INTERIM REPORT

Shiningbank Energy Income Fund

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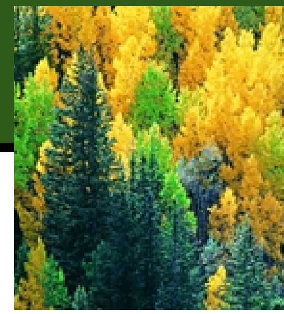

Q2 2004 Second Quarter Report

- **Distributions remained stable** for the fifth consecutive quarter at $0.69 per unit ($0.23 per unit per month)
- **Production reached new highs** with overall volumes for the six months up 23% over 2003
- **Continued stability in distributions** is expected based on development drilling success and a healthy outlook for commodity prices

SECOND QUARTER HIGHLIGHTS

	Three months ended June 30,			*Six months ended June 30,*		
	2004	*2003*	*%*	***2004***	*2003*	*%*
FINANCIAL *($ thousands except per unit amounts)*						
Oil and natural gas sales	**$ 79,183**	$ 64,212	23%	**$ 147,473**	$ 123,286	20%
Net earnings	**16,072**	23,583	(32)%	**34,868**	43,082	(19)%
Cash flow before changes in non-cash working capital	**45,190**	36,723	23%	**84,734**	70,899	20%
Distributable cash	**36,977**	30,330	22%	**71,744**	61,216	17%
Distributions per Trust Unit	**0.69**	0.69	–	**1.38**	1.47	(6)%
Acquisition and development costs	**11,371**	4,054	180%	**199,812**	163,587	22%
Long term debt	**168,618**	120,521	40%	**168,618**	120,521	40%
Unitholders' equity	**477,546**	398,607	20%	**477,546**	398,607	20%
OPERATIONS						
Daily Production						
Oil *(bbl/d)*	**2,725**	2,037	34%	**2,434**	2,006	21%
Natural gas *(mmcf/d)*	**89.6**	80.4	11%	**85.8**	71.8	19%
Natural gas liquids *(bbl/d)*	**3,034**	2,352	29%	**2,852**	1,954	46%
Oil equivalent *(boe/d)*	**20,693**	17,783	16%	**19,586**	15,924	23%
Average Prices (including hedging)						
Oil *($/bbl)*	**$ 43.05**	$ 36.81	17%	**$ 41.50**	$ 40.85	2%
Natural gas *($/mcf)*	**$ 7.08**	$ 6.88	3%	**$ 6.98**	$ 7.38	(5)%
Natural gas liquids *($/bbl)*	**$ 39.19**	$ 32.82	19%	**$ 37.68**	$ 35.49	6%
Oil equivalent *($/boe)*	**$ 42.05**	$ 39.68	6%	**$ 41.20**	$ 42.77	(4)%
UNIT TRADING						
Units traded *(thousands)*	**10,752**	11,869	(9)%	**21,387**	19,961	7%
Value traded *($ thousands)*	**$ 201,264**	$ 192,578	5%	**$ 388,635**	$ 318,366	22%
Unit price						
High	**$ 19.74**	$ 17.80		**$ 19.74**	$ 17.80	
Low	**$ 17.44**	$ 14.80		**$ 16.51**	$ 14.80	
Close	**$ 19.15**	$ 16.58		**$ 19.15**	$ 16.58	
Units outstanding *(thousands)*	**53,608**	43,961		**53,608**	43,961	

Fellow Unitholders

We are pleased to report that for the fifth consecutive quarter, distributions to unitholders have remained steady at $0.69 per unit ($0.23 per unit per month). Shiningbank's unitholders have also benefited from appreciation in the unit price. High commodity prices are supporting our investment returns, but unitholders are also benefiting from strong production growth during a cycle of industry competition not seen for several years, both for acquisitions and field services.

OUR Q2 FOCUS

As reported previously, on March 8 we acquired the assets of Birchill Resources, a private oil and gas company, with 40% of its production adjacent to our existing lands at Ferrier. The acquisition increased production by 20% for the second quarter, adding approximately 4,150 boe/d (14.3 mmcf/d natural gas; 1,763 bbl/d NGL and oil). While we are continuing to incorporate the Birchill assets into our existing operations, the additional lands acquired have added valuable drilling targets to what has become a highly successful development program in the Ferrier area.

THE BASICS

Production

Production in the second quarter averaged 20,693 boe/d, 16% higher than in second quarter 2003 and 12% higher than first quarter 2004, due mainly to the Birchill acquisition.

Natural gas volumes averaged 89.6 mmcf/d, up 11% from second quarter 2003. For the first half, natural gas production averaged 85.8 mmcf/d, an increase of 19% over the same period in 2003.

Oil volumes for the quarter increased 34% over second quarter 2003 to average 2,725 bbl/d, and for the six month period were up 21% to 2,434 bbl/d. NGL production increased 29% from second quarter 2003 to 3,034 bbl/d and improved 46% for the six month period to average 2,852 bbl/d.

Production from the newly acquired Birchill properties was slightly below our expectations due to weather-related delays in the tie in of several wells in the Rycroft area. This shortfall was offset by higher than expected production in the O'Chiese area from wells drilled in late 2003.

Pricing details

Strong natural gas prices continued in the quarter averaging $7.08/mcf, 3% above second quarter 2003. For the six-month period, we averaged $6.98/mcf, a decline of 5% from first half 2003 due to extremely high prices in first quarter 2003. High natural gas prices are expected through the remainder of 2004 based primarily on support from high oil prices. Supply and demand fundamentals in the North American natural gas market continue to be favourable to producers. However, with gas storage facilities filling in line with expectations, it appears that winter demand will be adequately supplied and severe supply shortages, and the associated price spikes, should be avoided.

Oil and NGL prices were unusually high averaging 17% and 19% more than in second quarter 2003 respectively. Prices for the benchmark West Texas Intermediate (WTI) averaged US$38.31/bbl for the quarter compared to only US$28.91 in 2003. WTI continues to trade in the US$40 range, a 20-year high.

Shiningbank's realized oil price for the quarter was Cdn$46.71/bbl before hedging, and Cdn$43.05/bbl after hedging. NGL prices averaged $39.19/bbl for the quarter, up 19% from 2003. For the first six months, the increases were less dramatic, due to higher first quarter 2003 comparative numbers.

DEVELOPMENT ACTIVITY

As a result of a wet spring, our second quarter drilling programs were delayed until late June. However, we drilled 13 wells (4.8 net), all of which were successful gas wells. Development drilling was concentrated in the Ferrier/O'Chiese area where we drilled six successful gas wells (2.5 net). Equipping and tie-in of these wells is underway and production will commence in the third and fourth quarters.

Additional drilling is underway at Minehead with one well drilled in a three-well program and the second well currently drilling. This program is targeting enhanced natural gas production and new long-life reserves in the Cardium zone.

So far this year our capital program has amounted to $20.6 million and we expect to spend approximately $40 million on development. This higher level of development activity reflects the quality of our assets in terms of unrealized potential, and our focus on increasing the value of our properties through low risk and relatively low cost activities.

OUTLOOK

Our goal is to maintain stable distributions to unitholders through the second half of 2004. We expect those distributions to be supported by commodity price strength and our development drilling programs. Currently seven wells are drilling and another four wells are planned in the third quarter. Six of those wells are located at Ferrier where we continue to drill with a high success rate.

Commodity price strength is having an impact on the acquisition market. We are continuing to see high prices for assets and, as always, we are adhering to our conservative acquisition parameters. That disciplined approach has led to the creation of long term value for our unitholders, and will continue to be the underlying factor in the stability in our distributions.

David M. Fitzpatrick
President and Chief Executive Officer

August 5, 2004

Management's Discussion and Analysis

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Shiningbank Energy Income Fund for the three and six month periods ended June 30, 2004. The information is provided as of August 5, 2004. The second quarter and half year results have been compared with the corresponding periods in 2003. Certain comparative figures have been restated to reflect the accounting changes described in note 2 to the consolidated financial statements. This discussion and analysis should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2003 and 2002, together with the accompanying notes, and the December 31, 2003 MD&A and Annual Information Form. These documents, and additional information about the Fund, are available on SEDAR at www.sedar.com.

Barrel of oil equivalent (boe) volumes are reported at 6:1 with 6 mcf = 1 boe. All figures are in Canadian dollars unless otherwise noted.

Results of Operations

DAILY PRODUCTION VOLUMES

	Three months ended June 30,			*Six months ended June 30,*		
	2004	*2003*	*%*	***2004***	*2003*	*%*
Oil *(bbl/d)*	**2,725**	2,037	34%	**2,434**	2,006	21%
Natural gas *(mmcf/d)*	**89.6**	80.4	11%	**85.8**	71.8	19%
Natural gas liquids *(bbl/d)*	**3,034**	2,352	29%	**2,852**	1,954	46%
Oil equivalent *(boe/d)*	**20,693**	17,783	16%	**19,586**	15,924	23%
Natural gas % of production	**72%**	75%	(4)%	**73%**	75%	(3)%

For the first half of the year, daily production volumes averaged 19,586 boe/d, 23% higher than in 2003. Daily production for the second quarter averaged 20,693 boe/d, up 16% from the same period last year. The most significant contributors to the increase were the first quarter 2004 corporate acquisitions of Birchill Resources Limited for $170.1 million, and Good Ridge Exploration Ltd. for $7.0 million. Both acquisitions closed in early March and contributed 20% to second quarter 2004 production and 13% to production in the six months ended June 30, 2004. These acquisitions were partially offset by the natural declines of producing properties, which are estimated to average 13% per year.

PRICING (AVERAGE PRICING INCLUDING HEDGING ACTIVITY)

	Three months ended June 30,			*Six months ended June 30,*		
	2004	*2003*	*%*	***2004***	*2003*	*%*
Oil *($/bbl)*	**$ 43.05**	$ 36.81	17%	**$ 41.50**	$ 40.85	2%
Natural gas *($/mcf)*	**7.08**	6.88	3%	**6.98**	7.38	(5)%
Natural gas liquids *($/bbl)*	**39.19**	32.82	19%	**37.68**	35.49	6%
Oil equivalent *($/boe)*	**42.05**	39.68	6%	**41.20**	42.77	(4)%
WTI *(US$/bbl)*	**$ 38.31**	$ 28.91	33%	**$ 36.73**	$ 31.39	17%
AECO natural gas *($/mcf)*	**$ 6.80**	$ 6.99	(3)%	**$ 6.70**	$ 7.46	(10)%

Natural gas

Shiningbank's realized natural gas prices averaged $7.08/mcf for the quarter, 3% higher than for second quarter 2003. Year to date, the average price was 5% lower at $6.98/mcf. The price in both periods benefited from an increase in the average heat content of Shiningbank's production due to higher volumes from the Ferrier area. Hedging decreased the realized gas price by $0.08/mcf for the quarter and $0.05/mcf year to date, compared to a 2003 hedging gain of $0.02/mcf for the quarter and a loss of $0.05/mcf for the first six months.

Oil and NGL

Realized oil prices for the quarter were $43.05/bbl, up 17% from second quarter 2003. Realized oil prices for the first half were $41.50/bbl, up 2% from 2003. Hedging reduced the realized price by $3.66/bbl for the quarter and $2.97/bbl year to date, compared with 2003 hedging losses of $0.47/bbl for the quarter and $1.35/bbl for the first six months. The benchmark West Texas Intermediate (WTI) price averaged 33% higher for the quarter and 17% year to date, however strength in the Canadian dollar partially offset this increase.

NGL prices were also strong, averaging 19% above second quarter 2003 prices and 6% above first half 2003 prices, reflecting high oil prices.

Hedging

Shiningbank maintains an active hedging program designed to reduce the variability of distributions. Gains and losses from hedging activities are recorded when they are realized and are included in oil and natural gas sales. See note 6 to the consolidated financial statements for information on hedging contracts currently outstanding.

REVENUES

	Three months ended June 30,				*Six months ended June 30,*			
(000s)	***2004***	***% of Revenue***	*2003*	*% of Revenue*	***2004***	***% of Revenue***	*2003*	*% of Revenue*
Oil	**$ 11,583**	**14%**	$ 6,910	11%	**$ 19,697**	**13%**	$ 15,324	12%
Natural gas	**58,407**	**74%**	50,192	78%	**109,763**	**75%**	96,549	79%
Natural gas liquids	**10,820**	**14%**	7,023	11%	**19,558**	**13%**	12,554	10%
Other income (loss)	**(5)**	**–**	17	–	**610**	**–**	27	–
Gas hedging	**(715)**	**(1)%**	148	–	**(840)**	**–**	(677)	(1)%
Oil hedging	**(907)**	**(1)%**	(78)	–	**(1,315)**	**(1)%**	(491)	–
	$ 79,183	**100%**	$ 64,212	100%	**$ 147,473**	**100%**	$ 123,286	100%

The following table sets out the net effect on revenue of changes in commodity prices and volumes between 2003 and 2004.

Sales variance analysis (including hedging activity)

	Three months ended June 30,	*Six months ended June 30,*
(000s)	***2004/2003***	***2004/2003***
Oil and natural gas liquids		
Volume increase	**$ 4,345**	**$ 9,130**
Price increase	**3,296**	**1,423**
	$ 7,641	**$ 10,553**
Natural gas		
Volume increase	**$ 5,786**	**$ 19,349**
Price increase (decrease)	**1,566**	**(6,298)**
	$ 7,352	**$ 13,051**

Revenue growth for oil and NGL in both the second quarter and first half was largely due to volume increases, with higher pricing also being a factor. Revenue growth for natural gas in the second quarter was due to higher volumes and prices than in 2003. Year to date, natural gas revenue growth was due solely to higher volumes than in 2003, offset in part by lower prices in the first quarter.

ROYALTIES

	Three months ended June 30,			*Six months ended June 30,*		
	2004	*2003*	*%*	***2004***	*2003*	*%*
Total royalties, net *(000s)*	**$ 17,674**	$ 14,705	20%	**$ 31,450**	$ 27,824	13%
As a % of revenue	**22.3%**	22.9%	(3)%	**21.3%**	22.6%	(6)%
Per boe	**$ 9.39**	$ 9.09	3%	**$ 8.82**	$ 9.65	(9)%

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The second quarter and six-month royalty rates declined due to a combination of lower commodity prices in first quarter 2004 than in 2003 under the price-sensitive rate structure for Alberta Crown natural gas royalties, and adjustments related to prior periods.

OPERATING COSTS

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	%	**2004**	2003	%
Operating costs *(000s)*	**$ 12,607**	$ 9,842	28%	**$ 23,713**	$ 18,349	29%
Per boe	**$ 6.69**	$ 6.08	10%	**$ 6.65**	$ 6.37	4%

Operating costs increased 10% on a boe basis from second quarter 2003, but remained fairly constant with 2003 on a year to date basis. Higher field operating costs in most areas were offset by volume increases in lower operating cost areas.

OPERATING NETBACKS

	Three months ended June 30,			Six months ended June 30,		
($/boe)	**2004**	2003	%	**2004**	2003	%
Oil and natural gas sales	**$ 42.05**	$ 39.68	6%	**$ 41.20**	$ 42.77	(4)%
Royalty expenses	**9.39**	9.09	3%	**8.82**	9.65	(9)%
Operating expenses	**6.69**	6.08	10%	**6.65**	6.37	4%
Operating netback	**$ 25.97**	$ 24.51	6%	**$ 25.73**	$ 26.75	(4)%

Operating netbacks increased 6% quarter over quarter due to higher commodity prices. Higher royalty and operating costs per boe partially offset this effect. Year to date operating netbacks decreased 4% from 2003 due to lower first quarter commodity prices offset in part by lower royalties per boe.

GENERAL AND ADMINISTRATIVE COSTS

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	%	**2004**	2003	%
General and administrative *(000s)*	**$ 1,877**	$ 1,006	87%	**$ 3,424**	$ 2,281	50%
Per boe	**$ 1.00**	$ 0.62	61%	**$ 0.96**	$ 0.79	22%
Per average Trust Unit	**$ 0.04**	$ 0.02	100%	**$ 0.07**	$ 0.06	17%

General and administrative costs increased 61% per boe and 100% per average Trust Unit compared with second quarter 2003 due to higher activity levels resulting from acquisitions and increased costs for systems and corporate governance arising from additional regulation. Second quarter 2003 costs were unusually low due to the recording of a $387,000 retroactive overhead recovery in that period. Year to date general and administrative costs increased 22% per boe and 17% per average Trust Unit over the same period in 2003. Boe costs compare favourably with our peers.

INTEREST ON LONG TERM DEBT

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	%	**2004**	2003	%
Interest on long term debt *(000s)*	**$ 1,431**	$ 1,830	(22)%	**$ 2,902**	$ 3,585	(19)%
Per boe	**$ 0.76**	$ 1.13	(33)%	**$ 0.81**	$ 1.24	(35)%
Per average Trust Unit	**$ 0.03**	$ 0.04	(25)%	**$ 0.06**	$ 0.09	(33)%

Interest expense, which includes bank charges, decreased 22% in the second quarter of 2004 compared with 2003, and 19% year to date. These decreases were the result of lower debt levels, interest rates and bank stamping fees.

Shiningbank is currently in compliance with all external debt covenants.

DEPRECIATION, DEPLETION AND AMORTIZATION

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	%	**2004**	2003	%
Depreciation, depletion and amortization *(000s)*	**$ 31,300**	$ 20,088	56%	**$ 56,948**	$ 35,774	59%
Per boe	**$ 16.62**	$ 12.41	34%	**$ 15.98**	$ 12.41	29%

Depreciation, depletion and amortization rose 34% per boe for the quarter and 29% year to date over 2003. These increases were primarily due to increases in the asset base from higher priced acquisitions during the first quarter and associated future development costs.

The 2003 second quarter comparative figure has been increased by $948,000 ($1,886,000 for 2003 year to date) as a result of the adoption of the new asset retirement obligation standard. The accretion of discount on the asset retirement liability and additional depletion due to asset retirement cost are now included as part of this expense.

TRUST UNIT INCENTIVE COMPENSATION

	Three months ended June 30,			Six months ended June 30,		
	2004	2003	%	**2004**	2003	%
Trust Unit incentive compensation *(000s)*	**$ 304**	$ 141	116%	**$ 602**	$ 279	116%
Per boe	**$ 0.16**	$ 0.09	78%	**$ 0.17**	$ 0.10	70%

During fourth quarter 2003, the Fund elected to prospectively adopt the amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments” for all rights issued on or after January 1, 2003. At that time, a total of $572,000 was expensed for 2003. Comparative figures have been adjusted to reflect the 2003 annual expense throughout the 2003 quarters as if the policy had been adopted during the first quarter of 2003.

During the second quarter of 2004, one new issue of rights was granted. Three new issues of rights have been granted year to date. The fair value of rights issued was determined using the Black-Scholes model, and will be brought into income over the vesting period of the rights. The total second quarter 2004 expense of $304,000 ($602,000 year to date) represents the quarterly increment for rights issued during 2003 and 2004 and vesting within the year. The increase from 2003 resulted from the grant of rights on January 1, 2004.

INTERNALIZATION OF MANAGEMENT CONTRACT

	Three months ended June 30,			*Six months ended June 30,*		
	2004	*2003*	*%*	***2004***	*2003*	*%*
Internalization of management contract *(000s)*	**$ 735**	$ 1,472	(50)%	**$ 1,469**	$ 2,960	(50)%
Per boe	**$ 0.39**	$ 0.91	(57)%	**$ 0.41**	$ 1.03	(60)%

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

Of the total purchase price of $20.6 million, $11.0 million was deferred, representing Exchangeable Shares subject to escrow provisions which are being amortized into income over specific vesting periods through 2007. During second quarter 2004, $735,000 (2003 – $1.5 million) was expensed, representing the amortization of these escrowed Exchangeable Shares.

TAXES

	Three months ended June 30,			*Six months ended June 30,*		
	2004	*2003*	*%*	***2004***	*2003*	*%*
Capital and large corporation taxes *(000s)*	**$ 404**	$ 101	300%	**$ 629**	$ 322	95%
Future income tax recovery *(000s)*	**$ (3,221)**	$ (8,556)	(62)%	**$ (8,532)**	$ (11,170)	(24)%
Per boe	**$ (1.50)**	$ (5.22)	(71)%	**$ (2.22)**	$ (3.76)	(41)%

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

NET EARNINGS

Shiningbank's second quarter earnings were $16.1 million or $0.30 per Trust Unit ($0.29 diluted). Earnings in second quarter 2003, after restatement for the retroactive application of new accounting policies, were $23.6 million or $0.56 per Trust Unit ($0.55 diluted). Year to date net earnings were $34.9 million or $0.69 per Trust Unit ($0.68 diluted), compared with 2003 figures of $43.1 million or $1.11 per Trust Unit ($1.09 diluted).

DISTRIBUTABLE CASH

	Three months ended June 30,			Six months ended June 30,		
(000s)	***2004***	*2003*	*%*	***2004***	*2003*	*%*
Cash flow before changes in non-cash working capital	**$ 45,190**	$ 36,723	23%	**$ 84,734**	$ 70,899	20%
Capital expenditures	**(9,618)**	(3,839)	151%	**(20,625)**	(7,951)	159%
Site restoration costs	**(19)**	(56)	(66)%	**(218)**	(133)	64%
Internalization of management contract	–	5	(100)%	–	26	(100)%
Working capital adjustments	**1,424**	(2,503)	(157)%	**7,853**	(1,625)	(583)%
Distributable cash	**$ 36,977**	$ 30,330	22%	**$ 71,744**	$ 61,216	17%
Distributions per Trust Unit	**$ 0.69**	$ 0.69	–	**$ 1.38**	$ 1.47	(6)%
Trust Units outstanding	**53,608**	43,961	22%	**53,608**	43,961	22%

Note: There is no standardized measure of Distributable Cash and therefore Distributable Cash, as presented above, may not be comparable to similar measures presented by other trusts.

Distributable cash increased 22% for the second quarter and 17% year to date over 2003. The increase was due to higher production volumes and higher commodity prices. On a per Trust Unit basis, distributions were consistent with second quarter 2003 and decreased 6% over year to date 2003. The Fund paid out 82% of its cash flow from the second quarter of 2004, and 85% year to date.

QUARTERLY FINANCIAL INFORMATION

(000s except per Trust Unit amounts)	*Q2 2004*	*Q1 2004*	*Q4 2003*	*Q3 2003*
Oil and natural gas sales	**$ 79,183**	$ 68,290	$ 57,181	$ 61,690
Net earnings	**16,072**	18,796	5,352	15,517
Per Trust Unit – basic	**0.30**	0.40	0.12	0.35
– diluted	**0.29**	0.39	0.12	0.35
Distributions	**36,977**	34,767	30,629	30,442
Per Trust Unit	**0.69**	0.69	0.69	0.69
	Q2 2003	*Q1 2003*	*Q4 2002*	*Q3 2002*
Oil and natural gas sales	$ 64,212	$ 59,074	$ 42,116	$ 33,918
Net earnings (loss)	23,583	19,499	(2,316)	4,927
Per Trust Unit – basic	0.56	0.55	(0.07)	0.15
– diluted	0.55	0.54	(0.07)	0.15
Distributions	30,330	30,886	19,917	17,234
Per Trust Unit	0.69	0.78	0.60	0.52

The above table highlights Shiningbank's performance for the second quarter of 2004 and the preceding seven quarters. Quarterly fluctuations are primarily the result of changes in realized gas prices, which can be extremely volatile, and increases in volumes due to acquisitions.

COSTS OF ACQUISITIONS AND DEVELOPMENT

During the first quarter, Shiningbank spent $177.1 million on the acquisitions of Birchill Resources Limited and Good Ridge Exploration Ltd. These acquisitions added approximately 20% to Shiningbank's second quarter production volumes, with the primary additions coming in the Ferrier area, adjacent to Shiningbank's existing property and using much of the same infrastructure.

A total of $9.6 million was spent on drilling and new facilities during the second quarter and $20.6 million in the first half of 2004, compared with $3.8 million and $8.0 million respectively for the same periods in 2003. The increased expenditures funded a successful development drilling program concentrated in the Ferrier and O'Chiese areas.

Liquidity and Capital Resources

LONG TERM DEBT

The Fund has a $225 million revolving credit facility with a syndicate of four Canadian chartered banks of which $168.6 million was drawn at June 30, 2004. The revolving period extends to April 27, 2005, at which time the facility reverts to a two-year term with principal payments, if necessary, commencing on July 28, 2005. The facility is secured by a $300 million floating charge debenture on all assets of Shiningbank Energy Ltd. together with guarantees from operating subsidiaries. Borrowings under the facility bear interest at an annual rate ranging from the banks' prime rate to the banks' prime rate plus 0.95%, depending on the total debt to cash flow ratio or, at Shiningbank's option, the bankers' acceptance rate plus a stamping fee.

UNITHOLDERS' EQUITY

On March 8, 2004, the Fund issued 8,800,000 new Trust Units at $17.00 each for gross proceeds of $149.6 million. A total of 329,005 new Trust Units were issued during the second quarter (464,487 year to date) under the Fund's Distribution Reinvestment Program and the Trust Unit Rights Incentive Plan.

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

As of August 5, 2004, the Fund had 53,769,566 Trust Units outstanding, 61,418 non-escrowed Exchangeable Shares and 555,678 escrowed Exchangeable Shares.

CONTRACTUAL OBLIGATIONS

Payments Due by Period

(000s)	*Total*	*Less than 1 Year*	*1-3 Years*	*4-5 Years*	*After 5 Years*
Long term debt principal*	$ 168,618	$ –	$ 22,369	$ 146,249	$ –
Operating leases	693	646	47	–	–
Pipeline transportation	4,237	927	2,782	528	–
Total obligations	$ 173,548	$ 1,573	$ 25,198	$ 146,777	$ –

**The long term debt obligation assumes that the revolving credit line is not renewed in April 2005.*

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

Financial Reporting

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Asset retirement obligation

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

Consolidated Balance Sheets

($ thousands)	*June 30, 2004*	*December 31, 2003*
	(unaudited)	*(audited) Restated (note 2)*
ASSETS		
Current assets		
Accounts receivable	**$ 49,202**	$ 31,587
Prepaid expenses	**4,343**	2,630
	53,545	34,217
Fixed assets *(note 3)*		
Petroleum and natural gas properties and equipment	**1,101,043**	826,352
Accumulated depletion and depreciation	**(304,383)**	(248,670)
	796,660	577,682
Other assets	**3,508**	2,250
	$ 853,713	$ 614,149
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 41,320**	$ 30,727
Trust Unit distribution payable	**24,686**	20,428
	66,006	51,155
Long term debt *(note 4)*	**168,618**	121,691
Future income taxes	**110,933**	50,564
Asset retirement obligation *(note 2)*	**30,610**	26,524
Unitholders' equity		
Trust Units *(note 5)*	**698,614**	550,267
Exchangeable Shares *(note 5)*	**6,736**	5,267
Contributed surplus	**963**	572
Accumulated earnings	**204,579**	169,711
Accumulated Trust Unit distributions	**(433,346)**	(361,602)
	477,546	364,215
	$ 853,713	$ 614,149

See selected accompanying notes to the interim consolidated financial statements

Consolidated Statements of Earnings and Unitholders' Equity

(unaudited) ($ thousands, except per Trust Unit amounts)	*Three months ended June 30,* **2004**	*2003*	*Six months ended June 30,* **2004**	*2003*
		Restated (note 2)		*Restated (note 2)*
Revenues				
Oil and natural gas sales	**$ 79,183**	$ 64,212	**$ 147,473**	$ 123,286
Royalties	**17,674**	14,705	**31,450**	27,824
	61,509	49,507	**116,023**	95,462
Expenses				
Operating	**12,607**	9,842	**23,713**	18,349
General and administrative	**1,877**	1,006	**3,424**	2,281
Interest on long term debt	**1,431**	1,830	**2,902**	3,585
Depreciation, depletion and amortization	**31,300**	20,088	**56,948**	35,774
Capital and large corporation taxes	**404**	101	**629**	322
Trust Unit incentive compensation *(note 2 and 5)*	**304**	141	**602**	279
Internalization of management contract	**735**	1,472	**1,469**	2,960
	48,658	34,480	**89,687**	63,550
Earnings before income taxes	**12,851**	15,027	**26,336**	31,912
Future income tax recovery	**(3,221)**	(8,556)	**(8,532)**	(11,170)
Net earnings	**$ 16,072**	$ 23,583	**$ 34,868**	$ 43,082
Unitholders' equity, beginning of period	**492,768**	309,839	**364,215**	264,887
Issue of Trust Units *(note 5)*	**4,766**	95,392	**148,347**	152,874
Exchangeable Shares, net *(note 5)*	**735**	(18)	**1,469**	(1,299)
Contributed surplus	**182**	141	**391**	279
Trust Unit distributions	**(36,977)**	(30,330)	**(71,744)**	(61,216)
Unitholders' equity, end of period	**$ 477,546**	$ 398,607	**$ 477,546**	$ 398,607
Net earnings per Trust Unit *(note 5)*				
Basic	**$ 0.30**	$ 0.56	**$ 0.69**	$ 1.11
Diluted	**$ 0.29**	$ 0.55	**$ 0.68**	$ 1.09

See selected accompanying notes to the interim consolidated financial statements

Consolidated Statements of Cash Flows

(unaudited) ($ thousands)	*Three months ended June 30,* **2004**	*2003*	*Six months ended June 30,* **2004**	*2003*
		Restated (note 2)		*Restated (note 2)*
Operating activities				
Net earnings	**$ 16,072**	$ 23,583	**$ 34,868**	$ 43,082
Items not requiring cash				
Depreciation, depletion and amortization	**31,300**	20,088	**56,948**	35,774
Internalization of management contract	**735**	1,467	**1,469**	2,934
Trust Unit incentive compensation	**304**	141	**602**	279
Gain on sale of other asset	**–**	–	**(621)**	–
Future income tax recovery	**(3,221)**	(8,556)	**(8,532)**	(11,170)
Cash flow before changes in non-cash working capital	**45,190**	36,723	**84,734**	70,899
Asset retirement expenditures	**(19)**	(56)	**(218)**	(133)
Changes in non-cash working capital	**(9,208)**	2,391	**(19,639)**	(151)
	35,963	39,058	**64,877**	70,615
Financing activities				
Increase in long term debt	**3,754**	(96,576)	**46,927**	5,238
Distributions to unitholders	**(36,977)**	(30,330)	**(71,744)**	(61,216)
Issue of Trust Units	**4,644**	93,907	**148,136**	148,641
	(28,579)	(32,999)	**123,319**	92,663
Changes in non-cash working capital	**148**	(2,462)	**4,258**	315
	(28,431)	(35,461)	**127,577**	92,978
Total cash provided	**$ 7,532**	$ 3,597	**$ 192,454**	$ 163,593
Investing activities				
Property acquisitions	**$ (1,722)**	$ (215)	**$ (2,167)**	$ (155,636)
Corporate acquisitions *(note 3)*	**(31)**	–	**(177,020)**	–
Capital expenditures	**(9,618)**	(3,839)	**(20,625)**	(7,951)
Long term investments	**–**	(50)	**(21)**	(50)
Proceeds on sale of fixed assets	**2,374**	392	**2,542**	1,094
Proceeds on sale of other asset	**–**	–	**1,000**	–
	(8,997)	(3,712)	**(196,291)**	(162,543)
Changes in non-cash working capital	**1,465**	115	**3,837**	(1,050)
Total cash used	**$ (7,532)**	$ (3,597)	**$ (192,454)**	$ (163,593)
Cash taxes paid	**$ 145**	$ 178	**$ 301**	$ 372
Cash interest paid	**$ 507**	$ 2,197	**$ 2,003**	$ 3,881

See selected accompanying notes to the interim consolidated financial statements

Notes to the Consolidated Financial Statements

For the periods ended June 30, 2004 and 2003

1. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of Shiningbank Energy Income Fund ("Shiningbank" or the "Fund") have been prepared by management in accordance with Canadian generally accepted accounting principles and following the same accounting principles and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2003 unless otherwise disclosed. The disclosures provided below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Shiningbank's annual report for the year ended December 31, 2003.

Comparative figures have been reclassified to conform with current year presentation and restated to retroactively reflect changes in accounting policy.

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

2. CHANGES IN ACCOUNTING POLICIES

(a) Asset retirement obligation

Effective January 1, 2004 Shiningbank has adopted CICA handbook section 3110, "Asset Retirement Obligations." The standard requires the recognition and measurement of liabilities related to legal obligations to retire property, plant and equipment upon acquisition of the liability. The initial liability must be measured at fair value and subsequently adjusted for the accretion of discount and changes in the fair value. The asset retirement cost is capitalized and depleted into earnings over time.

This change in accounting policy has been adopted retroactively with restatement of the prior period presented for comparative purposes. The effect of the adoption is as follows:

Balance sheet *(000s)*	*December 31, 2003*	*December 31, 2002*
Increase in fixed assets for asset retirement costs	$ 12,531	$ 13,521
Net increase in asset retirement obligation	15,330	15,560
Decrease in future income tax liability	(771)	(493)
Decrease in accumulated earnings	(2,028)	(1,546)

Statement of earnings *(000s)*	*Six months ended June 30, 2003*	*Year ended December 31, 2003*
Accretion expense on asset retirement obligation	$ 979	$ 1,981
Increased depletion due to asset retirement costs	907	1,845
Eliminate prior provision for site restoration	(1,484)	(3,066)
Increase future income tax recovery	(130)	(277)
Net earnings impact	$ 272	$ 483
Basic net earnings per Trust Unit	$ –	$ 0.01
Diluted net earnings per Trust Unit	$ –	$ 0.01

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

Undiscounted gross expenditures totalling $37.9 million are expected to be made over the next 33 years. The Fund's credit adjusted risk free rate of 7% and an inflation rate of 2% were used to calculate the present value of the obligation.

The Fund's asset retirement obligation was as follows:

(000s)	***Six months ended June 30, 2004***	*Six months ended June 30, 2003*	*Year ended December 31, 2003*
Carrying amount, beginning of period	**$ 26,524**	$ 23,907	$ 23,907
Liability incurred during the period, net	**3,175**	1,485	855
Settlement of liability during the period	**(218)**	(133)	(218)
Accretion expense	**1,129**	979	1,980
Carrying amount, end of period	**$ 30,610**	$ 26,238	$ 26,524

(b) Trust Unit incentive compensation

During the fourth quarter of 2003 the Fund elected to adopt the amendments to the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments." The section was adopted effective January 1, 2003 and Trust Unit incentive compensation expense of $572,000 was recorded in fourth quarter 2003 for rights granted during 2003 and vesting within the year.

Comparative quarters have been restated to reflect the Trust Unit incentive compensation expense throughout the year as if the amendment was adopted during the first quarter of 2003. For the six months ended June 30, 2003, $279,000 of Trust Unit incentive compensation expense was recorded – $141,000 for the three months ended June 30, 2003. This adjustment did not affect basic and diluted net earnings per Trust Unit.

3. FIXED ASSETS

(a) Acquisition of Birchill Resources Limited

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

(000s)	
Cash consideration	**$ 169,639**
Related fees and expenses	**498**
Cost of acquisition	**$ 170,137**
Working capital deficiency	**$ (7,617)**
Future income taxes	**(66,700)**
Asset retirement obligation	**(3,028)**
Petroleum and natural gas properties and equipment	**247,482**
Total consideration	**$ 170,137**

(b) Acquisition of Good Ridge Exploration Ltd.

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

(000s)	
Cash consideration	**$ 6,935**
Related fees and expenses	**15**
Cost of acquisition	**$ 6,950**
Working capital	**$ 550**
Future income taxes	**(2,200)**
Asset retirement obligation	**(147)**
Petroleum and natural gas properties and equipment	**7,025**
Goodwill	**1,722**
Total consideration	**$ 6,950**

4. LONG TERM DEBT

The Corporation has a $225 million revolving credit facility with a syndicate of four Canadian chartered banks of which $168.6 million was drawn at June 30, 2004. The revolving period extends to April 27, 2005, at which time the facility reverts to a two year term with principal payments, if necessary, commencing on July 28, 2005. The facility is secured by a $300 million floating charge debenture on all assets of the Corporation together with guarantees from operating subsidiaries. Borrowings under the facility bear interest at an annual rate ranging from the banks' prime rate to the banks' prime rate plus 0.95%, depending on the Corporation's total debt to cash flow ratio, or, at Shiningbank's option, the bankers' acceptance rate plus a stamping fee.

5. TRUST UNITS

(a) Authorized

300,000,000 Trust Units

(b) Issued

	Number	*Amount (000s)*
Balance, December 31, 2003	44,343,415	$ 550,267
Issued for cash	8,912,755	151,684
Issued on exercise of rights	351,732	4,742
Commissions and issue costs	–	(8,079)
Balance, June 30, 2004	**53,607,902**	**$ 698,614**

(c) Exchangeable Shares

	Number	*Amount (000s)*
Balance, December 31, 2003	126,290	$ 5,267
Amortization of deferred portion		1,469
Balance, June 30, 2004	126,290	$ 6,736
Exchange ratio, June 30, 2004	1.25974	
Trust Units issuable upon conversion of non-escrowed shares	159,093	
Trust Units issuable upon conversion of escrowed shares	700,010	
Total Trust Units issuable upon conversion of all shares	**859,103**	

(d) Trust Unit Rights Incentive Plan

At June 30, 2004, there were 1,578,335 (2003 – 1,535,500) rights outstanding, of which 503,335 (2003 – 500,500) were exercisable at a weighted average exercise price of $13.62 (2003 – $14.54).

	Number	*Weighted Average Exercise Price*
Balance, December 31, 2003	1,460,067	$ 13.93
Granted	495,000	18.58
Forfeited	(25,000)	16.44
Exercised	(351,732)	12.88
Balance before reduction of exercise price	1,578,335	$ 15.58
Reduction of exercise price		(0.76)
Balance, June 30, 2004	**1,578,335**	**$ 14.82**

Shiningbank recorded Trust Unit incentive compensation expense of $602,000 for the six months ended June 30, 2004 (2003 – $279,000) and $304,000 for the quarter (2003 – $141,000) for rights issued in 2003 and 2004, and vesting within the year.

During the first half of 2004, $211,000 (2003 – $nil) of contributed surplus was transferred representing the fair value of rights exercised during the period. For the second quarter, $124,000 (2003 – $nil) was transferred.

The fair value of the 495,000 rights issued during the first half of 2004 (15,000 during the quarter) was estimated using a Black-Scholes option-pricing model with the following assumptions: risk-free interest rates ranging from 4.33 to 4.71% (4.71% for the quarter), volatility of 60%, life of 10 years, and a dividend yield rate of 10% representing the difference between the anticipated distribution and the anticipated drop in the strike price. Users are cautioned that the assumptions made are estimates of future events and actual results could differ materially from those estimated.

For rights issued in 2002, Shiningbank has elected to disclose the pro forma effect as if the amended accounting standard had been adopted January 1, 2002. For the six months ended June 30, 2004 and 2003, Shiningbank's net income would have decreased by $254,000 ($127,000 for the quarter) due to additional Trust Unit incentive compensation expense related to rights granted on January 1, 2002. Neither basic nor diluted per Trust Unit figures would have changed as the result of this additional expense.

(e) Per Trust Unit amounts

For the six months ended June 30, 2004, the weighted average number of Trust Units and non-escrowed Exchangeable Shares outstanding was 50,253,923 (2003 – 38,867,420) and for the three months ended June 30, 2004 was 53,569,521 (2003 – 42,014,617). In computing diluted net earnings per Trust Unit, the dilutive effect of unit rights and escrowed Exchangeable Shares, added 956,302 Trust Units (2003 – 514,436) for the six months and 972,407 Trust Units (2003 – 542,517) for the quarter, to the weighted average number of Trust Units outstanding.

6. FINANCIAL INSTRUMENTS

At June 30, 2004, Shiningbank held certain oil and natural gas hedge contracts, the terms of which are listed in the following table. The estimated market value at June 30, 2004, had the contracts been settled at that time, would have been a loss of $5.8 million.

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

As at June 30, 2004, the Corporation held an interest rate swap for $10.0 million at an interest rate of 3.48%, expiring October 31, 2004. The estimated market value at June 30, 2004, had the contract been settled at that time, would be a loss of $67,000.

Corporate Information

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: SHN.UN

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D. Grant Gunderson
Director

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Director

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Vice President, Operations

Terry P. Prokopy
Vice President, Land

Richard W. Clark
Corporate Secretary

Alan G. Glessing
Controller

ABBREVIATIONS

bbl	barrels of oil or natural gas liquids
bcf	billion cubic feet of natural gas
boe	barrels of oil equivalent (6,000 cubic feet of natural gas is equivalent to one barrel of oil)
/d	per day
GJ	gigajoule
mbbl	thousand barrels
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
mcf	thousand cubic feet of natural gas
mmcf	million cubic feet of natural gas
mmbtu	million British thermal units
NGL	natural gas liquids
tcf	trillion cubic feet of natural gas

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