

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

This MD&A is dated as of April 24, 2008

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 audited financial statements as at and for the years ended December 31, 2007 and 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.

### **BASIS OF PRESENTATION**

Cruiser Oil & Gas Ltd. 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 financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Property and equipment is recognized in these financial statements in accordance with the accounting policies outlined in note 2. Accordingly, their carrying values represent costs incurred to date, net of abandonments and write-downs, and do not necessarily reflect present or future values. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification and the adjustments may be significant.

### **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 \$357,510 as at December 31, 2007. 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 year ended December 31, 2007 (see notes 4 and 7 to the December 31, 2007 financial statements). All of the comparative numbers in the MD&A have been adjusted to reflect this adjustment.

**THREE MONTHS ENDED DECEMBER 31**

During the fourth quarter of 2007, the Company purchased additional acreage in the Willesden Green area and focused on production optimization of both the Willesden Green 06-35 and 09-34 wells.

Production for the fourth quarter of 2007 averaged 111 boe/day as compared to 84 boe/day in the comparative quarter of 2006. The increase in the three months ended December 31, 2007 is from the Willesden Green wells. The average price for oil and natural gas liquids was \$72.23 per barrel and the average price for gas was \$6.50 per mcf during the fourth quarter of 2007. This compares to the average commodity prices for the fourth quarter of 2006 of \$53.37 per barrel and \$6.54 per mcf. The average royalty rate for the comparative quarters was 16% for 2007 and 11% for 2006. Operating costs were \$160,482 (\$15.68 per boe), compared to \$93,905 (\$12.21 per boe), in the comparative quarter in 2006.

General and administrative expenses for the fourth quarter of 2007 were \$273,387 as compared to \$275,049 in the same period in 2006. The fourth quarter for both years reflects the additional costs associated with yearend activities such as reserve report and audit fees.

Depletion, depreciation and accretion for the fourth quarter of 2007 was \$310,859 (\$30.38 per boe) as compared to the fourth quarter of 2006 of \$286,884 (\$37.31 per boe). The decrease in the per unit rate is primarily a result of reserves from the Swan Hills area being reclassified from probable to proven.

The loss for the fourth quarter of 2007 was \$172,104 as compared to a loss of \$249,341 during the same period in 2006.

**FINANCIAL HIGHLIGHTS**

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Petroleum and natural gas sales	<b>502,376</b>	331,210	<b>1,648,954</b>	1,037,048
Funds from (used in) operations	<b>(13,014)</b>	(72,241)	<b>72,780</b>	(27,992)
Loss for the period	<b>(172,104)</b>	(249,341)	<b>(818,618)</b>	(417,166)
Net capital expenditures	<b>283,043</b>	1,645,104	<b>3,813,809</b>	5,830,642
Weighted average shares outstanding – basic	<b>122,057,718</b>	85,943,252	<b>122,011,591</b>	82,185,785
Common shares outstanding – end of period	<b>122,057,718</b>	121,891,052	<b>122,057,718</b>	121,891,052

**SUMMARY OF QUARTERLY RESULTS**

	DEC 07	SEP 07	JUN 07	MAR 07	DEC 06	SEP 06	JUN 06	MAR 06
Petroleum and natural gas revenue	502,376	363,207	461,849	321,522	331,210	234,304	270,529	201,005
Net (loss) income	(172,104)	(364,944)	(148,691)	(132,879)	(249,341)	(136,069)	90,846	(122,602)
Net (loss) income per share	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.00)
Net capital expenditures	283,043	637,747	938,384	1,954,635	1,645,104	1,278,022	442,443	2,465,073

**PETROLEUM AND NATURAL GAS SALES**

Oil and natural gas revenues increased to \$502,376 and \$1,648,954, respectively, for the three months and year ended December 31, 2007 as compared to \$331,210 and \$1,037,048 for the comparative periods in 2006. Prices for the Company's production in the three months and year ended December 31, 2007 averaged \$72.23 and \$65.10 per barrel for oil and liquids and \$6.50 and \$6.56 per mcf for natural gas, as compared to \$53.37 and

\$57.89 per barrel of oil and liquids and \$6.54 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 December 31		Years ended December 31	
	2007	2006	2007	2006
Petroleum and natural gas sales (\$)	<b>502,376</b>	331,210	<b>1,648,954</b>	1,037,048
\$/BOE	<b>49.09</b>	43.08	<b>48.87</b>	44.80

## PRODUCTION

Total production for the three months and year ended December 31, 2007 averaged 111 and 92 boe/day, respectively, as compared to 84 and 63 boe/day in the comparative periods of 2006. By commodity, production of natural gas averaged 464 and 350 mcf/day and oil and NGLs averaged 34 and 33 bbls/day in the three months and year ended December 31, 2007, as compared to 365 and 268 mcf/day for gas and 23 and 18 bbls/day of oil and NGLs for the same periods in 2006.

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Natural gas (mcf/d)	<b>464</b>	365	<b>350</b>	268
Crude oil and NGLs (bbls/d)	<b>34</b>	23	<b>33</b>	18
Total (boe/d)	<b>111</b>	84	<b>92</b>	63
Percentage natural gas (%)	<b>70</b>	73	<b>63</b>	70

## ROYALTIES

Royalties on a percentage of revenue basis for the three months and year ended December 31, 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 December 31		Years ended December 31	
	2007	2006	2007	2006
Net royalties (\$)	<b>81,992</b>	37,405	<b>273,812</b>	113,080
Net royalties as a % of revenue	<b>16</b>	11	<b>17</b>	11
\$/BOE	<b>8.01</b>	4.86	<b>8.12</b>	4.88

## OPERATING EXPENSES

During the three months and year ended December 31, 2007, the Company incurred operating and transportation expenses of \$160,482 and \$488,046 respectively, as compared to \$93,905 and \$267,763 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 December 31		Years ended December 31	
	2007	2006	2007	2006
Operating and transportation expenses (\$)	<b>160,482</b>	93,905	<b>488,046</b>	267,763
\$/BOE	<b>15.68</b>	12.21	<b>14.46</b>	11.57

**GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses increased to \$273,387 and \$852,467 respectively, for the three months and year ended December 31, 2007 from \$275,049 and \$703,048 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 2007 costs on a boe basis were reduced to \$26.72 and \$25.27 per boe as compared to \$35.77 and \$30.37 per boe in the same periods in 2006 due to increased production volumes in 2007.

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
General and administrative expense (\$)	<b>273,387</b>	275,049	<b>852,467</b>	703,048
\$/BOE	<b>26.72</b>	35.77	<b>25.27</b>	30.37

**INTEREST INCOME AND EXPENSE**

Interest expense for the three months and year ended December 31, 2007 was \$6,463 and \$28,443, respectively, from \$7,259 and \$80,083 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 notes 4 and 7 to the December 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 December 31		Years ended December 31	
	2007	2006	2007	2006
Interest expense (\$)	<b>6,463</b>	7,259	<b>28,443</b>	80,083
Interest income (\$)	<b>6,934</b>	10,167	<b>66,594</b>	84,351
Net interest (income) (\$/BOE)	<b>(0.05)</b>	(0.38)	<b>(1.13)</b>	(0.18)

**DEPLETION AND DEPRECIATION**

Depletion and depreciation for the three months and year ended December 31, 2007 was \$305,294 and \$1,288,375 respectively, compared to \$282,081 and \$727,241 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 December 31		Years ended December 31	
	2007	2006	2007	2006
Depletion and depreciation (\$)	<b>305,294</b>	282,081	<b>1,288,375</b>	727,241
\$/BOE	<b>29.84</b>	36.69	<b>38.18</b>	31.41

**ASSET RETIREMENT OBLIGATIONS**

The obligation at December 31, 2007 is estimated to be \$420,484 based on the total estimated undiscounted obligation of \$725,005 adjusted for a discount rate of 8% and inflation of 2% over an average reserve life of 7.0 years. Accretion of \$5,565 and \$20,850, respectively, for the three months and year ended December 31, 2007 compares to \$4,803 and \$15,104 for the same periods of 2006.

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Accretion expense (\$)	<b>5,565</b>	4,803	<b>20,850</b>	15,104
\$/BOE	<b>0.54</b>	0.62	<b>0.62</b>	0.65

**FUNDS FROM OPERATIONS**

For the three months ended December 31, 2007, funds used in operations were \$13,014 as compared to \$72,241 used in the same 2006 period. For the year ended December 31, 2007 a total of \$72,780 was generated from operations as compared to \$27,992 used in the 2006 year.

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Funds from (used in) operations (\$)	<b>(13,014)</b>	(72,241)	<b>72,780</b>	(27,992)

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 months and year ended December 31, 2007 was \$172,104 and \$818,618, respectively, compared to \$249,341 and \$417,166 during the same periods in 2006. The increase in the net loss was a result of higher costs and lower future tax reductions, partially offset by increased production volumes.

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Net (loss) (\$)	<b>(172,104)</b>	(249,341)	<b>(818,618)</b>	(417,166)

**CAPITAL EXPENDITURES**

During the three months and year ended December 31, 2007, the Company incurred \$283,043 and \$3,813,809, respectively, of capital expenditures as compared to \$1,645,104 and \$5,830,642 in the same periods of 2006. During 2007, the Company completed and tied-in one well and drilled and completed another well, both in the Willesden Green area. Drilling and completion of the Kakwa 13-01 well continued, however this well will be abandoned in 2008. The workover and reactivation of the Swan Hills 15-26 well also took place. During 2006 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.

<b>Capital expenditures (\$)</b>	<b>Three months ended December 31</b>		<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Land and seismic	<b>152,688</b>	75,039	<b>360,403</b>	193,517
Drilling and completions	<b>77,749</b>	1,044,117	<b>2,371,761</b>	4,260,364
Equipment and tie-ins	<b>52,606</b>	524,011	<b>1,073,626</b>	1,374,824
Other	-	1,937	<b>8,018</b>	1,937
<b>Total</b>	<b>283,043</b>	1,645,104	<b>3,813,809</b>	5,830,642

**LIQUIDITY AND CAPITAL RESOURCES**

The Company commenced the 2007 year with a working capital surplus 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 year. Capital expenditures in the amount of \$3,813,809 were partially financed by the funds from operations and opening working capital. However, by the end of December 2007, the Company had a working capital deficit of \$170,032.

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.

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 December 31, 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 2007, 250,000 options expired unexercised and 166,666 options were exercised resulting in 4,078,334 options outstanding as of December 31, 2007 and the date of this MD&A.

**RELATED PARTY TRANSACTIONS**

The Company had the following related party transactions:

1. During 2007, the Company was charged \$136,826 (2006 – \$246,057) in management fees and expenses by officers and directors of the Company. At December 31, 2007, accounts payable includes \$8,950 (2006 - \$36,057).
2. During 2007, the Company was charged \$215,705 (2006 -\$nil) for capital expenditures and \$4,049 (2006 - \$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 December 31, 2007, accounts payable includes \$4,362 (2006 - \$nil).
3. During 2007, a law firm in which a director of the Company was a principal, charged the Company \$23,450 (2006 – \$40,479) for legal services which are included in general and administrative expenses. At December 31, 2007, accounts payable includes \$24,857 (2006 – \$42,683).
4. During 2007, the Company was charged \$119,654 (2006 – \$76,268) for accounting and administrative fees which are included in general and administrative expenses by a corporation controlled by an officer of the Company. At December 31, 2007, accounts payable includes an amount of \$19,208 (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 245 boe/day which includes current production of approximately 115 boe/day and an estimated minimum of 130 boe/day waiting to be put back on production.

At Kakwa, the non-operated 13-1 exploration well was drilled to total depth, tested and subsequently abandoned in 2008. This operation represents the last commitment of the non-operated exploration program associated with the Participation Agreement announced on June 3, 2005. Cruiser is now able to focus all of its attention and capital on its own operated projects in Swan Hills and Willesden Green and to initiate new operated projects in its core areas.

At Swan Hills, the 15-26 well was successfully reactivated and a high volume lift pump, capable of producing 3,000 barrels of fluid per day, was installed in 2007. The well began producing in February 2007 with an associated oil cut of 2% and was shut-in in June after producing for four months with steadily improving oil cuts and having achieved an associated oil cut of 5%. The well was shut-in due to third party processing and injection facility constraints. It is unclear as to when the operator of the facility will be able to resolve its issues. Cruiser is currently considering a number of options to maximize the value of this property.

At Willesden Green, the Company has been successful at establishing a new operated core area, gaining access to tightly held infrastructure, proving up production and reserves, and aggressively expanding the land base through farm-ins and crown land sales. A large inventory of low risk exploitation opportunities has been developed that will further enhance the value of the Company.

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.

**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 16 to the December 31, 2007 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 December 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 the 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.

**CRITICAL ACCOUNTING ESTIMATES**

The Company's financial statements are prepared in accordance with Canadian GAAP. 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, 2007. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

**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 3 of the December 31, 2007 audited 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)