

**Notice for National Instrument 51-102**

The Company's independent auditor has not performed a review of the June 30, 2005 comparative financial statements in accordance with the standards of the Canadian Institute of Chartered Accountants. These statements are presented for comparative purposes only.

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

	<u>June 30</u> <u>2006</u>	<u>December 31</u> <u>2005</u>
<b>Assets</b>		
Current		
Cash and cash equivalents <i>(note 3)</i>	\$ 1,368,741	\$ 2,528,684
Short-term investments <i>(note 4)</i>	1,037,281	2,022,366
Accounts receivable	280,851	544,146
Prepaid expenses and deposits	<u>65,653</u>	<u>58,682</u>
	2,752,526	5,153,878
Reclamation deposit	112,077	110,073
Funds in escrow <i>(note 5)</i>	1,537	261,564
Future income taxes <i>(note 9)</i>	-	220,946
Property and equipment <i>(note 6)</i>	<u>11,547,437</u>	<u>8,920,593</u>
	<u>\$ 14,413,577</u>	<u>\$ 14,667,054</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 473,828	\$ 320,560
Convertible debenture <i>(note 7)</i>	<u>297,917</u>	<u>285,417</u>
	771,745	605,977
Asset retirement obligations <i>(note 8)</i>	181,020	166,702
Future income taxes <i>(note 9)</i>	<u>1,767,558</u>	<u>-</u>
	<u>2,720,323</u>	<u>772,679</u>
<b>Shareholders' equity</b>		
Share capital <i>(note 10)</i>	12,819,677	15,107,242
Contributed surplus <i>(note 10)</i>	677,185	568,062
Deficit	<u>(1,803,608)</u>	<u>(1,780,929)</u>
	<u>11,693,254</u>	<u>13,894,375</u>
	<u>\$ 14,413,577</u>	<u>\$ 14,667,054</u>

See accompanying notes to the financial statements

**Cruiser Oil & Gas Ltd.**  
**Statements of Operations and Deficit**  
**Three and six months ended June 30**  
**(unaudited)**

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
<b>Revenue</b>				
Petroleum and natural gas sales	\$ 276,473	\$ 151,111	\$ 477,478	\$ 323,488
Royalties, net of Alberta Royalty Tax Credit	(47,603)	(13,086)	(72,475)	(34,216)
	<u>228,870</u>	<u>138,025</u>	<u>405,003</u>	<u>289,272</u>
Interest income	<u>28,724</u>	<u>—</u>	<u>60,053</u>	<u>—</u>
	<u>257,594</u>	<u>138,025</u>	<u>465,056</u>	<u>289,272</u>
<b>Expenses</b>				
Production	61,839	32,115	90,651	71,017
Transportation	5,384	4,848	9,871	4,848
General and administrative	170,505	122,512	291,227	157,399
Stock based compensation	75,211	—	137,458	—
Interest	13,152	93,050	28,434	118,181
Accretion	3,450	2,814	6,784	5,586
Depletion and depreciation	169,852	90,769	288,206	138,031
	<u>499,393</u>	<u>346,108</u>	<u>852,631</u>	<u>495,062</u>
Loss before income taxes	(241,799)	(208,083)	(387,575)	(205,790)
<b>Income taxes (note 9)</b>				
Current tax recovery	—	(3,181)	—	(3,181)
Future tax recovery	(337,209)	(47,557)	(364,896)	(44,388)
	<u>(337,209)</u>	<u>(50,738)</u>	<u>(364,896)</u>	<u>(47,569)</u>
<b>Net income (loss) for the period</b>	<b>95,410</b>	<b>(157,345)</b>	<b>(22,679)</b>	<b>(158,221)</b>
Deficit, beginning of period	<u>(1,899,018)</u>	<u>(1,059,990)</u>	<u>(1,780,929)</u>	<u>(1,059,114)</u>
<b>Deficit, end of period</b>	<b>\$ (1,803,608)</b>	<b>\$ (1,217,335)</b>	<b>\$ (1,803,608)</b>	<b>\$ (1,217,335)</b>
<b>Income (loss) per share – basic and diluted (note 10)</b>	<b>\$ 0.00</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>

See accompanying notes to the financial statements

**Cruiser Oil & Gas Ltd.**  
**Statements of Cash Flows**  
**Three and six months ended June 30**  
**(unaudited)**

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
<b>Operating activities</b>				
Net income (loss) for the period	\$ 95,410	\$ (157,345)	\$ (22,679)	\$ (158,221)
Add back non-cash items:				
Depletion and depreciation	169,852	90,769	288,206	138,031
Stock-based compensation	75,211	—	137,458	—
Non-cash loan settlement	—	(4,843)	—	(4,843)
Non-cash interest	6,250	1,166	12,500	16,592
Accretion	3,450	2,814	6,784	5,586
Future tax recovery	(337,209)	(47,557)	(364,896)	(44,388)
	12,964	(114,996)	57,373	(47,243)
Change in non-cash working capital (note 12)	(36,114)	(84,715)	(183,242)	(205,691)
	(23,150)	(199,711)	(125,869)	(252,934)
<b>Financing activities</b>				
Issue of share capital net of costs	—	3,701,660	37,500	3,701,660
Repayment of property liability	—	(4,172)	—	(4,172)
Proceeds from issue of debenture	—	2,000,000	—	2,000,000
Repayment of debenture	—	(2,000,000)	—	(2,000,000)
Repayment of loans payable	—	(999,544)	—	(1,002,544)
	—	2,697,944	37,500	2,694,944
<b>Investing activities</b>				
Expenditures on property and equipment	(442,443)	(532,266)	(2,647,489)	(532,266)
Addition to reclamation deposit	(1,244)	(6,650)	(2,004)	(6,650)
Redemption of term deposits	(314,915)	—	985,085	—
Proceeds on disposal of property and equipment	—	(110)	—	7,850
Change in non-cash working capital (note 12)	(626,208)	(1,269,086)	592,834	(1,269,086)
	(1,384,810)	(1,808,112)	(1,071,574)	(1,800,152)
(Decrease) increase in cash	(1,407,960)	690,121	(1,159,943)	641,858
<b>Cash and cash equivalents, beginning of period</b>	<b>2,776,701</b>	<b>66,919</b>	<b>2,528,684</b>	<b>115,182</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,368,741</b>	<b>\$ 757,040</b>	<b>\$ 1,368,741</b>	<b>\$ 757,040</b>
<b>Supplemental cash flow information</b>				
Interest paid	\$ —	\$ 70,198	\$ 9,906	\$ 79,384

See accompanying notes to the financial statements

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

June 30, 2006  
(unaudited)

### 1. Nature of operations

Cruiser Oil and Gas Ltd. (formerly Hoodoo Hydrocarbons 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"). The wholly owned subsidiary, Terra Rica Resources Ltd. was amalgamated with Cruiser on January 1, 2006.

### 2. 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, 2005 consolidated financial statements except that certain disclosures have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the notes contained in the Company's audited December 31, 2005 consolidated 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 financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

The operating results for the three and six months ended June 30, 2006 may not be indicative of the results for the year ended December 31, 2006.

### 3. Cash and cash equivalents

		June 30 2006
Cash in bank	\$	366,591
Term deposits		1,002,150
	\$	<u>1,368,741</u>

The term deposit outstanding as at June 30, 2006 had a term of 90 days or less at the date of inception, bears interest at 4.36 % and matures in July 2006.

### 4. Short-term investments

As at June 30, 2006, short-term investments totaling \$1,037,281 earn interest at a floating interest rate of prime less 2.25%, equal to 3.75% at June 30, 2006, and mature in May and June 2007.

### 5. Funds in escrow

Pursuant to a Master Participation Agreement (the "Participation Agreement") dated June 3, 2005 between the Company and a joint venture partner, the Company deposited \$4,400,000 in escrow to be used for its share of the related capital expenditure requirements, of which \$4,398,463 had been incurred to June 30, 2006. As at June 30, 2006, \$1,537 (December 2005 – \$261,564) remained in escrow.

### 6. Property and equipment

		June 30, 2006	
		Cost	Accumulated depletion and depreciation
		Net	
Petroleum and natural gas properties	\$	13,347,567	\$ 1,818,200
Office equipment		37,272	19,202
	\$	<u>13,384,839</u>	<u>\$ 1,837,402</u>
			<u>\$ 11,547,437</u>

The Company did not capitalize any general and administrative costs during the three and six months ended June 30, 2006. Future capital costs of \$3,054,400 have been included in the depletion calculation.

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

### June 30, 2006

(unaudited)

#### 7. Convertible debenture

The Cavendish Debenture in the principal amount of \$250,000 bears interest at 10% per annum payable semi-annually and is convertible at \$0.11 per common share. As at June 30, 2006, the Cavendish Debenture included \$47,917 of accrued interest. As disclosed in note 13, the debenture was repaid on August 1, 2006.

#### 8. Asset retirement obligations

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, 2005	\$	166,702
Liabilities incurred		2,590
Adjustments due to changes		4,944
Accretion		6,784
		<u>6,784</u>
Balance – June 30, 2006	\$	<u>181,020</u>

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

Undiscounted cash flows	\$	459,500
Risk-free discount rate, adjusted for inflation of 2%		8%
Expected timing of cash flows		11 years

#### 9. Income taxes

The Company's computation of future income tax recovery is as follows:

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Net (loss) for the period before tax	\$ (241,799)	\$ (208,083)	\$ (387,575)	\$ (205,790)
Expected income tax expense at 32.50% - (2005 – 37.62%)	(74,036)	(78,281)	(125,962)	(77,418)
Non-deductible crown charges	2,078	989	3,129	3,387
Resource allowance	(1,779)	53	(2,444)	(1,336)
Non-deductible items	22,540	1,129	44,747	1,245
Rate adjustment and other	(286,012)	28,553	(284,366)	29,734
	<u>\$ (337,209)</u>	<u>\$ (47,557)</u>	<u>\$ (364,896)</u>	<u>\$ (44,388)</u>

The components of the net future income tax liability are as follows:

		June 30
		<u>2006</u>
Future income tax assets (liabilities)		
Carrying amount of property and equipment in excess of tax basis	\$	(2,036,838)
Non-capital losses		191,598
Asset retirement obligations		52,496
Share issue costs		177,024
Flow through shares		(151,838)
	\$	<u>(1,767,558)</u>

As at June 30, 2006, the Company has approximately \$4,500,000 of tax pools available for deduction against future taxable income. In addition, the Company has \$700,000 of non-capital losses that expire between 2014 and 2016.

**Cruiser Oil & Gas Ltd.**  
**Notes to the Financial Statements**  
**June 30, 2006**  
**(unaudited)**

**10. Share capital**

**a) Common shares issued**

	Number of Shares	Amount
Balance – December 31, 2005	80,589,862	\$ 15,107,242
Exercise of stock options (i)	375,000	65,835
Tax benefits related to renounced expenditures on flow-through shares (ii)	–	(2,353,400)
Balance – June 30, 2006	<u>80,964,862</u>	<u>\$ 12,819,677</u>

(i) A total of 375,000 options were exercised in February 2006 for cash proceeds of \$37,500. In addition to the cash proceeds, the pro-rata allocation of the stock option's fair value in the amount of \$28,335 has been reclassified to the amount for share capital.

(ii) The tax benefits related to \$7,000,000 of flow-through share proceeds raised in 2005 were renounced to investors in February 2006 with an effective date of December 2005. The tax effect of \$2,353,400 has been recorded as a reduction to share capital. Approximately \$6,476,000 of qualifying expenditures have been incurred to date and the Company has until December 31, 2006 to incur the balance of \$524,000.

**b) Contributed surplus**

Balance – December 31, 2005	\$ 568,062
Stock-based compensation	137,458
Exercise of stock options (note 10(a)(i))	<u>(28,335)</u>
Balance – June 30, 2006	<u>\$ 677,185</u>

**c) Options**

The following is a continuity of stock options, for which shares have been reserved:

	Number of Options	Weighted–Average Exercise Price \$
Balance – December 31, 2005	6,645,000	0.15
Exercised	(375,000)	0.10
Cancelled	(650,000)	0.30
Balance – June 30, 2006	<u>5,620,000</u>	<u>0.14</u>

The following table summarizes information concerning the Company's stock options outstanding as at June 30, 2006:

Exercise Price \$	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price \$
0.10	4,718,986	3.8	1,432,995	0.10
0.30	301,014	4.2	33,671	0.30
0.35	600,000	4.3	200,000	0.35
	<u>5,620,000</u>	<u>3.9</u>	<u>1,666,666</u>	<u>0.13</u>

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

### June 30, 2006

(unaudited)

#### 10. Share capital (continued)

The Company recognized stock-based compensation expense for the three and six months ended June 30, 2006 of \$75,211 and \$137,458. The remaining stock-based compensation expense of \$138,329 will be recognized over the vesting period of the options.

#### d) Warrants

As at June 30, 2006 and December 31, 2005, a total of 400,000 warrants at \$0.30 per common share are fully exercisable and expire in September 2006.

#### e) Escrowed shares

As at June 30, 2006, a total of 11,775,000 shares are held in escrow. They will be released in two equal amounts of 5,887,500 shares on July 27, 2006 and January 27, 2007.

#### f) Per share amounts

Basic per share calculations are based on the weighted average number of common shares outstanding during the three and six months ended June 30, 2006 of 80,964,862 and 80,896,492, respectively (June 30, 2005 – 18,709,093 and 15,840,414, respectively). Diluted per share for the three and six months ended June 30, 2006 are 95,433,968 and 96,042,891, respectively, (June 30, 2005 – 18,709,093 and 15,840,414, respectively).

#### 11. Related party transactions

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

- a) During the three and six months ended June 30, 2006, the Company was charged \$60,000 and \$120,000, respectively (three and six months ended June 30, 2005 – \$60,000) in management fees by officers and directors of the Company.
- b) During the three and six months ended June 30, 2006, the Company was charged \$12,959 and \$18,859, respectively (three and six months ended June 30, 2005 – \$7,888 and \$8,550, respectively) for administrative fees by a corporation controlled by an officer of the Company. Included in accounts payable at June 30, 2006 is \$7,994 in respect of these charges.

#### 12. Change in non-cash working capital

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Accounts receivable	\$ 25,228	\$ (1,223,399)	\$ 263,295	\$ (1,255,653)
Accounts payable and accrued liabilities	(689,478)	(133,710)	153,268	(229,235)
Prepaid expenses and deposits	1,928	3,308	(6,971)	10,111
	<u>\$ (662,322)</u>	<u>\$ (1,353,801)</u>	<u>\$ 409,592</u>	<u>\$ (1,474,777)</u>

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

Operating	\$ (36,114)	(84,715)	(183,242)	(205,691)
Investing	<u>(626,208)</u>	<u>(1,269,086)</u>	<u>592,834</u>	<u>(1,269,086)</u>
	<u>\$ (662,322)</u>	<u>\$ (1,353,801)</u>	<u>\$ 409,592</u>	<u>\$ (1,474,777)</u>

#### 13. Subsequent event

The Cavendish Debenture (*note 7*) was settled on August 1, 2006 for \$300,000 cash comprised of the principal amount of \$250,000 plus total accrued interest in the amount of \$50,000.