



# Unlocking Value DAY.UN

## ***DAYLIGHT RESOURCES TRUST REPORTS THIRD QUARTER 2006 FINANCIAL AND OPERATING RESULTS***

### **MESSAGE TO UNITHOLDERS**

Daylight Resources Trust, successor to Daylight Energy Trust, is pleased to report financial and operating results for the three months ended September 30, 2006.

On September 21, 2006, the merger between Daylight Energy Trust and Sequoia Oil & Gas Trust closed after receiving overwhelming unitholder support (96% and 99% respectively) forming Daylight Resources Trust, a new intermediate-sized, gas-weighted energy trust.

Our new Trust has a full complement of high-end technical personnel and a large high quality property base, that we built to deliver stable and predictable production volumes and consistently add and deliver value to the unitholder.

### ***DAYLIGHT RESOURCES TRUST – MORE PRODUCTION, MORE RESERVES, LONGER RESERVE LIFE INDEX***

- Production has increased over 40% to average 22,500 boe/d since closing the transaction
  - Current production volumes have increased to approximately 22,800 boe/d
- Reserves increased an estimated 48% to over 70 MMboe on a proved plus probable basis
  - Reserve life index increased an estimated 6% to 8.4 years

### **THIRD QUARTER 2006 HIGHLIGHTS**

#### ***PRODUCTION GROWTH***

- Q3 2006 production volumes of 16,342 boe/d
  - increased 2% from Q2 2006 and 13% from Q3 2005
- YTD 2006 production volumes of 15,909 boe/d
  - increased 12% from YTD 2005

Daylight Resources has current production guidance of 22,500 to 23,500 boe/d.

#### ***SOLID CASH FLOW***

- Q3 2006 cash flow was \$32.2 million versus Q2 2006 of \$33.2 million
  - Natural gas prices were 7% lower in Q3 2006 versus Q2 2006
  - Oil and NGL prices were 2% higher in Q3 2006 versus Q2 2006
- YTD 2006 cash flow was \$98.5 million versus YTD 2005 of \$100.4 million
  - Natural gas prices were 17% lower YTD 2006 versus YTD 2005
  - Oil and NGL prices were 11% higher in YTD 2006 versus YTD 2005

Daylight Resources has maintained solid cash flow despite significant decreases in natural gas prices.

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### **NATURAL GAS PRODUCTION HEDGES**

- Winter gas hedges – 38 mmcf/d from December 01, 2006 to March 31, 2007 at an average floor price of C\$7.33 per mcf
  - over 44% of our forecasted natural gas production during this period
- Summer gas hedges – 28 mmcf/d April 01, 2007 to October 31, 2007 at a floor price of C\$7.13 per mcf
  - over 33% of our forecasted natural gas production during this period

Daylight Resources Trust's natural gas hedges provide downside price protection to provide predictability of future revenues.

### **MONTHLY DISTRIBUTIONS – MAINTAINED AT \$0.195 PER UNIT FOR Q4 2006**

- Q3 2006 payout ratio of 88% proforma the Sequoia transaction closing on September 1, 2006 to match distributions to cash flow
  - Production volume strength offset the impact of a 7% reduction to natural gas prices in Q3 2006 versus Q2 2006
  - Total cash and equity distributions were \$0.87 per Daylight Resources Trust unit for Q3 2006
    - Includes the distribution of Trafalgar Securities at a Net Asset Value ("NAV") of \$0.26 per Daylight Resources Trust unit
- YTD 2006 payout ratio of 83% proforma the Sequoia transaction closing on September 1, 2006 to match distributions to cash flow
- Q4 2006 cash distributions are maintained at \$0.195 per unit per month as indicated below:

Record Date	Ex-Distribution Date	Distribution Payment Date	Distribution Per Unit
October 31, 2006	October 27, 2006	November 15, 2006	\$0.195
November 30, 2006	November 28, 2006	December 15, 2006	\$0.195
December 31, 2006	December 27, 2006	January 15, 2007	\$0.195

Daylight Resources Trust provides solid production and stable cash flow through its natural gas hedging program.

### **CAPITAL EXPENDITURES – HIGHLY SUCCESSFUL 2006 PROGRAM WITH 97% DRILLING SUCCESS RATE**

- Daylight has invested \$75.8 million on its YTD 2006 capital program
- The Trust drilled a total of 38 gross (25.8 net) wells with 97% success rate
  - West Central - 7 gross (4.0 net) natural gas wells
  - Peace River Arch - 8 gross (2.8 net) wells comprised of 7 gross (2.7 net) light oil wells and 1 gross (0.1 net) natural gas well
  - East - 23 gross (19.0 net) wells comprised of 14 gross (12.8 net) heavy oil wells, 8 gross (5.2 net) natural gas wells and 1 gross (1.0 net) dry and abandoned

### **FEDERAL GOVERNMENT PROPOSAL TO ALTER TAXATION OF DISTRIBUTIONS - DAYLIGHT'S POSITION**

- On October 31, 2006, the Federal Government announced proposed tax legislation changes pertaining to the taxation of distributions paid by Trusts and a change to the personal tax treatment of Trust distributions
- Daylight is strongly opposed to proposed legislation changes that effect a two-tiered tax structure similar to that of corporations whereby distributions would be subject to tax at the Trust level with personal tax treatment equivalent to that of a taxable dividend

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- Under the proposed legislation, the distribution tax at the Trust level will reduce the distributions to tax-deferred accounts and to non-residents
- If enacted, the proposed legislation would become effective January 01, 2011
- Daylight is a member of the newly formed Coalition of Energy Trusts and fully supports their initiatives

We strongly encourage all Unitholders to make a direct contact with the Canadian government as soon as possible to ensure their perspective is heard. The following information will assist Unitholders in obtaining the information needed to formulate opinions and voice concerns directly:

Canadian Department of Finance Backgrounder - <http://www.fin.gc.ca/news06/06-061e.html>

Canadian Association of Income Funds Website: [www.caif.ca](http://www.caif.ca)

Coalition of Canadian Energy Trusts Website: [www.canadianenergytrusts.ca](http://www.canadianenergytrusts.ca)

Direct contact with the Minister of Finance:

The Honourable Jim Flaherty  
Department of Finance Canada  
House of Commons  
Ottawa, Ontario K1A 0A6  
Phone: 613-992-6344 / Fax: 613-992-8320  
E-mail: [Flaherty.j@parl.gc.ca](mailto:Flaherty.j@parl.gc.ca)

Contact your Member of Parliament:

<http://webinfo.parl.gc.ca/MembersOfParliament/MainMPsCompleteList.aspx?TimePeriod=Current&Language=E>

Daylight will also continue to provide additional information on its website to assist Unitholders in their efforts to be heard by government on this important issue.

### **DAYLIGHT TAX POOLS - ABILITY TO SHELTER SIGNIFICANT INCOME**

As at September 30, 2006, Daylight and its subsidiaries have tax pools of approximately \$642 million.

(000s)	Daylight Energy	Daylight	Combined
Canadian exploration expense	\$ 52,000	\$ -	\$ 52,000
Canadian development expense	208,000	-	208,000
Canadian oil and gas property expense	-	75,000	75,000
Undepreciated capital cost	240,000	-	240,000
Non-capital losses	33,000	-	33,000
Share issue costs	6,000	28,000	34,000
Total	\$ 539,000	\$ 103,000	\$ 642,000

### **2006 OUTLOOK**

Daylight Resources Trust's 2006 guidance remains unchanged and is presented with natural gas and oil price sensitivities within Management's Discussion and Analysis. While the recent announcement by the federal government of their taxation plan has caused significant concern amongst Unitholders, the Trust continues to execute a highly successful capital program. Daylight continues to be focused on providing distributions and creating Unitholder value through reinvestment in our diversified asset portfolio and large undeveloped land base. Daylight will continue to pursue accretive acquisitions while maintaining a strong balance sheet.

Signed:

*"Anthony Lambert"*

Anthony Lambert  
President & CEO

November 13, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion & Analysis ("MD&A") is dated November 13, 2006 and should be read in conjunction with the accompanying unaudited interim consolidated financial statements and notes for the nine months ended September 30, 2006 and 2005 as well as the MD&A and audited consolidated financial statements and notes for the periods ended December 31, 2005 and 2004. The consolidated financial statements and other financial data presented have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The following MD&A compares the results of the three months ended September 30, 2006 ("Q3 2006") to the three months ended September 30, 2005 ("Q3 2005") and to the three months ended June 30, 2006 ("Q2 2006"). The MD&A also compares the results of the nine months ended September 30, 2006 ("YTD 2006") to the nine months ended September 30, 2005 ("YTD 2005").

Daylight Resources Trust ("Daylight") uses the term cash flow to evaluate operating performance and leverage. Cash flow and cash flow per unit as presented and as used in the MD&A does not have any standardized prescribed meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities. Cash flow does not represent operating profit for the period nor should it be viewed as an alternative to operating profit, net earnings or other measures of financial performance calculated in accordance with GAAP. All references to cash flow throughout the MD&A are based on cash provided by operating activities before changes in non-cash operating working capital, asset retirement expenditures and Plan of arrangement costs. Daylight uses the term payout ratio (defined on a percentage basis as distributions declared divided by cash flow) to evaluate operating performance and financial flexibility. Payout ratio as used in the MD&A does not have any standardized meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities. Daylight also uses the term operating netback (defined as petroleum and natural gas revenues less royalties, realized gain (loss) on commodity derivatives, operating and transportation expenses) to analyze operating performance. Operating netback as used in the MD&A does not have any standardized meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities.

All references are to Canadian dollars unless otherwise indicated. Where reserves or production are stated on a barrel of oil equivalent ("boe") basis, natural gas volumes have been converted to a boe at a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe's may be misleading, particularly if used in isolation.

*Forward Looking Statements - Certain statements contained within the Management Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Management Discussion and Analysis should not be unduly relied upon. These statements speak only as of the date of this Management Discussion and Analysis or as of the date specified in the documents incorporated by reference into this Management Discussion and Analysis, as the case may be.*

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*In particular, this Management Discussion and Analysis, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:*

- *the performance characteristics of our oil and natural gas properties;*
- *oil and natural gas production levels;*
- *the size of the oil and natural gas reserves;*
- *projections of market prices and costs;*
- *supply and demand for oil and natural gas;*
- *expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *treatment under governmental regulatory regimes and tax laws; and*
- *capital expenditures programs.*

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

- *volatility in market prices for oil and natural gas;*
- *market value of the securities of Daylight;*
- *liabilities inherent in oil and natural gas operations;*
- *uncertainties associated with estimating oil and natural gas reserves;*
- *competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;*
- *incorrect assessments of the value of acquisitions;*
- *geological, technical, drilling and processing problems;*
- *changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry and income trusts; and*
- *the other factors discussed under "Risks and Uncertainties" in the annual Management and Discussion Analysis.*

*Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this Management Discussion and Analysis and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements.*

### **Plan of Arrangement – Creation of Daylight Resources Trust**

On September 21, 2006, Daylight Energy Trust ("DET") and Sequoia Oil and Gas Trust ("Sequoia") received DET securityholder and Sequoia unitholder approval in accordance with all legal and regulatory requirements at the respective special meetings of DET securityholders and Sequoia unitholders regarding their previously announced Plan of Arrangement (the "Arrangement"). The Arrangement was approved by over 96 percent of the votes cast at the DET meeting and approximately 99 percent of the votes cast at the Sequoia meeting. In addition, the Daylight unit award incentive plan, the Daylight employee unit ownership plan, the Daylight bonus plan, the Trafalgar Energy Ltd. ("Trafalgar") private placement, the Trafalgar Stock Option Plan and the prior grant of options thereunder were also approved.

Under the Arrangement each DET Unitholder received 0.6642 units of Daylight for each one DET unit held and DET Exchangeable Shareholders received 0.6642 units of Daylight for each DET unit the Exchangeable Shares held were equivalent to at the closing date of the Arrangement. Also, under the Arrangement each Sequoia Unitholder received 0.8250 units of Daylight for each one Sequoia unit held. DET Unitholders received approximately 62% of the outstanding units of Daylight and Sequoia Unitholders received approximately 38% of the outstanding units of Daylight. In addition, Unitholders of both Trusts also

received, as a separate distribution, common shares ("Trafalgar Common Shares") of Trafalgar on the basis of 0.0417 of a Trafalgar Common Share for each DET Unit and 0.0517 of a Trafalgar Common Share for each Sequoia Unit. In addition, under the Arrangement, each holder of DET Units received 0.0116 of a warrant ("Trafalgar Arrangement Warrant") of Trafalgar for each DET Unit held and each holder of Sequoia Units received 0.0144 of a Trafalgar Arrangement Warrant for each Sequoia Unit held. Each full Trafalgar Arrangement Warrant was exercisable for a period of 30 days following completion of the Arrangement into one Trafalgar Common Share at an exercise price of \$4.02 per share. Under the Arrangement, Daylight retained 740,240 Trafalgar Common Shares within the Trust.

All previously reported unit and per unit amounts have been retroactively restated to reflect the impact of the established 0.6642 units of Daylight for each unit of DET received under the Arrangement, unless specifically indicated otherwise.

### **Administrative & Technical Services Agreement and Relationship with Midnight Oil Exploration Ltd.**

Since November 30, 2004, Daylight Energy Ltd. ("Daylight Energy") and Midnight Oil Explorations Ltd. ("MOX") have been operating pursuant to an Administrative and Technical Services Agreement which provides for the shared services required to manage the activities of Daylight Energy and MOX and to govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight Energy is the employer on behalf of the parties and receives payment for certain technical and administrative services provided to MOX. Pursuant to DET's merger with Sequoia, Daylight Energy and MOX have announced their intention to terminate the agreement on mutually acceptable terms. Daylight Energy and MOX have relocated their offices and related personnel of certain defined functions. Technical personnel, which include geologists, geophysicists, engineers, land negotiators and business development and land contracts personnel, are currently functioning separately and independently for both Daylight Energy and MOX. The remaining personnel in the organizations, including the areas of land administration, drilling and completion operations, marketing, certain accounting, human resources and administration functions are in the transition process to operate independently at this time. It is expected that by the end of 2006, the current Administrative and Technical Services Agreement will be terminated. Certain services between Daylight and MOX that are administrative, provide reasonable economy and do not involve competitive issues may continue beyond 2006 through a new agreement.

### **Tax Legislation Announcement**

On October 31, 2006, the Federal Minister of Finance announced proposals (the "October 31, 2006 Proposals") to amend the *Tax Act* to apply a tax on distributions from publicly-traded income trusts. Under the October 31, 2006 Proposals, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Federal Minister of Finance has issued a Notice of Ways and Means Motion to Amend the *Tax Act*, but it is not known at this time if or when the proposal will be enacted by Parliament.

In simplified terms, under the proposed tax plan, distributions to unitholders that had previously been without taxes or withholdings at the income trust level will be subject to a new tax. The income distributions to individual unitholders will be treated as dividends from a Canadian corporation and would be eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free intercorporate dividends. Tax-deferred accounts (Registered Retirement Savings Plans, Registered Retirement Income Funds and Canadian Pension Funds) will continue to pay no tax on distributions received. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because

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they may take advantage of the dividend tax credit. However, as a result of the distribution tax at the trust level, distributions to tax-deferred accounts and distributions to non-residents will be reduced.

Given the grace period before existing trusts will be taxed, the Trust has an opportunity to examine its strategy, and if warranted, modify it to provide the best possible return for unitholders. At the same time, unitholders have an opportunity to arrange their investments to minimize the impact of the proposed tax changes on their portfolios. The effect of the proposed tax changes on the Trust is yet to be determined. In particular, the Trust will be evaluating the impact of the proposed measures on the net income and cash flows of the Trust and the potential valuation impact on long-lived assets such as goodwill, all of which could be material.

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## HIGHLIGHTS

<b>Financial</b>	<b>Q3</b>	<b>Q2</b>	<b>Q3</b>	<b>YTD</b>	<b>YTD</b>
(CDN\$ thousands, except unit, per unit and operational data)	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Petroleum and natural gas revenues	\$ 69,877	\$ 68,554	\$ 76,445	\$ 204,618	\$ 190,958
Royalties	(13,269)	(13,985)	(13,188)	(39,709)	(34,034)
Realized loss on derivatives	(133)	-	(350)	(133)	(291)
Operating expenses	(15,901)	(15,286)	(12,981)	(46,035)	(38,493)
Transportation	(1,959)	(1,354)	(1,018)	(4,622)	(2,398)
Operating netback	38,615	37,929	48,908	114,119	115,742
G&A – cash charge	(3,634)	(2,625)	(2,216)	(8,855)	(6,311)
Cash financial charges	(2,695)	(2,286)	(2,756)	(6,680)	(8,201)
Cash taxes	(44)	167	(224)	(132)	(815)
Cash flow					
(excluding Plan of Arrangement costs)	32,242	33,185	43,712	98,452	100,415
Per unit					
– Basic	0.71	0.79	1.37	2.29	3.22
– Diluted	0.68	0.77	1.23	2.18	2.89
Net income (loss)	(2,140)	15,735	20,525	25,688	38,613
Per unit					
– Basic	(0.05)	0.38	0.68	0.60	1.31
– Diluted	(0.05)	0.38	0.63	0.59	1.28
Cash distributions declared	31,844	26,663	17,023	84,914	48,269
Per unit	0.62	0.63	0.54	1.88	1.63
Payout ratio <sup>(1)</sup>	n/a <sup>(1)</sup>	80%	39%	n/a <sup>(1)</sup>	48%
Capital expenditures	19,358	21,034	23,851	75,770	52,324
Non-cash capital divestitures	(21,100)	(6,628)	-	(27,728)	-
Corporate acquisitions	522,685	-	-	522,685	61,000
Wells drilled – gross (net)	12 (9.2)	5 (1.0)	15 (6.9)	38 (25.8)	37 (18.9)
Market value of investments	20,500	5,783	-	20,500	-
Bank debt	287,392	165,114	124,185	287,392	124,185
Working capital deficiency	46,877	28,931	16,467	46,877	16,467
Total assets	1,424,236	833,821	689,297	1,424,236	689,297
Units outstanding (000s)					
Basic	71,863	42,209	33,767	71,863	33,767
Diluted	72,117	44,349	37,501	72,117	37,501
<b>Operational</b>					
Average daily production					
Natural gas (mcf/d)	57,926	59,452	54,096	57,804	56,936
Light oil (bbls/d)	3,172	2,855	2,527	2,870	2,513
Heavy oil (bbls/d)	2,760	2,579	2,096	2,680	1,352
NGLs (bbls/d)	756	740	785	725	816
Oil & NGLs (bbls/d)	6,688	6,174	5,408	6,275	4,681
Combined (boe/d)	16,342	16,083	14,424	15,909	14,170
Average prices received					
Natural gas (\$/mcf)	\$ 5.74	\$ 6.18	\$ 9.26	\$ 6.54	\$ 7.85
Light oil (\$/bbl)	74.23	71.78	68.98	70.86	62.63
Heavy oil (\$/bbl)	51.27	52.01	51.94	45.87	38.36
NGLs (\$/bbl)	67.79	63.05	56.56	63.93	51.64
Oil & NGLs (\$/bbl)	\$ 64.03	\$ 62.48	\$ 60.57	\$ 59.38	\$ 53.71
Combined (\$/boe)	\$ 46.48	\$ 46.84	\$ 57.61	\$ 47.12	\$ 49.36
Petroleum and natural gas revenues (\$/boe)	\$ 46.48	\$ 46.84	\$ 57.61	\$ 47.12	\$ 49.36
Royalties (\$/boe)	(8.83)	(9.56)	(9.94)	(9.14)	(8.80)
Realized loss on derivatives (\$/boe)	(0.09)	-	(0.26)	(0.03)	(0.08)
Operating expenses (\$/boe)	(10.58)	(10.44)	(9.78)	(10.60)	(9.95)
Transportation (\$/boe)	(1.30)	(0.93)	(0.77)	(1.06)	(0.62)
Operating netback (\$/boe)	\$ 25.68	\$ 25.91	\$ 36.86	\$ 26.29	\$ 29.91
G&A – cash charge (\$/boe)	(2.42)	(1.79)	(1.67)	(2.04)	(1.63)
Cash financial charges (\$/boe)	(1.79)	(1.56)	(2.08)	(1.54)	(2.12)
Cash taxes (\$/boe)	(0.03)	0.11	(0.17)	(0.03)	(0.21)
Cash flow (\$/boe)					
(excluding Plan of Arrangement costs)	\$ 21.44	\$ 22.67	\$ 32.94	\$ 22.68	\$ 25.95

Per boe amounts may not add exactly due to rounding

(1) On a proforma basis, if the Sequoia transaction had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006 and 83% for YTD 2006. See discussion in Distributions section for further details.

## RESULTS OF OPERATIONS

Daylight is an oil and natural gas energy trust applying a high end technical and business execution team to a high quality asset base to provide sustainable production and reserve levels. Daylight operates in the Western Canadian Sedimentary Basin. Daylight's units and its 8.5% Convertible Debentures trade on the Toronto Stock Exchange ("TSX") with the symbols DAY.UN and DAY.DB, respectively.

### Production

Daylight's total production volumes for Q3 2006 averaged 16,342 boe per day which is a 2% increase from Q2 2006. Q3 2006 production is comprised of 57,926 mcf per day of natural gas, 3,172 bbls per day of light oil, 2,760 bbls per day of heavy oil and 756 bbls per day of natural gas liquids ("NGLs"). Production for Q3 2006 increased 13% over Q3 2005 due to corporate acquisitions and a highly successful winter capital program in 2005/2006. Production for the YTD 2006 averaged 15,909 boe/d, a 12% increase from the corresponding period in 2005. Q3 2006 production includes 10 days of production from the assets acquired under the Plan of Arrangement with Sequoia effective September 21, 2006, rather than a full quarter of production.

	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Natural gas (mcf/d)	57,926	59,452	54,096	57,804	56,936
Light oil (bbls/d)	3,172	2,855	2,527	2,870	2,513
Heavy oil (bbls/d)	2,760	2,579	2,096	2,680	1,352
NGLs (bbls/d)	756	740	785	725	816
Combined oil & NGLs (bbls/d)	6,688	6,174	5,408	6,275	4,681
Combined all products (boe/d)	16,342	16,083	14,424	15,909	14,170

2006 production replacement activities are focused on the:

- West Central properties of Pine Creek, Kaybob, Fir, Oldman and Windfall
- Peace River Arch properties of Red Earth, Cecil and Beaverlodge
- Eastern properties of Wildmere, Chigwell, Bon Accord, Norris and Chipman

Daylight's total production volumes since closing of the Plan of Arrangement on September 21, 2006 have averaged 22,500 boe per day and current production volumes are approximately 22,800 boe per day.

### Commodity Prices

Daylight's natural gas prices are influenced by overall North American supply and demand balance, seasonal changes, storage levels and transportation capacity constraints. Daylight's realized natural gas price has a high correlation to the Alberta benchmark price ("AECO") which provides pricing for natural gas based on heating value.

Daylight's oil price is significantly influenced by global supply and demand conditions. Daylight's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price and the Canadian to US dollar exchange rate. Canadian light oil prices correlate to refinery postings that adjust WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments. Daylight's realized heavy oil price is lower than its light oil price and the historical correlation with WTI is not as strong. Heavy oil requires increased refining and costs, such as condensate for blending, which reduce the realized price of this production. During 2006 the WTI price has been very strong which has enhanced the price realized by Daylight on its oil production.

NGLs include condensate, pentane, butane and propane. Prices for NGLs have their own market dynamic with a relatively strong correlation to oil prices for condensate and pentane while butane and propane trade at varying discounts due to market conditions of supply and demand.

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Market Prices	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
AECO (\$Cdn/mcf)	\$ 5.58	\$ 5.87	\$ 9.24	\$ 6.26	\$ 7.75
WTI (\$US/bbl)	70.48	70.51	63.18	68.12	55.46
Edmonton Par (\$Cdn/bbl)	79.69	79.06	77.02	76.02	68.46
Bow River (\$Cdn/bbl)	58.83	60.91	52.64	53.34	44.20
Exchange rate (\$Cdn/\$US)	0.8919	0.8918	0.8322	0.8833	0.8174

Daylight prices realized:	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Natural gas (\$/mcf)	\$ 5.74	\$ 6.18	\$ 9.26	\$ 6.54	\$ 7.85
Light oil (\$/bbl)	74.23	71.78	68.98	70.86	62.63
Heavy oil (\$/bbl)	51.27	52.01	51.94	45.87	38.36
NGLs (\$/bbl)	67.79	63.05	56.56	63.93	51.64
Combined oil & NGLs (\$/bbl)	64.03	62.48	60.57	59.38	53.71
Combined all products (\$/boe)	\$ 46.48	\$ 46.84	\$ 57.61	\$ 47.12	\$ 49.36

Daylight's natural gas price during Q3 2006 was \$5.74/mcf representing a 3% premium to AECO in the quarter. During Q3 2006 the range of daily AECO pricing for natural gas ranged from a low of approximately \$3.74/mcf and a high of approximately \$7.54/mcf. YTD 2006 gas price was \$6.54/mcf representing a 4% premium to AECO. Daylight has consistently realized a slight premium to AECO on its natural gas sales as a result of the heating value of the natural gas production and Daylight expects this to continue for the remainder of 2006. With the decrease in natural gas prices during 2006, Daylight's realized price for YTD 2006 was 17% lower than YTD 2005 realized price. The Q3 2006 natural gas price was 38% lower than the price realized in Q3 2005 and 7% lower than the price realized in Q2 2006.

Daylight's light oil price generally correlates with the Edmonton par price. For Q3 2006, Daylight's light oil realized \$74.23/bbl, 93% of the Edmonton par price, while in Q2 2006 this production realized \$71.78/bbl, 91% of the Edmonton par price. The YTD 2006 realized price was \$70.86/bbl or 93% of the Edmonton par price. On a per barrel basis, Daylight's price has increased from the corresponding periods in 2005 in line with the increases in Edmonton par price.

Daylight's heavy oil price does not consistently correlate with the established heavy oil reference price - Bow River. Daylight's Wildmere production is generally heavier than Bow River specifications and has been subject to large variances in realized pricing, while heavy oil acquired from Tempest in the Chipman area is lighter than Bow River and generally correlates to 75 - 80% of Edmonton Par. During Q3 2006 Daylight's heavy oil price realized 87% of the Bow River price which is a 1% decrease from Q2 2006. YTD 2006 heavy oil price of \$45.87/bbl is 20% higher than the YTD 2005 heavy oil price of \$38.36/bbl as Daylight's heavy oil blend has changed and the realized price of Wildmere heavy oil was significantly higher during the 2006 period. The price of heavy oil is influenced by many factors including the price of condensate and we expect the realized price will continue to fluctuate. Daylight only had heavy oil production for the last six months of YTD 2005.

Daylight's combined oil and NGLs price during Q3 2006 was \$64.03/bbl and \$59.38/bbl for the YTD 2006 period which represents a 6% and 11% increase from the corresponding periods in 2005.

Daylight's realized prices, with the exception of heavy oil, are expected to continue to correlate with market prices, subject to the impact of our commodity derivatives that are in place, during 2006. In conjunction with the Sequoia acquisition and additional activities subsequent to Q3 2006, Daylight now has commodity derivatives in place for a portion of both oil and natural gas production volumes.

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### Revenue

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Natural gas	\$ 30,598	\$ 33,415	\$ 46,071	\$ 103,190	\$ 121,971
Light oil	21,661	18,649	16,036	55,501	42,970
Heavy oil	13,018	12,206	10,016	33,560	14,157
NGLs	4,718	4,246	4,085	12,649	11,504
Other	(118)	38	237	(282)	356
<b>Total</b>	<b>\$ 69,877</b>	<b>\$ 68,554</b>	<b>\$ 76,445</b>	<b>\$ 204,618</b>	<b>\$ 190,958</b>

Production increased by 2% on a per boe basis, with a corresponding 2% increase in revenue for Q3 2006 to \$69.9 million from Q2 2006. Natural gas sales for Q3 2006 were \$30.6 million, a decrease of 8% from Q2 2006. Light oil sales for Q3 2006 were \$21.7 million, up 16% from Q2 2006, heavy oil sales for Q3 2006 were \$13.0 million, up 7% from Q2 2006, and NGLs sales for Q3 2006 were \$4.7 million, up 11% from Q2 2006. The increases in oil and NGLs prices offset the 7% decrease in gas prices. For the YTD 2006 period, Daylight realized a 15% decrease in natural gas sales, a 29% increase in light oil sales, a 137% increase in heavy oil sales, and a 10% increase in NGL sales over the YTD 2005 period. The YTD 2005 period contains only 6 months of heavy oil production.

### Royalties

Royalty payments are made to the owners of the mineral rights on our leases which include provincial governments (Crown) and freehold landowners as well as to other third parties by way of contractual overriding royalties.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for natural gas and NGLs in Alberta. Gas cost allowance, custom processing credits and other incentive programs reduce the effective royalty rate.

Overriding royalties are generally paid to third parties where Daylight has entered into agreements to earn an interest in their mineral rights by investing capital in the property.

Oil royalty rates are generally a function of production rates on a per well basis and prices. They are also subject to certain reductions and incentives. Oil crown royalties in Alberta are generally satisfied by delivering the required volume of oil to the Crown.

Royalties by type (000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Crown royalties, net of ARTC	\$ 11,134	\$ 11,190	\$ 11,045	\$ 32,303	\$ 28,295
Freehold royalties	1,205	1,625	868	4,112	2,259
Overriding royalties	930	1,170	1,275	3,294	3,480
<b>Total</b>	<b>\$ 13,269</b>	<b>\$ 13,985</b>	<b>\$ 13,188</b>	<b>\$ 39,709</b>	<b>\$ 34,034</b>
<b>\$ per boe</b>	<b>\$ 8.83</b>	<b>\$ 9.56</b>	<b>\$ 9.94</b>	<b>\$ 9.14</b>	<b>\$ 8.80</b>
<b>% of revenue</b>	<b>19.0</b>	<b>20.4</b>	<b>17.3</b>	<b>19.4</b>	<b>17.8</b>

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Royalties by commodity (000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Natural gas	\$ 6,204	\$ 7,121	\$ 8,410	\$ 21,977	\$ 22,300
Oil and NGLs	7,065	6,864	4,778	17,732	11,734
Total	\$ 13,269	\$ 13,985	\$ 13,188	\$ 39,709	\$ 34,034
Natural gas (\$/boe)	\$ 6.98	\$ 7.90	\$ 10.14	\$ 8.36	\$ 8.61
Oil and NGLs (\$/boe)	11.48	12.22	9.60	10.35	9.18
Total (\$/boe)	\$ 8.83	\$ 9.56	\$ 9.94	\$ 9.14	\$ 8.80
Natural gas (% of revenue)	20.3	21.3	18.3	21.3	18.3
Oil and NGLs (% of revenue)	18.0	19.6	15.9	17.4	17.1
Total (% of revenue)	19.0	20.4	17.3	19.4	17.8

Overall royalty rates decreased 7% in Q3 2006 over Q2 2006. Natural gas rates decreased 5%, while oil and NGLs royalty rates decreased 8%. Rates increased 9% for the first nine months of 2006 to 19.4% of revenue from 17.8% for the same period last year. Gas royalties decreased to 20.3% of gas revenue in Q3 2006 from 21.3% in Q2 2006. Oil and NGLs royalties decreased to 18.0% of Oil and NGL revenue during Q3 2006 over Q2 2006 rate of 19.6%. Royalties on a dollar per boe basis decreased 8% from Q2 2006.

### Gain (Loss) on Commodity Derivatives

Daylight did not have any commodity derivatives in place prior to the Sequoia acquisition during YTD 2006. The Trust may enter into financial or commodity derivatives to manage commodity prices, foreign exchange and interest rate risk.

As at September 30, 2006, Daylight had the following financial contracts in place assumed in conjunction with the Sequoia acquisition in Q3 2006:

Type of Contract	Commodity	Hedged Volume	Hedge Price	Hedge Period
Financial (Collar <sup>(1)</sup> )	Natural gas	10,000 GJ/d	Cdn\$8.50 - \$14.10/GJ	April 1/06 to Oct 31/06
Financial (Collar <sup>(1)</sup> )	Natural gas	10,000 GJ/d	Cdn\$7.50 - \$12.77/GJ	Nov 1/06 to Mar 31/07
Financial (Collar <sup>(1)</sup> )	Crude oil	1,000 bbls/d	US\$55.00 - US\$77.80	Oct 1/06 to Dec 31/06

<sup>(1)</sup> Collar price indicates floor (minimum) and ceiling (maximum).

Commodity derivatives used to manage risk are subject to periodic settlements throughout the term of the instruments. Such settlements may result in a gain or loss which is recognized as a commodity derivative gain or loss at the time of settlement. The mark-to-market value of a derivative outstanding at the end of a reporting period reflects the value of the derivative based upon market conditions existing as of that date. Any change in value from that determined at the end of the prior period is recognized as an unrealized commodity derivative gain or loss.

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Realized loss	\$ (133)	\$ -	\$ (350)	\$ (133)	\$ (291)
Unrealized gain (loss)	871	-	(112)	871	(404)
Total	\$ 738	\$ -	\$ (462)	\$ 738	\$ (695)
Realized loss (\$/boe)	\$ (0.09)	\$ -	\$ (0.26)	\$ (0.03)	\$ (0.08)
Unrealized gain (loss) (\$/boe)	0.58	-	(0.09)	0.20	(0.10)
Total (\$/boe)	\$ 0.49	\$ -	\$ (0.35)	\$ 0.17	\$ (0.18)

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Subsequent to September 30, 2006, the following financial contracts were entered into:

Type of Contract	Commodity	Hedged Volume	Hedge Price	Hedge Period
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$9.50/GJ	Dec 1/06 to Mar 31/07
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$8.50/GJ	Apr 1/07 to Oct 31/07

<sup>(1)</sup> Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ

In conjunction with the Flowing acquisition in Q2 2005, a commodity derivative contract was assumed. The commodity derivative contract was for 500 barrels per day of oil at a fixed price of Cdn\$52.70 per barrel and expired on December 31, 2005. The fixed price of Cdn\$52.70 per barrel was settled monthly against the actual US\$ price per WTI barrel adjusted to Canadian dollars with the actual Cdn\$/US\$ exchange rate. Daylight applied mark-to-market accounting to this financial instrument. During Q3 2005 this commodity derivative generated a loss of \$462,000 composed of a realized loss of \$350,000 and an unrealized loss of \$112,000.

Daylight continues to monitor commodity prices and may selectively hedge a portion of its production. The current 12 month forward strip for AECO natural gas is approximately \$8.00 per mcf and WTI oil is approximately US\$65 per barrel. Daylight's budgeted prices for 2006 are \$7.00 per mcf for natural gas and US\$69.00 per barrel WTI for oil as well as a United States dollar to Canadian dollar exchange rate of 0.89.

### Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production.

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Operating costs	\$ 15,901	\$ 15,286	\$ 12,981	\$ 46,035	\$ 38,493
\$ per boe	\$ 10.58	\$ 10.44	\$ 9.78	\$ 10.60	\$ 9.95

Daylight experienced a 1% increase to operating costs on a per boe basis during Q3 2006 over Q2 2006 resulting in an operating cost of \$10.58 per boe. Daylight's YTD 2006 operating expenses of \$10.60 reflects an increase of 7% over YTD 2005.

### Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point. The cost of delivering production to the custody transfer point is shown separately as transportation expense.

Daylight generally sells its light oil and NGLs production at the lease with the purchaser taking legal custody of the oil and paying a price for the oil at that delivery point. Daylight's heavy oil, and a small portion of its light oil, production are delivered to a terminal by truck and as such bear trucking charges which are a transportation expense. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then transferred to the purchaser. Transportation expense of \$1,959,000 in Q3 2006, or \$1.30 per boe, increased on a per boe basis from Q2 2006 where costs were \$0.93/boe. The primary reason for this change was an increase to actual trucking charges recognized in the period. For the YTD 2006 period, the transportation charge of \$1.06/boe increased from \$0.62/boe in the same period in 2005 as heavy oil production commenced in Q2 2005.

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Transportation costs	\$ 1,959	\$ 1,354	\$ 1,018	\$ 4,622	\$ 2,398
\$ per boe	\$ 1.30	\$ 0.93	\$ 0.77	\$ 1.06	\$ 0.62

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### Operating Netbacks

\$ per boe	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Revenue	\$ 46.48	\$ 46.84	\$ 57.61	\$ 47.12	\$ 49.36
Royalties	(8.83)	(9.56)	(9.94)	(9.14)	(8.80)
Realized loss on derivatives	(0.09)	-	(0.26)	(0.03)	(0.08)
Operating cost	(10.58)	(10.44)	(9.78)	(10.60)	(9.95)
Transportation	(1.30)	(0.93)	(0.77)	(1.06)	(0.62)
Operating netback	\$ 25.68	\$ 25.91	\$ 36.86	\$ 26.29	\$ 29.91

### General and Administrative Expenses

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Gross G&A	\$ 6,520	\$ 5,867	\$ 4,677	\$ 17,981	\$ 13,808
Recoveries from MOX	(950)	(1,082)	(545)	(3,035)	(1,675)
Operating recoveries	(800)	(1,149)	(663)	(2,982)	(2,438)
Capitalized costs	(1,136)	(1,011)	(1,253)	(3,109)	(3,384)
	3,634	2,625	2,216	8,855	6,311
Unit based compensation	12,806	1,506	808	15,563	1,920
Net G&A	\$ 16,440	\$ 4,131	\$ 3,024	\$ 24,418	\$ 8,231

\$ per boe	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Gross G&A	\$ 4.34	\$ 4.01	\$ 3.52	\$ 4.14	\$ 3.57
Recoveries from MOX	(0.63)	(0.74)	(0.41)	(0.70)	(0.44)
Operating recoveries	(0.53)	(0.79)	(0.50)	(0.69)	(0.63)
Capitalized costs	(0.76)	(0.69)	(0.94)	(0.71)	(0.87)
	2.42	1.79	1.67	2.04	1.63
Unit based compensation	8.52	1.03	0.61	3.58	0.50
Net G&A	\$ 10.94	\$ 2.82	\$ 2.28	\$ 5.62	\$ 2.13

General and administrative expenses ("G&A") during Q3 2006 were \$16,440,000 (\$10.94 per boe) including non-cash unit based compensation of \$12,806,000 (\$8.52 per boe). General and administrative expense for Q2 2006 was \$4,131,000 (\$2.82 per boe) including non-cash unit based compensation of \$1,506,000 (\$1.03 per boe). YTD 2006 G&A expenses were \$24,418,000 (\$5.62 per boe) including non-cash unit based compensation of \$15,563,000 (\$3.58 per boe). On a cash basis per boe, this represents an increase of 35% over last quarter and 45% over the same period last year. A significant portion of this increase is due to the costs associated with work done to prepare for increased regulatory reporting requirements in 2007 (NI 52-109) and integration costs associated with the acquisition of Sequoia. Management anticipates these costs to remain high for the short term, but anticipates these to decrease as the majority of the work for the regulatory change concludes in the last quarter of 2006 and as the Daylight and Sequoia teams are now unified and as economies of scale are realized.

Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged MOX \$1,510,000 relating to general and administrative activities for the YTD 2006 period (2005 - \$686,000) and \$1,525,000 relating to capital expenditures for the YTD 2006 period (2005 - \$1,053,000).

Unit based compensation expense is an allocation of the fair value of Restricted Trust Unit Awards ("RTUs") and Performance Trust Unit Awards ("PTUs") to their three year vesting period starting at the date of grant. In conjunction with the Arrangement, all unit awards vested immediately prior to the closing of the Arrangement, resulting in significant unit based compensation expense for the quarter.

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### Plan of Arrangement Costs

In conjunction with the Sequoia acquisition, Daylight incurred \$4,808,000 of costs related to retention, severance, and other deal costs that were expensed during the period.

### Financial Charges

Daylight incurs cash interest expense on its outstanding bank debt and convertible debentures. Daylight's effective bank debt interest rate was 5.3% for the Q3 2006 and 4.9% for YTD 2006 and the convertible debentures have a fixed interest rate of 8.5%. Non-cash financial charges relate to amortization of costs incurred to issue convertible debentures, establish bank credit facilities and accretion of the convertible debenture discount. Daylight's bank debt interest is expected to continue to correlate with market interest rates during 2006 and the convertible debentures interest rate is fixed at 8.5%.

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Bank debt interest	\$ 2,614	\$ 2,178	\$ 1,255	\$ 6,321	\$ 3,475
Convertible debenture interest	81	108	1,501	359	4,726
Cash financial charges	2,695	2,286	2,756	6,680	8,201
Amortization of financial charges	34	36	139	112	498
Accretion of convertible debenture discount	5	6	83	22	301
<b>Total</b>	<b>\$ 2,734</b>	<b>\$ 2,328</b>	<b>\$ 2,978</b>	<b>\$ 6,814</b>	<b>\$ 9,000</b>

\$ per boe	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Bank debt interest	\$ 1.74	\$ 1.49	\$ 0.95	\$ 1.46	\$ 0.90
Convertible debenture interest	0.05	0.07	1.13	0.08	1.22
Cash financial charges	1.79	1.56	2.08	1.54	2.12
Amortization of financial charges	0.02	0.02	0.10	0.03	0.13
Accretion of convertible debenture discount	-	-	0.06	0.01	0.08
<b>Total</b>	<b>\$ 1.81</b>	<b>\$ 1.58</b>	<b>\$ 2.24</b>	<b>\$ 1.58</b>	<b>\$ 2.33</b>

### Depletion, Depreciation and Accretion

Daylight's depletion, depreciation and accretion for Q3 2006 totalled \$25.5 million and \$73.5 million for YTD 2006, a 32% and 26% increase over the corresponding periods in 2005. Q3 2006 charges increased \$0.7 million from Q2 2006 resulting from higher production as the charge on a per boe basis has remained relatively consistent. Management expects the rate to increase in the fourth quarter as a result of the Sequoia acquisition, which was recorded at fair market value.

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Depletion and Depreciation	\$ 25,072	\$ 24,323	\$ 18,935	\$ 72,180	\$ 57,291
Accretion	436	446	366	1,322	1,066
<b>Total</b>	<b>\$ 25,508</b>	<b>\$ 24,769</b>	<b>\$ 19,301</b>	<b>\$ 73,502</b>	<b>\$ 58,357</b>
<b>\$ per boe</b>					
Depletion and Depreciation	\$ 16.68	\$ 16.62	\$ 14.27	\$ 16.62	\$ 14.81
Accretion	0.29	0.30	0.28	0.30	0.28
<b>Total</b>	<b>\$ 16.97</b>	<b>\$ 16.92</b>	<b>\$ 14.55</b>	<b>\$ 16.92</b>	<b>\$ 15.09</b>

### Future Income and Capital Taxes

During Q2 2006, several tax rate reductions were substantively enacted, both federally and provincially, resulting in the reduction of future taxes and the elimination of the Large Corporations Tax provision, the benefits of which were recognized in Q2 2006. During YTD 2006 Daylight recognized cash taxes of \$132,000 related to Saskatchewan capital tax obligations and a future income tax reduction of \$20,972,000 compared to cash taxes of \$815,000 related to capital tax obligations and a future income tax

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reduction of \$1,380,000 for the same period in 2005. For the three months ended Q3 2006, Daylight recognized cash taxes of \$44,000 related to capital tax obligations and a future income tax reduction of \$7,940,000. Daylight is a taxable entity under the Canadian Income Tax Act and is currently taxable only on income that is not distributed or distributable to its unitholders.

Daylight does not expect to incur any cash income taxes until at least 2011 and expects to continue to recognize recoveries of recorded future tax liability amounts on the balance sheet until at least 2011 as income is generated and distributions are paid to unitholders.

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Future Tax	\$ (7,940)	\$ (9,168)	\$ 1,851	\$ (20,972)	\$ (1,380)
Capital Tax	44	(167)	224	132	815
Total	\$ (7,896)	\$ (9,335)	\$ 2,075	\$ (20,840)	\$ (565)
<b>\$ per boe</b>					
Future Tax	\$ (5.28)	\$ (6.26)	\$ 1.39	\$ (4.83)	\$ (0.36)
Capital Tax	0.03	(0.11)	0.17	0.03	0.21
Total	\$ (5.25)	\$ (6.37)	\$ 1.56	\$ (4.80)	\$ (0.15)

As at September 30, 2006, Daylight and its subsidiaries have tax pools of approximately \$642 million. These tax pool balances are subject to change as tax returns are completed, annual claims are made and may involve the reclassification of items between categories.

(000s)	Daylight Energy	Daylight	Combined
Canadian exploration expense	\$ 52,000	\$ -	\$ 52,000
Canadian development expense	208,000	-	208,000
Canadian oil and gas property expense	-	75,000	75,000
Undepreciated capital cost	240,000	-	240,000
Non-capital losses	33,000	-	33,000
Share issue costs	6,000	28,000	34,000
Total	\$ 539,000	\$ 103,000	\$ 642,000

### Non-Controlling Interest – Exchangeable Shares

Effective June 30, 2005, Daylight retroactively adopted and applied the new accounting policy relating to the classification of exchangeable shares in accordance with the CICA issued revised draft EIC-151 "Exchangeable Securities Issued by a Subsidiary of an Income Trust". As a result, the exchangeable shares issued by the Trust's subsidiary must be reflected as non-controlling interest on the balance sheet. Accordingly, net earnings are reduced by the net earnings attributed to the non-controlling interest. The net income attributed to the non-controlling interest was \$629,000 for YTD 2006 (2005 - \$1,702,000).

As part of the Arrangement, all of the exchangeable shares were exchanged for Daylight units. The number of trust units issued upon conversion was based on the exchange ratio in effect on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly distribution record date. The exchange ratio at September 21, 2006 was 1.29243 (1.17462 as at December 31, 2005).

### Net Income and Cash Flow

As a result of the previously discussed factors, Daylight recognized Q3 2006 net loss of \$2.1 million (\$1.42/boe, \$0.05/unit-basic, \$0.05/unit-diluted) and cash flow of \$32.2 million (\$21.44/boe, \$0.71/unit-basic, \$0.68/unit-diluted). For the YTD 2006 period, Daylight recognized net income of \$25.7 million (\$5.91/boe, \$0.60/unit-basic, \$0.59/unit-diluted) and cash flow of \$98.5 million (\$22.68/boe, \$2.29/unit-basic, \$2.18/unit-diluted). Results from the comparative periods are presented below.

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(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Net income (loss)	\$ (2,140)	\$ 15,735	\$ 20,525	\$ 25,688	\$ 38,613
Per boe	\$ (1.42)	\$ 10.75	\$ 15.47	\$ 5.91	\$ 9.98
Per Unit					
Basic	\$ (0.05)	\$ 0.38	\$ 0.68	\$ 0.60	\$ 1.31
Diluted	\$ (0.05)	\$ 0.38	\$ 0.63	\$ 0.59	\$ 1.28
Cash flow	\$ 32,242	\$ 33,185	\$ 43,712	\$ 98,452	\$ 100,415
Per boe	\$ 21.44	\$ 22.67	\$ 32.94	\$ 22.68	\$ 25.95
Per Unit					
Basic	\$ 0.71	\$ 0.79	\$ 1.37	\$ 2.29	\$ 3.22
Diluted	\$ 0.68	\$ 0.77	\$ 1.23	\$ 2.18	\$ 2.89

Daylight's cash flow is significantly influenced by production volumes and commodity prices. Daylight has budgeted prices for 2006 of \$7 per mcf for natural gas and US\$69 per bbl WTI for oil as well as a United States dollar to Canadian dollar exchange rate of 0.89.

Daylight's estimated sensitivity to changes in its commodity price, production volume and exchange rate assumptions during the 2006 year is approximately:

- \$1.9 million per \$0.10 change in natural gas price per mcf.
- \$2.2 million per US\$1.00 change in the WTI oil price per bbl.
- \$1.5 million per 1 mmcf per day change in production.
- \$1.7 million per 100 bbl per day change in light oil production.
- \$1.0 million per 100 bbl per day change in heavy oil production.
- \$1.2 million per 100 bbl per day change in NGLs production.
- \$1.7 million per \$0.01 change in the United States dollar to Canadian dollar exchange rate.

### Capital Expenditures

Daylight invested \$19.4 million on its capital expenditure program for the three months ended September 30, 2006 compared to \$21.0 million in Q2 2006 and \$23.9 million in Q3 2005. YTD 2006 capital expenditures were \$75.8 million compared to \$52.3 million in the comparative period in 2005.

(000s)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
Land and acquisitions	\$ 636	\$ 189	\$ 1,010	\$ 5,934	\$ 2,011
Geological and geophysical	1,247	1,737	1,421	6,085	3,887
Drill, complete and recomplete	10,342	11,465	12,114	40,008	28,141
Equipping and facilities	7,133	7,643	9,306	23,743	18,285
Capital Expenditures	\$ 19,358	\$ 21,034	\$ 23,851	\$ 75,770	\$ 52,324
Conveyance to Pegasus	-	(6,628)	-	(6,628)	-
Conveyance to Trafalgar	(21,100)	-	-	(21,100)	-
Net Capital Additions	\$ (1,742)	\$ 14,406	\$ 23,851	\$ 48,042	\$ 52,324

## DAYLIGHT RESOURCES TRUST

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YTD 2006 Daylight drilled a total of 38 gross (25.8 net) wells with 97% success. This program provided production and reserve additions within the following core areas:

- West Central properties including Pine Creek, Kaybob, Fir and Windfall. YTD 2006 Daylight drilled 7 gross (4.0 net) natural gas wells.
- Peace River Arch properties include Red Earth, Cecil, Beaverlodge, Sinclair and Elmworth. YTD 2006 Daylight drilled 8 gross (2.8 net) wells comprised of 7 gross (2.7 net) light oil wells and 1 gross (0.1 net) natural gas wells.
- Eastern properties include Wildmere, Bon Accord, Norris, Chigwell, Calling Lake and Chipman. YTD 2006 Daylight drilled 23 gross (19.0 net) wells comprised of 14 gross (12.8 net) heavy oil wells and 8 gross (5.2 net) natural gas wells.

### Investments

In conjunction with the Sequoia acquisition in Q3 2006, Daylight owns approximately 38 percent basic (46 percent diluted) of the issued and outstanding common shares of Avery Resources Inc. ("Avery"), a Calgary-based junior exploration company actively pursuing opportunities in Australia. Daylight accounts for this investment using the equity method. Avery is a public company trading on the TSX Venture Exchange under the symbol ARY. On September 29, 2006, Avery common shares closed at \$0.54. As at September 30, 2006, the market value of this investment is approximately \$11.5 million.

On the completion of the Arrangement on September 21, 2006, Daylight contributed non-core assets in Grouard and Cypress areas based on their fair-value, resulting in the transfer of \$21.1 million of property and related asset retirement obligations of \$2.2 million to Trafalgar. Daylight owns 740,240 common shares of Trafalgar which the Trust accounts for at cost. Trafalgar is a public company trading on the Toronto Stock Exchange under the symbol TFL. On September 29, 2006 the Trafalgar common shares closed at \$4.24. As at September 30, 2006, the market value of this investment is approximately \$3.1 million.

On June 23, 2006, Daylight closed a transaction with Pegasus Oil & Gas Inc. ("Pegasus"), whereby Daylight contributed non-core assets in Sunrise, Hines Creek and 50% of its interest in Chigwell valued at \$6.0 million to Pegasus in exchange for 1,840,000 class A common shares of Pegasus and a \$1.4 million promissory note. Immediately prior to this transaction, Daylight also participated in the initial private placement of Pegasus and contributed \$120,000 in exchange for 600,000 class A common shares. At September 30, 2006 450,000 of the class A common shares were held in escrow with 150,000 class A common shares being released on each of December 29, 2006, June 29, 2007 and December 29, 2007. Pegasus is a public company trading on the TSX Venture Exchange under the symbols POG.A and POG.B. Daylight owns 2,440,000 class A common shares of Pegasus. On September 29, 2006, the class A shares closed at \$2.40. As at September 30, 2006, the market value of this investment is approximately \$5.9 million.

### Distributions

During the nine months ended September 30, 2006, Daylight declared one cash distribution totalling \$14.0 million (\$0.195 per Trust Unit) after the Sequoia acquisition and eight monthly cash distributions totalling \$70.9 million (\$1.12 per DET Unit) prior to the acquisition. During the same period in 2005 Daylight declared nine monthly cash distributions totalling \$48.3 million (\$1.08 per DET Unit). Due to the timing of the Sequoia transaction, distributions for September were paid on units issued to the former unitholders of Sequoia, yet cash flow from the Sequoia properties was only recorded effective September 21, 2006. On a proforma basis, if the Sequoia transaction had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006 and 83% for YTD 2006.

Daylight's management and the Board of Directors continually monitor the distribution level in relation to forecast net cash flow, debt levels and capital expenditure plans. Commodity prices and production volumes are critical variables in determining cash flow and changes in these two items have a material impact on cash flow and distributions.

As part of the Arrangement, Daylight implemented a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP<sup>TM</sup>") for eligible unitholders. On distribution payment dates eligible Premium DRIP<sup>TM</sup> unitholders may receive in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount.

## DAYLIGHT RESOURCES TRUST

Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21<sup>st</sup> business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP™ unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period.

On August 9, 2005, Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates, eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. During the nine months ended September 30, 2006, Daylight issued 259,326 (2005 - 8,042) DET trust units from treasury for the DRIP in lieu of cash distributions totalling \$2,829,000 (2005 - \$89,000).

### Liquidity and Capital Resources

(000s)	September 30, 2006	June 30, 2006	December 31, 2005	September 30, 2005
Bank debt	\$ 287,392	\$ 165,114	\$ 123,455	\$ 124,185
Working capital deficiency	46,877	28,931	26,575	16,467
	<b>334,269</b>	194,045	150,030	140,652
Market value of investments	(20,500)	(5,783)	-	-
	<b>313,769</b>	188,262	150,030	140,652
Convertible debentures	3,510	3,973	9,219	22,117
Capital lease obligation - long term portion	1,855	-	-	-
Non-controlling interest - exchangeable shares	-	9,758	19,422	18,592
Unitholders' equity	\$ 917,369	\$ 530,271	\$ 535,846	\$ 431,199

At September 30, 2006, Daylight had \$287 million outstanding on its credit facilities which provide up to \$320 million and are subject to semi-annual review by the banking syndicate. The market value of Daylight's investments is based on the closing trading value of the related securities at the end of the periods and Daylight's ability to realize this value is subject to the changes in trading value of these securities. Daylight's working capital deficiency at September 30, 2006 was \$46.9 million.

Management anticipates that Daylight will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2006 through a combination of cash flow, debt and equity. Cash flow used to finance these commitments may reduce the amount of cash distributions paid to unitholders. Major acquisitions will require the issuance of new equity in exchange for the equity of acquired entities such as the Flowing acquisition that closed on April 5, 2005, the Tempest acquisition that closed on November 30, 2005 and the Daylight Resources Trust transaction that closed on September 21, 2006.

### Trust Unit Information

Daylight units trade on the Toronto Stock Exchange under the symbol "DAY.UN" and Daylight is a constituent of the S&P/TSX Income Trust Index and S&P/TSX Composite Index. A summary of Daylight's trading history on the TSX follows.

(per unit)	Q3 2006	Q2 2006	Q3 2005	YTD 2006	YTD 2005
High	\$ 17.28	\$ 20.33	\$ 19.56	\$ 20.33	\$ 19.56
Low	\$ 12.15	\$ 15.67	\$ 15.06	\$ 12.15	\$ 13.94
Close	\$ 13.17	\$ 16.56	\$ 19.20	\$ 13.17	\$ 19.20
Average daily volume	235,236	211,440	295,397	242,962	236,950

## DAYLIGHT RESOURCES TRUST

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As at September 30, 2006, Daylight has the following trust units and trust unit equivalents outstanding:

	Number
Trust Units	71,862,518
Convertible debentures (\$3,576,000 face value)	253,997
Restricted trust unit awards	-
Performance trust unit awards	-
<b>Total Diluted</b>	<b>72,116,515</b>

As at November 13, 2006, Daylight has the following trust units and trust unit equivalents outstanding:

	Number
Trust Units	72,751,658
Convertible debentures (\$3,576,000 face value)	253,997
Restricted trust unit awards (450,250)	458,224
Performance trust unit awards (135,000)	137,391
<b>Total Diluted</b>	<b>73,601,270</b>

### Financial Instruments

Financial instruments comprise accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and cash distributions payable. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Trust's long-term debt bears interest at a floating market rate and accordingly, the fair market value approximates the carrying value. The convertible debentures outstanding at September 30, 2006, with a face value of \$3.6 million, had a fair value based on quoted market value of \$3.8 million. At September 30, 2006 the Trust recognized an unrealized gain on commodity derivative instruments of \$3,441,000 with details of these instruments contained in the prior Gain (loss) on Commodity Derivatives section.

### Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Daylight is accumulated and communicated to Daylight's management as appropriate to allow timely decisions regarding required disclosure. Daylight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual and YTD 2006 filings, that Daylight's disclosure controls and procedures for the year ended December 31, 2005 and the nine month period ended September 30, 2006, are effective to provide reasonable assurance that material information related to Daylight, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that while Daylight's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### Critical Accounting Estimates and Changes in Accounting Policies

There have been no changes in our critical accounting estimates. An accounting policy regarding Investments was adopted.

# DAYLIGHT RESOURCES TRUST

## Quarterly Information

<b>Financial</b> <i>(in thousands of dollars, except unit, per unit and boe data)</i>	2006				2005			2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Oct. 21 to Dec. 31
Petroleum and natural gas revenues	\$ 69,877	\$ 68,554	\$ 66,187	\$ 85,615	\$ 76,445	\$ 60,529	\$ 53,984	\$ 17,377
Royalties	(13,269)	(13,985)	(12,455)	(15,753)	(13,188)	(10,506)	(10,340)	(3,662)
Realized gain (loss) on derivatives	(133)	-	-	(99)	(350)	59	-	-
Operating expenses	(15,901)	(15,286)	(14,848)	(13,580)	(12,981)	(13,184)	(12,328)	(4,335)
Transportation	(1,959)	(1,354)	(1,309)	(1,657)	(1,018)	(950)	(430)	(153)
Operating netback	38,615	37,929	37,575	54,526	48,908	35,948	30,886	9,227
Interest income	-	-	-	-	-	-	-	726
G&A – cash charge	(3,634)	(2,625)	(2,596)	(3,545)	(2,216)	(2,108)	(1,987)	(987)
Cash financial charges	(2,695)	(2,286)	(1,699)	(1,862)	(2,756)	(2,861)	(2,584)	(1,677)
Cash taxes	(44)	167	(255)	(652)	(224)	(347)	(244)	(92)
Cash flow (excluding Plan of Arrangement costs)	32,242	33,185	33,025	48,467	43,712	30,632	26,071	7,197
Per unit								
– Basic	0.71	0.79	0.80	1.33	1.37	1.02	0.95	0.36
– Diluted	0.68	0.77	0.77	1.26	1.23	0.88	0.80	0.35
Net income (loss)	(2,140)	15,735	12,093	25,447	20,525	12,201	5,887	1,045
Per unit								
– Basic	(0.05)	0.38	0.29	0.70	0.68	0.41	0.21	0.06
– Diluted	(0.05)	0.38	0.29	0.69	0.63	0.40	0.21	0.06
Cash distributions declared	31,844	26,663	26,407	24,316	17,023	16,284	14,962	9,777
Per unit	0.62	0.63	0.63	0.63	0.54	0.54	0.54	0.36
Payout ratio <sup>(1)</sup>	n/a <sup>(1)</sup>	80%	80%	50%	39%	53%	57%	136%
Capital expenditures	19,358	21,034	35,378	20,215	23,851	14,086	14,387	5,057
Non-cash capital divestitures	(21,100)	(6,628)	-	(14,636)	-	-	-	(33,456)
Corporate acquisitions	522,685	-	-	116,509	-	61,000	-	587,164
Wells drilled - gross (net)	12 (9.2)	5 (1.0)	21 (15.6)	34 (21.7)	15 (6.9)	5 (3.4)	17 (8.6)	4 (2.1)
Market value of investments	20,500	5,783	-	-	-	-	-	-
Bank debt	287,392	165,114	162,190	123,455	124,185	131,755	101,850	89,220
Working capital deficiency	46,877	28,931	17,048	26,575	16,467	11,602	12,256	20,820
Total assets	1,424,236	833,821	845,746	841,254	689,297	676,212	610,970	615,486
Units outstanding (000s)								
Basic	71,863	42,209	41,861	40,806	33,767	30,113	27,904	27,119
Diluted	72,117	44,349	44,110	43,854	37,501	37,334	34,933	34,409
<b>Operations</b>								
Average daily production								
Natural gas (mcf/d)	57,926	59,452	56,012	54,438	54,096	57,890	58,875	58,264
Light oil (bbls/d)	3,172	2,855	2,575	2,368	2,527	2,292	2,721	2,671
Heavy oil (bbls/d)	2,760	2,579	2,701	2,460	2,096	1,937	-	-
NGLs (bbls/d)	756	740	677	814	785	771	892	846
Oil & NGLs (bbls/d)	6,688	6,174	5,953	5,642	5,408	5,000	3,613	3,517
Combined (boe/d)	16,342	16,083	15,288	14,715	14,424	14,648	13,426	13,228
Average prices received								
Natural gas (\$/mcf)	\$ 5.74	\$ 6.18	\$ 7.77	\$ 11.91	\$ 9.26	\$ 7.51	\$ 6.86	\$ 6.89
Light oil (\$/bbl)	74.23	71.78	65.55	63.40	68.98	62.80	56.49	44.29
Heavy oil (\$/bbl)	51.27	52.01	34.29	33.06	51.94	23.49	-	-
NGLs (\$/bbl)	67.79	63.05	60.50	58.79	56.56	52.71	46.35	45.34
Oil & NGLs (\$/bbl)	\$ 64.03	\$ 62.48	\$ 50.79	\$ 49.52	\$ 60.57	\$ 46.02	\$ 53.99	\$ 44.54
Combined (\$/boe)	\$ 46.48	\$ 46.84	\$ 48.10	\$ 63.24	\$ 57.61	\$ 45.41	\$ 44.68	\$ 42.37

(1) On a proforma basis, if the Sequoia transaction had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006. See discussion in Distributions section for further details.

**The 2004 financial results reflect the activities of Daylight from October 21, 2004 to December 31, 2004. Active oil and gas operations commenced subsequent to the Plan of Arrangement on November 30, 2004 and Operations information above applies to that one month period.**

Dated November 13, 2006

**Consolidated Balance Sheets**

(in thousands of dollars) (unaudited)

	September 30, 2006	December 31, 2005
<b>Assets</b>		
Current assets		
Accounts receivable (note 3)	\$ 54,784	\$ 61,371
Unrealized gain on derivatives (note 14)	3,441	-
Prepaid expenses and deposits	2,883	1,327
	<b>61,108</b>	62,698
Petroleum and natural gas assets (note 4)	1,027,029	560,972
Investments (note 3)	18,801	-
Deferred financing charges (note 8)	434	720
Goodwill (note 2)	316,864	216,864
	<b>\$ 1,424,236</b>	<b>\$ 841,254</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 91,112	\$ 80,672
Current portion of capital lease obligations (note 6)	2,860	-
Distributions payable	14,013	8,601
	<b>107,985</b>	89,273
Bank debt (note 5)	287,392	123,455
Capital lease obligations (note 6)	1,855	-
Convertible debentures (note 7)	3,510	9,219
Asset retirement obligations (note 9)	24,277	18,179
Future taxes	81,848	45,860
Non-controlling interest - exchangeable shares (note 10)	-	19,422
	<b>506,867</b>	<b>305,408</b>
<b>Unitholders' Equity</b>		
Unitholders' capital (note 11)	1,027,107	565,128
Contributed surplus (note 11)	-	2,936
Equity component of convertible debentures (note 7)	104	274
Deficit	(109,842)	(32,492)
	<b>917,369</b>	<b>535,846</b>
	<b>\$ 1,424,236</b>	<b>\$ 841,254</b>

Commitments (note 16)

Subsequent event (note 17)

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Income (Loss) and Deficit**

(in thousands of dollars, except per unit amounts) (unaudited)

See accompanying notes to consolidated financial statements.

	Three Months ended Sept 30, Nine Months ended Sept 30,			
	2006	2005	2006	2005
<b>Revenues</b>				
Petroleum and natural gas	\$ 69,877	\$ 76,445	\$ 204,618	\$ 190,958
Royalties	(13,269)	(13,188)	(39,709)	(34,034)
Gain (loss) on derivatives	738	(462)	738	(695)
	<b>57,346</b>	<b>62,795</b>	<b>165,647</b>	<b>156,229</b>
<b>Expenses</b>				
Operating	15,901	12,981	46,035	38,493
Transportation	1,959	1,018	4,622	2,398
General and administrative	16,440	3,024	24,418	8,231
Plan of arrangement costs (note 2)	4,808	-	4,808	-
Financial charges (note 8)	2,734	2,978	6,814	9,000
Gain on investment (note 3)	(29)	-	(29)	-
Depletion, depreciation and accretion	25,508	19,301	73,502	58,357
	<b>67,321</b>	<b>39,302</b>	<b>160,170</b>	<b>116,479</b>
<b>Income (loss) before taxes and non-controlling interest</b>	<b>(9,975)</b>	<b>23,493</b>	<b>5,477</b>	<b>39,750</b>
<b>Taxes</b>				
Capital taxes	44	224	132	815
Future taxes (reduction) (note 13)	(7,940)	1,851	(20,972)	(1,380)
	<b>(7,896)</b>	<b>2,075</b>	<b>(20,840)</b>	<b>(565)</b>
<b>Income (loss) before non-controlling interest</b>	<b>(2,079)</b>	<b>21,418</b>	<b>26,317</b>	<b>40,315</b>
<b>Non-controlling interest - exchangeable shares</b> (note 10)	<b>61</b>	<b>893</b>	<b>629</b>	<b>1,702</b>
<b>Net income (loss)</b>	<b>(2,140)</b>	<b>20,525</b>	<b>25,688</b>	<b>38,613</b>
Deficit, beginning of period	(57,734)	(21,889)	(32,492)	(8,732)
Distributions (note 11)	(49,968)	(17,022)	(103,038)	(48,267)
Deficit, end of period	\$ (109,842)	\$ (18,386)	\$ (109,842)	\$ (18,386)
<b>Net income (loss) per unit</b> (note 11)				
Basic	\$ (0.05)	\$ 0.68	\$ 0.60	\$ 1.31
Diluted	\$ (0.05)	\$ 0.63	\$ 0.59	\$ 1.28

**Consolidated Statements of Cash Flows**

(in thousands of dollars) (unaudited)

	Three Months ended Sept 30,		Nine Months ended Sept 30,	
	2006	2005	2006	2005
<b>Cash provided by (used in):</b>				
<b>Operating</b>				
Net income (loss)	\$ (2,140)	\$ 20,525	\$ 25,688	\$ 38,613
Items not affecting cash:				
Depletion, depreciation and accretion	25,508	19,301	73,502	58,357
Non-controlling interest - exchangeable shares	61	893	629	1,702
Future taxes (reduction)	(7,940)	1,851	(20,972)	(1,380)
Non-cash financial charges (note 8)	39	222	134	799
Unit based compensation	12,806	808	15,563	1,920
Realized and unrealized loss (gain) on derivatives	(871)	112	(871)	404
Equity gain on investments	(29)	-	(29)	-
Asset retirement expenditures (note 9)	(1,547)	(111)	(5,161)	(1,681)
Change in non-cash operating working capital (note 12)	5,896	(679)	3,308	(12,800)
	<b>31,783</b>	<b>42,922</b>	<b>91,791</b>	<b>85,934</b>
<b>Financing</b>				
Bank debt	18,583	(7,570)	60,242	15,392
Unit issue costs	(3,100)	-	(3,540)	(523)
Cash distribution to unitholders	(25,915)	(16,274)	(76,673)	(46,977)
Change in non-cash financing working capital (note 12)	(1,123)	(4)	(987)	(80)
	<b>(11,555)</b>	<b>(23,848)</b>	<b>(20,958)</b>	<b>(32,188)</b>
<b>Investing</b>				
Petroleum and natural gas asset additions	(19,358)	(23,851)	(75,770)	(52,324)
Investment (note 3)	-	-	(120)	-
Corporate acquisition costs (note 2)	(4,832)	-	(4,832)	(315)
Change in non-cash investing working capital (note 12)	3,962	4,777	9,889	(1,107)
	<b>(20,228)</b>	<b>(19,074)</b>	<b>(70,833)</b>	<b>(53,746)</b>
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
<b>Cash, end of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2006 and 2005

(Tabular amounts are stated in thousands of dollars except unit, share, and per unit amounts.)

Daylight Resources Trust (formerly Daylight Energy Trust – see note 2) ("Daylight" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Alberta pursuant to a Trust Indenture. Valiant Trust Company has been appointed trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of the Trust units ("unitholders").

The purpose of the Trust is to explore for, develop and hold interests in petroleum and natural gas properties, through investments in securities of subsidiaries and royalty interests in oil and natural gas properties. The business of the Trust is carried on by Daylight Energy Ltd. ("Daylight Energy") and its subsidiaries. The Trust owns 100% of the common shares of Daylight Energy. The activities of Daylight Energy are financed through internally generated cash flow and third party debt as described in note 5.

Pursuant to the terms of an agreement (the "NPI Agreement"), the Trust is entitled to a payment from Daylight Energy each month equal to the amount by which 99% of the gross proceeds from the sale of production exceed 99% of certain deductible expenditures as defined under the terms of the NPI Agreement. Deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures, to repay debt and to provide for working capital required to carry out the operations of Daylight Energy.

The Trust may declare payable to the unitholders all or any part of the net income of the Trust earned from the income generated under the NPI Agreement, and from any dividends paid on the common shares of Daylight Energy, less any expenses of the Trust, including interest on convertible debentures.

Daylight is involved in the exploitation, development and production of petroleum and natural gas in Alberta, British Columbia and Saskatchewan.

### 1. Significant Accounting Policies

The interim consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles, following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2005, except as noted below. The following disclosure is incremental to the disclosure included in the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes for the year ended December 31, 2005.

All previously reported unit and per unit amounts have been retroactively restated to reflect the impact of the established 0.6642 units of Daylight for each unit of DET received under the Arrangement (see note 2(a)), unless specifically indicated otherwise.

#### Investments

Investments are comprised of common shares of publicly traded companies. Investments in which the Trust exercises significant influence are accounted for using the equity method where the recorded amount of the investment is increased or decreased for the Trust's ownership percentage of the companies' net earnings or loss and reduced by dividends paid to the Trust. Investments in which the Trust does not exercise significant influence are accounted for at cost.

## DAYLIGHT RESOURCES TRUST

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The Trust evaluates the carrying value of its investments at least annually or more frequently should economic events dictate. If there has been a decline in value of an investment, other than a temporary decline, the investment is written down to its market value and the impairment charged to net income.

### 2. Corporate Acquisitions

#### a) Sequoia Oil & Gas Trust

On September 21, 2006, a Plan of Arrangement (the "Arrangement") between Daylight Energy Trust ("DET"), Sequoia Oil & Gas Trust ("Sequoia"), and Trafalgar Energy Ltd. ("Trafalgar") was approved. As a result of the Arrangement, DET and Sequoia merged and certain interests in oil and natural gas properties were transferred to Trafalgar in exchange for common shares and arrangement warrants which were distributed to the DET and Sequoia Unitholders (see note 11(e)) with a portion of the Trafalgar common shares remaining with Daylight (see note 3).

Under the Arrangement each DET Unitholder received 0.6642 units of Daylight for each one DET unit held and Daylight Exchangeable Shareholders received 0.6642 units of Daylight for each DET unit the Exchangeable Shares held were equivalent to at the closing date. Under the Arrangement each Sequoia Unitholder received 0.8250 units of Daylight for each one Sequoia unit held. The DET Unitholders following the Arrangement hold in excess of 50% of the outstanding units of Daylight, resulting in a substantive change in ownership to the Sequoia net assets.

As a result, Daylight Energy is deemed to be the acquirer of Sequoia and consequently has accounted for the acquisition of Sequoia under the purchase method of accounting. The operations of Sequoia have been included with the results of DET commencing September 21, 2006. The fair values allocated to the net assets acquired are as follows:

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<b>Net assets acquired:</b>	
Petroleum and natural gas assets	\$ 492,025
Goodwill	100,000
Unrealized gain on derivatives	2,970
Investments	11,076
Working capital deficiency	(5,076)
Bank debt	(103,695)
Capital lease obligations	(4,715)
Asset retirement obligations	(12,380)
Future taxes	(56,960)
<b>Total net assets acquired</b>	<b>\$ 423,245</b>

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<b>Consideration:</b>	
Trust units issued (27,475,423 units issued to Sequoia unitholders)	\$ 418,413
Transaction costs	4,832
<b>Total purchase price</b>	<b>\$ 423,245</b>

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The above amounts are estimates made by management based on currently available information. Amendments may be made to the purchase equation as the cost estimates and tax balances are finalized.

## DAYLIGHT RESOURCES TRUST

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### b) Tempest Energy Corp.

On November 30, 2005, Daylight through its wholly owned subsidiary, Daylight Energy acquired all of the issued and outstanding shares of Tempest Energy Corp. ("Tempest"). As consideration, Daylight issued one trust unit for every 2.35 Tempest common shares, resulting in Daylight issuing 9,118,533 trust units. In conjunction with the acquisition, Midnight Oil Exploration Ltd. acquired certain interests in oil and gas properties from Tempest for approximately \$48 million. The operations of Tempest have been included with the results of the Trust commencing November 30, 2005. The transaction was accounted for by the purchase method, based on fair values as follows:

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<b>Net assets acquired:</b>	
Petroleum and natural gas assets	\$ 114,082
Goodwill	36,293
Working capital deficiency	(10,087)
Bank debt	(26)
Asset retirement obligations	(2,406)
Future taxes	(31,460)
<b>Total net assets acquired</b>	<b>\$ 106,396</b>

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### **Consideration:**

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Trust units issued	\$ 106,083
Transaction costs	313
<b>Total purchase price</b>	<b>\$ 106,396</b>

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### c) Flowing Energy Corporation

On April 5, 2005, Daylight through its wholly owned subsidiary, Daylight Energy acquired all of the issued and outstanding shares of Flowing Energy Corporation ("Flowing"). As consideration, Daylight issued one trust unit, or exchangeable share equivalent, for every 13.45 Flowing common shares. This resulted in Daylight issuing 370,218 exchangeable shares with an exchange ratio of 1.06169 and 2,783,904 trust units. The operations of Flowing have been included with the results of the Trust commencing April 5, 2005. The transaction was accounted for by the purchase method, based on fair values as follows:

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<b>Net assets acquired:</b>	
Petroleum and natural gas assets	\$ 63,549
Bank debt	(19,573)
Unrealized loss on commodity derivatives	(2,101)
Working capital deficiency	(5,928)
Asset retirement obligations	(1,413)
Future taxes	(1,136)
<b>Total net assets acquired</b>	<b>\$ 33,398</b>

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### **Consideration:**

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Trust units issued	\$ 28,996
Non-controlling interest – exchangeable shares	4,087
Transaction costs	315
<b>Total purchase price</b>	<b>\$ 33,398</b>

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## DAYLIGHT RESOURCES TRUST

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### 3. Investments

In conjunction with the transaction with Sequoia, Daylight acquired Sequoia's approximate 38 percent interest in the basic common shares of Avery Resources Inc. ("Avery") and accounts for the investment using the equity method. As at September 30, 2006 the market value of the investment in Avery was \$11.5 million. For the 10 days ending September 30, 2006 the equity gain on the investment in Avery was \$29,000.

In conjunction with the Arrangement on September 21, 2006, Daylight transferred interests in certain oil and gas properties, based on their fair-values to Trafalgar, resulting in the transfer of \$21.1 million of property and related asset retirement obligations of \$2.2 million. In exchange, Trafalgar common shares and arrangement warrants were received of which Daylight retained 740,240 common shares with a value of \$2,976,000. The remaining common shares and arrangement warrants were distributed to DET securityholders and Sequoia unitholders (see note 11(e)). Daylight accounts for this investment at cost. As at September 30, 2006, the market value of this investment is approximately \$3.1 million.

On June 23, 2006, the Trust transferred interests in certain oil and gas properties valued at \$6.0 million, with associated asset retirement obligations of \$613,000, to Pegasus Oil & Gas Inc. ("Pegasus") in exchange for 1,840,000 Class A common shares valued at \$2.50 per share and a \$1.4 million, non-interest bearing promissory note. The note is secured by the oil and gas properties transferred to Pegasus and is due on December 1, 2006. Immediately prior to this transaction the Trust acquired 600,000 Class A common shares of Pegasus for \$120,000. At September 30, 2006, 450,000 of the Class A common shares were held in escrow with 150,000 Class A common shares being released on each of December 29, 2006, June 29, 2007 and December 29, 2007. The investment, composed of 2,440,000 Class A common shares of Pegasus, is accounted for at cost. As at September 30, 2006 the market value of the investment in Pegasus was \$5.9 million.

### 4. Petroleum and Natural Gas Assets

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	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$ 1,181,324	\$ 156,945	\$ 1,024,379
Other assets	3,783	1,133	2,650
Balance, September 30, 2006	\$ 1,185,107	\$ 158,078	\$ 1,027,029

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	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$ 644,300	\$ 85,289	\$ 559,011
Other assets	2,570	609	1,961
Balance, December 31, 2005	\$ 646,870	\$ 85,898	\$ 560,972

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During the nine months ended September 30, 2006, Daylight capitalized \$3,109,000 (2005 - \$3,384,000) of general and administrative expenses related to exploration and development activities.

Future development costs of \$50.5 million (2005 - \$44.5 million) associated with proven reserves were included in the depletion and depreciation calculation. Future salvage value of production equipment and

## DAYLIGHT RESOURCES TRUST

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facilities of \$39.0 million (2005 - \$25.5 million) and a cost of \$63.1 million (2005 - \$32.3 million) for unproven properties have been excluded from the depletion and depreciation calculation.

### 5. Bank Debt

Daylight has a total of \$320 million available under credit facilities, with \$300 million available under a revolving term credit facility with a syndicate of banks of which \$287 million was drawn at September 30, 2006. The effective interest rate for the bank debt was 4.9% for the nine months ended September 30, 2006 (2005 - 3.7%). The credit facilities bear interest based on the lenders' prime rate and/or at money market rates plus a stamping fee. The facilities are secured with a demand debenture of \$500 million over the petroleum and natural gas assets and are subject to semi-annual review where the lenders may re-determine the borrowing base.

Pursuant to the terms of the credit facilities dated September 21, 2006, Daylight may, with the bank's approval, extend the revolving period for a further 364 day period. If not extended, the revolving facilities will automatically convert to a one year and one day non-revolving term facility with the entire payment due on the 366<sup>th</sup> day after commencement of the term period. The credit facility has been classified as long-term on the balance sheet at September 30, 2006.

### 6. Capital Leases

In conjunction with the Arrangement, Daylight acquired capital lease agreements for oil and gas equipment. The minimum lease payments over the initial term are as follows:

	<b>Amount</b>
2006	\$ 665
2007	3,659
2008	1,007
Net minimum lease payments	5,331
Less: Current portion of obligations under capital lease	(2,860)
Interest	(616)
Total	\$ 1,855

### 7. Convertible Debentures

On October 21, 2004 Daylight issued \$80 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures (the "Debentures") for net proceeds of \$76.8 million. Issue costs of \$3.2 million have been classified as deferred financing charges (note 8).

The Debentures pay interest semi-annually on June 1 and December 1 and have a maturity date of December 1, 2009. The Debentures are convertible at the option of the holder to Trust Units at a conversion price of \$14.07888 per Trust Unit. Daylight has the option to redeem the Debentures at a price of \$1,050 per Debenture after December 1, 2007 and on or before December 1, 2008, at a price of \$1,025 per Debenture after December 1, 2008 and on or before December 1, 2009 and on maturity at \$1,000 per Debenture. On redemption or maturity the Trust may elect to satisfy its obligations to repay the principal and interest obligations by issuing Daylight 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 determined to be \$77.68 million. The difference between the principal amount of \$80 million and the fair value of the obligation is \$2.32 million

## DAYLIGHT RESOURCES TRUST

and has been recorded in unitholders' equity as the fair value of the conversion feature of the Debentures. The following table indicates the Convertible Debenture activities for the nine months ended September 30, 2006 and for the year ended December 31, 2005:

	Face Value	Debt Component	Equity Component
Balance, December 31, 2004	\$ 80,000	\$ 77,718	\$ 2,320
Accretion and amortization	-	321	-
Conversion to Trust Units	(70,567)	(68,820)	(2,046)
Balance, December 31, 2005	\$ 9,433	\$ 9,219	\$ 274
Accretion and amortization	-	22	-
Conversion to Trust Units	(5,857)	(5,731)	(170)
Balance, September 30, 2006	\$ 3,576	\$ 3,510	\$ 104

### 8. Financial Charges

During the nine months ended September 30, 2006 and 2005, Daylight incurred interest charges on bank debt and convertible debentures as well as the amortization of financial charges and accretion of convertible debenture liability as follows:

	2006	2005
Bank debt interest	\$ 6,321	\$ 3,475
Convertible debenture interest	359	4,726
Amortization of financial charges	112	498
Accretion of convertible debenture liability	22	301
Total	\$ 6,814	\$ 9,000

A reconciliation of the deferred financing charges is provided as follows:

	Nine months ended September 30, 2006	Year ended December 31, 2005
Balance, beginning of period	\$ 720	\$ 3,680
Amortization	(112)	(553)
Conversion to Trust Units	(174)	(2,407)
Balance, end of period	\$ 434	\$ 720

### 9. Asset Retirement Obligations

Daylight's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. Daylight estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$104.3 million which will be incurred between 2006 and 2054. The majority of the costs will be incurred between 2006 and 2021. An inflation factor of 2% has been applied to the estimated asset retirement cost at September 30, 2006 and December 31, 2005. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations at September 30, 2006 and December 31, 2005.

## DAYLIGHT RESOURCES TRUST

A reconciliation of the asset retirement obligations is provided as follows:

	Nine months ended September 30, 2006	Year ended December 31, 2005
Balance, beginning of period	\$ 18,179	\$ 16,528
Acquisitions (note 2)	12,380	3,819
Liabilities incurred	400	676
Change in estimates	-	923
Liabilities settled	(5,161)	(4,010)
Liabilities transferred to Open Range (note 11)	-	(1,192)
Liabilities transferred to Pegasus (note 3)	(613)	-
Liabilities transferred to Trafalgar (note 11)	(2,230)	-
Accretion expense	1,322	1,435
Balance, end of period	\$ 24,277	\$ 18,179

### 10. Non-Controlling Interest – Exchangeable Shares

Daylight Energy is authorized to issue an unlimited number of exchangeable shares. Exchangeable shares are convertible into trust units based on an exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on exchangeable shares.

	Number of Shares	Amount
Exchangeable shares:		
Balance, December 31, 2004	2,497,637	\$ 24,019
Issued on acquisition of Flowing (note 2)	370,218	4,087
Retracted for trust units	(1,140,568)	(11,345)
Income attributable to non-controlling interest	-	2,661
Balance, December 31, 2005	1,727,287	\$ 19,422
Retracted for trust units	(956,325)	(10,993)
Retracted for trust units on acquisition of Sequoia (note 2)	(770,962)	(9,058)
Income attributable to non-controlling interest	-	629
Balance, September 30, 2006	-	\$ -

As part of the Arrangement, all of the exchangeable shares were exchanged for Daylight units. The number of trust units issued upon conversion was based on the exchange ratio in effect on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly distribution record date. The exchange ratio at September 21, 2006 was 1.29243 (1.17462 as at December 31, 2005).

### 11. Unitholders' Equity

The Trust Indenture provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Trust and in the assets of the Trust in the event of termination or winding-up of the Trust. All trust units are of the same class with equal rights and privileges.

## DAYLIGHT RESOURCES TRUST

### a) Trust Units

	Number of Units	Amount
Trust units:		
Daylight Energy Trust Unit balance, December 31, 2004	40,824,926	\$ 351,640
Issued on retraction of exchangeable shares	1,199,964	11,345
Issued on acquisition of Flowing (note 2)	2,783,904	28,996
Issued on acquisition of Tempest (note 2)	9,118,533	106,083
Issued on conversion of debentures	7,428,085	68,459
Issued through DRIP Plan	80,553	941
Unit issue costs	-	(2,336)
Balance, December 31, 2005	61,435,965	\$ 565,128
Issued on retraction of exchangeable shares	2,130,342	20,051
Issued on conversion of debentures	616,516	5,727
Issued through DRIP Plan	259,326	2,829
Issued on vesting of unit awards	2,385,757	18,499
Unit issue costs	-	(442)
Balance, prior to arrangement	66,827,906	\$ 611,792
Conversion ratio to Daylight Resources Trust Units	0.6642	-
Daylight Resources Trust Unit balance, after conversion	44,387,095	\$ 611,792
Issued on acquisition of Sequoia (note 2)	27,475,423	418,413
Unit issue costs	-	(3,098)
Balance, September 30, 2006	71,862,518	\$ 1,027,107

#### *Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™")*

As part of the Arrangement, Daylight implemented a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™") for eligible unitholders of the Trust. On distribution payment dates eligible Premium DRIP™ unitholders may receive in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount. Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21<sup>st</sup> business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP™ unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period.

#### *Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP")*

On August 9, 2005 Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. During the nine months ended September 30, 2006 Daylight issued 259,326 (2005 – 8,042) DET trust units from treasury for the DRIP in lieu of cash distributions totaling \$2,829,000 (2005 – \$89,000).

*Redemption Right*

Unitholders may redeem their trust units for cash at any time, up to a maximum of \$250,000 in any calendar month, by delivering their unit certificates to the Trustee, together with a properly completed notice of redemption. The redemption amount per trust unit will be the lesser of 90 percent of the market price of the trust units on the principal market on which they are traded during the 10 day trading period after the trust units have been validly tendered for the redemption and the closing market price of the trust units on the principal market on which they are traded on the date on which they were validly tendered for redemption, or if there was no trade of the trust units on that date, the average of the last bid and ask prices of the trust units on that date.

b) Net Income (loss) Per Unit

The following table summarizes the weighted average trust units, exchangeable shares and convertible debentures used in calculating net income (loss) per trust unit:

	<b>Three months ended Sept 30,</b>		<b>Nine months ended Sept 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Basic	45,215,379	30,458,299	42,938,634	29,280,795
Exchangeable shares at exchange ratio	-	1,286,195	735,108	1,382,176
Convertible debentures	-	4,889,116	400,940	5,197,233
Restricted and Performance unit awards	-	229,473	1,210,953	-
Diluted	45,215,379	36,863,083	45,285,635	35,860,204

Diluted net income per unit adds back interest, amortization and accretion expense on convertible debentures and non-controlling interest. Interest, amortization and accretion for the three months ended September 30, 2006 was \$86,000 (2005 - \$1,641,000) and for the nine months ended September 30, 2006 was \$405,000 (2005 - \$5,443,000). Non-controlling interest for the three months ended September 30, 2006 was \$61,000 (2005 - \$893,000) and for the nine months ended September 30, 2006 was \$629,000 (2005 - \$1,702,000).

c) Unit Award Incentive Plan

Daylight has a Unit Award Incentive Plan which allows the Board of Directors to grant up to 5% of the trust units outstanding, including trust units which may be issued on exchange of exchangeable shares, as Restricted and/or Performance Unit Awards to directors, officers, employees and service providers of Daylight and its affiliates. The Restricted Unit Awards vest over a three-year period. The Performance Unit Awards vest on the third anniversary of the date of the grant. The number of units issued under the Performance Unit Awards granted is also subject to a performance multiplier and is dependent on the performance of the Trust relative to a peer comparison group of oil and gas trusts. A holder of a Restricted or Performance Unit Award may elect, subject to consent of Daylight, to receive cash upon vesting in lieu of the number of units held. The plan provides for adjustments to the number of units issued based on the cumulative distributions of the Trust during the period that the Restricted or Performance Unit Award is outstanding.

## DAYLIGHT RESOURCES TRUST

The following tables reconcile the number of restricted and performance units outstanding:

	<b>Number</b>
<b>Restricted Awards:</b>	
Balance, December 31, 2004	-
Issued	1,221,850
Cancelled	(177,500)
Balance, December 31, 2005	1,044,350
Issued	409,173
Vested and converted to trust units	(1,420,523)
Cancelled	(33,000)
Balance September 30, 2006	-
Weighted average adjustment factor	-
Trust unit equivalent	-

	<b>Number</b>	<b>Performance Multiplier</b>	<b>Total Number</b>
<b>Performance Awards:</b>			
Balance, December 31, 2004	-	-	-
Issued	322,000	-	-
Cancelled	(32,000)	-	-
Balance, December 31, 2005	290,000	2	580,000
Vested and converted to trust units	(290,000)	-	(580,000)
Balance September 30, 2006	-	-	-
Weighted average adjustment factor			-
Trust unit equivalent			-

The performance multiplier is calculated on an annual basis for one third of the performance units originally granted. The performance multiplier may range from 0 to 2 in any given year as determined by the Board of Directors. For the year ended 2005, a performance multiplier of 2 was granted on one third of the units. For the period ended September 21, 2006 a performance multiplier of 2 was granted on the remaining two thirds of the units.

The fair value of the Unit Awards are determined at date of grant and amortized through general and administrative expense over the vesting period as unit based compensation with a corresponding increase to contributed surplus. In conjunction with the Arrangement, all outstanding Unit Awards vested immediately prior to closing. The weighted average fair value at the date of grant for the Unit Awards granted during the nine months ended September 30, 2006 was \$12.37 per Unit Award (2005 - \$10.06) and \$15,563,000 (2005 - \$1,920,000) was charged to general and administrative expense in the period.

## DAYLIGHT RESOURCES TRUST

### d) Contributed Surplus

	<b>Amount</b>
Balance, December 31, 2004	\$ -
Unit based compensation	2,936
Balance, December 31, 2005	\$ 2,936
Unit based compensation	15,563
Vested Unit Awards	(18,499)
Balance, September 30, 2006	\$ -

### e) Accumulated Distributions

The table below shows the cumulative distributions for Daylight Energy Trust and the per unit Daylight Resources Trust equivalent:

<b>Record Date</b>	<b>per Daylight Unit equivalent *</b>	<b>per DET Unit</b>	<b>Amount</b>
Total 2004 distributions	\$ 0.36	\$ 0.24	\$ 9,777
January 31, 2005	0.18	0.12	4,920
February 28, 2005	0.18	0.12	5,001
March 31, 2005	0.18	0.12	5,041
April 29, 2005	0.18	0.12	5,405
May 31, 2005	0.18	0.12	5,438
June 30, 2005	0.18	0.12	5,441
July 29, 2005	0.18	0.12	5,456
August 31, 2005	0.18	0.12	5,466
September 30, 2005	0.18	0.12	6,101
October 31, 2005	0.21	0.14	7,177
November 30, 2005	0.21	0.14	8,538
December 31, 2005	0.21	0.14	8,601
Total 2005 cash distributions	\$ 2.26	\$ 1.50	\$ 72,585
Open Range distribution (cost base)	0.47	0.31	15,235
Total 2005 distributions	\$ 2.73	\$ 1.81	\$ 87,820
January 31, 2006	0.21	0.14	8,773
February 28, 2006	0.21	0.14	8,810
March 31, 2006	0.21	0.14	8,824
April 28, 2006	0.21	0.14	8,873
May 31, 2006	0.21	0.14	8,893
June 30, 2006	0.21	0.14	8,897
July 31, 2006	0.21	0.14	8,904
August 31, 2006	0.21	0.14	8,927
Total 2006 cash distributions	\$ 1.69	\$ 1.12	\$ 70,901
Trafalgar distribution (cost base)	0.26	0.17	11,202
Total 2006 distributions	\$ 1.94	\$ 1.29	\$ 82,103
Total distributions since inception	\$ 5.03	\$ 3.34	\$ 179,700

\* may not add exactly due to rounding.

## DAYLIGHT RESOURCES TRUST

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The table below shows the cumulative distributions for Daylight Resources Trust:

<b>Record Date</b>	<b>Per Unit</b>	<b>Amount</b>
September 29, 2006	\$ 0.195	\$ 14,013

As part of the Arrangement, Daylight Energy disposed of interests in certain oil and gas properties in exchange for Trafalgar common shares and arrangement warrants. Daylight retained 740,240 of the Trafalgar common shares and distributed the remaining securities to DET unitholders, Sequoia unitholders and the Daylight Energy Exchangeable Shareholders. Each DET unitholder received 0.0417 of a Trafalgar common share and 0.0116 of a Trafalgar warrant for each DET unit held. Each Sequoia unitholder received 0.0517 of a Trafalgar common share and 0.0144 of a warrant for each Sequoia unit held. The Daylight Energy exchangeable shareholders received Trafalgar common shares and warrants on the same basis as the DET unitholders based on the number of DET units into which their shares were exchangeable.

At the time of transfer, Daylight and Trafalgar were considered arms length parties and accordingly the property disposition has been recorded at its fair value of \$21,100,000.

The disposition of the fair value was recorded as follows:

Petroleum and natural gas assets	\$ 23,330
Asset retirement obligations (note 9)	(2,230)
<b>Total</b>	<b>\$ 21,100</b>
Distributed to DET securityholders	\$ 11,202
Distributed to Sequoia unitholders	6,922
Retained by Daylight (note 3)	2,976
<b>Total</b>	<b>\$ 21,100</b>

As part of the Plan of Arrangement involving Daylight Energy Trust, Daylight Energy Ltd., Tempest Energy Corp., 1198311 Alberta Ltd., 1198249 Alberta Ltd., Open Range Finance Corp., the unitholders and convertible debentureholders of Daylight Energy Trust, the exchangeable shareholders of Daylight Energy Ltd., the shareholders of Tempest Energy Corp., and the shareholders of Open Range Finance Corp., Daylight Energy disposed of interests in certain oil and gas properties in exchange for Open Range Energy Corp. common shares and Open Range Arrangement Warrants ("the Open Range securities"). At the time of transfer, Daylight and Open Range were considered related parties and the disposition was recorded at the carrying value. The fair value of properties disposed of was \$18,420,000. Daylight in turn distributed the securities to unitholders, exchangeable shareholders, and convertible debentureholders with each securityholder receiving 0.10 Open Range common share and 0.02 Open Range Arrangement Warrant with a deemed fair value of \$0.31 per Trust unit equivalent.

## DAYLIGHT RESOURCES TRUST

The disposition of the carrying value was recorded as follows:

Petroleum and natural gas assets	\$ 14,636
Future taxes	1,791
Asset retirement obligations	(1,192)
Total	\$ 15,235

### 12. Supplemental Cash Flow Information

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006	2005	2006	2005
Changes in non-cash working capital:				
Accounts receivable	\$ (9,822)	\$ (8,183)	\$ 6,587	\$ (16,383)
Prepaid expenses and deposits	(77)	(478)	(1,556)	(1,007)
Accounts payable and accrued liabilities	23,310	13,470	10,440	10,715
Unrealized gain (loss) on derivatives	400	(715)	400	(1,384)
Note receivable acquired on disposal of properties (note 3)	-	-	1,415	-
Working capital acquired on acquisition	(5,076)	-	(5,076)	(5,928)
Change in non-cash working capital	\$ 8,735	\$ 4,094	\$ 12,210	\$ (13,987)
Relating to:				
Operating activities	\$ 5,896	\$ (679)	\$ 3,308	\$ (12,800)
Financing activities	(1,123)	(4)	(987)	(80)
Investing activities	3,962	4,777	9,889	(1,107)
Change in non-cash working capital	\$ 8,735	\$ 4,094	\$ 12,210	\$ (13,987)

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006	2005	2006	2005
Interest and taxes paid:				
Interest paid	\$ 3,067	\$ 2,474	\$ 7,034	\$ 8,095
Taxes paid	\$ 11	\$ 355	\$ 290	\$ 1,290

### 13. Taxes

During the second quarter of 2006, the federal government substantively enacted legislation reducing the federal tax rates. This legislation has reduced the Trust's future income tax liability and provision for future taxes by \$4.3 million, which was recognized during the second quarter of 2006.

### 14. Financial Instruments

Fair Value of Financial Instruments:

Financial instruments comprise accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and cash distributions payable. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Trust's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The convertible debentures outstanding at September 30, 2006, with a face value of \$3.6 million (2005 - \$22.7 million), had a fair value based on quoted market value of \$3.8 million (2005 - \$30.3 million).

## DAYLIGHT RESOURCES TRUST

### Credit Risk:

Portions of the Trust's accounts receivable are with joint operating partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Trust's oil and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment.

### Interest Rate Risk:

The Trust is exposed to interest rate risk to the extent that changes in market interest rates will impact the Trust's bank debt which is subject to a floating interest rate. The Trust had no interest rate swaps or financial hedges at September 30, 2006.

### Foreign Currency:

While substantially all of the Trust's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

### Commodity Price Risk:

Daylight acquired several derivative instruments on the acquisition of Sequoia and has applied mark-to-market accounting. The terms of the contracts are summarized as follows:

Type of Contract	Commodity	Hedged Volume	Hedge Price	Hedge Period	Unrealized Gain
Financial (Collar <sup>(1)</sup> )	Natural gas	10,000 GJ/d	Cdn\$8.50 - \$14.10/GJ	April 1/06 to Oct 31/06	\$ 1,326
Financial (Collar <sup>(1)</sup> )	Natural gas	10,000 GJ/d	Cdn\$7.50 - \$12.77/GJ	Nov 1/06 to Mar 31/07	2,110
Financial (Collar <sup>(1)</sup> )	Crude oil	1,000 bbls/d	US\$55.00 - US\$77.80	Oct 1/06 to Dec 31/06	5
					\$ 3,441

<sup>(1)</sup> Collar price indicates floor (minimum) and ceiling (maximum).

Subsequent to September 30, 2006, the following hedge contracts were entered into:

Type of Contract	Commodity	Hedged Volume	Hedge Price	Hedge Period
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$9.50/GJ	Dec 1/06 to Mar 31/07
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$8.50/GJ	Apr 1/07 to Oct 31/07

<sup>(1)</sup> Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ

## 15. Related Party

Since November 30, 2004, Daylight Energy Ltd. ("Daylight Energy") and Midnight Oil Explorations Ltd. ("MOX") have been operating pursuant to an Administrative and Technical Services Agreement which provides for the shared services required to manage the activities of Daylight Energy and MOX and to govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight Energy is the employer on behalf of the parties and receives payment for certain technical and administrative services provided to MOX. Pursuant to DET's merger with Sequoia, Daylight Energy and

## DAYLIGHT RESOURCES TRUST

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MOX have announced their intention to terminate the agreement on mutually acceptable terms. Daylight Energy and MOX have relocated their offices and related personnel of certain defined functions. Technical personnel, which include geologists, geophysicists, engineers, land negotiators and business development and land contracts personnel, are currently functioning separately and independently for both Daylight Energy and MOX. The remaining personnel in the organizations, including the areas of land administration, drilling and completion operations, marketing, certain accounting, human resources and administration functions are in the transition process to operate independently at this time. It is expected that by the end of 2006, the current Administrative and Technical Services Agreement will be terminated. Certain services between Daylight and MOX that are administrative, provide reasonable economy and do not involve competitive issues may continue beyond 2006 through a new agreement.

Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged Midnight Oil Exploration Ltd. \$1,510,000 relating to general and administrative activities for the nine months ended September 30, 2006 (2005 - \$686,000) and \$1,525,000 relating to capital expenditures for the nine months ended September 30, 2006 (2005 - \$1,053,000).

### 16. Commitments

The following is a summary of Daylight's contractual obligations and commitments, other than bank debt as disclosed in note 5, as at September 30, 2006:

	2006	2007	2008	2009	Thereafter
Capital Lease	\$ 665	\$ 3,659	\$ 1,007	\$ -	\$ -
Operating Leases	2,806	7,294	7,399	3,431	2,442
Natural gas transportation	218	758	175	88	-
	\$ 3,689	\$ 11,711	\$ 8,581	\$ 3,519	\$ 2,442

In addition to the above, the Trust has commitments related to its risk management program (see note 14).

### 17. Subsequent Event

On October 31, 2006, the Federal Minister of Finance announced proposals (the "October 31, 2006 Proposals") to amend the *Tax Act* to apply a tax on distributions from publicly-traded income trusts. Under the October 31, 2006 Proposals, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Federal Minister of Finance has issued a Notice of Ways and Means Motion to Amend the *Tax Act*, but it is not known at this time if or when the proposal will be enacted by Parliament.

The Trust is currently assessing the proposals and the potential implications to the Trust. In particular, the Trust will be evaluating the impact of the proposed measures on the net income and cash flows of the Trust and the potential valuation impact on long-lived assets such as goodwill, all of which could be material.

### Abbreviations

/d	per day
bb(s)	barrel(s)
mbbls	thousand barrels
mmbbls	million barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
boe	barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmstb	million stock tank barrels of oil
ARTC	Alberta Royalty Tax Credit
Cdn	Canadian
NGLs	natural gas liquids
WTI	West Texas Intermediate crude oil
US	United States

### FOR FURTHER INFORMATION PLEASE CONTACT:

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