

For the three months ended March 31, 2007

TriStar Oil & Gas Ltd. ("TriStar" or the "Company") is pleased to announce its financial and operating results for the three month period ended March 31, 2007.

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 March 31, 2007	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)	20,916	7,503	179
Cash flow from operations <sup>(1)</sup>	11,410	4,455	156
Per share basic	0.23	0.17	35
Per share diluted	0.23	0.16	44
Net earnings	(2,101)	311	(489)
Per share basic	(0.04)	0.01	(300)
Per share diluted	(0.04)	0.01	(300)
Common shares (000's)			
Shares outstanding, end of period (basic)	59,527	35,925	66
Weighted average shares (basic)	49,201	26,942	83
Weighted average shares (fully diluted)	49,201	28,309	77
<b>Operations</b>			
Production			
Crude oil (Bbls per day)	3,016	1,181	155
Natural gas (Mcf per day)	6,632	1,852	258
Barrels of oil equivalent (Boepd, 6:1)	4,121	1,489	177
Average realized price			
Crude oil (\$ per Bbl)	60.47	59.70	1
Natural gas (\$ per Mcf)	7.54	6.96	8
Barrels of oil equivalent (\$ per Boe, 6:1)	56.38	55.98	1
Netback per Boe (6:1) (\$)			
Operating netback	36.02	37.36	(4)
Cashflow netback	30.75	33.24	(7)
Wells Drilled			
Gross	10	11	
Net	8.5	8.0	
Success (%)	100	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) TriStar commenced active operations on January 6, 2006.

## President's Letter to Shareholders

The Company's achievements in its first quarter of 2007 include the following:

- ✓ Production grew to 4,121 Boepd in the first quarter of 2007 from 1,489 Boepd in the first quarter of 2006, representing a year over year increase of 177 percent;
- ✓ Production per share increased by 56 percent over the first quarter of 2006;
- ✓ Cash flow increased to \$11.4 million in the first quarter of 2007 from \$4.5 million in the first quarter, a year over year increase of 156 percent;
- ✓ Cash flow per share increased from \$0.16 per share in the first quarter of 2006 to \$0.23 per share in the current year, a year over year increase of 44 percent;
- ✓ Successfully drilled 10 (8.5 net) wells in the first quarter of 2007 for a 100 percent success rate;
- ✓ Closed the acquisition of a private company in southeast Saskatchewan;
- ✓ Identified, announced and completed (at the end of the quarter) the acquisition of certain assets in the Company's core areas of Ante Creek and Countess in Alberta and in southeast Saskatchewan producing more than 950 Boepd (greater than 60 percent light oil);
- ✓ Increased the Company's bank line to \$115 million from \$80 million;
- ✓ Issued 8.6 million common shares and 1.7 million flow-through common shares for total proceeds of approximately \$50 million; and
- ✓ Revised upward the Company's 2007 exit production estimates to 5,900 Boepd from its previous guidance of 5,200 Boepd.

### Operational Review

During the first quarter of 2007, TriStar drilled a total of 10 (8.5 net) wells, resulting in 5 (3.8 net) oil wells, and 5 (4.8 net) shut in oil wells which are awaiting further completion after spring break up, for an overall success rate of 100 percent.

At Star Valley in southeast Saskatchewan (40 - 100 percent WI), TriStar drilled a successful horizontal Alida program resulting in 2 (2.0 net) oil wells. These wells produce high netback, light oil (33° API) at initial production rates averaging 125 Boepd. This program continues to demonstrate the proven strategy of focusing on large oil in place reservoirs as they consistently out-perform expected recovery factors over time.

Additional drilling results in southeast Saskatchewan in the first quarter included the drilling of 3 (1.8 net) new oil wells into TriStar's Browning and Willmar pools. These pools are both high quality, light oil accumulations which will see continued development in 2007.

In west central Alberta, at TriStar's Ante Creek Montney Pool, the Company successfully drilled 2 (2.0 net) horizontal wells into this long life, light oil pool. These wells encountered good oil and gas shows during the open hole drilling portion of the horizontal leg. TriStar's first Montney horizontal well, which was drilled in 2006, continues to produce oil and gas, but has yet to recover all of the water-based load fluid lost during initial fracturing in October 2006. Recent techniques employed by other operators for horizontal completions in similar Montney reservoirs involve large tonnage, open hole fractures with oil-based fluids. TriStar plans to use a redesigned oil-based frac when it completes the two wells that it drilled in the first quarter. It is expected that these wells will be completed in the third quarter of 2007.

Exploration activity for TriStar in the first quarter of 2007 included the drilling of a new pool wildcat horizontal Bakken oil well. The well was cased and is awaiting fracturing completion later in 2007. This well was part of a nine section farm-in opportunity that TriStar participated in for a 50 percent working interest. The Bakken play in southeast Saskatchewan continues to expand beyond its original boundaries with significant land sale activity and continuous development of the play. TriStar has now accumulated over 118 (42.0 net) Bakken development drilling opportunities (based on four wells per section within two miles of current Bakken production) and continues to expand its current land base which now stands at 34 net sections. Additional drilling of this exciting exploration play in 2007 includes an additional 6 to 8 (3.0 - 4.0 net) Bakken horizontal oil wells which may be expanded as the year progresses.

At Antler in southeast Saskatchewan, the original Devonian Torquay horizontal oil well (which had initial production of 135 Boepd of light oil (40° API) in December 2006) has continued to perform as expected and is currently levelling out at 45 Boepd after five months of production, with less than a 10 percent water cut. With this continued production success, TriStar has plans to drill four additional wells in 2007 on the project. TriStar's exploration land base on this play now exceeds 90 net sections of undeveloped land.

The remaining capital program in 2007 includes the drilling of 61 (39.1 net) oil wells. This focused development drilling program involves net risked capital expenditures of \$45 to \$50 million. Drilling will be concentrated in southeast Saskatchewan with two operated, and up to three non-operated, drilling rigs running through the summer, and in southern and central Alberta where TriStar will drill 16 (11.1 net) oil wells.

TriStar continues to add to its drilling inventory. The Company now has more than 400 development locations on its land base throughout western Canada. This large internal suite of strategically focused drilling opportunities represents greater than a four year drilling inventory. TriStar continues to evaluate opportunities to expand its inventory of locations and to accelerate certain of these opportunities through farm-out arrangements on its large undeveloped land base of more than 225,000 net acres.

## **Outlook; Guidance**

TriStar remains very well positioned to continue to grow the Company's reserves, production and cash flow per share.

TriStar has aggressively grown its reserves, production, and cash flow per share through a combination of identifying, evaluating and consummating accretive acquisitions of high quality, operated, light oil and natural gas reserves and production, exploiting these assets and identifying and pursuing exploration prospects.

During the first quarter of 2007, TriStar was successful in completing three high quality acquisitions, all located in the Company's core areas. These acquisitions were accretive to TriStar's reserves, production and cash flow per share and have expanded TriStar's strong inventory of development drilling prospects. As these acquisitions closed during the quarter (the largest one closing on March 31, 2007), TriStar anticipates capturing the benefits of these acquisitions going forward.

The first quarter drilling program was successful, but was less active than originally anticipated as the industry faced an earlier than expected break-up. A number of wells in southeast Saskatchewan originally planned for the first quarter have been rescheduled for the second and third quarters and the fracture stimulations of the two Ante Creek wells that were drilled in the first quarter have been moved to later this summer. With the delay in capital expenditures, we are pleased to have year round access to our properties and look forward to an active and exciting second half of 2007.

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

- ✓ High Quality Assets: High netback (Q1/07 operating netback = \$36.02) 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: 19.6 Mmboe proven plus probable (NI 51-101); >10 year RLI
- ✓ High Netback Production: 5,150 Boepd (2007 Estimated Average)  
5,900 Boepd (2007 Estimated Exit)
- ✓ Extensive Drilling Inventory: More than 400 locations – greater than a four year drilling inventory
- ✓ Strong Balance Sheet: Q1 net debt: \$77 million (\$115 million bank line)  
Debt to run rate cash flow ratio of just over one time
- ✓ Shares Outstanding (post financing): 59.5mm (Basic)  
60.5mm (Fully Diluted)

On behalf of the Board of Directors,



Brett Herman  
President and Chief Executive Officer

May 14, 2007

## 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 which has been filed on SEDAR and 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 May 14, 2007. 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 month periods ended March 31, 2007 and 2006 and audited financial statements as at and for the periods ended December 31, 2006 and 2005. The reader should be aware that historical results are not necessarily indicative of future performance. Additional information relating to TriStar can be found at [www.sedar.com](http://www.sedar.com).

TriStar commenced commercial operations on January 6, 2006 after the completion of 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"), unless otherwise indicated.

### Non-GAAP Measurements

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 reconciliation between cash flow from operations, as defined above, and cash flow from operations after changes in working capital for the periods ended March 31, 2007 and 2006 is as follows:

<i>(\$ thousands)</i>	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flow from operations (as defined above)	11,410	4,455
Changes in non-cash working capital	(4,450)	(1,311)
Cash flow from operations after changes in working capital	6,960	3,144

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.

### Forward-Looking Statements

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") which has been filed on SEDAR and can be accessed at

www.sedar.com. 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.

## Significant Transactions

### Acquisitions of Assets and Common Share Financing

During March 2007, TriStar completed two acquisitions of certain assets in its core areas of Ante Creek and Countess, Alberta and in southeast Saskatchewan for total cash consideration of approximately \$55.9 million, net of certain closing adjustments.

In conjunction with the acquisitions, the Company issued, on a private placement basis, 8.6 million common shares of TriStar ("Common Shares") for gross aggregate proceeds of approximately \$40.4 million and 1.7 million flow-through Common Shares for gross aggregate proceeds of approximately \$10.2 million.

## Results of Operations

As the primary acquisition announced on March 9, 2007 closed on March 31, 2007, there was minimal effect on TriStar's operations from this acquisition for the three months ended March 31, 2007.

### Production

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
<b>Daily Production</b>		
Crude oil ( <i>Bbls per day</i> )	3,016	1,181
Natural gas ( <i>Mcf per day</i> )	6,632	1,852
Total ( <i>Boepd</i> )	4,121	1,489

For the three months ended March 31, 2007, TriStar averaged 4,121 Boepd as compared to 1,489 Boepd in the first quarter of 2006, a 177 percent increase. Production was comprised of approximately 3,016 Bbls per day of crude oil and NGLs and 6,632 Mcf per day of natural gas.

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

<i>Area</i>	Three Months Ended March 31, 2007		
	<i>Crude Oil Bbls per day</i>	<i>Natural Gas Mcf per day</i>	<i>Total Boepd</i>
Alberta	1,538	6,523	2,625
Saskatchewan	1,478	109	1,496
Total	3,016	6,632	4,121

During the quarter, the Company drilled 10 (8.5 net) wells resulting in 10 (8.5 net) successful oil wells, achieving a 100 percent net success rate.

### Pricing

Crude oil prices dropped sharply at the beginning of the quarter as WTI reached a low of US\$50.48 before recovering to average US\$58.25 per Bbl while Edmonton mixed sweet averaged \$67.86 per Bbl. Continuing global political instability and tight supply/demand fundamentals continue to drive price volatility.

Natural gas prices averaged \$7.37 per Mcf for AECO daily spot and US\$7.16/Mmbtu for NYMEX daily gas in the quarter. North American gas prices were affected by generally mild winter temperatures offset by one of the coldest months of February on record. Natural gas storage levels, although above the five

year average, are lower than last year at this same time and the supply/demand balance continues to be tight causing price volatility.

TriStar's average realized price for its crude oil and NGLs averaged \$60.47 per Bbl in the quarter while its realized natural gas price was \$7.54 per Mcf.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
<b>Average Benchmark Prices</b>		
Crude oil – WTI ( <i>US\$ per Bbl</i> )	58.25	63.35
Crude oil – Edmonton Par Price ( <i>\$ per Bbl</i> )	67.86	69.36
Natural gas – AECO-C Daily Spot ( <i>\$ per Mcf</i> )	7.37	7.47
Exchange rate – ( <i>US\$/CDN\$</i> )	0.85	0.87

## Revenues

For the three months ended March 31, 2007, TriStar recorded \$16.4 million in crude oil sales and \$4.5 million in natural gas sales, a 160 percent and 275 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. The Company realized the following commodity prices for the three months ended March 31, 2007 and March 31, 2006.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
<b>TriStar Average Realized Prices Prior to Hedging</b>		
Crude oil – ( <i>\$ per Bbl</i> )	60.47	59.70
Natural gas – ( <i>\$ per Mcf</i> )	7.54	6.96
Boe – ( <i>\$ per Boe</i> )	56.38	55.98

<i>(\$ thousands)</i>	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
<b>Revenues by Product</b>		
Crude oil	16,415	6,343
Natural gas	4,501	1,160
Total revenues	20,916	7,503

## Royalty Expenses

Royalties in the quarter ended March 31, 2007 were \$4.1 million or 19.6 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 realized hedging gains or losses. Accordingly, royalty expense is directly correlated to changes in revenue (prior to the effect of hedging). The royalty rate in the first quarter of 2007 was affected by the Alberta government's reclassification of a previously acquired well resulting in additional royalties being paid on previous production. It is expected that the Company's royalty rate for the rest of 2007 will average approximately 19 percent as the acquisitions completed in the first quarter of 2007 generally have higher royalty rates than TriStar's base properties.

## Operating Expenses

Operating expenses were \$4.4 million or \$11.81 per Boe in the quarter ended March 31, 2007 as compared to \$1.1 million or \$8.40 per Boe in the first quarter of 2006. Operating expenses in the quarter were affected by pipeline capacity issues in southeast Saskatchewan, TriStar's largest core area. Growing production volumes in the area and incremental imports from other areas have exceeded the capacity of the area's major oil gathering system, Enbridge Pipelines (Saskatchewan). TriStar worked diligently to maintain production in the quarter, and as a result incurred incremental oil emulsion trucking costs in the quarter. TriStar expects that operating costs will be affected intermittently during 2007 as a result of this situation.

## Transportation Expenses

Transportation expenses were \$0.4 million or \$0.97 per Boe in the quarter ended March 31, 2007 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. Transportation of clean oil in the first quarter was also affected by the Enbridge Pipelines (Saskatchewan) issues described above. It is expected that clean oil transportation costs will continue to be affected intermittently during 2007 as a result of this situation.

## Operating Netbacks

Operating netbacks were \$36.02 per Boe for the quarter ended March 31, 2007 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 March 31, 2007	Three Months Ended March 31, 2006
Total production (Boepd)	4,121	1,489
Crude oil and natural gas liquids (\$/Bbl)	60.47	59.70
Natural gas (\$/Mcf)	7.54	6.96
Average Price Prior to Hedging	56.38	55.98
Realized gain/(loss) on financial instruments	3.46	-
Royalties, net	(11.04)	(9.74)
Operating	(11.81)	(8.40)
Transportation	(0.97)	(0.48)
<b>Operating Netback</b>	<b>36.02</b>	<b>37.36</b>

## General and Administrative Expenses

During the first quarter of 2007, general and administrative expenses ("G&A"), net of recoveries, was \$0.9 million (\$2.41 per Boe) as compared to the quarter ended March 31, 2006 where G&A was \$0.4 million or \$2.69 per Boe. With the exception of minor changes when required, management believes that TriStar is adequately staffed to execute its 2007 capital expenditure program. As the acquisitions announced in the first quarter are integrated, it is expected that G&A per Boe will trend down in subsequent quarters.

<i>(\$ thousands)</i>	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
General and administrative expenses	1,848	867
Recoveries	(378)	(198)
Capitalized general and administrative expenses	(576)	(309)
<b>Total net general and administrative expenses</b>	<b>894</b>	<b>360</b>

## Interest Expense

Interest expense was \$0.9 million or \$2.34 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 Company in the quarter as well as rising interest rates.

## Stock-based Compensation

The Company stock-based compensation expense for the quarter ended March 31, 2007 was \$0.4 million or \$1.08 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 March 31, 2007 was \$11.0 million or \$29.69 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 March 31, 2007, TriStar recorded a capital tax expense of \$0.2 million, and a future income tax recovery of \$0.3 million as compared to the quarter ended March 31, 2006 when the Company recorded \$0.2 million of capital tax expense and a future income tax expense of \$0.3 million. The capital tax expense is comprised of the Saskatchewan Capital Tax and Resource Surcharge.

As at March 31, 2007, TriStar had \$174.2 million of tax pools available to offset future taxable income.

## **Net Income (Loss) and Comprehensive Income**

The net loss for the quarter ended March 31, 2007 was \$2.1 million compared to net income of \$0.3 million during the same period in 2006 due primarily to the unrealized loss on financial derivatives recognized in 2007. Basic and diluted net loss per share for the quarter ended March 31, 2007 were \$0.04 per share compared to net income of \$0.01 per share basic and diluted for the same period in 2006.

Other comprehensive income for the quarter ended March 31, 2007 included a charge of \$0.6 million, net of tax, (2006 - nil) relating to the amortization of the amount recognized in accumulated other comprehensive income on January 1, 2007 for the fair value of financial derivatives on adoption of the new accounting standards for financial instruments (refer to the section "Risk Management – Financial Instruments", elsewhere in this MD&A). This resulted in total comprehensive loss of \$2.7 million for the quarter ended March 31, 2007 (2006 - nil).

## **Risk Management – Financial Instruments**

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. The Company's risk management activities are conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors.

On January 1, 2007, the Company adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. In conjunction with the adoption of these new standards, the Company elected not to use hedge accounting for its crude oil and natural gas derivative contracts under its risk management program. As a result, the fair value of the commodity contracts is recognized at each reporting period with the change in the fair value being classified as an unrealized gain or loss on the statement of operations. Also, in accordance with the transitional provisions of the standards, the accounting for hedging relationships for prior periods is not retroactively adjusted; therefore, there has been no restatement of the prior period.

On adoption, the Company recognized a current asset of \$3.0 million for the fair value of its financial derivative contracts and an increase to the future income tax liability and accumulated other comprehensive income of \$0.9 million and \$2.1 million, respectively. The \$2.1 million in accumulated other comprehensive income is amortized through other comprehensive income and unrealized gain or loss on financial derivatives on the statement of operations and other comprehensive income over the term of the contracts. As a result, \$0.6 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial derivatives of \$0.9 million and a charge to future income tax expense of \$0.3 million for the quarter ended March 31, 2007.

At March 31, 2007, the fair value of the financial derivative contracts was a liability of \$0.4 million. The decrease in value from January 1, 2007 to March 31, 2007 of \$3.3 million was due to the increase in forward commodity prices from the date of adoption and the expiration of three months of the Company's current financial contracts. As a result, for the quarter ended March 31, 2007, the Company had a net unrealized loss on its financial derivative contracts of \$3.3 million, partially offset by the \$0.9 million amortized gain from the adoption of the standards on January 1, 2007, for a net unrealized loss of \$2.4 million.

The following tables summarize TriStar's commodity risk management positions as at March 31, 2007:

#### **Oil Costless Collars Contracts**

	<i>Volume (Bbl/d)</i>	<i>Price (\$US/Bbl)</i>	<i>Index</i>
Apr. 1, 2006 – Jun. 30, 2007	250	60.00 – 77.20	WTI
Apr. 1, 2006 – Dec. 31, 2007	250	60.00 – 76.10	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

#### **Oil Swap Contracts**

	<i>Volume (Bbl/d)</i>	<i>Price (per Bbl)</i>	<i>Index</i>
Jan. 1, 2007 – Dec. 31, 2008	250	US\$68.35	WTI
Apr. 1, 2007 – Dec. 31, 2009	250	C\$76.60	C\$WTI
Jan. 1, 2008 – Dec. 31, 2009	250	C\$78.20	C\$WTI

The fair value of the oil costless collars and the swap contracts at March 31, 2007 was a gain of US\$0.4 million.

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

	<i>Volume (GJ/d)</i>	<i>Price (\$/GJ)</i>	<i>Index</i>
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
Nov. 1, 2007 – Mar. 31, 2008	2,000	7.50 – 10.32	AECO Monthly

#### **Natural Gas Swap Contract**

	<i>Volume (GJ/d)</i>	<i>Price (\$/GJ)</i>	<i>Index</i>
Apr. 1, 2007 – Oct. 31, 2007	1,000	7.64	AECO Monthly

The fair value of the natural gas costless collars and the swap contract as at March 31, 2007 was a loss of \$0.8 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 March 31, 2007, TriStar had \$72.7 million drawn on its \$80.0 million demand loan facility with a major Canadian chartered bank. TriStar had a net working capital deficit of \$78.1 million inclusive of a \$1.1 million

unrealized financial instruments loss at March 31, 2007. As at that date, TriStar had met all of its covenants pertaining to this loan agreement and is not required to make any repayments. TriStar's demand loan facility has been subsequently increased to \$115.0 million.

## Capital Expenditures

During the quarter, the Company incurred \$86.4 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 March 31, 2007 and March 31, 2006.

### Capital Expenditures

<i>(\$ thousands)</i>	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Drilling, development and production equipment	15,231	8,446
Land and seismic	473	641
Acquisitions <sup>(1)</sup>	69,699	154,243
Other <sup>(2)</sup>	952	492
<b>Total</b>	<b>86,355</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 \$16.8 million during the quarter ended March 31, 2007, bringing its balance as of March 31, 2007 to \$55.4 million. The increase in the amount recorded in the first quarter primarily relates to the acquisitions completed in the quarter.

## Shareholders' Equity

### Share Capital

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
<b>Outstanding Common Shares</b>		
Weighted Average Outstanding Common Shares		
Basic	49,200,730	26,941,828
Diluted	49,200,730	28,308,612
Outstanding Securities		
Common Shares	59,527,173	35,925,079
Common Share options	2,160,000	130,000
Performance Shares	2,257,484	2,272,484

## Contractual Obligations

### Bank Facility

As at March 31, 2007 the Company had available an \$80.0 million demand credit facility. Subsequent to quarter end, the Company's credit facility was increased to \$115.0 million. The Company is in a position to execute its capital program for the remainder of 2007. 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 March 31, 2007 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 March 31, 2007	Three Months Ended December 31, 2006	Three Months Ended September 30, 2006	Three Months Ended June 30, 2006	Three Months Ended March 31, 2006 <sup>(1)</sup>
Production revenue (prior to hedging)	20,916	18,846	18,084	12,673	7,504
Net income (loss)	(2,101)	1,786	1,126	2,996	311
Per share – basic	(0.04)	0.04	0.02	0.08	0.01
Per share – diluted	(0.04)	0.04	0.02	0.08	0.01
Production (Boepd)	4,121	3,919	3,424	2,290	1,489
Cash flow from operations <sup>(2)</sup>	11,410	10,725	11,021	7,426	4,455
Per share – basic	0.23	0.23	0.24	0.19	0.17
Per share – diluted	0.23	0.22	0.23	0.19	0.16
Cash flow from operating activities <sup>(3)</sup>	6,960	12,626	12,371	8,313	3,144
Per share – basic	0.14	0.27	0.27	0.22	0.12
Per share – diluted	0.14	0.26	0.26	0.21	0.11

(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.

(3) "Cash flow from operating activities" is determined in accordance with GAAP and includes changes in non-cash working capital.

## Newly Adopted Accounting Policies

### Financial Instruments

The following standards regarding financial instruments are effective for January 1, 2007; 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Disclosure and Presentation", 1530 "Comprehensive Income", and 3865 "Hedges". The standards require all financial instruments other than held-to-maturity investments, loans and receivables to be included on a company's balance sheet at their fair value. Held-to-maturity investments, loans and receivables are to be measured at their amortized cost. The standards create a new statement for comprehensive income that includes changes in the fair value of certain financial instruments.

The effect of adopting these new accounting standards is presented in the section "Risk Management – Financial Instruments" elsewhere in this MD&A.

## 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.

### **Disclosure Control Risks**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to its management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded, based on their evaluation of the effectiveness of TriStar's disclosure controls and procedures as of the date of this MD&A, that the Company's disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company. However, the Company's CEO and CFO do not expect that the disclosure controls and procedures can prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **Internal Controls over Financial Reporting**

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting ("ICOFR") or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO have evaluated whether there were changes to ICOFR during the interim period ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's ICOFR. No such changes were identified through their evaluation.

### **Additional Information**

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

**TriStar Oil & Gas Ltd.**  
**Consolidated Balance Sheets**  
(unaudited)

(\$ thousands)

	March 31, 2007	December 31, 2006
<b>Assets</b>		
Current assets		
Accounts receivable	14,281	15,907
Inventory	387	1,788
Other current assets	1,592	2,445
	16,260	20,140
Property and equipment (notes 4, 5)	369,253	293,187
Goodwill (note 4)	55,451	38,647
Fair value of financial instruments (notes 3, 10)	697	-
<b>Total assets</b>	<b>441,661</b>	<b>351,974</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	20,591	28,975
Bank loan (note 6)	72,727	54,411
Fair value of financial instruments (notes 3, 10)	1,074	-
	94,392	83,386
Asset retirement obligations (note 7)	7,867	6,089
Future income taxes	55,888	35,018
<b>Total liabilities</b>	<b>158,147</b>	<b>124,493</b>
<b>Shareholders' Equity</b>		
Share capital (notes 4, 8)	275,667	219,652
Contributed surplus (note 8)	2,285	1,611
Accumulated other comprehensive income (notes 3, 8)	1,445	-
Retained earnings	4,117	6,218
<b>Total shareholders' equity</b>	<b>283,514</b>	<b>227,481</b>
<b>Total liabilities and shareholders' equity</b>	<b>441,661</b>	<b>351,974</b>

See accompanying notes to consolidated financial statements.

# TriStar Oil & Gas Ltd.

## Consolidated Statements of Operations, Comprehensive Income and Retained Earnings

(unaudited)

(\$ thousands, except per share amounts)

	For the Three Months Ended	
	March 31, 2007	March 31, 2006
		(note 1)
<b>Revenues</b>		
Petroleum and natural gas sales	20,916	7,503
Royalties	(4,094)	(1,305)
	16,822	6,198
Realized gain on financial instruments (notes 3, 10)	1,284	-
Unrealized loss on financial instruments (notes 3, 10)	(2,427)	-
	15,679	6,198
<b>Expenses</b>		
Operating	4,382	1,126
Transportation	360	64
General and administration	894	360
Depletion, depreciation and accretion	11,012	3,640
Stock-based compensation	400	192
Interest	867	40
	17,915	5,422
Income (loss) before taxes	(2,236)	776
Taxes		
Capital taxes	193	153
Future income taxes	(328)	312
	(135)	465
<b>Net income (loss)</b>	(2,101)	311
<b>Other comprehensive income</b>		
Amortization of fair value of financial instruments (notes 3, 8)	(641)	-
<b>Comprehensive income (loss)</b>	(2,742)	311
<b>Retained earnings</b>		
Retained earnings, beginning of period	6,218	-
<b>Retained earnings, end of period</b>	4,117	311
<b>Earnings per share (note 8)</b>		
Basic	(0.04)	0.01
Diluted	(0.04)	0.01
Weighted average number of shares (note 8)		
Basic	49,200,730	26,941,828
Diluted	49,200,730	28,308,887

See accompanying notes to consolidated financial statements.

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

(\$ thousands)

	For the Three Months Ended	
	March 31, 2007	March 31, 2006
		(note 1)
<b>Operating activities</b>		
Net income (loss)	(2,101)	311
Unrealized loss on financial instruments	2,427	-
Depletion, depreciation and accretion	11,012	3,640
Stock-based compensation	400	192
Future income taxes	(328)	312
	11,410	4,455
Change in non-cash working capital	(4,450)	(1,311)
	6,960	3,144
<b>Financing activities</b>		
Issuance of share capital	50,620	62,196
Share issue costs	(2,680)	(1,576)
Increase (decrease) in bank loan	16,142	12,402
	64,082	73,022
<b>Investing activities</b>		
Capital expenditures	(16,374)	(9,579)
Acquisitions, net of cash acquired	(56,197)	(49,554)
Change in non-cash working capital	1,529	(17,033)
	(71,042)	(76,166)
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 9)

See accompanying notes to consolidated financial statements.

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (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 a plan of arrangement involving StarPoint Energy Trust, StarPoint Energy Ltd., Acclaim Energy Trust and Acclaim Energy Ltd. to form Canetic Resources Trust and TriStar (the "Canetic Transaction"). Accordingly, the three month period ended March 31, 2006 includes only results from operations for 85 days, from January 6, 2006 to March 31, 2006.

### 2. Principles of consolidation

The interim consolidated financial statements include the accounts of TriStar, TriStar Oil & Gas Partnership, Vortex Energy Corporation and 3249271 Canada Limited. 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, 2006, except for the changes described in note 3. The disclosures provided below are incremental to those included in the Company's annual audited financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2006.

The interim consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The preparation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### 3. Change in accounting policy

On January 1, 2007, the Company adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. In conjunction with the adoption of these new standards, the Company elected not to use hedge accounting for its crude oil and natural gas derivative contracts under its risk management program. As a result, the fair value of the commodity contracts is recognized at each reporting period with the change in the fair value being classified as an unrealized gain or loss on the statement of operations. Also, in accordance with the transitional provisions of the standards, the accounting for hedging relationships for prior periods is not retroactively adjusted; therefore, there has been no restatement of the prior period.

On adoption, the Company recognized an asset of \$3.0 million for the fair value of its financial derivative contracts and an increase to the future income tax liability and accumulated other comprehensive income of \$0.9 million and \$2.1 million, respectively. The \$2.1 million in accumulated other comprehensive income is amortized through other comprehensive income and unrealized gain or loss on financial derivatives in the statement of operations and other comprehensive income over the term of the contracts. As a result, \$0.6 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial derivatives of \$0.9 million and a charge to future income tax expense of \$0.3 million for the three months ended March 31, 2007. The impact of the change in fair value from January 1, 2007 to March 31, 2007 is disclosed in note 10. Certain comparative amounts have been reclassified to conform to the presentation adopted in 2007.

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

### a) Financial Instruments – Recognition and Measurement

The standards require that all financial assets and liabilities, within its scope, be carried at fair value in the consolidated balance sheets, except for: loans and receivables, securities designated as held-to-maturity and non-trading financial liabilities which are carried at amortized cost unless designated as held-for-trading upon initial recognition. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using other valuation techniques and models.

*Held-for-trading* financial assets are purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in earnings.

*Designated fair value* financial assets and financial liabilities are those that were designated on initial recognition as instruments that will be measured at fair value through the consolidated statements of earnings and deficit. These are accounted for in the same manner as held-for-trading financial assets.

*Held-to-maturity* financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These are accounted for at amortized cost. The Company has not designated any financial assets as held-to-maturity.

*Available for sale* financial assets are non-derivative financial assets that are designated as available for sale and include debt and equity securities, including investments with no significant influence that have quoted market values in an active market. These are carried at fair value and any unrealized gains and losses are included in accumulated other comprehensive income until sale or permanent impairment. Equities that do not have a quoted market value in an active market are carried at cost. The Company has not designated any financial assets as available for sale.

*Loans and receivables* continue to be accounted for at amortized cost.

*Financial liabilities* are recorded at amortized cost and include all liabilities, other than derivatives or liabilities to which the fair value option has been applied or those held for trading.

*Derivatives* are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Derivatives may be embedded in other financial instruments, in which case they may be required to be separated and fair valued as separate derivatives. The Company has not identified any material embedded derivatives in any of its financial instruments.

As required, these standards have been applied as an adjustment to either the opening deficit or opening accumulated other comprehensive income and prior periods have not been restated.

### b) Derivatives

The Company has elected to account for its commodity sales contracts and other non-financial contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements, on an accrual basis rather than as non-financial derivatives. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall within the scope of the definition of a financial instrument and were also accounted for on an accrual basis.

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

### c) Other Comprehensive Income

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which, for the Company, relates to changes in gains or losses on derivatives that previously qualified for hedge accounting.

## 4. Business combinations

### Corporate Acquisition

On March 31, 2007, TriStar acquired a company with assets in core areas in Alberta and southeast Saskatchewan for total cash consideration of \$47.7 million, after certain closing adjustments.

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

(\$ thousands)

<b>Consideration</b>	
Cash	\$ 47,394
Transaction costs	350
	<b>\$ 47,744</b>
<b>Net assets received, at estimated fair value</b>	
Property and equipment	\$ 48,587
Goodwill	11,134
Asset retirement obligations	(843)
Future income taxes	(11,134)
	<b>\$ 47,744</b>

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 Private Company Acquisition

On January 11, 2007, TriStar acquired, through a series of transactions with another public company, all of the issued and outstanding common shares of a privately owned Saskatchewan oil and gas company (the "Saskatchewan Private Company"). The results of operations include net revenue from this transaction effective January 12, 2007.

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

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

(\$ thousands)

<b>Consideration</b>	
Common Shares issued	\$ 11,700
Transaction costs	200
	<b>\$ 11,900</b>
<b>Net assets received, at estimated fair value</b>	
Property and equipment	\$ 12,741
Working capital	1,582
Goodwill	5,670
Bank loan	(2,174)
Asset retirement obligations	(249)
Future income taxes	(5,670)
	<b>\$ 11,900</b>

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.

### 5. Property and equipment

The property and equipment balances are as follows:

March 31, 2007

(\$ thousands)

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas	\$ 408,495	\$ (39,917)	\$ 368,578
Administrative assets	841	(166)	675
	<b>\$ 409,336</b>	<b>\$ (40,083)</b>	<b>\$ 369,253</b>

December 31, 2006

(\$ thousands)

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas	\$ 321,500	\$ (29,017)	\$ 292,483
Administrative assets	826	(122)	704
	<b>\$ 322,326</b>	<b>\$ (29,139)</b>	<b>\$ 293,187</b>

The calculation of the depletion and depreciation expense for the three months ended March 31, 2007 excludes unproved property cost of \$57.2 million (2006: \$49.7 million). Future development

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

costs of \$26.7 million (2006: \$23.2 million) were included in the depletion calculation for the three months ended March 31, 2007.

During the three months ended March 31, 2007, the Company capitalized \$0.6 million and \$0.3 million of general and administrative costs and stock-based compensation expense (including tax effect of \$0.2 million), respectively (2006: \$2.0 million and \$1.0 million respectively), relating to exploration and development activities.

### 6. Bank loan

The Company has a \$115.0 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.

The Company's effective interest rate for the period ended March 31, 2007 was 5.2 percent.

### 7. 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 \$34.6 million as at March 31, 2007. 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.

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

(\$ thousands)

	Three months ended	
	March 31, 2007	March 31, 2006
Asset retirement obligations, beginning of period	\$ 6,089	\$ -
Liabilities acquired	1,210	3,866
Liabilities incurred	500	148
Accretion expense	68	39
	<u>\$ 7,867</u>	<u>\$ 4,053</u>

### 8. Shareholders' equity

#### (a) Share capital – authorized

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

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

(b) Share capital – issued and outstanding

(\$ thousands, except share amounts)

	Three months ended March 31, 2007	
	Number of shares	Amount
<b>Common Shares</b>		
Balance, beginning of period	46,719,972	\$ 219,629
Issued on acquisitions	2,500,000	11,700
Issued for cash: flow-through shares	1,700,000	10,200
Issued for cash	8,600,000	40,420
Tax effect on flow-through shares renounced	-	(4,425)
Conversion of performance shares	7,201	9
Share issue costs (net of \$791 tax effect)	-	(1,889)
Balance, end of period	59,527,173	\$ 275,644
<b>Performance Shares</b>		
Balance, beginning of period	2,272,484	\$ 23
Exercised for Common Shares	(15,000)	-
Balance, end of period	2,257,484	\$ 23
Total share capital, end of period	61,784,657	\$ 275,667

(\$ thousands, except share amounts)

	Three months ended March 31, 2006	
	Number of shares	Amount
<b>Common Shares</b>		
Balance, beginning of period	1	\$ -
Issued for cash: private placement	2,727,269	7,500
Issued on acquisitions	23,645,737	82,633
Exercise of warrants	3,871,072	10,645
Issued for cash	5,681,000	44,028
Share issue costs (net of \$850 tax effect)	-	(1,576)
Balance, end of period	35,925,079	\$ 143,230
<b>Performance Shares</b>		
Balance, beginning of period	-	\$ -
Issued for cash: private placement	2,272,484	23
Balance, end of period	2,272,484	\$ 23
Total share capital, end of period	38,197,563	\$ 143,253

(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

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

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:

	Three months ended	
	March 31, 2007	March 31, 2006
Balance, beginning of period	2,090,000	-
Granted	70,000	130,000
Balance, end of period	2,160,000	130,000
Weighted average exercise price	\$ 5.37	\$ 6.86

### (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 average expected life for both the options and the Performance Shares is two years. The risk-free interest rates are 4.10 percent and 3.75 percent, respectively, and the expected volatility is 35 percent. The weighted-average fair value of the options granted during the period is \$1.23 per option.

### (f) Contributed surplus

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

(\$ thousands)

	Three months ended	
	March 31, 2007	March 31, 2006
Balance, beginning of period	\$ 1,611	\$ -
Stock-based compensation expense arising from:		
Stock options	449	4
Performance Shares	108	188
Escrowed shares	126	-
Conversion of Performance Shares	(9)	-
Balance, end of period	\$ 2,285	\$ 192

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

### (g) Accumulated and other comprehensive income

As described in note 3, the adoption of the new accounting policies regarding financial instruments resulted in an amount being recognized in accumulated other comprehensive income for the fair value of the Company's commodity derivative contracts at January 1, 2007. The amount recognized in accumulated other comprehensive income is as follows:

(\$ thousands)

	Three months ended	
	March 31, 2007	March 31, 2006
Balance, January 1, 2007	\$ -	\$ -
Change in accounting policy, net of tax of \$874	2,086	-
Amortization of fair value of financial instruments, net of tax of \$268	(641)	-
Balance, end of period	\$ 1,445	-

### 9. Supplemental cash flow information

(\$ thousands)

	Three months ended	
	March 31, 2007	March 31, 2006
Income and other taxes paid	\$ -	\$ 62
Interest paid, net of interest income	\$ 867	\$ 40

### 10. Financial instruments

The Company's financial instruments recognized on the balance sheet consist of accounts receivable, accounts payable and accrued liabilities, bank debt and derivative commodity contracts. The fair value of these instruments, excluding derivative commodity contracts, approximate their carrying value due to their short terms to maturity or the indexed rate of interest on the bank debt. The fair value of the derivative commodity contracts ("financial derivatives") is recognized on the balance sheet as described below.

#### Financial derivatives

TriStar enters into commodity 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. The Company's risk management activities are conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors.

At March 31, 2007, the following table presents a reconciliation of the change in the unrealized amounts from January 1, 2007 to March 31, 2007:

(\$ thousands)

	Fair value	Total unrealized gain/(loss)
Balance, beginning of period	\$ 2,960	\$ -
Unrealized loss on financial instruments	(3,337)	(3,337)
Amortization of fair value of financial instruments	-	910
Balance, end of period	\$ (377)	\$ (2,427)

# TriStar Oil & Gas Ltd.

## Notes to the Consolidated Financial Statements As at and for the three months ended March 31, 2007 (unaudited)

The total fair value of financial derivatives is classified on the balance sheet as follows, based on the maturity of the underlying instruments:

(\$ thousands)

	Three months ended	
	March 31, 2007	March 31, 2006
Non-current asset	\$ 697	-
Current liability	(1,074)	-
	\$ (377)	\$ -

Commodity contracts outstanding are as follows:

### Oil Costless Collars Contracts

	Volume (Bbl/d)	Price (\$US/Bbl)	Index
Apr. 1, 2006 – Jun. 30, 2007	250	60.00 – 77.20	WTI
Apr. 1, 2006 – Dec. 31, 2007	250	60.00 – 76.10	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

### Oil Swap Contracts

	Volume (Bbl/d)	Price (per Bbl)	Index
Jan. 1, 2007 – Dec. 31, 2008	250	US\$68.35	WTI
Apr. 1, 2007 – Dec. 31, 2009	250	C\$76.60	C\$WTI
Jan. 1, 2008 – Dec. 31, 2009	250	C\$78.20	C\$WTI

### Natural Gas Costless Collars Contracts

	Volume (GJ/d)	Price (\$/GJ)	Index
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
Nov. 1, 2007 – Mar. 31, 2008	2,000	7.50 – 10.32	AECO Monthly

### Natural Gas Swap Contract

	Volume (GJ/d)	Price (\$/GJ)	Index
Apr. 1, 2007 – Oct. 31, 2007	1,000	7.64	AECO Monthly

# 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*

**Filippo Angelini**  
*Controller*

**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  
[www.olympiatrust.com](http://www.olympiatrust.com)

## **Stock Exchange**

Toronto Stock Exchange  
Trading Symbol "TOG"