facilities in the amount of \$230 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 Corporation 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 2003. 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 Corporation 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 Corporation are also directors of other oil and natural gas companies, which may from time to time be in competition with 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 Corporation follows 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 Corporation 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 Properties and the Corporation'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.

The Trust Indenture provides that all contracts signed by or on behalf of the Fund must (except as the Trustee or the Corporation may otherwise, in any respect, determine) contain a provision to the effect that the obligations in such agreement 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 Distribution

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 fund 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, 2002, which statements are incorporated by reference in this Renewal Annual Information Form.

Principal Holders of Trust Units

As at the date hereof, to the best of the knowledge of the Corporation, 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, 2002, the directors and senior officers of the Corporation, as a group beneficially owned, including the Exchangeable Shares, directly or indirectly 153,356 Trust Units and 947,180 Exchangeable Shares or approximately 3% of the issued and outstanding Trust Units.

Requests for Information

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

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, 2002, 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, 2002;

- (c) one copy of the Fund's Information Circular -Proxy Statement dated March 28, 2003; 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 Corporation 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 directors and officers of the Corporation, the principal holders of Trust Units, options to purchase Trust Units and interests of insiders in material transactions, where applicable, is contained in the Fund's Information Circular dated March 28, 2003 which relates to the Annual General Meeting of the Unitholders of the Fund to be held on May 6, 2003. Additional financial information is contained in the Fund's consolidated financial statements for the periods ended December 31, 2002 and 2001 which are included in the Fund's Annual Report for the year ended December 31, 2002. A copy of such information and additional copies of this Annual Information Form may be obtained from the Corporation. Please contact:

Mr. Bruce K. Gibson
Chief Financial Officer
Shiningbank Energy Ltd.
1310, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 3Y6
Telephone: (403) 268-7477
Fax: (403)268-7499