

Shiningbank Energy Income Fund

ANNUAL INFORMATION FORM
for the year ended December 31, 2005

March 16, 2006

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GLOSSARY OF TERMS

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

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

"ARTC" means credits or rebates in respect of Crown royalties which are paid or credited by the Crown, including those paid or credited under the *Alberta Corporate Tax Act*;

"Cash Distribution Date" means the date distributions are 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 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;

"Corporation USA" means the unanimous shareholder 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 - The Corporation - Borrowing";

"Deferred Purchase Price Obligation" means the ongoing obligation of the Fund to pay to the Corporation and SLP, 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 and SLP, 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 and SLP; 99% of any indebtedness incurred by the Corporation and SLP 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 and SLP, to the extent such cost is not financed by the borrowings of the Corporation and SLP. See "Incorporation and Organization - The Royalties - Deferred Purchase Price Obligation";

"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 in each year shall be a Distribution Record Date;

"Distributions to Unitholders" 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 ARTC received or receivable, if any, and other payments or distributions from the Managed Entities, less the aggregate of Crown charges and any other direct cash expenses of the Fund;

"Exchangeable Shares" means the non-voting exchangeable shares of SHC, which are exchangeable into Trust Units based on the Exchange Ratio. See "Incorporation and Organization – Shiningbank Holdings Corporation";

"Exchange Ratio" means the ratio used to determine the number of Trust Units that each Exchangeable Share can be exchanged for;

"Exempt Plans" means, collectively, registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans;

"Fund" means Shiningbank Energy Income Fund;

"Managed Entities" means the Corporation, SHC, SLP Holdings Inc., SOT and SLP and all other subsidiary entities of the Fund and of any Managed Entity;

"Managed Entities Notes" means the demand promissory notes issued from time to time by a Managed Entity to the Fund. See "Incorporation and Organization – Managed Entities Notes";

"Net Operating Income" means Net Production Revenue plus capital expenditures less all applicable Crown charges net of ARTC, if applicable;

"Net Production Revenue" means the amount received or receivable by the Corporation and by SLP 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 and SLP 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 asset retirement expenditures paid or payable;

"NI 44-101" means Canadian Securities Administrators' National Instrument 44-101 – Short Form Prospectus Distributions;

"NI 51-101" means Canadian Securities Administrators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities;

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

"Paddock Report" means the report dated January 28, 2006 (forecast prices and costs) and February 9, 2006 (constant prices and costs) prepared by Paddock that reports on certain reserves attributable to the Corporation and SLP as at December 31, 2005;

"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 and of SLP in any petroleum and natural gas rights, tangibles and miscellaneous interests which the Corporation and SLP may own from time to time. See "Statement of Reserves Data and Other Oil and Gas Information";

"Royalties" means the entitlement of the Fund to receive Royalty Income derived from the Corporation's and SLP's working interests in the Properties. See "Incorporation and Organization - The Royalties";

"Royalty Agreements" means, collectively, the Corporation Royalty Agreement and the SLP Royalty Agreement;

"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 and SLP in respect of their Properties;

"SHC" means Shiningbank Holdings Corporation;

"SHC USA" means the unanimous shareholders agreement of SHC dated October 9, 2002 among SHC, the Trustee and Proximus Energy Corporation and Kivacorp Petroleum Ltd., being the holders of the Exchangeable Shares;

"SOT" means Shiningbank Operating Trust;

"SLP" means Shiningbank Limited Partnership;

"SLP Royalty Agreement" means the royalty agreement dated effective March 8, 2004 between the Corporation, as the general partner of SLP, and the Trustee, as the same shall be amended from time to time;

"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;

"Statement" means the statement and disclosure provided in this Annual Information Form under the heading "Statement of Reserves Data and Other Oil and Gas Information";

"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. See "Incorporation and Organization – Trustee";

"Trust Indenture" means the trust indenture of the Fund dated May 16, 1996, as amended and restated on September 6, 2005, by the Trustee and the Corporation. See "Incorporation and Organization – Trust Units";

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

"TSX" means the Toronto Stock Exchange; and

"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;
"boe/d"*	barrel of oil equivalent per day;
"bbl/d"	barrel of oil or NGL per day;
"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; and
"NGL"	natural gas liquids.

- * A barrel of oil equivalent is determined by converting a volume of natural gas to barrels using the ratio of six mcf to one barrel. Boe's may be misleading, particularly if used in isolation. The boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Fund believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

following: In particular, this Annual Information Form contains forward-looking statements pertaining to the

- the performance characteristics of the Fund's oil and natural gas properties;
- oil and natural gas production levels;
- the size and value of the Fund's oil and natural gas reserves;
- projections of market prices and costs and the related sensitivity of distributions;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditure programs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry and income trusts.

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Except as required under applicable securities legislation, Shiningbank does not undertake any obligation to publicly update or revise any forward-looking statements.

Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement.

PRESENTATION OF OIL AND GAS RESERVES AND PRODUCTION INFORMATION

All oil and natural gas information contained in this Annual Information Form has been prepared and presented in accordance with NI 51-101. The actual oil and natural gas reserves and future production will be greater than or less than the estimates provided in this Annual Information Form. The estimated future net revenue from the production of the disclosed oil and natural gas reserves does not represent the fair market value of these

reserves. There is no assurance that the constant or forecast prices and costs or other assumptions made in connection with the reserves disclosed herein will be attained and variances could be material.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of revenue and future net revenue for all properties, due to the effects of aggregation.

NON-GAAP MEASURES

In this Annual Information Form, the Fund uses the terms "funds flow", and "cash available for distribution" to refer to the amount of cash available for distribution to Unitholders and as indicators of financial performance. The Fund also uses the term "netback", which is calculated as average unit sales price less royalties, transportation costs and operating costs, to represent the cash margin for product sold, calculated on a boe basis. "Funds flow", "cash available for distribution" and "netback" are not measures recognized by Canadian generally accepted accounting principles ("**GAAP**") and do not have standardized meanings prescribed by GAAP. Therefore, "funds flow", "cash available for distribution" and "netback" of the Fund may not be comparable to similar measures presented by other issuers, and investors are cautioned that "funds flow", "cash available for distribution" and "netback" should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. The Fund considers "funds flow from operations" a key measure of performance as it demonstrates the Fund's ability to generate the funds flow necessary to fund future distributions and capital investments and repay indebtedness. The Fund considers "netback" a key measure as it indicates the relative performance of crude oil and natural gas assets. Cash available for distribution cannot be assured and future distributions may vary.

INCORPORATION AND ORGANIZATION

The Fund

The Fund is an unincorporated open-ended investment trust created under the laws of the Province of Alberta and formed and governed by the Trust Indenture. The head and principal office of the Fund is 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 Royalties granted by the Corporation and SLP and the Managed Entities Notes. The Royalties entitle the Fund to receive Royalty Income earned by the Corporation and by SLP. See "Incorporation and Organization - The Royalties". The Managed Entities Notes entitle the Fund to receive payments of principal and interest from the Managed Entities in accordance with the terms of promissory notes. See "Incorporation and Organization – Managed Entities Notes".

Holders of Trust Units are the beneficiaries of the Fund. Unitholders indirectly receive the benefit of the Royalties 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 Managed Entities Notes.

Shiningbank Energy Ltd.

Shiningbank Energy Ltd. was incorporated under the *Business Corporations Act* (Alberta) on March 7, 1996 as Proximity Energy Ltd. Its articles were amended by a Certificate of Amendment dated April 9, 1996 to change its name to Shiningbank Energy Ltd. Effective July 1, 2000, Shiningbank Energy Ltd. amalgamated with Shiningbank Energy Acquisitions Ltd., Raider Resources Ltd. and Cambright Gas Corporation and continued under the name Shiningbank Energy Ltd. Effective May 4, 2001, Shiningbank Energy Ltd. amalgamated with 923720 Alberta Inc. and Ionic Energy Inc. and continued under the name Shiningbank Energy Ltd. Effective October 9, 2002, Shiningbank Energy Ltd. amalgamated with Shiningbank Energy Management Inc. and continued under the name Shiningbank Energy Ltd. Effective January 1, 2004, Shiningbank Energy Ltd. amalgamated with Jocsak Energy Ltd. and continued under the name Shiningbank Energy Ltd. Effective March 8, 2004, Shiningbank Energy Ltd. amalgamated with Birchill Resources Limited and Good Ridge Explorations Ltd. and continued under the name Shiningbank Energy Ltd. Effective August 2, 2005, Shiningbank Energy Ltd. amalgamated with Outlook Energy Corp. and Blizzard Energy Inc. to form the Corporation. 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, providing certain administrative services to the Fund and acting as general partner of SLP. The Corporation has approximately 80 employees. The Corporation has agreed, pursuant to the Administrative Services Agreement, to provide certain management, advisory and administrative services in connection with the Royalties, the Fund, the Trust Units and any entity of the Fund administered by the Corporation. The Corporation receives no management fees for acting as administrator of the Fund or as general partner of SLP and is reimbursed only for administrative expenses incurred in connection therewith.

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 Exchangeable Shares. With the exception of the 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 has no employees or business other than holding the shares of the Corporation.

On October 9, 2002, SHC acquired all of the shares of Shiningbank Energy Management Inc., the former manager of the Fund, for \$2.9 million in cash and 1,136,614 Exchangeable Shares. The acquisition of Shiningbank Energy Management Inc. was approved by Unitholders at a special meeting held on October 8, 2002.

The Exchangeable Shares are exchangeable for Trust Units at the election of the holder based on the Exchange Ratio in effect on the date of exchange. The Exchange Ratio on October 9, 2002 was one (i.e., one Trust Unit was issuable upon the exchange of one Exchangeable Share). The Exchange Ratio is increased at the time of payment of each distribution on the Trust Units 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 Exchange Ratio in effect as at December 31, 2005 and March 16, 2006 was 1.44988 and 1.48281, respectively.

Holder of Exchangeable Shares have the right to receive notice of and to vote at meetings of Unitholders. See "Incorporation and Organization – Trust Units – Meetings and Voting".

As at March 1, 2006, there were 335,875 Exchangeable Shares outstanding, of which 151,549 were subject to the terms of an escrow agreement with 50% to be released from escrow on each of October 9, 2006 and October 9, 2007.

Shiningbank Limited Partnership

Shiningbank Limited Partnership is a limited partnership which was formed on December 10, 2004 under the *Partnership Act* (Alberta). The head and principal office of SLP is located at 1310, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 3Y6. The registered office of SLP is located at Suite 1200, 700 – 2nd Street S.W., Calgary, Alberta, T2P 4V5.

SLP is in the business of acquiring, developing, exploiting, owning and disposing of oil and natural gas properties. Shiningbank Operating Trust owns 100% of the limited partnership interests in SLP and SEL is the general partner of SLP.

Shiningbank Operating Trust

Shiningbank Operating Trust is an unincorporated commercial trust created under the laws of the Province of Alberta and governed by a trust indenture dated September 30, 2004. The head and principal office of

SOT is located at 1310, 111 - 5th Avenue S.W., Calgary, Alberta T2P 3Y6. The registered office of SOT is located at Suite 1200, 700 – 2nd Street S.W., Calgary, Alberta, T2P 4V5.

The trustee of SOT is SLP Holdings Inc. All of the beneficial interest of SOT is held by the Fund. The assets of SOT currently consist of its limited partnership interest in SLP.

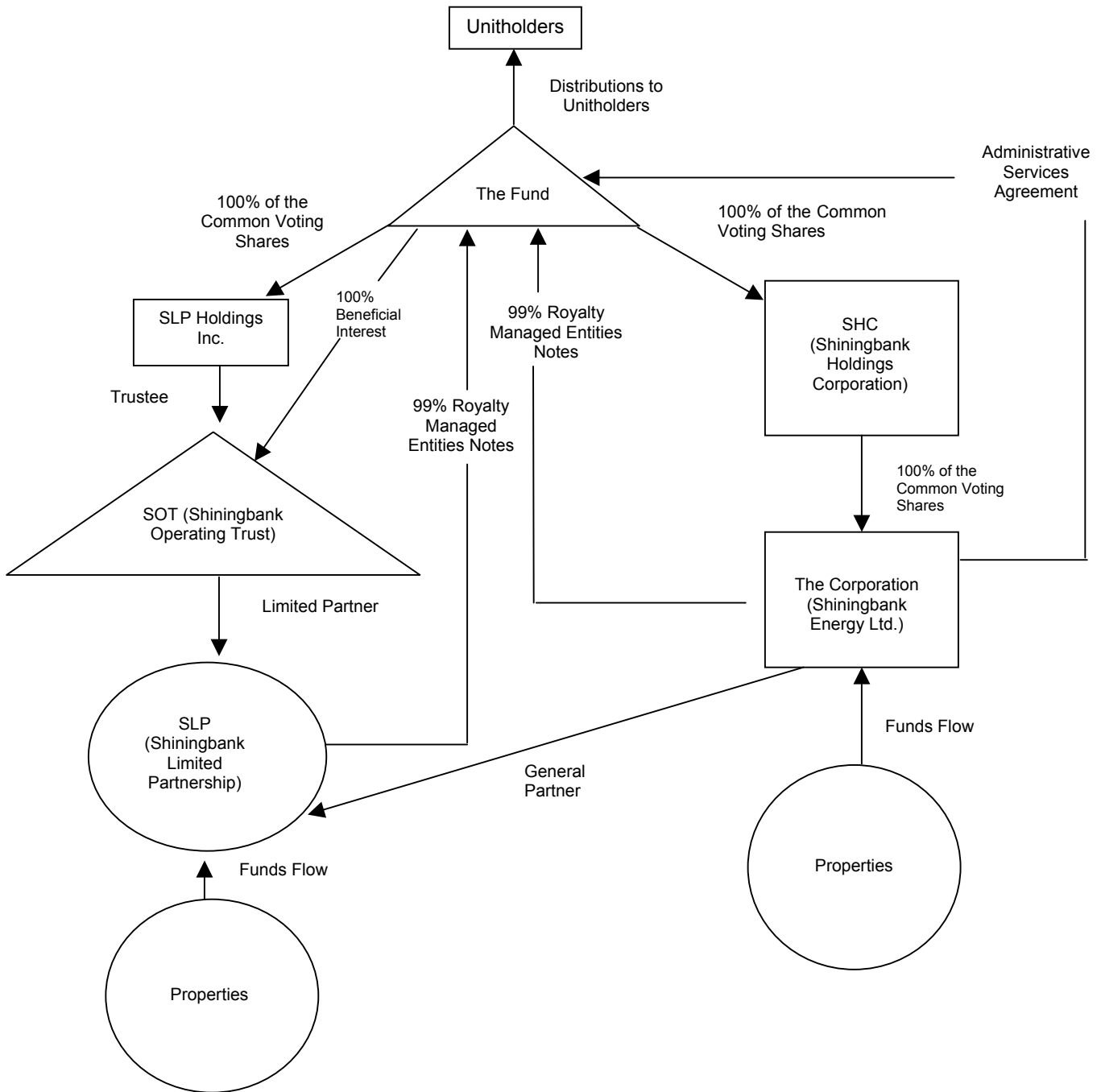
SLP Holdings Inc.

SLP Holdings Inc. was incorporated under the *Business Corporations Act* (Alberta) on September 30, 2004 as 1130243 Alberta Inc. Its articles were amended by a Certificate of Amendment dated January 9, 2006 to change its name to SLP Holdings Inc. Its head and principal office is located at 1310, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 3Y6 and its registered office is located at Suite 1200, 700 – 2nd Street S.W., Calgary, Alberta, T2P 4V5.

SLP Holdings Inc. was incorporated for the purpose of being the trustee of SOT. All of the outstanding shares of SLP Holdings Inc. are held by the Fund.

Intercorporate Relationships

The following diagram illustrates 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 Royalties

Pursuant to the Royalty Agreements, the Corporation and SLP have granted the Royalties to the Fund. The Royalties do 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 and SLP are required to pay all Crown charges in respect of the Properties and the Fund is required to reimburse the Corporation and SLP for 99% thereof. At the option of the Corporation and SLP, such reimbursement may be effected by setting off the amount of such reimbursement against Royalty Income which the Corporation and SLP are obliged to pay the Fund.

The Royalty Agreements provide that the Fund will be entitled to be paid by the Corporation and SLP, by way of cash payments, the amount payable in respect of the Royalties for each month or quarter, at the election of the Corporation and SLP, on or before the fifteenth day of the month following the completion of such period.

Deferred Purchase Price Obligation

Recognizing that funds flow from properties acquired by the Corporation and SLP will be subject to the Royalties for the benefit of Unitholders, the Royalty Agreement imposes upon the Fund the Deferred Purchase Price Obligation. The Deferred Purchase Price Obligation constitutes an ongoing obligation of the Fund to pay to the Corporation and SLP, as additions to the purchase price for the Royalties on the following basis: (i) 99% of the cost of any Canadian resource properties (as defined in the Tax Act) which may be subsequently acquired by the Corporation and SLP, 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 SLP; and (ii) 99% of any capital expenditures incurred in respect of the Properties and so designated by the Corporation and SLP to the extent that such cost is not financed by debt incurred or assumed by the Corporation and SLP. If the Corporation or SLP does not make a designation in respect of capital expenditures at the time they are incurred, the Deferred Purchase Price Obligation shall not be applicable to such expenditures. The Royalty Agreement 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 and SLP pursuant to the Deferred Purchase Price Obligation outstanding at the relevant time.

The cost of the 1% of Canadian resource properties acquired by the Corporation or SLP that is not subject to the Deferred Purchase Price Obligation and the entire cost of depreciable tangible equipment relating to any such additional properties, shall be borne by the Corporation and SLP utilizing their own working capital or funds borrowed by them for such purposes from the Fund or otherwise.

Release of Royalties and Acquisition of Replacement Properties

Pursuant to the terms of the Royalty Agreements, the Corporation and SLP may assign, sell, exchange or otherwise dispose of, all or any portion of the Properties and may release the Royalties therefrom, provided that they determine 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 Asset Value (as defined in the Royalty Agreements) 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 allocable 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 in a calendar year having an aggregate Asset Value (as defined in the Royalty Agreements) greater than 25% of the Asset Value of all Properties must be approved by a Special Resolution of the Unitholders and, in connection with such approval, the Unitholders, subject to the recommendation by the Board of Directors of the Corporation, are also required to consider whether the net proceeds of the assignment, sale, exchange or other disposition, allocable to the Fund should be distributed to the Unitholders or used to purchase additional properties.

The Royalty Agreements provide, with respect to the release of the Royalties, 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 and SLP, shall be allocated 99% to the Fund and 1% to the residual interest of the Corporation and SLP and 100% of the proceeds in respect of related tangible equipment and certain other miscellaneous interests shall be allocated to the Corporation and SLP;
- (ii) the proceeds of disposition allocable as aforesaid to the Fund (the "**Royalty Disposition Proceeds**") shall be forthwith deposited in an interest bearing account with a Canadian chartered bank maintained by the Corporation or SLP, as the case may be, in trust for the Fund (the "**Proceeds Account**") and to the extent that there is a Deferred Purchase Price Obligation outstanding, the amount thereof shall be paid to the Corporation out of those proceeds of disposition;
- (iii) interest received on the Proceeds Account during any Period shall be paid by the Corporation and 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 of the Fund (as defined in the Tax Act) as at the end of any calendar year, the Corporation and SLP 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 and SLP to the Fund and distributed to Unitholders.

Managed Entities Notes

The business of the Managed Entities involves the development of their existing oil and natural gas reserves and the acquisition of additional oil and natural gas reserves, both of which can require significant capital expenditures. The Fund, primarily through public offerings of its securities, provides the Managed Entities with access to external sources of capital. Following the completion of a public offering of securities, the Fund may loan the net proceeds received from such offering to a Managed Entity, to the extent that such proceeds exceed the Deferred Purchase Price Obligation, in return for a demand promissory note bearing a market rate of interest. The Managed Entity can then utilize such funds to finance an acquisition or capital expenditures or to repay indebtedness incurred to finance an acquisition or capital expenditures.

The Fund currently holds Managed Entities Notes issued in connection with the acquisitions of Raider Resources Ltd., Ionic Energy Inc., Birchill Resources Limited and Blizzard Energy Inc. As at December 31, 2005, the principal amount of the Managed Entities Notes held by the Fund was \$483.7 million. The interest rate on such notes is based on the prime rate announced from time to time by a major Canadian chartered bank plus a spread of up to 0.25%.

Trust Units

A maximum of 300,000,000 Trust Units are authorized for issuance pursuant to the Trust Indenture, of which 68,349,351 were issued and outstanding as at March 1, 2006. 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 is accessible on the SEDAR website at www.sedar.com (filed September 8, 2005 as a material document).

Distributions of Cash

The amount of cash to be distributed annually per Trust Unit is equal to a pro rata share of the Fund's Distributions to Unitholders for the year. Subject to the approval of the Board of Directors of the Corporation, Distributions to Unitholders 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 Managed Entities 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 Royalties will attach to the interests of the Corporation and SLP in any additional properties which are acquired, whether directly or by way of corporate or other business combination, from time to time. Accordingly, the proceeds from any future 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 (except for certain amendments that are not consequential or are required to ensure the Fund complies with applicable laws) the Trust Indenture, the Royalty Agreements, the Administrative Services Agreement, the Corporation USA and 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 Corporation as the trustee of the Exchangeable Shares.

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 SHC votes 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 (if any) 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 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 six.

SHC USA

SHC, the Trustee and the holders of the Exchangeable Shares (Proximus Energy Corporation and Kivacorp Petroleum Ltd.) 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 (if any). 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 to exercise its rights as a shareholder except as set forth above.

The SHC USA also provides that the Board of Directors of 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. To the best of the knowledge of management, non-resident ownership of the Trust does not exceed 49% as of the date of this Annual Information Form.

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, the Corporation and SLP Holdings Inc.

The Unitholders are entitled to certain voting rights at meetings of SHC, the Corporation and SLP Holdings Inc., including voting rights with respect to the appointment of auditors (if any) and the election of directors of these corporations. See "Incorporation and Organization – Trust Units – Corporation USA" and "Incorporation and Organization – Trust Units – 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; (b) a quorum of holders of 50% of the issued and outstanding Trust Units is present in person or by proxy at the meeting; and (c) the termination is approved by Special Resolution of the Unitholders at the meeting. The Unitholders may also vote to terminate the Fund if the Trust Units have become ineligible for investment by Exempt Plans.

Unless the Fund is terminated or extended by vote of the Unitholders prior to December 31, 2096, 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 45 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 Royalties for the quarter. Within 90 days of the end of each calendar year, the Fund furnishes tax reporting information to each person who received distributions at any time during the previous calendar year (or such shorter period of time as may be prescribed by applicable securities legislation).

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 90 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 is 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 Annual and Special 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 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 Fund or any of the Managed Entities. The Unitholders reconfirmed the

Rights Plan at the Annual and Special Meetings of Unitholders held on May 7, 2002 and May 12, 2004. At the Annual and Special Meeting of the Unitholders to be held on May 16, 2006, Unitholders are being asked to approve a resolution to amend and continue the Rights Plan to the date of the annual meeting of Unitholders held in 2009.

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 five 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 five 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 — The Royalties" and "— Managed Entities Notes".

Stability Rating

Dominion Bond Rating Service Limited ("**DBRS**") has assigned a stability rating of STA-6 (middle) to the Trust Units. The stability rating is based on a rating scale developed by DBRS that provides an indicator of both the stability and sustainability of an income fund's distributions per unit. Ratings categories range from STA-1 to STA-7, with STA-1 being the highest. In addition, DBRS further separates the ratings into "high", "middle" and "low" subcategories to indicate where they fall within the rating category. Ratings take into consideration the seven main factors of: (1) operating and industry characteristics; (2) asset quality; (3) financial flexibility; (4) diversification; (5) size and market position; (6) sponsorship/governance; and (7) growth. In addition, consideration is given to specific structural or contractual elements that may eliminate or mitigate risks or other potentially negative factors. Specifically, income funds rated as STA-6 are considered by DBRS to have very weak distributions per unit in terms of stability and sustainability. A rating is not a recommendation to buy, sell or hold any security and may be subject to revision or withdrawal at any time by DBRS.

Trustee

Computershare Trust Company of Canada ("**Computershare**") 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 Distributions 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 Trustee is 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 ("**Montreal Trust**") was the trustee of the Fund and was replaced by Computershare, the successor in interest to Montreal Trust by virtue of the acquisition of certain assets of Montreal Trust by Computershare early in 2001.

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 of the Corporation to act, 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, the Royalty Agreements, 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 Agreements, 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. 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. In addition, the *Income Trust Liability Act* (Alberta) provides that a beneficiary of a trust that is (a) created by a trust instrument governed by the laws of Alberta, and (b) a reporting issuer as defined in the *Securities Act* (Alberta), is not liable as a beneficiary for any act, default, obligation or liability of the trustee. 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 three months written notice of termination given by the Trustee to the Corporation, and the date on which a satisfactory replacement administrator is appointed.

Pursuant to the Administrative Services Agreement, the Corporation provides certain management, advisory and administrative services in connection with the Royalties, 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 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 Royalties;
- ▶ 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; 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 Distributions 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 held by the Corporation and underlying the Royalties. To execute 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 Distributions to Unitholders, including operating costs, capital costs, development plans and timing, abandonment liabilities, commodity markets, joint venture billings and receipts;
- ▶ uses capital to exploit oil and natural gas assets and optimize funds 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 funds flow by controlling 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 funds flow enhancement process.

The 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 distributions for Unitholders. Such acquisitions generally comply with the following criteria and procedures:

- ▶ 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 improved Distributions to Unitholders will result from such acquisitions;
- ▶ not more than 50% of the net asset value of all Properties can be attributable to a single pool;
- ▶ the Properties must be selected, in part, on the basis that the amount of anticipated capital expenditures required thereon 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 \$20 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 and SLP

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 and granting the royalty to the Fund under the terms of the Corporation Royalty Agreement. It also performs its duties under the Administrative Services Agreement and its duties as general partner of SLP under the limited partnership agreement for SLP.

SLP was formed for the purpose of, and carries on the business of, acquiring, developing, exploiting and disposing of oil and natural gas properties. It granted the royalty to the Fund under the terms of the SLP Royalty Agreement. The Corporation is the general partner of SLP and, in that capacity, directs the operations and policies of SLP.

Borrowing

The Corporation maintains a \$330 million revolving credit facility with a syndicate of Canadian chartered banks. Borrowings under the credit 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 funds flow ratio, or, at the Corporation's option, the bankers' acceptance rate plus a stamping fee. The credit facility is secured by a \$600 million floating charge debenture on all assets of the Corporation together with supporting debentures and guarantees from the Fund's material subsidiaries and affiliates. The revolving period extends to April 27, 2006, at which time the credit facility, unless renewed, reverts to a two-year term with the principal payments, if necessary, commencing on July 28, 2006.

Limitations on Borrowing

Pursuant to the Royalty Agreements, the Corporation is permitted to borrow funds to finance the purchase of Properties, incur capital expenditures or 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 Royalties to secure the loans of such monies. However, the Royalty Agreements restrict 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 Managed Entities Notes.

Capital Expenditures

The Corporation may approve and fund capital expenditures under the terms of the Royalty Agreements. Future capital expenditures are intended to maintain or improve production and to exploit the assets of the Corporation and of SLP. Capital expenditures will not be incurred to fund what management considers to be high risk exploratory 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 such capital expenditures in exchange for a working interest participation in the Properties. Capital expenditures which are funded from Royalty Income may result in a short-term reduction in Distributions to Unitholders.

Environmental Obligations

The Corporation and SLP are liable for their respective 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. Management of the Corporation believes that funding environmental obligations in this manner is appropriate given that the Corporation and SLP operate a significant number of the Properties. The Corporation pro-actively monitors the factors giving rise to environmental liabilities on behalf of itself and SLP.

The Corporation and SLP record a liability equal to the present value of future abandonment and reclamation costs and a corresponding increase in property, plant and equipment costs. The initial liability must be measured at fair value and subsequently adjusted for the accretion of discount and changes in such fair value. The asset retirement cost is capitalized and depleted into earnings over time. Actual abandonment costs incurred in a specific period are charged against this provision. For Royalty Income calculations, 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 asset retirement expenditures.

Insurance

The Corporation carries insurance policies to provide protection for the assets of the Corporation and SLP, 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 Annual and Special 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 the year ended December 31, 2005, 355,498 Trust Units were issued from treasury pursuant to the DRIP Plan.

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 16, 2006 that relates to the Annual and Special Meeting of the Unitholders of the Fund to be held on May 16, 2006.

Unitholder Rights Plan

For details respecting the Unitholder Rights Plan, see "Trust Units – Take-over Bids and Unitholder Rights Plan" above.

Employee Savings Plan

Effective January 1, 2001, the Corporation established an Employee Savings Plan (the "**ESP**") to assist employees in meeting long term savings goals through the acquisition of Trust Units of the Fund and other professionally managed investment funds and to encourage its employees to have a direct investment in the Fund. Under the ESP, employees may contribute as much of their semi-monthly pay period earnings to the Plan as they wish, subject to a minimum contribution of 2% per pay period. The Corporation contributes an amount equal to the amount contributed by the employee to a maximum of 6% of the employee's semi-monthly pay period earnings. The Corporation's contributions accumulate and are directly deposited into the employee's account on a monthly basis. Once deposited, the contributions vest immediately in favour of the employee even if his or her employment with the Corporation ends thereafter. All contributions under the ESP are contributed to the employees' respective self-directed RRSP accounts or non-RRSP accounts. The contributions made under the ESP by the Corporation are used to purchase Trust Units of the Fund in the secondary market through the facilities of the TSX. All commissions payable respecting the purchase of Trust Units are paid by the Corporation. Employees are responsible for commissions payable in connection with the sale of their Trust Units or other securities held under the ESP.

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 from the Corporation under the terms of the Corporation Royalty Agreement. The Fund is a conventional oil and gas royalty trust which earns income from the Royalties and from the Managed Entities Notes, for the benefit of Unitholders and operates as an open-end mutual fund trust, providing Unitholders with regular payments of distributions. The Corporation and SLP acquire, develop and operate oil and gas properties, the funds flow from which pays the Royalties and the principal and interest under the Managed Entities Notes. The Corporation is the general partner of SLP.

Three Year History

Year Ended December 31, 2003

On January 15, 2003, the Corporation acquired long-life oil and gas reserves in the Modeste Creek, Whitcourt and Long Coulee areas of Alberta, all of which were complementary to its existing operations, in two separate transactions. The aggregate cost of these acquisitions was \$16.7 million. The Modeste Creek asset

acquisitions were effective October 1, 2002 and the Whitecourt and Long Coulee asset acquisitions were both effective November 1, 2002.

Pursuant to an offering of 3,340,000 Trust Units under its prospectus dated January 31, 2003, the Fund raised net proceeds of approximately \$47.3 million which were applied to the amounts owing to the Corporation under its Deferred Purchase Price Obligation.

On March 31, 2003, the Corporation acquired, with an effective date of January 1, 2003, operated and non-operated interests in long life oil and gas reserves principally located in the Ferrier and O'Chiese areas of west central Alberta (the "**Ferrier/O'Chiese Properties**"), adjacent to the Corporation's then existing properties in the Ferrier area, for a purchase price of \$134.3 million net of closing adjustments (the "**Ferrier/O'Chiese Acquisition**"). The Ferrier/O'Chiese Properties are characterized by long-life, liquids-rich gas production combined with low operating costs. The Ferrier/O'Chiese Acquisition also included 22,755 net acres of undeveloped land. Funds flow and income from the Ferrier/O'Chiese Properties has been consolidated with the Corporation's financial position since April 1, 2003. The Ferrier/O'Chiese Acquisition was funded entirely through the Corporation's credit facilities. For the purposes of NI 44-101, the Ferrier/O'Chiese Acquisition was a "significant acquisition" for the Fund.

Pursuant to an offering of 6,497,500 Trust Units under its prospectus dated April 22, 2003, the Fund raised net proceeds of approximately \$92.6 million which were used to repay a portion of the debt incurred by the Corporation in connection with the Ferrier/O'Chiese Acquisition.

During 2003, additional acquisitions for a total cost of \$9.1 million in 11 separate transactions and dispositions of non-core assets with total proceeds of \$5.8 million in 13 separate transactions were completed.

Year Ended December 31, 2004

Effective January 1, 2004 the Corporation acquired all the outstanding shares of Good Ridge Explorations Ltd. for \$7.0 million. The transaction closed on March 5, 2004.

On February 19, 2004, the Corporation entered into a share purchase agreement (the "**Share Purchase Agreement**") with Dutch Canadian Investments S.A. and Anthos Canada Inc. (collectively, the "**Vendor**") providing for the acquisition of all of the issued and outstanding shares of Birchill Resources Limited ("**Birchill**"), a private company incorporated under the laws of Alberta, for a purchase price of \$170.1 million (the "**Birchill Acquisition**"), which acquisition closed on March 8, 2004. Birchill's oil and gas properties and facilities included a mix of operated and non-operated interests located primarily in west central Alberta and southern Saskatchewan. Birchill's principal oil and gas properties are located in the Ferrier, Kaybob/Winterburn and Rainbow areas of Alberta and in the Nottingham and Coleville areas of southern Saskatchewan. The Birchill Acquisition complemented the Corporation's production in the Ferrier/O'Chiese area, which has become the Corporation's largest core property. The acquisition of Birchill's interest at Ferrier also provided additional facility synergies and yielded a significant number of additional development drilling opportunities. For the purposes of NI 44-101, the Birchill Acquisition was a "significant acquisition" for the Fund.

The Fund completed an underwritten financing on March 8, 2004, issuing 8,800,000 subscription receipts for net proceeds of approximately \$141.5 million which were used to complete the Birchill Acquisition. Each subscription receipt entitled the holder thereof to receive, without payment of additional consideration, one Trust Unit. On March 8, 2004, a total of 8,800,000 Trust Units were issued pursuant to the terms of these subscription receipts.

In December, 2004, the Fund implemented an internal reorganization of certain of its subsidiaries and assets which resulted in the transfer of certain assets which the Corporation acquired pursuant to the Birchill Acquisition to SLP, a newly formed limited partnership, of which SOT, a newly formed commercial trust, is the sole limited partner and the Corporation is the general partner. The Fund owns all of the shares of SLP Holdings Inc. which is the Trustee of SOT. The Fund is SOT's sole beneficiary. The SLP Royalty Agreement was entered into between SLP and the Fund. See "Incorporation and Organization – Shiningbank Limited Partnership", "– Shiningbank Operating Trust", "– SLP Holdings Inc." and "– Intercorporate Relationships".

Year ended December 31, 2005

Effective June 21, 2005, the Corporation acquired all the outstanding shares of Outlook Energy Corp. ("**Outlook**") for \$31.9 million, including \$496,000 in working capital deficiency.

The Corporation also acquired all the outstanding shares of Blizzard Energy Inc. ("**Blizzard**") pursuant to a Plan of Arrangement for \$269.3 million, including \$43.9 million in working capital deficiency. The transaction closed on August 2, 2005. Pursuant to the Plan of Arrangement, Blizzard shareholders received 8,837,793 Trust Units. For purposes of NI 44-101, the acquisition of Blizzard was a "significant acquisition" for the Fund.

The Fund completed an underwritten financing on September 28, 2005, issuing 4,100,000 Trust Units at \$24.45 per Trust Unit for gross proceeds of \$100.2 million. Net proceeds from the financing were used to repay indebtedness incurred in respect of the Outlook and Blizzard acquisitions, to fund ongoing capital expenditures, and for general corporate purposes.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

This statement of reserves data and other information is dated March 16, 2006 and is effective December 31, 2005. The preparation date of the information regarding reserves in the Statement from the Paddock Report was January 28, 2006 for forecast prices and costs and February 9, 2006 for constant prices and costs.

The future net revenue numbers presented throughout this Statement, whether calculated without discount or using a discount rate, are estimated values and do not represent fair market value.

Disclosure of Reserve Data

The following reserves data and associated tables summarize the reserves of crude oil, natural gas and associated products and the net present values of future net revenues associated with the reserves of the Corporation and SLP as evaluated or audited in the Paddock Report, based on constant and forecast price assumptions presented in accordance with NI 51-101.

The tables summarize the data contained in the Paddock Report and, as a result, may contain slightly different numbers than the Paddock Report due to rounding. There is no assurance that the price and cost assumptions set out below will be attained and variances could be material. The reserve estimates provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

All of the properties, reserves and production of the Corporation and SLP are located in Canada in the provinces of Alberta, British Columbia, Saskatchewan and Ontario.

The following tables detail the gross, net and "Company Interest" reserves as at December 31, 2005 of the Corporation and SLP that are evaluated in the Paddock Report, using constant prices and costs as well as the net present value of future net revenue attributable to the reserves estimated using constant prices and costs, calculated without discount and using discount rates of 5%, 10%, 15% and 20%:

**Summary of Oil and Gas Reserves
Constant Prices and Costs
as at December 31, 2005**

Reserves Category	Reserves											
	Light and Medium Oil			Heavy Oil			Natural Gas			Natural Gas Liquids		
	Company Interest ⁽¹⁾	Gross	Net	Company Interest ⁽¹⁾	Gross	Net	Company Interest ⁽¹⁾	Gross	Net	Company Interest ⁽¹⁾	Gross	Net
	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mmcf)	(mmcf)	(mmcf)	(mdbl)	(mdbl)	(mdbl)
PROVED												
Developed Producing	4,317	4,287	3,752	258	258	230	205,575	193,593	168,764	6,518	6,467	4,513
Developed Non-Producing	80	80	69	-	-	-	15,961	15,566	12,882	429	426	299
Undeveloped	208	208	187	-	-	-	19,133	19,134	15,727	564	564	384
TOTAL PROVED	4,606	4,576	4,008	258	258	230	240,669	228,292	197,374	7,511	7,458	5,196
PROBABLE	2,480	2,470	2,150	108	108	95	132,846	129,617	108,985	4,346	4,324	3,009
TOTAL PROVED PLUS PROBABLE	7,086	7,046	6,158	366	366	325	373,515	357,911	306,359	11,857	11,782	8,205

Note:

- (1) NI 51-101 requires that issuers engaged in oil and gas activities report their reserves on a "gross" and "net" basis as those terms are defined in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**"). See "Definitions, Notes and Other Cautionary Statements". Prior to 2004, the Corporation reported its reserves on a "Company Interest" basis which is the Corporation's working interest reserves before reduction for royalty obligations plus the Corporation's royalty interests. For continuity and comparison purposes, the Corporation is including in the table above its reserves on a "Company Interest" basis.

**Net Present Values of Future Net Revenues
Constant Prices and Costs
as at December 31, 2005**

(\$ thousands)

Reserves Category	Before and After Income Taxes Discounted at ⁽¹⁾⁽²⁾				
	0%	5%	10%	15%	20%
PROVED					
Developed Producing	\$1,990,348	\$1,533,341	\$1,266,275	\$1,088,905	\$961,573
Developed Non-Producing	133,625	103,140	85,113	73,068	64,355
Undeveloped	135,651	95,431	70,727	54,045	42,050
TOTAL PROVED	2,259,624	1,731,913	1,422,115	1,216,018	1,067,978
PROBABLE	1,163,847	706,686	495,401	373,701	294,660
TOTAL PROVED PLUS PROBABLE	\$3,423,471	\$2,438,598	\$1,917,516	\$1,589,719	\$1,362,638

Notes:

- (1) After Income Tax values are the same as Before Income Tax values due to the flow through of income tax attributes to unitholders under the structure of the Fund.
- (2) Including ARTC.

The following tables detail the gross, net and "Company Interest" reserves as at December 31, 2005 of the Corporation and SLP that are evaluated in the Paddock Report, using forecast prices and costs as well as the net present value of future net revenue attributable to the reserves estimated using forecast prices and costs, calculated without discount and using discount rates of 5%, 10%, 15% and 20%:

**Summary of Oil and Gas Reserves
Forecast Prices and Costs
as at December 31, 2005**

Reserves Category	Reserves											
	Light and Medium Oil			Heavy Oil			Natural Gas			Natural Gas Liquids		
	Company Interest ⁽¹⁾	Gross	Net	Company Interest ⁽¹⁾	Gross	Net	Company Interest ⁽¹⁾	Gross	Net	Company Interest ⁽¹⁾	Gross	Net
	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mmcf)	(mmcf)	(mmcf)	(mdbl)	(mdbl)	(mdbl)
PROVED												
Developed Producing	4,317	4,287	3,754	258	258	230	205,557	193,583	169,400	6,518	6,467	4,563
Developed Non-Producing	80	80	69	-	-	-	15,950	15,539	12,926	429	426	303
Undeveloped	208	208	187	-	-	-	19,178	19,178	15,812	566	566	389
TOTAL PROVED	4,606	4,576	4,010	258	258	230	240,685	228,299	198,138	7,512	7,459	5,255
PROBABLE	2,479	2,469	2,148	108	108	95	132,813	129,562	109,352	4,345	4,322	3,049
TOTAL PROVED PLUS PROBABLE	7,086	7,045	6,158	366	366	325	373,498	357,862	307,490	11,857	11,780	8,304

Note:

- (1) NI 51-101 requires that issuers engaged in oil and gas activities report their reserves on a "gross" and "net" basis as those terms are defined in the COGE Handbook. See "Definitions, Notes and Other Cautionary Statements". Prior to 2004, the Corporation reported its reserves on a "Company Interest" basis which is the Corporation's working interest reserves before reduction for royalty obligations plus the Corporation's royalty interests. For continuity and comparison purposes, the Corporation is including in the table above its reserves on a "Company Interest" basis.

**Net Present Values of Future Net Revenues
Forecast Prices and Costs
as at December 31, 2005**

(\$ thousands)

Reserves Category	Before and After Income Taxes Discounted at ⁽¹⁾⁽²⁾				
	0%	5%	10%	15%	20%
PROVED					
Developed Producing	\$1,573,998	\$1,235,312	\$1,041,370	\$912,600	\$819,392
Developed Non-Producing	104,594	82,023	68,823	59,997	53,568
Undeveloped	95,132	66,202	48,481	36,478	27,797
TOTAL PROVED	1,773,724	1,383,538	1,158,674	1,009,076	900,757
PROBABLE	888,847	515,530	356,983	268,851	212,327
TOTAL PROVED PLUS PROBABLE	\$2,662,572	\$1,899,067	\$1,515,657	\$1,277,927	\$1,113,084

Notes:

- (1) After Income Tax values are the same as Before Income Tax values due to the flow through of income tax attributes to Unitholders under the structure of the Fund.
- (2) Including ARTC.

The following table provides (i) a breakdown of various elements of future net revenue attributable to proved reserves and proved plus probable reserves of the Corporation and SLP for their properties estimated using both constant prices and costs and forecast prices and costs and calculated without discount, and (ii) the volume of production of the Corporation and SLP estimated for 2006 for their reserves:

**Total Future Net Revenue
as at December 31, 2005
and Estimated Production for 2006**

(\$thousands)	Constant Prices & Costs (Undiscounted)		Forecast Prices (Undiscounted)	
	Proved Reserves	Proved plus Probable Reserves	Proved Reserves	Proved plus Probable Reserves
Revenue	\$3,400,147	\$5,272,990	\$2,888,798	\$4,523,797
Royalties	618,127	961,883	509,759	797,011
Operating costs	437,352	681,408	512,508	843,796
	2,344,668	3,629,699	1,866,531	2,882,990
Development costs	56,659	173,143	57,194	175,221
Well abandonment costs	28,385	33,087	35,613	45,200
Future Net Revenue⁽¹⁾⁽²⁾	\$2,259,624	\$3,423,471	\$1,773,724	\$2,662,572
2006 Production (Company Interest) ⁽³⁾				
Oil (mbl)	799	871	800	871
Gas (bcf)	38.7	42.9	38.7	42.9
NGL (mbl)	1,126	1,257	1,126	1,257
Oil equivalent (mboe)	8,368	9,278	8,369	9,278
2006 Production (Gross)				
Oil (mbl)	793	865	794	865
Gas (bcf)	36.6	40.8	36.6	40.8
NGL (mbl)	1,114	1,244	1,114	1,244
Oil equivalent (mboe)	8,000	8,902	8,000	8,902
2006 Production (Net)				
Oil (mbl)	674	729	674	729
Gas (bcf)	30.3	33.6	30.5	33.8
NGL (mbl)	785	876	788	879
Oil equivalent (mboe)	6,514	7,210	6,543	7,243

Notes:

- (1) Both before and after income taxes. After Income Tax values are the same as Before Income Tax values due to the flow through of income tax attributes to Unitholders under the structure of the Fund.
- (2) Including ARTC.
- (3) Company Interest is the Corporation's and SLP's working interest share of production, before reduction for royalty obligations plus their share of production resulting from their royalty interests.

The following table details by production group the net present value of future net revenue (before deducting future income tax expenses) for the reserves of the Corporation and SLP derived from the Paddock Report estimated using both constant prices and costs and forecast prices and costs and calculated using a discount rate of 10%:

**Future Net Revenue
By Production Group
As of December 31, 2005**

Reserves Category	Production Group	Future Net Revenue before Income Taxes (discounted at 10%/year)	
		Constant prices and costs (\$thousands)	Forecast prices and costs (\$thousands)
Proved	Light and Medium Oil ⁽¹⁾	\$193,924	\$162,561
	Heavy Oil ⁽¹⁾	10,904	9,598
	Natural Gas ⁽²⁾	1,191,554	961,377
	Facility Income & Other Revenue	21,814	21,491
	Alberta Royalty Tax Credit	3,919	3,647
		\$1,422,115	\$1,158,674
Total Proved plus Probable	Light and Medium Oil ⁽¹⁾	\$262,269	\$214,345
	Heavy Oil ⁽¹⁾	13,619	11,838
	Natural Gas ⁽²⁾	1,615,068	1,263,295
	Facility Income & Other Revenue	22,042	21,753
	Alberta Royalty Tax Credit	4,518	4,427
		\$1,917,516	\$1,515,657

Notes:

- (1) Including solution gas and other by-products.
- (2) Including by-products but excluding solution gas from oil wells.

Pricing Assumptions

The following tables detail the benchmark reference prices for the regions in which the Corporation and SLP operated as at December 31, 2005 reflected in the reserves data disclosed above under "Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data". The pricing assumptions for both the constant prices and costs and forecast prices and costs were provided by Paddock, an independent reserves evaluator and auditor.

Summary of Pricing Assumptions As of December 31, 2005 Constant Prices and Costs⁽¹⁾

Year	OIL		NATURAL	EDMONTON LIQUIDS PRICES		
	Edmonton Reference (\$Cdn/bbl)	Hardisty 25° API (\$Cdn/bbl)	GAS AECO (\$Cdn/mmbtu)	Condensate (\$Cdn/bbl)	Butane (\$Cdn/bbl)	Propane (\$Cdn/bbl)
As at December 31, 2005	68.05	37.34	10.26	74.85	55.94	48.56

Note:

- (1) The prices shown on the table were adjusted to reflect actual prices received for each area.

Summary of Pricing and Inflation Rate Assumptions As of December 31, 2005 Forecast Prices and Costs

Year	OIL				NATURAL	EDMONTON LIQUIDS PRICES			Inflation Rate %/Year	Exchange Rate (\$US/\$Cdn)
	WTI Cushing (\$US/bbl)	Edmonton Reference (\$Cdn/bbl)	Hardisty 25° (\$Cdn/bbl)	Cromer 29° (\$Cdn/bbl)	GAS AECO (\$Cdn/mmbtu)	Condensate (\$Cdn/bbl)	Butane (\$Cdn/bbl)	Propane (\$Cdn/bbl)		
Forecast:										
2006	60.00	69.57	46.57	64.70	10.54	69.57	48.70	41.74	2.0%	0.85
2007	57.50	66.61	47.61	61.94	9.52	66.61	46.62	39.96	2.0%	0.85
2008	55.00	63.64	50.64	59.19	8.32	63.64	44.55	38.19	2.0%	0.85
2009	52.50	60.68	47.68	56.43	7.71	60.68	42.48	36.41	2.0%	0.85
2010	50.00	57.72	44.46	53.68	7.10	57.72	40.40	34.63	2.0%	0.85
2011	47.50	54.76	41.23	50.92	7.24	54.76	38.33	32.85	2.0%	0.85
2012	48.45	55.85	42.06	51.94	7.39	55.85	39.10	33.51	2.0%	0.85
2013	49.42	56.97	42.90	52.98	7.53	56.97	39.88	34.18	2.0%	0.85
2014	50.41	58.11	43.75	54.04	7.68	58.11	40.68	34.86	2.0%	0.85
2015	51.42	59.27	44.63	55.12	7.84	59.27	41.49	35.56	2.0%	0.85
2016	52.44	60.46	45.52	56.22	7.99	60.46	42.32	36.27	2.0%	0.85
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.0%	0.85

The weighted average prices received by the Corporation and SLP in 2005 were \$61.78/bbl for oil, \$9.13/mcf for natural gas and \$50.42/bbl for natural gas liquids.

Reconciliations of Changes in Reserves and Future Net Revenue

The following table outlines the reconciliation of changes in the net reserves estimates for the Corporation and SLP for the period December 31, 2004 to December 31, 2005 using forecast prices and costs:

Reconciliation of Changes in Net Oil and Gas Reserves Forecast Prices and Costs as at December 31, 2005⁽¹⁾

Factors	Light & Medium Oil			Heavy Oil			Associated & Non-Associated Gas ⁽²⁾			Natural Gas Liquids		
	Proved (mdbl)	Probable (mdbl)	Proved plus Probable (mdbl)	Proved (mdbl)	Probable (mdbl)	Proved plus Probable (mdbl)	Proved (mmcf)	Probable (mmcf)	Proved plus Probable (mmcf)	Proved (mdbl)	Probable (mdbl)	Proved plus Probable (mdbl)
December 31, 2004	4,056.1	2,046.6	6,102.7	279.3	121.3	400.6	167,304	78,154	245,458	5,176.1	2,615.7	7,791.8
Acquisitions	42.4	14.6	56.9	-	-	-	43,191	25,577	68,768	249.6	116.5	366.1
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Extensions	84.9	196.6	281.5	-	-	-	3,828	12,565	16,393	149.4	440.8	590.2
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries ⁽⁴⁾	292.7	150.3	443.0	-	-	-	5,953	3,035	8,988	219.8	94.1	313.9
Technical Revisions	160.2	(260.4)	(100.2)	(3.1)	(25.9)	(28.9)	4,830	(9,916)	(5,087)	325.5	(215.4)	110.0
Economic Factors	2.3	0.5	2.8	-	-	-	(33)	(61)	(94)	(1.2)	(2.7)	(3.9)
Production ⁽³⁾	(628.9)	-	(628.9)	(46.4)	-	(46.4)	(26,935)	-	(26,935)	(864.3)	-	(864.3)
December 31, 2005	4,009.6	2,148.2	6,157.8	229.8	95.4	325.3	198,138	109,352	307,490	5,254.8	3,049.0	8,303.8

Notes:

- (1) The above table is based on data from the Paddock Report, adjusted for the items referred to in notes 2, 3 and 4 below.
- (2) Includes solution gas.
- (3) Includes acquired production from the effective date of the Outlook and Blizzard acquisitions.
- (4) Includes development activity associated with the Outlook and Blizzard acquisitions after the effective date thereof.

The following table outlines the reconciliation of changes in respect of future net revenue for the Corporation and SLP, estimated using constant prices and costs and calculated using a 10% discount rate, attributable to net proved reserves of the Corporation and SLP:

**Reconciliation of Changes in Net Present Values of Future Net Revenue
Discounted at 10% Per Year**

Net Proved Reserves

**Constant Prices and Costs
as at December 31, 2005**

Factors	(\$thousands)
Estimated Net Present Value of Future Net Revenue, beginning of year	\$782,922
Estimated 2005 net operating income discounted at 10%	(173,521)
Net Changes in prices, costs and royalties related to future production ⁽¹⁾	386,177
Changes in estimated future development costs	(11,343)
Changes resulting from extensions and improved recovery	-
Changes resulting from discoveries	84,295
Changes resulting from acquisitions of reserves	252,106
Changes resulting from dispositions of reserves	(14,557)
Net change resulting from revisions in quantity estimates	20,396
Accretion of discount	78,292
Net change in royalty tax credits	-
All other changes	17,347
Estimated Net Present Value of Future Net Revenue, end of year	\$1,422,115

Note:

(1) The impact of changes in prices and other economic factors on future net revenue.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The proved and probable undeveloped reserves of the Corporation and SLP have been estimated in accordance with procedures and standards contained in the COGE Handbook. In general, undeveloped reserves of the Corporation and SLP are scheduled to be developed within the next two years. See "Statement of Reserves Data and Other Oil and Gas Information – Oil and Gas Properties" for general development plans of the Corporation and SLP for their undeveloped reserves.

Significant Factors or Uncertainties

For details of important economic factors or significant uncertainties that may affect the components of the reserves data in this Statement, see "Management's Discussion and Analysis" and "Risk Factors".

Future Development Costs

The following table details the development costs deducted in the estimation of future net revenue attributable to the proved reserves of the Corporation and SLP derived from the Paddock Report (estimated using both constant prices and costs and forecast prices and costs) and proved plus probable reserves of the Corporation and SLP (estimated using forecast prices and costs):

**Future Development Costs
(\$thousands)**

Year	Proved Reserves		Proved plus Probable Reserves
	(Constant prices and costs)	(Forecast prices and costs)	(Forecast prices and costs)
2006	\$46,277	\$46,277	\$110,543
2007	7,757	7,871	36,112
2008	721	750	20,243
2009	327	348	2,337
2010	235	254	817
Remainder	1,341	1,694	5,168
Total Undiscounted	<u>\$56,659</u>	<u>\$57,194</u>	<u>\$175,220</u>
Total Discounted at 10%	\$52,957	\$53,199	\$157,667

The source of funding for future development costs of the reserves of the Corporation and SLP will be derived from a combination of funds flow, debt and new equity. Management does not anticipate that the costs of funding referred to above will materially affect the disclosed reserves and future net revenues of the Corporation and SLP or will make the development of any of the properties of the Corporation and SLP uneconomic.

Oil and Gas Properties

The assets of the Corporation and SLP are the oil and natural gas interests upon which the Royalties have been granted and the oil and natural gas interests underlying the Managed Entities Notes. The assets of the Corporation and SLP include operated and non-operated interests. Set out below is a description of the principal producing properties, plants, facilities and installations of the Corporation and SLP. All of the properties referred to below are onshore properties.

Ferrier/O'Chiese, Alberta

The Corporation owns various operating and non-operating interests in long life oil and gas reserves located in the Ferrier and O'Chiese areas, located approximately 150 kilometres southwest of Edmonton. These properties are characterized by long-life, liquids-rich gas production combined with low operating costs. The natural gas production from these properties, which constitutes 72% of total area production on a boe basis, is primarily uncontracted and is processed in three non-operated gas plants in which the Corporation owns minor working interests or processes for a fee as a non-owner. The Corporation owns and operates an average 43% working interest in 156 gross (66.6 net) producing natural gas wells and 12 gross (5.9 net) producing oil wells in this area. During 2006, the Corporation plans to drill up to 29 gross (13.8 net) wells in the area to further develop the producing pools.

Whitcourt, Alberta

The Corporation owns and operates an average 55% working interest in 63 gross (34.5 net) producing natural gas wells and three gross (1.5 net) producing oil wells in the Whitcourt area. The natural gas is processed in the Corporation-operated Whitcourt gas plant. The property is located approximately 150 kilometres northwest of Edmonton, Alberta. The Corporation has an ongoing program of well recompletions and workovers designed to optimize production from the area, but no significant development activity is planned.

Sousa, Alberta

SLP owns working interests in 212 gross (185.4 net) producing natural gas wells in the Sousa area. Over 95% of the production from this area is operated with all operated natural gas production being processed at a 100% owned gas plant. The natural gas production from this area is long-life, sweet gas with low operating costs,

low royalties and numerous low-risk development opportunities. This area is located approximately 625 kilometres northwest of Edmonton, Alberta. During 2006, SLP plans to drill up to 81 gross (75.4 net) natural gas wells in the area to further develop the producing pools.

Caroline, Alberta

The Corporation holds an average 64% working interest in 32 gross (21.9 net) oil wells and 9 gross (4.2 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 20 gross (17.3 net) producing oil wells in the Corporation-operated Caroline Cardium "B" Sand Unit No. 1, along with an interest in 21 gross (8.8 net) non-unit producing oil and natural gas wells. This property is located immediately southwest of the town of Caroline, Alberta. The Corporation currently has no development plans in this mature field.

Dunvegan, Alberta

The Corporation holds an average 4.2% working interest in 193 gross (8.0 net) producing wells in the Dunvegan area, located approximately 400 kilometres 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 177 gross (7.6 net) producing natural gas wells. Production comes from as many as seven pay zones, but primarily the Debolt zone. The Unit was initially placed on production in 1973. The operator of this property has continuous development drilling activity in the area, in which the Corporation participates up to its proportionate share, but due to its small interest, the Corporation has no control over the drilling activity.

Windfall, Alberta

The Corporation owns and operates an average 72% working interest in 22 gross (15.8 net) producing natural gas wells and two gross (1.0 net) producing oil wells in the Windfall area. The natural gas is processed at a third party owned and operated gas plant. The property is located approximately 200 kilometres northwest of Edmonton, Alberta.

Penhold, Alberta

The Corporation owns and operates an average 59% working interest in 43 gross (25.5 net) producing natural gas wells and six gross (3.3 net) oil wells in the Penhold area. This property is located immediately southwest of Red Deer, Alberta. Natural gas is processed in three gas plants operated by others. The Corporation holds an interest in one of these gas plants.

Medicine Hat, Alberta

The Corporation owns an overriding royalty interest in approximately 475 producing natural gas wells in the Medicine Hat area. The property is located immediately northeast of the City of Medicine Hat. 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. Over the last several years this area has been the subject of development drilling by others which has increased the Corporation's production from the area at no cost.

Minehead, Alberta

The Corporation owns and operates an average 45% working interest in 25 gross (11.5 net) producing natural gas wells in the Minehead area. The property is located approximately 160 kilometres west of Edmonton, Alberta. Production is from the Cardium formation, which is characterized by liquids-rich gas exhibiting low decline rates and long producing life. Production is processed in a non-operated gas plant in which the Corporation holds no interest. During 2006, the Corporation plans to drill up to 6 gross (0.6 net) wells in the area to further develop the producing pools.

Monias, British Columbia

The Corporation holds an average 52% working interest in, and operates, the Monias gas field and related facilities, located approximately 50 kilometres southwest of Fort St. John, British Columbia. Production is from the Triassic Halfway formation, which exhibits low decline rates and a long reserve life. Production is processed in a non-operated gas plant in which the Corporation holds no interest.

Grande Prairie, Alberta

The Corporation owns and operates an average 62% working interest in 43 gross (26.7 net) producing natural gas wells and five gross (3.1 net) producing oil wells in the Grande Prairie area. A majority of the wells are operated by the Corporation with natural gas being processed at various non-operated gas plants in which the Corporation holds no interest. The area is characterized by multiple geological horizontal potential with low operating costs and numerous low-risk development opportunities. During 2006, the Corporation plans to drill up to 18 gross (12.6 net) wells to further develop the area. This area is located approximately 350 kilometres northwest of Edmonton, Alberta.

Producing and Non-Producing Wells

The following table summarizes the interests of the Corporation and SLP, as at December 31, 2005 in oil and gas wells:

	Oil wells		Natural gas wells		Total	
	Gross	Net	Gross	Net	Gross	Net
Producing ⁽¹⁾						
Alberta	512	141.6	2,186	561.8	2,698	703.4
Ontario	102	102.0	48	48.0	150	150.0
British Columbia	2	-	18	6.7	20	6.7
Saskatchewan	64	15.7	1,589	7.6	1,653	23.3
TOTAL PRODUCING	680	259.3	3,841	624.1	4,521	883.4
Non-producing ⁽²⁾						
Alberta	322	62.8	268	56.9	590	119.7
Ontario	11	11.0	9	9.0	20	20.0
British Columbia	5	2.2	9	2.3	14	4.5
Saskatchewan	4	0.1	18	0.6	22	0.7
TOTAL NON-PRODUCING	342	76.1	304	68.8	646	144.9

Notes:

(1) Includes wells that are temporarily shut-in but which are capable of production.

(2) Includes wells that are not capable of production but that are not yet abandoned.

Properties with no Attributed Reserves

The following table summarizes information with respect to properties of the Corporation and SLP to which no reserves have been specifically attributed:

Land Holdings Without Attributed Reserves as at December 31, 2005

(Acres)	Unproved Properties		Expiring in 2006	
	Gross	Net	Gross	Net
Alberta	720,842	395,669	77,997	33,401
British Columbia	19,597	3,075	-	-
Ontario	14,822	13,470	-	-
Saskatchewan	38,788	1,249	-	-
TOTAL	794,049	413,463	77,997	33,401

There are no material work commitments on the above undeveloped land holdings.

Forward Contracts

For information with respect to the forward contracts of the Corporation and SLP as at December 31, 2005, see the section titled "Results of Operations – Pricing (including Hedging Activity) – Hedging" on page 3 of Management's Discussion and Analysis for the year ended December 31, 2005, which section is incorporated herein by reference.

Additional Information Concerning Abandonment and Reclamation

The Corporation and SLP base their estimates for the costs of abandonment and reclamation of surface leases, wells, facilities and pipelines on previous experience of management with similar well sites and facility locations. As at December 31, 2005, management expected to incur such costs on 1,028.3 net wells. The total of such costs, net of estimated salvage value, was \$20.7 million (undiscounted) and \$8.4 million (discounted at 10%).

Future net revenue figures set forth in this Statement include abandonment liabilities only for wells assigned reserves. Reclamation costs of \$9.8 million (undiscounted) and salvage values of \$24.6 million are not considered in the future net revenue figures. Within the next three financial years, it is expected that abandonment and reclamation costs will total approximately \$3.7 million (\$3.2 million discounted at 10%).

Tax Horizon

Under its existing trust structure, the Corporation, SLP and the Fund do not pay income tax because the tax liability is transferred to the individual Unitholders of the Fund.

Costs Incurred

For the year ended December 31, 2005, the Corporation and SLP incurred the following costs on their properties:

Costs Incurred	
Year Ended December 31, 2005	
(\$thousands)	
Property Acquisition costs	
Proved Properties	\$24,283
Unproved Properties	4,106
Exploration costs	63
Development costs	<u>81,709</u>
	<u>\$110,161</u>

In addition to the above, the Corporation purchased Outlook Energy Corp. and Blizzard Energy Inc. in 2005 at a total cost of \$301.2 million (see "General Development of the Business of the Fund – Three Year History").

Exploration and Development Activities

For the year ended December 31, 2005, the Corporation and SLP completed the following exploratory and development wells:

	Exploratory wells		Development wells	
	Gross	Net	Gross	Net
Oil	-	-	11	4.52
Gas	-	-	91	28.14
Service	-	-	-	-
Dry	-	-	2	0.19
<u>Total</u>	<u>-</u>	<u>-</u>	<u>104</u>	<u>32.85</u>

The most important current and likely exploration and development activities of the Corporation and SLP are described under "Statement of Reserves Data and Other Oil and Gas Information - Oil and Gas Properties".

Production History

The following tables set forth the average daily production volumes, royalties, production costs and the resulting netback for the periods indicated:

	Average Daily Production ⁽¹⁾ Company Interest			
	Three Months Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Oil (bbl/d)	2,327	2,354	2,282	2,421
Gas (mmcf/d)	86.8	81.7	97.5	106.4
NGL (bbl/d)	3,242	2,926	2,716	3,133
Oil equivalent (boe/d)	20,031	18,891	21,252	23,288

Note:

- (1) Before deduction of royalties.

Production and Netback History – Gas Wells Company Interest⁽¹⁾

	Three Months Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Production volumes				
Oil (bbl)	78,220	93,187	93,436	96,251
Gas (mcf)	7,594,248	7,254,588	8,783,475	9,641,144
NGL (bbl)	280,384	260,006	253,918	280,078
Oil equivalent (boe)	1,624,312	1,562,291	1,811,267	1,983,187
Average price received				
Oil (\$/bbl)	52.69	52.34	70.82	62.01
Gas (\$/mcf)	6.98	7.86	9.42	12.06
NGL (\$/bbl)	46.06	45.43	55.75	54.93
Oil equivalent (\$/boe)	43.14	47.18	57.23	69.34
Hedge Gain (Loss) (\$/boe)	0.18	(0.27)	(0.80)	(1.81)
Royalties (\$/boe)	(10.31)	(9.92)	(12.23)	(13.64)
Transportation costs (\$/boe)	(0.70)	(0.67)	(0.76)	(0.82)
Operating costs (\$/boe)	(5.71)	(7.31)	(6.46)	(5.98)
Netback (\$/boe)	26.60	29.01	36.98	47.09

Note:

- (1) Company Interest is the Corporation's and SLP's working interest share of production, before reduction for royalty obligations plus their share of production resulting from their royalty interests.

**Production and Netback History – Oil Wells
Company Interest⁽¹⁾**

	Three Months Ended			
	<u>March 31, 2005</u>	<u>June 30, 2005</u>	<u>September 30, 2005</u>	<u>December 31, 2005</u>
Production volumes				
Oil (bbl)	131,212	121,016	116,505	126,476
Gas (mcf)	215,189	177,560	188,965	147,931
NGL (bbl)	11,406	6,220	(4,049)	8,140
Oil equivalent (boe)	178,482	156,829	143,951	159,271
Average price received				
Oil (\$/bbl)	58.96	61.62	72.16	68.35
Gas (\$/mcf)	7.13	7.58	8.42	12.66
NGL (\$/bbl)	42.16	39.57	37.62	51.61
Oil equivalent (\$/boe)	54.63	57.70	68.40	68.67
Hedge Loss (\$/boe)	(0.24)	(0.74)	(1.81)	(1.28)
Royalties (\$/boe)	(10.80)	(10.81)	(13.31)	(13.26)
Transportation costs (\$/boe)	(0.18)	(0.16)	(0.18)	(0.17)
<u>Operating costs (\$/boe)</u>	<u>(13.96)</u>	<u>(16.10)</u>	<u>(11.84)</u>	<u>(8.95)</u>
<u>Netback (\$/boe)</u>	<u>29.45</u>	<u>29.89</u>	<u>41.26</u>	<u>45.01</u>

Note:

- (1) Company Interest is the Corporation's and SLP's working interest share of production, before reduction for royalty obligations plus their share of production resulting from their royalty interests.

The following table sets forth the production by area for the properties of the Corporation and SLP for the year ended December 31, 2005:

**Production by Area
Year Ended December 31, 2005
Company Interest**

		Light & Medium Oil (bbl/d)	Gas (mcf/d)	NGL (bbl/d)	Total Oil Equivalent (boe/d)
Alberta	Ferrier/O'Chiese	65	24,203	1,470	5,569
	Whitecourt	54	8,862	70	1,601
	Sousa	-	6,494	-	1,082
	Caroline	117	3,537	236	943
	Dunvegan	3	3,363	190	754
	Windfall	6	2,738	271	733
	Penhold	15	2,901	128	626
	Medicine Hat	-	3,673	-	612
	Minehead	-	2,911	118	603
	Grande Prairie	16	2,918	40	543
	Rainbow	359	874	5	510
	Paddle River	60	2,285	57	497
	Long Coulee	335	704	4	456
	Swan Hills	353	184	36	419
	St. Anne	106	1,838	-	412
	Pembina	59	1,451	45	346
	McLeod	6	1,651	52	333
	Kakut	47	1,392	24	304
	Belloy	6	1,585	29	298
	Outlook	6	1,269	3	220
Other	347	13,187	204	2,752	
Saskatchewan	Nottingham	310	236	15	364
Ontario		76	1,368	1	305
British Columbia	Monias	-	3,535	5	594
Total		2,346	93,159	3,003	20,876

Definitions, Notes and Other Cautionary Statements

In the tables set forth in "Statement of Reserves Data and Other Oil and Gas Information" and elsewhere in this Annual Information Form, unless otherwise indicated, the following definitions and other notes are applicable.

1. **"Gross"** means:

- (a) in relation to the Corporation's and SLP's interest in production and reserves, its "gross reserves", which are the Corporation's and SLP's interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of the Corporation and SLP;
- (b) in relation to wells, the total number of wells in which the Corporation and SLP has an interest; and
- (c) in relation to properties, the total area of properties in which the Corporation and SLP has an interest.

2. **"Net"** means:

- (a) in relation to the Corporation's and SLP's interest in production and reserves, its "net reserves", which are the Corporation's and SLP's interest (operating and non-operating) share after deduction of royalty obligations, plus the Corporation's and SLP's royalty interest in production of reserves;
- (b) in relation to wells, the number of wells obtained by aggregating the Corporation's and SLP's working interest in each of its gross wells; and

- (c) in relation to the Corporation's and SLP's interest in a property, the total area in which the Corporation and SLP has an interest multiplied by the working interest owned by the Corporation and SLP.

3. Definitions used for reserve categories are as follows:

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions, which are generally accepted as being reasonable.

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Development and Production Status

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
- (i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (b) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- at least a 50 percent probability that the quantities recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

4. Forecast prices and costs

Future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which the Corporation and SLP is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

5. Constant prices and costs

Prices and costs used in an estimate that are:

- (a) the Corporation's and SLP's prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies; and
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Corporation and SLP is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

For the purposes of paragraph (a), the Corporation's and SLP's prices are the posted prices for oil and the spot price for gas, after historical adjustments for transportation, gravity and other factors.

6. ARTC is included in the cumulative funds flow amounts, ARTC is based on the program announced November 1989 by the Alberta government with modifications effective January 1, 1995. The Fund qualifies for the maximum ARTC.

7. Future income tax expense

Future income tax expenses are estimated:

- (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes;

- (b) without deducting estimated future costs that are not deductible in computing taxable income;
- (c) taking into account estimated tax credits and allowances; and
- (d) applying to the future pre-tax net funds flows relating to the Corporation's and SLP's oil and gas activities the appropriate year-end statutory rates, taking into account future tax rates already legislated.

Under its existing trust structure, the Corporation, SLP and the Fund do not pay income tax because the tax liability is transferred to individual Unitholders of the Fund.

8. **"Development well"** means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic location horizon known to be productive.

9. **"Development costs"** means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines to the extent necessary in developing the reserves;
- (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
- (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- (d) provide improved recovery systems.

10. **"Exploration well"** means a well that is not a development well, a service well or a stratigraphic test well.

11. **"Exploration costs"** means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
- (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
- (c) dry hole contributions and bottom hole contributions;
- (d) costs of drilling and equipping exploratory wells; and
- (e) costs of drilling exploratory type stratigraphic test wells.

12. "Service well" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.

13. Numbers may not add due to rounding.

14. The estimates of future net revenue presented do not represent fair market value.

15. Disclosure provided herein in respect of boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf : 1 bbls is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

16. Estimated future abandonment and reclamation costs related to a property have been taken into account by Paddock in determining reserves that should be attributable to a property and in determining the aggregate future net revenue therefrom, there was deducted the reasonable estimated future well abandonment costs.

17. Both the constant and forecast price and cost assumptions assume the continuance of current laws and regulations.

18. All factual data supplied to Paddock was accepted by them as represented. No field inspection was conducted.

DISTRIBUTIONS TO UNITHOLDERS

Unitholders of record on each Distribution Record Date are entitled to receive cash distributions. The Corporation will calculate the Distributions to Unitholders that will be paid by the Trustee to the Unitholders on each Cash Distribution Date. The accompanying table summarizes cash distributions from the Fund since January, 2003. Commencing February, 2003, the Fund began paying cash distributions monthly.

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Trust Unit</u>
December 31, 2002	January 15, 2003	\$0.60
February 28, 2003	March 15, 2003	\$0.22
March 31, 2003	April 15, 2003	\$0.28
April 30, 2003	May 15, 2003	\$0.28
May 31, 2003	June 15, 2003	\$0.23
June 30, 2003	July 15, 2003	\$0.23
July 31, 2003	August 15, 2003	\$0.23
August 31, 2003	September 15, 2003	\$0.23
September 31, 2003	October 15, 2003	\$0.23
October 31, 2003	November 15, 2003	\$0.23
November 30, 2003	December 15, 2003	\$0.23
December 31, 2003	January 15, 2004	\$0.23
January 31, 2004	February 15, 2004	\$0.23
February 29, 2004	March 15, 2004	\$0.23
March 31, 2004	April 15, 2004	\$0.23
April 30, 2004	May 15, 2004	\$0.23
May 31, 2004	June 15, 2004	\$0.23
June 30, 2004	July 15, 2004	\$0.23
July 31, 2004	August 15, 2004	\$0.23
August 31, 2004	September 15, 2004	\$0.23
September 30, 2004	October 15, 2004	\$0.23
October 31, 2004	November 15, 2004	\$0.23
November 30, 2004	December 15, 2004	\$0.23
December 31, 2004	January 15, 2005	\$0.23
January 31, 2005	February 15, 2005	\$0.23
February 28, 2005	March 15, 2005	\$0.23
March 31, 2005	April 15, 2005	\$0.23
April 30, 2005	May 15, 2005	\$0.23
May 31, 2005	June 15, 2005	\$0.23
June 30, 2005	July 15, 2005	\$0.23
July 31, 2005	August 15, 2005	\$0.23

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution per Trust Unit</u>
August 31, 2005	September 15, 2005	\$0.23
September 30, 2005	October 15, 2005	\$0.23
October 31, 2005	November 15, 2005	\$0.23
November 30, 2005	December 15, 2005	\$0.30
December 31, 2005	January 15, 2006	\$0.30
January 31, 2006	February 15, 2006	\$0.30
February 28, 2006	March 15, 2006	\$0.30

The total distributions per Trust Unit paid in 2005 were \$2.83 (2004 - \$2.76).

MARKET FOR SECURITIES

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

The following table sets out the price range for, and trading volume of, the Trust Units as reported by the TSX on a monthly basis for the most recently completed financial year:

	<u>Low</u>	<u>High</u>	<u>Volume</u>
January 2005	\$20.90	\$22.75	2,399,463
February 2005	\$22.40	\$23.35	3,309,914
March 2005	\$19.77	\$23.05	3,864,942
April 2005	\$19.60	\$21.97	3,369,090
May 2005	\$20.25	\$22.19	2,583,816
June 2005	\$20.65	\$21.84	2,963,126
July 2005	\$21.50	\$25.00	4,363,253
August 2005	\$22.02	\$25.75	7,295,008
September 2005	\$24.15	\$26.18	5,991,025
October 2005	\$22.00	\$27.00	6,837,030
November 2005	\$23.42	\$29.00	5,019,636
December 2005	\$28.06	\$30.99	4,969,020

DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors of the Corporation is currently set at six members, all of whom were either elected in accordance with a vote of Unitholders taken at the annual meeting of Unitholders of the Fund or appointed in accordance with the articles of the Corporation. The Fund does not have any directors or officers.

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

<u>Name and Municipality of Residence</u>	<u>Position with the Corporation</u>	<u>Principal Occupation</u>
Arne R. Nielsen ⁽¹⁾⁽²⁾⁽³⁾ Alberta, Canada	Chairman	Chairman of the Corporation
David M. Fitzpatrick Alberta, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Corporation
Warren D. Steckley ⁽¹⁾⁽²⁾⁽³⁾ Alberta, Canada	Director	President and Chief Operating Officer, Barnwell of Canada, Limited, a private oil and gas company
Edward W. Best ⁽¹⁾⁽²⁾⁽³⁾ Alberta, Canada	Director	Corporate director

Name and Municipality of Residence	Position with the Corporation	Principal Occupation
Richard W. Clark ⁽²⁾⁽³⁾ Alberta, Canada	Director	Partner with Gowling Lafleur Henderson LLP, lawyer
D. Grant Gunderson ⁽¹⁾⁽²⁾⁽³⁾ Alberta, Canada	Director	Corporate director
Gregory D. Moore Alberta, Canada	Vice President, Operations and Chief Operating Officer	Vice President, Operations and Chief Operating Officer of the Corporation
Terry P. Prokopy Alberta, Canada	Vice President, Land	Vice President, Land of the Corporation
Bruce K. Gibson Alberta, Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Corporation

Notes:

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Environmental, Corporate Governance and Reserve Review Committee

Other than Richard W. Clark who was appointed on June 20, 2005, each of the Directors has been a director since the inception of the Fund in July, 1996. Directors are elected at each annual meeting of Unitholders to hold office until the next such meeting. The next annual meeting of Unitholders will be held on May 16, 2006. As at March 1, 2006, the Directors and Executive Officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control over, 910,099 Trust Units or approximately 1.3% of the issued and outstanding Trust Units (assumes that the Exchangeable Shares beneficially held by Messrs. Nielsen and Fitzpatrick are exchanged for Trust Units).

Arne R. Nielsen

Mr. Nielsen was President of Mobil Oil Canada Ltd. ("**Mobil**") from 1967 through 1977. From 1977 to 1982, he 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. From 1989 to 1993, Mr. Nielsen served as Chairman and Chief Executive Officer of Bowtex Energy (Canada) Corporation and thereafter through May, 1994 in executive positions with POCO Petroleum Ltd. Since May, 1994, Mr. Nielsen has consulted to various western Canadian and international oil companies. In April, 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. On July 31, 2003, Mr. Nielsen retired as the Executive Chairman of the Corporation. He remains the non-executive Chairman of the Corporation. Mr. Nielsen currently is also a director of VAALCO Energy Inc. (American Stock Exchange) and Softrock Minerals Ltd. (TSX Venture Exchange). 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. In 1998, Mr. Nielsen was inducted into the Canadian Petroleum Hall of Fame.

David M. Fitzpatrick

Mr. Fitzpatrick has been involved with the Fund since its formation in July, 1996 in the following capacities: President and Chief Executive Officer of the Corporation (October, 2001 to present); and President and Chief Operating Officer (July, 1996 to September, 2001). He currently is also a director of the following public

issuers: Fairquest Energy Ltd. (TSX); Platform Resources Inc. (TSX Venture Exchange); and Strike Petroleum Ltd. (TSX Venture Exchange). 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. He currently is also a director of Prairie Schooner Ltd. (TSX) and Strike Petroleum Ltd. (TSX Venture Exchange).

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. and was a member of the Alberta Environmental Appeal Board. He is currently a director of TG World Energy Corp. (TSX Venture Exchange).

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 received a Bachelor of Laws degree from the University of Calgary in 1990, a Bachelor of Arts degree from the University of Calgary in 1987 and was admitted to the Law Society of Alberta in 1990. From July, 1996 to September, 2005, Mr. Clark was the Corporate Secretary of the Corporation. Mr. Clark is a director of Platform Resources Inc., and is the CEO and a director of Strike Petroleum Ltd., both of which are listed on the TSX Venture Exchange. In addition, Mr. Clark is also a director or officer of a number of private companies.

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 continued in that position until his retirement on June 30, 2003. While at Superior and Mobil, Mr. Gunderson developed long range financial planning models to use as valuation tools and for strategic planning purposes. During his tenure with Bowtex and Sayer, Mr. Gunderson directed corporate and asset evaluation activities, developed budgets (and a system for monitoring the same) and business plans and participated in financial reorganizations. Over the course of his career, along with the extensive experience he obtained in corporate valuations, Mr. Gunderson had the opportunity to work with the controllers and other financial officers in the preparation of financial information and disclosure, in addition to his regular review of reserves data and financial statement information for purposes of preparing corporate valuation reports. Mr. Gunderson is a director of Stoneham Administration Inc. and Stoneham Drilling Inc., both subsidiaries of Stoneham Drilling Trust, a TSX-listed income trust.

Gregory D. Moore

Mr. Moore has been involved with the Fund since its formation in July, 1996 in the following capacities: Vice President, Operations and Chief Operating Officer (January, 2006 to current) and Vice President, Operations (July, 1996 to December, 2005). 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. Mr. Prokopy has a Bachelor of Arts Degree in Economics from the University of Calgary and is a member of the Canadian Association of Petroleum Landmen.

Bruce K. Gibson

Mr. Gibson was appointed Vice President, Finance and Chief Financial Officer of the Corporation on September 16, 1997. Mr. Gibson obtained a Bachelor of Commerce Degree from the University of Calgary in 1978. He is a member of the Canadian and Alberta Institutes of Chartered Accountants and a member of the Canadian Petroleum Tax Society.

AUDIT COMMITTEE

The purpose of the Corporation's audit committee is to provide assistance to the Board of Directors of the Corporation in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Fund and its subsidiaries. It is the objective of the audit committee to maintain a free and open means of communication among the Board of Directors of the Corporation, the independent auditors and the financial and senior management of the Corporation.

The full text of the audit committee's terms of reference is included as Schedule A to this Annual Information Form.

Composition of the Audit Committee

The audit committee is comprised of Arne R. Nielsen, Warren D. Steckley, Edward W. Best and D. Grant Gunderson. Mr. Gunderson is the chairman of the audit committee. Each of the members is financially literate under Section 1.5 of MI 52-110 and independent under Section 1.4 of MI 52-110.

Relevant Education and Experience

See the descriptions for each of Messrs. Nielsen, Steckley, Best and Gunderson under "Directors and Executive Officers".

Pre-Approval Policies and Procedures

The audit committee pre-approves engagements for non-audit services provided by the external auditors or their affiliates, together with estimated fees and potential issues of independence.

Auditors' Fees

The following table provides information about the fees billed to the Fund and its subsidiary entities for professional services rendered by KPMG LLP during fiscal 2005 and 2004.

	2005	2004
Audit Fees ⁽¹⁾	\$404,000	\$316,000
Audit-Related Fees ⁽²⁾	-	-
Tax Fees ⁽³⁾	43,000	111,000
All Other Fees	-	-
Total	\$447,000	\$427,000

Notes:

- (1) Audit fees consist of fees for the audit and review of the Fund's financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements, including public offerings of securities.
- (2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Fund's financial statements and are not reported as Audit Fees.
- (3) Tax fees consist of fees for tax compliance services, tax advice and tax planning.

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 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).

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, the Corporation or SLP 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 and 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 or SLP 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, Saskatchewan 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 provincial governments of Canada 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.

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

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 distributions available to Unitholders. ARTC may be claimed in respect of eligible properties by the Corporation or the Fund and not by holders of Trust Units. The Fund is currently eligible to claim the full amount of the ARTC.

Land Tenure

Crude oil and natural gas reserves located in the western provinces are 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.

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.

Dependence on the Corporation and SLP

The Fund is an open-ended, limited purpose trust which is entirely dependent upon the operations and assets of its direct and indirect subsidiaries. Accordingly, any Distributions to Unitholders will be dependent on the ability of the Corporation and SLP to meet their interest and principal repayment obligations under the Managed Entities Notes and to pay the Royalties. The income of the Corporation and SLP will be received from the production of oil and natural gas from their existing properties and will be susceptible to the risks and uncertainties associated with the oil and gas industry generally.

Development of Additional Reserves

The Fund's future success and its Distributions to Unitholders are dependent upon the Corporation's and SLP's ability to develop or acquire additional oil and natural gas reserves that are economically recoverable at attractive acquisition prices. Acquisitions of resource companies and resource assets by the Corporation and SLP will be based on engineering and economic assessments made by management and, in certain cases, 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, SLP 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. Exploitation and development risks are due to the uncertain results of searching for and producing oil and natural gas using imperfect scientific methods.

Except to the extent that the Corporation and SLP conduct successful development activities or acquire properties containing proved reserves, or both, the proved reserves and production of the Corporation and SLP will generally decline as reserves are produced. If prevailing oil and natural gas prices were to increase significantly, the Corporation's and SLP'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. There can be no assurance that the Corporation and SLP will be successful in developing additional reserves or acquiring reserves on terms that meet the Fund's investment criteria.

Oil and Natural Gas Prices - Marketability of Production

The Corporation's and SLP'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 Royalties depends upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial regulation on such production, supply and demand conditions for oil and natural gas and general economic conditions. All of these factors are beyond the control of the Corporation, SLP and the Fund.

Oil and natural gas prices are and could be affected by a number of factors beyond the control of the Fund. The Corporation's and SLP's results of operations and financial position, and therefore the amounts paid to the Fund pursuant to the Royalties are dependent on the prices received for their 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, SLP and the Fund. Any decline in oil or natural gas prices could have a material adverse effect on the Corporation's and SLP's operations, financial condition, proved reserves and the level of expenditures for the development of their oil and natural gas reserves. Distributions to Unitholders will therefore be sensitive to prevailing oil and natural gas prices.

The Corporation may manage the risk associated with changes in oil and natural gas prices and foreign exchange rates by causing the Corporation and SLP, 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 oil and natural gas prices and foreign exchange rates, it and SLP will be subject to credit risks associated with counterparties with which they contract.

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 SLP 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 and SLP 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 asset retirement 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 Distributions to Unitholders.

Reserves

Although Paddock, the Corporation and SLP have carefully prepared the reserve estimates 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 and SLP that are not offset by the acquisition or development of additional reserves may reduce the underlying value of the Trust Units. The Trust Units will have little or no value once all of the oil and natural gas reserves of the Corporation and SLP have been produced. As a result, holders of Trust Units will have to obtain the return of capital invested out of funds flow derived from their investment in such Trust Units.

Depletion of Reserves

The Fund has certain unique attributes that differentiate it from other oil and gas industry participants. Distributions to Unitholders in respect of the Corporation's and SLP's oil and gas properties, absent oil and natural gas 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 and SLP will not be reinvesting funds flow in the same manner as other industry participants. Accordingly, absent capital injections, the Corporation's and SLP's production levels and reserves will decline.

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

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

Credit Facility

The Corporation has a \$330 million revolving credit facility with a syndicate of Canadian chartered banks. See "Incorporation and Organization – The Corporation – Borrowing". There is no assurance that the Corporation will be able to refinance its credit facility when it matures. If the Corporation is unable to obtain such refinancing, or obtains such refinancing on less favourable terms, it could have a material adverse affect on the Corporation's funds flow and Distributions to Unitholders.

Amounts paid in respect of interest (which can be affected by variation in interest rates) and principal on funds advanced under the credit facility (as required by the lenders or as determined by the Corporation) will reduce the Corporation's funds flow, may reduce Distributions to Unitholders and may result in the Corporation or SLP having taxable income and cash taxes payable as taxable income would no longer be reduced by the payment of the Royalties at the time debt repayment occurs.

If the Corporation fails to maintain compliance with certain covenants contained in the credit facility agreement, its ability (and the ability of SLP) to pay the Royalties and principal or interest on the Managed Entities Notes may be restricted, which could have a material adverse affect on Distributions to Unitholders. In addition, in such circumstances the lenders may be in a position to compel a sale of the working interests underlying the Royalties and the Managed Entities Notes in certain circumstances, with all proceeds from such sale going to the lenders and not to the Fund.

Although the Corporation believes that its credit facility is sufficient for its immediate requirements, there can be no assurance that the amount will be adequate for the future financial obligations of the Corporation or SLP or that access to additional funds will be available in the future. Upon annual review of the underlying assets pledged as security for the credit facility, the lenders may adjust the size of the credit facility.

Variations in Foreign Exchange Rates and Interest Rates

Operating costs incurred by the Corporation and SLP 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 and SLP's net production revenue. To the extent that the Corporation has engaged or will in the future engage in risk management activities related to oil and natural gas prices and foreign exchange rates, through entry into oil and natural gas price hedges and forward foreign exchange contracts or otherwise, the Corporation and SLP will be subject to unfavourable price changes and credit risks associated with the counterparties with which it contracts. Variations in interest rates could result in a significant increase in the amount the Fund pays to service debt, resulting in a decrease in Distributions to Unitholders.

Capital Investment

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

Competition

There is strong competition relating to all aspects of the oil and gas industry. The Corporation and SLP 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 and SLP. The Corporation and SLP 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.

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. 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. The Corporation and SLP maintain insurance against some, but not all, of these risks. 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. The occurrence of a significant event that the Corporation or SLP is not fully insured against could have a material adverse effect on the Corporation's or SLP's financial position, results of operations or prospects.

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 or Unitholders.

Administrative Discretion

Many of the income rules on which the tax efficiency of the Fund depends are a matter of administrative discretion as opposed to legislation. 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 Unitholders.

Non-Arm's Length Transactions

The Fund's determination of its distributions and the tax payable by its Managed Entities depends upon a variety of historical and ongoing non-arm's length transactions. The taxation consequences of such transactions depend upon the reasonableness of their terms from an arm's length party's point of view, and no assurance can be given in that regard. Should a taxation authority successfully challenge such transactions on the basis that their terms were not reasonable in the circumstances, it could have a material adverse effect upon the amount of Distributions to Unitholders. In particular, oil and gas income trusts, including the Fund, generally rely on

significant amounts of inter-company debt, royalties or similar instruments that generate substantial interest expense or other deductions which serve to reduce taxable income and income tax payable during the life of the Fund. There can be no assurance that taxation authorities will not seek to challenge the amount of such interest expense and other deductions. If such a challenge were to succeed, it could materially adversely affect the amount and taxability of Distributions to Unitholders.

Nature of Trust Units

The Fund is governed by the terms and conditions of the Trust Indenture. As the Fund is not a corporate entity, it is not governed by the provisions of either provincial or federal corporate law. Securities such as the Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The 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. In addition, the Fund is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) and in some cases, the *Winding Up and Restructuring Act* (Canada). As a result, if a restructuring of the Fund were necessary, the Fund would not be able to access the remedies available under such legislation. In the event of a restructuring, a Unitholder may be in a different position than a shareholder of a corporation. The market price per Trust Unit is a function of anticipated Distributions to Unitholders, 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.

Mutual Fund Status of the Fund

It is intended that the Fund will continue to qualify as a mutual fund trust for the purposes of the Tax Act. The Fund may not, however, always be able to satisfy any future requirement for the maintenance of mutual fund trust status. Should the Fund's status as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for the Fund and Unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- The Trust Units may cease to be qualified investments for Exempt Plans. Where at the end of any month an Exempt Plan holds Trust Units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Exempt Plan. A registered retirement savings plan or a registered retirement income fund holding Trust Units that are not qualified investments would become taxable on income attributable to the Trust Units while they are not qualified investments (including the entire amount of any capital gain arising on a disposition of the non-qualified investment). Registered education savings plans which hold Trust Units that are not qualified investments may have their registration revoked.
- The Fund would be taxed on certain types of income distributed to Unitholders, including income generated by the Royalties held by the Fund. Payment of this tax may have adverse consequences for some Unitholders, particularly Unitholders that are not residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.
- The Fund would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws.
- The Trust Units held by Unitholders that are not residents of Canada would become taxable Canadian property. As a result, non-resident Unitholders would be subject to Canadian income tax on any gains realized on a disposition of Trust Units held by them.

The Fund may take certain measures in the future to the extent it believes such measures are necessary to ensure the Fund maintain its status as a mutual fund trust. These measures, if adopted, could be adverse to certain holders of Trust Units and could have an adverse effect on the market price of the Trust Units

Non-Resident Ownership of Trust Units

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, it must not be established or maintained primarily for the benefit of non-residents of Canada. The Trust Indenture provides that if at any time the Fund becomes aware that the beneficial owners of 49% or more of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Fund, by or through the Corporation on its behalf, will take such action as may be necessary to carry out the foregoing intention. See "Incorporation and Organization – Trust Units – Limitation on Non-Resident Ownership".

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. 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. In addition, the *Income Trust Liability Act* (Alberta), which was proclaimed in Alberta on July 1, 2004, provides that a beneficiary of a trust that is (a) created by a trust instrument governed by the laws of Alberta, and (b) a reporting issuer as defined in the *Securities Act* (Alberta), is not liable as a beneficiary for any act, default, obligation or liability of the trustee.

Reliance on Key Personnel

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 an adverse effect on the Fund. See "Directors and Executive Officers".

Additional Financing

To the extent that external sources of capital, including the issuance of additional Trust Units and borrowings under the Corporation's credit facility, become limited or unavailable, the Fund's, the Corporation's and SLP's ability to make the necessary capital investments to maintain or expand their oil and natural gas reserves and to invest in assets, as the case may be, will be impaired. To the extent that the Corporation and SLP are required to use funds flow to finance capital expenditures, property acquisitions or asset acquisitions, as the case may be, the level of Distributions to Unitholders will be reduced.

Enforcement of Operating Agreements

The operation of wells located on properties not operated by the Corporation or SLP 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, SLP, the Fund or the Unitholders. The Corporation and SLP, as owners of working interests in properties not operated by them, 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 and SLP, as owner of the working interest, to enforce such rights.

Third Party Credit Risk

The Corporation and SLP are or may be exposed to third party credit risk through their contractual arrangements with their current or future joint venture partners, marketers of their petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation or SLP, such failures could have a material adverse effect on the Corporation or SLP and their cash flow from operations.

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 or SLP to a Property. A reduction of Royalty Income could result in those circumstances.

Distributions

Distributions to Unitholders may not represent a "yield" in the traditional sense as they may represent a return of capital, a return on investment or both. The amount of Distributions to Unitholders is subject to a number of factors, including prevailing prices for oil and natural gas, operating costs, capital 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 SLP and their production, as well as the magnitude of other direct expenses of the Corporation and SLP. It is possible that no Distributions to Unitholders will be available due to these or other factors. The Fund's historical distributions may not be reflective of future distribution payments, which will be subject to review by the Board of Directors of the Corporation taking into account its prevailing financial circumstances at the relevant time. The actual amount distributed, if any, is dependent on the factors listed above and is at the discretion of the Board of Directors of the Corporation.

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 operators to the Corporation and SLP, 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 to Unitholders.

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 flow from reserves. If the net capitalized costs exceed this limit, the Corporation and SLP must charge the amount of the excess against earnings. As oil and natural gas prices decline, the Corporation's and SLP'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 and SLP's ability to borrow funds or comply with covenants contained in current or future credit agreements or other debt instruments.

Emerging GAAP surrounding hedge accounting may result in non-cash charges against net income as a result of changes in the fair market value of hedging instruments. A decrease in the fair market value of the hedging instruments as the result of fluctuations in oil and natural gas prices and foreign exchange rates may result in a write-down of net assets and a non-cash charge against net income. Such write-downs and non-cash charges may be temporary in nature if the fair market value subsequently increases.

Net Asset Value

The net asset value of the assets of the Fund from time to time will vary dependent upon a number of factors beyond the control of management, including oil and natural gas prices. The trading price of the Trust

Units from time to time is also determined by a number of factors which are beyond the control of management and such trading prices may be greater or less than the net asset value of the Fund's assets.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation and SLP are not aware that any claims have been made in respect of their assets, however, if a claim arose and was successful this could have an adverse effect on the Corporation or SLP and their operations.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or officer or principal shareholder, or any associate or affiliate of the foregoing, has or has had, any material interest, direct or indirect, in any transaction within the three most recently completed financial years or in the current financial year that has materially affected or will materially affect the Corporation or the Fund.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar of the Trust Units of the Fund is Computershare Trust Company of Canada, at its offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts that were entered into within the most recently completed financial year, or before the most recently completed financial year and still in effect are:

1. The Trust Indenture;
2. the Royalty Agreements;
3. the Corporation USA;
4. the SHC USA;
5. the Administrative Services Agreement;
6. the Rights Plan; and
7. the Credit Facility Agreement dated December 31, 2004 between the Corporation and a syndicate of Canadian chartered banks, as amended.

INTERESTS OF EXPERTS

Paddock prepared the Paddock Report relating to certain reserves of the Corporation. As of the date hereof, the directors, officers and associates of Paddock as a group, did not beneficially own any of the outstanding Trust Units.

The consolidated financial statements of the Fund as at and for the years ended December 31, 2005 and 2004 have been examined by KPMG LLP, Chartered Accountants, as detailed in their auditors' report dated February 28, 2006. KPMG LLP is independent of the Fund in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information, including remuneration and indebtedness of directors and executive officers of the Corporation, the principal holders of Trust Units and the securities authorized for issuance under equity compensation plans, is contained in the Fund's information circular relating to the Annual and Special Meeting of Unitholders to be held on May 16, 2006, or any adjournment thereof. Additional financial information is provided in the annual audited financial statements of the Fund for the year ended December 31, 2005 and the Management's Discussion and Analysis pertaining thereto.

The above documents and other information may be found on SEDAR at www.sedar.com.

**REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR
FORM 51-101F2**

Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.

To the Board of Directors of Shiningbank Energy Ltd. and the Board of Directors of the General Partner of Shiningbank Limited Partnership (collectively, the "Company"):

1. We have evaluated and audited the Company's reserves data as at December 31, 2005. The reserves data consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2005 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2005 using constant prices and costs; and
- (ii) the related estimated future net revenue.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation and audit.

We carried out our evaluation and audit in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation and audit to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation and audit also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated and audited by us for the year ended December 31, 2005, and identifies the respective portions thereof that we have evaluated and audited and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation/Audit Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (\$millions - before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
Paddock Lindstrom & Associates Ltd.	January 28, 2006	Canada	78.4*	1,437.2	nil	1,515.7

* The audited value does not include the Alberta Royalty Tax Credit attributable to the audited properties. The Alberta Royalty Tax Credit was calculated corporately and is included in the value of the evaluated properties.

5. In our opinion, the reserves data respectively evaluated and audited by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Paddock Lindstrom & Associates Ltd.
Calgary, Alberta, Canada

Execution Date: January 28, 2006

(signed) "L.K. Lindstrom" _____

L.K. Lindstrom, P.Eng.

President

**REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE
FORM 51-101F3**

Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.

Management of Shiningbank Energy Ltd. (the "Company") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2005 using forecast prices and costs; and
- (a) (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2005 using constant prices and costs; and
- (b) (ii) the related estimated future net revenue.

Independent qualified reserves evaluators and auditors have evaluated and audited the Company's reserves data. The reports of the independent qualified reserves evaluators and auditors are presented in the Annual Information Form of Shiningbank Energy Income Fund effective as of December 31, 2005.

The Environmental, Corporate Governance and Reserve Review Committee of the board of directors of the Company has

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator and auditor;
- (b) met with the independent qualified reserves evaluators and auditors to determine whether any restrictions affected the ability of the independent qualified reserves evaluators and auditors to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluators and auditors.

The Environmental, Corporate Governance and Reserve Review Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Environmental, Corporate Governance and Reserve Review Committee, approved:

- (a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (b) the filing of the report of the independent qualified reserves evaluator and auditor on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

(signed) "David M. Fitzpatrick"

David M. Fitzpatrick
President and Chief Executive Officer

(signed) "Gregory D. Moore"

Gregory D. Moore
Vice President, Operations and Chief Operating Officer

(signed) "Edward W. Best"

Edward W. Best
Director

(signed) "Warren D. Steckley"

Warren D. Steckley
Director

Dated: March 16, 2006

SCHEDULE "A"
Audit Committee - Terms of Reference

SHININGBANK ENERGY LTD.

(Adopted by the Board of Directors of Shiningbank Energy Ltd. effective December 13, 2005)

PURPOSE

The overall purpose of the Audit Committee (the "Committee") of the Board of Directors of Shiningbank Energy Ltd. (the "Corporation") is to carry out the functions associated with an audit committee of an issuer of the size and nature of the Corporation and the Fund (as defined below). The purpose of the Committee is to ensure that the Corporation's management has designed and implemented an effective system to review and report on the integrity of the consolidated financial statements of Shiningbank Energy Income Fund ("SEIF") and its consolidated subsidiaries (collectively referred to as the "Fund"). As part of this mandate, the Committee shall take all necessary steps so as to ensure compliance by the Fund with all laws and regulatory policies, rules, regulations and instruments pertaining to audit and financial reporting that are applicable to the Fund from time to time (the "Applicable Laws").

COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of not less than three members of the Board of Directors of the Corporation (the "Board"), each of whom:

- (a) must meet any independence tests; and
- (b) must satisfy any financial literacy or other competency standards;

as set out under Applicable Laws, except as may be allowed under any applicable exemptions provided for under Applicable Laws or any exemption orders obtained from applicable regulatory authorities.

2. The Board, at its first meeting following the annual meeting of the holders of trust units of SEIF, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.

3. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair (the "Chairman") from amongst their number.

4. The Corporate Secretary of the Corporation shall be the secretary of the Committee, unless otherwise determined by the Committee.

5. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.

6. The Committee shall have access to such officers and employees of the Corporation and of the other consolidated subsidiaries of the Fund, and to the Fund's external auditors and to such information respecting the Fund, as the Committee considers to be necessary or advisable in order to perform its duties and responsibilities.

7. Meetings of the Committee shall be conducted as follows:

- (a) the Committee shall meet at least four times annually at such times and at such locations as may be requested by the Chairman. The Fund's external auditors or any member of the Committee may request a meeting of the Committee;
- (b) the Fund's external auditors shall receive notice of and have the right, and shall be encouraged, to attend all meetings of the Committee; and
- (c) the Chief Executive Officer and the Chief Financial Officer of the Corporation shall be invited to attend all meetings of the Committee, except *in camera* sessions of the members of the Committee. Other management representatives of the Corporation shall be invited to attend as necessary.

8. The external auditors of the Fund shall have a direct line of communication to the Committee through the Chairman. The Fund shall require the external auditors of the Fund to report directly to the Committee.

DUTIES AND RESPONSIBILITIES

9. The overall duties and responsibilities of the Committee shall include:

- (a) assisting the Board in the discharge of its responsibilities relating to the Fund's accounting principles, reporting practices and internal controls and approving the Fund's annual and quarterly consolidated financial statements;
- (b) establishing and maintaining a direct line of communication with the Fund's external auditors and assessing their performance;
- (c) ensuring that the management of the Corporation has designed, implemented and is maintaining an effective system of internal controls for the Fund;
- (d) reporting regularly to the Board on the fulfilment of the duties and responsibilities of the Committee;
- (e) ensure adequate procedures are in place for the review of the Fund's public disclosure of financial information extracted or derived from the Fund's financial statements and periodically assess the adequacy of those procedures;
- (f) review the appropriateness and effectiveness of the Fund's policies and business practices which impact on the financial integrity of the Fund, including those relating to insurance, accounting, information services and systems and financial controls, management reporting and risk management; and
- (g) review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Fund.

10. The duties and responsibilities of the Committee as they relate to the external auditors shall include:

- (a) recommending to the Board a firm of external auditors to be engaged by the Fund;
- (b) reviewing the scope and timing of the audit and other related services rendered by the external auditors and recommending the approval of the fee for all audit services to the Board;
- (c) overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Fund, including the resolution of disagreements between management of the Corporation and the external auditors regarding financial reporting;
- (d) reviewing the audit plan of the external auditors prior to the commencement of the audit;

- (e) reviewing with the external auditors, upon completion of their audit:
 - (i) contents of their report;
 - (ii) scope and quality of the audit work performed;
 - (iii) adequacy of the Corporation's financial and auditing personnel;
 - (iv) co-operation received from the Corporation's personnel during the audit;
 - (v) internal resources used;
 - (vi) significant transactions outside of the normal business of the Fund; and
 - (vii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;
- (f) pre-approving all non-audit services (and the fee for such services) to be provided to the Fund by the Fund's external auditors in accordance with Applicable Laws; and
- (g) periodically review the Fund's financial and auditing procedures and the extent to which recommendations made by the external auditors have been implemented.

11. The Committee shall hold an *in camera* session with the external auditors at least once a year prior the approval of the annual audited financial statements of the Fund and at such other times as determined necessary or appropriate by the Committee.

12. The Committee is also charged with the responsibility to:

- (a) review the Fund's annual financial statements and MD&A and related earnings news release and recommend the approval thereof to the Board;
- (b) review and approve the Fund's interim financial statements and MD&A and related earnings news releases;
- (c) review and approve the financial sections of other public reports of the Fund requiring approval by the Board before such documents are publicly disclosed, other than prospectuses and business acquisition reports which will be reviewed and approved by the Board;
- (d) review regulatory filings and decisions as they relate to the Fund's consolidated financial statements;
- (e) review the minutes of any audit committee meeting of associated companies, partnerships or trusts;
- (f) review with management, the external auditors and, if necessary, legal counsel any litigation, claim or other contingency, including tax assessments, that could have a material affect upon the financial position or operating results of the Fund and the manner in which such matters have been disclosed in the consolidated financial statements;
- (g) review annually insurance programs relating to the Fund;
- (h) establish procedures for the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal accounting controls, or auditing matters;

- (i) establish procedures for the confidential, anonymous submission by employees of the Corporation or any other consolidated subsidiary of the Fund of concerns regarding questionable accounting or auditing matters;
- (j) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Fund;
- (k) develop a calendar of activities to be undertaken by the Committee for the ensuing year and present such calendar to the Board prior to the commencement of such year; and
- (l) review and reassess the adequacy of these Terms of Reference at least annually and recommend to the Board changes which the Committee may deem appropriate.

13. The Committee has the authority:

- (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties; and
- (b) to set and pay the compensation for any advisors employed by the Committee.

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