

# CRUISER OIL & GAS LTD.

TSX VENTURE SYMBOL: (COG)

May 30, 2007

## Cruiser Announces Results for the Three Months Ended March 31, 2007

Calgary, Alberta – Cruiser Oil & Gas Ltd. ("Cruiser" or the "Company") is pleased to announce its financial and operating results for the three months ended March 31, 2007 with comparatives for 2006.

	Three months ended March 31	
	2007	2006
<b>FINANCIAL HIGHLIGHTS (\$)</b>		
Petroleum and natural gas sales	<b>321,522</b>	201,005
Funds from operations	<b>49,060</b>	44,409
Loss for the period	<b>(132,879)</b>	(118,089)
Total assets	<b>19,382,770</b>	15,259,943
Net capital expenditures	<b>1,954,635</b>	2,465,073
<b>OPERATIONAL HIGHLIGHTS</b>		
Daily production - boe/d (6:1)	<b>71</b>	45
Price - \$/boe	<b>50.31</b>	49.84
Operating netback - \$/boe	<b>31.30</b>	35.41

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

- Increased average production by 58% to an average of 71 boe/day for the quarter ended March 31, 2007
- Increased petroleum and natural gas sales by 60% to \$321,522 for the quarter ended March 31, 2007

The Company's current working interest production is estimated to be 100 boe/day with an estimated additional 100 boe/day behind pipe.

At Swan Hills, the Company has completed the installation of a high volume lift pump to further increase production.

At Willesden Green, the Company is currently reviewing the flowing conditions of the 06-35 well, associated facilities and gathering system. The 9-34 well has been drilled to depth and the status remains confidential.

At Kakwa, the 13-1 Swan Hills well has been drilled to total depth. The well was acidized during the first week of March 2007, however, testing operations were not completed due to wildlife constraints which required all of the equipment to be removed from the lease prior to March 15, 2007. As a result, the well has been suspended pending further evaluation of the pressure data. Cruiser has a 15% WI in this well.

Cruiser is making plans for the execution of its 2007 capital program, as well as evaluating additional prospects for the continued growth of the Company.

Douglas L. Meiklejohn  
President & Chief Executive Officer

This MD&A is dated as of May 30, 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 months ended March 31, 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 or 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.

### **THREE MONTHS ENDED MARCH 31**

During the first quarter of 2007, the Company focused on the completion and equipping of the Willesden Green 06-35 well, the drilling of the Willesden Green 09-34 well, the Swan Hills 15-26 workover and reactivation, and was able to complete drilling and begin the completion and testing of the Kakwa 13-01 well.

Production for the first quarter of 2007 averaged 71 boe/day as compared to 45 boe/day in the comparative first quarter of 2006. The increase in the comparative 2007 and 2006 periods is from Ansell, Blackstone, Herronton and Swan Hills wells. The average price for oil and natural gas liquids was \$58.39 per barrel and the average price for gas was \$7.38 per mcf during the first quarter of 2007. This compares to the average commodity prices for the first quarter of 2006 of \$49.72 per barrel and \$8.32 per mcf. The average royalty rate for the comparative quarters was 10% for 2007 and 12% for 2006, with the decrease attributable to production that is on a royalty holiday from crown royalties. Operating costs were \$88,714 (\$13.88 per boe), compared to \$33,299 (\$8.26 per boe), in the comparative quarter in 2006.

General and administrative expenses for the first quarter of 2007 were \$176,662 as compared to \$120,722 in the same period in 2006.

Interest expense decreased in the first quarter of 2007 to \$1,363 as compared to \$15,282 in the same quarter of 2006. The interest expense for 2007 relates mainly to the unspent flow-through expenditures until the eligible expenditures were incurred. During the first quarter of 2006 interest was payable on the debenture, which was paid out in the third quarter of 2006.

Depletion, depreciation and accretion for the first quarter of 2007 was \$263,222 (\$41.18 per boe) as compared to the first quarter of 2006 of \$121,688 (\$30.17 per boe). The increased amount is a result of the increased production in 2007 plus the increased cost of capital expenditures.

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The loss for the first quarter of 2007 was \$132,879 as compared to a loss of \$118,089 during the same period in 2006.

**FINANCIAL HIGHLIGHTS**

	<b>Three months ended March 31</b>	
	<b>2007</b>	2006
Petroleum and natural gas sales	<b>321,522</b>	201,005
Funds from operations	<b>49,060</b>	44,409
Loss for the period	<b>(132,879)</b>	(118,089)
Net capital expenditures	<b>1,954,635</b>	2,465,073
Weighted average shares outstanding – basic	<b>121,891,052</b>	80,827,362
Common shares outstanding – end of period	<b>121,891,052</b>	80,964,862

**SUMMARY OF QUARTERLY RESULTS**

	<b>QUARTER ENDED</b>							
	<b>MAR 07</b>	<b>DEC 06</b>	<b>SEP 06</b>	<b>JUN 06</b>	<b>MAR 06</b>	<b>DEC 05</b>	<b>SEP 05</b>	<b>JUN 05</b>
Net petroleum and natural gas revenue	321,522	331,210	234,304	270,529	201,005	199,621	196,902	151,111
Net (loss) income	(132,879)	(244,728)	(131,456)	95,410	(118,089)	(293,680)	(269,914)	(157,345)
Net (loss) income per share	(0.00)	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.00)	(0.01)
Net capital expenditures	1,954,635	1,645,104	1,278,022	442,443	2,465,073	3,321,679	2,315,803	532,276

**PETROLEUM AND NATURAL GAS SALES**

Oil and natural gas revenues increased to \$321,522 for the quarter ended March 31, 2007 as compared to \$201,005 for the comparative period in 2006. Prices for the Company's production in the first quarter of 2007 averaged \$58.39 per barrel of oil and liquids and \$7.38 per mcf of natural gas, as compared to \$49.72 per barrel of oil and liquids and \$8.32 per mcf of natural gas for the 2006 year. The increased 2006 revenues were primarily a result of increased production offset by decreased gas prices.

	<b>Three months ended March 31</b>	
	<b>2007</b>	2006
Petroleum and natural gas sales (\$)	<b>321,522</b>	201,005
\$/BOE	<b>50.31</b>	49.84

**PRODUCTION**

Total production for the first quarter of 2007 averaged 71 boe/day as compared to 45 boe/day in the comparative first quarter of 2006. By commodity, production of natural gas averaged 244 mcf/day and oil and NGLs averaged 30 bbls/day for a total of 71 boe/day in the 2007 period, as compared to 170 mcf/day for gas and 17 bbls/day of oil and NGLs for a total of 45 boe/day for the same period in 2006.

	<u>Three months ended March 31</u>	
	<u>2007</u>	<u>2006</u>
Natural gas (mcf/d)	<b>244</b>	170
Crude oil and NGLs (bbls/d)	<b>30</b>	17
Total (boe/d)	<b>71</b>	45
Percentage natural gas (%)	<b>57</b>	63

**ROYALTIES**

The royalties for the comparative periods decreased on a percentage basis due to production that is on a crown royalty holiday.

	<u>Three months ended March 31</u>	
	<u>2007</u>	<u>2006</u>
Net royalties (\$)	<b>32,672</b>	24,872
Net royalties as a % of revenue	<b>10</b>	12
\$/BOE	<b>5.11</b>	6.17

**OPERATING EXPENSES**

During the quarter ended March 31, 2007, the Company incurred operating and transportation expenses of \$88,714 as compared to \$33,299 for the same period in 2006. The operating expenses have increased on a boe basis from the prior quarter due to increased cost of services plus production from higher operating cost areas.

	<u>Three months ended March 31</u>	
	<u>2007</u>	<u>2006</u>
Operating expenses (\$)	<b>88,714</b>	33,299
\$/BOE	<b>13.88</b>	8.26

**GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses increased to \$176,662 for the quarter ended March 31, 2007 from \$120,722 for the comparative period 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 cost of additional office premises. The costs on a boe basis did reduce to \$27.64 per boe as compared to \$29.93 per boe in the 2006 period.

	<u>Three months ended March 31</u>	
	<u>2007</u>	<u>2006</u>
General and administrative expense (\$)	<b>176,662</b>	120,722
\$/BOE	<b>27.64</b>	29.93

**INTEREST INCOME AND EXPENSE**

Interest expense for the three months ended March 31, 2007 decreased to \$1,363 from \$15,282 for the comparative period in 2006. The interest expense for 2007 relates mainly to the unspent flow-through expenditures being incurred in 2007 under the look-back-rule, all of which were incurred by March 31, 2007. Interest expense in the comparative 2006 period consisted of amounts due to the interest related to the 2005 flow-through share issuance as well as interest on the debenture, which was repaid in full in August 2006.

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

	<u>Three months ended March 31</u>	
	<b>2007</b>	2006
Interest expense (\$)	<b>1,363</b>	15,282
Interest income (\$)	<b>26,949</b>	31,329
Net interest income (\$/BOE)	<b>4.00</b>	3.98

**DEPLETION AND DEPRECIATION**

Depletion and depreciation for the quarter ended March 31, 2007 was \$258,752 compared to \$118,354 for the same period in 2006. The increased amount is a result of higher production in 2007. On a boe-basis, depletion is higher in 2007 due to the increased cost of capital expenditures.

	<u>Three months ended March 31</u>	
	<b>2007</b>	2006
Depletion and depreciation (\$)	<b>258,752</b>	118,354
\$/BOE	<b>40.49</b>	29.35

**ASSET RETIREMENT OBLIGATIONS**

The obligation at March 31, 2007 was estimated to be \$275,680 based on the total undiscounted obligation of \$732,320 adjusted for a discount rate of 8% and inflation of 2% over an average reserve life of 13.7 years. Accretion of \$4,470 for the quarter ended March 31, 2007 (\$3,334 for the same period of 2006) was recorded.

	<u>Three months ended March 31</u>	
	<b>2007</b>	2006
Accretion expense (\$)	<b>4,470</b>	3,334
\$/BOE	<b>0.70</b>	0.83

**FUNDS FROM OPERATIONS**

For the quarter ended March 31, 2007, the funds from operations were \$49,060 as compared to \$44,409 in same period in 2006.

	<u>Three months ended March 31</u>	
	<b>2007</b>	2006
Funds from operations (\$)	<b>49,060</b>	44,409

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 quarter ended March 31, 2007 was \$132,879 compared to a net loss of \$118,089 over the same period in 2006. The increase in the net loss was a result of higher costs partially offset by increased production revenue and increased future tax recoveries.

	<u>Three months ended March 31</u>	
	<b>2007</b>	2006
Net loss (\$)	<b>(132,879)</b>	(118,089)

**CAPITAL EXPENDITURES**

During the quarter ended March 31, 2007, the Company incurred \$1,954,635 of capital expenditures as compared to \$2,465,073 in the same period of 2006. The Company's focus during the first quarter of 2007 was on the equipping and tie-in of the Willesden Green 06-35 well, the drilling of the Willesden Green 09-34 well and the drilling and commencement of completion of the Kakwa 13-01 well. During the comparative 2006 quarter, the Company participated in several wells under a joint venture arrangement, a workover at Swan Hills and the commencement of the drilling of the Kakwa 13-01 well.

<b>Capital expenditures (\$)</b>	<u>Three months ended March 31</u>	
	<b>2007</b>	2006
Land and seismic	<b>104,188</b>	8,209
Drilling and completions	<b>1,565,597</b>	1,874,609
Equipment and tie-ins	<b>278,493</b>	582,255
Other	<b>6,357</b>	-
<b>Total</b>	<b>1,954,635</b>	2,465,073

**LIQUIDITY AND CAPITAL RESOURCES**

The Company commenced the 2007 year with a working capital of \$3,963,431. The net oil and gas revenue plus net interest income was sufficient to cover the general and administrative costs incurred during the quarter. The capital expenditures in the quarter of \$1,954,635 were financed by the 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 March 31, 2007, the Company's working capital had been reduced to \$2,056,688. These funds will be utilized to fund the anticipated capital expenditures for 2007.

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 quarter ended March 31, 2007, no new shares were issued by the Company. 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 to \$17,575,120 and increasing the future tax liability.

Subsequent to March 31, 2007, 166,666 options have been exercised for an equivalent number of shares and gross proceeds of \$16,667 resulting in 122,057,718 shares outstanding as of the date of this MD&A.

**Options**

At the beginning of 2007 there were 4,495,000 options outstanding. During the first quarter of 2007, 250,000 options expired unexercised reducing the total number of options outstanding as at March 31, 2007 to 4,245,000. Subsequent to March 31, 2007, 166,666 options were exercised resulting in a total of 4,078,334 options outstanding as of the date of this MD&A.

**RELATED PARTY TRANSACTIONS**

The Company had the following related party transactions:

1. During the three months ended March 31, 2007, the Company was charged \$30,000 (three months ended March 31, 2006 - \$60,000) in management fees by officers and directors of the Company.
2. During the three months ended March 31, 2007, a law firm, in which a director of the Company is a principal, charged the Company \$3,350 (three months ended March 31, 2006 - \$nil) for legal services. Accounts payable as at March 31, 2007 includes \$3,350 (December 31, 2006 - \$42,683) due to the law firm.
3. During the three months ended March 31, 2007, the Company was charged \$22,019 (three months ended March 31, 2006 - \$5,900) for accounting and administrative fees by a corporation controlled by an officer of the Company. At March 31, 2007, accounts payable includes an amount of \$22,660 (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 working interest production is estimated to be 100 boe/day with an estimated additional 100 boe/day behind pipe.

At Swan Hills, the Company has completed the installation of a high volume lift pump to further increase production.

At Willesden Green, the Company is currently reviewing the flowing conditions of the 06-35 well, associated facilities and gathering system. The 9-34 well has been drilled to depth and the status remains confidential.

At Kakwa, the 13-1 Swan Hills well has been drilled to total depth. The well was acidized during the first week of March 2007, however, testing operations were not completed due to wildlife constraints which required all of the equipment to be removed from the lease prior to March 15, 2007. As a result, the well has been suspended pending further evaluation of the pressure data. Cruiser has a 15% WI in this well.

Cruiser is making plans for the execution of its 2007 capital program, as well as evaluating additional prospects

### **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 and credit risk of non-payment for sales contracts and joint venture partners.

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 March 31, 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 March 31, 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)