



one



Financial and Operating Highlights

(thousands of dollars, except per unit and boe data)

	3 months ended March 31, 2006	3 months ended March 31, 2005	3 months ended December 31, 2005
FINANCIAL			
Gross revenue, net of royalties	\$ 80,604	\$ 60,617	\$ 94,856
Net income	24,610	15,247	30,777
Funds from operations	59,502	43,879	65,837
Distributions declared	42,597	31,027	41,956
Funds from operations per unit	0.80	0.70	0.90
Distributions declared per unit	0.57	0.48	0.57
Payout ratio	72%	71%	64%
Average number of units outstanding (000s)	74,544	62,671	73,436
Total assets	\$ 791,327	\$ 830,463	\$ 813,954
Bank debt, net of working capital	181,443	249,740	198,351
Unitholders' equity	497,310	472,759	494,490
Costs per boe (6:1):			
Operating	\$ 7.84	\$ 6.67	\$ 9.41
General and administrative	1.36	1.26	1.62
Management fees	0.41	0.99	2.27
OPERATING			
Daily production			
Oil (bbl)	9,552	9,206	9,755
Natural gas (Mcf)	51,937	41,575	52,340
Natural gas liquids (bbl)	1,973	1,322	2,036
Oil equivalent (boe - 6:1)	20,181	17,457	20,514
Average pricing, net of transportation charges and hedging			
Liquids:			
WTI (US\$/bbl)	63.48	49.90	60.02
NAL average oil (Cdn\$/bbl)	61.00	55.59	59.53
NAL Natural gas liquids (Cdn\$/bbl)	52.53	40.29	56.29
Natural gas:			
AECO (Cdn\$/Mcf) - daily spot	7.59	6.69	11.43
AECO (Cdn\$/Mcf) - monthly	9.28	6.71	11.86
NAL Natural gas Western Canada (Cdn\$/Mcf)	8.59	6.76	11.20
NAL Natural gas Lake Erie (Cdn\$/Mcf)	9.40	8.50	14.36
NAL average natural gas (Cdn\$/Mcf)	8.65	6.93	11.47
NAL Oil equivalent (Cdn\$/boe - 6:1)	56.26	48.86	63.16
Average foreign exchange rate (Cdn\$/US\$)	1.155	1.227	1.173
Operating netback before hedging gains(losses) (\$/boe)	35.57	31.23	42.21
Hedging gains (losses) per boe	0.14	-	(2.37)
Operating netback (\$/boe)	35.71	31.23	39.84

When converting natural gas to equivalent barrels of oil (boe) within this report, NAL uses the widely recognized standard of 6 thousand cubic feet (Mcf) to one barrel of oil. However, boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Highlights

NAL Oil & Gas Trust (TSX: NAE.UN) (the "Trust" or "NAL") is pleased to announce its financial and operational results for the first quarter ended March 31, 2006. All amounts are in Canadian dollars unless otherwise stated.

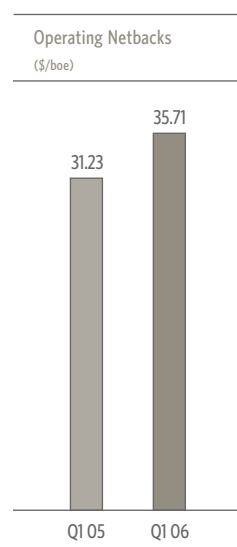
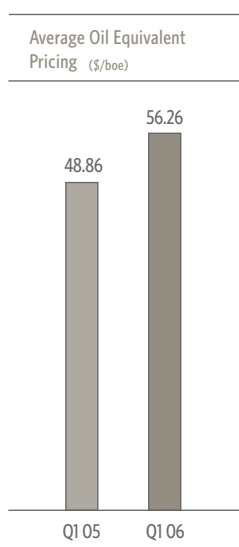
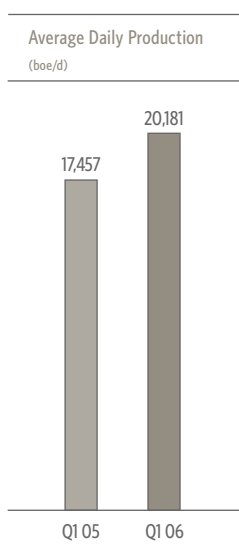
- NAL continued to deliver volume performance in Q1, 2006 with daily production averaging 20,181 boe per day for the quarter, an increase of 16 percent over the 17,457 boe per day in the same period of 2005.
- Capital expenditures of \$20 million in the first quarter of 2006 were in line with the budget as NAL accessed equipment and services and executed its exploitation and development program as planned.
- Higher oil and gas prices realized by NAL in Q1, 2006 resulted in average oil equivalent pricing increasing to \$56.26 per boe compared to \$48.86 a year earlier. Production mix remained relatively balanced at 57 percent crude oil and natural gas liquids and 43 percent natural gas.
- Funds from operations increased to \$59.5 million (\$0.80 per unit) in the first quarter, 2006 compared to \$43.9 million (\$0.70 per unit) a year earlier. This increase was largely driven by higher production volumes and commodity prices. Distributions for the quarter increased from \$0.48 to \$0.57 per unit and the payout ratio was consistent at 72 percent.
- NAL's strong operating netbacks continued at \$35.71 per boe versus \$31.23 in the first quarter of 2005.
- Net debt continued to decline to \$181.4 million at the end of first quarter, 2006 compared with \$249.7 million at the end of Q1, 2005 and \$198.4 million at year-end 2005. The Trust's net debt to cash flow ratio continued to trend lower at 0.76 times trailing twelve months' funds from operations. These lower debt levels allowed the Trust to suspend its Premium DRIP program effective with the April, 2006 distribution.
- During the first quarter of 2005, the Trust restructured its Management Contract with NAL Resources Management Limited, subject to approval by the unitholders at the Annual and Special Meeting on May 31, 2006. Assuming approval of the new management agreement, the Trust will have a long-term contract where base and performance fees will be eliminated, governance will be enhanced, and the Trust will have the flexibility to terminate the Agreement on 90-days' notice to facilitate future transactions. In exchange for these benefits, the Trust will pay a one-time \$30 million restructuring fee through the issuance of 1,592,357 units at \$18.84 per unit.
- Coincident with the restructuring of the Management Contract, NAL announced new incentive plans which are more aligned with investor performance measures and increased eligibility to all staff.
- As to NAL's outlook for 2006, plans remain on track and guidance remains unchanged from levels previously announced on January 18, 2006. As budgeted, production is forecast to decline in Q2, 2006 due to turnarounds and lower activity and will increase in Q3 and Q4 with higher capital spending. The Trust's annual capital expenditure budget remains at \$95 million with spending increasing as we move through 2006 with Q3 and Q4 being the most active quarters.

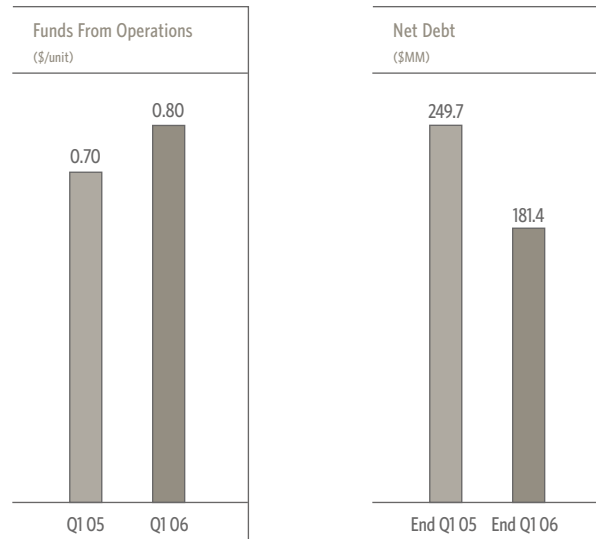
NAL Oil & Gas Trust Annual and Special Meeting of Unitholders
Wednesday, May 31, 2006 at 9:30 a.m. MDT
Metropolitan Ballroom of The Metropolitan Conference Centre
333 - 4 Avenue SW, Calgary, Alberta

President's Message

First Quarter Results

On May 2, 2006 NAL Oil & Gas Trust announced positive first quarter 2006 results continuing the strong momentum created in the fourth quarter of 2005. Overall, all key metrics demonstrated positive trends compared to Q1 2005, both in aggregate, and on a per unit basis. Average daily production, oil equivalent pricing per boe, operating netbacks, and funds from operations all showed gains, while NAL's net debt trended lower. Our team is very encouraged by these trends, which are driven by our strong operating results and our focus on performance.





Key Initiatives

In my message at the end of Q3 2005, I indicated that we would focus on operating and financial performance as well as certain key initiatives that would drive positive change and improved future performance. Our team is pleased to report that we have delivered solid performance and completed all our initiatives by early 2006. Setting clear 2006 direction and targets, reviewing the Trust's G&A reporting practices, implementing new incentive plans to attract and retain capability in our intensively competitive employment market, clarifying our corporate governance and restructuring the management contract to reduce fees have all been completed with positive implications for the Trust. These initiatives will support positive sustainable performance as we move forward.

Guidance

We confirm our earlier guidance for full year 2006:

2006 Guidance

Total production (boe/d)	19,200 - 19,800
Capital expenditures (\$MM)	95
Cost structure (\$/boe)	
Operating	8.30 - 8.70
G&A	1.70 - 1.85

Boe @ 6 Mcf:1 bbl

Summary

Our performance in Q1 2006 positions us well to deliver targeted performance for unitholders in the remainder of 2006.

We remain committed to delivering strong overall returns to our unitholders.

(signed) "Andrew B. Wiswell"

Andrew B. Wiswell

President and Chief Executive Officer

Management's Discussion & Analysis

The following discussion and analysis ("MD&A") should be read in conjunction with the Interim Consolidated Financial Statements for the three months ended March 31, 2006 and the audited consolidated financial statements and MD&A for the year ended December 31, 2005 of NAL Oil & Gas Trust ("NAL" or the "Trust"). It also contains information and opinions on the Trust's future outlook based on currently available information. All amounts are reported in Canadian dollars, unless otherwise stated. Where applicable, natural gas has been converted to barrels of oil equivalent ("boe") based on a ratio of six thousand cubic feet of natural gas to one barrel of oil. The boe rate is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. Use of boe in isolation may be misleading.

Operating netbacks and funds from operations are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Management believes that in addition to net income, operating netbacks, funds from operations and funds from operations per unit are useful supplemental measures as they provide an indication of the results generated by the Trust's principal business activities prior to the consideration of how those activities are financed or how the results are taxed. Investors should be cautioned, however, that these measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of NAL's performance. NAL's method of calculating these measures may differ from other income funds and companies and, accordingly, they may not be comparable to measures used by other income funds and companies. NAL calculates funds from operations prior to the change in non-cash working capital related to operating activities, with the per unit amount calculated using the weighted average units outstanding for the period.

Management's Discussion & Analysis

Forward-Looking Information

This disclosure contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, many of which are beyond NAL's control, including: the impact of general economic conditions in Canada and in the United States, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified operating or management personnel, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof, and the ability to obtain required approvals from regulatory authorities. NAL's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that NAL will derive therefrom.

Development Activities

The Trust implemented its development plan as anticipated during the first quarter and experienced few difficulties sourcing service equipment and crews. Development was primarily focused in the Southeast Saskatchewan core area where two operated drilling rigs were active. Production during the quarter was in line with expectations at 20,181 boe/d.

The Trust participated in the drilling of 25 (6.8 net) wells during the first quarter with a success rate of 100 percent. The majority of this activity occurred in our Southeast Saskatchewan core area.

<i>First Quarter Drilling Activity</i>	<i>Crude Oil</i>		<i>Natural Gas</i>		<i>Service Wells</i>		<i>Dry & Abandoned</i>		<i>Total</i>	
	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>
Operated wells	12	5.62	3	0.48	-	-	-	-	15	6.10
Non-operated wells	8	0.26	2	0.48	-	-	-	-	10	0.74
Total wells drilled	20	5.88	5	0.96	-	-	-	-	25	6.84

Southeast Saskatchewan Core Area

With two rigs running over the winter, development of the Trust's oil assets in southeastern Saskatchewan continued during the quarter by investing approximately \$11 million to drill a total of 20 (5.8 net) oil wells and upgrading production facilities.

During the quarter, three (1.3 net) horizontal wells were drilled at Browning of which two (1.0 net) are producing at a net rate of 140 boe/d. At Steelman, four (1.90 net) horizontal wells were drilled and tied in during the quarter, producing 140 boe/d net. At Huntoon, three (1.4 net) horizontal wells were drilled but seasonal road bans delayed completion activities on two (1.0 net) of these wells. One operated well was drilled at each of Midale, Elswick, and Nottingham (1.33 net) during the first quarter. Net production from these wells totals 70 boe/d. At Star Valley, one (0.5 net) well drilled the previous quarter was tied-in and is producing 45 boe/d net to the Trust.

After break-up, the Trust will continue with the active development of our high quality Southeast Saskatchewan oil assets. We will have two drilling rigs running the majority of the year and expect to drill eight (3.5 net) wells during the second quarter.

Gas Focus Core Area

NAL's Gas Focus area is comprised of a majority of the Trust's properties that exist outside NAL's two geographic core areas – Southeast Saskatchewan and Central Alberta – and includes Nevis/Lacombe, Brent/Hanna, Pine Creek, Surmount/Hangingstone and Lake Erie. Although geographically diverse, these properties are strategically characterized by a focused land position, a high proportion of current production and future potential concentrated on natural gas.

Consistent with the Trust's plans, minimal drilling activity occurred in these areas during the quarter with two (0.5 net) non-operated gas wells being drilled. However, the Trust is actively planning upcoming development projects at Hanna, Clive/Lacombe, and Lake Erie.

At Hanna, a 20 (15 net) well development program targeting gas from the Second White Specks is anticipated to start at the end of the second quarter with production commencing during the fourth quarter. Also at Hanna, a 46 – square kilometre (18 – square mile) 3D seismic program is planned for the second quarter.

At Clive/Lacombe, a 32 (20 net) well program targeting gas from the Horseshoe Canyon coals is underway. Facilities for this project have been ordered and drilling is scheduled to commence by July 2006. Production is anticipated to commence during the fourth quarter.

At Lake Erie, 25 (5 net) gas wells are scheduled to be drilled and tied-in during this year's drilling season (June to September).

Central Alberta Core Area

Late in the first quarter, three (0.5 net) gas wells were drilled targeting the Edmonton Sands. These wells are scheduled to be tied in during the second quarter.

During the second quarter, the Trust plans on drilling eight (3.4 net) wells in the Sylvan Lake and Medicine River fields. This includes, three (1.1 net) Edmonton Sands gas wells, two (1.7 net) Mannville wells, and three (0.6 net) Jurassic oil wells. The Trust will also continue to exploit the area's multi-zone potential by pursuing seven (3.1 net) cost effective recompletions. These recompletions will primarily focus on Mannville reservoirs.

Capital Expenditures

In line with NAL's 2006 budget, exploitation and development expenditures for the quarter ended March 31, 2006 totaled \$20.0 million compared with \$7.4 million in the quarter ended March 31, 2005.

The capital budget for full year 2006 remains at \$95 million, consistent with previous guidance. The Trust expects to drill 179 (72 net) wells during the year.

<i>Exploitation and Development Expenditures (\$000s)</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Drilling, completion and production equipment	14,551	6,125	20,718
Plant and facilities	1,644	575	4,039
Seismic	728	46	1,072
Other ⁽¹⁾	3,089	679	1,899
Total capital expenditures	20,012	7,425	27,728

⁽¹⁾ Includes land purchases, capitalized G&A and capitalized unit-based incentive compensation.

Production

Average production for the three months ended March 31, 2006, increased by 16 percent to 20,181 boe/d from 17,457 boe/d for the same period in 2005. The increase reflects a 25 percent uplift in year-over-year natural gas production during the first quarter of 2006, along with a nine percent increase in oil and natural gas liquids production.

The overall increase in production for the quarter ended March 31, 2006 is attributable to the gas-weighted acquisition of Addison Energy Inc. completed in February 2005 and strong operating performance and drilling results from all core areas.

The 2006 first quarter production of 20,181 boe/d compares with 20,514 boe/d in the fourth quarter of 2005. This natural decline was anticipated due to the relatively low level of development in the first quarter of 2006 versus the high level of capital development in the last quarter of 2005.

The Trust maintains its previously announced production guidance of 19,200 to 19,800 boe/d for full year 2006.

<i>Average Daily Production Volumes</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Oil (bbl/d)	9,552	9,206	9,755
Natural gas (Mcf/d)	51,937	41,575	52,340
NGL's (bbl/d)	1,973	1,322	2,036
Oil equivalent (boe/d)	20,181	17,457	20,514

For the three months ended March 31, 2006, oil and natural gas liquids production was 57 percent of total production with natural gas representing the remaining 43 percent.

<i>Production Weighting</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Oil	47%	53%	48%
Natural gas	43%	40%	43%
NGL's	10%	7%	9%

Revenue and Funds From Operations

Gross revenue from oil, natural gas and natural gas liquids sales, after transportation costs and hedging gains, totaled \$103.1 million for the three months ended March 31, 2006, a 34 percent increase over the first quarter of 2005.

Revenue increased year-over-year due to additional production volumes largely attributable to the Addison acquisition and higher realized commodity prices. Compared to the first quarter of 2005, production increased 16 percent and average commodity prices increased by 15 percent, for the first quarter of 2006.

Funds from operations tracked revenues in the first quarter of 2006, up 36 percent over the first quarter of 2005.

	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Revenue ⁽¹⁾ (\$000s)	103,131	76,768	119,208
\$/boe	56.78	48.86	63.16
Funds from operations ⁽²⁾ (\$000s)	59,502	43,879	65,837
\$/boe	32.76	27.93	34.88

⁽¹⁾ Oil and natural gas and liquid sales less transportation and after hedging.

⁽²⁾ Represents cash flow from operating activities prior to the change in non-cash working capital items, excluding unpaid unit-based incentive compensation charges.

<i>Average Pricing (net of transportation charges and after hedging)</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Liquids:			
WTI (US\$/bbl)	63.48	49.90	60.02
NAL average oil (Cdn\$/bbl)	61.00	55.59	59.53
NAL natural gas liquids (Cdn\$/bbl)	52.53	40.29	56.29
Natural Gas:			
AECO (Cdn\$/Mcf)	7.59	6.69	11.43
NAL Western Canada natural gas	8.59	6.76	11.20
NAL Lake Erie natural gas (Cdn\$/Mcf)	9.40	8.50	14.36
NAL average natural gas (Cdn\$/Mcf)	8.65	6.93	11.47
NAL Oil Equivalent (Cdn\$/boe - 6:1)	56.26	48.86	63.16
Average Foreign Exchange Rate (Cdn\$/US\$)	1.155	1.227	1.1731

Oil Marketing

NAL sells its crude oil based on Refiners' posted prices at Edmonton, Alberta, and Cromer, Manitoba, adjusted for transportation and quality of each field battery. The Refiners' posted prices are influenced by the West Texas Intermediate ("WTI") benchmark price, transportation costs, exchange rates and the supply/demand situation of particular crude oil quality streams during the year.

NAL's first quarter average crude oil price per barrel, net of transportation costs, was \$61.00, ten percent higher than the \$55.59 received for the first quarter of 2005. This was largely attributable to increases in WTI.

Natural gas liquids prices averaged \$52.53 per barrel in the first quarter, 30 percent higher than the first quarter of 2005. Pricing for natural gas liquids is based upon crude pricing with some seasonality.

Natural Gas Marketing

Approximately 73 percent of NAL's current gas production is sold under marketing arrangements tied to the Alberta monthly or daily spot price ("AECO"), with the remaining 27 percent tied to NYMEX or other indexed referenced prices. Eight percent of the Trust's gas sales is from its Lake Erie property and receives a higher price due to close proximity to the Ontario and northeastern U.S. markets.

For the three months ended March 31, 2006, the Trust's total gas sales averaged \$8.65/Mcf, after \$0.06/Mcf of hedging gains, an increase of 25 percent from the 2005 first quarter price of \$6.93/Mcf. The quarter-over-quarter increase in gas prices was largely attributable to the increased benchmark AECO prices. Natural gas sales from the Lake Erie property averaged \$9.40/Mcf in Q1 2006, compared to \$8.50/Mcf in 2005, an increase of 11 percent.

Hedging

NAL employs commodity hedging and is authorized by its Board to hedge up to 30 percent of its production in any year to protect cash flow and sustain its capital program and distributions. During the first quarter of 2006, financial WTI oil contracts and AECO natural gas contracts were in place.

For the oil contracts, settlements are made monthly based on the average monthly WTI price. In general terms, the contracts represent costless, three-way options which effectively provide the Trust with protection up to an average of \$9.78 per barrel if the WTI price falls below the average hedge price of \$48.44 per barrel and a "top-up" payment if the WTI price falls between \$48.44 and \$58.22 to bring the Trust's price up to \$58.22 per barrel. There are no payments if the average monthly WTI price falls between \$58.22 and \$72.83. The Trust's oil price is capped at an average WTI price of \$72.83 per barrel and the Trust is required to pay the difference if the WTI price is greater than \$72.83 per barrel.

During the first quarter 2006, an average of 2,493 bbl/d of crude oil was hedged, with no effect on realized crude prices. In addition, 2,000 GJ/d of natural gas were hedged, resulting in a realized gain of \$246,000 and increasing average natural gas prices for the quarter by \$0.06/Mcf. No hedges were in place for the first quarter of 2005.

Financial WTI oil contracts in place as at March 31, 2006

Term		Contract Volume bbl/d	Sold Put US\$/bbl	Bought Put US\$/bbl	Sold Call US\$/bbl
January 1 to December 31, 2006	3-way	300	52.00	57.00	72.50
January 1 to December 31, 2006	3-way	300	48.00	57.00	72.50
January 1 to December 31, 2006	3-way	300	48.00	58.50	72.50
January 1 to December 31, 2006	3-way	300	48.00	57.50	74.00
January 1 to December 31, 2006	3-way	600	48.00	57.00	72.50
January 1 to December 31, 2006	3-way	300	48.00	60.00	72.50
February 1 to December 31, 2006	3-way	300	48.00	60.00	72.50
February 1 to December 31, 2006	3-way	300	48.00	60.00	74.00
2006 weighted average		2,650	48.44	58.22	72.83

Financial AECO natural gas contracts in place as at March 31, 2006

<i>Term</i>		<i>Contract Volume</i>	<i>Bought Put</i>	<i>Sold Call</i>
		<i>GJ/d</i>	<i>Cdn\$/GJ</i>	<i>Cdn\$/GJ</i>
January 1 to December 31, 2006	Collar	2,000	9.50	14.40

NAL has designated these derivatives as accounting hedges under the Canadian Institute of Chartered Accountants (the "CICA") accounting guideline AcG13 and, accordingly, has not recorded the fair value of these instruments in the consolidated financial statements as at March 31, 2006. As at March 31, 2006 the unrealized fair value of these hedges was a loss of \$347,000.

Currently, the Trust has completed hedges for up to 30 percent of estimated 2006 oil production, the maximum presently approved by the Board of Directors. The Trust has similar limits on its gas hedging program and will continue to monitor its position regarding further natural gas hedges.

Royalty Expenses

Crown, freehold and overriding royalties, net of Alberta Royalty Tax Credit (ARTC), were \$24.1 million for the three months ended March 31, 2006. Expressed as a percentage of gross sales, before hedging and transportation costs, the net royalty rate was 23.2 percent for the quarter ended March 31, 2006, up from 22.3 percent for last year. Included in the first quarter royalty expense is a \$0.9 million Saskatchewan Resource Surcharge relating to the period January 2006 to March 2006. Prior to April 2005, trusts were exempt from this surcharge. This surcharge is approximately 0.9% of revenue for the quarter. Royalties have increased on a barrel of oil equivalent basis due to higher commodity prices and the Saskatchewan surcharge.

<i>Royalty Expenses</i>	<i>3 months ended March 31, 2006</i>	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Net royalties (\$000s)	24,056	17,227	26,248
As % of revenue ⁽¹⁾	23.2	22.3	21.1
\$/boe	13.24	10.96	13.91

⁽¹⁾ Oil and natural gas and liquid sales before transportation and hedging.

Operating Costs

For the quarter ended March 31, 2006, operating costs averaged \$7.84 per boe, an 18 percent increase from the \$6.67 for the quarter ended March 31, 2005. The increase in operating costs in 2006 was due to higher costs associated with the gas-weighted Addison properties acquired in February 2005, as well as inflationary pressures resulting from the increasing demand for personnel, equipment and services in the highly competitive oil and gas industry.

Costs for the first quarter are in line with internal expectations and are expected to trend upward during the second and third quarters due to scheduled facility maintenance. Full year 2006 operating cost guidance is unchanged at \$8.30 - \$8.70 per boe.

<i>Operating Costs</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Operating costs (\$000s)	14,237	10,487	17,767
As % of revenue	13.8	13.7	14.9
\$/boe	7.84	6.67	9.41

Operating Netback

For the quarter ended March 31, 2006, NAL's operating netback, before hedging gains, was \$35.57 per boe, up 14 percent from \$31.23 for the quarter ended March 31, 2005. The increase was primarily due to higher commodity prices, offset slightly by higher royalties and operating costs.

<i>Operating Netback (\$/boe)</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Production revenue, net of transportation costs	56.65	48.86	65.53
Royalties, net	(13.24)	(10.96)	(13.91)
Operating expenses	(7.84)	(6.67)	(9.41)
Operating netback, before hedging	35.57	31.23	42.21
Hedging gains (losses)	0.14	-	(2.37)
Operating netback, after hedging	35.71	31.23	39.84

General and Administrative Expenses

General and administrative ("G&A") expenses include direct costs incurred by the Trust plus the reimbursement of the Manager's G&A expenses incurred on the Trust's behalf.

G&A expenses increased by 25 percent to \$2.5 million for the three months ended March 31, 2006 from \$2.0 million for the three months ended March 31, 2005. In addition, \$0.9 million of G&A costs relating to exploitation and development activities were capitalized, compared with \$0.3 million in the first quarter of 2005. The increase in the capitalization rate in 2006 resulted from a comprehensive review of G&A expenses in the second half of 2005.

The increase in total G&A costs in 2006 was due to higher staffing levels as a result of the Addison acquisition in February 2005 and an increased capital program, as well as increased compensation necessary to continue to attract and retain qualified personnel in a highly competitive market.

<i>General and Administrative Expenses</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
G&A expenses	2,464	1,976 ⁽¹⁾	3,049 ⁽¹⁾
As % of revenue	2.4	2.6	2.6
\$/boe	1.36	1.26	1.62
Per trust unit (\$)	0.03	0.03	0.04

⁽¹⁾ Restated from amounts previously reported to reflect the reclassification of unit-based incentive compensation expense.

Unit-based Incentive Compensation Plan

In January 2006, the Board of Directors approved a revised unit-based incentive plan (the "Plan") for all employees of the Manager. The Plan will result in employees receiving cash compensation based upon the value and overall return of a specified number of notional Trust units. The Plan consists of Restricted Trust Units ("RTU's") and Performance Trust Units ("PTU's"). RTU's vest one third on November 30 in each of three years after grant date. PTU's vest at the end of three years. Distributions paid during the vesting period are assumed to be reinvested in notional units on the date of distribution. Upon vesting, the employee is entitled to a cash payout based on the unit price at date of vesting of the units held. In addition, for the PTU's, there is a performance multiplier which is based on the Trust's performance relative to its peers and may range from zero to two times the market value of the notional units held at vesting.

The first payment under the previous plan was made in December 2005, the charge for which was accrued throughout the year and of which \$390,000 was charged to income in the first quarter of 2005. With the expansion of the Plan and the introduction of the annual vesting provision in 2006, the Trust has commenced to record its share of the value associated with the notional units in its accounts over the vesting period.

During the first quarter of 2006, the Trust accrued \$3.6 million of unit-based compensation charges in its accounts of which \$1.8 million has been charged to income and \$1.8 million relating to exploitation and development personnel has been capitalized in Property, Plant and Equipment.

\$2.3 million of the first quarter charge is expected to be paid in December 2006 and has been included in current liabilities. The balance represents the long-term portion of the Trust's estimated liability for the unit-based incentive plan as at March 31, 2006. This amount is payable in December 2007 and 2008.

The compensation charges relating to the units granted are recognized over the vesting period based on the unit price, number of RTU's and PTU's outstanding and the expected performance multiplier. As a result, the expense recorded in the accounts will fluctuate over time.

Management Contract and Fees

The Trust is managed by NAL Resources Management Limited (the "Manager"). The Manager is a wholly-owned subsidiary of Manulife Financial Corporation ("MFC") and manages, on their behalf, NAL Resources Limited ("NAL Resources"), another wholly-owned subsidiary of MFC. NAL Resources and the Trust maintain ownership interests in many of the same oil and natural gas properties, in which NAL Resources is the joint venture operator. As a result, a significant portion of the net operating revenues and capital expenditures during the period is based on joint venture amounts from NAL Resources. These transactions are in the normal course of joint venture operations and are measured using the fair value established through the original transactions with third parties.

The Manager provides certain services pursuant to the Management Contract for which, during the first quarter of 2006, the Trust paid \$750,000 for management fees in accordance with a proposed new arrangement with the Manager described below. Prior to January 1, 2006 the Trust was required to pay a monthly base management fee equal to three percent of its net production revenue and a quarterly performance fee based on the Trust's overall return compared to the S&P/TSX Capped Energy Trust Index, which fees amounted to \$1,554,000 for the quarter ended March 31, 2005.

In addition, the Trust paid \$1.7 million (2005 - \$1.6 million) for the reimbursement of G&A expenses incurred by the Manager on behalf of the Trust pursuant to the Management Contract. The Trust will also pay the Manager its share of unit-based compensation expense when cash compensation is paid to employees under the terms of the Plan.

On March 1, 2006 the Trust reached an agreement in principle providing for the restructuring of the Management Contract with the Manager. The restructuring transaction is subject to the approval of the Trust's unitholders at the annual and special meeting scheduled for May 31, 2006 as well as certain regulatory and other third party approvals. Under the new arrangement, the Trust will pay a one-time \$30 million restructuring fee in exchange for the elimination of any further base and performance management fees payable by the Trust and the acquisition of a 50 percent ownership in the Manager's administrative capital assets, effective January 1, 2006. The Manager will then subscribe for 1,592,357 units of the Trust at a price of \$18.84 per unit. The subscription price was based on the weighted average trading price of the Trust units over the five consecutive trading days ending on the third trading day preceding the date of the agreement.

In addition to the fees paid to date, the Trust will pay a monthly interim management fee of \$300,000 per month from April 1, 2006 up to the date of closing expected on May 31, 2006. Upon approval of the restructuring transaction on May 31, 2006, the second quarter results will reflect the \$30 million fee paid, with the portion representing the capital assets acquired (currently estimated at approximately \$3.0 million) capitalized as Property, Plant and Equipment, and the remainder, representing the elimination of future management and performance fees, recorded as a non-cash charge to income.

<i>Management Fees</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Base management fees (\$000s)	750	1,554	2,142
Performance fees (\$000s)	-	-	2,142
Total management fees (\$000s)	750	1,554	4,284
As % of revenue	0.7	2.0	3.6
\$/boe	0.41	0.99	2.27
Per trust unit (\$)	0.01	0.02	0.06

Interest

Interest expense includes amounts on borrowings plus standby fees on the unused portion of the bank credit facility. NAL's average outstanding bank debt for the first quarter 2006, was \$207.0 million as compared to \$196.5 for the first quarter of 2005. NAL's effective interest rate averaged 4.51 percent in 2006, compared with 4.27 percent in the first quarter of 2005.

Interest expense for the first quarter, 2006 increased by \$0.3 million to \$2.4 million as compared to \$2.1 million for the comparable period in 2005.

<i>Interest and Bank Debt (\$000s)</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Interest on bank debt	2,370	2,108	2,651
Bank debt outstanding at period end	198,093	259,600	220,519
Net bank debt outstanding at period end ⁽¹⁾	181,443	249,740	198,351
Net bank debt-to-cash flow ratio	0.76	1.40	0.88

⁽¹⁾ Net bank debt is bank debt net of working capital.

Depletion, Depreciation and Accretion of Asset Retirement Obligation (DDA)

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

For the quarter ended March 31, 2006, depletion on property, plant and equipment and accretion on the asset retirement obligation increased by 24 percent over the comparable period due to the increase in production and an eight percent increase in the DDA rate per boe of production. This higher DDA rate per boe is primarily due to the Addison acquisition, acquired at a higher cost per barrel of reserves as compared to properties owned by the Trust prior to this acquisition. In addition, the higher asset retirement obligation recorded in 2005 has resulted in higher accretion expense in 2006.

<i>Depletion, Depreciation and Accretion Expenses</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Depletion and depreciation (\$000s)	32,905	26,423	33,608
Accretion of asset retirement obligation (\$000s)	1,239	1,023	1,197
Total DDA (\$000s)	34,144	27,446	34,805
DDA rate per boe (\$)	18.80	17.47	18.44

Taxes

Taxes include federal and provincial capital and income taxes relating to the Trust and its subsidiary companies. In the first quarter of 2006, NAL had future income tax expense of \$0.05 million compared with a provision of \$1.3 million in the corresponding period of the prior year.

The Trust is a taxable trust and files a trust income tax return annually. The Trust's taxable income consists of royalty income, distributions from a subsidiary trust and interest and dividends from other subsidiaries, less deductions for the Trust's G&A expenses, resource allowance, Canadian Oil and Gas Property Expense, and issue costs. In addition, Canadian Exploration Expense and Canadian Development Expense are deducted by the Trust's subsidiaries.

Capital Resources And Liquidity

The capital structure of the Trust is comprised of Trust units and bank debt.

As at March 31, 2006, NAL had 75,159,475 units outstanding, compared with 73,977,041 units at December 31, 2005. The increase from December 31, 2005 is attributable to units issued under the distribution reinvestment program.

For the quarter ended March 31, 2006, the distribution reinvestment ("DRIP") and premium distribution reinvestment ("Premium DRIP") plans resulted in 1,182,434 units being issued at an average price of \$17.60 per unit for total proceeds of \$20.8 million.

Unitholders electing to reinvest distributions or make optional cash payments to acquire trust units from treasury under the DRIP may do so at 95 percent of the average market price with no additional fees or commissions. The Premium DRIP allows unitholders to exchange such units for a cash payment from the Plan Broker equal to 102 percent of the monthly distribution.

The combined participation in these programs has resulted in the reinvestment of approximately 49 percent of monthly distributions over the past quarter. On March 10, 2006, the Trust announced the suspension of the Premium DRIP, which is expected to result in a significant reduction in the reinvestment participation rate commencing with the distribution payable in April 2006. The Trust monitors the participation in these plans in conjunction with its capital requirements.

As at March 31, 2006 the Trust had bank debt of \$181.4 million (net of working capital) compared with \$198.4 million at December 31, 2005 and \$249.7 million as at March 31, 2005 after the Addison acquisition. At the end of the first quarter, the Trust had a net bank debt to equity ratio of 0.36 and a net bank debt to twelve months trailing cash flow ratio of 0.76.

The Trust maintains a \$300 million fully secured, extendible, revolving credit facility. The credit facility has been recently renewed and will revolve until April 26, 2007 at which time it is extendible for a further 364-day revolving period upon agreement between the Trust and the bank syndicate. The facility consists of a \$290 million production facility and a \$10 million working capital facility. The credit facility is fully secured by first priority security interests in all present and after acquired properties and assets of the Trust and its subsidiary and affiliated entities. The purpose of the facility is to fund property acquisitions and capital expenditures. Principal repayments to the bank are not required at this time. Should principal repayments become mandatory, a portion of the cash flow otherwise available to unitholders would be used to repay the facility in four equal quarterly installments commencing April 2008.

Total bank debt amounted to \$198.1 million at March 31, 2006 compared with \$220.5 million as at December 31, 2005. Of the debt outstanding at March 31, 2006, \$195.0 million was outstanding under the production facility and \$3.1 million under the working capital facility.

<i>Capitalization</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Trust unit equity (\$000s)	497,310	472,759	494,490
Bank debt (\$000s)	198,093	259,600	220,519
Net bank debt ⁽¹⁾ (\$000s)	181,443	249,740	198,351
Net bank debt to equity	0.36	0.53	0.40
Net bank debt to trailing 12-month cash flow	0.76	1.40	0.89

⁽¹⁾ Net bank debt is bank debt net of working capital.

The Trust anticipates that it will continue to have adequate liquidity to fund planned capital spending during 2006 through a combination of funds from operations and funds received from its distribution reinvestment programs and, if necessary, bank borrowings.

Asset Retirement Obligation

At March 31, 2006, the Trust reported an Asset Retirement Obligation ("ARO") balance of \$62.1 million (\$61.9 million at December 31, 2005) for future abandonment and reclamation of the Trust's oil and gas properties and facilities. The ARO balance was increased by an accretion expense of \$1.2 million in the first quarter of 2006 (\$1.0 million in the first quarter of 2005) and reduced by \$1.1 million for actual abandonment and environmental expenditures incurred in the first quarter of 2006 (\$0.5 million in the first quarter of 2005).

Distributions to Unitholders

For the three months ended March 31, 2006, funds from operations amounted to \$59.5 million compared with \$43.9 million for the three months ended March 31, 2005. NAL declared cash distributions of \$42.6 million (\$0.57 per unit) in the first quarter as compared to \$31.0 million (\$0.48 per unit) in the first quarter of 2005, representing a 72 percent payout ratio for the quarter, compared with a 71 percent payout ratio in the comparable quarter.

The weighted average number of units outstanding during the first quarter of 2006 increased by 19 percent to 74.5 million from 62.7 million in 2005 as a result of the public issue of 17 million units in January 2005 and strong unitholder participation in the Trust's distribution reinvestment programs. These funds were used to fund a portion of the Addison acquisition.

Unitholders' Distributions

<i>Distributions</i>	3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>	<i>3 months ended December 31, 2005</i>
Funds from operations (\$000s)	59,502	43,879	65,837
Distributions declared (\$000s)	42,597	31,027	41,956
Funds from operations per unit ⁽¹⁾	\$ 0.80	\$ 0.70	\$ 0.90
Distributions declared per unit	\$ 0.57	\$ 0.48	\$ 0.57
Weighted average units outstanding (000s)	74,544	62,671	73,436

⁽¹⁾ Based on weighted average units outstanding

Off-Balance Sheet Arrangements/Variable Interest Entities

NAL has no off-balance sheet arrangements or variable interest entities.

Contractual Obligations

NAL has entered into several contract obligations as part of conducting day-to-day business. NAL has the following commitments for the next five years:

(\$000s)	2006	2007	2008	2009	2010
Office Lease ⁽¹⁾	2,132	2,460	-	-	-
Transportation	1,027	666	666	85	-
Processing agreement ⁽²⁾	389	491	469	446	428
Drilling rigs ⁽³⁾	2,963	3,950	988	-	-

⁽¹⁾ Represents the full amount of office lease commitments, both base rent and operating costs, held by the Manager of which the Trust is allocated a pro rata share of the expense on a monthly basis. Included in office lease is a \$1 million commitment related to the Addison acquisition. The commitment started in February 2005 and extends 30 months. NAL has subsequently sublet the premises.

⁽²⁾ Represents a gas processing agreement with a take or pay arrangement associated with the Addison acquisition.

⁽³⁾ Represents the full amount of the minimum payments required under drilling rig contracts held by NAL Resources of which the Trust is allocated a share of the expense on a monthly basis.

Quarterly Information

(\$000s, except per unit and production amounts)	2006		2005			2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue, net of royalties and transportation costs	80,604	94,856	84,833	70,797	60,617	43,110	43,989	40,674
Per unit	1.08	1.29	1.17	0.99	0.97	0.81	0.84	0.79
Funds from operations	59,502	65,050	62,442	50,279	43,879	28,846	30,446	28,481
Per unit	0.80	0.89	0.86	0.71	0.70	0.54	0.58	0.55
Net income	24,610	30,777	31,710	20,804	15,247	11,754	13,279	10,871
Per unit	0.33	0.42	0.44	0.29	0.24	0.22	0.25	0.21
Average oil equivalent production (boe/d - 6:1)	20,181	20,514	19,710	18,349	17,457	12,958	12,807	13,259

Financial Reporting Disclosure Controls

Management has evaluated the effectiveness of the Trust's financial reporting disclosure controls and procedures as at March 31, 2006, and has concluded that such financial reporting disclosure controls and procedures were effective as at that date.

Critical Accounting Estimates

The significant accounting policies used by NAL are disclosed in the notes to NAL's December 31, 2005 audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions when formulating estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Manager reviews the estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. NAL might realize different results from the application of new accounting standards published, from time to time, by various regulatory bodies. An assessment of NAL's significant accounting estimates is discussed in the MD&A filed with NAL's audited consolidated financial statements for the year ended December 31, 2005.

Unit-Based Incentive Compensation Accounting Policy

In January 2006, the Board of Directors approved a revised unit-based incentive compensation plan (the "Plan") for all employees of the Manager. The first payment under the previous plan was made in December 2005. No charges related to the previous plan had been recorded in the accounts of the Trust prior to 2005. With the expansion of the Plan and the introduction of annual vesting provision in 2006, the Trust has commenced to record its share of the value associated with the notional units in its accounts over the vesting period.

The compensation charges relating to the units granted are recognized over the vesting period based on the unit price, number of RTU's and PTU's outstanding and the expected performance multiplier. As a result, the expense recorded in the accounts will fluctuate over time.

The accounting policy for the Plan is more fully described in Note 1 to the accompanying consolidated financial statements for the three months ended March 31, 2006.

Dated: May 2, 2006

Consolidated Financial Statements

Consolidated Balance Sheets

(thousands of dollars)

		As at March 31, 2006	As at December 31, 2005
		(unaudited)	(audited)
Assets	Current assets		
	Cash	\$ 708	\$ 1,124
	Accounts receivable and other	48,415	58,081
		49,123	59,205
	Reclamation reserve	3,995	3,898
	Future income tax asset	2,083	2,136
	Property, plant and equipment, net (Note 3)	736,126	748,715
		\$ 791,327	\$ 813,954
Liabilities and Unitholders' Equity	Current liabilities		
	Accounts payable and accrued liabilities	\$ 18,193	\$ 22,981
	Distributions payable to Unitholders	14,280	14,056
		32,473	37,037
	Bank debt (Note 4)	198,093	220,519
	Unit-based incentive compensation (Note 5)	1,336	-
	Asset retirement obligations (Note 6)	62,115	61,908
		294,017	319,464
	Unitholders' equity		
	Unitholders' capital (Note 7)	774,392	753,585
Accumulated income	298,406	273,796	
Accumulated distributions	(575,488)	(532,891)	
	497,310	494,490	
	\$ 791,327	\$ 813,954	
Commitments (Note 9)			
Units outstanding (000s)	75,159	73,977	

See accompanying notes

(signed) "J. Charles Caty"

J. Charles Caty
Director and Chairman of the Board

(signed) "Irvine J. Koop"

Irvine J. Koop
Director and Chairman of the Audit Committee

Consolidated Statements of Income and Accumulated Income

(thousands of dollars, except per unit amounts)

		3 months ended March 31, 2006	<i>3 months ended March 31, 2005</i>
		(unaudited)	(unaudited)
Revenue	Oil, natural gas and liquids sales	\$ 103,799	\$ 77,419
	Transportation costs	(668)	(651)
	Royalty and other income	1,529	1,076
	Crown royalties, net of ARTC	(18,164)	(12,730)
	Freehold and other royalties	(5,892)	(4,497)
		80,604	60,617
Expenses	Operating	14,237	10,487
	General and administrative	2,464	1,976
	Unit-based incentive compensation (Note 5)	1,838	390
	Management fees (Note 2)	750	1,554
	Interest on bank debt	2,370	2,108
	Depletion, depreciation and amortization	32,905	26,423
	Accretion on asset retirement obligations	1,239	1,023
		55,803	43,961
	Income before taxes	24,801	16,656
	Income and capital taxes	(138)	(81)
Future income tax provision	(53)	(1,328)	
Total income and capital taxes	(191)	(1,409)	
Net Income	24,610	15,247	
Accumulated income, beginning of period	273,796	175,258	
Accumulated income, end of period	\$ 298,406	\$ 190,505	
Net income per Trust unit	\$ 0.33	\$ 0.24	
Weighted average units outstanding (000s)	74,544	62,671	

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of dollars)

		3 months ended March 31, 2006	3 months ended March 31, 2005
		(unaudited)	(unaudited)
Operating	Net income	\$ 24,610	\$ 15,247
Activities	Items not involving cash:		
	Depletion, depreciation and amortization	32,905	26,423
	Accretion on asset retirement obligations	1,239	1,023
	Future income tax provision	53	1,328
	Abandonment and environmental expenditures	(1,143)	(532)
	Decrease (increase) in non-cash working capital	11,134	(7,262)
		68,798	36,227
Financing	Distributions to Unitholders	(42,372)	(28,224)
Activities	Issue of Trust units, net of issue costs	20,807	227,501
	Increase (decrease) in bank debt	(22,426)	165,900
	Decrease (increase) in non-cash working capital	(318)	160
		(44,309)	365,337
Investing	Acquisition of Addison Energy Inc.	-	(383,157)
Activities	Additions to property, plant and equipment	(20,012)	(7,492)
	Proceeds from dispositions	122	-
	Reclamation reserve	(96)	(97)
	Decrease (increase) in non-cash working capital	(4,919)	(9,671)
		(24,905)	(400,417)
	Increase (decrease) in cash	(416)	1,147
	Cash, beginning of period	1,124	1,111
	Cash, end of period	\$ 708	\$ 2,258
	Supplementary disclosure of cash flow information:		
	Cash paid during the year for:		
	Interest	\$ 2,333	\$ 2,096
	Taxes (recovery)	\$ 138	\$ 81

See accompanying notes

Notes to the Consolidated Financial Statements

Three months ended March 31, 2006.

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

1

SUMMARY OF ACCOUNTING POLICIES

Management prepared the interim consolidated financial statements of NAL Oil & Gas Trust ("NAL" or the "Trust") in accordance with accounting principles generally accepted in Canada and following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2005, except for implementation of unit-based compensation. The following disclosure is incremental to the disclosure included within the annual financial statements. Please read the interim consolidated financial statements in conjunction with the consolidated financial statements and notes thereto in NAL's annual report for the year ended December 31, 2005

Unit-Based Incentive Compensation

The Manager has established a unit-based incentive compensation plan for employees, for which grants are in the form of Restricted Trust Units ("RTU's") and Performance Trust Units ("PTU's"). As participants in the plan receive a cash payment on a fixed vesting date, compensation expense is determined based on the intrinsic value of the units at each period end. The valuation incorporates the period end trust unit price, number of RTU's and PTU's outstanding at each period end, and certain management assumptions. PTU's vest at the end of a three-year period. RTU's vest one third at the end of each year for three years. Compensation expense is recognized over the vesting period with a corresponding increase or decrease in liabilities. Classification between accrued liabilities and other long-term liabilities is dependent on the expected payout date.

The Trust charges amounts relating to head office employees to general and administrative expenses, amounts relating to field staff to operating costs, and amounts relating to exploitation and development personnel to property, plant and equipment.

The Trust has not incorporated an estimated forfeiture rate for performance units that will not vest, rather, the Trust accounts for actual forfeitures as they occur.

2

MANAGEMENT CONTRACT AND FEES

The Trust is managed by NAL Resources Management Limited (the "Manager"). The Manager is a wholly-owned subsidiary of Manulife Financial Corporation ("MFC") and manages, on their behalf, NAL Resources Limited ("NAL Resources"), another wholly-owned subsidiary of MFC. NAL Resources and the Trust maintain ownership interests in many of the same oil and natural gas properties, in which NAL Resources is the joint venture operator. As a result, a significant portion of the net operating revenues and capital expenditures during the period is based on joint venture amounts from NAL Resources. These transactions are in the normal course of joint venture operations and are measured using the fair value established through the original transactions with third parties.

The Manager provides certain services pursuant to the Management Contract for which, during the first quarter of 2006, the Trust paid \$750,000 for management fees in accordance with a proposed new arrangement with the Manager described below. Prior to January 1, 2006 the Trust was required to pay a monthly base management fee equal to three percent of its net production revenue and a quarterly performance fee based on the Trust's overall return compared to the S&P/TSX Capped Energy Trust Index, which fees amounted to \$1,554,000 for the quarter ended March 31, 2005. In addition, the Trust paid \$1.7 million (2005 - \$1.6 million) for the reimbursement of G&A

expenses incurred by the Manager on behalf of the Trust pursuant to the Management Contract. The Trust will also pay the Manager its share of unit-based compensation expense when cash compensation is paid to employees under the terms of the Plan.

On March 1, 2006 the Trust reached an agreement in principle providing for the restructuring of the Management Contract with the Manager. The restructuring transaction is subject to the approval of the Trust's unitholders at the annual and special meeting scheduled for May 31, 2006 and certain regulatory and other third party approvals. Under the new arrangement, the Trust will pay a one-time \$30 million restructuring fee in exchange for the elimination of any further base and performance management fees payable by the Trust and the acquisition of a 50 percent ownership in the Manager's administrative capital assets, effective January 1, 2006. The Manager will then subscribe for 1,592,357 units of the Trust at a price of \$18.84 per unit.

In addition to the fees paid to date, the Trust will pay a monthly interim management fee of \$300,000 per month from April 1, 2006 up to the date of closing of the restructuring transaction expected on May 31, 2006.

3

PROPERTY, PLANT AND EQUIPMENT ("PP&E")

<i>Net book value as at:</i>	March 31, 2006	<i>December 31, 2005</i>
Oil and natural gas properties, at cost	\$ 1,224,124	\$ 1,204,123
Less: Accumulated depletion and depreciation	(487,998)	(455,408)
	\$ 736,126	\$ 748,715

During the three months ended March 31, 2006, the Trust capitalized \$0.9 million (2005 - \$0.3 million) of general and administrative costs and \$1.8 million of unit-based compensation expense (2005 - \$nil) that were directly related to exploitation and development programs. (See Note 5).

No property costs have been excluded from the depletion and depreciation calculation.

4

BANK DEBT

The Trust, through its subsidiary NAL Ventures Trust, maintains a \$300 million fully secured, extendible, revolving term credit facility with a syndicate of Canadian chartered banks. This facility consists of a \$290 million production facility and a \$10 million working capital facility. The total amount of the facility is determined by reference to a borrowing base. The borrowing base is calculated by the bank syndicate and is a function of the net present value of the Trust's oil and gas reserves and other assets.

The credit facility is fully secured by first priority security interests in all present and after acquired properties and assets of the Trust and its subsidiary and affiliated entities. The facility was renewed in April 2006 and will revolve until April 26, 2007 and is extendible at that time for a further 364-day revolving period upon agreement between the Trust and the bank syndicate. If the credit facility is not extended in April 2007, the amounts outstanding at that time will be converted to a two-year term loan. The term loan will be payable in four equal quarterly installments commencing April 2008 with a final residual payment, if any, in April 2009.

Amounts are advanced under the credit facility in Canadian dollars by way of prime interest rate based loans and by issues of bankers' acceptances and in U.S. dollars by way of U.S. base interest rate and Libor based loans. The interest charged on advances is at the prevailing interest rate for bankers' acceptances, Libor loans, lenders' prime or U.S. base rates plus an applicable margin or stamping fee. The applicable margin or stamping fee, if any, varies based on the consolidated debt-to-cash flow ratio of the Trust.

On March 31, 2006 the effective interest rate on amounts outstanding under the credit facility was 4.81 percent.

5

UNIT-BASED INCENTIVE COMPENSATION PLAN

In January 2006, the Board of Directors approved a revised unit-based incentive compensation plan (the "Plan") for all employees of the Manager. The Plan will result in employees receiving cash compensation in relation to the value of a specified number of notional units. The Plan consists of Restricted Trust Units ("RTU's") and Performance Trust Units ("PTU's"). RTU's vest one third on November 30 in each of three years after grant date. PTU's vest at the end of three years. Distributions paid during the vesting period are assumed to be reinvested in notional units on the date of distribution. Upon vesting the employee is entitled to a cash payout based on the unit price at date of vesting of the units held. In addition, for the PTU's, there is a performance multiplier which is based on the Trust's performance relative to its peers and may range from zero to two times the market value of the notional units held at date of vesting.

The first payment under the previous plan was made in December 2005, the charge for which was accrued throughout the year and of which \$390,000 was charged to income in the first quarter of 2005. With the expansion of the Plan and the introduction of the annual vesting provision in 2006, the Trust has commenced to record its share of the value associated with the notional units in its accounts over the vesting period.

During the first quarter of 2006, the Trust accrued \$3.6 million of unit-based compensation charges in its accounts of which \$1.8 million has been charged to income and \$1.8 million relating to exploitation and development personnel has been capitalized in Property, Plant and Equipment.

\$2.3 million of the first quarter charge is expected to be paid in December 2006 and has been included in current liabilities. The balance represents the long-term portion of the Trust's estimated liability for the unit-based incentive plan as at March 31, 2006. This amount is payable in December 2007 and 2008.

The compensation charges relating to the units granted are recognized over the vesting period based on the unit price, number of RTU's and PTU's outstanding and the expected performance multiplier. As a result, the expense recorded in the accounts will fluctuate over time.

6

ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated by the Manager based on the Trust's net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. NAL has estimated the net present value of its asset retirement obligations to be \$62.1 million as at March 31, 2006 based on a total undiscounted amount of cash flows required to settle its asset retirement obligations of \$157.4 million (2005 - \$161.8 million). These costs are expected to be incurred over the next 46 years with the majority of the costs incurred between 2006 and 2033. NAL's credit-adjusted risk-free rate of eight percent (2005 - eight percent) and an inflation rate of two percent (2005 - 1.5 percent) were used to calculate the present value of the asset retirement obligations.

The following table reconciles the Trust's asset retirement obligations.

	3 months ended March 31, 2006	<i>3 months ended December 31, 2005</i>
Balance, beginning of period	\$ 61,908	\$ 36,924
Accretion expense	1,239	4,582
Liabilities incurred	111	23,374
Liabilities settled	(1,143)	(2,972)
Balance, end of period	\$ 62,115	\$ 61,908

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UNITHOLDERS' EQUITY

	3 months ended March 31, 2006		<i>3 months ended December 31, 2005</i>	
	Units	Amount	Units	Amount
<i>Units issued:</i>				
Balance, beginning of period	73,977	\$ 753,585	53,064	\$ 476,620
Issued for cash	-	-	17,000	232,900
Less: Issue expenses	-	-	-	(12,333)
Issued from Distribution Reinvestment Plan	1,182	20,807	3,913	56,398
Balance, end of period	75,159	\$ 774,392	73,977	\$ 753,585

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at March 31, 2006 the Trust had entered into the following derivatives to protect its 2006 cash flow from the volatility of oil and natural gas commodity prices:

Financial WTI oil contracts in place as at March 31, 2006:

<i>Term</i>	<i>Contract</i>	<i>Volume</i>	<i>Sold Put</i>	<i>Bought Put</i>	<i>Sold Call</i>
		<i>bb/d</i>	<i>US\$/bbl</i>	<i>US\$/bbl</i>	<i>US\$/bbl</i>
January 1 to December 31, 2006	3-way	300	52.00	57.00	72.50
January 1 to December 31, 2006	3-way	300	48.00	57.00	72.50
January 1 to December 31, 2006	3-way	300	48.00	58.50	72.50
January 1 to December 31, 2006	3-way	300	48.00	57.50	74.00
January 1 to December 31, 2006	3-way	600	48.00	57.00	72.50
January 1 to December 31, 2006	3-way	300	48.00	60.00	72.50
February 1 to December 31, 2006	3-way	300	48.00	60.00	72.50
February 1 to December 31, 2006	3-way	300	48.00	60.00	74.00
2006 weighted average		2,650	48.44	58.22	72.83

Financial AECO natural gas contracts in place as at March 31, 2006:

<i>Term</i>	<i>Contract</i>	<i>Volume</i>	<i>Bought Put</i>	<i>Sold Call</i>
		<i>GJ/d</i>	<i>Cdn\$/GJ</i>	<i>Cdn\$/GJ</i>
January 1 to December 31, 2006	Collar	2,000	9.50	14.40

The estimated fair value of the above contracts, all of which qualify for hedge accounting, was a loss of \$347,000 as at March 31, 2006. These instruments have no carrying value recorded in the financial statements.

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COMMITMENTS

At December 31, 2005 the Trust had the following contractual obligations and commitments:

<i>(\$000s)</i>	2006	2007	2008	2009	2010
Office lease ⁽¹⁾	2,132	2,460	-	-	-
Transportation agreement	1,027	666	666	85	-
Processing agreement ⁽²⁾	389	491	469	446	428
Drilling rigs ⁽³⁾	2,963	3,950	988	-	-

⁽¹⁾ Represents the full amount of office lease commitments, both base rent and operating costs, held by the Manager of which the Trust is allocated a pro rata share of the expense on a monthly basis. Included in office lease is a \$1.0 million commitment related to the Addison Energy acquisition. The commitment started in February 2005 and extends 30 months. NAL has subsequently sublet the premise.

⁽²⁾ Represents gas processing agreement under take or pay arrangement associated with Addison Energy acquisition.

⁽³⁾ Represents the full amount of the minimum payments required under drilling rig contracts held by NAL Resources of which the Trust is allocated a share of the expense on a monthly basis.

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COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period presentation.

Trading Performance

<i>Price</i>	March 31 2006	<i>December 31 2005</i>	<i>March 31 2005</i>	<i>December 31 2004</i>
High	\$ 20.25	\$ 19.15	\$ 14.69	\$ 15.29
Low	\$ 16.92	\$ 13.39	\$ 12.82	\$ 12.60
Close	\$ 19.58	\$ 18.08	\$ 13.80	\$ 13.55
Volume	13,614,737	16,922,700	23,391,175	15,265,465

NAL Oil & Gas Trust is an open-end investment trust that generates distributions through the acquisition, development, production and marketing of oil, natural gas and natural gas liquids. The Trust owns high quality assets in Alberta, Saskatchewan and Ontario. Trust units trade on the Toronto Stock Exchange under the symbol "NAE.UN".

Abbreviations

bbls.	barrels
bbls/s.	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mbbl.	thousands of barrels
Mboe	thousands of barrels of oil equivalent
Mcf.	thousand cubic feet
Mcf/d.	thousand cubic feet per day
MMcf.	million cubic feet
MMcf/d.	million cubic feet per day
MMbtu	million of British Thermal Units

Conversion Factors

<i>To Convert from</i>	<i>To</i>	<i>Multiply by</i>
Mcf.	cubic metres	28.174
cubic metres.	cubic feet	35.494
barrels	cubic metres	0.159
cubic metres.	barrels	6.293
feet	metres	0.305
metres	feet	3.281
miles.	kilometres	1.609
kilometres.	miles	0.621
acres.	hectares	0.405
hectares.	acres	2.471

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*Chairman of the Board,
Retired investment executive*

Irvine J. Koop ⁽¹⁾
*Chairman of the Audit Committee,
Director, Chairman and Chief Executive
Officer of IKO Resources Inc.*

Dennis G. Flanagan ⁽¹⁾
*Chairman of the Reserves Committee,
Retired petroleum executive*

Barry D. Stewart ⁽¹⁾
*Chairman of the Nominating Committee,
Retired business executive*

Richard B. Coles
*Director,
Retired business executive*

Leo de Bever
*Director,
Executive Vice President,
Global Investment Management
Manulife Financial Corporation*

Andrew B. Wiswell
*Director,
President and Chief Executive Officer*

⁽¹⁾ Independent Director

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President and Chief Executive Officer

Jonathan A. Lexier
Chief Operating Officer

R. Ross Liland
*Vice President, Finance and
Chief Financial Officer*

Troy T. Wagner
Vice President, Operations

Ben L. Bury
Vice President, Marketing

John H. Kousinoiris
Corporate Secretary

Murielle J. Fiset
Assistant Corporate Secretary

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