

**Notice for National Instrument 51-102**

The Company's independent auditor has not performed a review of the September 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)

---

	<b>September 30</b>	December 31
	<b>2006</b>	2005
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 262,801	\$ 2,528,684
Short term investments (note 3)	1,285,318	2,022,366
Accounts receivable	598,952	544,146
Prepaid expenses and deposits	49,362	58,682
	<u>2,196,433</u>	<u>5,153,878</u>
Funds in escrow (note 4)	1,537	261,564
Reclamation deposit	113,246	110,073
Future income taxes (note 8)	-	220,946
Property and equipment (note 5)	<u>12,699,518</u>	<u>8,920,593</u>
	<u>\$ 15,010,734</u>	<u>\$ 14,667,054</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,490,768	\$ 320,560
Convertible debenture (note 6)	-	285,417
	<u>1,490,768</u>	<u>605,977</u>
Asset retirement obligations (note 7)	215,550	166,702
Future income taxes (note 8)	<u>1,723,573</u>	<u>-</u>
	<u>3,429,891</u>	<u>772,679</u>
<b>Shareholders' equity</b>		
Share capital (note 9)	12,819,677	15,107,242
Contributed surplus (note 9)	696,230	568,062
Deficit	<u>(1,935,064)</u>	<u>(1,780,929)</u>
	<u>11,580,843</u>	<u>13,894,375</u>
	<u>\$ 15,010,734</u>	<u>\$ 14,667,054</u>

---

See accompanying notes to financial statements

# Cruiser Oil & Gas Ltd.

## Statements of Operations and Deficit

Three and nine months ended September 30  
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
<b>Revenue</b>				
Petroleum and natural gas sales	\$ 234,304	\$ 196,902	\$ 705,838	\$ 520,390
Royalties, net of Alberta Royalty Tax Credit	(3,200)	(15,381)	(75,675)	(49,597)
	<b>231,104</b>	181,521	<b>630,163</b>	470,793
Interest income	<b>14,131</b>	18,313	<b>74,184</b>	18,313
	<b>245,235</b>	199,834	<b>704,347</b>	489,106
<b>Expenses</b>				
Production	<b>78,788</b>	43,644	<b>169,439</b>	114,661
Transportation	<b>492</b>	3,003	<b>4,419</b>	7,851
General and administrative (note 10)	<b>136,772</b>	174,620	<b>427,999</b>	332,019
Stock-based compensation (note 9)	<b>19,045</b>	219,480	<b>156,503</b>	219,480
Interest	<b>25,108</b>	16,700	<b>53,542</b>	134,881
Accretion	<b>3,517</b>	2,814	<b>10,301</b>	8,400
Depletion and depreciation	<b>156,954</b>	42,862	<b>445,160</b>	180,893
	<b>420,676</b>	503,123	<b>1,267,363</b>	998,185
Loss before income taxes	<b>(175,441)</b>	(303,289)	<b>(563,016)</b>	(509,079)
<b>Income taxes</b>				
Current tax recovery	–	–	–	(3,181)
Future tax recovery	<b>(43,985)</b>	(33,375)	<b>(408,881)</b>	(77,763)
	<b>(43,985)</b>	(33,375)	<b>(408,881)</b>	(80,944)
<b>Net loss for the period</b>	<b>(131,456)</b>	(269,914)	<b>(154,135)</b>	(428,135)
Deficit, beginning of period	<b>(1,803,608)</b>	(1,217,335)	<b>(1,780,929)</b>	(1,059,114)
<b>Deficit, end of period</b>	<b>\$ (1,935,064)</b>	\$ (1,487,249)	<b>\$ (1,935,064)</b>	\$ (1,487,249)
<b>Loss per share – basic and diluted (note 9)</b>	<b>\$ (0.00)</b>	\$ (0.00)	<b>\$ (0.00)</b>	\$ (0.01)

See accompanying notes to financial statements

# Cruiser Oil & Gas Ltd.

## Statements of Cash Flows

Three and nine months ended September 30  
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
<b>Operating activities</b>				
Net loss for the period	\$ (131,456)	\$ (269,914)	\$ (154,135)	\$ (428,135)
Add back non-cash items:				
Depletion and depreciation	156,954	42,862	445,160	180,893
Non-cash gain on settlement of debts	—	—	—	(4,843)
Non-cash interest	2,083	2,158	14,583	18,750
Stock-based compensation	19,045	219,480	156,503	219,480
Accretion	3,517	2,814	10,301	8,400
Future tax recovery	(43,985)	(33,375)	(408,881)	(77,763)
	6,158	(35,975)	63,531	(83,218)
Change in non-cash working capital (note 11)	(54,586)	(254,088)	(237,828)	(459,779)
	(48,428)	(290,063)	(174,297)	(542,997)
<b>Financing activities</b>				
Proceeds on share issue net of costs	—	9,217,620	37,500	12,919,280
Repayment of convertible debenture	(300,000)	—	(300,000)	—
Settlement of liabilities on reorganization	—	(125,530)	—	(129,702)
Proceeds from issue of debenture	—	—	—	2,000,000
Repayment of debenture	—	—	—	(2,000,000)
Repayment of loans payable	—	(209,911)	—	(1,212,455)
Change in non-cash working capital (note 11)	38,593	—	38,593	—
	(261,407)	8,882,179	(223,907)	11,577,123
<b>Investing activities</b>				
Expenditures on property and equipment	(1,278,022)	(2,315,803)	(4,185,538)	(2,848,069)
Funds in escrow	—	(4,394,030)	260,027	(4,394,030)
Purchase of short term investment	(248,037)	(1,000,000)	737,048	(1,000,000)
Addition to reclamation deposit	(1,169)	—	(3,173)	(6,650)
Proceeds on disposal of property and equipment	—	—	—	7,850
Change in non-cash working capital (note 11)	731,123	1,959,184	1,323,957	690,098
	(796,105)	(5,750,649)	(1,867,679)	(7,550,801)
(Decrease ) increase in cash and cash equivalents	(1,105,940)	2,841,467	(2,265,883)	3,483,325
<b>Cash and cash equivalents, beginning of period</b>	<b>1,368,741</b>	<b>757,040</b>	<b>2,528,684</b>	<b>115,182</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 262,801</b>	<b>\$ 3,598,507</b>	<b>\$ 262,801</b>	<b>\$ 3,598,507</b>
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 23,025	\$ 38,959	\$ 14,542	\$ 116,131

See accompanying notes to financial statements

---

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

September 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 nine months ended September 30, 2006 may not be indicative of the results for the year ended December 31, 2006.

### 3. Short-term investments

As at September 30, 2006, short-term investments totaling \$1,285,318 earn interest at a floating interest rate of prime less 2.25%, equal to 3.75% at September 30, 2006, and mature in May, July and September 2007.

### 4. 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 September 30, 2006. As at September 30, 2006, \$1,537 (December 2005 – \$110,073) remained in escrow.

### 5. Property and equipment

	September 30, 2006		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties	\$ 14,656,602	\$ 1,972,800	\$ 12,683,802
Office equipment	37,272	21,556	15,716
	<u>\$ 14,693,874</u>	<u>\$ 1,994,356</u>	<u>\$ 12,699,518</u>

The Company did not capitalize any general and administrative costs during the three and nine months ended September 30, 2006. Future capital costs of \$4,015,800 have been included in the depletion calculation.

### 6. 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. The Debenture 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.

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

September 30, 2006  
(unaudited)

### 7. 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		33,603
Revisions		4,944
Accretion		10,301
		<u>10,301</u>
Balance – September 30, 2006	\$	<u>215,550</u>

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

Undiscounted cash flows	\$	505,900
Risk-free discount rate, adjusted for inflation of 2%		8%
Expected timing of cash flows		11 years

### 8. Income taxes

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

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net loss for the period before tax	\$ (175,441)	\$ (303,289)	\$ (563,016)	\$ (509,079)
Expected income tax expense at 32.50% - (2005 – 37.62%)	(57,018)	(114,097)	(182,980)	(191,516)
Non-deductible crown charges	(1,780)	(2,700)	1,349	687
Resource allowance	3,730	(2,925)	1,286	(4,261)
Non-deductible items	6,519	82,767	51,266	84,011
Rate adjustment and other	4,564	3,580	(279,802)	33,316
	<u>\$ (43,985)</u>	<u>\$ (33,375)</u>	<u>\$ (408,881)</u>	<u>\$ (77,763)</u>

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

	September 30 2006
Future income tax assets (liabilities)	
Carrying amount of property and equipment in excess of tax basis	\$ (2,132,318)
Non-capital losses	201,405
Asset retirement obligations	62,510
Share issue costs	164,000
Flow-through shares	(19,170)
	<u>\$ (1,723,573)</u>

As at September 30, 2006, the Company has approximately \$5,300,000 of tax pools available for deduction against future taxable income. In addition, the Company has \$690,000 of non-capital losses that expire between 2014 and 2016.

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

September 30, 2006  
(unaudited)

### 9. 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 – September 30, 2006	<u>80,964,862</u>	<u>\$</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 options' 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 \$6,933,900 of qualifying expenditures have been incurred to date and the Company has until December 31, 2006 to incur the balance of \$66,100.

#### b) Contributed surplus

Balance – December 31, 2005	\$	568,062
Stock-based compensation		156,503
Exercise of stock options (note 9(a)(i))		<u>(28,335)</u>
Balance – September 30, 2006	<u>\$</u>	<u>696,230</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	(1,025,000)	0.23
Balance – September 30, 2006	<u>5,245,000</u>	<u>0.14</u>

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

Exercise Price \$	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price \$
0.10	4,343,986	2.9	2,797,657	0.10
0.30	301,014	3.9	134,009	0.30
0.35	600,000	4.1	200,000	0.35
	<u>5,245,000</u>	<u>3.1</u>	<u>3,131,666</u>	<u>0.12</u>

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

September 30, 2006  
(unaudited)

### 9. Share capital (continued)

#### d) Warrants

The 400,000 warrants at \$0.30 per common share expired in September 2006 unexercised.

#### e) Escrowed shares

As at September 30, 2006, a total of 5,887,500 shares were held in escrow and will be released on 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 nine months ended September 30, 2006 of 80,964,862 and 80,919,532, respectively (three and nine months ended September 30, 2005 – 54,518,983 and 31,579,422, respectively).

### 10. Related party transactions

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

- a) During the three and nine months ended September 30, 2006, the Company was charged \$60,000 and \$180,000, respectively (three and nine months ended September 30, 2005 – \$60,000 and \$120,000) in management fees by officers and directors of the Company.
- b) During the three and nine months ended September 30, 2006, the Company was charged \$21,830 and \$40,689, respectively (three and nine months ended September 30, 2005 – \$10,548, respectively) for administrative fees by a corporation controlled by an officer of the Company. Included in accounts payable at September 30, 2006 is \$3,260 in respect of these charges.
- c) During the three and nine months ended September 30, 2006, the Company was charged \$nil (three and nine months ended September 30, 2005 - \$128,099) by a law firm in which a director of the Company is a partner. These costs were included in general and administrative costs and share issue costs.

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

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Accounts receivable	\$ (318,101)	\$ 1,186,215	\$ (54,806)	\$ (69,438)
Accounts payable and accrued liabilities	1,016,940	545,818	1,170,208	316,583
Prepaid expenses and deposits	16,291	(26,937)	9,320	(16,826)
	<u>\$ 715,130</u>	<u>\$ 1,705,096</u>	<u>\$ 1,124,722</u>	<u>\$ 230,319</u>

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

Operating	\$ (54,586)	\$ (254,088)	\$ (237,828)	\$ (459,779)
Financing	38,593	-	38,593	-
Investing	731,123	1,959,184	1,323,957	690,098
	<u>\$ 715,130</u>	<u>\$ 1,705,096</u>	<u>\$ 1,124,722</u>	<u>\$ 230,319</u>

---

# Cruiser Oil & Gas Ltd.

## Notes to the Financial Statements

September 30, 2006  
(unaudited)

---

### 12. Subsequent events

- a) In October 2006, 750,000 options were exercised for cash proceeds of \$75,000.
- b) On November 21, 2006, the Company announced that, subject to regulatory approvals, it intends to raise up to \$5,000,000 in a non-brokered private placement by issuing up to 41,666,666 common shares at a price of \$0.12 per Common Share. At the Company's election, up to \$1,000,000 of the funds raised pursuant to the Private Placement may be issued on a "flow-through" basis by issuing up to 7,142,857 flow-through common shares, which flow-through common shares will be renounced as Canadian Exploration Expense and will be issued at \$0.14 per flow-through common share, provided that the maximum proceeds raised pursuant to the private placement will not exceed \$5,000,000.