



# SHININGBANK ENERGY INCOME FUND

SHN.UN

## BUILT FOR THE LONG TERM

# Q1

## First Quarter Report 2005

- **Stable distributions continued at \$0.69 per unit** (\$0.23 per unit per month) for the eighth consecutive quarter.
- **Aggregate distributions to unitholders surpassed \$20** per unit since the Fund's inception.
- **97% drilling success on 3.4 net development wells** will add production later in 2005.
- **Natural gas futures are near record levels**, setting the stage for consistent monthly distributions for 2005.

### FIRST QUARTER HIGHLIGHTS

	Three months ended March 31,		
	2005	2004	%
<b>FINANCIAL</b> (\$ thousands except per Trust Unit amounts)			
Oil and natural gas sales	\$ 80,139	\$ 69,625	15
Net earnings before income tax	12,889	13,485	(4)
Future income tax recovery	(1,486)	(5,311)	(72)
Net earnings after income tax	14,375	18,796	(24)
Cash flow before change in non-cash working capital	44,509	39,544	13
Distributions to unitholders	37,497	34,767	8
Distributions per Trust Unit	0.69	0.69	–
Long term debt	178,746	164,864	8
Unitholders' equity	496,898	492,768	1
<b>OPERATIONS</b>			
Daily Production – Oil (bbl/d)	2,327	2,142	9
– Natural gas (mmcf/d)	86.8	82.0	6
– Natural gas liquids (bbl/d)	3,242	2,670	21
– Oil equivalent (boe/d)	20,031	18,478	8
Average Prices (including hedging)			
– Oil (\$/bbl)	\$ 56.25	\$ 39.54	42
– Natural gas (\$/mcf)	\$ 7.03	\$ 7.05	–
– Natural gas liquids (\$/bbl)	\$ 45.91	\$ 35.96	28
– Oil equivalent (\$/boe)	\$ 44.41	\$ 41.04	8
<b>UNIT TRADING</b>			
Units traded (thousands)	9,574	10,635	(10)
Value traded (\$ thousands)	\$ 211,929	\$ 187,371	13
Unit price – High	\$ 23.35	\$ 18.85	
– Low	\$ 19.77	\$ 16.51	
– Close	\$ 21.49	\$ 17.78	
Units outstanding (thousands)	54,320	53,279	



## FELLOW UNITHOLDERS

Shiningbank reached a milestone in the first quarter when aggregate distributions since inception surpassed \$20 per unit, twice our \$10 initial public offering almost nine years ago. Shiningbank's distributions have consistently outpaced the average of other oil and gas trusts as a result of our natural gas strategy, and our ability to pay out higher distributions while maintaining and enhancing unitholder value in the Fund.

In the first quarter and for full-year 2004, we distributed 84% of cash flow to unitholders while production was held steady by our development drilling program. That high percentage reflects our philosophy – and track record – of maintaining a stable level of distributions while building a sustainable and long-life trust. The high quality properties in our portfolio will continue to stand the test of time, particularly as we see strong gas price fundamentals over the medium and long term.

### DISTRIBUTIONS

For the eighth consecutive quarter, our unitholders received consistent distributions of \$0.69 per unit (\$0.23 per unit per month). Strength in commodity markets continued to support distributions, as well as our unit price which has remained above \$20 since last September. The market continues to see the energy sector as the place to be; oil futures are selling at over US\$50/bbl for the rest of 2005 and natural gas futures are trading at more than \$8.50/mcf for this coming winter. These market forces will clearly benefit our unitholders as we anticipate distributions remaining stable throughout 2005.

### PRODUCTION

When compared with fourth quarter 2004, production was steady at approximately 20,000 boe/d due to wells drilled late in the year being brought on production which offset natural declines. Total production was 8% higher than last year's first quarter as a result of the Birchill acquisition in early March 2004.

Natural gas volumes for the quarter averaged 86.8 mmcf/d, up 6% from first quarter 2004. Again, the volume growth was mainly from the Birchill acquisition in March 2004 which added 12.4 mmcf/d.

Oil volumes for the quarter were up 9% from last year's first quarter to average 2,327 bbl/d, while NGL volumes rose 21% to 3,242 bbl/d. Both increases were directly related to the Birchill acquisition, but successful drilling in 2004 at Ferrier/O'Chiese also contributed to the growth.

### PRICING DETAILS

Natural gas prices remained strong in the quarter averaging \$7.03/mcf, essentially flat with the first quarter 2004 price of \$7.05/mcf. Longer term, robust gas prices are being supported by extremely high oil prices and continued concerns about adequate supply for this coming year.

Prior to last winter, gas storage levels were at record highs and we emerged from the prime heating season with storage levels approximately 20% higher than average. This was of some comfort to the markets, yet supply concerns persist, particularly as the soaring price of oil could force up demand as industries fuel-switch to natural gas. The futures gas market is at or near record high levels for both the coming summer months at over \$7.00/mcf, and next winter at more than \$8.50/mcf.

Prices for both oil and NGL were unusually high in the first quarter. The benchmark West Texas Intermediate (WTI) averaged US\$49.84/bbl, compared with US\$35.14 one year ago. WTI continues to trade near US\$50 and is subject to volatility. Shiningbank's realized oil price for the quarter was up 42% to average Cdn\$56.25/bbl, after hedging. NGL prices increased 28% over first quarter 2004, reflecting the rise in oil prices. Our NGL prices averaged \$45.91/bbl for the quarter.

#### **SUCCESSFUL LOW-COST DEVELOPMENT**

The first quarter saw a moderate level of drilling activity with spending of over \$14.0 million, of which \$5.8 million was for drilling and completions, mainly in partner-operated areas. The remaining \$8.2 million was spent on production maintenance, largely for work on facilities, wells and tie-ins of new wells. With this activity, we are successfully reducing our production declines which have historically averaged about 13% annually. Our goal is for development drilling to offset a good portion of those declines in order to maintain production and cash flow. At the same time, our development programs have the potential to unlock upside production potential, increasing the value of our properties through low risk and relatively low cost activities.

We participated in the drilling of 21 wells (3.4 net), of which 20 (3.3 net) were successful gas wells and one (0.1 net) was a dry hole. Most of the higher impact wells (2.2 net) were concentrated in the Ferrier/O'Chiese area where we drilled four successful gas wells. Equipping and tie-in of these wells is underway and production will commence late in the second quarter. We anticipate ramping up our development drilling programs in the Minehead and Ferrier areas in the second and third quarters when drier field conditions and warm weather should reduce drilling costs.

#### **OUTLOOK**

Both commodity markets and stock markets are volatile. However, based on the strength of commodity prices and steady production supported by our development drilling program, we anticipate delivering stable distributions to unitholders in 2005. In addition, we are continuing to evaluate acquisitions for larger-scale production and reserve growth. As always, acquisitions must be accretive to the Fund on a variety of metrics, and consist of high quality properties, a factor that has ensured the consistency of superior distributions, and built a strong foundation for the long term.



**DAVID M. FITZPATRICK**  
*President and Chief Executive Officer*  
May 5, 2005

## 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 ("Shiningbank" or the "Fund") for the three months ended March 31, 2005. This information is provided as of May 5, 2005. The first quarter results have been compared with the corresponding period in 2004. This MD&A should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2004 and 2003, together with the accompanying notes, and the December 31, 2004 Annual Information Form ("AIF"). These documents and additional information about the Fund are available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### SUPPLEMENTAL DISCLOSURE

Management believes that distributions to unitholders, cash flow and operating netbacks are useful supplemental measures. Distributions to unitholders should not be construed as an alternate to net income as determined by Canadian generally accepted accounting principles ("GAAP"). All references to cash flow throughout this MD&A are based on cash flow before changes in non-cash working capital, which management uses to analyze operating performance and leverage. Cash flow as presented is not intended to represent operating cash flow or operating profits, nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. Operating netbacks, which are calculated as average unit sales price less royalties, transportation costs and operating costs, represent the cash margin for product sold, calculated on a boe basis. Distributions to unitholders, cash flow and operating netbacks as presented do not have any standardized meanings prescribed by Canadian GAAP and therefore may not be comparable with the calculations of similar measure for other entities.

### FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements relating to future events. In some cases, forward-looking statements can be identified by such words as "may," "expects" or similar expressions. These statements represent management's best projections, but undue reliance should not be placed upon them as they are derived from numerous assumptions. These assumptions are subject to known and unknown risks and uncertainties, including the business risks discussed in this MD&A and in the AIF, which may cause actual performance and financial results to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

### BARREL OF OIL EQUIVALENT

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

### REPORTING CURRENCY

All figures are in Canadian dollars unless otherwise noted.

## RESULTS OF OPERATIONS

### PRODUCTION VOLUMES

#### Daily Production Volumes

	Three months ended March 31,		
	2005	2004	%
Oil (bbl/d)	<b>2,327</b>	2,142	9
Natural gas (mmcf/d)	<b>86.8</b>	82.0	6
Natural gas liquids (bbl/d)	<b>3,242</b>	2,670	21
Oil equivalent (boe/d)	<b>20,031</b>	18,478	8
Natural gas % of production	<b>72%</b>	74%	(2)

First quarter daily average production grew 8% over first quarter 2004 primarily due to the acquisition of Birchill Resources Limited (“Birchill”) late in first quarter 2004. Natural gas liquids (“NGL”) accounted for the majority of the volume increase as a result of the acquisition of NGL-rich properties from Birchill.

A successful development drilling program and well tie-ins during the second half of 2004 also contributed to the quarter over quarter volume growth. Drilling in the first quarter was at a moderate level with the emphasis on partner-operated wells and arresting production declines. Average production in 2005 is expected to be 19,500 – 20,000 boe/d.

### PRICING (INCLUDING HEDGING ACTIVITY)

#### Average Prices – After Hedging

	Three months ended March 31,		
	2005	2004	%
<b>Average Prices</b>			
Oil (\$/bbl)	<b>\$ 56.25</b>	\$ 39.54	42
Natural gas (\$/mcf)	<b>\$ 7.03</b>	\$ 7.05	–
Natural gas liquids (\$/bbl)	<b>\$ 45.91</b>	\$ 35.96	28
Oil equivalent (\$/boe)	<b>\$ 44.41</b>	\$ 41.04	8
<b>Benchmark Prices</b>			
WTI (US\$/bbl)	<b>\$ 49.84</b>	\$ 35.14	42
AECO natural gas (Cdn\$/mcf)	<b>\$ 6.69</b>	\$ 6.61	1

#### Natural Gas

Shiningbank’s realized natural gas prices remained flat in the first quarter averaging \$7.03/mcf. Hedging increased the gas price by \$0.04/mcf for the quarter compared with a hedging loss of \$0.01/mcf in first quarter 2004. Futures prices remain high, with summer prices averaging over \$7.40/mcf and the upcoming winter prices averaging over \$8.50/mcf.

## Oil and Natural Gas Liquids

Realized oil prices for the quarter averaged \$56.25/bbl, up 42% from first quarter 2004. Hedging reduced the price by \$0.37/bbl for the quarter compared with a hedging loss of \$2.09/bbl in first quarter 2004.

The benchmark West Texas Intermediate (“WTI”) price averaged 42% higher than in first quarter 2004, however strength in the Canadian dollar partially offset this increase. Oil prices continue to be exceptionally high, with futures prices averaging over \$50.00/bbl for the remainder of 2005.

NGL prices were also strong, reflecting high oil prices. The average NGL price in first quarter 2005 was 28% higher than in first quarter 2004 at \$45.91/bbl. NGL prices continue to average between 80 – 85% of realized pre-hedged oil prices.

## Hedging

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

Period	Commodity	Volume	Price
April 1, 2005 – December 31, 2005	Gas	5,000 GJ/d	\$5.00 /GJ floor \$6.39/GJ ceiling
April 1, 2005 – October 31, 2005	Gas	5,000 GJ/d	\$6.70/GJ
April 1, 2005 – October 31, 2005	Gas	5,000 GJ/d	\$6.65 /GJ floor \$7.75/GJ ceiling
May 1, 2005 – October 31, 2005	Gas	5,000 GJ/d	\$6.90 /GJ floor \$9.50/GJ ceiling
January 1, 2005 – June 30, 2005	Oil	500 bbl/d	US\$37.00/bbl floor US\$50.50/bbl ceiling
February 1, 2005 – December 31, 2005	Oil	500 bbl/d	US\$40.00/bbl floor US\$55.40/bbl ceiling

## REVENUES

(000s)	Three months ended March 31,			
	2005	% of Revenue	2004	% of Revenue
Oil	\$ 11,858	15	\$ 8,114	12
Natural gas	54,567	68	52,691	75
Natural gas liquids	13,396	17	8,738	13
Other income	72	–	615	1
Gas hedging	324	–	(125)	–
Oil hedging	(78)	–	(408)	(1)
	\$ 80,139	100	\$ 69,625	100

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

#### Sales Variance Analysis (Including Hedging Activity)

(000s)	Three months ended March 31,	
	2005/2004	
<b>Oil and natural gas liquids</b>		
Volume increase		<b>\$ 2,328</b>
Price increase		<b>6,404</b>
Net increase		<b>\$ 8,732</b>
<b>Natural gas</b>		
Volume increase		<b>\$ 2,453</b>
Price decrease		<b>(128)</b>
Net increase		<b>\$ 2,325</b>

#### ROYALTIES

	Three months ended March 31,		
	2005	2004	%
Total royalties, net (000s)	<b>\$ 18,541</b>	\$ 13,776	35
As a % of revenue	<b>23.1%</b>	19.8%	17
Per boe	<b>\$ 10.28</b>	\$ 8.19	26

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The royalty rate increased in first quarter 2005 due to an adjustment related to prior periods regarding the Birchill acquisition. Excluding this one time adjustment, the royalty rate would have been 22.3%. The Fund expects rates to average 22.5% in 2005.

#### TRANSPORTATION COSTS

	Three months ended March 31,		
	2005	2004	%
Transportation costs (000s)	<b>\$ 1,167</b>	\$ 1,335	(13)
Per boe	<b>\$ 0.65</b>	\$ 0.79	(18)

Transportation costs decreased 18% on a boe basis from first quarter 2004. The decrease was the result of lower pricing following the termination of certain transportation service commitments. These terminations are not expected to impact the Fund's ability to market production.

## OPERATING COSTS

	Three months ended March 31,		
	2005	2004	%
Operating costs (000s)	\$ 11,772	\$ 11,106	6
Per boe	\$ 6.53	\$ 6.60	(1)

Operating costs on a boe basis were flat in first quarter 2005, decreasing 1% from first quarter 2004. Higher field and plant maintenance costs in most areas were offset by volume increases in some areas with lower operating costs. Operating costs are expected to average \$7.00/boe in 2005.

## OPERATING NETBACKS

(\$/boe)	Three months ended March 31,		
	2005	2004	%
Oil and natural gas sales	\$ 44.41	\$ 41.40	7
Other income (loss)	0.04	(0.36)	(111)
Royalty expenses	(10.28)	(8.19)	26
Transportation expenses	(0.65)	(0.79)	(18)
Operating expenses	(6.53)	(6.60)	(1)
Operating netbacks	\$ 26.99	\$ 25.46	6

Operating netbacks increased 6% quarter over quarter due mainly to higher commodity prices which were partially offset by higher royalty expenses.

## GENERAL AND ADMINISTRATIVE COSTS

	Three months ended March 31,		
	2005	2004	%
General and administrative costs (000s)	\$ 2,177	\$ 1,547	41
Per boe	\$ 1.21	\$ 0.92	32
Per average Trust Unit	\$ 0.04	\$ 0.03	33

General and administrative costs increased on all metrics including on a per boe basis and per average Trust Unit. These increases were due to higher activity levels related to acquisitions, development activities and increasing costs for corporate governance from additional regulation. Costs are expected to average \$1.25/boe in 2005.

## INTEREST ON LONG TERM DEBT

	Three months ended March 31,		
	2005	2004	%
Interest on long term debt (000s)	\$ 1,844	\$ 1,471	25
Per boe	\$ 1.02	\$ 0.87	17
Per average Trust Unit	\$ 0.03	\$ 0.03	—

Interest expense, which includes bank charges, increased 25% from first quarter 2004 due to higher debt levels resulting from the funding of acquisitions and capital expenditures. Shiningbank is currently in compliance with all external debt covenants.

## DEPLETION, DEPRECIATION AND ACCRETION

	Three months ended March 31,		
	2005	2004	%
Depletion, depreciation and accretion (000s)	\$ 30,637	\$ 25,648	19
Per boe	\$ 16.99	\$ 15.25	11

Depletion, depreciation and accretion rose 11% per boe for the first quarter. The increase was primarily related to expansion of the asset base from acquisitions made late in first quarter 2004 and associated future development costs.

## TRUST UNIT INCENTIVE COMPENSATION

	Three months ended March 31,		
	2005	2004	%
Trust Unit incentive compensation (000s)	\$ 615	\$ 298	106
Per boe	\$ 0.34	\$ 0.18	89

During first quarter 2005, one new issue of Trust Unit rights was granted. The fair value of rights issued was determined using a Black-Scholes model, and will be brought into income over the vesting period of the rights. The total first quarter 2005 expense of \$615,000 (2004 – \$298,000) represented the fair value of rights issued during 2003 through to 2005 and which vested in first quarter 2005. All of these costs are “non-cash” costs and are not deducted in calculating distributions to unitholders.

## INTERNALIZATION OF MANAGEMENT CONTRACT

	Three months ended March 31,		
	2005	2004	%
Internalization of management contract (000s)	\$ 368	\$ 734	(50)
Per boe	\$ 0.20	\$ 0.44	(55)

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 first quarter 2005, \$368,000 (2004 – \$734,000) was expensed, representing the amortization of these escrowed Exchangeable Shares.

## TAXES

	Three months ended March 31,		
	2005	2004	%
Capital and large corporation taxes (000s)	\$ 129	\$ 225	(43)
Future income tax recovery (000s)	\$ (1,486)	\$ (5,311)	(72)
Per boe	\$ (0.75)	\$ (3.02)	(75)

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

## NET EARNINGS

Shiningbank's first quarter earnings were \$14.4 million or \$0.26 per Trust Unit, basic and diluted. Earnings in first quarter 2004 were \$18.8 million or \$0.40 per Trust Unit (\$0.39 diluted).

## Distributions to Unitholders

(000s except per Trust Unit amounts)	Three months ended March 31,		
	2005	2004	%
Cash flow before change in non-cash working capital	\$ 44,509	\$ 39,544	13
Capital expenditures	(14,462)	(11,007)	31
Asset retirement expenditures	(473)	(199)	138
Working capital adjustments	7,923	6,429	23
Distributions to unitholders	\$ 37,497	\$ 34,767	8
Distributions per Trust Unit	\$ 0.69	\$ 0.69	–
Trust Units outstanding	54,320	53,279	2

Distributions to unitholders for the quarter increased 8% over the same period in 2004 to \$37.5 million. The increase was based on higher production volumes, large gains in pricing for oil and NGL and strong gas prices.

On a per Trust Unit basis, distributions were consistent in both periods at \$0.69. The increase in the number of Trust Units outstanding offset the higher cash flow. The Fund paid out 84% of its first quarter cash flow compared with 88% in first quarter 2004.

## QUARTERLY FINANCIAL INFORMATION

(000s except per Trust Unit amounts)	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004
Oil and natural gas sales	<b>\$ 80,139</b>	\$ 82,453	\$ 74,713	\$ 80,723
Net earnings before income tax	<b>12,889</b>	13,974	12,297	12,851
Per Trust Unit – basic	<b>0.24</b>	0.26	0.24	0.24
– diluted	<b>0.23</b>	0.25	0.23	0.24
Net earnings after income tax	<b>14,375</b>	88,038	15,900	16,072
Per Trust Unit – basic	<b>0.26</b>	1.62	0.30	0.30
– diluted	<b>0.26</b>	1.60	0.29	0.29
Cash flow before change in non-cash working capital	<b>44,509</b>	47,220	42,924	45,190
Per weighted average Trust Unit	<b>0.81</b>	0.87	0.80	0.84
Distributions to unitholders	<b>37,497</b>	37,390	37,226	36,977
Per Trust Unit	<b>0.69</b>	0.69	0.69	0.69
Payout ratio	<b>84%</b>	79%	87%	82%

	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003
Oil and natural gas sales	\$ 69,625	\$ 58,474	\$ 63,046	\$ 65,507
Net earnings before income tax	13,485	6,092	13,227	15,027
Per Trust Unit – basic	0.29	0.14	0.30	0.36
– diluted	0.28	0.14	0.29	0.35
Net earnings after income tax	18,796	5,354	15,517	23,583
Per Trust Unit – basic	0.40	0.12	0.35	0.56
– diluted	0.39	0.12	0.35	0.55
Cash flow before change in non-cash working capital	39,544	30,082	35,057	36,723
Per weighted average Trust Unit	0.84	0.68	0.79	0.87
Distributions to unitholders	34,767	30,629	30,442	30,330
Per Trust Unit	0.69	0.69	0.69	0.69
Payout ratio	88%	102%	87%	83%

Quarterly fluctuations are primarily the result of production increases due to acquisitions, the Fund's development drilling program and realized commodity prices which can be extremely volatile. Volume increases from acquisitions occurred in second quarter 2003 through the acquisition of assets at Ferrier/O'Chiese and again, in second quarter 2004 with the acquisition of Birchill.

Natural gas prices remained strong and relatively consistent through the eight quarters. Oil prices increased substantially in late 2004. With oil playing a small role in Shiningbank's overall revenues and with increased capital programs absorbing the extra cash flow, there was no change in distributions.

## COSTS OF ACQUISITIONS AND DEVELOPMENT

A total of \$14.5 million was spent on drilling and new facilities in first quarter 2005, compared with \$11.0 million in the same period in 2004. Cash flow funded \$7.0 million of these expenditures, with the balance funded by debt and proceeds from the Fund's Distribution Reinvestment Plan. The capital program funded a successful development drilling program concentrated in the Ferrier/O'Chiese area and the completion and tie-in of those wells. Most expenditures in first quarter 2005 were associated with partner-operated activities. The Fund's drilling program will be more active in the summer and fall of 2005 when drilling costs are expected to be lower.

## LIQUIDITY AND CAPITAL RESOURCES

Shiningbank's ability to grow depends on access to bank lines of credit and periodic equity infusions. Smaller acquisitions through the course of a year are funded by bank debt. Equity is issued to fund single large acquisitions, or to pay down debt acquired following a number of smaller acquisitions. When the proceeds of an equity issue are greater than acquisition costs, the excess is used to reduce bank debt.

### LONG TERM DEBT

The Fund has a \$250 million revolving credit facility with a syndicate of four Canadian chartered banks of which \$178.7 million was drawn at March 31, 2005. The revolving period extends to April 27, 2006, at which time the facility reverts to a two-year term with principal payments, if necessary, commencing on July 28, 2006. The facility is secured by a \$300 million floating charge debenture on all assets of Shiningbank together with supporting debentures and guarantees from the Fund's operating subsidiaries and affiliates. Borrowings under the facility bear interest at an annual rate ranging from the banks' prime rate to the banks' prime rate plus 0.95%, depending on the total debt to cash flow ratio or, at Shiningbank's option, the bankers' acceptance rate plus a stamping fee. At March 31, 2005 the debt to cash flow ratio was 1:1.

### UNITHOLDERS' EQUITY

A total of 179,116 Trust Units were issued during the quarter under the Trust Unit Rights Incentive Plan and under the Fund's Distribution Reinvestment Plan.

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

As of May 5, 2005, the Fund had 54,437,186 Trust Units, 263,482 non-escrowed Exchangeable Shares and 353,614 escrowed Exchangeable Shares outstanding. Exchangeable Shares held in escrow will be released over the next three years under the terms of two escrow agreements. Exchangeable Shares are not eligible for distributions until they are exchanged for Trust Units at the discretion of the holder. The exchange rate was initially one Trust Unit for each Exchangeable Share. The exchange rate increases with each distribution by an amount equal to the per unit distribution divided by the 10-day weighted average trading price of the Trust Units preceding the record date for that distribution. As of March 31, 2005, the exchange rate was 1 to 1.35755.

### CONTRACTUAL OBLIGATIONS

(000s)	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long term debt principal <sup>1</sup>	\$ 178,746	\$ —	\$ 178,746	\$ —	\$ —
Operating leases	8,064	1,113	3,112	3,171	668
Pipeline transportation	4,908	1,306	2,612	990	—
Total obligations	\$ 191,718	\$ 2,419	\$ 184,470	\$ 4,161	\$ 668

<sup>1</sup> The long term debt obligation assumes that the revolving credit line is not renewed in April 2006.

Shiningbank has ongoing 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.

## **IMPACT OF NEW ACCOUNTING POLICIES**

### **NON-CONTROLLING INTEREST**

On March 8, 2005, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants amended its position on the reporting of exchangeable securities issued by subsidiaries of income trusts. The amendment states that exchangeable securities issued by a subsidiary of an income trust should be reflected as either non-controlling interest or debt on the consolidated balance sheet unless they meet certain criteria. The amendment will take effect in the second quarter of 2005 and the changes may result in a restatement of 2004 earnings and comparable figures. It is not expected that these changes will have a material impact on the financial statements.

### **CRITICAL ACCOUNTING ESTIMATES**

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

### **RESERVES**

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

As new information becomes available, changes are made to the reserve estimates and future development cost estimates. Historically, the Fund has had no significant changes to these estimates, with the exception of adjusting reserves for acquisitions and divestitures and the results of new drilling. Future actual results could vary greatly from the estimates made, resulting in material changes to the depletion calculation and 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)	March 31, 2005 (unaudited)	December 31, 2004 (audited)
<b>ASSETS</b>		
Current assets		
Accounts receivable	\$ 43,277	\$ 50,712
Prepaid expenses	4,473	4,471
	<b>47,750</b>	55,183
Fixed assets		
Petroleum and natural gas properties and equipment	1,149,330	1,133,426
Accumulated depletion and depreciation	(394,809)	(364,814)
	<b>754,521</b>	768,612
Other assets	2,617	3,002
	<b>\$ 804,888</b>	\$ 826,797
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 41,960	\$ 40,268
Trust Unit distributions payable	25,013	24,930
	<b>66,973</b>	65,198
Long term debt (note 2)	178,746	182,147
Future income taxes	31,780	33,266
Asset retirement obligation	30,491	30,242
Unitholders' equity		
Trust Units (note 3)	710,246	706,954
Exchangeable Shares (note 3)	7,387	7,019
Contributed surplus (note 3)	1,832	1,416
Accumulated earnings	322,892	308,517
Accumulated Trust Unit distributions	(545,459)	(507,962)
	<b>496,898</b>	515,944
	<b>\$ 804,888</b>	\$ 826,797

See selected accompanying notes to the interim financial statements

## CONSOLIDATED STATEMENTS OF EARNINGS AND UNITHOLDERS' EQUITY

(unaudited) (\$ thousands, except per Trust Unit amounts)	Three months ended March 31,	
	2005	2004
<b>Revenues</b>		
Oil and natural gas sales	\$ 80,139	\$ 69,625
Royalties	18,541	13,776
	<b>61,598</b>	55,849
<b>Expenses</b>		
Transportation	1,167	1,335
Operating	11,772	11,106
General and administrative	2,177	1,547
Interest on long term debt	1,844	1,471
Depletion, depreciation and accretion	30,637	25,648
Trust Unit incentive compensation (note 3)	615	298
Internalization of management contract	368	734
	<b>48,580</b>	42,139
Earnings before taxes	13,018	13,710
Capital and large corporation taxes	129	225
Future income tax recovery	(1,486)	(5,311)
Net earnings	\$ 14,375	\$ 18,796
Unitholders' equity, beginning of period	515,944	364,215
Issue of Trust Units (note 3)	3,292	143,581
Change in Exchangeable Shares, net (note 3)	368	734
Change in contributed surplus	416	209
Distributions to Unitholders	(37,497)	(34,767)
Unitholders' equity, end of period	\$ 496,898	\$ 492,768
<b>Net earnings per Trust Unit (note 3)</b>		
Basic	\$ 0.26	\$ 0.40
Diluted	\$ 0.26	\$ 0.39

See selected accompanying notes to the interim financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (\$ thousands)	Three months ended March 31,	
	2005	2004
<b>Operating activities</b>		
Net earnings	\$ 14,375	\$ 18,796
Items not requiring cash		
Depletion, depreciation and accretion	30,637	25,648
Internalization of management contract	368	734
Trust Unit incentive compensation	615	298
Gain on sale of other assets	-	(621)
Future income tax recovery	(1,486)	(5,311)
Cash flow before change in non-cash working capital	44,509	39,544
Asset retirement expenditures	(473)	(199)
Change in non-cash working capital <small>(note 4)</small>	8,972	(10,431)
	<b>53,008</b>	<b>28,914</b>
<b>Financing activities</b>		
Increase (decrease) in long term debt	(3,401)	43,173
Distributions to Unitholders	(37,497)	(34,767)
Issue of Trust Units	3,093	143,492
	<b>(37,805)</b>	<b>151,898</b>
Change in non-cash working capital <small>(note 4)</small>	83	4,110
	<b>(37,722)</b>	<b>156,008</b>
Total cash provided	<b>\$ 15,286</b>	<b>\$ 184,922</b>
<b>Investing activities</b>		
Property acquisitions	\$ (1,319)	\$ (445)
Corporate acquisitions	-	(176,989)
Capital expenditures	(14,462)	(11,007)
Long term investments	-	(21)
Proceeds on sale of fixed assets	10	168
Proceeds on sale of other assets	332	1,000
	<b>(15,439)</b>	<b>(187,294)</b>
Change in non-cash working capital <small>(note 4)</small>	153	2,372
Total cash used	<b>\$ (15,286)</b>	<b>\$ (184,922)</b>

See selected accompanying notes to the interim financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended March 31, 2005 and 2004

## 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 follow the same accounting principles and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2004 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, 2004.

## 2. LONG TERM DEBT

The Corporation has a \$250 million revolving credit facility with a syndicate of four Canadian chartered banks of which \$178.7 million was drawn at March 31, 2005. The revolving period extends to April 27, 2006. If the revolving facility is not renewed on that date, it will revert to a two year term with principal payments commencing on July 28, 2006. The facility is secured by a \$300 million floating charge debenture on all assets of the Corporation together with supporting debentures and guarantees from operating subsidiaries and affiliates. Borrowings under the facility bear interest at an annual rate ranging from the banks’ prime rate to the banks’ prime rate plus 0.95%, depending on the Fund’s total debt to cash flow ratio, or, at Shiningbank’s option, the bankers’ acceptance rate plus a stamping fee.

## 3. TRUST UNITS

### (a) Authorized

300,000,000 Trust Units

### (b) Issued

	Number	Amount (000s)
Balance, December 31, 2004	54,140,619	\$ 706,954
Issued on exercise of rights	91,667	1,165
Issued for cash under Distribution Reinvestment Plan	87,449	1,933
Less: Commissions and issue costs		(5)
Transfer from contributed surplus on exercise of rights		199
Balance, March 31, 2005	54,319,735	\$ 710,246

### (c) Exchangeable Shares

	Number	Amount (000s)
Balance, December 31, 2004	263,482	\$ 7,019
Amortization of deferred portion		368
Balance, March 31, 2005	263,482	\$ 7,387
Exchange ratio, March 31, 2005	1.35755	
Trust Units issuable upon conversion of non-escrowed shares	357,690	
Trust Units issuable upon conversion of escrowed shares	480,049	
Total Trust Units issuable upon conversion of all shares	837,739	

**(d) Trust Unit Rights Incentive Plan**

At March 31, 2005, there were 2,022,734 (2004 – 1,803,668) rights outstanding, of which 715,234 (2004 – 733,668) were exercisable at a weighted average exercise price of \$13.41 (2004 – \$13.60).

	Number	Weighted Average Exercise Price
Balance, December 31, 2004	<b>1,396,901</b>	<b>\$ 14.74</b>
Granted	<b>717,500</b>	<b>21.49</b>
Exercised	<b>(91,667)</b>	<b>12.71</b>
Balance before reduction of exercise price	<b>2,022,734</b>	<b>\$ 17.22</b>
Reduction of exercise price		<b>(0.29)</b>
Balance, March 31, 2005	<b>2,022,734</b>	<b>\$ 16.93</b>

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

Range of Exercise Prices	Rights Outstanding			Rights Exercisable	
	Number Outstanding at March 31, 2005	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at March 31, 2005	Weighted Average Exercise Price
\$10.00 to \$12.99	<b>410,001</b>	<b>7.6</b>	<b>\$ 11.84</b>	<b>250,001</b>	<b>\$ 11.61</b>
\$13.00 to \$16.99	<b>380,234</b>	<b>6.6</b>	<b>\$ 13.59</b>	<b>335,234</b>	<b>\$ 13.33</b>
\$17.00 to \$21.50	<b>1,232,499</b>	<b>9.4</b>	<b>\$ 19.65</b>	<b>129,999</b>	<b>\$ 17.07</b>
\$10.00 to \$21.50	<b>2,022,734</b>	<b>8.5</b>	<b>\$ 16.93</b>	<b>715,234</b>	<b>\$ 13.41</b>

Shiningbank recorded Trust Unit incentive compensation expense of \$615,000 during the quarter (2004 – \$298,000) for rights issued between 2003 and 2005, and which vested in first quarter 2005.

During the quarter, \$199,000 (2004 – \$89,000) of contributed surplus was transferred to Trust Unit equity in respect of rights exercised during the period.

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

<b>Contributed surplus</b>	Amount (000s)
Balance, December 31, 2004	<b>\$ 1,416</b>
Trust Unit incentive compensation	<b>615</b>
Net benefit on rights exercised <sup>1</sup>	<b>(199)</b>
Balance, March 31, 2005	<b>\$ 1,832</b>

<sup>1</sup> Upon exercise, the net benefit is reflected as a reduction of contributed surplus and an increase to Unitholders' capital.

The \$3.3 million fair value of the 717,500 rights issued during the quarter was estimated using a Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 4.21%, volatility of 60%, life of 10 years, and a distribution 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. The rights granted on January 1, 2002 fully vested on January 1, 2005 and therefore, no Trust Unit incentive compensation expense related to those rights would have been recorded during the quarter. For the quarter ended March 31, 2004, Shiningbank's net income would have decreased by \$127,000 due to additional Trust Unit incentive compensation expense related to those rights. Neither basic nor diluted per Trust Unit figures would have changed as a result of this additional expense.

**(e) Per Trust Unit amounts**

For the three months ended March 31, 2005, the weighted average number of Trust Units and non-escrowed Exchangeable Shares outstanding was 54,614,166 (2004 – 46,938,326). In computing diluted net earnings per Trust Unit, the dilutive effect of Trust Unit rights and escrowed Exchangeable Shares added 1,253,690 Trust Units (2004 – 752,148) to the weighted average number of Trust Units outstanding.

**4. OTHER CASH FLOW DISCLOSURES**

<b>Change in non-cash operating working capital</b>	(000s)
Accounts receivable	<b>\$ 7,435</b>
Prepaid expenses	<b>(2)</b>
Accounts payable and accrued liabilities	<b>1,539</b>
	<b>\$ 8,972</b>

<b>Change in non-cash financing working capital</b>	(000s)
Distributions payable to Unitholders	<b>\$ 83</b>

<b>Change in non-cash investing working capital</b>	(000s)
Accounts payable for capital accruals	<b>\$ 153</b>

<b>Cash payments</b>	(000s)
Cash payments made for taxes	<b>\$ 4</b>
Cash payments made for interest	<b>\$ 1,950</b>

**5. FINANCIAL INSTRUMENTS**

At March 31, 2005, Shiningbank held certain oil and natural gas hedge contracts, the terms of which are listed in the following table. The estimated market value at March 31, 2005, had the contracts been settled at that time, would have been a loss of \$5.1 million.

Period	Commodity	Volume	Price
April 1, 2005 – December 31, 2005	Gas	5,000 GJ/d	\$5.00/GJ floor \$6.39/GJ ceiling
April 1, 2005 – October 31, 2005	Gas	5,000 GJ/d	\$6.70/GJ
April 1, 2005 – October 31, 2005	Gas	5,000 GJ/d	\$6.65/GJ floor \$7.75/GJ ceiling
May 1, 2005 – October 31, 2005	Gas	5,000 GJ/d	\$6.90/GJ floor \$9.50/GJ ceiling
January 1, 2005 – June 30, 2005	Oil	500 bbl/d	US\$37.00/bbl floor US\$50.50/bbl ceiling
February 1, 2005 – December 31, 2005	Oil	500 bbl/d	US\$40.00/bbl floor US\$55.40/bbl ceiling

## CORPORATE INFORMATION

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Paddock Lindstrom & Associates Ltd.  
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Sproule Associates Limited  
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### LEGAL COUNSEL

Gowling Lafleur Henderson LLP  
*Calgary, Alberta*

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
Symbol: SHN.UN

### BOARD OF DIRECTORS

**Arne R. Nielsen**  
*Chairman*

**David M. Fitzpatrick**  
*President and  
Chief Executive Officer*

**D. Grant Gunderson**  
*Director*

**Edward W. Best**  
*Director*

**Warren D. Steckley**  
*Director*

### OFFICERS

**David M. Fitzpatrick**  
*President and  
Chief Executive Officer*

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

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

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

**Richard W. Clark**  
*Corporate Secretary*

**Alan G. Glessing**  
*Controller*