

# CRUISER OIL & GAS LTD.

November 28, 2007

## Cruiser Announces Results for the Three and Nine Months Ended September 30, 2007

Calgary, Alberta – Cruiser Oil & Gas Ltd. ("Cruiser" or the "Company") is pleased to announce its financial and operating results for the three and nine months ended September 30, 2007 with comparatives for 2006.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
<b>FINANCIAL HIGHLIGHTS (\$)</b>				
Petroleum and natural gas sales	<b>363,207</b>	234,304	<b>1,146,578</b>	705,838
Funds (used in) from operations	<b>(44,288)</b>	(340)	<b>85,794</b>	44,249
Loss for the period	<b>(364,944)</b>	(122,602)	<b>(646,514)</b>	(167,825)
Net capital expenditures	<b>637,747</b>	1,278,022	<b>3,530,766</b>	4,185,538
<b>OPERATIONAL HIGHLIGHTS</b>				
Daily production - boe/d (6:1)	<b>92</b>	63	<b>86</b>	57
Price - \$/boe	<b>43.12</b>	40.52	<b>48.77</b>	45.65
Operating netback - \$/boe	<b>17.21</b>	26.25	<b>26.68</b>	29.51

BOEs are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil (6 Mcf: 1 bbl). 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.

### OPERATIONS HIGHLIGHTS AND OUTLOOK

- Increased average production by 46% from 2006 comparative quarter to an average of 92 boe/day for the quarter ended September 30, 2007
- Increased petroleum and natural gas sales by 55% from 2006 comparative quarter to \$363,207 for the quarter ended September 30, 2007
- Decreased G&A expenses on a per boe basis by 8% for the comparative quarter ended September 30, 2007
- Continued to increase our undeveloped land base by adding 160 net acres in Dawson and 320 net acres in Willesden Green, recently.
- Achieved 100% drilling success to date on our Willesden Green property.

The Company's current productive capability is estimated to be 230 boe/day which includes current production of approximately 100 boe/day and an estimated 130 boe/day waiting to be put back on production.

At Swan Hills, third party processing and injection facility issues continue to force the well to be shut-in. The Company is making every effort to work with the facility operator to rectify the problem and anticipates that the well will be back on production before the end of 2007. The well had been performing as the Company had expected right up until the time that the facility operator restricted access to the facility.

At Willesden Green, the 09-34 well commenced production in August 2007. The Company is currently completing gathering system upgrades in order to optimize future development of the Company's holdings in the Willesden Green area. At recent crown land sales, Cruiser was successful at acquiring two quarter section parcels of land.

## **CRUISER OIL & GAS LTD.**

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Cruiser has been technically successful at all of its Company operated projects, which include its Swan Hills and Willesden Green properties. Cruiser has established production and reserves through the remedial work at Swan Hills. The Company has been successful at establishing a new operated core area at Willesden Green, gaining access to tightly held infrastructure, proving up production and reserves, and aggressively expanding the land base through farm-ins and crown land sales. Cruiser has assembled a superior technical team creating a significant amount of value at its properties. A large inventory of low risk exploitation opportunities has been developed that will further enhance the value of the Company. Cruiser is currently limited in its financial capability to pursue these opportunities.

The state of the junior oil and gas sector has been negatively impacted in the last year by three significant events: the change in the tax rules for Royalty Trusts as announced October 31, 2006; the revision of the Alberta royalty regime as recently announced; and, the depressed natural gas markets. The combination of these three events has created uncertainty in the capital markets, which has significantly reduced the amount of new capital entering the sector to assist junior oil and gas companies in growing their asset base.

Cruiser needs to pursue additional funding in order to meet current commitments and continue to fully exploit and grow its asset base. Cruiser will remain focussed at minimizing costs and will continue to evaluate new opportunities to increase shareholder value.

Douglas L. Meiklejohn  
President & Chief Executive Officer

This MD&A is dated as of November 28, 2007

This Management's Discussion and Analysis ("MD&A") of financial results and related data is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and should be read in conjunction with the following:

- *The unaudited interim financial statements and accompanying notes for the three and nine months ended September 30, 2007;*
- *The audited financial statements and accompanying notes for the year ended December 31, 2006; and*
- *The MD&A for the year ended December 31, 2006.*

Information contained herein includes estimates and assumptions which management is required to make concerning future events, and may constitute forward-looking statements under applicable securities laws. Forward-looking statements include plans, expectations, estimates, forecasts and other comments that are not statements of fact. Although Cruiser Oil & Gas Ltd. ("Cruiser" or the "Company") views such expectations as reasonable, no assurance can be given that such expectations will be realized. Such forward-looking statements are subject to risks and uncertainties and may be based on assumptions that may cause actual results to differ materially from those implied herein, and therefore are expressly qualified in their entirety by this cautionary statement.

This MD&A presents and discusses results on a BOE (barrels of oil equivalent) basis. This presentation may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf: 1 bbl (barrel) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All BOE conversions in this report are derived by converting natural gas to oil in the ratio of six thousand cubic feet of natural gas to one barrel of oil.

## **RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS**

In September 2007, the Company was contacted by two creditors who, as a result of the reorganization of Cruiser in 2004, received share payment considerations for certain debt obligations. These share considerations were subject to put/call option terms and if the options were not exercised, they would expire three years from the date of closing (September 2004) and the Company would be liable for the outstanding amounts and accrued interest. These options have now expired and the liabilities, including accrued interest have been estimated at approximately \$351,200. The 2006 financial statements have been restated to reflect the liabilities and retained earnings adjustment up to December 31, 2006 and the additional 2007 interest expense has been recorded in the three and nine months ended September 30, 2007 (see notes 3 and 6 to the September 2007 financial statements). All of the comparative numbers in the MD&A have been adjusted to reflect this adjustment.

## **THREE MONTHS ENDED SEPTEMBER 30**

During the third quarter of 2007, the Company focused on the completion and equipping of the Willesden Green 09-34 well, and production optimization of the Willesden Green 06-35 well.

Production for the third quarter of 2007 averaged 92 boe/day as compared to 63 boe/day in the comparative quarter of 2006. The increase in the three months ended September 30, 2007 is from the commencement of production from the Willesden Green and Swan Hills fields. The average price for oil and natural gas liquids was \$65.54 per barrel and the average price for gas was \$5.46 per mcf during the third quarter of 2007. This compares to the average commodity prices for the third quarter of 2006 of \$58.32 per barrel and \$5.58 per mcf. The average royalty rate for the comparative quarters was 22% for 2007 and 1% for 2006. The 2006 royalty rate was reduced by the effect of a gas royalty holiday on the Blackstone 11-13 well, all of which was recorded in the third quarter. Operating costs were \$139,480 (\$16.56 per boe), compared to \$79,280 (\$13.71 per boe), in the comparative quarter in 2006.

General and administrative expenses for the third quarter of 2007 were \$182,426 as compared to \$136,772 in the same period in 2006. The increase was primarily due to the increased cost of office premises and administrative costs associated with increased activity.

Interest expense in the third quarter of 2007 was \$19,499 as compared to \$31,606 in the same quarter of 2006. Interest expense in the third quarter of 2007 reflects the interest accrued on the additional liabilities for the nine month period ended September 2007. Interest expense in 2006 included interest related to the additional liabilities, flow-through expenditures and the debenture.

Depletion, depreciation and accretion for the third quarter of 2007 was \$458,154 (\$54.39 per boe) as compared to the third quarter of 2006 of \$160,471 (\$27.75 per boe), reflecting an increase in the per unit rate due to the cost of capital additions and to the total dollar amount as a result of increased production in the 2007 period.

The loss for the third quarter of 2007 was \$364,944 as compared to a loss of \$136,069 during the same period in 2006.

### FINANCIAL HIGHLIGHTS

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Petroleum and natural gas sales	<b>363,207</b>	234,304	<b>1,146,578</b>	705,838
Funds from (used in) operations	<b>(44,288)</b>	(340)	<b>85,794</b>	44,249
Loss for the period	<b>(364,944)</b>	(122,602)	<b>(646,514)</b>	(167,825)
Net capital expenditures	<b>637,747</b>	1,278,022	<b>3,530,766</b>	4,185,538
Weighted average shares outstanding – basic	<b>122,057,718</b>	80,964,862	<b>121,996,058</b>	80,919,532
Common shares outstanding – end of period	<b>122,057,718</b>	80,964,862	<b>122,057,718</b>	80,964,862

### SUMMARY OF QUARTERLY RESULTS

	SEP 07	JUN 07	MAR 07	DEC 06	SEP 06	JUN 06	MAR 06	DEC 05
Petroleum and natural gas revenue	363,207	461,849	321,522	331,210	234,304	270,529	201,005	199,621
Net (loss) income	(364,944)	(148,691)	(132,879)	(249,341)	(1,360,69)	90,846	(122,602)	(327,511)
Net (loss) income per share	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.00)	(0.00)
Net capital expenditures	637,747	938,384	1,954,635	1,645,104	1,278,022	442,443	2,465,073	3,321,679

### PETROLEUM AND NATURAL GAS SALES

Oil and natural gas revenues increased to \$363,207 and \$1,146,578, respectively, for the three and nine months ended September 30, 2007 as compared to \$234,304 and \$705,838 for the comparative periods in 2006. Prices for the Company's production in the three and nine months ended September 30, 2007 averaged \$65.54 and \$62.73 per barrel for oil and liquids and \$5.46 and \$6.59 per mcf for natural gas, as compared to \$58.32 and \$59.87 per barrel of oil and liquids and \$5.58 and \$6.55 per mcf of natural gas for the same periods in 2006. The increased 2007 revenues were primarily a result of increased production volumes.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Petroleum and natural gas sales (\$)	<b>363,207</b>	234,304	<b>1,146,578</b>	705,838
\$/BOE	<b>43.12</b>	40.52	<b>48.77</b>	45.65

**PRODUCTION**

Total production for the three and nine months ended September 30, 2007 averaged 92 and 86 boe/day, respectively, as compared to 63 and 57 boe/day in the comparative periods of 2006. By commodity, production of natural gas averaged 376 and 311 mcf/day and oil and NGLs averaged 29 and 33 bbls/day in the three and nine months ended September 30, 2007, as compared to 286 and 235 mcf/day for gas and 15 and 16 bbls/day of oil and NGLs for the same periods in 2006.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Natural gas (mcf/d)	376	286	311	235
Crude oil and NGLs (bbls/d)	29	15	33	16
Total (boe/d)	92	63	86	57
Percentage natural gas (%)	68	76	60	68

**ROYALTIES**

Royalties on a percentage of revenue basis for the three and nine months ended September 30, 2007 increased relative to the comparative periods in 2006. The low royalty rate in the third quarter of 2006 resulted from the Blackstone 11-13 well being granted royalty holiday status, and all of the previously recorded royalty expense being adjusted in the quarter.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net royalties (\$)	78,741	3,200	191,820	75,675
Net royalties as a % of revenue	22	1	17	11
\$/BOE	9.35	0.55	8.16	4.89

**OPERATING EXPENSES**

During the three and nine months ended September 30, 2007, the Company incurred operating and transportation expenses of \$139,480 and \$327,564 respectively, as compared to \$79,280 and \$173,858 for the same periods in 2006. The 2007 year-to-date operating expenses have increased from the comparative period in 2006 due to increased production volumes, cost of services and production from higher operating cost areas.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Operating and transportation expenses (\$)	139,480	79,280	327,564	173,858
\$/BOE	16.56	13.71	13.93	11.24

**GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses increased to \$182,426 and \$579,080 respectively, for the three and nine months ended September 30, 2007 from \$136,772 and \$427,999 for the comparative periods in 2006. The increase is a result of higher consulting and professional fees due to additional services engaged to support the increased corporate and operating activity, combined with the increased cost of office premises. The costs on a boe basis were reduced to \$21.66 and \$24.63 per boe for the three and nine months ended September 30, 2007 as compared to \$23.65 and \$27.68 per boe in the same periods in 2006 due to increased production volumes in 2007.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
General and administrative expense (\$)	<b>182,426</b>	136,772	<b>579,080</b>	427,999
\$/BOE	<b>21.66</b>	23.65	<b>24.63</b>	27.68

### INTEREST INCOME AND EXPENSE

Interest expense for the three and nine months ended September 30, 2007 decreased to \$19,499 and \$21,980, respectively, from \$31,606 and \$72,824 for the comparative periods in 2006. The majority of the interest expense for 2007 is a result of the obligations described under the restatement of prior period and in note 3 to the September 2007 financial statements. In addition to the effect of these obligations, interest expense in the comparative 2006 periods related to the 2005 flow-through share issuance as well as interest on the debenture. This debenture was repaid in full in August 2006.

The Company earns interest on excess funds by investing in term deposits with its bank.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Interest expense (\$)	<b>19,499</b>	31,606	<b>21,980</b>	72,824
Interest income (\$)	<b>12,651</b>	14,131	<b>59,660</b>	74,184
Net interest expense (income) (\$/BOE)	<b>0.81</b>	1.90	<b>(1.60)</b>	(0.09)

### DEPLETION AND DEPRECIATION

Depletion and depreciation for the three and nine months ended September 30, 2007 was \$452,694 and \$983,081, respectively, compared to \$156,954 and \$455,160 for the same periods in 2006. The increased amount is a result of both higher production and an increased cost of capital expenditures related to reserve additions.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Depletion and depreciation (\$)	<b>452,694</b>	156,954	<b>983,081</b>	445,160
\$/BOE	<b>53.75</b>	27.14	<b>41.82</b>	28.79

### ASSET RETIREMENT OBLIGATIONS

The obligation at September 30, 2007 is estimated to be \$286,495 based on the total estimated undiscounted obligation of \$732,320 adjusted for a discount rate of 8% and inflation of 2% over an average reserve life of 13.1 years. Accretion of \$5,460 and \$15,285, respectively, for the three and nine months ended September 30, 2007 compares to \$3,517 and \$10,301 for the same periods of 2006.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Accretion expense (\$)	<b>5,460</b>	3,517	<b>15,285</b>	10,301
\$/BOE	<b>0.65</b>	0.61	<b>0.65</b>	0.67

**FUNDS FROM OPERATIONS**

For the three and nine months ended September 30, 2007, funds used in operations were \$44,288 for the three months and funds generated from operations were \$85,794 for the nine months as compared to \$340 and \$44,249 during the same periods in 2006.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Funds from (used in) operations (\$)	<b>(44,288)</b>	(340)	<b>85,794</b>	44,249

Funds from operations is a non-GAAP measure that represents funds generated from operating activities before changes in non-cash working capital. This is considered a key measure as it demonstrates the Company's ability to generate the funds necessary to fund future growth through capital investment. Funds from operations may not be comparable to similar measures used by other companies.

**NET LOSS**

The net loss for the three and nine months ended September 30, 2007 was \$364,944 and \$646,514, respectively, compared to \$136,069 and \$167,825 during the same periods in 2006. The increase in the net loss was a result of higher costs, lower commodity prices and lower future tax reductions, partially offset by increased production volumes.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net (loss) (\$)	<b>(364,944)</b>	(136,069)	<b>(646,514)</b>	(167,825)

**CAPITAL EXPENDITURES**

During the three and nine months ended September 30, 2007, the Company incurred \$637,747 and \$3,530,766, respectively, of capital expenditures as compared to \$1,278,022 and \$4,185,538 in the same periods of 2006. During the first three quarters of 2007, the Company completed and tied-in one well and drilled and completed another well, both in the Willesden Green area. Continuation of drilling and completion of the Kakwa 13-01 well and the workover and reactivation of the Swan Hills 15-26 well also took place. During the comparative 2006 nine months, the Company participated in a joint venture in the Ansell and Blackstone areas, drilled the Kakwa 13-01 well, and commenced drilling at Willesden Green 06-35.

Capital expenditures (\$)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Land and seismic	<b>26,367</b>	360	<b>207,715</b>	118,478
Drilling and completions	<b>318,905</b>	999,116	<b>2,294,013</b>	3,216,247
Equipment and tie-ins	<b>292,475</b>	278,546	<b>1,021,020</b>	850,813
Other	-	-	<b>8,018</b>	-
Total	<b>637,747</b>	1,278,022	<b>3,530,766</b>	4,185,538

**LIQUIDITY AND CAPITAL RESOURCES**

The Company commenced the 2007 year with working capital of \$3,631,501. The net oil and gas revenue plus net interest income was more than sufficient to cover the general and administrative costs incurred during the first three quarters of the year. Capital expenditures in the first nine months of 2007 in the amount of \$3,530,766 were financed by the funds from operations and opening working capital.

In December 2006, pursuant to a private placement, the Company raised gross proceeds of \$4,964,000 of which \$1,000,000 was on a flow-through basis. All qualifying flow-through expenditures were incurred by March 31, 2007.

As at September 30, 2007, the Company's working capital has been reduced to \$199,560. These funds will be utilized to partially fund the current capital expenditure commitments.

The Company has no off-balance sheet arrangements.

Financial instruments consist of those shown on the Balance Sheet.

**SHARE CAPITAL**

At the beginning of 2007, the Company had 121,891,052 issued and outstanding shares. During the second quarter of 2007, 166,666 options were exercised for an equivalent number of shares and gross proceeds of \$16,676 resulting in 122,057,718 shares outstanding as of September 30, 2007 and the date of this MD&A.

The renouncement documents in regards to the 2006 flow-through private placement were filed with the tax authorities in February 2007 and the tax effect of the qualifying expenditures in the amount of \$290,000 was recorded. This resulted in reducing the share capital book value and increasing the future tax liability.

**Options**

At the beginning of 2007, there were 4,495,000 options outstanding. During the first quarter of 2007, 250,000 options expired unexercised and 166,666 options were exercised resulting in 4,078,334 options outstanding as of September 30, 2007 and the date of this MD&A.

**RELATED PARTY TRANSACTIONS**

The Company had the following related party transactions:

1. During the three and nine months ended September 30, 2007, the Company was charged \$30,000 and \$90,000, respectively (September 30, 2006 – \$60,000 and \$180,000) in management fees by officers and directors of the Company. At September 30, 2007, accounts payable includes \$nil (December 31, 2006 - \$25,000).
2. During the three and nine months ended September 30, 2007, the Company was charged \$172,178 and \$216,138, respectively (September 30, 2006 - \$nil) in capital expenditures by a corporation in which an officer and director of the Company is both a director and shareholder of the corporation. At September 30, 2007, accounts payable includes \$97,425 (December 31, 2006 - \$nil).
3. During the three and nine months ended September 30, 2007, a law firm in which a director of the Company is a principal, charged the Company \$2,787 and \$16,207, respectively (September 30, 2006 – \$nil) for legal services. At September 30, 2007, accounts payable includes \$16,207 (December 31, 2006 – \$42,683).

4. During the three and nine months ended September 30, 2007, the Company was charged \$34,795 and \$85,936, respectively (September 30, 2006 – \$21,830 and \$40,689) for accounting and administrative fees by a corporation controlled by an officer of the Company. At September 30, 2007, accounts payable includes an amount of \$25,383 (December 31, 2006 – \$2,166).

All related party transactions are in the normal course of operations and have been measured at the exchange amount that is the amount of consideration established and agreed to by the related parties under terms similar to those negotiated with third parties.

### **OUTLOOK FOR 2007**

The Company's current productive capability is estimated to be 230 boe/day which includes current production of approximately 100 boe/day and an estimated 130 boe/day waiting to be put back on production.

At Swan Hills, third party processing and injection facility issues continue to force the well to be shut-in. The Company is making every effort to work with the facility operator to rectify the problem and anticipates that the well will be back on production before the end of 2007. The well had been performing as the Company had expected right up until the time that the facility operator restricted access to the facility.

At Willesden Green, the 09-34 well commenced production in August 2007. The Company is currently completing gathering system upgrades in order to optimize future development of the Company's holdings in the Willesden Green area. At recent crown land sales, Cruiser was successful at acquiring two quarter section parcels of land.

Cruiser has been technically successful at all of its Company operated projects, which include its Swan Hills and Willesden Green properties. Cruiser has established production and reserves through the remedial work at Swan Hills. The Company has been successful at establishing a new operated core area at Willesden Green, gaining access to tightly held infrastructure, proving up production and reserves, and aggressively expanding the land base through farm-ins and crown land sales. Cruiser has assembled a superior technical team creating a significant amount of value at its properties. A large inventory of low risk exploitation opportunities has been developed that will further enhance the value of the Company. Cruiser is currently limited in its financial capability to pursue these opportunities.

The state of the junior oil and gas sector has been negatively impacted in the last year by three significant events: the change in the tax rules for Royalty Trusts as announced October 31, 2006; the revision of the Alberta royalty regime as recently announced; and, the depressed natural gas markets. The combination of these three events has created uncertainty in the capital markets, which has significantly reduced the amount of new capital entering the sector to assist junior oil and gas companies in growing their asset base.

Subsequent to September 30, 2007, Cruiser has incurred additional expenditures and commitments in excess of its working capital. The Company needs to pursue additional funding to satisfy this deficit and to continue to fully exploit and grow its asset base. Cruiser will remain focussed at minimizing costs and will continue to evaluate new opportunities to increase shareholder value.

### **BUSINESS RISKS AND UNCERTAINTIES**

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environmental impact, including the potential impact of environmental initiatives and agreements, credit risk of non-payment for sales contracts and joint venture partners, and the potential impact of royalty rate revisions or other legislative changes.

The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses. The Company's risk in regards to financial instruments is detailed in note 17 to the December 31, 2006 audited financial statements.

### **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of September 30, 2007, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, is made known to them by others within the entity. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures provide a reasonable level of assurance and 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.

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

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We have assessed the design of our internal control over financial reporting and during this process, we have identified certain weaknesses in internal controls over financial reporting which are as follows:

- Due to the limited number of staff at the Company, it is not possible to achieve complete segregation of duties; and
- Due to the size of the Company and the limited number of staff, the Company does not have the technical accounting expertise and knowledge to address all complex and non-routine accounting transactions that may arise.

These weaknesses in the Company's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of material misstatement in financial reporting. In addition, when complex accounting and technical issues arise during preparation of the quarterly financial statements, outside consulting expertise is engaged. In spite of management's best efforts, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

### **CRITICAL ACCOUNTING ESTIMATES**

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in Note 2 to the audited financial statements for the year ended December 31, 2006. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control. A detailed discussion of the Company's critical accounting estimates is provided in the December 31, 2006 MD&A.

**CHANGE IN ACCOUNTING POLICIES**

On January 1, 2007, the Company adopted the new or revised Canadian accounting standards for accounting changes, comprehensive income, financial instruments—recognition and measurement and financial instruments—presentation and disclosures as disclosed in note 2 of the September 30, 2007 unaudited interim financial statements. The adoption of the new standards had no impact on the Company's financial statements. Additional disclosure requirements for financial instruments have been approved by the Canadian Institute of Chartered Accountants and will be required disclosure beginning January 1, 2008.

**ADDITIONAL INFORMATION**

Additional information relating to the Company can also be found on SEDAR at [www.sedar.com](http://www.sedar.com)