TRUE energy trust

**TRUE ENERGY ANNOUNCES THIRD QUARTER 2006 RESULTS
AND REACHES 20,000 BOE/D TARGET**

**For Immediate Release**
**TSX: TUI.UN**

Calgary, Alberta, November 9, 2006 – (TSX: TUI.UN) True Energy Trust ("True" or the "Trust") announces the results for the three and nine months ended September 30, 2006. Highlights from the quarter include:

- Average sales volumes for the third quarter were a record 13,248 boe per day. This was a 53% increase over the third quarter of 2005. Sales volumes increased 23% over the second quarter of 2006.
- Closed the acquisition of Prairie Schooner Petroleum Ltd. late in the third quarter, increasing current production to 20,000 boe/d weighted approximately 65% towards natural gas.
- Operating costs for the third quarter of 2006 decreased to $8.58 per boe from $9.58 per boe in the second quarter of 2006.
- General and administrative costs for the third quarter of $2.12 per boe were down 45% from the $3.91 experienced in the second quarter.
- Cash flow from operations * for the third quarter was $23.2 million compared to $16.4 million in the second quarter of 2006. Based on current commodity prices estimated fourth quarter 2006 cash flow from operations * is approximately $40.0 million.
- Late in the third quarter True completed the purchase of a SAGD facility at Kerrobert, Saskatchewan. Implementation of the SAGD on the Kerrobert field over the next nine months will provide a material production impact late in 2007.
- True had a very active drilling and development program in the third quarter of 2006, drilling 40 (31.5 net) working interest wells with a 98% success rate.
- During the fourth quarter, True expects to spend an additional $25 million on further development which will see 35 additional gross wells (18 net) drilled.
- Put in place a new $225 million banking facility effective October 2, 2006.
- Current net debt to cash flow from operations * ratio, excluding convertible debentures, based upon anticipated fourth quarter 2006 cash flow from operations is 1.0 times.
- As at September 30, 2006, True's subsidiaries have tax pools in excess of $430 million that are available to shelter future taxable income. True's exploration and development activities will continue to add to these available tax pools in 2007.
- True maintains a large undeveloped land base of 1.1 million (0.7 million net) acres.
- The distributions as a percentage of cash flow from operations * for the third quarter of 2006 was 90% paid in cash and 69% paid in the form of equity (DRIP). It is anticipated that this ratio will drop as a result of the announced distribution adjustment to $0.18/unit per month and strengthening natural gas prices.

* Refer to note (1) in the highlights section of the third quarter report in respect of the term cash flow from operations.

True's third quarter report is presented below.

## HIGHLIGHTS

| | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| **FINANCIAL** *(unaudited)* | | | | | |
| *(CDN$000s except unit and per unit amounts)* | | | | | |
| Revenue (before royalties and hedging) | | 54,263 | 44,510 | 143,663 | 100,614 |
| Cash flow from operations [1] | | 23,225 | 25,500 | 58,606 | 54,245 |
| Per diluted trust unit [2] | | $0.50 | $1.01 | $1.45 | $2.40 |
| Net earnings | | 1,652 | 6,502 | 17,154 | 10,662 |
| Per diluted trust unit [2] | | $0.04 | $0.26 | $0.43 | $0.47 |
| Distributions paid | | 36,846 | - | 90,767 | - |
| Per unit | | $0.72 | - | $2.16 | - |
| Payout ratio before DRIP [3] [4] | | 85% | - | 144% | - |
| Payout ratio after DRIP [3] [4] | | 48% | - | 87% | - |
| Capital expenditures - cash | | 46,166 | 28,663 | 86,187 | 63,140 |
| Property dispositions | | - | (12) | (24,514) | (12) |
| Corporate acquisitions and other - non-cash | | 436,811 | 626 | 484,767 | 184,835 |
| Total capital expenditures - net | | 482,977 | 29,277 | 546,440 | 247,963 |
| Long-term debt | | 108,890 | - | 108,890 | - |
| Convertible debentures | | 81,379 | - | 81,379 | - |
| Bank debt | | - | 30,152 | - | 30,152 |
| Working capital deficiency | | 55,490 | 14,242 | 55,490 | 14,242 |
| Total net debt | | 245,759 | 44,394 | 245,759 | 44,394 |
| Total assets | | 1,302,418 | 379,041 | 1,302,418 | 379,041 |
| Unitholders' equity | | 778,767 | 214,565 | 778,767 | 214,515 |
| **OPERATING** | | | | | |
| Daily sales volumes | | | | | |
| Crude oil and NGLs | (bbls/d) | 5,648 | 3,093 | 4,602 | 2,707 |
| Natural gas | (mcf/d) | 45,598 | 33,455 | 43,656 | 31,516 |
| Total oil equivalent | (boe/d) | 13,248 | 8,669 | 11,878 | 7,960 |
| Average prices (before transportation) | | | | | |
| Crude oil and NGLs | ($/bbl) | 55.35 | 50.28 | 50.71 | 39.65 |
| Natural gas | ($/mcf) | 6.02 | 9.81 | 6.61 | 8.29 |
| Total oil equivalent | ($/boe) | 44.31 | 55.81 | 43.95 | 46.30 |
| Statistics | | | | | |
| Operating netback | ($/boe) | 23.66 | 33.48 | 23.47 | 27.35 |
| Production expenses | ($/boe) | 8.58 | 7.15 | 8.93 | 6.27 |
| General & administrative [5] | ($/boe) | 2.12 | 0.66 | 2.77 | 1.33 |
| Royalties as a % of sales | | 25% | 26% | 24% | 26% |

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| **TRUST UNITS** | | | | |
| Trust units outstanding | 69,321,703 | 24,590,610 | 69,321,703 | 24,590,610 |
| Trust unit incentive rights outstanding | 5,516,500 | 1,184,542 | 5,516,500 | 1,184,542 |
| Units issuable for exchangeable shares | 272,264 | - | 272,264 | - |
| Units issuable for convertible debentures | 5,390,625 | - | 5,390,625 | - |
| Diluted trust units outstanding | 80,501,092 | 25,775,152 | 80,501,092 | 25,775,152 |
| Diluted weighted average trust units [2] | 45,207,091 | 25,134,043 | 39,821,616 | 22,581,039 |

| | | | | |
|---|---|---|---|---|
| **TRUST UNIT TRADING STATISTICS** | | | | |
| *(CDN$, except volumes) based on intra-day trading [2]* | | | | |
| High | 15.64 | 25.88 | 21.30 | 25.88 |
| Low | 10.32 | 16.00 | 10.32 | 13.60 |
| Close | 10.58 | 23.60 | 10.58 | 23.60 |
| Average daily volume | 364,342 | 260,003 | 328,137 | 176,362 |

*[1] The Management Discussion and Analysis contains the term cash flow from operations, which 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 the Trust's performance. Therefore reference to diluted cash flow from operations or cash flow from operations per trust unit may not be comparable with the calculation of similar measures for other entities. Management uses cash flow from operations to analyze operating performance and leverage and considers cash flow from operations to be a key measure as it demonstrates the Trust's ability to generate the cash necessary to fund future capital investments and to repay debt. The reconciliation between net earnings, cash flow from operations and cash flow from operating activities can be found in the statement of cash flows in the consolidated financial statements. Cash flow from operations per trust unit is calculated using the diluted weighted average number of trust units for the period.*

*[2] Restated for September 30, 2005 to reflect the consolidation of trust units effective November 2, 2005. In computing weighted average diluted earnings per trust unit for the three month period ended September 30, 2006 272,264 (2005: 560,016 after consolidation) trust units were added to the 44,934,827 (2005: 24,574,027 after consolidation) weighted average number of trust units outstanding during the year for the dilutive effect of exchangeable shares. A total of 103,033 (2005: 618,697 after consolidation) trust incentive units and 5,390,625 (2005: nil) trust units issuable pursuant to conversion of convertible debentures were excluded from the calculation of diluted earnings per trust unit for the three month period ended September 30, 2006 as they were not dilutive. To calculate weighted average diluted cash flow from operations for the three month period ended September 30, 2006, a total of $1.8 million for interest accretion expense was added to the numerator and 5,390,625 trust units were added to the denominator for units issuable on conversion of convertible debentures, resulting in diluted weighted average trust units of 50,597,716 under this calculation.*

*In computing weighted average diluted earnings per trust unit for the nine month period ended September 30, 2006 272,264 (2005: 472,497 after consolidation) trust units were added to the 39,549,352 (2005: 22,108,542 after consolidation) weighted average number of trust units outstanding during the year for the dilutive effect of exchangeable shares. A total of 721,377 (2005: 512,851 after consolidation) trust incentive units and 2,132,555 (2005: nil) trust units issuable pursuant to conversion of convertible debentures were excluded from the calculation of diluted earnings per trust unit for the nine month period ended September 30, 2006 as they were not dilutive. To calculate weighted average diluted cash flow from operations for the nine month period ended September 30, 2006, a total of $2.1 million for interest accretion expense was added to the numerator and 2,132,555 trust units were added to the denominator for units issuable on conversion of convertible debentures, resulting in diluted weighted average trust units of 41,954,171 under this calculation.*

*[3] Payout ratio refers to distributions measured as a percentage of cash flow from operating activities including the change in non-cash working capital balances. Previously, the Trust had calculated the payout ratio as distributions divided by cash flow from operations, which excludes the change in non-cash working capital balances. This change in calculation of the payout ratio is consistent with recent staff notices provided by the Canadian Securities Administrators in respect of Income Trusts.*

*[4] DRIP refers to distributions reinvested pursuant to the Premium Distribution™ Reinvestment, Distribution Reinvestment and Optional Trust Unit Purchase Plan.*

*[5] Restated September 30, 2005 to exclude financing charges.*

## REPORT TO UNITHOLDERS

The three months ended September 30, 2006 marks the third full quarter for True operating as an oil and gas energy trust, focused on providing unitholder distributions. The quarterly operational results reflect the Trust's response to the challenges of weaker crude oil and natural gas prices.

Accomplishments for the three and nine months ended September 30, 2006 include:

**Acquisitions**

On June 23, 2006, True completed the acquisition of Shellbridge Oil & Gas, Inc. ("Shellbridge") at a cost of $68.8 million. On September 22, 2006, True completed the acquisition of Prairie Schooner Petroleum Ltd. ("Prairie Schooner") at a cost of $344.4 million.

Late in September 2006, the Trust completed the purchase of a facility in the Kerrobert, Saskatchewan area which will allow the Trust to begin implementation of the SAGD phase of the project. During the next nine months the Trust plans to convert a number of existing wells to steam injectors and drill additional wells that will be used as producing well bores. The facility is currently running at 500 bbls/d of heavy oil production with capacity of approximately 5,000 bbls/d. Also included in the acquisition were lands on which True has identified a number of development and exploration opportunities.

**Liquidity**

At September 30, 2006, True had $103.2 million drawn on a revolving term credit facility, $5.7 million drawn on a demand operating facility, $81.4 million in convertible debentures (liability component) and the balance a net working capital shortfall which resulted in total net debt of $245.8 million. The acquisition of Prairie Schooner added approximately $74 million of additional net debt as at September 30, 2006, which is included in the total net debt of $245.8 million.

On October 2, 2006, the existing $150 million credit facility was replaced by a $225 million facility provided by a Canadian chartered bank, a U.S. bank, a foreign bank and one institutional lender. This leaves approximately $116 million available based upon the new $225 million lending facility.

Following the implementation of the Premium Distribution™ Reinvestment, Distribution Reinvestment and Optional Trust Unit Purchase Plan effective March 27, 2006, participation in the first seven months of the plan averaged approximately 47%. Funds reinvested in the Trust through this plan will be available to fund capital and other expenditures.

At present, True has hedged approximately 30% of current production through to the end of March 2007, with a portion of the existing hedges continuing to the end of June 2007. The AECO natural gas hedges have a weighted average floor of CDN$8.47 per GJ. In addition, True has entered into WTI crude oil puts with a floor of US$70.00 per barrel. True will continue to implement various hedging strategies during 2007 with a focus on maintaining sufficient cash flow to provide a balance between sustainable distributions and funding of True's 2007 capital program.

**Distributions**

Consistent with the distribution strategy outlined earlier in the year the Board of True maintained ten consecutive monthly distributions of $0.24 per unit through to October 16, 2006. In a press release dated October 10, 2006, the Trust announced that the cash distribution for the month of October would be $0.18 per unit, to be paid on November 15, 2006 to all unit-holders of record as of October 27, 2006. This reduction in the monthly distribution to $0.18 per unit was determined to be prudent by the Board to reflect weakening commodity prices, both in the current spot market and in the forward strip prices. The Management and Board of the Trust continually assess distribution levels, in light of commodity prices, to ensure that distributions are sustainable and in line with long-term strategy.

**Drilling**

During the third quarter, True achieved a 98% success rate in the drilling or participation in 40 (31.5 net) wells, resulting in 29 (22.0 net) natural gas wells, 10 (9.0 net) oil wells and 1 (0.5 net) dry hole. True successfully participated in or drilled 11 (5.2 net) wells in Alberta, and 28 (25.8 net) wells in

Saskatchewan. During the first nine months of 2006, True achieved a 99% success rate with the drilling of 76 (51.1 net) wells resulting in 57 (35.1 net) gas wells, 18 (15.4 net) oil wells and 1 (0.5 net) dry hole.

**Production**

Q3 production averaged approximately 13,200 boe/d as compared to 10,700 boe/d in the second quarter of 2006. The increase reflects the inclusion of Shellbridge production for the full quarter and Prairie Schooner production for the last nine days of the quarter and the results from drilling. Current production, based on field estimates, is approximately 20,000 boe/d.

During the fourth quarter of 2006, we will continue to be active on the drilling front and in integrating and optimizing the assets acquired from the recent Prairie Schooner and Shellbridge acquisitions. As we have reached our goal of 20,000 boe/d during the third quarter of 2006, we will begin to set new targets for 2007.

**Government Tax Changes**

On October 31, 2006 the Federal government announced sweeping changes to the Canadian tax system which will, in essence, impose a tax on distributions from the Trust commencing with the 2011 tax year. Although this does provide a four year time period to evaluate these changes it is obvious that it has had a profound impact on the value of securities in the public market.

What is the plan? The first phase will be to remain focused on operations while the proposed changes are being clarified and enacted into legislation. If and when the proposal becomes law, the second phase will be to evaluate the changes that will take place at the beginning of the 2011 tax year. It is much too early in the process to know what changes those are, but I want to reassure unitholders that the Board of Directors and Management will evaluate all options and will seek unitholder input on the final proposed concept.

I would like to assure all unitholders that this is an exceptional trust with outstanding employees, superior assets and a sound financial base.

Paul R. Baay
President & CEO
November 9, 2006

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*November 9, 2006 - The following Management's Discussion and Analysis of financial results as provided by the management of True Energy Trust ("True" or the "Trust") should be read in conjunction with the unaudited interim consolidated financial statements and selected notes for the three and nine months ended September 30, 2006 and 2005 and the audited consolidated financial statements and Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. This commentary is based on information available to, and is dated, November 9, 2006. Additional information relating to True, including True's Annual Information Form for the year ended December 31, 2005, is on SEDAR at www.sedar.com. The financial data presented is in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars, except where indicated otherwise.*

*CONVERSION: The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalence (6 mcf/ bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this report are derived from converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil.*

*NON-GAAP MEASURES: Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of the Trust's performance. Therefore reference to diluted cash flow from operations or cash flow from operations per unit may not be comparable with the calculation of similar measures for other entities. Management uses cash flow from operations to analyze operating performance and leverage and considers cash flow from operations to be a key measure as it demonstrates the Trust's ability to generate the cash necessary to fund future capital investments and to repay debt. The reconciliation between net earnings, cash flow from operations and cash flow from operating activities can be found in the statement of cash flows in the consolidated financial statements. Cash flow from operations per unit is calculated using the diluted weighted average number of units for the period.*

*Management's Discussion and Analysis also contains the term payout ratio which is not a recognized measure under Canadian GAAP. Management uses payout ratio to refer to distributions measured as a percentage of cash flow available for development and acquisition opportunities as well as overall sustainability of distributions. True calculates this measure consistent with recent staff notices provided by the Canadian Securities Administrators in respect of Income Trusts. True's method of calculating this measure may differ from other entities, and accordingly, may not be comparable to the measure used by other trusts or companies.*

*Management's Discussion and Analysis also contains other terms such as net debt and operating netbacks, which are not recognized measures under Canadian GAAP. Management believes these measures are useful supplemental measures of firstly, the total amount of current and long-term debt the Trust has and secondly, the amount of revenues received after royalties and operating costs. Readers are cautioned, however, that these measures should not be construed as an alternative to other terms such as current and long-term debt or net earnings determined in accordance with GAAP as measures of performance. True's method of calculating these measures may differ from other entities, and accordingly, may not be comparable to measures used by other trusts or companies.*

*FORWARD LOOKING STATEMENTS: Certain information herein including management's assessment of future plans and operations, future production estimates and the expected commodity mix, anticipated transportation and operating costs and royalty rates, expected capital expenditures and the method of funding thereof, and, future commodity prices and exchange rate, may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to* *realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. The recovery and reserve estimates of True's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhausted. Additional information on these and other factors that could effect True's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (*www.sedar.com*), at True's website (*www.trueenergytrust.com*). Furthermore, the forward-looking statements contained in this news release are made as at the date of this news release and True does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

*The reader is further cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.*

## Corporate Developments

**Acquisition of Prairie Schooner Petroleum Ltd.**

On September 22, 2006, the Trust completed the acquisition of Prairie Schooner Petroleum Ltd. ("Prairie Schooner") on the basis of 1.22 trust units of True for each outstanding share of Prairie Schooner, pursuant to a plan of arrangement under the Business Corporations Act (Alberta). In total, True issued 25,759,563 trust units to acquire Prairie Schooner.

**Acquisition of Shellbridge Oil & Gas, Inc.**

On June 23, 2006 the Trust completed the acquisition of Shellbridge Oil & Gas, Inc. ("Shellbridge") on the basis of 0.14 trust units of True for each outstanding share of Shellbridge, pursuant to a plan of arrangement under the Business Corporations Act (Alberta). In total, True issued 4,389,366 trust units to acquire Shellbridge.

## Net Earnings and Cash Flow from Operations

True generated cash flow from operations of $23.2 million ($0.50 per diluted unit) for the three months ended September 30, 2006, down 9% from the $25.5 million ($1.01 per diluted unit) for the third quarter of 2005. Cash flow from operations for the nine months ended September 30, 2006 was $58.6 million ($1.45 per diluted unit), up 8% from $54.2 million ($2.40 per diluted unit) generated in the same period of 2005. Cash flow from operations for the third quarter was 42% higher than the $16.3 million generated in the second quarter of 2006. This was a direct result of the increase in production experienced from the second quarter to the third quarter of 2006, which reflects the inclusion of production from the Shellbridge assets for a full quarter and Prairie Schooner assets for the last nine days of the quarter, offset somewhat by the impact of softening oil and gas prices.

True generated earnings of $1.7 million ($0.04 per diluted unit) in the third quarter of 2006 compared to earnings of $6.5 million ($0.26 per diluted unit) in 2005. For the nine month period ended September 30, 2006, earnings were $17.2 million ($0.43 per diluted unit) as compared to $10.7 million ($0.47 per diluted unit) generated over the same period in 2005. The increase in net earnings per unit reflects increased cash flow plus a year to date 2006 future income tax recovery offset by higher depletion, depreciation and accretion charges from the acquisitions in 2005 and 2006, and higher general and administrative, interest and financing charges and unit-based compensation expenses.

**Cash Flow From Operations and Net Earnings**

| *($000s, except per unit amounts)* | Three Months ended September 30, 2006 | 2005 | Nine Months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Cash flow from operations | $ 23,225 | $ 25,500 | $ 58,606 | $ 54,245 |
| Diluted ($/unit)[1] | $ 0.50 | $ 1.01 | $ 1.45 | $ 2.40 |
| Net Earnings | $ 1,652 | $ 6,502 | $ 17,154 | $ 10,662 |
| Diluted ($/unit) [1] | $ 0.04 | $ 0.26 | $ 0.43 | $ 0.47 |

*[1] Restated for September 30, 2005 to reflect consolidation of trust units effective November 2, 2005.*

## Reconciliation of Cash Flow from Operations and Distributions

Distributable cash is determined by aggregating various amounts received, including interest income on notes of subsidiaries and other interest income received or receivable, income generated under net profits interest, royalty, other permitted investments, ARTC and dividends and other distributions on securities of subsidiaries, after deduction of all expenses and liabilities of the Trust. The portion of distributable cash declared payable to unitholders on any distribution date is determined on recommendation of the Board of Directors of True Energy, as administrator of the Trust.

**Reconciliation of Cash Flow from Operations and Distributions**

| *($000s, except per unit amounts)* | Nine Months ended September 30, 2006 |
|---|---|
| Cash flow from operations | $ 58,606 |
| Change in non-cash working capital | 4,375 |
| Cash flow from operating activities | 62,981 |
| Funding from convertible debentures and DRIP | 27,786 |
| Distributions paid | 90,767 |
| Accumulated distributions (post Arrangement), beginning of period | 17,361 |
| Accumulated distributions (post Arrangement), end of period | $ 108,128 |
| Distributions per unit for outstanding units in the period | $ 2.16 |
| Accumulated distributions per unit (post Arrangement), beginning of period | $ 0.48 |
| Accumulated distributions per unit (post Arrangement), end of period | $ 2.64 |

Following the implementation of the Premium Distribution™ Reinvestment, Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") effective March 27, 2006, participation in the first seven months of the plan averaged approximately 47%. Funds reinvested in the Trust through this plan will be available to fund capital and other expenditures.

**Pay Out Ratio**

| *($000s, except per unit amounts)* | Three Months ended September 30, 2006 | 2005 | Nine Months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Cash flow from operations | $ 23,225 | $ 25,500 | $ 58,606 | $ 54,245 |
| Change in non-cash working capital | 20,284 | (1,928) | 4,375 | 1,544 |
| Cash flow from operating activities | 43,509 | 23,572 | 62,981 | 55,789 |
| Distributions paid before DRIP | $ 36,846 | - | $ 90,767 | - |
| DRIP | (15,989) | - | (35,823) | - |
| Distributions after DRIP | $ 20,857 | - | $ 54,944 | - |
| Payout ratio before DRIP | 85% | - | 144% | - |
| Payout ratio after DRIP | 48% | - | 87% | - |

Payout ratio refers to distributions measured as a percentage of cash flow from operating activities including the change in non-cash working capital balances. Previously, the Trust had calculated the payout ratio as distributions divided by cash flow from operations, which excludes the change in non-cash working capital balances. This change in calculation of the payout ratio is consistent with recent staff notices provided by the Canadian Securities Administrators in respect of Income Trusts.

## Sales Volumes

Sales volumes in the three months ended September 30, 2006 averaged 13,248 boe/d, compared to 8,669 boe/d in 2005. This increase was due to a combination of results from drilling activity and the acquisition of TKE in 2005, Shellbridge effective June 23, 2006 and Prairie Schooner effective September 22, 2006. In the third quarter of 2006, average sales volumes increased 23% from the second quarter of 2006. The increase reflects the inclusion of Shellbridge production for the full quarter and Prairie Schooner production for the last nine days of the quarter, as well as the increased production from the Kerrobert SAGD heavy oil facility acquired at the beginning of September. In addition, the second quarter of 2006 included normal down time in the Saskatchewan properties due to spring break up conditions. Current production, based on field estimates, is 20,000 boe/d. The fourth quarter of 2006 will see the further utilization of the newly acquired Kerrobert SAGD facility. True currently has 15 (8.3 net) Alberta wells and 4 (2.5 net) Saskatchewan wells remaining to be tied-in. In the first nine months of 2006, average daily sales were 11,878 boe/d, up 49% from 7,960 boe/d for the same period in 2005.

During the third quarter of 2006, the weighting toward natural gas production averaged 57%, compared to 64% in the same period of 2005. Heavy oil sales volumes made up 31% of total production in the third quarter of 2006 compared to 26% for the same period in 2005. This increase in heavy oil weighting for the third quarter of 2006 was due to the addition of primarily heavy oil weighted assets from Shellbridge at the end of the second quarter of 2006.

The Trust anticipates that with the recent addition of natural gas volumes from Prairie Schooner that natural gas for the fourth quarter will be approximately 65% of total sales.

**Sales Volumes**

| | | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|---|
| Natural gas | *(mcf/d)* | 45,598 | 33,455 | 43,656 | 31,516 |
| Heavy oil | *(bbls/d)* | 4,557 | 2,112 | 3,127 | 2,010 |
| Light oil and condensate | *(bbls/d)* | 834 | 641 | 1,200 | 433 |
| NGLs | *(bbls/d)* | 257 | 340 | 275 | 264 |
| Total crude oil and NGLs | *(bbls/d)* | 5,648 | 3,093 | 4,602 | 2,707 |
| Total BOE/d | *(6:1)* | 13,248 | 8,669 | 11,878 | 7,960 |

Sales of natural gas averaged 45.6 mmcf/d during the third quarter of 2006, compared to 33.5 mmcf/d in the third quarter of 2005. In comparison, during the second quarter of 2006, natural gas sales averaged 42.3 mmcf/d.

Crude oil and natural gas liquids sales for the three months ended September 30, 2006 averaged 5,648 bbls/d, up 83% from third quarter 2005 average sales of 3,093 bbls/d. Similarly, crude oil and natural gas liquids sales were up 62% to 4,602 bbls/d for the first nine months of 2006, compared to 2,707 bbls/d for the first nine months of 2005. Heavy oil sales for the three months ended September 30, 2006 were 4,557 bbls/d compared to 2,112 bbls/d in the third quarter of 2005. Most of the increase in heavy oil sales volumes over the comparable prior period was due to the acquisition of Shellbridge in June 2006 and increased drilling activity. In comparison, during the second quarter of 2006, heavy oil sales averaged 2,232 bbls/d. The increase in heavy oil volumes from the second quarter to the third quarter is consistent with the acquisition of Shellbridge and spring break-up conditions experienced in the second quarter.

## Commodity Prices

The impact of changes in the Canadian dollar from the conversion of US$ based commodities prices reduced profitability during the first nine months of 2006 when compared to the same period in 2005. The Canadian/U.S. exchange rate changed 7% from an average of 0.8174 in 2005 to 0.8830 in 2006.

**Average Commodity Prices (prior to hedging)**

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | % Change | 2006 | 2005 | % Change |
| Exchange rate *(US$/Cdn$)* | 0.8921 | 0.8322 | 7 | 0.8830 | 0.8174 | 7 |
| NYMEX *(US$/mmbtu)* | 6.17 | 9.73 | (37) | 6.91 | 7.75 | (11) |
| Alberta spot *($/mcf)* | 5.33 | 9.24 | (42) | 6.04 | 7.75 | (22) |
| True's average price (*$/mcf)* | 6.02 | 9.81 | (39) | 6.61 | 8.29 | (20) |
| WTI *(US$/bbl)* | 70.63 | 63.18 | 12 | 68.24 | 55.46 | 23 |
| Edmonton par – light oil ($/bbl) | 79.73 | 77.02 | 4 | 76.06 | 68.41 | 11 |
| Bow River – heavy oil *($/bbl)* | 51.64 | 52.64 | (2) | 45.18 | 44.20 | 2 |
| True's average prices *($/bbl)* | | | | | | |
| Light crude and condensate | 75.45 | 68.83 | 10 | 66.12 | 64.53 | 2 |
| NGLs | 50.98 | 54.54 | (7) | 52.68 | 50.44 | 4 |
| Light crude oil, condensate, and NGLs | 69.68 | 63.88 | 9 | 63.61 | 59.18 | 7 |
| Heavy crude oil | 51.92 | 43.96 | 18 | 44.62 | 32.87 | 36 |
| Total crude oil and NGLs | 55.35 | 50.28 | 10 | 50.71 | 39.65 | 28 |

True's natural gas is primarily sold on the daily spot market. During the third quarter of 2006, the Alberta Spot reference price decreased by 42% compared to 2005. Similarly over this same time frame, True's average sales price before transportation averaged $6.02/mcf for its natural gas, 39% less than the $9.81/mcf received in the prior year. In comparison, True's average sales price before transportation averaged $5.98/mcf for the second quarter of 2006.

For heavy crude oil, True received an average price before transportation of $51.92/bbl during the third quarter of 2006, 18% more than in 2005, while the average reference price for Bow River crude was 2% lower in 2006 for the same period. The Trust blends most of its heavy oil with condensate on a 4:1 ratio to meet pipeline specifications. As True's heavy oil is heavier than Bow River, the reduction in the heavy oil differential during the third quarter combined with lower comparative prices for condensate purchased for blending purposes have resulted in a relatively stronger price gain for the Trust's product than the reference price.

For light oil, condensate and NGLs, True recorded an average $69.68/bbl during the third quarter of 2006, 9% higher than the average price received in 2005. The average Edmonton par price was 4% higher during the third quarter of 2006 compared to 2005.

## Revenue

Revenue before other income and hedging for the three months ended September 30, 2006 was $54.0 million, 21% greater than the $44.5 million generated in the same period in 2005. The higher revenue was the result of significant growth in production volumes for both natural gas and heavy crude oil, despite lower overall crude oil and natural gas prices. In comparison, revenue before other income and hedging for the third quarter of 2006 was 28% higher than second quarter 2006 revenue of $42.1 million.

**Revenue**

| *($000s)* | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Light crude oil and condensate | 5,787 | 4,062 | 21,655 | 7,625 |
| NGLs | 1,207 | 1,708 | 3,956 | 3,644 |
| Heavy oil | 21,768 | 8,540 | 38,098 | 18,040 |
| Crude oil and NGLs | 28,762 | 14,310 | 63,709 | 29,309 |
| Natural gas | 25,241 | 30,200 | 78,816 | 71,305 |
| Total revenue before other | 54,003 | 44,510 | 142,525 | 100,614 |
| Other | 260 | - | 1,138 | - |
| Total revenue before hedging | 54,263 | 44,510 | 143,663 | 100,614 |
| Gain (loss) on commodity contracts | (188) | - | (461) | - |
| Total | 54,075 | 44,510 | 143,202 | 100,614 |

## Derivative Instruments

The Trust has a formal risk management policy which permits management to use specified price risk management strategies for up to 50% of crude oil, natural gas and NGL production including: fixed price contracts, costless collars; the purchase of floor price options and other derivative financial instruments to reduce the impact of price volatility and ensure minimum prices for a maximum of eighteen months beyond the current date. The program is designed to provide price protection on a portion of the Trust's future production in the event of adverse commodity price movement, while retaining significant exposure to upside price movements. By doing this, the Trust seeks to provide a measure of stability to cash distributions, as well as, to ensure True realizes positive economic returns from its capital developments and acquisition activities.

Pursuant to the agreement between the Trust and Prairie Schooner entered into in connection with the acquisition of Prairie Schooner each of Prairie Schooner and True agreed to hedge up to 30% of the current production during the winter on a mutually agreed basis. On July 26, 2006, True entered into various oil and natural gas put options and later assumed contracts from the Prairie Schooner acquisition. As at September 30, 2006, the Trust has hedged 2,000 bbl/d of crude oil and liquids and 25,327 GJ/d of natural gas for the fourth quarter of 2006. In 2007, hedged volumes are 1,800 bbl/d of crude oil and liquids and 26,000 GJ/d of natural gas for the first quarter; and 1,000 bbls/d of crude oil and liquids for the second quarter. No commodity hedges currently extend beyond June 30, 2007. The Trust will continue to implement various hedging strategies during 2007 with a focus on maintaining sufficient cash flow to provide a balance between sustainable distributions and funding of True's 2007 capital program. A summary of the hedge volumes and average prices by quarter is shown in the following tables (see Note 14 to the interim consolidated financial statements for a detailed disclosure of all commodity contracts currently in place):

| **Crude oil and liquids** | **Average Volumes (bbls/d)** Q4 2006 | Q1 2007 | Q2 2007 |
|---|---|---|---|
| Costless collars | 2,000 | - | - |
| Put option (price floor) | - | 1,800 | 1,000 |
| Total bbls/d | 2,000 | 1,800 | 1,000 |

| | **Average Price (US$/bbl WTI)** Q4 2006 | Q1 2007 | Q2 2007 |
|---|---|---|---|
| Collar ceiling price | 69.35 | - | - |
| Collar floor price | 58.00 | - | - |
| Put option price floor | - | 70.00 | 70.00 |

| **Natural gas** | **Average Volumes (GJ/d)** | | |
|---|---|---|---|
| | Q4 2006 | Q1 2007 | Q2 2007 |
| Costless collars | 5,978 | 8,000 | - |
| Put option (price floor) | 11,989 | 13,000 | - |
| FIxed | 7,360 | 5,000 | - |
| Total GJ/d | 25,327 | 26,000 | - |

| | **Average Price ($/GJ AECO C)** | | |
|---|---|---|---|
| | Q4 2006 | Q1 2007 | Q2 2007 |
| Collar ceiling price | 10.72 | 10.71 | - |
| Collar floor price | 8.72 | 8.63 | - |
| Put option price floor | 8.00 | 8.00 | - |
| Fixed | 9.08 | 9.42 | - |

The following is a summary of the gain (loss) on commodity contracts for the three and nine month periods ended September 30, 2006 and 2005:

**Commodity contracts**

| *($000s)* | Crude Oil & Liquids | Natural Gas | Q3 2006 Total | Q3 2005 Total |
|---|---|---|---|---|
| Realized cash gain (loss) on contracts (1) | (616) | 428 | (188) | - |
| Unrealized gain (loss) on contracts | - | - | - | - |
| Total gain (loss) on commodity contracts | (616) | 428 | (188) | - |

| *($000s)* | Crude Oil & Liquids | Natural Gas | YTD 2006 Total | YTD 2005 Total |
|---|---|---|---|---|
| Realized cash gain (loss) on contracts (1) | (889) | 428 | (461) | - |
| Unrealized gain (loss) on contracts | - | - | - | - |
| Total gain (loss) on commodity contracts | (889) | 428 | (461) | - |

(1) includes the amortization of natural gas put option premiums of $0.4 million for the three and nine month periods ended September 30, 2006.

All of the existing contracts require monthly settlement and have been designated as hedges in accordance with Accounting Guideline 13 of Canadian accounting standards. Further, the estimated fair value of open hedging contracts at the end of each reporting period is disclosed in accordance with this standard. As at September 30, 2006, the mark to market gain on the commodity contracts, which changes on a daily basis, was $7.8 million.

## Royalties

For the three months ending September 30, 2006, total royalties were $13.0 million, 17% more than the $11.1 million incurred in the same period in 2005. Similarly, total royalties for the nine months ended September 30, 2006 were $33.3 million, up 31% from 2005, higher than the 21% increase in year to date sales revenue. Royalties as a percentage of revenue (after transportation costs) in the nine months ended September 30, 2006 varied in the 19% to 26% range, reflecting gas cost allowance credits received and the relative commodity price changes combined with the lower overall royalty rate on the TKE asset base.

**Royalties, by Commodity Type**

| ($000s) | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Light crude oil and condensate | 1,596 | 580 | 3,988 | 1,282 |
| NGLs | 241 | 319 | 860 | 660 |
| Heavy oil | 5,738 | 2,204 | 9,350 | 3,740 |
| Natural gas | 5,450 | 8,060 | 19,125 | 19,660 |
| Total | 13,025 | 11,163 | 33,323 | 25,342 |

**Royalties, as a % of Commodity Revenue (after transportation costs)**

| | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Light crude oil and condensate | 28 | 14 | 19 | 17 |
| NGLs | 20 | 19 | 22 | 18 |
| Heavy oil | 28 | 27 | 26 | 22 |
| Natural gas | 22 | 27 | 25 | 28 |
| Average total | 25 | 26 | 24 | 26 |

**Royalties, by Type**

| ($000s) | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Crown royalties, net of ARTC | 5,213 | 7,992 | 18,107 | 18,194 |
| Indian Oil and Gas Canada royalties | 972 | - | 2,385 | - |
| Freehold & GORR | 6,840 | 3,171 | 12,831 | 7,148 |
| Total | 13,025 | 11,163 | 33,323 | 25,342 |

## Expenses

| ($000s) | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Production | 10,458 | 5,700 | 28,946 | 13,620 |
| Transportation | 1,682 | 941 | 4,145 | 2,215 |
| General and administrative | 2,583 | 524 | 8,990 | 2,896 |
| Interest and financing charges | 2,793 | 276 | 6,403 | 908 |
| Unit-based compensation | 1,824 | 480 | 4,875 | 1,128 |

**Expenses per boe**

| ($ per boe) | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Production | 8.58 | 7.15 | 8.93 | 6.27 |
| Transportation | 1.38 | 1.18 | 1.28 | 1.01 |
| General and administrative | 2.12 | 0.66 | 2.77 | 1.33 |
| Interest and financing charges | 2.29 | 0.35 | 1.97 | 0.42 |
| Unit-based compensation | 1.50 | 0.60 | 1.50 | 0.52 |

## Production Expenses

For the three months ended September 30, 2006, operating costs totalled $10.5 million, compared to $5.7 million recorded in the same period of 2005. During the third quarter of 2006, operating costs averaged $8.58/boe, compared to $7.15/boe in the third quarter of 2005. In comparison, operating costs during the second quarter of 2006 averaged $9.58/boe. The decrease from the second quarter to the third quarter is consistent with normal spring break up conditions (lower volumes and some increased costs) experienced in the second quarter. Production expenses have averaged $8.93/boe in the first nine months of 2006 compared to $6.27/boe for the same period in 2005. The increase in production costs from 2005 to 2006 periods is largely due to a different property mix along with inflationary pressure.

**Production Expenses, by Commodity Type**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s)* | 2006 | 2005 | 2006 | 2005 |
| Light crude oil and condensate | 776 | 610 | 4,426 | 1,084 |
| NGLs | 76 | 173 | 795 | 312 |
| Heavy oil | 3,453 | 1,126 | 7,354 | 3,573 |
| Natural gas | 6,153 | 3,791 | 16,371 | 8,651 |
| Total | 10,458 | 5,700 | 28,946 | 13,620 |

**Production Expenses per Unit, by Commodity Type**

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| Light crude oil and condensate | *($/bbl)* | 10.12 | 10.34 | 13.52 | 9.17 |
| NGLs | *($/bbl)* | 3.21 | 5.50 | 10.59 | 4.31 |
| Heavy oil | *($ bbl)* | 8.23 | 5.79 | 8.61 | 6.51 |
| Natural gas | *($/mcf)* | 1.47 | 1.23 | 1.37 | 1.01 |
| Total | *($/boe)* | 8.58 | 7.15 | 8.93 | 6.27 |

## Transportation

Transportation costs continue to be approximately 2% to 3% of gross revenues for the three and nine months ending September 30, for 2006 and 2005.

## Operating Netbacks

Field operating netbacks for natural gas during the third quarter of 2006 were $3.12/mcf, a decrease from $5.78/mcf for the same period in 2005, reflecting the weaker natural gas prices experienced. Field operating netbacks for natural gas in the third quarter of 2006 increased from $2.89/mcf experienced in the second quarter of 2006 due to decreases in royalties.

**Field Operating Netbacks - Natural Gas**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($/mcf)* | 2006 | 2005 | 2006 | 2005 |
| Sales | 6.02 | 9.81 | 6.61 | 8.29 |
| Transportation | (0.13) | (0.18) | (0.16) | (0.16) |
| Royalties | (1.30) | (2.62) | (1.60) | (2.29) |
| Production expense | (1.47) | (1.23) | (1.37) | (1.01) |
| Field operating netback | 3.12 | 5.78 | 3.48 | 4.83 |

Field operating netbacks for crude oil and NGLs averaged $30.32/bbl during the third quarter of 2006, down 3% compared to $31.35/bbl in 2005, compared to a 10% increase in crude oil and NGLs sales price quarter over quarter. The increases in netback expenses for the quarter exceeded the increase in sales price for the quarter. In comparison, field operating netbacks for crude oil and NGLs in the third quarter of 2006 decreased from $31.58/bbl in the second quarter of 2006 due primarily to the decrease in pricing, partially offset by reductions in per boe royalties and production expenses.

**Field Operating Netbacks - Crude Oil and NGLs**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($/bbl)* | 2006 | 2005 | 2006 | 2005 |
| Sales | 55.35 | 50.28 | 50.71 | 39.65 |
| Transportation | (2.17) | (1.32) | (1.77) | (1.04) |
| Royalties | (14.58) | (10.90) | (11.30) | (7.69) |
| Production expense | (8.28) | (6.71) | (10.01) | (6.72) |
| Field operating netback | 30.32 | 31.35 | 27.63 | 24.20 |

During the third quarter of 2006, corporate field operating netbacks decreased by 29% to $23.66/boe from $33.48/boe for the same period in 2005, primarily resulting from the weaker natural gas prices, increased production expenses and offset somewhat by increased prices for crude oil and NGLs.

**Field Operating Netbacks - Corporate**

| *($/boe)* | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Sales | 44.31 | 55.81 | 43.95 | 46.30 |
| Transportation | (1.38) | (1.18) | (1.28) | (1.02) |
| Royalties | (10.69) | (14.00) | (10.27) | (11.66) |
| Production expense | (8.58) | (7.15) | (8.93) | (6.27) |
| Field operating netback | 23.66 | 33.48 | 23.47 | 27.35 |

## General and Administrative

General and administrative net expenses for the three months ended September 30, 2006 were $2.6 million compared to $0.5 million for the same period in 2005. For the first nine months of 2006, net general and administrative charges were $9.0 million compared to $2.9 million for the same period in 2005. The increase during the first nine months of 2006 is attributed to higher costs incurred for reserve reporting, audit costs, annual reporting charges for preparation and mailing, recruiting, annual registration, securities filing fees, internal control compliance and employee cash compensation. The most significant increase in G&A expenses was due to increased staff levels and higher compensation costs. As a result of unprecedented levels of activity for the Trust and for the industry as a whole, the costs associated with hiring, compensating and retaining employees and consultants have risen.

Costs for 2005 have been restated to exclude unit-based compensation and financing charges.

**General and Administrative Costs**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s, except where noted)* | 2006 | 2005 | 2006 | 2005 |
| Gross costs | 3,500 | 1,706 | 12,430 | 6,585 |
| Capitalized | (562) | (452) | (1,984) | (2,069) |
| Recoveries | (355) | (730) | (1,456) | (1,620) |
| Net costs | 2,583 | 524 | 8,990 | 2,896 |
| Net costs, per unit ($/boe) | 2.12 | 0.66 | 2.77 | 1.33 |

## Interest and Financing Charges

True recorded $2.8 million of interest and financing charges in the third quarter of 2006 compared to $0.3 million in the same period of 2005. Financing charges during the third quarter of 2006 were $0.2 million, with the balance being interest charges. For the nine month period ended September 30, 2006 interest and financing charges were $6.4 million, up from $0.9 million in the first nine months of 2005. True's net debt at the end of the third quarter of 2006 of $245.8 reflects the convertible debentures of $86.25 million issued in the second quarter (including $81.4 million recorded as the liability component at September 30, 2006), $108.9 million of bank debt and the balance a working capital shortfall. The acquisition of Prairie Schooner near the end of the third quarter represents approximately $74 million of additional net debt as at September 30, 2006, with only nine days of activity included in the quarter and year-to-date results. Based upon current commodity prices, True estimates that cash flows from operations for the fourth quarter will be approximately $40 million; the net to debt cash flow from operations ratio (including convertible debentures) based upon anticipated and annualized fourth quarter cash flow from operations is 1.5 times.

**Interest and Financing Charges**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *($000s, except where noted)* | 2006 | 2005 [(1)] | 2006 | 2005 [(1)] |
| Interest and financing charges | 2,793 | 276 | 6,403 | 908 |
| Interest and financing charges *($/boe)* | 2.29 | 0.34 | 1.97 | 0.41 |
| Net debt including convertible debentures at quarter end | 245,759 | 44,394 | 245,759 | 44,394 |
| Debt to periods cash flow from operations ratio annualized | 2.6x | 0.4x | 3.1x | 0.4x |
| Net debt excluding convertible debentures at quarter end | 164,380 | 44,394 | 164,380 | 44,394 |
| Debt to periods cash flow from operations ratio annualized | 1.8x | 0.4x | 2.1x | 0.4x |

*(1) restated to include financing charges*

## Unit-Based Compensation

Non-cash unit-based compensation expense for the three and nine month periods ended September 30, 2006 was $1.8 million and $4.9 million, respectively, compared to $0.5 million and $1.1 million for the same three and nine month periods in 2005. The increase in 2006 expense for both the three and nine month periods reflects the increased staffing levels of True given its conversion to a trust, additional acquisitions in 2006 and increased production activities requiring appropriate levels of support staff.

## Capital Expenditures

True invested $46.2 million on capital projects in the third quarter of 2006, before corporate acquisitions, compared to $28.7 million in 2005. During this period, True achieved a 98% success rate in the drilling or participation in 40 (31.5 net) wells, resulting in 29 (22.0 net) natural gas wells, 10 (9.0 net) oil wells and 1 (0.5 net) dry hole. True successfully participated in or drilled 11 (5.2 net) wells in Alberta, and 28 (25.8 net) wells in Saskatchewan. On September 22, 2006, True completed the acquisition of Prairie Schooner at a total cost of $344.4 million as disclosed in note 3a of the financial statements.

**Capital Expenditures**

| ($000s) | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Lease acquisitions and retention | 1,694 | 1,995 | 4,226 | 6,501 |
| Geological and geophysical | 736 | 242 | 1,597 | 1,567 |
| Drilling and completion costs | 19,055 | 23,687 | 49,062 | 45,018 |
| Facilities and equipment | 11,953 | 2,700 | 18,382 | 9,860 |
| Exploration and development | 33,438 | 28,624 | 73,267 | 62,946 |
| Corporate and property acquisitions | 12,728 | 39 | 12,920 | 194 |
| Total capital expenditures - cash | 46,166 | 28,663 | 86,187 | 63,140 |
| Property dispositions | - | (12) | (24,514) | (12) |
| Total net capital expenditures - cash | 46,166 | 28,651 | 61,673 | 63,128 |
| Corporate acquisitions – non-cash | 435,346 | - | 482,875 | 183,744 |
| Other (1) | 1,465 | 626 | 1,892 | 1,091 |
| Corporate acquisitions and other | 436,811 | 626 | 484,767 | 184,835 |
| Total capital expenditures | 482,977 | 29,277 | 546,440 | 247,963 |

(1) Other includes current period's asset retirement obligations and unit based compensation capitalized.

True continues to develop its land base. At September 30, 2006, True has approximately 704,000 net undeveloped acres of land of the total net acreage position of 1,105,000 net acres in Saskatchewan, Alberta, and British Columbia. The addition of Prairie Schooner added approximately 257,000 net acres to the Trust's undeveloped land position.

By the end of the third quarter of 2006, True had committed to drill a total of 2 wells in Alberta and 1 well in Saskatchewan with varying commitment dates up to the end of March 2007 pursuant to various farm-in agreements with oil and gas companies. True expects to satisfy these various drilling commitments at an estimated cost for True's interest of approximately $1.9 million.

Corporate and property acquisitions during the third quarter of 2006 consist primarily of the acquisition of the Kerrobert, Saskatchewan SAGD heavy oil facility and wells at the end of September 2006.

## Ceiling Test

The Trust calculates a ceiling test quarterly and annually whereby the carrying value of petroleum and natural gas properties is compared to estimated future cash flow from the production of proved reserves. The ceiling test is performed in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") AcG-16 "Oil and Gas Accounting – Full Cost", a two step process. The Trust performed a ceiling test calculation at September 30, 2006 resulting in undiscounted cash flows from proved reserves and the lower of cost and market of unproved properties not exceeding the carrying value of oil and gas assets. Consequently, True performed stage two of the ceiling test assessing whether discounted future cash flows from the production of proved plus probable reserves and the lower of costs and market of unproved properties exceed the carrying value of oil and gas assets. No impairment in oil and gas assets was identified.

At September 30, 2006, the Trust calculated the ceiling test using prices of $37.66/bbl for heavy oil, $66.24/bbl for light and medium gravity oil, and $63.43/bbl for NGLs, and $7.13/mcf for natural gas resulting in a ceiling test surplus.

## Depletion, Depreciation and Accretion

Depletion, depreciation and accretion (site restoration) expense for the third quarter of 2006 was $29.1 million, compared to $12.0 million in 2005, reflecting the acquisition of TKE in 2005 and Shellbridge in June 2006 in conjunction with increased production volumes. True has excluded from the depletion calculation $174.0 million for undeveloped properties and $45.3 million for undeveloped land.

**Depletion, Depreciation and Accretion Costs**

| *($000s, except where noted)* | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Depletion | 26,695 | 9,829 | 74,450 | 26,950 |
| Depreciation | 2,068 | 2,131 | 10,637 | 5,573 |
| Accretion | 297 | 65 | 715 | 172 |
| Total | 29,060 | 12,025 | 85,802 | 32,695 |
| Per unit *($/boe)* | 23.84 | 15.08 | 26.46 | 15.05 |

## Asset Retirement Obligation

As at September 30, 3006, the Trust has recorded an Asset Retirement Obligation ("ARO") of $25.5 million, compared to $6.2 million at September 30, 2005, for future abandonment and reclamation of the Trust's properties. For the nine month period ended September 30, 2006, the ARO increased by $0.7 million for accretion expense and $13.7 million as a result of the Shellbridge and Prairie Schooner acquisitions and included $0.6 million net changes in estimates for property acquisitions and development activities.

## Goodwill

The goodwill balance of $166.6 million was derived from two 2005 acquisitions, the second quarter 2006 acquisition of Shellbridge and the third quarter acquisition of Prairie Schooner. Goodwill represents the excess of total consideration paid plus the future income tax liability less the fair value of the net identifiable assets acquired in each transaction. The $94.6 million increase in goodwill for the nine month period ended September 30, 2006 is a combination of the $24.0 million goodwill recognized on the Shellbridge acquisition, $69.9 million recognized on the Prairie Schooner acquisition along with a $0.7 million purchase price equation revision for TKE from the under accrual of certain capital, net operating expenditures and transaction costs.

Accounting standards require that the goodwill balance be assessed for impairment at least annually or more frequently if events or changes in circumstances indicate that the balance might be impaired. If such impairment exists, it would be charged to income in the period in which the impairment occurs. The Trust has determined that there was no goodwill impairment at September 30, 2006.

## Income Taxes

For the nine months ended September 30, 2006 the Trust has recorded a provision for capital taxes of $2.4 million compared to $1.9 million expensed in 2005. Capital taxes are based on debt and equity levels of the Trust at the end of the quarter and are higher in 2006 due to the Trust's significant growth since first quarter of 2005, as well as increased gross sales revenue from Saskatchewan based properties, offset by recent capital tax rate reductions. In the second quarter of 2006, the federal government enacted legislation that eliminates federal capital tax, retroactive to January 1, 2006. As a result, capital taxes on a go-forward basis will be based on only provincial capital taxes.

Future income taxes arise from differences between the accounting and tax bases of the operating companies' assets and liabilities. For the nine months ending September 30, 2006 the Trust recognized a future income tax recovery provision of $49.0 million compared to a provision of $9.3 million expensed in 2005. On April 10, 2006 the Alberta government substantively enacted a decrease of 1.5 percent to the provincial corporate tax rate. In addition, on June 6, 2006 the Federal government substantively enacted a two percent decrease to the federal corporate tax rate from January 1, 2008 to January 1, 2010 and an elimination of the 1.12 percent federal surtax at January 1, 2008.

In the Trust's structure, payments are made between the operating subsidiaries and the Trust transferring income and future income tax liability to the unitholders. Therefore, it is currently expected, based on existing legislation that no cash income taxes are to be paid by the operating subsidiaries in the future, and as such, the future income tax liability recorded on the balance sheet will be recovered through earnings over time. As at September 30, 2006, the operating subsidiaries have a future income tax liability balance of $176.5 million. Canadian generally accepted accounting principles require that a future income tax liability be recorded when the book value of assets exceeds the balance of tax pools. It further requires that a future tax liability be recorded on an acquisition when a corporation acquires assets with associated tax pools that are less than the purchase price. As a result of the acquisition of Prairie Schooner in September 2006, the Trust recorded a total additional future income tax liability of $75.3 million.

As at September 30, 2006, the Trust's subsidiaries have tax pools in excess of $430 million that are available to shelter future taxable income. The Trust's exploration and development activities will continue to add to these available tax pools in 2007.

The October 31, 2006 announcement of the Tax Fairness Plan by the Federal Government anticipates a Distribution Tax on distributions from publicly traded income trusts and limited partnerships. For existing income trusts and limited partnerships, the government is proposing a four-year transition period. As such, the Trust will not be subject to the new measures until the 2011 taxation year.

The government's plans must first be enacted in Parliament and it may be some time before the plans, translated into a Tax Bill, are substantially enacted, particularly given the fact that there is a minority government in place. As such, for the current quarter 2006, and until third reading of the Bill in Parliament, current and future income taxes will not be affected by this recent announcement.

The announcement of the government's plans has resulted in the markets reacting quite strongly to the news. As of November 2, 2006, the market capitalization of the Trust has declined by approximately $130 million (17.6%) since October 31, 2006. The S&P/TSX Energy Index was off 18% during this same period. The Trust is currently assessing the proposals and the potential implications to the Trust. Until more details on the proposed distribution tax measures and their further impact is available, it is too early to make an estimate of the financial effect of these proposals. However, the Trust will be carefully monitoring the development of the proposed measures over the coming months. In particular, the Trust will be evaluating the impact of the proposed measures on net income and cash flows and the potential valuation impact on the long lived assets, including goodwill. While it is too early to assess whether there is any impairment in the valuation of goodwill currently carried on the balance sheet as of September 30, 2006, the Trust will assess for any goodwill impairment, comparing the carrying value of the net assets of the Trust to their fair value, during the fourth quarter of 2006 using the latest available data, including but not limited to, market capitalization of the Trust, recent commodity prices and an updated reserve engineering report. Any impairment of goodwill would be reflected as a non-cash charge to income in the period of impairment.

## Distributions

Trust unitholders who held their units throughout the first nine months of 2006 received distributions of $2.16 per unit. For the nine month period ended September 30, 2006 the Trust declared $90.8 million in total distributions as follows:

| *($000s, except monthly amount)*<br>Nine month period ended September 30, 2006 | Distribution<br>Per Unit | Total |
|---|---|---|
| Distributions paid | $ 2.16 | $ 90,767 |

**Distribution Paid History** [1]

Distributions comprise a taxable portion and a return of capital portion (tax deferred). The return of capital component reduces the cost basis of the trust units held, as described below. For additional information, please see our website at www.trueenergytrust.com.

| Calendar Year | Distributions | Taxable Portion | Return of Capital |
|---|---|---|---|
| 2005 (two months) [2] | $ 0.480 | $ 0.456 | $ 0.024 |
| 2006 year to date [3] | 2.160 | (3) | (3) |
| Cumulative | $2.640 | | |

(1) Applies to unitholders who are residents of Canada and hold their units as capital property.
(2) Based upon the distributions paid in the 2005 calendar year, after the November 2, 2005 Arrangement with TKE.
(3) A portion of the distributions paid in 2006 to Canadian Unitholders will be taxable. U.S. unitholders will also be taxable. Any non-taxable amounts will be treated as a tax deferred return of capital, or an adjustment to the cost base of the units. Actual taxable amounts may vary depending on actual distributions and are dependent upon production, commodity prices and funds flow experienced throughout the year. The approximate taxable portion of 2006 distributions to Canadian Unitholders is not determinable at this time.

In consultation with its U.S. tax advisors, True believes that its trust units should be "qualified dividends" for U.S. federal purposes. As such, the portion of distributions made during 2006 that are considered dividends for U.S. federal purposes should qualify for the reduced rate of tax applicable to long-term capital gains. Unitholders or potential unitholders should consult their own legal or tax advisors as to their particular income tax consequences of holding True units. Please view our press release addressing this.

**Monthly Distributions**

Actual distributions paid and declared per Trust unit along with anticipated relevant payment dates for 2006 to date are as follows:

| Ex-distribution Date | Record Date | Payment Date | Distribution per unit |
|---|---|---|---|
| December 28, 2005 | December 31, 2005 | January 16, 2006 | $ 0.24 |
| January 27, 2006 | January 31, 2006 | February 15, 2006 | 0.24 |
| February 24, 2006 | February 28, 2006 | March 15, 2006 | 0.24 |
| March 29, 2006 | March 31, 2006 | April 17, 2006 | 0.24 |
| April 24, 2006 | April 26, 2006 | May 15, 2006 | 0.24 |
| May 25, 2006 | May 29, 2006 | June 15, 2006 | 0.24 |
| June 23, 2006 | June 27, 2006 | July 17, 2006 | 0.24 |
| July 24, 2006 | July 26, 2006 | August 15, 2006 | 0.24 |
| August 24, 2006 | August 28, 2006 | September 15, 2006 | 0.24 |
| September 22, 2006 | September 26, 2006 | October 16, 2006 | 0.24 |
| October 25, 2006 | October 27, 2006 | November 15, 2006 | 0.18 |
| November 24, 2006 | November 28, 2006 | December 15, 2006 | (1) |

Consistent with the distribution strategy outlined earlier in the year the Board of True maintained ten consecutive monthly distributions of $0.24 per unit through to October 16, 2006. In a press release dated July 26, 2006, the Board of True anticipated maintaining a monthly distribution of $0.24 per unit through to December 2006 subject to declaration by the Board and the Board of Directors reviewing and monitoring the foregoing if determined necessary. Further, in a press release dated October 10, 2006, the Trust announced that the cash distribution for the month of October will be $0.18 per unit, to be paid on November 15, 2006 to all unit-holders of record as of October 27, 2006. This reduction in the monthly distribution to $0.18 per unit was determined to be prudent by the Board to reflect weakening commodity prices, both in the current spot market and in the forward strip prices.

[1] The Management and Board of the Trust continuously assesses distribution levels, in light of commodity prices and other factors, and announces the distribution per unit amount on a monthly basis.

## Distribution Reinvestment Plan

Effective March 27, 2006, True adopted a Premium Distribution™ Reinvestment, Distribution Reinvestment and Optional Trust Unit Purchase Plan (the "Plan"). The Plan amends, restates and replaces in its entirety the distribution reinvestment and optional trust unit purchase plan (the "Old Plan") of True dated December 1, 2004, which was implemented by TKE. The Plan allows eligible unitholders of True to direct that their cash distributions be reinvested in additional trust units at 95% of the Average Market Price (as defined in the Plan) on the applicable distribution payment date. The Plan further allows eligible unitholders to elect, under the Premium Distribution™ component of the Plan, to have these additional trust units delivered to the designated Plan broker in exchange for a premium cash distribution equal to 102% of the cash distribution that such unitholders would otherwise have received on the applicable distribution payment date if they did not participate in the Plan (subject to proration in certain events as provided in the Plan.) Canaccord Capital Corporation acts as the Plan broker for the Premium Distribution™ component of the Plan.

In addition, the Plan allows those unitholders who participate in either the regular distribution reinvestment component or the Premium Distribution™ component of the Plan to purchase additional trust units from treasury at a purchase price equal to the Average Market Price (with no discount) in minimum amounts of $2,000 per remittance up to a maximum aggregate amount of $50,000 per month by any one unitholder, in any calendar month, all subject to an overall annual limit of 2% of the total number of outstanding trust units. The Trust reserves the right to limit the amount of any new equity available under the Plan on any particular distribution date and thus participants may be pro-rated in certain circumstances.

Participation during the first seven months of the plan has averaged approximately 47%. Further details of the plan and information on how to enroll is available on the Trust's website.

## Foreign Ownership Update

Based on information from Trust records and information provided by intermediaries holding Trust units for others, we estimate that, as of October 25, 2006 approximately 35 percent of our Unitholders are non-Canadian residents with the remaining 65 percent being Canadian residents. True's Trust Indenture provides that not more than 40 percent of its Units can be held by non-Canadian residents.

## Liquidity and Capital Resources

True's net debt as at September 30, 2006 was $245.8 million, with $103.2 million drawn on a revolving term credit facility, $5.7 million drawn on a demand operating facility, $81.4 million in convertible debentures (liability component) and the balance a net working capital shortfall.

On October 2, 2006 the existing $150 million credit facility was replaced by a $15 million demand operating facility provided by one Canadian bank and a $210 million extendible revolving term credit facility syndicated by the Canadian chartered bank, a U.S. bank, a foreign bank and one institutional lender. The revolving period on the new revolving term credit facility ends on June 29, 2007, unless extended for a further 364 day period. Should the facilities not be renewed they convert to 366 day non-revolving term facilities on the renewal date. Further details of the revised credit facility are disclosed in note 5 of the financial statements.

Management expects to be able to fund the capital expenditure program for 2006 using cash flow from operations, available credit facilities and proceeds from the distribution reinvestment plan. If cash flows are other than projected, capital expenditure levels will be adjusted. The practice of continually monitoring spending opportunities in comparison to expected cash flow levels allows for adjustments to the capital program as required.

On June 15, 2006 the Trust completed a bought deal public offering of 86,250 7.5% convertible unsecured subordinated debentures at a price of $1,000 per Debenture for aggregate gross proceeds of $86,250,000.

The convertible debentures have a face value of $1,000 per debenture and a maturity date of June 30, 2011. The convertible debentures bear interest at an annual rate of 7.50% payable semi-annually on June 30 and December 31 in each year commencing December 31, 2006. The debentures are convertible at anytime at the option of the holders into trust units of the Trust at a conversion price of $16.00 per trust unit. The Trust will have the right to redeem all or a portion of the debentures at a price of $1,050 per debenture after June 30, 2009 and on or before June 30, 2010 and at a price of $1,025 per debenture after June 30, 2010 and before the maturity date. Upon maturity or redemption of the debentures, the Trust may, subject to notice and regulatory approval, pay the outstanding principal and premium (if any) on the debentures in cash or through the issue of additional Trust units at 95% of the weighted average trading price of the trust units.

As at October 31, 2006 the Trust had outstanding a total of 1,057,140 incentive units exercisable at an average exercise price of $14.26 per unit, 403,536 exchangeable shares (convertible, as at October 31, 2006 into an aggregate of 274,630 trust units, subject to further adjustments based on distributions made on trust units) and 69,471,086 trust units.

## Business Prospects and 2006 Outlook

Since its formation in September 2000, True Energy Inc. has experienced significant growth in its production and land base. As a royalty trust, a more moderated growth pattern is expected in comparison, as the Trust continues to develop its core assets and conduct some exploration programs utilizing the inventory of geological prospects. In addition, the Trust will continue to explore potential acquisition opportunities. Currently, the Trust's producing properties are located in Saskatchewan, Alberta and British Columbia.

Late in September 2006, the Trust completed the purchase of a facility in the Kerrobert, Saskatchewan area and wells which will allow the Trust to begin implementation of the SAGD phase of the project. During the next nine months the Trust plans to convert a number of existing wells to steam injectors and drill additional wells that will be used as producing well bores. The facility is currently running at 500 bbls/d of heavy oil production with capacity of approximately 5,000 bbls/d. Also included in the acquisition were three sections of land on which True has identified a number of development and exploration opportunities.

Capital expenditure levels will be adjusted as appropriate. Currently, the Trust anticipates spending approximately $25 million in the fourth quarter focused on tie-ins, recompletions and facility optimizations.

The Trust currently anticipates that Q4 2006 average production will be approximately 19,000 to 20,000 boe/d, weighted approximately 65% toward natural gas including the Prairie Schooner properties. True further anticipates the US$/Cdn.$ exchange rate to average 0.90 through the 2007 year.

The Trust continues to maintain a large undeveloped land base of approximately 1.1 million (0.7 million net) acres and has identified a multi-year drilling inventory of over 700 net locations. The initial capital expenditure budget for 2007 is approximately $80 million.

## Critical Accounting Estimates

The reader is advised that the critical accounting estimates, policies, and practices as described in the Management Discussion and Analysis in the Trust's December 31, 2005 Annual Report continue to be critical in determining True's unaudited financial results as at September 30, 2006. There were no changes in accounting policies for the nine month period ended September 30, 2006.

## Business Risks and Uncertainties

The reader is advised that True continues to be subject to various types of business risks and uncertainties as described in the Management Discussion and Analysis in the Trust's December 31, 2005 Annual Report.

On October 31, 2006 Federal Finance Minister Jim Flaherty (the "Finance Minister") announced a proposal to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts would have a 4 year transition period and would not be subject to the new rules until 2011. Until such rules are released in legislative form and passed into law it is uncertain what the impact of such rules will be to the Trust and its Unitholders. However, assuming such proposals are ultimately enacted in the form proposed, the implementation of such proposals would be expected to result in adverse tax consequences to the Trust and certain of its Unitholders. In addition, there may be other financial impacts to the Trust as a result of this announcement. These consequences would be materially different than the consequences previously described in our continuous disclosure documents and would impact cash distributions from the Trust.

## Legal, Environmental Remediation and Other Contingent Matters

The Trust reviews legal, environmental remediation and other contingent matters to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined, it is charged to earnings. The Trust's management monitors known and potential contingent matters and makes appropriate provisions by charges to earnings when warranted by circumstance.

## Sensitivity Analysis

The table below shows sensitivities to cash flow as a result of product price and operational changes. This is based on actual prices received for the three month period ended September 30, 2006 and average production volumes of 13,200 boe/d during that period, as well as the same level of debt outstanding at September 30, 2006. These sensitivities are approximations only, and not necessarily valid under other significantly different production levels or product mixes. Hedging activities can significantly affect these sensitivities. Changes in any of these parameters will affect cash flow as shown in the table below:

| Sensitivity Analysis | Cash Flow from Operations (annualized) ($000s) | Cash Flow from Operations Per Diluted Unit ($) |
|---|---|---|
| Change of US $1/bbl WTI | 1,500 | 0.03 |
| Change of US $0.10/ mcf | 1,700 | 0.03 |
| Change of US $0.01 Cdn/ US exchange rate | 1,000 | 0.02 |
| Change in prime of 1% | 200 | - |

## Selected Quarterly Consolidated Information

The following table sets forth selected consolidated financial information of the Trust for the most recently completed quarters ending at the third quarter of 2006.

| 2006 – Quarter ended (unaudited)<br>($000s, except per share amounts) | March 31 | June 30 | Sept. 30 |
|---|---|---|---|
| Gross revenues before royalties and hedging | 46,396 | 43,004 | 54,263 |
| Cash flow from operations | 18,995 | 16,386 | 23,225 |
| Cash flow from operations per unit | | | |
| Basic | $0.52 | 0.44 | 0.52 |
| Diluted | $0.52 | 0.42 | 0.50 |
| Net earnings | 3,259 | 12,243 | 1,652 |
| Net earnings per unit | | | |
| Basic | $0.09 | $0.43 | $ 0.04 |
| Diluted | $0.09 | $0.42 | $ 0.04 |
| Net capital expenditures (cash) | 22,585 | (7,078) | 46,166 |

| 2005 – Quarter ended (unaudited) (1)<br>*($000s, except per unit amounts)* | March 31 | June 30 | Sept. 30 | Dec. 31 |
|---|---|---|---|---|
| Gross revenues before royalties and hedging | 22,441 | 33,663 | 44,510 | 60,839 |
| Cash flow from operations | 10,732 | 18,013 | 25,500 | 32,893 |
| Cash flow from operations per unit | | | | |
| Basic | $0.63 | $0.73 | $1.04 | $1.02 |
| Diluted | $0.61 | $0.72 | $1.01 | $1.00 |
| Net earnings | 1,030 | 3,130 | 6,502 | 3,228 |
| Net earnings per unit | | | | |
| Basic | $0.06 | $0.13 | $0.26 | $0.10 |
| Diluted | $0.06 | $0.13 | $0.26 | $0.10 |
| Net capital expenditures (cash) | 13,161 | 21,316 | 28,651 | 52,843 |

| 2004 – Quarter ended (unaudited) (1)<br>*($000s, except per unit amounts)* | March 31 | June 30 | Sept. 30 | Dec. 31 |
|---|---|---|---|---|
| Gross revenues before royalties and hedging | 13,342 | 17,377 | 17,760 | 19,469 |
| Cash flow from operations | 6,264 | 8,783 | 8,593 | 10,305 |
| Cash flow from operations per unit | | | | |
| Basic | $0.46 | $0.58 | $0.56 | $0.67 |
| Diluted | $0.45 | $0.57 | $0.54 | $0.65 |
| Net earnings | 958 | 2,874 | 2,295 | 2,833 |
| Net earnings per unit | | | | |
| Basic | $0.07 | $0.19 | $0.15 | $0.18 |
| Diluted | $0.07 | $0.19 | $0.15 | $0.18 |
| Net capital expenditures (cash) | 15,243 | 9,075 | 13,102 | 17,499 |

(1) *restated for changes in accounting policies and to reflect the consolidation of units effective November 2, 2005*

**TRUE ENERGY TRUST**
**CONSOLIDATED BALANCE SHEETS**
As at September 30 and December 31

| ***($000s)*** | **2006** | **2005** |
|---|---|---|
| | *(unaudited)* | |
| **ASSETS** | | |
| Current assets | | |
| Accounts receivable | $ 63,499 | $ 57,276 |
| Deposits and prepaid expenses | 7,138 | 1,806 |
| | 70,637 | 59,082 |
| Property, plant and equipment | 1,061,430 | 600,077 |
| Deferred financing charges (note 6) | 3,753 | - |
| Goodwill (note 4) | 166,598 | 71,970 |
| Total assets | $ 1,302,418 | $ 731,129 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 112,526 | $ 88,270 |
| Distribution payable to unitholders | 10,980 | 8,677 |
| Capital taxes payable | 2,453 | 1,641 |
| Current portion of obligations under capital lease | 168 | 258 |
| Bank debt (note 5) | - | 71,365 |
| | 126,127 | 170,211 |
| Obligations under capital lease | - | 54 |
| Long-term debt (note 5) | 108,890 | - |
| Capital taxes payable | - | 1,700 |
| Convertible debentures (note 6) | 81,379 | - |
| Asset retirement obligations (note 7) | 25,495 | 10,457 |
| Future income taxes | 176,505 | 146,729 |
| Total liabilities | 518,396 | 329,151 |
| **NON-CONTROLLING INTEREST** | | |
| Exchangeable shares of subsidiary (note 8) | 5,255 | 9,709 |
| **UNITHOLDERS' EQUITY** | | |
| Unitholders' capital (note 9) | 868,226 | 418,968 |
| Equity component of convertible debentures (note 6) | 5,119 | - |
| Contributed surplus (note 10) | 10,861 | 5,127 |
| Deficit | (105,439) | (31,826) |
| Total unitholders' equity | 778,767 | 392,269 |
| Total liabilities and unitholders' equity | $ 1,302,418 | $ 731,129 |

**COMMITMENTS** (note 15)

**SUBSEQUENT EVENT** (note 16)

*See accompanying selected notes to the consolidated financial statements.*

**TRUE ENERGY TRUST**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**
For the three and nine months ended September 30 (unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| ***($000s)*** | **2006** | **2005** | **2006** | **2005** |
| **REVENUES** | | | | |
| Petroleum and natural gas sales | $ 54,263 | $44,510 | $ 143,663 | $100,614 |
| Royalties | (13,025) | (11,163) | (33,323) | (25,342) |
| Loss on commodity contracts | (188) | - | (461) | - |
| | 41,050 | 33,347 | 109,879 | 75,272 |
| **EXPENSES** | | | | |
| Production | 10,458 | 5,700 | 28,946 | 13,620 |
| Transportation | 1,682 | 941 | 4,145 | 2,215 |
| General and administrative | 2,583 | 524 | 8,990 | 2,896 |
| Interest and financing charges | 2,793 | 276 | 6,403 | 908 |
| Unit-based compensation | 1,824 | 480 | 4,875 | 1,128 |
| Depletion, depreciation and accretion | 29,060 | 12,025 | 85,802 | 32,695 |
| | 48,400 | 19,946 | 139,161 | 53,462 |
| **EARNINGS (LOSS) BEFORE TAXES** | (7,350) | 13,401 | (29,282) | 21,810 |
| **TAXES** (note 12) | | | | |
| Current income taxes (recovery) | - | - | - | (5) |
| Capital taxes | 860 | 679 | 2,384 | 1,853 |
| Future income taxes (recovery) | (9,949) | 6,220 | (49,043) | 9,300 |
| | (9,089) | 6,899 | (46,659) | 11,148 |
| **NET EARNINGS BEFORE NON-CONTROLLING INTEREST** | 1,739 | 6,502 | 17,377 | 10,662 |
| Non-controlling interest | 87 | - | 223 | - |
| **NET EARNINGS** | 1,652 | 6,502 | 17,154 | 10,662 |
| Deficit, beginning of period | (70,245) | (1,930) | (31,826) | (6,090) |
| Distributions | (36,846) | - | (90,767) | - |
| Retained earnings (deficit), end of period | $ (105,439) | $4,572 | $ (105,439) | $4,572 |
| Net earnings per trust unit | | | | |
| Basic | $ 0.04 | $ 0.26 | $ 0.43 | $ 0.48 |
| Diluted | $ 0.04 | $ 0.26 | $ 0.43 | $ 0.47 |

*See accompanying selected notes to the consolidated financial statements.*

**TRUE ENERGY TRUST**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
For the three and nine months ended September 30 (unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| ***($000s)*** | **2006** | **2005** | **2006** | **2005** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Net earnings | $ 1,652 | $ 6,502 | $ 17,154 | $10,662 |
| Items not involving cash: | | | | |
| Non-controlling interest | 87 | - | 223 | - |
| Depletion, depreciation and accretion | 29,060 | 12,025 | 85,802 | 32,695 |
| Unit-based compensation | 1,824 | 480 | 4,875 | 1,128 |
| Amortization of deferred financing charges | 201 | - | 236 | - |
| Accretion on convertible debentures | 211 | - | 248 | - |
| Future income taxes (recovery) | (9,949) | 6,220 | (49,043) | 9,300 |
| Capital taxes | 139 | 273 | (889) | 460 |
| Cash flow from operations | 23,225 | 25,500 | 58,606 | 54,245 |
| Change in non-cash working capital | 20,284 | (1,928) | 4,375 | 1,544 |
| | 43,509 | 23,572 | 62,981 | 55,789 |
| **CASH FLOW FROM (USED IN) FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in bank debt | 30,285 | (4,653) | (19,246) | 7,215 |
| Obligations under capital lease | (45) | - | (143) | - |
| Issuance of convertible debentures | - | - | 86,250 | - |
| Deferred financing charges | 34 | - | (3,989) | - |
| Issuance of common shares | - | 157 | - | 395 |
| Share and unit issue costs | (1,781) | - | (2,410) | (1,100) |
| Payment of cash component of distributions | (15,146) | - | (52,641) | - |
| | 13,347 | (4,496) | 7,821 | 6,510 |
| Change in non-cash working capital | 1,255 | - | 2,148 | - |
| | 14,602 | (4,496) | 9,969 | 6,510 |
| **CASH FLOW FROM (USED IN) INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment | (46,166) | (28,663) | (86,187) | (63,140) |
| Corporate transaction costs | (1,563) | - | (2,083) | (2,031) |
| Proceeds on sale of property, plant and equipment | - | 12 | 24,514 | 12 |
| | (47,729) | (28,651) | (63,756) | (65,159) |
| Change in non-cash working capital | (10,382) | 9,575 | (14,412) | 2,860 |
| | (58,111) | (19,076) | (78,168) | (62,299) |
| Cash acquired on corporate acquisition (note 3) | - | - | 5,218 | - |
| Change in cash | - | - | - | - |
| Cash, beginning of period | - | - | - | - |
| Cash, end of period | $ - | $ - | $ - | $ - |

*See accompanying selected notes to the consolidated financial statements.*

# SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006 and 2005 (unaudited)

## 1. STRUCTURE OF THE TRUST

True Energy Trust ("True" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Alberta. Through a Plan of Arrangement (the "Arrangement") that became effective on November 2, 2005, True Energy Inc. became the Trust.

The purpose of the Trust is to indirectly explore for, develop and hold interests in petroleum and natural gas properties, through investments in securities of subsidiaries and net profits interests in oil and natural gas properties. The business of the Trust is carried on by True Energy Inc., its wholly owned subsidiary Marengo Exploration Ltd., True Oil & Gas Ltd., 766432 Alberta Ltd., True Energy Partnership, TKE Energy Partnership and Prairie Schooner Limited Partnership. The Trust owns, directly and indirectly, 100% of the common shares, (excluding the exchangeable shares – see note 8) of True Energy Inc., Marengo Exploration Ltd. , 766432 Alberta Ltd., and True Oil & Gas Ltd. and and 100% of the interests of True Energy Partnership, TKE Energy Partnership and Prairie Schooner Limited Partnership. The activities of True Energy Inc., Marengo Exploration Ltd., True Oil & Gas Ltd., and 766432 Alberta Ltd. and the partnerships, are financed through interest bearing notes from the Trust and third party debt.

Pursuant to the terms of Net Profit Interest Agreements (the "NPI Agreements") between the Trust and each of True Energy Inc. and True Oil & Gas Ltd., the Trust is entitled to a monthly payment from each of True Energy Inc. and True Oil & Gas Ltd. equal to the amount by which 99% of the gross proceeds from the sale of production exceed certain deductible expenditures (as defined). Under the terms of the NPI Agreements, deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures, to repay third party debt and to provide for working capital required to carry out the operations of True Energy Inc., True Oil & Gas Ltd., Marengo Exploration Ltd., True Energy Partnership, TKE Energy Partnership and Prairie Schooner Limited Partnership.

The Trust may make distributions to the Unitholders in amounts equal to all or any part of the net income of the Trust earned from interest income on the notes and from the income generated under the Net Profits Interest Agreements, and from any dividends paid on the common shares of True Energy Inc. and True Oil & Gas Ltd., less any expenses of the Trust including interest on the convertible debentures.

The conversion of True Energy Inc. to True Energy Trust has been accounted for as a reverse takeover of TKE and a continuity of interests of True Energy Inc. Prior to the Arrangement on November 2, 2005, the consolidated financial statements included the accounts of True Energy Inc. and its subsidiaries and partnership. After giving effect to the Arrangement, the consolidated financial statements include the accounts of the Trust, its subsidiaries and partnerships.

The term "units" has been used to identify both the trust units and the exchangeable shares of the Trust issued on or after November 2, 2005 as well as the common shares of True Energy Inc. outstanding prior to the Arrangement on November 2, 2005.

## 2. SUMMARY OF ACCOUNTING POLICIES

The interim consolidated financial statements of the Trust have been prepared by management in accordance with generally accepted accounting policies in Canada. The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2005. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles ("GAAP") applicable for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Trust's annual report for the year ended December 31, 2005. Certain prior year costs have been reclassified to conform to the current period's presentation.

## 3. ACQUISITIONS/DISPOSITIONS

**a.** Acquisition of Prairie Schooner Petroleum Ltd.

Effective September 22, 2006, the Trust's wholly owned subsidiary, True Energy Inc. ("True Energy"), entered into a business combination with Prairie Schooner Petroleum Ltd. ("Prairie Schooner") whereby True Energy acquired all of the issued and outstanding shares of Prairie Schooner pursuant to a plan of arrangement. The previous shareholders of Prairie Schooner received 1.22 trust units of the Trust for each outstanding Prairie Schooner share and outstanding options were exchanged for options ("replacement options") to purchase trust units adjusted for the exchange ratio and exercisable for ten business days following completion of the transaction (the "Transaction"). An aggregate of 25,759,563 trust units were issued pursuant to the Transaction (including on exercise of the replacement options). Concurrent with the business combination, True Energy and Prairie Schooner amalgamated on September 22, 2006 and continue as True Energy. The value of the transaction, based upon the adjusted weighted average trading price for trust units of the Trust for the five days prior to the transaction announcement on April 11, 2006, of $13.31, was $344.4 million (including $1.6 million in transaction costs). The transaction was accounted for using the purchase method.

The purchase price allocation resulted in an excess purchase price over the fair value of net identifiable assets acquired of approximately $69.9 million, which has been reflected as goodwill. The accounts include the results of Prairie Schooner effective September 22, 2006, the date the majority of Prairie Schooner shares were taken up and exchanged for trust units of the Trust. As at September 30, 2006, the purchase price equation was based on information available and may not be final.

The purchase price equation is as follows:

| *($000's)* | |
|---|---|
| Cost of acquisition: | |
| Trust units issued | $ 342,870 |
| True transaction costs | 1,563 |
| | $ 344,433 |
| | |
| Allocated at estimated fair values: | |
| Accounts receivable | $ 22,735 |
| Deposits and prepaid expenses | 1,075 |
| Property, plant and equipment | 435,346 |
| Goodwill | 69,859 |
| Bank debt | (56,771) |
| Accounts payable and accrued liabilities | (40,087) |
| Future income taxes | (75,316) |
| Asset retirement obligations | (12,408) |
| | $ 344,433 |

**b. Acquisition of Shellbridge Oil & Gas, Inc.**

Effective June 23, 2006, the Trust's wholly owned subsidiary, True Oil & Gas Ltd. ("True Oil & Gas"), entered into a business combination with Shellbridge Oil & Gas, Inc. ("Shellbridge") whereby True Oil & Gas acquired all of the issued and outstanding shares of Shellbridge pursuant to a plan of arrangement. The previous shareholders of Shellbridge received 0.14 trust units of the Trust for each outstanding Shellbridge share (the "Transaction"), resulting in the issuance of 4,389,366 trust units. Concurrent with the business combination, True Oil & Gas and Shellbridge amalgamated on June 23, 2006 and continue as True Oil & Gas. The value of the transaction, based upon the adjusted weighted average trading price for True Energy Trust units for the five days prior to the transaction announcement on April 11, 2006, of $15.56, was $68.82 million (including $0.5 million in transaction costs). The transaction was accounted for using the purchase method.

The purchase price allocation resulted in an excess purchase price over the fair value of net identifiable assets acquired of approximately $24.0 million, which has been reflected as goodwill. The accounts include the results of Shellbridge effective June 23, 2006, the date the majority of Shellbridge shares were taken up and exchanged for trust units of the Trust. As at September 30, 2006, the purchase price equation was based on information available and may not be final.

The purchase price equation is as follows:

| *($000's)* | |
|---|---|
| Cost of acquisition: | |
| Trust units issued | $ 68,299 |
| True transaction costs | 520 |
| | $ 68,819 |
| | |
| Allocated at estimated fair values: | |
| Cash | $ 5,218 |
| Accounts receivable | 10,005 |
| Deposits and prepaid expenses | 161 |
| Property, plant and equipment | 47,529 |
| Goodwill | 24,017 |
| Accounts payable and accrued liabilities | (13,485) |
| Future income taxes | (3,330) |
| Asset retirement obligations | (1,296) |
| | $ 68,819 |

**c. Acquisition of TKE Energy Trust**

On November 2, 2005 True Energy Inc. and TKE entered into a business combination whereby True Energy Inc. acquired TKE in a reverse takeover, changing to True Energy Trust, and a publicly listed exploration focused company, Vero Energy Inc., pursuant to a Plan of Arrangement. The former shareholders of True Energy Inc. controlled approximately 71% of the Trust and substantially all of the former management of True Energy Inc. completes the Trust's new management team.

The Arrangement resulted in True shareholders receiving, for each True Share held: (i) 0.5 of a pre-consolidated trust units (0.25 of a post-consolidated trust unit); (ii) 0.10 of a Vero Share; and (iii) one Vero arrangement warrant.

To effect the Arrangement, for accounting purposes only, all of the issued and outstanding trust units, being 20,708,128 trust units, of TKE were treated as acquired by True Energy Inc. The transaction value was based upon the adjusted weighted average trading price of True Energy Inc. common shares for the two days prior to the transaction announcement on August 23, 2005, of $5.04, plus the assumption of TKE's debt. The transaction was accounted for using the purchase method, with the excess purchase price over the fair value of net identifiable assets acquired of approximately $42.4 million being allocated to goodwill.

The purchase equation was adjusted at June 30, 2006 and September 30, 2006 to reflect certain net under accruals for operating income and capital expenditures and transaction costs relating to the period prior to November 2, 2005. As a result, transactions costs were increased by $ 0.5 million, total net accounts receivable was reduced by $0.49 million, future income tax liability was reduced by $0.24 million and goodwill was increased by $0.75 million.

The purchase price equation is as follows:

| *($000s)* | |
|---|---|
| Cost of acquisition: | |
| Trust units issued | $ 196,214 |
| Transaction costs | 2,505 |
| | $ 198,719 |
| | |
| Allocated at estimated fair values: | |
| Accounts receivable | $ 11,073 |
| Deposits and prepaid expenses | 1,152 |
| Property, plant and equipment | 291,706 |
| Goodwill | 43,144 |
| Accounts payable and accrued liabilities | (17,912) |
| Bank debt | (32,077) |
| Distribution payable | (2,382) |
| Obligation under capital lease | (343) |
| Non-controlling interest | (10,351) |
| Future income taxes | (79,131) |
| Asset retirement obligations | (6,160) |
| | $ 198,719 |

**d. Disposition to Vero Energy Inc.**

Under the Arrangement, True Energy Inc. transferred to Vero certain prospective natural gas weighted assets and undeveloped land at their net book value. A future tax asset has been transferred as the result of disposing of petroleum and natural gas properties with a net book value of $26.9 million compared to tax pools of $27.9 million. The details are as follows:

| *($000s)* | |
|---|---|
| Petroleum and natural gas properties | $ 26,880 |
| Asset retirement capital | 318 |
| Future income tax asset | 384 |
| Total assets transferred | 27,582 |
| Asset retirement obligation | (318) |
| Bank indebtedness assumed | (5,000) |
| Net assets transferred and reduction in accumulated earnings | $ 22,264 |

**e. Acquisition of Meridian Energy Corporation**

Effective March 15, 2005, True Energy Inc. acquired all of the issued and outstanding common shares of Meridian Energy Corporation (“Meridian”), a public company, involved in the exploration, development and production of oil and natural gas in central Alberta. The consideration offered was $0.6 million and 0.91 of a True Energy Inc. common share for each Meridian common share resulting in 35,111,184 True Energy Inc. shares issued as at March 31, 2005 and an additional 638,747 shares issued in April and June 2005. The value of the transaction, based on an adjusted average share price for the common shares of True Energy Inc. of $4.20 at January 19, 2005, was $152.2 million (including $1.4 million in transaction costs). The transaction was accounted for using the purchase method. The purchase price allocation resulted in an excess purchase price over the fair value of net identifiable assets acquired of approximately $29.6 million, which has been reflected as goodwill. The accounts include the results of Meridian effective March 15, 2005, the date the majority of Meridian shares were taken up and exchanged for True Energy Inc. common shares.

The purchase equation was adjusted at December 31, 2005 to reflect revised estimates for tax information regarding expected temporary difference reversals. As a result, the future tax liability was decreased by $3.6 million and goodwill was also decreased by the same amount.

The purchase price equation is as follows:

| *($000's)* | |
|---|---|
| Cost of acquisition: | |
| Common shares issued | $ 150,150 |
| True transaction costs | 1,411 |
| Cash to shareholders | 620 |
| | $ 152,181 |
| | |
| Allocated at estimated fair values: | |
| Accounts receivable | $ 15,186 |
| Deposits and prepaid expenses | 89 |
| Property, plant and equipment | 183,744 |
| Goodwill | 29,577 |
| Accounts payable and accrued liabilities | (14,119) |
| Bank debt | (11,389) |
| Future income taxes | (49,915) |
| Asset retirement obligations | (992) |
| | $ 152,181 |

## 4. GOODWILL

| | **Nine months ended September 30,** | |
|---|---|---|
| ***($000s)*** | **2006** | **2005** |
| Balance, beginning of period | $ 71,970 | $ - |
| Prairie Schooner acquisition (note 3a) | 69,859 | - |
| Shellbridge acquisition (note 3b) | 24,017 | - |
| Adjustment to TKE acquisition (note 3c) | 752 | - |
| Meridian acquisition (note 3e) | - | 33,168 |
| Balance, end of period | $ 166,598 | $ 33,168 |

## 5. LONG-TERM DEBT

On March 14, 2006, the existing demand revolving credit facility was replaced by a $15 million operating facility and $135 million demand revolving credit facility both provided by one Canadian chartered bank, subject to an annual review by June 1, 2006. In April 2006, the $135 million demand revolving credit facility was changed to be syndicated by one Canadian chartered bank and one institutional lender. On June 30, 2006, the existing credit facility was replaced by a $15 million demand operating facility provided by one Canadian bank and $135 million extendible revolving term credit facility syndicated by the Canadian chartered bank, a U.S. bank and one institutional lender.

On October 2, 2006, the existing credit facility was replaced by a $15 million demand operating facility provided by one Canadian bank and $210 million extendible revolving term credit facility syndicated by the Canadian chartered bank, a U.S. bank, a foreign bank and one institutional lender. Amounts borrowed under the credit facility bear interest at a floating rate based on the applicable Canadian prime, U.S. base rates, LIBOR rates, plus between 0 and 1.95%, depending on the types of borrowings and the Trust's debt to cash flow ratio. Security is provided by a $400 million debenture containing a first ranking security interest on all of the Trust's assets. The credit facility is guaranteed by the Trust and all material subsidiaries and is secured against all the assets of True Energy Inc., the Trust and all material subsidiaries. True has provided a negative pledge and undertaking to provide fixed charges over major petroleum and natural gas reserves in certain circumstances. A standby fee is charged on between 0.125 and 0.400% on the undrawn portion of the facility, depending on the Trust's debt to cash flow ratio. The borrowing base is currently scheduled for renewal on or before March 31, 2007. As at September 30, 2006, there was $5.7 million outstanding under the operating facility and $103.2 million outstanding under the revolving term credit facility, which leaves approximately $116 million available based upon the October 2, 2006 renewal facility.

The revolving period on the new revolving term credit facility ends on June 29, 2007, unless extended for a further 364 day period. Should the facilities not be renewed they convert to 366 day non-revolving term facilities on the renewal date. Payment will not be required under the revolving term facility for more than 365 days from the balance sheet date and as at September 30, 2006 there is sufficient availability under the revolving term credit facility to also cover the operating facility and, as such, the entire credit facility has been classified as long-term.

## 6. CONVERTIBLE DEBENTURES

On June 15, 2006, the Trust completed a bought deal public offering of 86,250 7.5% convertible unsecured subordinated debentures at a price of $1,000 per debenture for aggregate gross proceeds of $86,250,000.

The convertible debentures have a face value of $1,000 per debenture and a maturity date of June 30, 2011. The convertible debentures bear interest at an annual rate of 7.50% payable semi-annually on June 30 and December 31 in each year commencing December 31, 2006. The debentures are convertible at anytime at the option of the holders into trust units of the Trust at a conversion price of $16.00 per Trust unit. The Trust will have the right to redeem all or a portion of the debentures at a price of $1,050 per debenture after June 30, 2009 and on or before June 30, 2010 and at a price of $1,025 per debenture after June 30, 2010 and before the maturity date. Upon maturity or redemption of the debentures, the Trust may, subject to notice and regulatory approval, pay the outstanding principal and premium (if any) on the debentures in cash or through the issue of additional Trust units at 95% of a weighted average trading price of the Trust units.

The debentures were initially recorded at the fair value of the obligation without the conversion feature. This fair value to make future payments of principal and interest was initially determined to be $81.13 million. The difference between the principal amount of $86.25 million and the fair value of the obligation is $5.12 million and has been recorded in unitholders' equity as the fair value of the conversion feature of the debentures. Issue costs of $3.99 million have been classified as deferred financing charges and will be amortized over the term of the debentures. The debt component of the convertible debentures will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed as interest and financing charges in the consolidated statement of operations.

The following table shows the convertible debenture activities for the nine months ended September 30, 2006:

**Convertible debentures**

| | Number of Debentures | Debt Component *($000s)* | Equity Component *($000s)* |
|---|---|---|---|
| Issued on June 15, 2006 | 86,250 | $ 81,131 | $ 5,119 |
| Accretion | - | 248 | - |
| Balance, September 30, 2006 | 86,250 | $ 81,379 | $ 5,119 |

The following table shows the deferred financing charges activities for the nine months ended September 30, 2006:

**Deferred financing charges**

| | |
|---|---|
| Costs incurred | $ 3,989 |
| Less amortization in the period | (236) |
| Balance, September 30, 2006 | $ 3,753 |

## 7. ASSET RETIREMENT OBLIGATIONS

The Trust's asset retirement obligations result from net ownership of petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Trust estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $75.2 million which will be incurred between 2007 and 2056. A credit-adjusted risk-free rate of 8.0% and an inflation rate of 2.1% were used to calculate the fair value of the asset retirement obligation.

| ***($000s)*** | **2006** | **2005** |
|---|---|---|
| Balance, beginning of period | $ 10,457 | $ 3,951 |
| Liabilities acquired through corporate acquisitions | 13,704 | 992 |
| Liabilities incurred and changes in estimates | 1,260 | 1,091 |
| Liabilities released on dispositions | (641) | - |
| Accretion expense | 715 | 172 |
| Balance, end of period | $ 25,495 | $ 6,206 |

## 8. EXCHANGEABLE SHARES OF SUBSIDIARY

| | **2006** | | **2005** | |
|---|---|---|---|---|
| | **Number** | **Amount *($000s)*** | **Number** | **Amount *($000s)*** |
| Balance, beginning of period | 788,558 | $ 9,709 | - | $ - |
| Non-controlling interest share of current period earnings | - | 223 | - | - |
| Exchanged for trust units | (379,107) | (4,677) | - | - |
| Balance, end of period | 409,451 | $ 5,255 | - | $ - |

The exchange ratio, for exchangeable shares of the subsidiary, is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly effective date, and at September 30, 2006 was 0.66495. The exchangeable shares are not eligible for cash distributions; however cash distributions will increase the exchange ratio.

## 9. UNITHOLDERS' CAPITAL

### a. Trust Units of True Energy Trust

| | 2006 Number | 2006 Amount ($000s) | 2005 Number | 2005 Amount ($000s) |
|---|---|---|---|---|
| Balance, beginning of period | 36,176,196 | $ 418,968 | - | $ - |
| Issued to acquire Prairie Schooner (net of issue costs $1.6 million) | 25,759,563 | 341,089 | - | - |
| Issued to acquire Shellbridge (net of issue costs of $ 0.6 million) | 4,389,366 | 67,669 | | |
| Exchangeable shares converted | 227,010 | 4,677 | - | - |
| Units issued pursuant to DRIP | 2,197,291 | 30,303 | - | - |
| Units to be issued pursuant to DRIP | 572,277 | 5,520 | | |
| Balance, end of period | 69,321,703 | $ 868,226 | - | $ - |

### b. Trust Unit Incentive Plan

The Trust has a trust unit incentive plan where the Trust may grant trust unit incentive rights to its directors, officers, employees and service providers. Under this plan, the exercise price of each trust unit incentive right initially equals the market price of the Trust's stock on the date of grant. The maximum term of an incentive right is five years.

The grant price per Incentive Right ("Grant Price") shall be equal to the per Trust Unit closing price on the trading day immediately preceding the date of grant, unless otherwise permitted. Under the terms of the Incentive Plan, the exercise price of each Incentive Right is initially equal to the Grant Price and thereafter is reduced pursuant to a formula. This formula provides that the exercise price of each Incentive Right is reduced by any decreases in the daily closing price on the Toronto Stock Exchange of the Trust Units that is in excess of a 2.5% return per quarter on the Trust's consolidated net fixed assets (the "Hurdle Rate"); provided however, that such decrease in the exercise price will not exceed the amount by which the Trust Unit distributions exceed the Hurdle Rate. Effective June 1, 2006, the Trust amended its hurdle rate to 0% per quarter. In no case may the exercise price be less than $0.001 per Trust Unit and a participant may elect to have the exercise price equal the Grant Price. Incentive Rights are non-transferable or assignable except in accordance with the Incentive Plan and the holding of Incentive Rights shall not entitle a holder to any rights as a Unitholder of True Energy Trust.

Unit rights, entitling the holder to purchase units from the Trust, have been granted to directors, officers, employees and service providers of the Trust. Effective May 1, 2006, one third of the initial grant of trust unit incentives vest on each of the first, second, and third anniversary from the date of grant.

The following tables summarize information regarding trust unit incentive rights for the period ended and as at September 30, 2006.

**Unit Rights Continuity**

| *For the nine months ended September 30, 2006* | **Average Exercise Price[1]** | **Number Outstanding** |
|---|---|---|
| Balance, beginning of period | $ 17.94 | 3,159,000 |
| Granted | $ 16.08 | 2,675,000 |
| Cancelled | $ 18.27 | (317,500) |
| Balance, end of period | $ 14.65 | 5,516,500 |

**Unit Rights Outstanding**

| **Average Exercise Price** | **Number Outstanding** | **Number Exercisable** | **Weighted Average Remaining Contractual Life** |
|---|---|---|---|
| $ 14.65/unit[1] | 5,516,500 | 1,057,140 | 4.5 |

[1] Exercise prices reflect grant prices less reduction in exercise prices.

**c. Distribution Reinvestment Plan**

Effective March 27, 2006, True adopted a Premium Distribution™ Reinvestment, Distribution Reinvestment and Optional Trust Unit Purchase Plan (the "Plan"). The Plan amends, restates and replaces in its entirety the distribution reinvestment and optional trust unit purchase plan (the "Old Plan") of True dated December 1, 2004, which was implemented by TKE Energy Trust. The Plan allows eligible unitholders of True to direct that their cash distributions be reinvested in additional trust units at 95% of the Average Market Price (as defined in the Plan) on the applicable distribution payment date. The Plan further allows eligible unitholders to elect, under the Premium Distribution™ component of the Plan, to have these additional trust units delivered to the designed Plan broker in exchange for a premium cash distribution equal to 102% of the cash distribution that such unitholders would otherwise have received on the applicable distribution payment date if they did not participate in the Plan (subject to proration in certain events as provided in the Plan.) Canaccord Capital Corporation will act as the Plan broker for the Premium Distribution™ component of the Plan.

In addition, the Plan allows those unitholders who participate in either the distribution reinvestment component or the Premium Distribution™ component of the Plan to purchase additional trust units from treasury at a purchase price equal to the Average Market Price (with no discount) in minimum amounts of $2,000 per remittance up to a maximum aggregate amount of $50,000 per month by any one unitholder, in any calendar month, all subject to an overall annual limit of 2% of the total number of outstanding trust units. The Trust reserves the right to limit the amount of any new equity available under the Plan on any particular distribution date and thus participants may be pro-rated in certain circumstances.

## 10. CONTRIBUTED SURPLUS

| | **Nine months ended September 30,** | |
|---|---|---|
| ***($000s)*** | **2006** | **2005** |
| Balance, beginning of period | $ 5,127 | $ 877 |
| Unit-based compensation expense | 5,734 | - |
| Stock-based compensation expense | - | 1,127 |
| Transfer to share capital on exercise of options | - | (65) |
| Balance, end of period | $ 10,861 | $1,939 |

**Unit-based Compensation**

During the nine months ended September 30, 2006, the Trust granted 2,675,000 unit incentive rights to employees, consultants and directors. The Trust recorded unit-based compensation expense of $5.7 million, of which $0.8 million was capitalized to property, plant and equipment.

The fair values of all incentive rights granted are estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair market value of incentive rights granted during the nine month period ended September 30, 2006 and the assumptions used in their determination are as noted below.

| | **Nine months ended September 30, 2006** |
|---|---|
| Assumptions: | |
| Risk free interest rate (%) | 4 |
| Expected life (years) | 5 |
| Expected volatility (%) | 24 |
| Results: | |
| Weighted average fair value of incentive rights granted | $ 4.26 |

## 11. SUPPLEMENTAL INFORMATION

### a. Cash flow

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| ***($000s)*** | **2006** | **2005** | **2006** | **2005** |
| Cash paid: | | | | |
| Interest | $ 691 | $276 | $ 3,565 | $908 |
| Taxes (net of refunds) | $ 657 | $288 | $ 3,871 | 1,278 |
| Investing and financing activities: | | | | |
| Net assets acquired on acquisitions (note 3) | $ 344,433 | $ - | $ 413,252 | $ 152,181 |

### b. Property plant and equipment

The Trust has excluded from the depletion calculation $174.0 million for undeveloped properties and $45.3 million for undeveloped land.

## 12. INCOME TAXES

The provision for income taxes differs from the expected amount calculated by applying the combined Federal and Provincial corporate income tax rate of 35.99% (2005: 40.1%) to earnings or losses before income taxes. This difference results from the following items:

| *($000s)* | September 30, 2006 | September 30, 2005 |
|---|---|---|
| Expected income tax expense (recovery) | $ (10,539) | $ 8,746 |
| Amount in trust income | (21,873) | - |
| Crown royalties and charges | 3,354 | 2,868 |
| Resource allowance | (2,929) | (2,528) |
| Unit and stock based compensation expense | 1,755 | 452 |
| Change in enacted tax rates | (19,825) | (263) |
| Other | 1,014 | 20 |
| Income tax expense (recovery) | (49,043) | 9,295 |
| Capital tax expense | 2,384 | 1,853 |
| Total tax expense (recovery) | $ (46,659) | $11,148 |

## 13. PER TRUST UNIT AMOUNTS

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Basic trust units outstanding | 69,321,703 | 24,590,610 | 69,321,703 | 24,590,610 |
| Dilutive effect of: | | | | |
| Trust unit incentive rights outstanding | 5,516,500 | 1,184,542 | 5,516,500 | 1,184,542 |
| Units issuable for exchangeable shares | 272,264 | - | 272,264 | - |
| Units issuable for convertible debentures | 5,390,625 | - | 5,390,625 | - |
| Diluted trust units outstanding | 80,501,092 | 25,775,152 | 80,501,092 | 25,775,152 |
| Weighted average trust units outstanding | 44,934,827 | 24,574,027 | 39,549,352 | 22,108,542 |
| Dilutive effect of exchangeable shares, trust unit incentive plan and convertible debentures (1) | 272,264 | 560,016 | 272,264 | 472,497 |
| Diluted weighted average trust units outstanding | 45,207,091 | 25,134,043 | 39,821,616 | 22,581,039 |

*(1) A total of 103,033 (2005: 618,697 after consolidation) trust incentive units and 5,390,625 (2005: nil) trust units issuable pursuant to the conversion of convertible debentures were excluded from the calculation for the three month periods ended September 30, 2006 as they were not dilutive. A total of 721,377 (2005: 512,851 after consolidation) trust incentive units and 2,132,555 (2005: nil) trust units issuable pursuant to the conversion of convertible debentures were excluded from the calculation for the nine month periods ended September 30, 2006 as they were not dilutive.*

Basic per trust unit amounts is calculated using the weighted average number of trust units outstanding during the period.

The Trust uses the treasury stock method to determine the dilutive effect of trust incentive units. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations in computing diluted earnings per trust unit. The Trust uses the "if-converted" method to determine the dilutive effect of exchangeable shares and convertible debentures.

The term "units" has been used to identify trust units and exchangeable shares of the Trust issued on or after November 2, 2005, as well as the common shares of the corporation outstanding prior to the conversion on November 2, 2005 as restated to reflect the November 2, 2005 Plan of Arrangement and post 2:1 consolidation.

## 14. FINANCIAL INSTRUMENTS

The Trust has entered into financial price risk management arrangements as follows:

| Type | Period | Volume | Price Floor | Price Ceiling | Index |
|---|---|---|---|---|---|
| Oil costless collar | April 1, 2006 to December 31, 2006 | 2,000 bbl/d | $ 58.00 US | $ 69.35 US | WTI |
| Oil put option | January 1, 2007 to June 30, 2007 | 1,000 bbl/d | $ 70.00 US | - | WTI |
| Oil put option | January 1, 2007 to March 31, 2007 | 800 bbl/d | $ 70.00 US | - | WTI |
| Natural Gas put option | September 1, 2006 to March 31, 2007 | 10,000 GJ/day | $ 8.00 CDN | - | AECO C |
| Natural Gas put option | November 1, 2006 to March 31, 2007 | 3,000 GJ/day | $ 8.00 CDN | - | AECO C |
| Natural Gas costless collar | April 1, 2006 to October 31, 2006 | 2,000 GJ/day | $ 9.50 CDN | $ 10.86 CDN | AECO C |
| Natural Gas costless collar | November 1, 2006 to March 31, 2007 | 3,000 GJ/day | $ 8.50 CDN | $ 10.50 CDN | AECO C |
| Natural Gas costless collar | November 1, 2006 to March 31, 2007 | 2,000 GJ/day | $ 9.00 CDN | $ 10.95 CDN | AECO C |
| Natural Gas costless collar | November 1, 2006 to March 31, 2007 | 3,000 GJ/day | $ 8.50 CDN | $ 10.75 CDN | AECO C |
| Natural Gas fixed | April 1, 2006 to October 31, 2006 | 2,000 GJ/day | $ 8.12 CDN | $ 8.12 CDN | AECO C |
| Natural Gas fixed | April 1, 2006 to October 31, 2006 | 3,000 GJ/day | $ 8.13 CDN | $ 8.13 CDN | AECO C |
| Natural Gas fixed | April 1, 2006 to October 31, 2006 | 2,000 GJ/day | $ 8.95 CDN | $ 8.95 CDN | AECO C |
| Natural Gas fixed | November 1, 2006 to March 31, 2007 | 2,000 GJ/day | $ 9.32 CDN | $ 9.32 CDN | AECO C |
| Natural Gas fixed | November 1, 2006 to March 31, 2007 | 3,000 GJ/day | $ 9.48 CDN | $ 9.48 CDN | AECO C |

The above contracts require monthly settlement and have been designated as hedges in accordance with Accounting Guideline 13 of Canadian accounting standards. As at September 30, 2006, the mark to market gain on the commodity contracts, which changes on a daily basis, was $7.8 million. Included in revenue for the three and nine month period ended September 30, 2006 are oil and gas net hedging losses of $0.2 million and $0.5 million, respectively, related to the monthly settlement of the commodity contracts in the period.

## 15. COMMITMENTS

At the end of the third quarter of 2006, True had committed to drill a total of 2 wells in Alberta and 1 well in Saskatchewan with varying commitment dates up to March 2007 pursuant to various farm-in agreements with oil and gas companies. True expects to satisfy these various drilling commitments at an estimated cost for True's interest of approximately $1.9 million.

## 16. SUBSEQUENT EVENT

The October 31, 2006 announcement of the Tax Fairness Plan by the Federal Government anticipates a Distribution Tax on distributions from publicly traded income trusts and limited partnerships. For existing income trusts and limited partnerships, the government is proposing a four-year transition period. As such, the Trust will not be subject to the new measures until the 2011 taxation year.

The government's plans must first be enacted in Parliament and it may be some time before the plans, translated into a Tax Bill, are substantially enacted, particularly given the fact that there is a minority government in place. As such, for the current quarter 2006, and until third reading of the Bill in Parliament, current and future income taxes will not be affected by this recent announcement.

The announcement of the government's plans has resulted in the markets reacting quite strongly to the news. As of November 2, 2006, the market capitalization of the Trust has declined by approximately $130 million (17.6%) since October 31, 2006. The S&P/TSX Energy Index was off 18% during this same period. The Trust is currently assessing the proposals and the potential implications to the Trust. Until more details on the proposed distribution tax measures and their further impact is available, it is too early to make an estimate of the financial effect of these proposals. However, the Trust will be carefully monitoring the development of the proposed measures over the coming months. In particular, the Trust will be evaluating the impact of the proposed measures on net income and cash flows and the potential valuation impact on the long lived assets, including goodwill. While it is too early to assess whether there is any impairment in the valuation of goodwill currently carried on the balance sheet as of September 30, 2006, the Trust will assess for any goodwill impairment, comparing the carrying value of the net assets of the Trust to their fair value, during the fourth quarter of 2006 using the latest available data, including but not limited to, market capitalization of the Trust, recent commodity prices and an updated reserve engineering report. Any impairment of goodwill would be reflected as a non-cash charge to income in the period of impairment.

True Energy Trust is a Calgary-based oil and natural gas trust. True is an open-ended, incorporated investment trust governed by the laws of the Province of Alberta. The purpose of the Trust is to indirectly explore for, develop and hold interests in petroleum and natural gas properties, through investments in securities of subsidiaries and net profits interests. The trust structure allows individual unitholders to participate in the cash flow of the business. Cash flow is realized from the Trust's subsidiaries' ownership of natural gas and petroleum properties and related facilities. Trust units of True trade on the Toronto Stock Exchange ("TSX") under the symbol TUI.UN. For further information, please contact:


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