



# Q2

For the three months ended June 30, 2006

TriStar Oil & Gas Ltd. ("TriStar" or the "Company") is pleased to announce its financial and operating results for the three month period ended June 30, 2006.

In this report, all references to barrels of oil equivalent ("Boe") are calculated converting natural gas to oil at a ratio of six thousand cubic feet to one barrel of oil.

Highlights	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006 <sup>(2)</sup>	% Change
<i>(\$ thousands except per share and Boepd amounts) (unaudited)</i>			
<b>Financial (CDN\$)</b>			
Production Revenue (prior to hedging)	12,673	7,503	69
Cash flow from operations <sup>(1)</sup>	7,426	4,455	67
Per share basic	0.19	0.17	17
Per share diluted	0.19	0.16	18
Net earnings	2,996	311	862
Per share basic	0.08	0.01	576
Per share diluted	0.08	0.01	583
Common shares (000's)			
Shares outstanding, end of period (basic)	45,030	35,925	25
Weighted average shares (basic)	38,326	26,942	42
Weighted average shares (fully diluted)	39,857	28,309	41
<b>Operations</b>			
Production			
Crude oil (Bbls per day)	1,621	1,181	37
Natural gas (Mcf per day)	4,014	1,852	117
Barrels of oil equivalent (Boepd, 6:1)	2,290	1,489	54
Average realized price			
Crude oil (\$ per Bbl)	70.19	59.70	17
Natural gas (\$ per Mcf)	6.35	6.96	(8)
Barrels of oil equivalent (\$ per Boe, 6:1)	60.82	55.98	9
Netback per Boe (6:1) (\$)			
Operating netback	41.04	37.36	10
Cashflow netback	35.64	33.24	7
Wells Drilled			
Gross	19	11	
Net	8.7	8.0	
Success (%)	97	73	

(1) Management uses cash flow (before changes in non-cash working capital), and operating and cashflow netback to analyze operating performance and leverage. Cash flow as presented, and operating and cashflow netback do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

(2) Represents average daily production from January 1, 2006 to March 31, 2006. TriStar commenced active operations on January 6, 2006. Average daily production for the period in which TriStar was active was 1,577 Boepd, 6:1.

## President's Letter to Shareholders

The Company's achievements in its second quarter of operations include the following:

- ✓ Production grew to 2,290 Boepd in the second quarter of 2006 from 1,489 Boepd in the first quarter of 2006, representing a quarter over quarter increase of 54 percent;
- ✓ Cash flow increased to \$7.4 million in the second quarter of 2006 from \$4.5 million in the first quarter, a quarter over quarter increase of 67 percent;
- ✓ Cash flow per share increased from \$0.16 per share in the first quarter of 2006 to \$0.19 per share in the current quarter, a quarter over quarter increase of 18 percent;
- ✓ Identified, announced and closed the strategic acquisition of Raven Energy Ltd. ("Raven"). The primary asset in Raven consists of a large, high netback, light oil and natural gas pool with an estimated 100 mmbbls original oil in place and 75 Bcf original gas in place;
- ✓ Completed the acquisition of a strategic working interest in the Antler area of southeast Saskatchewan;
- ✓ During the quarter, TriStar revised upward the Company's 2006 average and exit production estimates to 2,950 Boepd (average), and 3,900 Boepd (exit) levels, respectively;
- ✓ Subsequent to the end of the quarter, TriStar closed a flow-through private placement of equity capital for gross proceeds of \$15 million; and
- ✓ The Board of Directors is pleased to announce the promotion of Mr. Brett Herman to President and Chief Executive Officer. Mr. Herman has been the President and Chief Operating Officer of TriStar since its inception. Mr. Paul Colborne will continue on as active Chairman of the Board.

### Operational Review

During the second quarter of 2006, TriStar drilled a total of 19 (8.7 net) wells, resulting in 18 (8.4 net) oil wells, and 1 (0.3 net) dry and abandoned well, for an overall net success rate of 97 percent.

In southeast Saskatchewan, TriStar recently drilled its second horizontal development well (100% WI) into a large Frobisher light oil (37° API) pool at Hastings. The well has been flowing at initial completion rates of 50 Boepd. This high quality, long life pool is estimated to contain more than 11 million barrels of original oil in place ("OOIP"). Cumulative oil recovered to date is 2.2 million barrels of oil, for a 20% recovery factor. With continued success, TriStar believes that the ultimate recoverable reserves from this pool could exceed 3.3 million barrels or more than 30 percent, significantly above currently booked reserves. Activity for the remainder of 2006 on this property will consist of the drilling of 2 (2 net) horizontal oil wells of the 9 (9 net) horizontal development locations currently identified by TriStar in this pool.

Early third quarter drilling results in southeast Saskatchewan include successful new horizontal wells into TriStar's high quality, large OOIP, light oil pools at Star Valley and Rosebank. At Star Valley, TriStar drilled its second horizontal well of a four well program planned for 2006. This well is currently producing at 125 Boepd (50 Boepd net) and further substantiates management's forecasted upside in this pool. TriStar's Rosebank property has now had 3 (1.25 net) horizontal wells drilled on TriStar's land in 2006.

In southern Alberta, TriStar was active in the second quarter, drilling a 3 (1.5 net) oil well program at Countess. This program has successfully extended three of the 24 new pool discoveries that were a part of the original key assets of TriStar. The initial well in the program delineated a very prolific Pekisko pool discovered by a major Canadian producer in 2001, resulting in a 200 Boepd (100 Boepd net) oil well. In addition, TriStar has secured a farm-in on lands offsetting this discovery which TriStar believes are prospective for further extending this pool. The additional two wells drilled in the second quarter are undergoing pressure analysis and will begin production in mid-August. In addition, TriStar has drilled 4 (2 net) oil wells in the Countess area since the beginning of the third quarter with 100 percent success.

At Redwater, Alberta, second quarter activity saw the interpretation of the newly shot 21 square kilometre 3-D seismic survey over this high quality, 34° API, 16.4 million barrel OOIP light oil pool. During the quarter, TriStar successfully completed a 3 (2.4 net) well program for light oil in this area. This program has resulted in three cased oil wells with completions currently under way. Initial results are very encouraging with some of the best reservoir rock encountered to date in the western step-out well confirming TriStar's interpretation of the newly acquired seismic. The third well in the program came in structurally higher than offset wells and is currently testing at rates as high as 200 Boepd. In addition, TriStar has now received approval on the pool to resume production with GPP (Good Production Practice). The remainder of 2006 will see an increase in TriStar's capital budget at Redwater by 3 (3 net) oil wells resulting in the drilling of 6 (5.7 net) oil wells. TriStar has currently identified an inventory of 32 (28.3 net) development drilling locations in this area and has also identified a potential extension to the pool which it is planning to test later in 2006.

In west central Alberta, at TriStar's recently acquired Ante Creek Montney Pool, drilling has commenced on this high quality, long life light oil pool. TriStar estimates that its lands contain in excess of 100 mmbbls of 39° API oil with very low recovery factors to date. In addition, TriStar believes there is over 75 Bcf of associated solution gas in place within this reservoir. TriStar estimates that ultimate primary recoveries of 7.5 percent of the oil, and 71 percent of the gas in place are achievable, which would suggest incremental reserves of 5.1 mmbbls of oil and 34 Bcf of gas net to TriStar. TriStar's initial vertical test, approximately two miles south of the main producing part of the pool, has identified a potential oil column in excess of 18 metres. This extension further helps delineate the pool. The second well into the 5 (2.7 net) well program is the first horizontal well to be drilled into this Montney pool. Drilling is expected to take approximately 20 days after which completion operations will occur in September.

Exploration activity for TriStar in the second quarter focused mainly on land acquisitions and drilling in the Antler area of eastern Saskatchewan and western Manitoba, where a new light oil (38° API) play is emerging in the Devonian Torquay formation. TriStar drilled a total of 11 (2.8 net) wells into the play resulting in 10 (2.5 net) oil wells for a total net success rate of 89 percent. The wells are now being brought onto production. In addition, TriStar completed the acquisition of 64 (16 net) sections of land and 7 (1.75 net) oil wells in the quarter. TriStar's exploration land base on this exciting new play now exceeds 90 net sections of undeveloped land. This area will be a major exploration focus for the remainder of 2006 with the drilling of 22 (7.2 net) new pool wildcat and development wells.

## **Outlook; Guidance**

Based on its excellent corporate fundamentals, TriStar remains very well positioned to continue to grow the Company's reserves, production and cash flow per share.

In the initial six months of the Company's existence, TriStar has aggressively grown its reserves, production, and cash flow per share. This growth has come through a combination of identifying, evaluating and consummating accretive acquisitions of high quality, operated, multi-zone, light oil and natural gas reserves and production, exploiting these assets and identifying and pursuing exploration prospects.

During the 2006 spring break-up period, TriStar completed a comprehensive analysis of the Company's opportunity base resulting in an increase in TriStar's drilling inventory to more than 300 locations. This provides the Company with a development drilling inventory in its key operated project areas of more than four years.

TriStar had a strong quarter of drilling results with a 97 percent net success rate. The results of this program will not be realized until the third quarter as the majority of these wells were drilled late in the second quarter.

Today, as a result of implementing management's focused business strategy, TriStar has the following key attributes:

- ✓ High quality assets: High netback (Q2 operating netback = \$41.04) light oil and natural gas reserves and production focused in four operating areas
- ✓ Operatorship/High working interest: More than 90 percent operated assets, and more than a 70 percent working interest
- ✓ Long Life Reserves: 13.6 Mmboe proven plus probable (NI 51-101); >9.4 year RLI
- ✓ High Netback Production: 2,950 Boepd (2006 Estimated Average)  
3,900 Boepd (2006 Estimated Exit)
- ✓ Extensive Drilling Inventory: More than 300 locations – greater than a four year drilling inventory
- ✓ Strong Balance Sheet: Net debt (post financing): < \$40 million  
Debt to run rate cash flow ratio of less than 0.8 times
- ✓ Shares Outstanding (post financing): 46.7mm (Basic)  
49.9mm (Fully Diluted)

As a result of the strong drilling results in the second quarter and early in the third quarter, TriStar management now believes the Company is well positioned to exceed its 2006 exit rate production guidance of 3,900 Boepd.

On behalf of the Board of Directors,



Brett Herman  
President and Chief Executive Officer

August 14, 2006

## Forward-Looking Statements

*This document contains forward-looking statements. More particularly, this document contains statements concerning TriStar's projected annual average and exit rate production of oil and natural gas and planned exploration and development activities.*

*The forward-looking statements are based on certain key expectations and assumptions made by TriStar, including expectations and assumptions concerning prevailing commodity prices and exchange rates, availability and cost of labour and services, the timing of receipt of regulatory approvals, the performance of existing wells, the success obtained in drilling new wells, the performance of new wells and the sufficiency of budgeted capital expenditures in carrying out TriStar's planned activities.*

*Although TriStar believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because TriStar can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. These risks are set out in more detail in TriStar's annual information form for the year ended December 31, 2005, which can be accessed at [www.sedar.com](http://www.sedar.com).*

*The forward-looking statements contained in this press release are made as of the date hereof and TriStar undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.*

## Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") is dated August 14, 2006. The MD&A should be read in conjunction with TriStar Oil & Gas Ltd.'s ("TriStar" or the "Company") unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2006, and TriStar's audited consolidated financial statements and MD&A for the period ended December 31, 2005.

TriStar commenced commercial operations on January 6, 2006 under a Plan of Arrangement (the "Plan") involving StarPoint Energy Trust ("StarPoint") and Acclaim Energy Trust ("Acclaim"), which resulted in the creation of Canetic Resources Trust ("Canetic") and TriStar. Under the Plan, TriStar acquired certain oil and gas properties from StarPoint and Acclaim.

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Management's Discussion and Analysis contains the terms "cash flow from operations" and "operating netback" which are not Canadian GAAP standards and therefore may not be comparable to performance measures presented by others. Cash flow from operations represents cash flow from operating activities prior to changes in non-cash working capital. Operating netback represents revenue less royalties, hedging gains and losses, operating expenses and transportation expenses. Management believes that in addition to net income, cash flow from operations and operating netback are useful supplemental measures as they provide an indication of TriStar's operating performance, leverage and liquidity. Investors should be cautioned, however, that this measure should not be construed as an alternative to net income determined in accordance with GAAP as an indication of TriStar's performance.

The reporting and measurement currency is the Canadian dollar. Amounts in this MD&A are in Canadian dollars unless otherwise stated.

Where amounts are expressed on a barrel of oil equivalent ("Boe") basis, natural gas volumes have been converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe figures may be misleading, particularly if used in isolation.

This MD&A contains forward-looking statements, including statements relating to management's approach to the number of wells, amount and timing of capital projects, interest rates, worldwide and industry production, prices of oil and natural gas, Company production, cash flow and debt levels. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The reader is cautioned that assumptions used in preparation of such information, although considered reasonable by TriStar at the time of preparation, may prove to be incorrect.

### Subsequent Event

On July 26, 2006 TriStar entered into an agreement with a syndicate of underwriters to issue 1,690,000 flow-through common shares at a price of \$8.90 for gross proceeds of \$15.0 million. The transaction closed on August 10, 2006.

### Significant Transactions

On June 7, 2006, TriStar acquired all of the issued and outstanding common shares of Raven Energy Ltd. ("Raven Shares"). Under the terms of the plan of arrangement, the purchase price paid by TriStar for each Raven common share was, at the election of each Raven common shareholder, \$2.25 in cash, 0.32 Common Shares, or \$0.6525 in cash and 0.2272 Common Shares, subject to a maximum cash payment of \$22.5 million.

The Raven common shareholders elected to receive \$14.7 million in cash and 9.1 million Common Shares. The arrangement closed on June 7, 2006.

On May 1, 2006, TriStar closed the strategic acquisition of a working interest in undeveloped land, production and reserves in the Antler area of southeast Saskatchewan which is prospective for light oil in the Devonian Torquay formation.

## Results of Operations

TriStar's operations for the three months ended June 30, 2006 includes its acquisition of Raven Energy Ltd. effective June 8, 2006.

### Production

	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006 <sup>(1)</sup>
<b>Daily Production</b>		
Crude oil (Bbls per day)	1,621	1,181
Natural gas (Mcf per day)	4,014	1,852
<b>Total (Boepd)</b>	<b>2,290</b>	<b>1,489</b>

(1) Represents average daily production from January 1, 2006 to March 31, 2006. TriStar commenced active operations on January 6, 2006. Average daily production for the period in which TriStar was active was 1,577 Boepd, 6:1.

For the three months ended June 30, 2006, TriStar averaged 2,290 Boepd as compared to 1,489 Boepd in the first quarter of 2006, a 54 percent increase. Production was comprised of approximately 1,621 Bbls per day of crude oil and NGLs and 4,014 Mcf per day of natural gas. TriStar benefited in the second quarter from only three weeks of production from the acquisition of Raven. Production in the quarter was also affected by shut-in production in its core area of Redwater pending approval of Good Production Practices ("GPP"). GPP approval was recently received and the shut-in wells are now being brought back on production.

### Production for the quarter was divided between the following areas:

	Three Months Ended June 30, 2006		
Area	Crude Oil Bbls per day	Natural Gas Mcf per day	Total Boepd
Alberta	696	3,819	1,332
Saskatchewan	925	195	958
<b>Total</b>	<b>1,621</b>	<b>4,014</b>	<b>2,290</b>

During the quarter, the Company drilled 19 (8.7 net) wells resulting in 18 (8.4 net) successful oil wells and 1 (0.3 net) dry and abandoned well, achieving a 97 percent net success rate.

Year to date the Company has drilled 30 (16.7 net) wells resulting in an overall net success rate of 87 percent.

### Pricing

Crude oil prices continued to show sustained strength in the quarter as WTI averaged US\$70.51 per Bbl and Edmonton mixed sweet averaged \$79.08 per Bbl. Continuing global instability and the general concern that crude and refined product inventory volumes are insufficient to meet future demands because of worldwide growth continue to drive oil prices to record levels.

Natural gas prices averaged \$6.33 per Mcf for AECO daily spot and US\$6.51/Mmbtu for NYMEX daily gas in the quarter. North American gas prices were affected by mild winter temperatures and remain volatile.

TriStar's average realized price for its crude oil and NGLs averaged \$70.19 in the quarter while its realized natural gas price was \$6.35 per Mcf.

	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006
<b>Average Benchmark Prices</b>		
Crude oil – WTI ( <i>US\$ per Bbl</i> )	70.51	63.35
Crude oil – Edmonton Par Price ( <i>\$ per Bbl</i> )	79.08	69.36
Natural gas – AECO-C daily spot ( <i>\$ per Mcf</i> )	6.33	7.47
Exchange rate – ( <i>US\$/CDN\$</i> )	0.89	0.87

## Revenues

For the three months ended June 30, 2006, TriStar recorded \$10.4 million in crude oil sales and \$2.4 million in natural gas sales, prior to the effect of hedging, a 65 percent and 100 percent increase respectively over the first quarter of 2006 when TriStar recorded \$6.3 million of crude oil sales and \$1.2 million of natural gas sales. In the second quarter of 2006 TriStar's revenue was affected by a gain of \$0.04 million as a result of its hedging program as compared to the first quarter when there was no gain or loss. The Company realized the following commodity prices for the three months ended June 30 and March 31, 2006 prior to the effect of hedging.

	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006
<b>TriStar Average Realized Prices Prior to Hedging</b>		
Crude oil – ( <i>\$ per Bbl</i> )	70.19	59.70
Natural gas – ( <i>\$ per Mcf</i> )	6.35	6.96
Boe – ( <i>\$ per Boe</i> )	60.82	55.98

<i>(\$ thousands)</i>	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006
<b>Revenues by Product</b>		
Crude oil	10,353	6,343
Hedging gains (losses)	-	-
Natural gas	2,320	1,160
Hedging gains (losses)	42	-
Total revenues	12,715	7,503

## Royalty Expenses

Royalties in the quarter ended June 30, 2006 were \$2.0 million or 15.7 percent of revenue as compared to \$1.3 million or 17.5 percent in the first quarter of 2006. Royalties are calculated and paid based on oil and natural gas revenues before any hedging gains or losses. Accordingly, royalty expense is directly correlated to changes in revenue (prior to the effect of hedging).

## Operating Expenses

Operating expenses were \$2.1 million or \$10.17 per Boe in the quarter ended June 30, 2006 as compared to \$1.1 million or \$8.40 per Boe in the first quarter of 2006. The increase in operating costs in the second quarter were expected, and primarily due the recently acquired Redwater property. TriStar has now completed the construction of a central battery at Redwater which will reduce operating costs at Redwater going forward.

## Transportation Expenses

Transportation expenses were \$0.05 million or \$0.26 per Boe in the quarter ended June 30, 2006 as compared to \$0.06 million or \$0.48 per Boe in the first quarter of 2006. Transportation expenses are reflective of the location of TriStar's properties, transportation rates and the location where the product is sold.

## Operating Netbacks

Operating netbacks were \$41.04 per Boe for the quarter ended June 30, 2006 as compared to \$37.36 per Boe for the quarter ended March 31, 2006.

### Netbacks

<i>(\$ per Boe, unless otherwise noted)</i>	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006
Total production ( <i>Boepd</i> )	2,290	1,489
Crude oil and natural gas liquids ( <i>\$/Bbl</i> )	70.19	59.70
Hedging gains (losses) ( <i>\$/Bbl</i> )	-	-
Natural gas ( <i>\$/Mcf</i> )	6.35	6.96
Hedging gains (losses) ( <i>\$/Mcf</i> )	0.11	-
Average Price Prior to Hedging	60.82	55.98
Hedging gains (losses)	0.20	-
Royalties, net	(9.55)	(9.74)
Operating	(10.17)	(8.40)
Transportation	(0.26)	(0.48)
<b>Operating Netback</b>	<b>41.04</b>	<b>37.36</b>

## General and Administrative Expenses

During the second quarter, general and administrative expenses ("G&A"), net of recoveries, was \$0.6 million (\$2.85 per Boe) as compared to the quarter ended March 31, 2006 where G&A was \$0.4 million or \$2.69 per Boe. The addition of staff related to the Company's acquisitions played a significant role in the increase in G&A costs. G&A costs per Boe are expected to decrease in subsequent quarters as a result of increased production.

<i>(\$ thousands)</i>	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006
General and administrative expenses	1,222	867
Recoveries	(219)	(198)
Capitalized general and administrative expenses	(410)	(309)
<b>Total net general and administrative expenses</b>	<b>593</b>	<b>360</b>

## Interest Expense

Interest expense was \$0.4 million or \$1.95 per Boe in the quarter as compared to \$0.04 million or \$0.30 per Boe in the quarter ended March 31, 2006. Interest costs increased primarily as a result of an increased level of bank debt held by the corporation in the quarter as well as rising interest rates.

## Stock-based Compensation

The Company stock-based compensation expenses for the quarter ended June 30, 2006 was \$0.09 million or \$0.43 per Boe as compared to the quarter ended March 31, 2006 of \$0.2 million or \$1.44 per Boe. The stock-based compensation expense was calculated utilizing a fair value assessment methodology.

## Depletion, Depreciation and Accretion

Depletion of oil and natural gas properties, including the capitalized portion of the asset retirement obligations, is provided for on a unit-of-production basis using estimated proven reserves volumes.

Depletion, depreciation and accretion expense in the quarter ended June 30, 2006 was \$6.2 million or \$29.52 per Boe as compared to the quarter ended March 31, 2006 which was \$3.6 million or \$27.15 per Boe.

## Taxes

For the quarter ended June 30, 2006, TriStar recorded a capital tax expense of \$0.1 million, and a future income tax reduction of \$1.8 million as compared to the quarter ended March 31, 2006 when the Company recorded \$0.2 million of capital tax expense and future income tax expense of \$0.3 million. The capital tax expense is comprised of the Saskatchewan Capital Tax and Resource Surcharge. The future income tax reduction is mainly as a result of reduced federal and provincial corporate tax rates which were substantially enacted in the second quarter of 2006.

## Hedging Program

TriStar enters into commodity price derivative contracts that provide downside price protection, in order to provide some stability of cash flows for capital spending planning purposes. Commodity prices fluctuate due to political events, meteorological conditions, disruptions in supply and changes in demand. TriStar's Risk Management Policy, as set out by the Board of Directors, allows management to implement a commodity price hedging program.

TriStar's financial instruments qualify for hedge accounting, which TriStar has elected to use. The following tables summarize TriStar's hedging relationships as at June 30, 2006:

### Costless Collars Oil Contracts

	<i>Volume (Bbl/d)</i>	<i>Price (US\$/Bbl)</i>	<i>Index</i>
Mar. 1, 2006 – Dec. 31, 2006	250	60.00 - 73.00	WTI
Apr. 1, 2006 – Jun. 30, 2007	250	60.00 - 77.20	WTI
Apr. 1, 2006 – Dec. 31, 2007	250	60.00 - 76.10	WTI
Jun. 1, 2006 – Dec. 31, 2006	250	70.00 – 79.50	WTI
Jan. 1, 2007 – Dec. 31, 2007	500	70.00 – 78.10	WTI
Jul. 1, 2007 – Dec. 31, 2007	250	70.00 – 78.00	WTI

### Costless Collars Natural Gas Contracts

	<i>Volume (GJ/d)</i>	<i>Price (\$/GJ)</i>	<i>Index</i>
Jun. 1, 2006 – Oct. 31, 2006	2,000	6.00 – 10.25	AECO Monthly
Nov. 1, 2006 – Mar. 31, 2007	2,000	7.50 – 16.25	AECO Monthly

The fair value of the costless collars at June 30, 2006 was a loss of \$1.3 million.

Subsequent to quarter end, TriStar entered into the following hedge relationships:

### **Costless Collars Natural Gas Contracts**

	<i>Volume (GJ/d)</i>	<i>Price (\$/GJ)</i>	<i>Index</i>
Apr. 1, 2007 – Oct. 31, 2007	1,000	6.50 – 9.00	AECO Monthly
Apr. 1, 2007 – Oct. 31, 2007	1,000	7.50 – 8.75	AECO Monthly

## **Liquidity and Capital Resources**

In order to support TriStar's growth-oriented business plan, TriStar's strategy is to fund its capital expenditure program with cash flows from operations, bank debt and working capital. As at June 30, 2006, TriStar had \$48.3 million drawn on its \$65.0 million demand loan facility with a major Canadian chartered bank. TriStar had a working capital deficit of \$0.03 million at June 30, 2006. As at that date, TriStar had met all of its covenants pertaining to this loan agreement and is not required to make any repayments.

### **Capital Expenditures**

During the quarter, the Company incurred \$100.9 million of capital expenditures as compared to \$163.8 million spent for the three months ended March 31, 2006. The following table details capital expenditures for the quarters ended June 30, 2006 and March 31, 2006.

### **Capital Expenditures**

<i>(\$ thousands)</i>	<b>Three Months Ended June 30, 2006</b>	<b>Three Months Ended March 31, 2006</b>
Drilling, development and production equipment	9,676	8,446
Land and seismic	514	641
Acquisitions <sup>(1)</sup>	89,207	154,243
Other <sup>(2)</sup>	1,491	492
<b>Total</b>	<b>100,888</b>	<b>163,822</b>

*(1) Includes total consideration (cash, stock and transaction costs) paid for acquisitions, and working capital and debt assumed.*

*(2) Includes capitalized G&A and administrative assets.*

## **Goodwill**

TriStar recorded additional goodwill of \$18.3 million during the quarter ended June 30, 2006, bringing its balance as of June 30, 2006 to \$37.6 million. The increase in the amount recorded in the second quarter as compared to the first quarter primarily relates to the acquisition of Raven.

## **Shareholders' Equity**

### **Share Capital**

	<b>Three Months Ended June 30, 2006</b>	<b>Three Months Ended March 31, 2006</b>
<b>Outstanding Common Shares</b>		
Weighted Average Outstanding Common Shares		
Basic	38,326,369	26,941,828
Diluted	39,856,718	28,308,612
<b>Outstanding Securities</b>		
Common Shares	45,029,972	35,925,079
Common Share options	798,500	130,000
Performance Shares	2,272,484	2,272,484

## Contractual Obligations

### Bank Facility

As at June 30, 2006 the Company had available a \$65.0 million demand credit facility. The Company is in a position to execute its capital program for the remainder of 2006. The Company's credit facility is with a Canadian chartered bank and is open for review semi-annually. The facility is a borrowing base facility that is determined based on, among other things, the Company's current reserve report, results of operations, current and forecasted commodity prices and the current economic environment.

### Working Capital

The capital intensive nature of the Company's activities may create a negative working capital position in quarters with high levels of capital investment. The Company will limit the total negative working capital plus the outstanding bank debt to the amount of the Company's credit line.

The industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25<sup>th</sup> day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. To the extent that the Company has joint venture partners in its activities it will collect on a monthly basis the partners' share of capital and operating expenses. These are subject to normal collection risk. At June 30, 2006 the Company had no material accounts receivable it deemed uncollectible.

Accounts payable consist of amounts payable to suppliers relating to head office expenses, field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period.

The Company continuously manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing its capital spending levels.

## Summary of Quarterly Results

<i>(\$ thousands except per share and Boepd amounts)</i>	<b>Three Months Ended June 30, 2006</b>	<b>Three Months Ended March 31, 2006</b>
Production revenue (prior to hedging) <sup>(1)</sup>	12,673	7,503
Net income (loss)	2,996	311
Per share – basic	0.08	0.01
Per share – diluted	0.08	0.01
Production (Boepd)	2,290	1,489
Cash flow from operations <sup>(2)</sup>	7,426	4,455
Per share – basic	0.19	0.17
Per share – diluted	0.19	0.16

(1) TriStar began active operations on January 6, 2006.

(2) "Cash flow from operations" should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as an indicator of TriStar's performance. "Cash flow from operations" represents cash flow from operating activities prior to changes in non-cash working capital. TriStar's determination of cash flow from operations may not be comparable to that found in the consolidated statement of cash flows in the unaudited interim financial statements. TriStar also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

## **Newly Adopted Accounting Policies**

There were no significant accounting policies newly adopted during the three months ended June 30, 2006.

## **Business Conditions and Risks**

The business of exploration, development and acquisition of oil and natural gas reserves involves a number of uncertainties and as a result, TriStar is exposed to a number of risks inherent in the oil and natural gas industry. Operationally, TriStar faces risks that are associated with finding, developing and producing oil and natural gas reserves. These include risks associated with drilling, economic risk, environmental and safety concerns and access to processing facilities. The financial risks that are not within TriStar's control include the fluctuations in national and international commodity prices, exchange rates and interest rates. TriStar mitigates risk through the competence of its management team, adequate insurance coverage and safety and environmental programs that meet or exceed regulations.

## **Additional Information**

Additional information relating to TriStar, including TriStar's Initial Annual Information Form ("AIF") and previously issued financial statements can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

# Financial Statements

## TriStar Oil & Gas Ltd.

### Consolidated Balance Sheets

(unaudited)

(\$ thousands)

	June 30, 2006	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash	-	-
Accounts receivable	12,199	-
Inventory	1,857	-
Other current assets	2,526	-
	16,582	-
Property and equipment (notes 4, 5 and 6)	260,721	-
Goodwill (notes 4 and 5)	37,601	-
<b>Total assets</b>	<b>314,904</b>	<b>-</b>
<b>Liabilities</b>		
Current liabilities:		
Bank loan (note 7)	48,334	-
Accounts payable and accrued liabilities	16,609	-
	64,943	-
Asset retirement obligations (note 8)	5,421	-
Future income taxes (note 9)	35,398	-
<b>Total liabilities</b>	<b>105,762</b>	<b>-</b>
<b>Shareholders' Equity</b>		
Share capital (notes 4, 5 and 10)	205,342	-
Contributed surplus (note 10)	493	-
Retained earnings	3,307	-
<b>Total shareholders' equity</b>	<b>209,142</b>	<b>-</b>
Subsequent events (note 13)		
<b>Total liabilities and shareholders' equity</b>	<b>314,904</b>	<b>-</b>

See accompanying notes to consolidated financial statements.

# TriStar Oil & Gas Ltd.

## Consolidated Statement of Operations and Retained Earnings

(unaudited)

(\$ thousands, except per share amounts)

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006 (note 1)
<b>Revenues</b>		
Petroleum and natural gas sales	12,715	20,219
Royalties	(1,991)	(3,296)
	10,724	16,923
<b>Expenses</b>		
Operating	2,120	3,246
Transportation	54	118
General and administration	593	953
Depletion, depreciation and accretion (notes 6 and 8)	6,151	9,791
Stock-based compensation (note 10)	89	281
Interest	406	447
	9,413	14,836
Income before taxes	1,311	2,087
Taxes:		
Capital taxes	125	278
Future income taxes (note 9)	(1,810)	(1,498)
	(1,685)	(1,220)
<b>Net income</b>	2,996	3,307
Retained earnings, beginning of period	311	-
<b>Retained earnings, end of period</b>	3,307	3,307
<b>Earnings per share</b> (note 10)		
Basic	0.08	0.10
Diluted	0.08	0.10
Weighted average number of shares		
Basic	38,326,369	32,776,421
Diluted	39,856,718	34,306,770

See accompanying notes to consolidated financial statements.

**TriStar Oil & Gas Ltd.**  
**Consolidated Statement of Cash Flows**  
(unaudited)

(\$ thousands)

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006 (note 1)
Cash flows related to the following activities:		
<b>Operating activities</b>		
Net income for the period	2,996	3,307
Depletion, depreciation and accretion	6,151	9,791
Stock-based compensation	89	281
Future income taxes	(1,810)	(1,498)
	7,426	11,881
Change in non-cash working capital	(432)	(1,744)
	6,994	10,137
<b>Financing activities</b>		
Issuance of share capital	-	62,196
Share issue costs	(1,004)	(2,580)
Increase in bank loan	27,801	40,203
	26,797	99,819
<b>Investing activities</b>		
Capital expenditures	(11,681)	(21,259)
Acquisitions, net of cash acquired	(22,927)	(72,482)
Change in non-cash working capital	817	(16,215)
	(33,791)	(109,956)
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	-	-

Supplemental cash flow information (note 11)

See accompanying notes to consolidated financial statements.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

### 1. Business and basis of presentation

TriStar Oil & Gas Ltd. ("TriStar" or the "Company") was incorporated pursuant to the Business Corporations Act (Alberta) on September 30, 2005. The Company commenced active operations on January 6, 2006, following the completion of the plan of arrangement described in note 4. Accordingly, the six month period ended June 30, 2006 includes only results from operations for 176 days, from January 6, 2006 to June 30, 2006.

### 2. Principles of consolidation

The consolidated financial statements include the accounts of TriStar, TriStar Oil & Gas Partnership and Vortex Energy Corporation.

### 3. Summary of significant accounting policies

The interim consolidated financial statements of the Company have been prepared following the same accounting policies and methods of computation utilized in the financial statements of the Company for the year ended December 31, 2005. The disclosures provided in the consolidated financial statements as at and for the three and six months ended June 30, 2006 are incremental to and should be read in conjunction with the Company's audited financial statements as at December 31, 2005. The disclosures in these interim, unaudited consolidated financial statements do not conform in all respects to the requirements of Canadian Generally Accepted Accounting Principles for annual financial statements.

### 4. Canetic Transaction

On January 5, 2006, StarPoint Energy Trust ("StarPoint"), StarPoint Energy Ltd., Acclaim Energy Trust ("Acclaim"), Acclaim Energy Inc. and TriStar completed a plan of arrangement to combine StarPoint and Acclaim to form a new publicly traded income trust, Canetic Resources Trust ("Canetic"), and TriStar, a new publicly traded exploration company (collectively, the "Canetic Transaction").

The Canetic Transaction was carried out pursuant to a plan of arrangement. Specifically, unitholders of the respective trusts received:

- a) For each StarPoint unit owned, 1.0000 units of Canetic, 0.1000 of a common share of TriStar ("Common Share") and 0.0210 of one arrangement warrant of TriStar ("Warrant").
- b) For each Acclaim unit owned, 0.8333 units of Canetic, 0.0833 of a Common Share and 0.0175 of one Warrant.

Each full Warrant was exercisable into one Common Share at an exercise price of \$2.75 until February 6, 2006. As a result of the Warrants being exercised, 3,871,072 Common Shares were issued for total proceeds of \$10.6 million.

During the completion of the Canetic Transaction, the following additional events took place:

- a) TriStar acquired certain oil and gas properties from Acclaim and StarPoint through a series of transactions involving cash and assets transferred to TriStar from Acclaim in exchange for TriStar Shares, and assets transferred from StarPoint in exchange for cash and TriStar Shares. The net result was an exchange value of approximately \$56.1 million of assets in consideration for 19,999,591 Common Shares.
- b) TriStar acquired undeveloped land from StarPoint for cash consideration of \$2.1 million.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006

(unaudited)

- c) A private placement ("TriStar Private Placement") took place with gross proceeds of \$7.5 million consisting of 2,727,269 Common Shares at a price of \$2.75 per Common Share. All of the shares issued pursuant to the private placement were acquired by contractors, employees, officers or directors of the Company ("deemed service providers"). The Common Shares issued under this private placement are subject to a contractual escrow arrangement. Under the escrow arrangement, one-third of the Common Shares issued to each deemed service provider will be releasable to the holder on each of January 4, 2007, July 4, 2007 and January 4, 2008. If a holder of such Common Shares ceases to be a deemed service provider to TriStar during the term of the escrow, TriStar will have the right to repurchase any Common Shares still subject to escrow at a price equal to the lesser of \$2.75 and the market price of the Common Shares on the last trading day immediately prior to such person ceasing to be a deemed service provider. The Common Shares may be transferred within escrow to another deemed service provider with the approval of the Board of Directors of TriStar.
- d) TriStar issued 2,272,484 non-voting performance shares ("Performance Shares") to deemed service providers at a price of \$0.01 per share, for proceeds of \$22,725. A holder of Performance Shares shall become entitled to convert the Performance Shares into Common Shares on each of the first, second and third anniversaries of their issuance under the following terms: if the closing trading price of the Common Shares on the Toronto Stock Exchange or such other stock exchange on which the Common Shares are listed (the "Market Price") on these anniversaries is greater than \$2.75, a holder of Performance Shares shall have the right, from and after such date and until the expiry time of the Performance Shares, to convert up to 33 1/3 percent of the total number of Performance Shares originally issued to such holder into Common Shares on each of these anniversaries. The number of Common Shares that can be thus obtained is calculated as the number of Performance Shares converted multiplied by the difference between the Market Price and \$2.75, divided by the Market Price.
- e) A stock option plan was established by the Company. The total amount of options that can be issued under the stock option plan cannot exceed ten percent of the outstanding Common Shares when the total Performance Shares are added to the total stock options issued.

The acquisition of the Canetic Transaction oil and gas properties has been accounted for by the purchase method of accounting and been recorded at the fair value of the properties, as follows:

(\$ thousands)

<b>Consideration</b>	
Common Shares issued	\$ 56,075
<b>Net assets received, at estimated fair value</b>	
Property and equipment	\$ 60,481
Working capital	(2,096)
Asset retirement obligations	(2,310)
	\$ 56,075

The above amounts are estimates, which were made by management at the time of the preparation of these interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

### 5. Business combinations

#### Raven acquisition

On June 7, 2006, TriStar acquired all of the issued and outstanding common shares of Raven Energy Ltd. ("Raven"). Under the terms of the plan of arrangement, the purchase price paid by TriStar for each Raven common share was, at the election of each Raven common shareholder, \$2.25 in cash, 0.32 Common Shares, or \$0.6525 in cash and 0.2272 Common Shares, subject to a maximum cash payment of \$22.5 million.

The Raven common shareholders elected to receive \$14.7 million in cash and 9,104,893 Common Shares.

The Raven acquisition has been accounted for using the purchase method of accounting, as follows:

<b>Consideration</b>	
Cash	\$ 14,683
Common Shares issued	62,220
Transaction costs	900
	<hr/>
	\$ 77,803
<b>Net assets received, at estimated fair value</b>	
Accounts receivable	\$ 2,316
Inventory	1,857
Other current assets	265
Property and equipment	82,804
Goodwill	17,322
Bank loan	(8,130)
Accounts payable and accrued liabilities	(580)
Asset retirement obligations	(727)
Future income taxes	(17,324)
	<hr/>
	\$ 77,803

The above amounts are estimates, which were made by management at the time of the preparation of these interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

#### Sawtooth acquisition

On March 16, 2006, the Company acquired all of the issued and outstanding common shares of Sawtooth International Resources Inc. ("Sawtooth"). Under the terms of the plan of arrangement the purchase price paid by TriStar for each Sawtooth common share was, at the election of each Sawtooth common shareholder, \$2.25 in cash or 0.2903 Common Shares, or \$1.125 in cash and 0.1452 of a Common Share.

The plan of arrangement required an aggregate of 3,646,146 Common Shares be issued to the holders of Sawtooth common shares. Because of this requirement, an adjustment was made so that any holder of Sawtooth common shares who elected to receive all cash instead received approximately \$1.24 in cash and 0.13 Common Shares. No adjustment was made for holders of Sawtooth common shares who elected to receive all Common Shares or a combination of Common Shares and cash.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006

(unaudited)

The Sawtooth acquisition has been accounted for using the purchase method of accounting as follows:

(\$ thousands)

<b>Consideration</b>	
Cash	\$ 27,584
Common Shares issued	26,558
Transaction costs	485
	<hr/>
	\$ 54,627
<b>Net assets received, at estimated fair value</b>	
Property and equipment	\$ 75,611
Goodwill	17,078
Bank loan	(19,676)
Working capital	(246)
Asset retirement obligations	(1,037)
Future income taxes	(17,103)
	<hr/>
	\$ 54,627

The above amounts are estimates, which were made by management at the time of the preparation of these interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

### Saskatchewan acquisitions

On February 15, 2006, the Company acquired all of the issued and outstanding shares of two private Saskatchewan oil and gas companies, and certain other minor, complimentary interests in the assets held by other private companies (together, the "Saskatchewan Assets").

The Saskatchewan acquisition has been accounted for using the purchase method of accounting as follows:

(\$ thousands)

<b>Consideration</b>	
Cash	\$ 21,477
Transaction costs	220
	<hr/>
	\$ 21,697
<b>Net assets received, at estimated fair value</b>	
Property and equipment	\$ 22,172
Goodwill	3,201
Working capital	174
Asset retirement obligations	(602)
Future income taxes	(3,248)
	<hr/>
	\$ 21,697

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

The above amounts are estimates, which were made by management at the time of the preparation of these interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

### 6. Property and equipment

As at June 30, 2006, the property and equipment balances are as follows:

(\$ thousands)

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas	\$ 269,598	\$ (9,672)	\$ 259,926
Administrative assets	818	(23)	795
	\$ 270,416	\$ (9,695)	\$ 260,721

The calculation of the depletion and depreciation expense excludes undeveloped land costs of \$18.9 million. Future development costs of \$3.3 million were included in the depletion calculation.

During the six months ended June 30, 2006, the Company capitalized \$0.7 million and \$0.2 million of general and administrative costs and stock-based compensation expense, respectively, relating to exploration and development activities.

### 7. Bank loan

On June 30, 2006, the Company had a \$65.0 million revolving demand operating credit facility. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent on the Company's debt to trailing cash flow ratio. The banker's acceptances bear interest at the applicable banker's acceptance rate plus a stamping fee, based on the Company's debt to trailing cash flow ratio. The credit facility is secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to semi-annual review by the bank.

### 8. Asset retirement obligations

The total future asset retirement obligations was estimated based on the Company's net ownership interest in all of its wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated an undiscounted total future liability of \$20.3 million as at June 30, 2006. These payments are expected to be made over the foreseeable future with the majority of costs incurred between 2018 and 2037. The Company's credit adjusted risk-free rate of 8.5 percent and an inflation rate of 2.0 percent per annum were used to calculate the net present value of the asset retirement obligations.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

The following table reconciles the Company's total asset retirement obligations:

(\$ thousands)	
	Six months ended June 30, 2006
Asset retirement obligations, beginning of period	\$ -
Liabilities acquired	5,049
Liabilities incurred	276
Accretion expense	96
	<u>\$ 5,421</u>

## 9. Taxes

### Tax expense

The combined provision for taxes in the statement of operations and retained earnings reflects an effective tax rate which differs from the expected statutory tax rate. This difference was principally due to a reduction of \$2.2 million of previously booked future tax liabilities as a result of reduced federal and provincial corporate tax rates which were substantially enacted in the second quarter of 2006. This and other differences were accounted for as follows:

(\$ thousands)	
	Six months ended June 30, 2006
Earnings before taxes	\$ 2,087
Statutory income tax rate	37.0%
Expected income taxes	772
Add (deduct):	
Non-deductible crown charges	95
Resource allowance	(222)
Stock-based compensation	105
Rate adjustment on partnership deferral	(61)
Effect of income tax rate reductions	(2,197)
Other	10
Future income tax reduction	<u>\$ (1,498)</u>

### Future income tax liability

(\$ thousands)	
	Balance as at June 30, 2006
Property and equipment	\$ 37,005
Deferral of partnership income	948
Asset retirement obligations	(1,681)
Share issue costs	(874)
Future income tax liability	<u>\$ 35,398</u>

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

As at June 30, 2006, the Company has tax pools of approximately \$141.5 million available to offset future taxable income.

### 10. Share capital

(a) Authorized

- (i) An unlimited number of voting Common Shares.
- (ii) 2,309,657 of non-voting Performance Shares, without nominal or par value.

(b) Issued and outstanding

(\$ thousands, except share amounts)

	Number of shares	Amount
<b>Common Shares</b>		
Issued and outstanding, December 31, 2005	1	\$ -
Issued pursuant to private placement for cash (note 4)	2,727,269	7,500
Issued pursuant to Canetic Transaction (note 4)	19,999,591	56,075
Issued on acquisition of Sawtooth (note 5)	3,646,146	26,558
Issued on acquisition of Raven (note 5)	9,104,893	62,220
Exercise of Warrants (note 4)	3,871,072	10,645
Issued for cash	5,681,000	44,028
Share issue costs (net of \$874 income tax effect)	-	(1,707)
Balance, June 30, 2006	45,029,972	\$ 205,319
<b>Performance Shares</b>		
Issued pursuant to private placement and balance at June 30, 2006 (note 4)	2,272,484	23
Total share capital, June 30, 2006	47,302,456	\$ 205,342

(c) Earnings per share

The reconciling items between the basic and diluted average Common Shares outstanding are stock options and Performance Shares.

(d) Stock options

The Company has an employee stock option plan under which employees and directors are eligible to receive option grants. The total amount of options that can be issued under the stock option plan cannot exceed ten percent of the outstanding Common Shares when the total Performance Shares are added to the total stock options issued. Options granted under the plan have a term of five years to expiry and vest over three years.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

The following table reconciles stock option plan activity:

	Number of options	Weighted average exercise price (\$)
Balance, December 31, 2005	-	-
Granted	798,500	6.89
Balance, June 30, 2006	798,500	6.89

Subsequent to June 30, 2006, the Company issued 110,000 options at an average exercise price of \$6.92. As at August 14, 2006, 908,500 options were outstanding with an average exercise price of \$6.89.

(e) Stock-based compensation

The Company accounts for its stock-based compensation using the fair value method. Under this method, a compensation cost is charged over the vesting period for options and Performance Shares granted to employees, officers and directors with a corresponding increase to contributed surplus.

The fair value of each option and Performance Share granted is estimated on the date of the grant using the Black-Scholes option pricing model with weighted average assumptions. The expected life for both the options and the Performance Shares is three years. The risk-free interest rates are 4.10 percent and 3.75 percent, respectively, and the expected volatility is 35 percent. This results in fair values of the options and the Performance Shares of \$1.2 million and \$1.4 million, respectively, or \$1.54 per option and \$0.61 per Performance Share.

(f) Contributed surplus

The following table reconciles the Company's contributed surplus balance:

(\$ thousands)

	Six months ended June 30, 2006
Balance, December 31, 2005	-
Stock-based compensation expense arising from:	
Stock options	115
Performance Shares	378
Balance, June 30, 2006	493

(g) Flow-through shares

On the purchase of Raven described in note 5, TriStar assumed obligations to incur \$1.3 million on qualifying expenditures on or before December 31, 2006, arising from a \$3.3 million flow-through share issue. The amount remains outstanding as at the date of these financial statements.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

### 11. Supplemental cash flow information

(\$ thousands)

	Three months ended June 30, 2006	Six months ended June 30, 2006
Income and other taxes paid	\$ 31	\$ 93
Interest paid, net of interest income	394	434

### 12. Financial instruments

#### Risk management

TriStar enters into commodity price derivative contracts that provide downside price protection, in order to provide some stability of cash flows for capital spending planning purposes. Commodity prices fluctuate due to political events, meteorological conditions, disruptions in supply and changes in demand. TriStar's Risk Management Policy, as set out by the Board of Directors, allows management to implement a commodity price hedging program.

TriStar's financial instruments qualify for hedge accounting, which TriStar has elected to use. The following tables summarize TriStar's hedging relationships as at June 30, 2006:

#### Costless collars oil contracts

	Volume (Bbl/d)	Price (\$US/Bbl)	Index
Mar. 1, 2006 – Dec. 31, 2006	250	60.00 - 73.00	WTI
Apr. 1, 2006 – Jun. 30, 2007	250	60.00 - 77.20	WTI
Apr. 1, 2006 – Dec. 31, 2007	250	60.00 - 76.10	WTI
Jun. 1, 2006 – Dec. 31, 2006	250	70.00 - 79.50	WTI
Jan. 1, 2007 – Dec. 31, 2007	500	70.00 - 78.10	WTI
Jul. 1, 2007 – Dec. 31, 2007	250	70.00 - 78.00	WTI

The fair value of the costless collars at June 30, 2006 was a loss of \$US 1.5 million.

#### Costless collars natural gas contracts

	Volume (GJ/d)	Price (\$/GJ)	Index
Jun. 1, 2006 – Oct. 31, 2006	2,000	6.00 – 10.25	AECO Monthly
Nov. 1, 2006 – Mar. 31, 2007	2,000	7.50 – 16.25	AECO Monthly

The fair value of the costless collars at June 30, 2006 was a gain of \$0.4 million.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and six months ended June 30, 2006  
(unaudited)

### 13. Subsequent events

(a) Issuance of flow-through shares

On August 10, 2006, TriStar issued 1,690,000 flow-through Common Shares on a private placement basis at a price of \$8.90 per share for gross proceeds of \$15.0 million.

(b) Commodity hedge contracts

TriStar has entered into (i) a costless collar with respect to 1,000 GJ/d of gas at AECO Monthly with a range of \$6.50 to \$9.00 for the period from April 1, 2007 to October 31, 2007, and (ii) a costless collar with respect to 1,000 GJ/d of gas at AECO Monthly with a range of \$7.50 to \$8.75 for the period from April 1, 2007 to October 31, 2007.

## Corporate Information

### Directors

James Bertram  
Paul Colborne  
Fred Coles  
J. Paul Charron  
Brett Herman  
Martin Hislop  
James M. Pasieka  
Rob Peters  
Paul Starnino

### Officers

Paul Colborne  
*Chairman*

Brett Herman  
*President and  
Chief Executive Officer*

Jason Zabinsky  
*Vice President, Finance and  
Chief Financial Officer*

Graham Kidd  
*Vice President, Engineering*

Eric Strachan  
*Vice President, Exploration*

Jeremy Wallis  
*Vice President, Land*

James M. Pasieka  
*Corporate Secretary*

### Head Office

Suite 800, 350 Seventh Avenue SW  
Calgary, Alberta T2P 3N9  
Telephone: (403) 268-7800  
Facsimile: (403) 218-6075  
[www.tristaroilandgas.com](http://www.tristaroilandgas.com)

### Auditor

KPMG LLP

### Banker

Bank of Montreal

### Evaluation Engineers

Sproule Associates Limited

### Legal Counsel

Heenan Blaikie LLP

### Registrar and Transfer Agent

Investors are encouraged to contact TriStar's Transfer Agent for information regarding their security holdings:

Olympia Trust Company  
Suite 2300, 125 Ninth Avenue SE  
Calgary, Alberta T2G 0P6  
Telephone: (403) 261-0900  
Facsimile: (403) 265-1455  
Website: [www.olympiatrust.com](http://www.olympiatrust.com)

### Stock Exchange

Toronto Stock Exchange  
Trading Symbol "TOG"