



# Q3

For the three months ended September 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 September 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 September 30, 2006	Three Months Ended June 30, 2006	% Change	Nine Months Ended September 30, 2006
<i>(\$ thousands except per share and Boepd amounts) (unaudited)</i>				
<b>Financial (CDN\$)</b>				
Production Revenue (prior to hedging)	18,084	12,673	43	38,261
Cash flow from operations <sup>(1)</sup>	11,021	7,426	48	22,902
Per share basic	0.24	0.19	26	0.61
Per share diluted	0.23	0.19	21	0.59
Net earnings	1,126	2,996	(62)	4,433
Per share basic	0.02	0.08	(75)	0.12
Per share diluted	0.02	0.08	(75)	0.11
Common shares (000's)				
Shares outstanding, end of period (basic)	46,720	45,030	4	46,720
Weighted average shares (basic)	45,967	38,326	20	37,255
Weighted average shares (fully diluted)	47,381	39,857	19	38,848
<b>Operations</b>				
Production				
Crude oil (Bbls per day)	2,191	1,621	35	1,699
Natural gas (Mcf per day)	7,400	4,014	84	4,525
Barrels of oil equivalent (Boepd, 6:1)	3,424	2,290	50	2,453
Average realized price				
Crude oil (\$ per Bbl)	70.67	70.19	1	67.95
Natural gas (\$ per Mcf)	5.64	6.35	(11)	6.04
Barrels of oil equivalent (\$ per Boe, 6:1)	57.41	60.82	(6)	58.20
Netback per Boe (6:1) (\$)				
Operating netback	38.87	41.04	(5)	39.25
Cashflow netback	35.00	35.64	(2)	34.84
Wells Drilled				
Gross	29	19		59
Net	15.7	8.7		32.4
Success (%)	93	95		90

(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.

## President's Letter to Shareholders

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

- ✓ Production grew to 3,424 Boepd in the third quarter of 2006 from 2,290 Boepd in the second quarter of 2006, representing a quarter over quarter increase of 50 percent;
- ✓ Cash flow increased to \$11.0 million in the third quarter of 2006 from \$7.4 million in the second quarter, a quarter over quarter increase of 48 percent;
- ✓ Cash flow per share increased from \$0.19 per share in the second quarter of 2006 to \$0.23 per share in the current quarter, a quarter over quarter increase of 21 percent;
- ✓ Closed a flow-through private placement of equity capital for gross proceeds of \$15 million;
- ✓ Successfully drilled 27 (14.9 net) of 29 (15.7 net) wells in the third quarter for a 93 percent success rate bringing the year to date success rate to 90 percent;
- ✓ Subsequent to the quarter, TriStar revised upward the Company's 2006 exit production estimate to 4,200 Boepd from the previous guidance of 3,900 Boepd;
- ✓ Subsequent to the quarter, announced an increase in the Company's credit facilities to \$80 million from \$65 million; and
- ✓ Subsequent to the quarter, TriStar completed a strategic acquisition to increase its exposure to the emerging Bakken play in southeast Saskatchewan.

### Operational Review

During the third quarter of 2006, TriStar drilled a total of 29 (15.7 net) wells, resulting in 27 (14.9 net) potential oil wells, 1 (0.5 net) stratigraphic test well, and 1 (0.3 net) dry and abandoned well, for an overall success rate of 93 percent.

At Star Valley in southeast Saskatchewan (40 - 100% WI), TriStar drilled its second horizontal Alida oil well (0.4 net). This well is producing high netback, light oil (33° API) at a rate of 120 Boepd. TriStar expects to drill 4 (2.4 net) oil wells into this large 49 million barrel original oil in place ("OOIP") reservoir during the remainder of 2006.

At Willmar in southeast Saskatchewan, TriStar holds a 40 percent working interest in a new Frobisher discovery well which is producing 110 Boepd of high netback light oil (37° API). The well was drilled as part of a farm-out to a third party with TriStar participating for its 40 percent working interest by paying for its share of equipping the well. During the third quarter, a development program was initiated around this discovery with the drilling of 2 (0.8 net) oil wells. TriStar expects 2 (0.8 net) additional wells to be drilled during the remainder of 2006 to further delineate this pool.

Additional southeast Saskatchewan drilling results in the third quarter include the drilling of 4 (2.6 net) horizontal oil wells into TriStar's Carlyle and Rosebank pools. These pools are both high quality, light oil accumulations with over 15 million barrels of OOIP, respectively. Fourth quarter drilling activity will see TriStar drill an additional 5 (3.0 net) development oil wells in these areas.

In southern Alberta, TriStar was active in the third quarter on these properties drilling a 6 (3.9 net) well program for oil at Countess. This program has successfully extended an additional two of the 24 new pool discoveries that were a part of the original key assets of TriStar. In addition, TriStar has initiated the development of one of the existing light oil pools, which is estimated to contain 10.7 million barrels of OOIP, with the drilling of 3 (1.4 net) development wells to date in 2006. TriStar has secured a farm-in on lands offsetting this discovery which TriStar believes are prospective for further extending this pool.

Third quarter activity at Redwater, Alberta included the interpretation of the recently shot 21 square kilometre 3-D over this high quality, 34° API, 16.4 million barrel OOIP light oil Ellerslie pool. TriStar also completed the Redwater oil battery with full production processing of both oil and gas from the Ellerslie oil pool. TriStar has now received approval on the pool to resume production with Good Production Practice. TriStar expects to drill 6 (6.0 net) oil wells in the fourth quarter, with the first four wells drilled and cased for potential oil production at this time. Initial completion of the first two wells in this program are very promising with initial rates testing between 50 - 150 Boepd per well.

At Ante Creek, located in west central Alberta, drilling has commenced on this exciting, high quality, long life light oil Montney pool. TriStar believes that its lands contain in excess of 100 million barrels 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. The initial well in TriStar's 2006 program was a vertical test, approximately two miles south of the producing pool, that identified an oil column in excess of 18 metres and further helps delineate the pool. The second well into the 2006, 4 (2.7 net) well program is the first horizontal well drilled into this Montney pool. The well was fracture stimulated early in the fourth quarter with encouraging initial results.

Exploration activity for TriStar in the third quarter focused mainly on the Sinclair-Antler area of eastern Saskatchewan and western Manitoba, where a new light oil (38° API) play is emerging in the Devonian Torquay formation. TriStar's exploration land base in this area now exceeds 90 net sections of undeveloped land. During the third quarter TriStar drilled an additional 5 (1.3 net) wells into the Torquay formation with a success rate of 80 percent. Year to date, TriStar has participated in 19 gross wells in the Sinclair-Antler area with a success ratio of 84 percent. A central oil battery has now been completed with 11 wells producing to this facility. Activity for the remainder of 2006 will see the drilling of the first horizontal well into this new pool discovery.

Additional exploration highlights in southeast Saskatchewan include a new pool discovery at Gainsborough in the Mississippian Frobisher beds with the drilling of 1 (0.5 net) horizontal oil well that has commenced production at a rate of 100 Boepd. Delineation of this discovery will commence in early 2007.

Early in the fourth quarter, TriStar completed an acquisition of additional Bakken acreage in the Freestone area to increase its total land exposure to this play to 35 (23.0 net) sections. Fourth quarter activity will see TriStar drill 1 (0.5 net) Bakken horizontal oil well. This acquisition has added more than 20 (10.0 net) Bakken development oil wells to the Company's drilling inventory.

The Company expects to drill 22 (14.6 net) oil wells in the fourth quarter.

## **Outlook; Guidance**

TriStar has completed its most operationally active quarter to date, continuing its successful business strategy of cost effective per share growth in reserves, production and cash flow. The Company has used an integrated approach to growth by executing on highly accretive acquisitions of high quality, operated, light oil and gas reserves and production, exploiting its asset base and pursuing exploration prospects.

Today, as a result of implementing management's focused business strategy, TriStar is well positioned to continue to grow its reserves, production and cash flow per share and has the following key attributes:

- ✓ High Quality Assets: High netback (Q3 operating netback = \$38.87) 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 average working interest
- ✓ Long Life Reserves: 13.6 Mmboe proven plus probable (NI 51-101); >9.4 year RLI
- ✓ High Netback Production: 4,200 Boepd (2006 Estimated Exit)
- ✓ Extensive Drilling Inventory: More than 300 locations – greater than a four year drilling inventory
- ✓ Strong Balance Sheet: Q3 net debt: < \$45 million  
Debt to run rate cash flow ratio of one times
- ✓ Shares Outstanding (post financing): 46.7mm (Basic)  
49.9mm (Fully Diluted)

TriStar anticipates providing guidance for 2007 production in early December following approval of TriStar's 2007 Capital Budget by the Board of Directors.

On behalf of the Board of Directors,



Brett Herman  
President and Chief Executive Officer

November 13, 2006

## Forward-Looking Statements

*This document contains forward-looking statements. More particularly, this document contains statements concerning TriStar's projected annual exit rate of 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.*

*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.*

## Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") is dated November 13, 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 nine months ended September 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, which may include 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. See under "Business Conditions and Risks" in this MD&A and under "Risk Factors" in the Company's Annual Information Form ("AIF") for the year ended December 31, 2005. 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.

## Results of Operations

### Production

	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September 30, 2006
<b>Daily Production</b>			
Crude oil ( <i>Bbls per day</i> )	2,191	1,621	1,699
Natural gas ( <i>Mcf per day</i> )	7,400	4,014	4,525
Total ( <i>Boepd</i> )	3,424	2,290	2,453

For the three months ended September 30, 2006, TriStar averaged 3,424 Boepd as compared to 2,290 Boepd in the second quarter of 2006, a 50 percent increase. Production was comprised of approximately 2,191 Bbls per day of crude oil and NGLs and 7,400 Mcf per day of natural gas. Production in both quarters was affected by shut-in production in its core area of Redwater pending approval of Good Production Practices ("GPP"). GPP approval was received in the third quarter and the shut-in wells were brought back on production. Production averaged 2,453 Boepd for the nine months ended September 30, 2006 comprised of 1,699 Bbls per day of crude oil and NGLs and 4,525 Mcf per day of natural gas.

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

	Three Months Ended September 30, 2006		
Area	Crude Oil <i>Bbls per day</i>	Natural Gas <i>Mcf per day</i>	Total <i>Boepd</i>
Alberta	1,201	7,082	2,381
Saskatchewan	990	318	1,043
Total	2,191	7,400	3,424

During the quarter, the Company drilled 29 (15.7 net) wells resulting in 27 (14.9 net) potential oil wells, 1 (0.5 net) stratigraphic test well, and 1 (0.3 net) dry and abandoned well, achieving a 93 percent success rate.

Year to date the Company has drilled 59 (32.4 net) wells resulting in an overall success rate of 90 percent.

### Pricing

Crude oil prices continued to show sustained strength in the first half of the quarter and then began to drop in the second half of the quarter as WTI averaged US\$70.36 per Bbl and Edmonton mixed sweet averaged \$79.40 per Bbl. Concerns surrounding continuing global instability and concern over crude and refined product inventory eased in August and September, leading to the drops in oil prices.

Natural gas prices averaged \$6.03 per Mcf for AECO daily spot and US\$6.58/Mmbtu for NYMEX daily gas in the quarter. North American gas prices remain volatile as supply and demand dynamics fluctuate.

TriStar's average realized price for its crude oil and NGLs averaged \$70.67 in the quarter while its realized natural gas price was \$5.64 per Mcf.

	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September 30, 2006
<b>Average Benchmark Prices</b>			
Crude oil – WTI ( <i>US\$ per Bbl</i> )	70.36	70.51	68.70
Crude oil – Edmonton Par Price ( <i>\$ per Bbl</i> )	79.40	79.08	76.79
Natural gas – AECO-C Monthly ( <i>\$ per Mcf</i> )	6.03	6.10	6.47
Natural gas – AECO Daily ( <i>\$ per Mcf</i> )	5.67	6.00	6.02
Exchange rate – ( <i>US\$/CDN\$</i> )	0.89	0.89	0.89

## Revenues

For the three months ended September 30, 2006, TriStar recorded \$14.2 million in crude oil sales and \$3.8 million in natural gas sales, prior to the effect of hedging, a 37 percent and 58 percent increase respectively over the second quarter of 2006 when TriStar recorded \$10.4 million of crude oil sales and \$2.4 million of natural gas sales. TriStar recorded \$30.9 million in crude sales and \$7.4 million in natural gas sales, prior to the effect of hedging, for the nine months ended September 30, 2006. In the third quarter of 2006 TriStar's revenue was affected by a gain of \$0.09 million as a result of its hedging program as compared to the second quarter when there was a gain of \$0.04 million. The Company realized the following commodity prices for the three months ended September 30 and June 30, 2006 and nine months ended September 30, 2006, prior to the effect of hedging.

	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September 30, 2006
<b>TriStar Average Realized Prices Prior to Hedging</b>			
Crude oil – ( <i>\$ per Bbl</i> )	70.67	70.19	67.95
Natural gas – ( <i>\$ per Mcf</i> )	5.64	6.35	6.04
Boe – ( <i>\$ per Boe</i> )	57.41	60.82	58.20

<i>(\$ thousands)</i>	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September 30, 2006
<b>Revenues by Product</b>			
Crude oil	14,242	10,353	30,939
Hedging gains	38	-	38
Natural gas	3,842	2,320	7,322
Hedging gains	52	42	94
Total revenues	18,174	12,715	38,393

## Royalty Expenses

Royalties in the quarter ended September 30, 2006 were \$2.8 million or 15.6 percent of revenue as compared to \$2.0 million or 15.7 percent in the second quarter of 2006. For the nine months ended September 30, 2006 royalties were \$6.1 million or 16.0 percent of revenue. Royalties are calculated and paid based on oil and natural gas revenues before any hedging gains or losses. Accordingly, royalty expense is correlated to changes in revenue (prior to the effect of hedging).

## Operating Expenses

Operating expenses were \$3.0 million or \$9.67 per Boe in the quarter ended September 30, 2006 as compared to \$2.1 million or \$10.17 per Boe in the second quarter of 2006. For the nine months ended September 30, 2006, operating expenses were \$6.3 million or \$9.57 per Boe.

## Transportation Expenses

Transportation expenses were \$0.06 million or \$0.19 per Boe in the quarter ended September 30, 2006 as compared to \$0.05 million or \$0.26 per Boe in the second quarter of 2006. For the nine months ended September 30, 2006, transportation expenses were \$0.20 million or \$0.27 per Boe. 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 \$38.87 per Boe for the quarter ended September 30, 2006 as compared to \$41.04 per Boe for the quarter ended June 30, 2006. For the nine months ended September 30, 2006, operating netbacks were \$39.25 per Boe.

### Netbacks

<i>(\$ per Boe, unless otherwise noted)</i>	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September 30, 2006
Total production ( <i>Boepd</i> )	3,424	2,290	2,453
Crude oil and natural gas liquids ( <i>\$/Bbl</i> )	70.67	70.19	67.95
Hedging gains ( <i>\$/Bbl</i> )	0.18	-	0.09
Natural gas ( <i>\$/Mcf</i> )	5.64	6.35	6.04
Hedging gains ( <i>\$/Mcf</i> )	0.08	0.11	0.08
Average Price Prior to Hedging	57.41	60.82	58.20
Hedging gains	0.29	0.20	0.20
Royalties, net	(8.97)	(9.55)	(9.31)
Operating	(9.67)	(10.17)	(9.57)
Transportation	(0.19)	(0.26)	(0.27)
<b>Operating Netback</b>	<b>38.87</b>	<b>41.04</b>	<b>39.25</b>

## General and Administrative Expenses

During the third quarter, general and administrative expenses ("G&A"), net of recoveries, was \$0.7 million or \$2.12 per Boe as compared to the quarter ended June 30, 2006 where G&A was \$0.6 million or \$2.85 per Boe. For the nine months ended September 30, 2006, G&A was \$1.6 million or \$2.47 per Boe.

<i>(\$ thousands)</i>	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September 30, 2006
General and administrative expenses	1,745	1,222	3,835
Recoveries	(508)	(219)	(925)
Capitalized general and administrative expenses	(570)	(410)	(1,290)
<b>Total net general and administrative expenses</b>	<b>667</b>	<b>593</b>	<b>1,620</b>

## Interest Expense

Interest expense was \$0.6 million or \$1.88 per Boe in the quarter as compared to \$0.4 million or \$1.95 per Boe in the quarter ended June 30, 2006. For the nine months ended September 30, 2006, interest expense was \$1.0 million or \$1.58 per Boe.

## Stock-based Compensation

The Company's stock-based compensation expense for the quarter ended September 30, 2006 was \$0.3 million or \$0.89 per Boe as compared to the quarter ended June 30, 2006 of \$0.09 million or \$0.43 per Boe. For the nine months ended September 30, 2006, stock-based compensation was \$0.6 million or \$0.85 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 capitalized asset retirement obligations, is calculated on a unit-of-production basis using estimated proven reserves volumes.

Depletion, depreciation and accretion expense in the quarter ended September 30, 2006 was \$9.0 million or \$28.68 per Boe as compared to the quarter ended June 30, 2006 which was \$6.2 million or \$29.52 per Boe. For the nine months ended September 30, 2006, depletion, depreciation and accretion was \$18.8 million or \$28.63 per Boe.

## Taxes

For the quarter ended September 30, 2006, TriStar recorded a capital tax recovery of \$0.04 million, and a future income tax expense of \$0.6 million as compared to the quarter ended June 30, 2006 when the Company recorded \$0.1 million of capital tax expense and future income tax reduction of \$1.8 million. The capital tax expense is comprised of the Saskatchewan Capital Tax and Resource Surcharge. The future income tax reduction in the second quarter of 2006 arose mainly as a result of reduced federal and provincial corporate tax rates which were substantially enacted in that quarter.

## 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 September 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
Jan. 1, 2007 – Dec. 31, 2008	250	60.00 – 75.00	WTI
Jul. 1, 2007 – Dec. 31, 2007	250	70.00 – 78.00	WTI

The fair value of the oil costless collars at September 30, 2006 was a gain of US\$1.1 million.

### 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
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

The fair value of the natural gas costless collars at September 30, 2006 was a gain of \$0.9 million.

## 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 September 30, 2006, TriStar had \$40.0 million drawn on its demand loan facility with a major Canadian chartered bank and had a working capital deficit of \$4.8 million. At September 30, 2006, the demand loan facility was for \$65.0 million, and was subsequently increased to \$80.0 million. 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 \$21.9 million of capital expenditures as compared to \$102.6 million spent for the three months ended June 30, 2006. TriStar incurred \$292.0 million of capital expenditures for the nine months ended September 30, 2006. The following table details capital expenditures for the quarters ended September 30, 2006 and June 30, 2006, and for the nine months ended September 30, 2006.

### Capital Expenditures

(\$ thousands)	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September 30, 2006
Drilling, development and production equipment	20,188	9,676	38,310
Land and seismic	532	514	1,687
Acquisitions <sup>(1)</sup>	256	90,742	248,830
Other <sup>(2)</sup>	932	1,703	3,126
<b>Total</b>	<b>21,908</b>	<b>102,635</b>	<b>291,953</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 \$0.02 million during the quarter ended September 30, 2006, bringing its balance as of September 30, 2006 to \$37.6 million. The change in the amount recorded in the third quarter as compared to the second quarter relates to adjustments made to the purchase price equations for previous acquisitions.

## Shareholders' Equity

### Share Capital

	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Nine Months Ended September, 2006
<b>Outstanding Common Shares</b>			
Weighted Average Outstanding Common Shares			
Basic	45,966,820	38,326,369	37,255,221
Diluted	47,381,465	39,856,718	38,848,267
Outstanding Securities			
Common Shares	46,719,792	45,029,972	46,719,792
Common Share options	2,085,000	798,500	2,085,000
Performance Shares	2,272,484	2,272,484	2,272,484

## Contractual Obligations

### Bank Facility

TriStar has available an \$80.0 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 September 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>	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006
Production revenue (prior to hedging) <sup>(1)</sup>	18,084	12,673	7,504
Net income (loss)	1,126	2,996	311
Per share – basic	0.02	0.08	0.01
Per share – diluted	0.02	0.08	0.01
Production ( <i>Boepd</i> )	3,424	2,290	1,489
Cash flow from operations <sup>(2)</sup>	11,021	7,426	4,455
Per share – basic	0.24	0.19	0.17
Per share – diluted	0.23	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 September 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 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)

	September 30, 2006	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash	-	-
Accounts receivable	14,256	-
Inventory	1,980	-
Other current assets	2,977	-
	19,213	-
Property and equipment (notes 4, 5 and 6)	273,990	-
Goodwill (notes 4 and 5)	37,618	-
<b>Total assets</b>	<b>330,821</b>	<b>-</b>
<b>Liabilities</b>		
Current liabilities:		
Bank loan (note 7)	40,039	-
Accounts payable and accrued liabilities	24,018	-
	64,057	-
Asset retirement obligations (note 8)	5,739	-
Future income taxes (note 9)	35,910	-
<b>Total liabilities</b>	<b>105,706</b>	<b>-</b>
<b>Shareholders' Equity</b>		
Share capital (notes 4, 5, 9 and 10)	219,704	-
Contributed surplus (note 10)	978	-
Retained earnings	4,433	-
<b>Total shareholders' equity</b>	<b>225,115</b>	<b>-</b>
<b>Total liabilities and shareholders' equity</b>	<b>330,821</b>	<b>-</b>

See accompanying notes to consolidated financial statements.

# TriStar Oil & Gas Ltd.

## Consolidated Statements of Operations and Retained Earnings

(unaudited)

(\$ thousands, except per share amounts)

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006 (note 1)
<b>Revenues</b>		
Petroleum and natural gas sales	18,174	38,393
Royalties	(2,825)	(6,122)
	15,349	32,271
<b>Expenses</b>		
Operating	3,047	6,293
Transportation	62	180
General and administration	667	1,620
Depletion, depreciation and accretion (notes 6 and 8)	9,033	18,824
Stock-based compensation (note 10)	281	562
Interest	593	1,040
	13,683	28,519
Income before taxes	1,666	3,752
Taxes:		
Capital taxes	(41)	236
Future income taxes (note 9)	581	(917)
	540	(681)
<b>Net income</b>	1,126	4,433
Retained earnings, beginning of period	3,307	-
<b>Retained earnings, end of period</b>	4,433	4,433
<b>Earnings per share</b> (note 10)		
Basic	0.02	0.12
Diluted	0.02	0.11
Weighted average number of shares		
Basic	45,966,820	37,255,221
Diluted	47,381,465	38,848,267

See accompanying notes to consolidated financial statements.

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

(\$ thousands)

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006 (note 1)
Cash flows related to the following activities:		
<b>Operating activities</b>		
Net income for the period	1,126	4,433
Depletion, depreciation and accretion	9,033	18,824
Stock-based compensation	281	562
Future income taxes	581	(917)
	11,021	22,902
Change in non-cash working capital	(2,408)	(4,152)
	8,613	18,750
<b>Financing activities</b>		
Issuance of share capital	15,041	77,237
Share issue costs	(877)	(3,457)
Increase (decrease) in bank loan	(8,295)	31,908
	5,869	105,688
<b>Investing activities</b>		
Capital expenditures	(21,652)	(42,912)
Acquisitions, net of cash acquired	(256)	(72,737)
Change in non-cash working capital	7,426	(8,789)
	(14,482)	(124,438)
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 nine months ended September 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 nine month period ended September 30, 2006 includes only results from operations for 268 days, from January 6, 2006 to September 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 nine months ended September 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 nine months ended September 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 nine months ended September 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	995
	<hr/>
	\$ 77,898
<b>Net assets received, at estimated fair value</b>	
Accounts receivable	\$ 2,272
Inventory	1,857
Other current assets	265
Property and equipment	83,104
Goodwill	17,390
Bank loan	(8,130)
Accounts payable and accrued liabilities	(716)
Asset retirement obligations	(727)
Future income taxes	(17,417)
	<hr/>
	\$ 77,898

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 nine months ended September 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	475
	<hr/>
	\$ 54,617
<b>Net assets received, at estimated fair value</b>	
Property and equipment	\$ 75,611
Goodwill	17,027
Bank loan	(19,676)
Working capital	(242)
Asset retirement obligations	(1,037)
Future income taxes	(17,066)
	<hr/>
	\$ 54,617

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	109
	<hr/>
	\$ 21,586
<b>Net assets received, at estimated fair value</b>	
Property and equipment	\$ 22,138
Goodwill	3,201
Working capital	78
Asset retirement obligations	(602)
Future income taxes	(3,229)
	<hr/>
	\$ 21,586

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and nine months ended September 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 September 30, 2006, the property and equipment balances are as follows:

(\$ thousands)

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas	\$ 291,790	\$ (18,580)	\$ 273,210
Administrative assets	854	(74)	780
	\$ 292,644	\$ (18,654)	\$ 273,990

The calculation of the depletion and depreciation expense excludes undeveloped land costs of \$26.3 million. Future development costs of \$4.0 million were included in the depletion calculation.

During the nine months ended September 30, 2006, the Company capitalized \$1.3 million and \$0.4 million of general and administrative costs and gross stock-based compensation expense, respectively, relating to exploration and development activities.

### 7. Bank loan

The Company has an \$80.0 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 \$21.6 million as at September 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 nine months ended September 30, 2006  
(unaudited)

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

(\$ thousands)

	Nine months ended September 30, 2006
Asset retirement obligations, beginning of period	\$ -
Liabilities acquired	5,049
Liabilities incurred	520
Accretion expense	170
	<u>\$ 5,739</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 in the second quarter ended June 30, 2006 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 that quarter. Excluding the effects of this reduction of future tax liabilities, the Company's effective tax rate is 34.1 percent.

As at September 30, 2006, the Company has tax pools of approximately \$158.7 million available to offset future taxable income.

#### Flow-through shares

On August 10, 2006, TriStar issued 1,690,000 flow-through Common Shares at a price of \$8.90 per share for gross proceeds of \$15.0 million. The related tax impact will be recorded when the qualifying expenditures are renounced to shareholders. No qualifying expenditures related to this flow-through share obligation have been renounced as at September 30, 2006.

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.

### 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.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2006  
(unaudited)

(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
Issued for cash: Flow-through shares	1,690,000	15,041
Share issue costs (net of \$1,071 income tax effect)	-	(2,386)
Balance, September 30, 2006	46,719,972	\$ 219,681
<b>Performance Shares</b>		
Issued pursuant to private placement and balance at September 30, 2006 (note 4)	2,272,484	23
Total share capital, September 30, 2006	48,992,456	\$ 219,704

(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.

The following table reconciles stock option plan activity:

	Number of options	Weighted average exercise price (\$)
Balance, December 31, 2005	-	-
Granted	2,085,000	6.96
Balance, September 30, 2006	2,085,000	6.96

(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.

# TriStar Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2006  
(unaudited)

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 \$3.2 million and \$1.4 million, respectively, or \$1.56 per option and \$0.61 per Performance Share.

(f) Contributed surplus

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

(\$ thousands)	
	Nine months ended September 30, 2006
Balance, December 31, 2005	-
Stock-based compensation expense arising from:	
Stock options	411
Performance Shares	567
Balance, September 30, 2006	978

## 11. Supplemental cash flow information

(\$ thousands)

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Income and other taxes paid	\$ -	\$ 93
Interest paid, net of interest income	610	1,044

## 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 Oil & Gas Ltd.

## Notes to Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2006  
(unaudited)

TriStar's financial instruments qualify for hedge accounting, which TriStar has elected to use. The following tables summarize TriStar's hedging relationships as at September 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
Jan. 1, 2007 – Dec. 31, 2008	250	60.00 – 75.00	WTI
Jul. 1, 2007 – Dec. 31, 2007	250	70.00 – 78.00	WTI

The fair value of the oil costless collars at September 30, 2006 was a gain of US\$1.1 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
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

The fair value of the natural gas costless collars at September 30, 2006 was a gain of \$0.9 million.

## Corporate Information

### Directors

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

### Officers

**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

Sroule 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  
[www.olympiatruster.com](http://www.olympiatruster.com)

### **Stock Exchange**

Toronto Stock Exchange  
Trading Symbol "TOG"