

Cruiser Oil & Gas Ltd.

INTERIM FINANCIAL STATEMENTS

March 31, 2008

Notice of No Auditor Review of Interim Financial Statements

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 months ended March 31, 2008 and 2007.

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

| | March 31, 2008 | December 31, 2007 |
|---|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 110,173 | \$ 151,653 |
| Short-term investments (note 3) | 350,805 | 300,000 |
| Accounts receivable | 597,560 | 694,846 |
| Prepaid expenses and deposits | 38,877 | 36,317 |
| | <u>1,097,415</u> | <u>1,182,816</u> |
| Reclamation deposit | 120,556 | 119,357 |
| Property and equipment (note 4) | <u>16,519,941</u> | <u>16,767,256</u> |
| | <u>\$ 17,737,912</u> | <u>\$ 18,069,429</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 960,374 | \$ 1,280,598 |
| Current portion of asset retirement obligation (note 5) | <u>112,928</u> | <u>72,250</u> |
| | 1,073,302 | 1,352,848 |
| Asset retirement obligation (note 5) | 356,403 | 348,234 |
| Future income taxes | <u>1,429,299</u> | <u>1,448,156</u> |
| | <u>2,859,004</u> | <u>3,149,238</u> |
| Shareholders' equity | | |
| Share capital (note 6) | 17,332,070 | 17,332,070 |
| Contributed surplus (note 7) | 662,386 | 658,894 |
| Deficit | <u>(3,115,548)</u> | <u>(3,070,773)</u> |
| | <u>14,878,908</u> | <u>14,920,191</u> |
| | <u>\$ 17,737,912</u> | <u>\$ 18,069,429</u> |
| Commitments (note 10) | | |
| Subsequent events (note 13) | | |

Cruiser Oil & Gas Ltd.
Interim Statements of Operations and Deficit
For the three months ended March 31
(unaudited)

| | 2008 | 2007 |
|---|----------------|-------------------|
| Revenue | | <i>(restated)</i> |
| Petroleum and natural gas sales | \$ 631,462 | \$ 321,522 |
| Royalties | (107,553) | (32,672) |
| | 523,909 | 288,850 |
| Interest income | 4,385 | 26,949 |
| | 528,294 | 315,799 |
| Expenses | | |
| Production | 107,436 | 82,760 |
| Transportation | 6,657 | 5,954 |
| General and administrative <i>(note 9)</i> | 162,006 | 176,662 |
| Stock-based compensation <i>(note 7)</i> | 3,492 | 10,157 |
| Interest | 5,321 | 7,719 |
| Accretion | 8,169 | 4,470 |
| Depletion and depreciation | 298,845 | 258,752 |
| | 591,926 | 546,474 |
| Loss before income taxes | (63,632) | (230,675) |
| Income taxes | | |
| Future income tax reduction | (18,857) | (91,440) |
| Net loss for the period | (44,775) | (139,235) |
| Deficit, beginning of period | (3,070,773) | (2,252,155) |
| Deficit, end of period | \$ (3,115,548) | \$ (2,391,390) |
| Loss per share – basic and diluted <i>(note 6)</i> | \$ (0.00) | \$ (0.00) |

Cruiser Oil & Gas Ltd.
Interim Statements of Cash Flows
For the three months ended March 31
(unaudited)

| | 2008 | 2007 |
|--|-------------------|--------------------|
| Operating activities | | <i>(restated)</i> |
| Net loss for the period | \$ (44,775) | \$ (139,235) |
| Add back non-cash items: | | |
| Stock-based compensation | 3,492 | 10,157 |
| Accretion | 8,169 | 4,470 |
| Depletion and depreciation | 298,845 | 258,752 |
| Future income tax reduction | (18,857) | (91,440) |
| | <u>246,874</u> | <u>42,704</u> |
| Abandonment expenditures | (322) | - |
| Change in non-cash working capital (<i>note 8</i>) | <u>(147,393)</u> | <u>(154,964)</u> |
| | <u>99,159</u> | <u>(112,260)</u> |
| Financing activities | | |
| Change in non-cash working capital (<i>note 8</i>) | <u>(39,851)</u> | <u>(31,365)</u> |
| Investing activities | | |
| Expenditures on property and equipment | (10,530) | (1,954,635) |
| Addition to reclamation deposit | (1,199) | (1,168) |
| Purchase of short-term investments | (50,805) | (1,973,000) |
| Change in non-cash working capital (<i>note 8</i>) | (38,254) | 1,274,666 |
| | <u>(100,788)</u> | <u>(2,654,137)</u> |
| Decrease in cash and cash equivalents | (41,480) | (2,797,762) |
| Cash and cash equivalents, beginning of period | <u>151,653</u> | <u>2,715,303</u> |
| Cash and cash equivalents (bank overdraft), end of period | <u>\$ 110,173</u> | <u>\$ (82,459)</u> |
| Interest paid | <u>\$ 14,794</u> | <u>\$ 39,084</u> |

Cruiser Oil & Gas Ltd.

Notes to Interim Financial Statements

March 31, 2008
(unaudited)

1. Nature of operations

Cruiser Oil & Gas Ltd. (the "Company") is engaged in the exploration for and production of petroleum and natural gas in Western Canada. The Company was incorporated under the laws of the Province of Alberta and is listed on the TSX Venture Exchange ("TSXV").

These unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and on a basis consistent with the audited December 31, 2007 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, 2007 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.

The operating results for the three months ended March 31, 2008 may not be indicative of the results for the year ending December 31, 2008.

2. Significant accounting policies

On January 1, 2008, the Company adopted the new or revised Canadian accounting standards for capital disclosures, financial instruments and inventories. Prior periods have not been restated. The adoption of these changes had no impact on the Company's opening deficit.

- a) Capital disclosures specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital, (ii) quantitative data about what the entity regards as capital, (iii) whether the entity has complied with any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance.
- b) Financial Instruments – Disclosure and Presentation, have revised and enhanced its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.
- c) In March 2007, Inventories was issued which aligns Canadian GAAP with International Financial Reporting Standards. This standard has no impact on the Company's unaudited interim financial statements.

3. Short-term investments

As at March 31, 2008, short-term investments of \$350,805 (December 31, 2007 – \$300,000) earned interest at 3.75% and matured in April 2008 at which time they were reinvested at an interest rate of 2.5%.

Cruiser Oil & Gas Ltd.

Notes to Interim Financial Statements

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4. Property and equipment

| | March 31, 2008 | | |
|--------------------------------------|----------------------|--|----------------------|
| | Cost | Accumulated depletion and depreciation | Net |
| Petroleum and natural gas properties | \$ 20,336,371 | \$ 3,831,400 | \$ 16,504,971 |
| Office equipment | 47,227 | 32,257 | 14,970 |
| | <u>\$ 20,383,598</u> | <u>\$ 3,863,657</u> | <u>\$ 16,519,941</u> |

As at March 31, 2008, property and equipment includes the cost of undeveloped land in the amount of \$305,088 (December 31, 2007 – \$323,746), which has been excluded from the depletion calculation. Future capital costs of \$3,627,146 (December 31, 2007 – \$3,627,146) have been included in the depletion calculation.

5. 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, 2007 | \$ 420,484 |
| Revisions | 41,000 |
| Liabilities settled | (322) |
| Accretion | 8,169 |
| | <u>469,331</u> |
| Less current portion | <u>(112,928)</u> |
| Balance – March 31, 2008 | <u>\$ 356,403</u> |

The following significant assumptions were used to estimate the March 31, 2008 asset retirement obligation:

| | |
|---|------------|
| Undiscounted cash flows | \$ 725,005 |
| Risk-free discount rate, adjusted for inflation of 2% | 8% |
| Expected timing of cash flows | 7 years |

6. Share capital

a) Common shares issued

| | Number of Shares | Amount |
|--|--------------------|----------------------|
| Balance – December 31, 2007 and March 31, 2008 | <u>122,057,718</u> | <u>\$ 17,332,070</u> |

Cruiser Oil & Gas Ltd.

Notes to Interim Financial Statements

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6. Share capital (continued)

b) Options

The following is a continuity of options for which shares have been reserved at March 31, 2008:

| | Number of Options | Weighted–Average Exercise Price |
|-----------------------------|----------------------|------------------------------------|
| Balance – December 31, 2007 | 4,078,334 | \$ 0.15 |
| Cancelled/expired | (166,666) | (0.10) |
| Balance – March 31, 2008 | 3,911,668 | \$ 0.15 |

The following table summarizes information about options outstanding as at March 31, 2008:

| Exercise Price | Number Outstanding | Weighted–Average Contractual Life Remaining (years) | Number Exercisable | Weighted–Average Exercise Price |
|-------------------|-----------------------|---|-----------------------|------------------------------------|
| \$ 0.10 | 3,010,654 | 2.4 | 2,787,320 | \$ 0.10 |
| 0.30 | 301,014 | 2.4 | 134,009 | 0.30 |
| 0.35 | 600,000 | 2.6 | 400,000 | 0.35 |
| | 3,911,668 | 2.4 | 3,321,329 | \$ 0.15 |

c) Per share amounts

Basic per share calculations are based on the weighted average number of common shares outstanding during the three months ended March 31, 2008 of 122,057,718 (March 31, 2007 – 121,891,052). For 2008 and 2007, diluted loss per share has not been disclosed as the effects of share conversions and the exercise of options are anti-dilutive.

7. Contributed surplus

| | |
|-----------------------------|------------|
| Balance – December 31, 2007 | \$ 658,894 |
| Stock-based compensation | 3,492 |
| Balance – March 31, 2008 | \$ 662,386 |

8. Change in non-cash working capital

| | Three months ended March 31 | |
|--|-----------------------------|--------------|
| | 2008 | 2007 |
| Accounts receivable | \$ 97,286 | \$ 285,149 |
| Accounts payable and accrued liabilities | (320,224) | 774,453 |
| Prepaid expenses and deposits | (2,560) | 28,735 |
| | \$ (225,498) | \$ 1,088,337 |

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Notes to Interim Financial Statements

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8. Change in non-cash working capital (continued)

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

| | Three months ended March 31 | |
|-----------|-----------------------------|---------------------|
| | 2008 | 2007 |
| Operating | \$ (147,393) | \$ (154,964) |
| Financing | (39,851) | (31,365) |
| Investing | (38,254) | 1,274,666 |
| | <u>\$ (225,498)</u> | <u>\$ 1,088,337</u> |

9. Related party transactions

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

- During the three months ended March 31, 2008, the Company was charged \$32,727 (three months ended March 31, 2007 – \$30,000) in management fees by an officer and director of the Company.
- During the three months ended March 31, 2008, the Company was charged \$nil (three months ended March 31, 2007 – \$43,960) for capital expenditures and \$300 (2007 - \$nil) for general and administrative expenditures by corporations in which an officer and director of the Company is both a director and shareholder of the corporations. At March 31, 2008, accounts payable includes \$105 (December 31, 2007 – \$4,362).
- During the three months ended March 31, 2008, the Company was charged \$39,599 (three months ended March 31, 2007 – \$22,019) for accounting and administrative fees by a corporation controlled by an officer of the Company. At March 31, 2008, accounts payable includes an amount of \$27,965 payable to the related corporation.

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.

10. Commitments

The Company has the following annual rental commitments on office premises pursuant to a lease which expires on February 29, 2012:

| | | |
|------|----|----------------|
| 2008 | \$ | 118,408 |
| 2009 | | 157,878 |
| 2010 | | 157,878 |
| 2011 | | 157,878 |
| 2012 | | 26,313 |
| | \$ | <u>618,355</u> |

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11. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Purchasers of the Company's petroleum and natural gas are subject to credit review to minimize the risk of non-payment. As at March 31, 2008, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$597,560 (December 31, 2007 – \$694,846). As at March 31, 2008, the Company's receivables included in the balance sheet are primarily from petroleum and natural gas marketers and joint venture partners.

Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers.

Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances. As at March 31, 2008, the largest amount owing from one partner is \$252,819.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended March 31, 2008. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

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11. Financial instruments and financial risk management (continued)

As at March 31, 2008 the Company's receivables were comprised of the following:

| Nature of receivable | Amount | Actual or expected collection |
|-------------------------------------|-------------------|-------------------------------|
| Petroleum and natural gas marketers | \$ 246,505 | April 2008 |
| Alberta Royalty Tax Credit | 44,480 | April 2008 |
| Joint venture partners | <u>306,575</u> | May / June 2008 |
| | <u>\$ 597,560</u> | |

As the Company has not entered into any hedging arrangements, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its existing working capital. The Company's financial liabilities are comprised of accounts payable and accrued liabilities which have expected maturities of less than one year resulting in their current classification on the balance sheet.

c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy that has been approved by the Board of Directors.

i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

The Company had no outstanding forward exchange rate contracts in place at March 31, 2008.

ii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. Should the Company choose to mitigate commodity price risk through the use of financial derivatives and physical delivery fixed price sales contracts, all such contracts would require approval of the Board of Directors.

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(unaudited)

There were no commodity price risk contracts outstanding at March 31, 2008.

11. Financial instruments and financial risk management (continued)

c) Market risk (continued)

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not hold any debt at March 31, 2008 and is only exposed to interest rate risk on the variable interest rate earned on cash and cash equivalents.

12. Capital management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital expenditure program, which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors capital based on annual funds from operations from its oil and gas properties which are utilized to partially fund the general and administrative expenses. The Company prepares budgets for its capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company will consider the potential level of bank credit that may be attainable as a result of the potential value of its properties, availability of other sources of debt with different characteristics than conventional debt, the sale of assets, limiting the size of the capital expenditure program and new equity if available on favorable terms.

There has been no change in the Company's approach to capital management during the period ended March 31, 2008.

13. Subsequent events

- a) Pursuant to a private placement which closed on May 21, 2008, the Company issued 90,000,000 special warrants priced at \$0.07 per warrant for gross proceeds of \$6.3 million. The gross proceeds are being held in trust pending receipt of required approvals anticipated to be received on June 17, 2008 at the Company's annual general meeting.
- b) The Company commenced settlement of an obligation with one of the creditors from a September 2004 obligation by payment in cash of \$45,248. This payment was held in trust until the shares that had been previously issued were cancelled. The 317,689 common shares of the Company were cancelled in May 2008 and the funds in trust were released to the vendor.