

Notice for National Instrument 51-102

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim financial statements as at and for the three and nine months ended September 30, 2007 and 2006.

Cruiser Oil & Gas Ltd.
Interim Balance Sheets
(unaudited)

	September 30, 2007	December 31, 2006
Assets		(restated – note 3)
Current		
Cash and cash equivalents	\$ 249,723	\$ 2,715,303
Short-term investments (note 4)	675,000	781,957
Funds in escrow	–	1,537
Accounts receivable	557,926	937,740
Prepaid expenses and deposits	41,055	77,544
	<u>1,523,704</u>	<u>4,514,081</u>
Reclamation deposit	118,072	114,427
Property and equipment (note 5)	<u>16,661,083</u>	<u>14,072,260</u>
	<u>\$ 18,302,859</u>	<u>\$ 18,700,768</u>
 Liabilities		
Current		
Accounts payable and accrued liabilities (notes 3 and 6)	\$ 1,324,144	\$ 882,580
Asset retirement obligation (note 7)	286,495	230,072
Future income taxes (note 10)	<u>1,603,862</u>	<u>1,597,585</u>
	<u>3,214,501</u>	<u>2,710,237</u>
 Shareholders' equity		
Share capital (note 8)	17,332,070	17,592,801
Contributed surplus (note 9)	654,957	649,885
Deficit	<u>(2,898,669)</u>	<u>(2,252,155)</u>
	<u>15,088,358</u>	<u>15,990,531</u>
	<u>\$ 18,302,859</u>	<u>\$ 18,700,768</u>

Cruiser Oil & Gas Ltd.
Interim Statements of Operations and Deficit
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006 (restated – note 3)	2007	2006 (restated – note 3)
Revenue				
Petroleum and natural gas sales	\$ 363,207	\$ 234,304	\$ 1,146,578	\$ 705,838
Royalties	(78,741)	(3,200)	(191,820)	(75,675)
	284,466	231,104	954,758	630,163
Interest income	12,651	14,131	59,660	74,184
	297,117	245,235	1,014,418	704,347
Expenses				
Production	128,929	78,788	306,011	169,439
Transportation	10,551	492	21,553	4,419
General and administrative (note 12)	182,426	136,772	579,080	427,999
Stock based compensation (note 8)	(1,228)	19,045	17,665	156,503
Interest	19,499	31,606	21,980	72,824
Accretion	5,460	3,517	15,285	10,301
Depletion and depreciation	452,694	156,954	983,081	445,160
	798,331	427,174	1,944,655	1,286,645
Loss before income taxes	(501,214)	(181,939)	(930,237)	(582,298)
Income taxes (note 10)				
Future income tax (reduction)	(136,270)	(45,870)	(283,723)	(414,473)
Net loss for the period	(364,944)	(136,069)	(646,514)	(167,825)
Deficit, beginning of period	(2,533,725)	(1,866,745)	(2,252,155)	(1,834,989)
Deficit, end of period	\$ (2,898,669)	\$ (2,002,814)	\$ (2,898,669)	\$ (2,002,814)
Loss per share – basic and diluted (note 8)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)

Cruiser Oil & Gas Ltd.
Interim Statements of Cash Flows
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Operating activities				
Net loss for the period	\$ (364,944)	\$ (137,954)	\$ (646,514)	\$ (173,417)
Add back non-cash items:				
Stock-based compensation	(1,228)	19,045	17,665	156,503
Interest	—	2,083	—	14,583
Accretion	5,460	3,517	15,285	10,301
Depletion and depreciation	452,694	156,954	983,081	445,160
Future income tax reduction	(136,270)	(43,985)	(283,723)	(408,881)
	<u>(44,288)</u>	<u>(340)</u>	<u>85,794</u>	<u>44,249</u>
Change in non-cash working capital (note 11)	<u>142,930</u>	<u>(54,586)</u>	<u>(10,009)</u>	<u>(237,828)</u>
	<u>98,642</u>	<u>(54,926)</u>	<u>75,785</u>	<u>(193,579)</u>
Financing activities				
Issue of share capital net of costs	—	—	16,676	37,500
Repayment of convertible debenture	—	(300,000)	—	(300,000)
Change in non-cash working capital (note 11)	<u>19,282</u>	<u>45,091</u>	<u>(18,439)</u>	<u>57,875</u>
	<u>19,282</u>	<u>(254,909)</u>	<u>(1,763)</u>	<u>(204,625)</u>
Investing activities				
Expenditures on property and equipment	(637,747)	(1,278,022)	(3,530,766)	(4,185,538)
Release of escrowed funds	—	—	1,537	260,027
Addition to reclamation deposit	(1,279)	(1,169)	(3,645)	(3,173)
Redemption (purchase) of term deposits	825,000	(248,037)	106,957	737,048
Change in non-cash working capital (note 11)	<u>(243,399)</u>	<u>731,123</u>	<u>886,315</u>	<u>1,323,957</u>
	<u>(57,425)</u>	<u>(796,105)</u>	<u>(2,539,602)</u>	<u>(1,867,679)</u>
Increase (decrease) in cash	60,499	(1,105,940)	(2,465,580)	(2,265,883)
Cash and cash equivalents, beginning of period	<u>189,224</u>	<u>1,368,741</u>	<u>2,715,303</u>	<u>2,528,684</u>
Cash and cash equivalents, end of period	\$ <u>249,723</u>	\$ <u>262,801</u>	\$ <u>249,723</u>	\$ <u>262,801</u>
Supplemental cash flow information				
Interest paid	\$ —	\$ 4,636	\$ 38,983	\$ 14,542

Cruiser Oil & Gas Ltd.

Notes to the Interim Financial Statements

September 30, 2007
(unaudited)

1. Basis of presentation

These unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the audited December 31, 2006 financial statements except certain disclosures have been condensed or omitted. Accordingly, these unaudited interim financial statements should be read in conjunction with the notes contained in the Company's audited December 31, 2006 financial statements. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates.

Cruiser Oil & Gas Ltd. (the "Company") is engaged in the exploration for and production of petroleum and natural gas in Western Canada. The operating results for the three and nine months ended September 30, 2007 may not be indicative of the results for the year ended December 31, 2007.

2. Changes in accounting policies

On January 1, 2007, the Company adopted the new or revised Canadian accounting standards for accounting changes, financial instruments – recognition and measurement, financial instruments – presentation and disclosures and comprehensive income. The adoption of these standards had no impact on these financial statements.

a) Accounting changes

Voluntary changes in accounting policies are permitted only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impracticable to determine the period or cumulative impact of the change.

Corrections of prior period errors are applied retrospectively and change in accounting estimates are applied prospectively by including the effect of the changes in earnings.

b) Financial instruments—recognition and measurement

This new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired.

c) Derivative instruments

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value. Changes in the fair values of derivative instruments are recognized in net loss with the exception of derivatives designated as cash flow hedges. The Company did not identify any derivatives which require separate recognition and measurement.

Cruiser Oil & Gas Ltd.

Notes to the Interim Financial Statements

September 30, 2007
(unaudited)

2. Changes in accounting policies (continued)

d) Comprehensive income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as held available-for-sale.

3. Restatement of financial statements

The Company has restated its financial statements as at December 31, 2006 and for the three and nine months ended September 30, 2006 to properly recognize as obligations the issue of certain common shares (the share payment) in September 2004 in repayment of certain trade amounts. These issued common shares include both a holder put option and an issuer call option. In the event that the put or call option is not exercised three years after the share payment date the holder has the right to require the Company to redeem the issued common shares at a specified price representing the share payment amount plus interest. The Company has received notice from the trade creditors of their intention to redeem these common shares. Previously, the share payment amount was recognized as share capital.

Concurrent with the issue of one of the share payments in September 2004, the Company granted an option to the Reorganization Investor Group (the "Group"), to exercise its issuer call option. This Group consisted of the officers of Cruiser at the time of the agreement. The option was held for the Group by a private corporation, which is controlled by the Chief Executive Officer of Cruiser. The option provided the related corporation with the right to purchase 317,689 common shares at a price of \$0.10 per share for a period of 35 months from the share payment date. This option expired unexercised in August 2007. The previously unrecognized stock based compensation related to this transfer is estimated to be \$20,299 determined by the Black Scholes option pricing model using a dividend yield of nil, an expected life of 35 months and an expected volatility rate of 152%.

The impact of these changes on the previously reported amounts is summarized as follows:

	Previously reported \$	Restatement adjustment \$	Restated \$
As at December 31, 2006			
Accounts payable and accrued liabilities	550,650	331,930	882,580
Future tax liability	1,605,062	(7,477)	1,597,585
Share capital	17,865,120	(272,319)	17,592,801
Contributed surplus	629,656	20,229	649,885
Deficit, end of period	(2,179,792)	(72,363)	(2,252,155)
For the three months ended September 30, 2006			
Interest expense	25,108	6,498	31,606
Future income tax reduction	(43,985)	(1,885)	(45,870)
Net loss	(131,456)	(4,613)	(136,069)
For the nine months ended September 30, 2006			
Interest expense	53,542	19,282	72,824
Future income tax reduction	(408,881)	(5,592)	(414,473)
Net loss	(154,135)	(13,690)	(167,825)
Deficit, beginning of period	(1,780,929)	(54,060)	(1,834,989)
Deficit, end of period	(1,935,064)	(67,750)	(2,002,814)

Cruiser Oil & Gas Ltd.

Notes to the Interim Financial Statements

September 30, 2007
(unaudited)

4. Short-term investments

As at September 30, 2007, short-term investments of \$675,000 (December 31, 2006 – \$781,957) earn interest at 3.75% (December 31, 2006 – 3.75%) and mature in January 2008.

5. Property and equipment

	September 30, 2007		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties	\$ 19,873,374	\$ 3,230,200	\$ 16,643,174
Office equipment	47,227	29,318	17,909
	<u>\$ 19,920,601</u>	<u>\$ 3,259,518</u>	<u>\$ 16,661,083</u>

As at September 30, 2007, property and equipment includes the cost of undeveloped land in the amount of \$200,707 (December 31, 2006 – \$152,200), which has been excluded from the depletion calculation. Future capital costs of \$2,768,227 (December 31, 2006 – \$2,931,020) have been included, and salvage values of \$86,054 (December 31, 2006 – \$82,300) have been excluded from the depletion calculation.

6. Settlement obligation

In September 2004, the Company issued a total of 798,789 common shares to two vendors (the “recipients”) as settlement of certain obligations (the “payment shares”). Pursuant to the terms of the settlement agreements, the shares are held in trust until the earlier of:

- (i) The recipients of the 798,789 shares request that payment shares be released from trust as final settlement;
- (ii) The recipients of the 798,789 shares exercise the put and the Company pays the put option amount plus accrued interest; or
- (iii) The Company exercises its call option and pays the recipients the redemption amount.

The put and call options expired in September 2007 and the Company is now required to settle the obligations in cash. As at September 30, 2007, \$351,212 representing the principal amount and accrued interest has been included in accounts payable and accrued liabilities. Upon payment the shares will be returned to the Company for cancellation.

7. Asset retirement obligation

The following table presents the reconciliation of the carrying amount of the obligations associated with the retirement of the Company’s property and equipment:

Balance – December 31, 2006	\$ 230,072
Liabilities incurred	41,138
Accretion	<u>15,285</u>
Balance – September 30, 2007	<u>\$ 286,495</u>

The following significant assumptions were used to estimate the asset retirement obligations:

Undiscounted cash flows	\$ 732,320
Risk-free discount rate, adjusted for inflation of 2%	8%
Expected timing of cash flows	13.1 years

Cruiser Oil & Gas Ltd.

Notes to the Interim Financial Statements

September 30, 2007
(unaudited)

8. Share capital

a) Common shares issued

	Number of Shares	Amount
Balance – December 31, 2006 (<i>note 3</i>)	121,891,052	\$ 17,592,801
Exercise of options (<i>i</i>)	166,666	29,269
Tax effect of flow-through shares (<i>ii</i>)	–	(290,000)
Balance – September 30, 2007	<u>122,057,718</u>	<u>\$ 17,332,070</u>

- i) In April 2007, 166,666 options were exercised for an equivalent number of shares resulting in gross proceeds of \$16,676. In addition to the cash proceeds, a pro-rata allocation of the options' fair value in the amount of \$12,593 has been reclassified from contributed surplus to share capital.
- ii) The \$290,000 tax effect of the \$1,000,000 flow-through share proceeds raised in 2006 was recorded in February 2007 when the tax benefits were filed with the tax authorities and renounced to investors with an effective date of December 31, 2006. All of the qualifying expenditures have been incurred.

b) Options

The following is a continuity of options for which shares have been reserved at September 30, 2007:

	Number of Options	Weighted–Average Exercise Price
Balance – December 31, 2006	4,495,000	\$ 0.15
Expired	(250,000)	0.10
Exercised	(166,666)	0.10
Balance – September 30, 2007	<u>4,078,334</u>	<u>\$ 0.15</u>

The following table summarizes information about options outstanding as at September 30, 2007:

Exercise Price	Number Outstanding	Weighted–Average Contractual Life Remaining (years)	Number Exercisable	Weighted–Average Exercise Price
\$ 0.10	3,177,320	2.9	2,172,657	\$ 0.10
0.30	301,014	2.9	134,009	0.30
0.35	600,000	3.1	400,000	0.35
	<u>4,078,334</u>	<u>2.9</u>	<u>2,706,666</u>	<u>\$ 0.15</u>

The Company uses the Black-Scholes option pricing model to estimate the fair value of options. Stock-based compensation expense of \$17,665 was recognized in 2007 based on the following assumptions: dividend yield of nil, expected life of five years, expected volatility ranging from 100% to 154% and risk free interest rates ranging from 3.0% to 3.5%.

c) Escrowed shares

All shares held in escrow were released in April 2007, leaving no shares held in escrow as at September 30, 2007 (December 31, 2006 – 46,063,690).

Cruiser Oil & Gas Ltd.

Notes to the Interim Financial Statements

September 30, 2007
(unaudited)

8. Share capital (continued)

d) Per share amounts

Basic per share calculations are based on the weighted average number of common shares outstanding during the three and nine months ended September 30, 2007 of 122,057,718 and 121,996,058, respectively (September 30, 2006 – 80,964,862 and 80,919,532, respectively). For 2007 and 2006, diluted loss per share has not been disclosed as the effects of share conversions and the exercise of options and warrants are anti-dilutive.

9. Contributed surplus

Balance – December 31, 2006 (<i>note 3</i>)	\$	649,885
Stock-based compensation		17,665
Exercise of options		<u>(12,593)</u>
Balance – September 30, 2007	\$	<u>654,957</u>

10. Income taxes

The future income tax reduction differs from the amount computed by applying the combined federal and provincial tax rates to the loss for the period. The difference results from the following:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net loss for the period before tax	\$ (501,214)	\$ (181,939)	\$ (930,237)	\$ (582,298)
Expected income tax reduction at 32.12% - (2006 – 32.5%)	(160,990)	(59,130)	(298,792)	(189,247)
Non-deductible crown charges	–	(1,780)	–	1,349
Resource allowance	–	3,730	–	1,286
Stock-based compensation	(394)	6,519	5,674	51,266
Rate adjustment and other	25,114	6,676	9,395	(273,535)
	<u>\$ (136,270)</u>	<u>\$ (43,985)</u>	<u>\$ (283,723)</u>	<u>\$ (408,881)</u>

The components of the net future income tax asset (liability) as at September 30, 2007 are as follows:

Property and equipment	\$ (2,069,381)
Non-capital losses	245,755
Asset retirement obligations	83,084
Share issue costs	125,867
Provincial tax benefits	<u>10,813</u>
	<u>\$ (1,603,862)</u>

As at September 30, 2007, the Company has approximately \$9.5 million of tax pools available for deduction against future taxable income. In addition, the Company has \$0.8 million of non-capital losses that expire between 2007 and 2026.

Cruiser Oil & Gas Ltd.

Notes to the Interim Financial Statements

September 30, 2007
(unaudited)

11. Change in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Accounts receivable	\$ 16,294	\$ (318,101)	\$ 379,814	\$ (54,806)
Prepaid expenses and deposits	3,096	16,291	36,489	9,320
Accounts payable and accrued liabilities	(100,577)	1,023,438	441,564	1,189,490
	<u>\$ (81,187)</u>	<u>\$ 721,628</u>	<u>\$ 857,867</u>	<u>\$ 1,144,004</u>

The change in non-cash working capital has been allocated to the following activities:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Operating	\$ 142,930	\$ (54,586)	\$ (10,009)	\$ (237,828)
Financing	19,282	45,091	(18,439)	57,875
Investing	(243,399)	731,123	886,315	1,323,957
	<u>\$ (81,187)</u>	<u>\$ 721,628</u>	<u>\$ 857,867</u>	<u>\$ 1,144,004</u>

12. Related party transactions

Except as disclosed elsewhere in the financial statements, the Company had the following related party transactions:

- 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).
- 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).
- 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).
- 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.