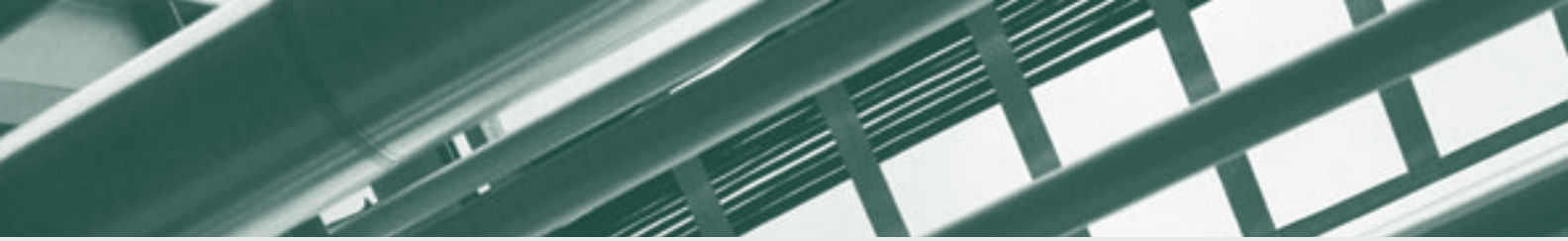




# 2006

2006 FINANCIAL RESULTS



Crew Energy Inc. (“Crew”) is a growth-oriented junior oil and natural gas producer. Crew’s activities are concentrated in central Alberta and northeast British Columbia and focus on the development and expansion of its core natural gas and light oil producing areas and exploration of its undeveloped land base. Crew’s experienced management team is committed to the pursuit of sustainable per share growth through a balanced mix of financially responsible exploration and development, complemented by strategic acquisitions.

#### CONTENTS

|    |  |
|----|--|
| 1  | Management’s Discussion and Analysis       |
| 14 | Management’s Report                        |
| 15 | Auditors’ Report                           |
| 16 | Consolidated Financial Statements          |
| 19 | Notes to Consolidated Financial Statements |
| 29 | Corporate Information                      |
| 29 | Abbreviations                              |

#### ANNUAL MEETING

The Annual Meeting of Shareholders of Crew Energy Inc. will be held at 3:00 p.m. (MDT) on Thursday, May 24, 2007 in the Angus Northcote Room of Bow Valley Square, + 30 level, 255 – 5th Avenue S.W., Calgary, Alberta.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### HIGHLIGHTS

|   | 2006           | 2005    |
|---|----------------|---------|
| <b>FINANCIAL</b> ( <i>\$ thousands except per share amounts</i> ) |                |         |
| <b>Petroleum and natural gas sales</b>                            | <b>92,813</b>  | 87,532  |
| <b>Funds from operations</b> (note 1)                             | <b>56,658</b>  | 59,491  |
| Per share – basic   | <b>1.62</b>    | 2.11    |
| – diluted   | <b>1.59</b>    | 1.86    |
| <b>Net income</b>   | <b>10,776</b>  | 24,641  |
| Per share – basic   | <b>0.31</b>    | 0.87    |
| – diluted   | <b>0.30</b>    | 0.77    |
| <b>Exploration and development expenditures</b>                   | <b>123,859</b> | 101,698 |
| <b>Property acquisitions</b> (net of dispositions)                | <b>16,196</b>  | –       |
| <b>Business acquisition</b>                                       | <b>71,151</b>  | –       |
| Working capital deficiency  | <b>17,714</b>  | 6,575   |
| Bank loan   | <b>41,157</b>  | –       |
| <b>Net debt</b>   | <b>58,871</b>  | 6,575   |
| <b>Weighted average shares</b>                                    |                |         |
| Basic   | <b>34,896</b>  | 28,196  |
| Diluted   | <b>35,586</b>  | 31,956  |
| <b>OPERATIONS</b>   |                |         |
| <b>Daily production</b>   |                |         |
| Light oil and ngl (bbl/d)   | <b>941</b>     | 802     |
| Natural gas (mcf/d)   | <b>28,526</b>  | 20,511  |
| Oil equivalent (boe/d @ 6:1)                                      | <b>5,695</b>   | 4,221   |
| Per million diluted shares  | <b>160</b>     | 132     |
| <b>Average prices</b>   |                |         |
| Light oil and ngl (\$/bbl)  | <b>63.47</b>   | 60.65   |
| Natural gas (\$/mcf)  | <b>6.82</b>    | 9.32    |
| Oil equivalent (\$/boe)   | <b>44.65</b>   | 56.81   |
| <b>Operating expenses</b>   |                |         |
| Light oil and ngl (\$/bbl)  | <b>5.26</b>    | 4.70    |
| Natural gas (\$/mcf)  | <b>0.90</b>    | 0.73    |
| Oil equivalent (\$/boe @ 6:1)                                     | <b>5.40</b>    | 4.42    |
| <b>Operating netback</b> (\$/boe) (note 2)                        | <b>28.88</b>   | 39.80   |
| <b>Funds from operations</b> (\$/boe) (note 1)                    | <b>27.26</b>   | 38.61   |
| <b>Drilling Activity</b>  |                |         |
| Gross wells   | <b>54</b>      | 60      |
| Working interest wells  | <b>47.2</b>    | 52.9    |
| Success rate, net wells   | <b>97%</b>     | 87%     |

Notes:

(1) Funds from operations is calculated as cash provided by operating activities from the statement of cash flows, adding change in non-cash working capital and asset retirement expenditures. Funds from operations is used to analyze the Company's operating performance and leverage. Funds from operations does not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations of similar measures for other companies.

(2) Netback - total revenue less royalties, operating costs and transportation costs calculated on a boe basis. Netback does not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations of similar measures for other companies.

## ADVISORIES

Management's discussion and analysis ("MD&A") is Crew Energy Inc.'s ("Crew" or the "Company") explanation of its financial performance for the period covered by the financial statements along with an analysis of the Company's financial position. Comments relate to and should be read in conjunction with the audited consolidated financial statements and the notes thereto for the years ended December 31, 2006 and 2005. The consolidated financial statements were prepared in accordance with generally accepted accounting principles ("GAAP") in Canada and all figures provided herein and in the December 31, 2006 consolidated financial statements are reported in Canadian dollars.

### Forward Looking Statements

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures and the method of funding thereof, expected changes to available bank lines, production estimates, wells to be drilled, timing of drilling, tie-in completion of wells and the production resulting therefrom, expected royalty rates, transportation costs and operating costs, and the taxability of the Company, may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploration, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, the timing and length of plant turnarounds and the impact of such turnarounds and the timing thereof, delays resulting from or inability to obtain required regulatory approvals and the ability to access sufficient capital from internal and external sources. As a consequence, the Company's actual results could differ materially from those expressed in, or implied by, the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at the Company's website ([www.crewenergy.com](http://www.crewenergy.com)). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

### Conversions

Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. All boe conversions in this report are derived by converting natural gas to oil in the ratio of six thousand cubic feet ("mcf") of gas to one barrel ("bbl") of oil. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Certain financial values are presented on a per boe basis and such measurements may not be consistent with those used by other companies.

### Non-GAAP Measures

Crew evaluates performance based on net income and funds from operations. Funds from operations is a measure not based on GAAP that is commonly used in the oil and gas industry. It represents cash provided by operating activities before changes in non-cash working capital and asset retirement expenditures. The Company considers it a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt. In addition, management uses Netback, a non-GAAP term, to analyze operating performance and leverage. Netback equals total revenue less royalties, operating costs and transportation costs calculated on a boe basis.



## RESULTS OF OPERATIONS

### Production

| Years ended December 31,   | 2006                   |                        |                  | 2005                   |                        |                  |
|----------------------------|------------------------|------------------------|------------------|------------------------|------------------------|------------------|
|                            | Oil and ngl<br>(bbl/d) | Natural gas<br>(mcf/d) | Total<br>(boe/d) | Oil and ngl<br>(bbl/d) | Natural gas<br>(mcf/d) | Total<br>(boe/d) |
| Edson, AB                  | 364                    | 9,340                  | 1,921            | 273                    | 6,391                  | 1,338            |
| Ferrier, AB                | 304                    | 3,187                  | 835              | 160                    | 2,132                  | 515              |
| Plain Lake, AB             | –                      | 3,954                  | 659              | –                      | 3,557                  | 593              |
| Viking-Kinsella, AB        | 2                      | 5,493                  | 918              | 1                      | 4,507                  | 752              |
| Wimborne/Drumheller, AB    | 54                     | 2,558                  | 480              | 60                     | 1,967                  | 388              |
| Northeast British Columbia | 167                    | 3,306                  | 718              | 266                    | 1,240                  | 473              |
| Other                      | 50                     | 688                    | 164              | 42                     | 717                    | 162              |
| <b>Total</b>               | <b>941</b>             | <b>28,526</b>          | <b>5,695</b>     | <b>802</b>             | <b>20,511</b>          | <b>4,221</b>     |

Production increased throughout 2006 as a result of the Company's successful drilling program and the closing of a private company acquisition on November 21, 2006 that added production in the Company's Ferrier, Alberta operating area. Natural gas production increased 39% over 2005 as a result of successful drilling programs at Edson, Ferrier, Viking-Kinsella and Wimborne/Drumheller in Alberta and a new natural gas discovery at Inga, British Columbia. In addition, the private company acquisition added natural gas and ngl production at Ferrier. Crew's oil and ngl production increased 17% over 2005 as a result of increased natural gas liquids ("ngl") production that was associated with the increased natural gas production from Edson and Ferrier and the discovery of new oil pools at Edson and Ferrier.

### Revenue

| Years ended December 31,                          | 2006             | 2005             |
|---|------------------|------------------|
| <b>Revenue</b> (thousands)                        |                  |                  |
| Light oil and ngl                                 | \$ 21,796        | \$ 17,738        |
| Natural gas                                       | 71,017           | 69,794           |
| <b>Total</b>                                      | <b>\$ 92,813</b> | <b>\$ 87,532</b> |
| <b>Crew average prices</b>                        |                  |                  |
| Light oil and ngl (\$/bbl)                        | \$ 63.47         | \$ 60.65         |
| Natural gas (\$/mcf)                              | \$ 6.82          | \$ 9.32          |
| Oil equivalent (\$/boe)                           | \$ 44.65         | \$ 56.81         |
| <b>Benchmark pricing</b>                          |                  |                  |
| Natural gas – AECO C daily index (Cdn \$/mcf)     | \$ 6.60          | \$ 8.84          |
| Oil and ngl – Light Sweet @ Edmonton (Cdn \$/bbl) | \$ 72.81         | \$ 68.67         |

The Company's 2006 revenue increased 6% as a result of the Company's 35% increase in production offset by a 21% decline in the average commodity price received. Crew's 27% decline in the natural gas price and 5% increase in oil and ngl prices was consistent with the Company's benchmark pricing for 2006.

## Royalties

(thousands except per BOE)

| Years ended December 31, | 2006      | 2005      |
|--------------------------|-----------|-----------|
| Royalties                | \$ 19,580 | \$ 17,594 |
| Per BOE                  | \$ 9.42   | \$ 11.42  |
| Percentage of revenue    | 21.1%     | 20.1%     |

Royalty rates as a percentage of revenue increased in 2006 due to a reduction in the amount of deep gas royalty holidays received in 2006 compared to 2005. In addition, oil and ngl royalties increased in 2006 due to new production at Edson and Ferrier and the expiry of benefits received from government programs reducing oil royalties on production from the Laprise, British Columbia area. Crew expects royalties as a percentage of revenue to remain consistent in 2007 with the amounts incurred in 2006.

## Operating Costs

(thousands except per BOE)

| Years ended December 31, | 2006      | 2005     |
|--------------------------|-----------|----------|
| Operating costs          | \$ 11,221 | \$ 6,815 |
| Per BOE                  | \$ 5.40   | \$ 4.42  |

Crew's 2006 increase in operating costs was a result of inflationary pressures experienced throughout all of the Company's operations and increased production of higher cost natural gas production at Inga. Increased light oil production with higher per unit operating costs at Edson and Ferrier, also contributed to the increase in total and per unit operating costs in 2006. The Company expects operating costs to range between \$5.75 and \$6.00 in 2007.

## Transportation

(thousands except per BOE)

| Years ended December 31, | 2006     | 2005     |
|--------------------------|----------|----------|
| Transportation costs     | \$ 1,979 | \$ 1,808 |
| Per BOE                  | \$ 0.95  | \$ 1.17  |

The 2006 decrease in per unit transportation costs is a result of increased oil production from the Edson and Ferrier areas combined with the decrease in Laprise production which has a substantially higher clean oil trucking cost. The Company expects 2007 transportation costs on a per unit to remain consistent with 2006.

## Operating Netbacks

The following table summarizes Crew's netbacks on a per unit basis for 2006 compared with 2005:

| Year ended December 31, | 2006                    |                         |                   | 2005                    |                         |                   |
|-------------------------|-------------------------|-------------------------|-------------------|-------------------------|-------------------------|-------------------|
|                         | Oil and ngl<br>(\$/bbl) | Natural Gas<br>(\$/mcf) | Total<br>(\$/boe) | Oil and ngl<br>(\$/bbl) | Natural Gas<br>(\$/mcf) | Total<br>(\$/boe) |
| Revenue                 | \$ 63.47                | \$ 6.82                 | \$ 44.65          | \$ 60.65                | \$ 9.32                 | \$ 56.81          |
| Royalties               | (13.53)                 | (1.43)                  | (9.42)            | (11.04)                 | (1.92)                  | (11.42)           |
| Operating costs         | (5.26)                  | (0.90)                  | (5.40)            | (4.70)                  | (0.73)                  | (4.42)            |
| Transportation costs    | (1.32)                  | (0.15)                  | (0.95)            | (2.62)                  | (0.14)                  | (1.17)            |
| Operating netbacks      | \$ 43.36                | \$ 4.34                 | \$ 28.88          | \$ 42.29                | \$ 6.53                 | \$ 39.80          |

## General and Administrative

(thousands)

| Years ended December 31,            | 2006     | 2005     |
|-------------------------------------|----------|----------|
| Gross costs                         | \$ 5,413 | \$ 4,266 |
| Operator's recoveries               | (2,038)  | (1,735)  |
| Capitalized costs                   | (1,687)  | (1,265)  |
| General and administrative expenses | \$ 1,688 | \$ 1,266 |
| Per boe                             | \$ 0.81  | \$ 0.82  |

General and administrative expenses increased in 2006 as a result of the addition of new staff to support the Company's increased size and activity. General and administrative costs per boe have decreased slightly in 2006 as a result of the Company's increased production. The Company expects 2007 general and administrative costs to average between \$0.80 and \$1.00 per boe.

## Interest

For the year ended December 31, 2006, interest expense totalled \$1.7 million or \$0.78 per boe compared to \$0.4 million or \$0.21 per boe in 2005. In 2006, higher interest rates combined with higher average debt levels used to finance the Company's drilling and acquisition program have increased the Company's interest expense.

## Stock-Based Compensation

(thousands)

| Years ended December 31,           | 2006     | 2005     |
|------------------------------------|----------|----------|
| Gross costs                        | \$ 4,462 | \$ 1,996 |
| Capitalized costs                  | (2,231)  | (998)    |
| Total net stock-based compensation | \$ 2,231 | \$ 998   |

The Company's stock-based compensation expense has increased in 2006 as a result of increased staff levels and the issuance of stock options in late 2005 and 2006.

## Depletion, Depreciation and Accretion

The provision for depletion, depreciation and accretion for 2006 was \$41.5 million or \$19.94 per boe compared to the provision for 2005 of \$19.7 million or \$12.78 per boe. Per unit depletion has increased in 2006 due to negative revisions to the reserve estimates recognized at the end of 2005 and an increase in the average cost of adding proved reserves in 2006. This increase has resulted from inflationary pressures experienced throughout the industry, the addition of higher priced proven reserves acquired through the acquisition of a private company and the acquisition and construction of facilities in order to maintain low operating costs and to ensure processing capacity for the Company's natural gas production.

The Company performed a ceiling test calculation at December 31, 2006 in accordance with the CICA full-cost accounting guidelines. Based on the calculation, the carrying values of the Company's petroleum and natural gas properties and equipment were recoverable as they are less than the sum of the undiscounted cash flows of proved reserves.

## Taxes

The future income tax expense for 2006 was \$2.2 million (16.9% effective rate) compared to \$14.2 million (36.3% effective rate) in 2005. The Company's current year provision was impacted by the recovery of \$3.3 million relating to the federal and provincial income tax rate reduction enacted during the year. The Company did not incur any capital tax expense in 2006 as the tax was eliminated effective January 1, 2006. In 2005, the Company's capital tax expense was \$156,000.

A summary of the Company's estimated income tax pools at December 31, 2006 is outlined below:

| <i>(thousands)</i>                               | <b>Dec. 31, 2006</b> | Dec. 31, 2005 |
|--|----------------------|---------------|
| Cumulative Canadian Exploration Expense          | <b>\$ 41,599</b>     | \$ 8,165      |
| Cumulative Canadian Development Expense          | <b>49,469</b>        | 25,132        |
| Cumulative Canadian Oil and Gas Property Expense | <b>47,713</b>        | 28,853        |
| Undepreciated Capital Cost                       | <b>50,560</b>        | 36,233        |
| Share issue costs                                | <b>3,493</b>         | 2,398         |
| Non-capital loss                                 | <b>5,493</b>         | 630           |
|  | <b>\$ 198,327</b>    | \$ 101,411    |

Due to the income tax deductions available from these tax pools and the level of the Company's on-going capital expenditure program, Crew does not expect to incur current income taxes in 2007. Crew's current income tax horizon after 2007 will be affected by future production volumes, capital expenditures, and the oil and natural gas price environment at that time.

#### **Capital Expenditures and Acquisitions**

Total exploration and development expenditures for 2006 were \$123.9 million compared to \$101.7 million for the same period in 2005. The expenditures are detailed below:

| <i>(thousands)</i>                  | <b>2006</b>       | 2005       |
|-------------------------------------|-------------------|------------|
| Years ended December 31,            |                   |            |
| Land                                | <b>\$ 8,024</b>   | \$ 13,849  |
| Seismic                             | <b>3,567</b>      | 5,091      |
| Drilling and completions            | <b>80,922</b>     | 56,791     |
| Facilities, equipment and pipelines | <b>29,347</b>     | 24,412     |
| Other                               | <b>1,999</b>      | 1,555      |
| Total exploration and development   | <b>123,859</b>    | 101,698    |
| Property and facility acquisitions  | <b>16,196</b>     | -          |
| Corporate acquisition               | <b>71,151</b>     | -          |
| Total                               | <b>\$ 211,206</b> | \$ 101,698 |

The Company continued to follow its strategy of, where possible, owning and controlling its processing and gathering facilities. As a result, in 2006 the Company spent 24% of its total capital expenditures on acquiring and constructing gas processing and compression equipment at Edson, Ferrier and Inga as well as adding extensive gas gathering systems at Edson, Ferrier and Plain Lake. These additions included a January 2006 purchase of a 15% working interest in a 90 mmcf/d gas facility at Edson for \$12.5 million. The Company has continued to add to its infrastructure in order to maintain low operating costs and ensure processing capacity for its growing natural gas production in its core areas. Spending on land and seismic was lower in 2006 compared to 2005 as the Company curtailed spending as a result of the excessive inflationary pressures that were encountered.

In November, the Company acquired all the issued and outstanding shares of a private oil and gas company in exchange for Common Shares of Crew. The operations acquired were focused in Crew's Ferrier, Alberta operating area and included approximately 1,000 boe per day of production at closing. Details of the purchase price are included in note two to the Company's December 31, 2006 consolidated financial statements.

The Company's 2006 drilling program continued to focus on development of its core areas complemented by exploration projects that have the potential to add significant production and reserves. The number of wells drilled decreased slightly in 2006 as the Company focused more of its drilling on deeper, higher cost natural gas



wells in its Ferrier and Edson areas. Drilling deeper wells combined with industry wide cost inflation resulted in higher per well and total drilling and completion expenditures.

|   | 2006  |           | 2005  |           |
|---|-------|-----------|-------|-----------|
|   | Gross | Net       | Gross | Net       |
| Natural Gas wells                         | 47    | 40.7      | 50    | 42.9      |
| Oil wells                                 | 5     | 5.0       | 3     | 3.0       |
| Dry and abandoned wells                   | 2     | 1.5       | 7     | 7.0       |
| Total                                     | 54    | 47.2      | 60    | 52.9      |
| Success Rate                              | 96%   | 97%       | 88%   | 87%       |
| Drilling and completion costs (thousands) |       | \$ 80,922 |       | \$ 56,791 |
| Cost per net well (thousands)             |       | \$ 1,714  |       | \$ 1,074  |

The Company's Board of Directors has approved a \$134 million exploration and development budget for 2007.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Funding

Funding for the Company's 2006 capital expenditure program was provided by a combination of bank debt, equity financing and cash flow from on-going operations.

The Company currently has a \$120 million demand operating facility with a Canadian Chartered bank. Crew is currently working with its lender to convert its existing credit facility to a syndicated, 364 day revolving facility with a one year repayment term. The Company expects the facility to have a borrowing base in excess of the existing \$120 million and will consider increasing the amount of the facility when the lender's evaluation of the Company's December 31, 2006 reserve evaluation is complete. At December 31, 2006 Crew had drawings of \$41.2 million on its bank facility which leaves the Company with significant unused credit capacity available to help fund the Company's working capital deficit and future capital expenditures.

The capital intensive nature of Crew's activities generally results in the Company carrying a working capital deficit. The Company maintains sufficient unused bank credit capacity to satisfy such working capital deficiencies. At December 31, 2006, the Company's working capital deficiency totaled \$17.7 million which, when combined with the drawings on its bank line, represented 49% of its currently available bank credit capacity.

The Company will continue to fund its on-going operations from a combination of cash flow, debt, and equity financings as needed. As the majority of our on-going capital expenditure program is directed to the further growth of reserves and production volumes, Crew is readily able to adjust its budgeted capital expenditures should the need arise. Currently, Crew has considerable financial strength through its cash flows and credit capacity to fund its budgeted capital expenditure program for 2007.

### Commitments

Throughout the course of its on-going business the Company enters into various contractual obligations such as purchase of services, royalty agreements, operating agreements, processing agreements, right of way agreements and lease obligations for office space and automotive equipment. All such contractual obligations reflect market conditions prevailing at the time of contract and none are with related parties. The Company believes it has adequate sources of capital to fund all contractual obligations as they come due. The following table lists the Company's obligations with a fixed term.

| Payments due (\$ thousands)    | Total        | 2007         | 2008       |
|--------------------------------|--------------|--------------|------------|
| Operating Leases               | 600          | 600          | –          |
| Firm transportation agreements | 617          | 475          | 142        |
| Exploration and development    | 7,600        | 7,600        | –          |
| <b>Total</b>                   | <b>8,817</b> | <b>8,675</b> | <b>142</b> |

The exploration and development commitment relates to the Company's obligation under its 2006 issue of common shares on a flow-through basis for income tax purposes.

### Share Capital

Crew is authorized to issue an unlimited number of common shares and up to 1,881,000 Class C, non-voting performance shares ("performance shares"). The floating stock option plan allows the Company to grant on a combined basis, options and performance shares for up to 10% of its outstanding common shares. The common shares trade on the Toronto Stock Exchange under the symbol "CR".

The following table summarizes the Company's outstanding share capital:

| (thousands)                      | Dec. 31, 2006 | Dec. 31, 2005 |
|----------------------------------|---------------|---------------|
| Common shares                    | 41,440        | 33,282        |
| Class C performance shares       | 402           | 787           |
| Options to acquire Common Shares | 2,019         | 1,848         |
| Share trading activity (CR)      |               |               |
| High (\$)                        | 19.50         | 20.56         |
| Low (\$)                         | 10.52         | 7.91          |
| Close (\$)                       | 12.30         | 18.70         |
| Average volume traded per day    | 132,991       | 135,490       |

In August 2006, the Company issued 2,426,300 Common Shares for gross proceeds of \$40.0 million. Of the shares issued, 759,500 shares were issued on a flow-through basis under which the Company has committed to renounce \$15.0 million of certain Canadian tax deductions to the purchasers. As at December 31, 2006, the Company had spent \$7.4 million of its commitment and intends to spend the remainder in 2007.

In November 2006, the Company issued 5,318,998 Common Shares in exchange for 100% of the shares of Gladius Energy Inc., a private oil and gas company. This acquisition has been accounted for using the purchase method and details are included in note 2 to the Company's December 31, 2006 consolidated financial statements.

As at March 7, 2007, 41,445,658 Common Shares and 402,000 Class C performance shares of the Company were outstanding along with 1,945,000 options to acquire Common Shares of the Company.

### 2007 OUTLOOK

In 2007 and beyond, Crew will focus on operations related to developing its long-life gas assets in Ferrier and Edson, Alberta and continue to develop areas with Company owned infrastructure and dominant land positions. Our asset mix has shifted from a shallow eastern Alberta focus to a west-central Alberta focus which now holds 85% of the Company's reserves. We believe there is a significant opportunity on our land base to materially add production and reserves through improvements in drilling, evaluation and stimulation applications. This has been and will continue to be the focus of our operations in the future.

Crew exited 2006 in a strong financial position with \$58.9 million of debt representing 0.9 years of annualized fourth quarter funds from operations. This affords the Company financial flexibility in a time when the industry in general is experiencing higher debt to funds from operations ratios. Crew's focus in 2007 will be to improve its capital efficiency by continuing to control operating costs and reducing on-stream costs. The Company has seen some early signs of capital costs decreasing although more substantive reductions are necessary to restore the economics to all of the Company's areas of operations.

Crew's Board of Directors have approved an exploration and development budget for 2007 of \$134 million which will be funded by the Company's bank credit facility and cash flow generated from on-going operations. Crew plans to drill 65 wells in 2007 with a higher concentration of activity in west central Alberta at Ferrier and Edson as well as northeastern British Columbia.

Construction delays at Hanlan and Edson and regulatory delays at Ferrier have slowed the rate of production coming on-stream. These delays are not anticipated to affect 2007 exit production rates which are forecasted to be 9,500 to 10,000 boe per day and are expected to result in average production of between 8,000 and 8,500 boe per day. Crew is optimistic about the growth prospects being generated within the Company and look forward to delivering per share growth in production, funds from operations and earnings in 2007.

#### ADDITIONAL DISCLOSURES

##### Fourth Quarter and Annual Review

The following table summarizes Crew's key quarterly financial results in 2006 and 2005:

|   | Three months Ended |                   |                  |                  |                  |                   |                  |                  |
|---|--------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
|   | Dec. 31,<br>2006   | Sept. 30,<br>2006 | June 30,<br>2006 | Mar. 31,<br>2006 | Dec. 31,<br>2005 | Sept. 30,<br>2005 | June 30,<br>2005 | Mar. 31,<br>2005 |
| <i>(\$ thousands, except per share amounts)</i> |                    |                   |                  |                  |                  |                   |                  |                  |
| Petroleum and natural gas sales                 | 26,590             | 22,267            | 19,164           | 24,792           | 30,520           | 22,304            | 18,673           | 16,035           |
| Funds from operations                           | 16,705             | 14,245            | 10,645           | 15,063           | 21,084           | 15,423            | 12,521           | 10,463           |
| Per share – basic                               | 0.43               | 0.41              | 0.32             | 0.45             | 0.69             | 0.56              | 0.47             | 0.39             |
| – diluted                                       | 0.43               | 0.40              | 0.31             | 0.44             | 0.65             | 0.48              | 0.40             | 0.33             |
| Net income                                      | 1,796              | 1,633             | 3,753            | 3,594            | 8,746            | 6,328             | 5,279            | 4,288            |
| Per share – basic                               | 0.05               | 0.05              | 0.11             | 0.11             | 0.28             | 0.23              | 0.20             | 0.16             |
| – diluted                                       | 0.05               | 0.05              | 0.11             | 0.11             | 0.27             | 0.20              | 0.17             | 0.14             |
| Total daily production (boe/d)                  | 6,227              | 5,768             | 5,049            | 5,731            | 4,730            | 4,093             | 4,217            | 3,833            |

The Company has increased its production since its inception through development oil and natural gas drilling on its core properties as well as exploration drilling on existing and newly acquired undeveloped lands. In the fourth quarter of 2006, Crew closed its first significant acquisition of a private oil and gas company with production of approximately 1,000 boe per day at closing.

Production averaged 6,227 boe per day in the fourth quarter of 2006, a 32% increase over the fourth quarter of 2005's average of 4,730 boe per day. Offsetting this production increase was a 34% decrease in commodity prices from the fourth quarter of 2005 to the same period in 2006. The decrease in commodity pricing coupled with an increase in costs, mainly due to inflationary pressures, has resulted in lower funds from operations and net income.

The following table summarizes Crew's key financial results over the past three years:

*(\$ thousands, except per share amounts)*

| Years ended December 31,          | 2006    | 2005    | 2004   |
|-----------------------------------|---------|---------|--------|
| Petroleum and natural gas sales   | 92,813  | 87,532  | 37,702 |
| Funds from operations             | 56,658  | 59,491  | 24,076 |
| Per share – basic                 | 1.62    | 2.11    | 0.97   |
| – diluted                         | 1.59    | 1.86    | 0.84   |
| Net income                        | 10,776  | 24,641  | 8,948  |
| Per share – basic                 | 0.31    | 0.87    | 0.36   |
| – diluted                         | 0.30    | 0.77    | 0.31   |
| Daily production (boe/d)          | 5,695   | 4,221   | 2,444  |
| Crew average sales price (\$/boe) | 44.65   | 56.81   | 42.15  |
| Total assets                      | 375,281 | 197,604 | 95,538 |
| Working capital deficiency        | 17,714  | 6,575   | 3,882  |
| Bank loan                         | 41,157  | –       | –      |
| Total other long-term liabilities | 50,037  | 26,359  | 7,659  |

Significant factors and trends that have impacted the Company's results during the past three fiscal years including the following:

- Revenue was directly impacted by the Company's ability to replace production and add incremental production through its on-going capital expenditure program.
- Production was impacted in the second quarter of the year by the limited ability to complete field operations and to transport oil and ngl production to market during spring break-up. The Company's Laprise production is shut-in for eight to ten weeks during this period.
- Revenue and royalties were significantly impacted by underlying commodity prices. To date the Company has not used derivative contracts or forward sales contracts to reduce the exposure to commodity price fluctuations.
- The Company's operating costs and capital expenditures were subject to inflationary pressures brought on by increasing demand for services and supplies within the Canadian oil and gas industry.
- In the fourth quarter of 2006 the Company acquired a private oil and gas company with production of approximately 1,000 boe per day at closing.

### Changes in Accounting Policies

#### *Financial Instruments*

The Accounting Standards Board has issued three sections on financial instruments; Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges. These three sections will apply to Crew's interim and annual financial statements effective January 1, 2007. As a result of the new standards, the Company will not elect to use hedge accounting for periods beginning after January 1, 2007 and will mark-to-market any commodity derivative contracts that it may enter in the future.

### **Application of Critical Accounting Estimates**

Crew's significant accounting policies are disclosed in note one to the December 31, 2006 consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These accounting policies are discussed below and are included to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. Crew's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

#### *Proved Oil and Gas Reserves*

Proved oil and gas reserves, as defined by the Canadian Securities Administrators in National Instrument 51-101 with reference to the Canadian Oil and Gas Evaluation Handbook, are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

An independent reserve evaluator using all available geological and reservoir data as well as historical production data has prepared Crew's oil and gas reserve estimate. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's development plans. The effect of changes in proved oil and gas reserves on the financial results and position of the Company is described below under the heading "Full-Cost Accounting and Full-Cost Accounting Ceiling Test".

#### *Full-Cost Accounting*

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized. The capitalized costs are depleted and depreciated using the unit-of-production method based on estimated proved reserves. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depletion and depreciation. A downward revision in a reserve estimate could result in a higher depletion and depreciation charge to earnings. In addition, if net capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserve estimates (see Full-Cost Accounting Ceiling Test) the excess must be written off as an expense charged against earnings. In the event of property disposition, proceeds are normally deducted from the full cost pool without recognition of gain or loss unless there is a change in the depletion rate of 20 percent or greater.

#### *Unproved Properties*

Certain costs related to unproved properties are excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.

#### *Full Cost Accounting Ceiling Test*

Petroleum and natural gas assets are evaluated in each reporting period to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre.



The carrying amounts are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using forecast product prices and costs and are discounted using a risk-free interest rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment loss would be charged as additional depletion and depreciation expense.

#### *Goodwill*

In accordance with Section 1581 of the CICA handbook, goodwill must be recorded on a business combination when the total purchase consideration exceeds the fair value of the net identifiable assets and liabilities of the acquired entity. The goodwill balance is not amortized, however, must be assessed for impairment at least annually. Impairment is determined based on the fair value of the reporting entity compared to its book value. Any impairment must be charged to net income or loss in the period the impairment occurs. In order to estimate fair values of the net identifiable assets and liabilities of the acquired entity, management makes various assumptions, including commodity prices and discount rates. Differences from these estimates may impact the future financial statements of the Company.

#### *Asset Retirement Obligations*

The fair value of an asset's retirement obligation must be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The present value of the estimated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. The depletion and depreciation of the capitalized asset retirement cost is determined on a basis consistent with depletion and depreciation. With the passage of time, accretion will increase the carrying amount of the asset retirement obligation. The actual cost and timing of the Company's asset retirement expenditures may vary significantly from management's current estimates.

#### *Income Taxes*

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ from that estimated and recorded by management.

#### **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 the end of the period covered by the annual filings that 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 Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that 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 would 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 identified certain weaknesses in internal controls over financial reporting. Due to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties. The CEO and the CFO have been with the Company since its inception and have extensive industry experience. They are very aware of and actively involved in Crew's on-going operating activities. While there is an inherent weakness in internal controls over financial reporting due to the limited number of staff and the resultant lack of segregation of incompatible duties, the capabilities and involvement of the CEO and CFO serve to mitigate this structural weakness. Their efforts, together with the active involvement of the board of directors, are directed to minimize the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. The Company has plans to hire additional staff in the next year which will work to mitigate this weakness.

**Additional information relating to Crew, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).**

March 7, 2007

## MANAGEMENT'S REPORT

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying consolidated financial statements of Crew Energy Inc. Financial and operating information presented throughout this report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP were appointed by the Company's Board of Directors to conduct an audit of the consolidated financial statements. Their examination included a review and evaluation of Crew's internal control systems and included such test and procedures, as they considered necessary, to provide a reasonable assurance that the consolidated financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

"signed"

Dale O. Shwed  
President and CEO

"signed"

John G. Leach  
Vice-President, Finance and CFO

March 7, 2007

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Crew Energy Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"signed"

KPMG LLP  
Chartered Accountants

Calgary, Canada  
March 7, 2007

## CONSOLIDATED BALANCE SHEETS

(thousands)

| As at December 31,                          | 2006              | 2005              |
|---|-------------------|-------------------|
| <b>ASSETS</b>                               |                   |                   |
| Current Assets:                             |                   |                   |
| Cash and cash equivalents                   | \$ -              | \$ 16,302         |
| Accounts receivable                         | 22,063            | 18,874            |
|   | 22,063            | 35,176            |
| Property, plant and equipment (note 3)      | 338,660           | 162,428           |
| Goodwill (note 2)                           | 14,558            | -                 |
|   | <b>\$ 375,281</b> | <b>\$ 197,604</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                   |                   |
| Current Liabilities:                        |                   |                   |
| Accounts payable and accrued liabilities    | \$ 39,777         | \$ 41,751         |
| Bank loan (note 4)                          | 41,157            | -                 |
|   | 80,934            | 41,751            |
| Asset retirement obligations (note 5)       | 10,485            | 7,182             |
| Future income taxes (note 7)                | 39,552            | 19,177            |
| <b>SHAREHOLDERS' EQUITY</b>                 |                   |                   |
| Share capital (note 6)                      | 192,814           | 92,653            |
| Contributed surplus (note 6)                | 5,566             | 1,687             |
| Retained earnings                           | 45,930            | 35,154            |
|   | 244,310           | 129,494           |
| Commitments (note 9)                        |                   |                   |
|   | <b>\$ 375,281</b> | <b>\$ 197,604</b> |

See accompanying notes to the consolidated financial statements.

On Behalf of the Board of Directors:

"signed"  
John Thomson, CA  
Director

"signed"  
Dennis Nerland  
Director



## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

*(thousands, except per share amounts)*

| Years ended December 31,              | 2006             | 2005             |
|---------------------------------------|------------------|------------------|
| <b>Revenue</b>                        |                  |                  |
| Petroleum and natural gas sales       | \$ 92,813        | \$ 87,532        |
| Royalties                             | (19,580)         | (17,594)         |
|                                       | <b>73,233</b>    | <b>69,938</b>    |
| <b>Expenses</b>                       |                  |                  |
| Operating                             | 11,221           | 6,815            |
| Transportation                        | 1,979            | 1,808            |
| General and administrative            | 1,687            | 1,266            |
| Interest                              | 1,688            | 402              |
| Stock-based compensation              | 2,231            | 998              |
| Depletion, depreciation and accretion | 41,458           | 19,688           |
|                                       | <b>60,264</b>    | <b>30,977</b>    |
| Income before income taxes            | <b>12,969</b>    | <b>38,961</b>    |
| Income taxes (note 7)                 |                  |                  |
| Current                               | -                | 156              |
| Future                                | 2,193            | 14,164           |
|                                       | <b>2,193</b>     | <b>14,320</b>    |
| <b>Net income</b>                     | <b>10,776</b>    | <b>24,641</b>    |
| Retained earnings, beginning of year  | 35,154           | 10,513           |
| <b>Retained earnings, end of year</b> | <b>\$ 45,930</b> | <b>\$ 35,154</b> |
| Net Income per share (note 6(e))      |                  |                  |
| Basic                                 | \$ 0.31          | \$ 0.87          |
| Diluted                               | \$ 0.30          | \$ 0.77          |

*See accompanying notes to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands)

| Years ended December 31,                     | 2006      | 2005      |
|--|-----------|-----------|
| <b>Cash provided by (used in):</b>           |           |           |
| <b>Operating activities:</b>                 |           |           |
| Net income                                   | \$ 10,776 | \$ 24,641 |
| Items not involving cash:                    |           |           |
| Depletion, depreciation & accretion          | 41,458    | 19,688    |
| Stock-based compensation                     | 2,231     | 998       |
| Future income taxes                          | 2,193     | 14,164    |
| Asset retirement expenditures                | (448)     | (99)      |
| Change in non-cash working capital           | 1,245     | (2,342)   |
|  | 57,455    | 57,050    |
| <b>Financing activities:</b>                 |           |           |
| Increase in bank loan                        | 36,686    | –         |
| Issue of common shares                       | 40,841    | 41,594    |
| Share issue costs                            | (2,202)   | (1,940)   |
| Re-purchase of common shares                 | –         | (41)      |
|  | 75,325    | 39,613    |
| <b>Investing activities:</b>                 |           |           |
| Exploration and development                  | (140,055) | (101,698) |
| Business acquisition (note 2)                | (346)     | –         |
| Change in non-cash working capital           | (8,681)   | 14,268    |
|  | (149,082) | (87,430)  |
| Change in cash and cash equivalents          | (16,302)  | 9,233     |
| Cash and cash equivalents, beginning of year | 16,302    | 7,069     |
| Cash and cash equivalents, end of year       | \$ –      | \$ 16,302 |

See accompanying notes to the consolidated financial statements.

*For the years ended December 31, 2006 and December 31, 2005  
(Tabular amounts in thousands)*

**1. SIGNIFICANT  
ACCOUNTING POLICIES:**

The consolidated financial statements of Crew Energy Inc. ("Crew" or the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles. Since the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made with careful judgement. Specifically, the amounts recorded for depletion and depreciation of property, plant and equipment and the provision for asset retirement obligations and abandonment costs are based on estimates. The ceiling test is based on estimates of reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of such changes in such estimates in future periods could be significant. In the opinion of management, these financial statements have been properly prepared in accordance with Canadian generally accepted accounting principles within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

**(a) Principles of consolidation:**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Crew Resources Inc., Gladius Energy Inc. ("Gladius") and a partnership, Crew Energy Partnership. On January 17, 2007, Gladius was amalgamated into Crew Energy Inc.

**(b) Cash and cash equivalents:**

Cash and cash equivalents include monies on deposit and highly liquid short-term investments accounted for at cost and having a maturity date of not more than 90 days.

**(c) Petroleum and natural gas properties:**

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized. Capitalized costs include land acquisition costs, geological and geophysical expenses, cost of drilling both productive and non-productive wells, production facilities, the fair value of asset retirement obligations and related overhead expenses.

Capitalized costs, excluding costs relating to unproved properties, are depleted using the unit-of-production method based on estimated proved reserves of petroleum and natural gas before royalties determined using forecast product prices and as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil. Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless such a sale would alter depletion by more than 20%.

The cost of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically for impairment. When proved reserves are assigned or the property is considered impaired the costs of the property or the amount of impairment is added to the costs subject to depletion.

Petroleum and natural gas assets are evaluated in each reporting period (the "ceiling test") to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of

the properties in the cost centre. The carrying amounts are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using forecast product prices and costs and are discounted using a risk-free interest rate.

**(d) Goodwill**

Goodwill is the residual amount that results when the purchase price of a business exceeds the fair value of the net identifiable assets and liabilities acquired. Goodwill is stated at cost and is not amortized. The goodwill balance is assessed for impairment each year end or more frequently if events or changes in circumstances indicate that the asset may be impaired. The test for impairment is conducted by comparing the book value to the fair value of the reporting entity. Impairment is charged to income in the period it occurs.

**(e) Interest in joint operations:**

A portion of the Company's petroleum and natural gas exploration and development activity is conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

**(f) Asset retirement obligations:**

The fair value of the liability for the Company's asset retirement obligation is recorded in the period in which it is incurred, discounted to its present value using Crew's credit adjusted risk-free interest rate and the corresponding amount is recognized by increasing the carrying amount of the related long-lived asset. The liability is accreted each period, and the capitalized cost is depreciated over the useful life of the related asset. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would result in an increase or decrease to the asset retirement obligation. Actual costs incurred upon settlement of the asset retirement obligation are charged against the asset retirement obligation.

**(g) Revenue recognition:**

Revenue from the sale of petroleum and natural gas are recorded when title passes to a third party.

**(h) Financial instruments:**

From time to time, Crew may use derivative contracts or other financial instruments to mitigate its exposure to fluctuations in petroleum and natural gas prices. Financial instruments are recorded on a mark-to-market basis with the resulting gains or losses taken into income. Premiums paid or received upon entering into financial instruments are deferred and amortized to earnings over the term of the contract. Financial instruments are not used for speculative purposes.

**(i) Flow-through shares:**

Flow-through shares are issued at a fixed price and the proceeds are used to fund qualifying exploration expenditures within a defined period. The expenditures funded by flow-through arrangements are renounced to investors in accordance with income tax legislation. Share capital is reduced and future income tax liability is increased by the total estimated future income tax costs of the renounced income tax deductions in the period of renouncement.

**(j) Per share amounts:**

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury-stock method,

which assumes that any proceeds obtained on exercise of options, warrants and performance shares would be used to purchase common shares at the average market price. The weighted average number of shares outstanding is then adjusted by the net change.

**(k) Stock-based compensation plans:**

The Company accounts for its stock-based compensation programs including stock options, warrants and performance shares, using the fair value method. Under this method, compensation expense related to these programs is recorded in the consolidated statement of operations over the vesting period with a corresponding increase in contributed surplus. Consideration paid on exercise of stock options is credited to share capital.

**(l) Income taxes:**

The Company uses the asset and liability method of accounting for future income taxes. The future income tax asset or liability is calculated assuming the financial assets and liabilities will be settled at their carrying amount. This amount is compared to the income tax assets and the difference is multiplied by the substantively enacted income tax rate when the temporary differences are expected to reverse.

**2. BUSINESS ACQUISITION:**

On November 21, 2006, the Company acquired all of the issued and outstanding common shares of Gladius Energy Inc., a private oil and gas company. Under the terms of the agreement, the purchase price paid by Crew was 0.47875 of a Crew share for each Gladius share which resulted in the issuance of 5,318,998 shares of Crew to the former Gladius shareholders. The operating results were included in the accounts of the Company from November 21, 2006.

The Gladius acquisition has been accounted for using the purchase method of accounting as follows:

|                                   | Amount    |
|-----------------------------------|-----------|
| Consideration                     |           |
| Common shares issued              | \$ 63,618 |
| Transaction costs                 | 346       |
|                                   | \$ 63,964 |
| Net assets received at fair value |           |
| Accounts receivable               | \$ 1,817  |
| Property and equipment            | 71,151    |
| Goodwill                          | 14,558    |
| Accounts payable                  | (4,090)   |
| Bank loan                         | (4,471)   |
| Asset retirement obligations      | (443)     |
| Future income taxes               | (14,558)  |
|                                   | \$ 63,964 |

The above amounts are estimates made by management based on currently available information. Amendments may be made to the purchase equation as the cost estimates and balances are finalized.



3. PROPERTY, PLANT  
AND EQUIPMENT:

| December 31, 2006   | Cost              | Accumulated depletion & depreciation | Net book value    |
|---|-------------------|--------------------------------------|-------------------|
| <b>Petroleum and natural gas properties and equipment</b> | <b>\$ 409,608</b> | <b>\$ 70,948</b>                     | <b>\$ 338,660</b> |

| December 31, 2005   | Cost              | Accumulated depletion & depreciation | Net book value    |
|---|-------------------|--------------------------------------|-------------------|
| <b>Petroleum and natural gas properties and equipment</b> | <b>\$ 192,573</b> | <b>\$ 30,145</b>                     | <b>\$ 162,428</b> |

The cost of unproved properties at December 31, 2006 of \$26,665,000 (2005 – \$21,570,000) was excluded from the depletion calculation. Estimated future development costs associated with the development of the Company's proved reserves of \$25,266,000 (2005 – \$12,054,000) have been included in the depletion calculation and estimated salvage values of \$15,840,000 (2005 – \$11,811,000) have been excluded from the depletion calculation.

The following corporate expenses related to exploration and development activities were capitalized.

| Years ended December 31,                                       | 2006            | 2005            |
|--|-----------------|-----------------|
| General and administrative expense                             | \$ 1,688        | \$ 1,265        |
| Stock-based compensation expense including future income taxes | 3,176           | 998             |
|  | <b>\$ 4,864</b> | <b>\$ 2,263</b> |

Crew performed a ceiling test as at December 31, 2006. Based on the calculation, the carrying values are less than the sum of the undiscounted cash flows of the proved reserves based on the following benchmark and company prices.

| Year | WTI Oil (\$US/Bbl) | F/X Rate (\$Cdn/\$US) | Edmonton Oil (\$/bbl) | Company Liquids (\$/bbl) | AECO Gas (\$/mmbtu) | Company Gas (\$/mcf) |
|------|--------------------|-----------------------|-----------------------|--------------------------|---------------------|----------------------|
| 2007 | \$62.00            | 0.87                  | \$70.25               | \$54.58                  | \$7.20              | \$7.27               |
| 2008 | \$60.00            | 0.87                  | \$68.00               | \$50.56                  | \$7.45              | \$7.56               |
| 2009 | \$58.00            | 0.87                  | \$65.75               | \$48.20                  | \$7.75              | \$7.89               |
| 2010 | \$57.00            | 0.87                  | \$64.50               | \$46.68                  | \$7.80              | \$7.94               |
| 2011 | \$57.00            | 0.87                  | \$64.50               | \$46.32                  | \$7.85              | \$7.99               |
| 2012 | \$57.50            | 0.87                  | \$65.00               | \$46.38                  | \$8.15              | \$8.31               |
| 2013 | \$58.50            | 0.87                  | \$66.25               | \$47.03                  | \$8.30              | \$8.49               |
| 2014 | \$59.75            | 0.87                  | \$67.75               | \$47.96                  | \$8.50              | \$8.71               |
| 2015 | \$61.00            | 0.87                  | \$69.00               | \$48.77                  | \$8.70              | \$8.91               |
| 2016 | \$62.25            | 0.87                  | \$70.50               | \$49.76                  | \$8.90              | \$9.05               |
| 2017 | \$63.50            | 0.87                  | \$71.75               | \$50.45                  | \$9.10              | \$9.20               |

Annual escalation thereafter +2.0%/yr.

#### 4. BANK LOAN:

Crew has a \$120 million demand operating facility with a Canadian chartered bank, which is available by way of prime rate based loans or bankers acceptances. Advances under the facility bear interest at the bank's prime lending rate or bankers' acceptance rates plus scheduled margins. The facility revolves at the Company's discretion, is repayable on demand of the bank and is secured by a first floating charge debenture over all of Crew's oil and gas assets.

#### 5. ASSET RETIREMENT OBLIGATIONS:

Total future asset retirement obligations were determined by management and were based on Crew's net ownership interest, the estimated future costs to reclaim and abandon the wells and facilities and the estimated timing of when the costs will be incurred. Crew estimated the net present value of its total asset retirement obligations as at December 31, 2006 to be \$10,485,000 (2005 – \$7,182,000) based on a total future liability of \$23,503,000 (2005 – \$13,414,000). These payments are expected to be made over the next 49 years. An 8% (2005 – 8%) credit adjusted risk free discount rate and 2% (2005 – 2%) inflation rate were used to calculate the present value of the asset retirement obligation.

The following table reconciles Crew's asset retirement obligations:

| Years ended December 31,           | 2006      | 2005     |
|------------------------------------|-----------|----------|
| Carrying amount, beginning of year | \$ 7,182  | \$ 4,984 |
| Liabilities incurred               | 1,690     | 1,581    |
| Liabilities acquired               | 679       | –        |
| Accretion expense                  | 655       | 474      |
| Liabilities settled                | (448)     | (99)     |
| Change in estimate                 | 727       | 242      |
| Carrying amount, end of year       | \$ 10,485 | \$ 7,182 |

## 6. SHARE CAPITAL:

### (a) Authorized:

Unlimited number of Common Shares

1,881,000 Class C non-voting performance shares ("performance shares")

### (b) Common Shares issued:

|   | Number of shares | Amount            |
|---|------------------|-------------------|
| Common Shares, December 31, 2004                | 26,781           | \$ 54,363         |
| Public offering issued for cash                 | 1,374            | 25,005            |
| Flow-through shares issued for cash             | 417              | 10,001            |
| Exercise of warrants                            | 3,635            | 5,998             |
| Exercise of Class C performance shares          | 981              | 11                |
| Exercise of stock options                       | 98               | 590               |
| Buy-back of Common Shares                       | (4)              | (8)               |
| Stock-based compensation                        | –                | 963               |
| Share issue costs, net of income taxes of \$661 | –                | (1,279)           |
| Flow through shares income tax adjustment       | –                | (2,999)           |
| Common Shares, December 31, 2005                | 33,282           | 92,645            |
| Public offering issued for cash                 | 1,667            | 25,002            |
| Flow-through shares issued for cash             | 759              | 15,000            |
| Issued for corporate acquisition                | 5,319            | 63,618            |
| Exercise of Class C performance shares          | 316              | 4                 |
| Exercise of stock options                       | 97               | 839               |
| Stock-based compensation                        | –                | 583               |
| Share issue costs, net of income taxes of \$686 | –                | (1,516)           |
| Flow through shares income tax adjustment       | –                | (3,365)           |
| <b>Common Shares, December 31, 2006</b>         | <b>41,440</b>    | <b>\$ 192,810</b> |

On August 17, 2006, the Company closed a public offering in which 2,426,300 shares were issued for gross proceeds of \$40,002,125. Of the shares issued, 759,500 shares were issued on a flow-through basis in which the Company has committed to renounce to the purchasers certain Canadian income tax deductions totalling \$15,000,125. At December 31, 2006, the Company had incurred \$7,400,000 of qualifying expenditures under this flow-through offering.

On December 20, 2005, the Company closed a public offering in which 1,790,600 shares were issued for gross proceeds of \$35,006,000. Of the shares issued, 416,700 shares were issued on a flow-through basis in which the Company has committed to renounce to the purchasers certain Canadian income tax deductions totalling \$10,000,800. At December 31, 2006, the Company had incurred and renounced all expenditures required under this flow-through offering.

**(c) Contributed Surplus:**

|  | Amount          |
|--|-----------------|
| Contributed surplus, December 31, 2004                     | \$ 687          |
| Stock-based compensation                                   | 1,996           |
| Conversion of Class C performance shares and stock options | (963)           |
| Buy-back of Common Shares                                  | (33)            |
| Contributed surplus, December 31, 2005                     | 1,687           |
| Stock-based compensation                                   | 4,462           |
| Conversion of Class C performance shares and stock options | (583)           |
| <b>Contributed surplus, December 31, 2006</b>              | <b>\$ 5,566</b> |

**(d) Stock-based compensation:**

The Company measures compensation costs associated with stock-based compensation using the fair market value method and the cost is recognized over the vesting period of the underlying security. The fair value of each performance share and stock option is determined at each grant date using the Black-Scholes model with the following weighted average assumptions: risk free interest rate 4.27% (2005 – 3.22%), expected life 4 years (2005 – 4 years), volatility 45% (2005 – 45%), and an expected dividend of nil (2005 – nil).

During 2006 the Company recorded \$4,462,000, (2005 – \$1,996,000) of stock-based compensation expense related to the performance shares and stock options, of which \$2,231,000 (2005 – \$998,000) was capitalized in accordance with the Company's full cost accounting policy. As stock-based compensation is non-deductible for income tax purposes, a future income tax liability of \$945,000 associated with the current year's capitalized stock-based compensation has been recorded.

*(i) Performance shares*

On September 1, 2003 the Company issued 1,881,000 performance shares to employees, officers and directors at a price of \$0.01 per share. Each performance share is convertible into a fraction of a Common Share over a three-year period with the conversion rights expiring on September 1, 2007 after which, if the shares have not been converted, they are redeemed by the Company at \$0.01 per share. On conversion, each performance share converts at the rate determined by subtracting \$1.65 from the current market price of the Company's Common Shares and dividing the result by the current market price of the Company's Common Shares. The fair value of the performance shares at the date of issue, as calculated by the Black-Scholes method, was \$0.67 per share.

|   | Number of shares | Amount      |
|---|------------------|-------------|
| Class C, performance shares, December 31, 2004        | 1,869            | \$ 19       |
| Converted to Common Shares                            | (1,082)          | (11)        |
| Class C, performance shares, December 31, 2005        | 787              | 8           |
| Converted to Common Shares                            | (360)            | (4)         |
| Reacquired and cancelled                              | (25)             | –           |
| <b>Class C, performance shares, December 31, 2006</b> | <b>402</b>       | <b>\$ 4</b> |

(ii) *Stock options*

The Company has a floating stock option plan in which the Company may grant options to its employees, directors and consultants for up to 10% of its outstanding Common Shares. Under this plan, the exercise price of each option equals the market price of the Company's Common Shares on the date of grant. All granted options vest over a three-year period and have a four-year term. Stock options are granted periodically throughout the year. The fair value of the stock options granted during the year as calculated by the Black-Scholes method was \$5.01 (2005 – \$6.74) per option.

|                                  | Number of options | Weighted average exercise price |
|----------------------------------|-------------------|---------------------------------|
| Balance, December 31, 2004       | 364               | \$ 6.51                         |
| Granted                          | 1,672             | 16.63                           |
| Exercised                        | (98)              | 6.02                            |
| Cancelled                        | (90)              | 7.25                            |
| Balance December 31, 2005        | 1,848             | 15.65                           |
| Granted                          | 568               | 12.40                           |
| Exercised                        | (97)              | 8.70                            |
| Cancelled                        | (300)             | 16.33                           |
| <b>Balance December 31, 2006</b> | <b>2,019</b>      | <b>\$ 14.97</b>                 |

The following table summarizes information about the stock options outstanding at December 31, 2006:

| Range of exercise prices | Outstanding at Dec. 31, 2006 | Weighted average remaining life (years) | Weighted average exercise price | Exercisable at Dec. 31, 2006 | Weighted average exercise price |
|--------------------------|------------------------------|---|---------------------------------|------------------------------|---------------------------------|
| \$3.50 to \$6.50         | 69                           | 1.43                                    | \$5.18                          | 37                           | \$4.80                          |
| \$6.51 to \$9.50         | 87                           | 1.91                                    | \$7.76                          | 15                           | \$7.98                          |
| \$9.51 to \$12.50        | 442                          | 3.58                                    | \$12.00                         | –                            | –                               |
| \$12.51 to \$15.50       | 332                          | 2.94                                    | \$13.92                         | 62                           | \$14.13                         |
| \$15.51 to \$18.75       | 1,089                        | 2.69                                    | \$17.69                         | 363                          | \$17.69                         |
|                          | 2,019                        | 2.85                                    | \$14.97                         | 477                          | \$15.93                         |

(e) **Per share amounts:**

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the year ended December 31, 2006 was 34,896,000 (December 31, 2005 – 28,196,000).

In computing diluted earnings per share for the year ended December 31, 2006, 690,000 (December 31, 2005 – 3,760,000) shares were added to the weighted average Common Shares outstanding to account for the dilution of the performance shares and stock options. There were 1,140,500 stock options that were not included in the diluted earnings per share calculation because they were anti-dilutive.

## 7. INCOME TAXES:

### (a) Future income tax expense:

The provision for income tax expense in the financial statements differs from the result, which would have been obtained by applying the combined federal and provincial income tax rate to the Company's earnings before income taxes. This difference results from the following items:

|   | 2006            | 2005             |
|---|-----------------|------------------|
| Earnings before income taxes                        | \$ 12,969       | \$ 38,961        |
| Combined federal and provincial income tax rate     | 34.60%          | 37.65%           |
| Computed "expected" income tax expense              | \$ 4,487        | \$ 14,669        |
| Increase (decrease) in income taxes resulting from: |                 |                  |
| Non-deductible crown charges                        | 165             | 1,916            |
| Resource allowance                                  | 84              | (2,388)          |
| Non-deductible stock-based compensation             | 772             | 752              |
| Benefits relating to change in income tax rates     | (3,345)         | (857)            |
| Other   | 30              | 72               |
| <b>Future income taxes</b>                          | <b>\$ 2,193</b> | <b>\$ 14,164</b> |

### (b) Future income tax liability:

The components of the Company's future income tax liability are as follows:

|                                    | 2006             | 2005             |
|------------------------------------|------------------|------------------|
| Future income tax:                 |                  |                  |
| Property, plant and equipment      | \$ 45,600        | \$ 22,774        |
| Asset retirement obligations       | (3,095)          | (2,434)          |
| Share issue costs                  | (1,077)          | (821)            |
| Non-capital loss                   | (1,773)          | (225)            |
| Other                              | (103)            | (117)            |
| <b>Future income tax liability</b> | <b>\$ 39,552</b> | <b>\$ 19,177</b> |

The non-capital loss expires in 2012.

## 8. SUPPLEMENTAL CASH FLOW INFORMATION

|  | 2006       | 2005       |
|--|------------|------------|
| Changes in non-cash working capital:     |            |            |
| Accounts receivable                      | \$ (1,372) | \$ (7,528) |
| Accounts payable and accrued liabilities | (6,064)    | 19,454     |
|  | \$ (7,436) | \$ 11,926  |
| Operating activities                     | \$ 1,245   | \$ (2,342) |
| Investing activities                     | (8,681)    | 14,268     |
|  | \$ (7,436) | \$ 11,926  |

The Company made the following cash outlays in respect of interest expense and current income taxes:

|              | 2006     | 2005   |
|--------------|----------|--------|
| Interest     | \$ 1,629 | \$ 238 |
| Income taxes | \$ 151   | \$ 34  |

## 9. COMMITMENTS:

The Company has the following fixed term commitments related to its on-going business:

|                                | Total           | 2007            | 2008          |
|--------------------------------|-----------------|-----------------|---------------|
| Operating Leases               | \$ 600          | \$ 600          | \$ –          |
| Firm transportation agreements | 617             | 475             | 142           |
| Exploration and development    | 7,600           | 7,600           | –             |
| <b>Total</b>                   | <b>\$ 8,817</b> | <b>\$ 8,675</b> | <b>\$ 142</b> |

The exploration and development commitment relates to the Company's obligation under its 2006 flow-through share issue. (see note 6(b))

## 10. FINANCIAL INSTRUMENTS:

### (a) Commodity price risk management:

At December 31, 2006, the Company had no fixed price contracts or financial instruments associated with future production.

### (b) Credit Risk

Crew's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to several purchasers under normal industry sale and payment terms. Crew routinely assesses the financial strength of its customers.

### (c) Fair value of financial instruments

The fair values of the financial instruments on the Company's balance sheet approximate their carrying values due to their short term to maturity.



### HEAD OFFICE

Suite 1920, Bow Valley Square II  
205 – 5th Avenue S.W.  
Calgary, Alberta T2P 2V7  
Phone: (403) 266-2088  
Fax: (403) 266-6259  
www.crewenergy.com

### AUDITORS

KPMG LLP

### BANKERS

The Toronto-Dominion Bank

### LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

### RESERVE ENGINEERS

GLJ Petroleum Consultants

### TRANSFER AGENT

Valiant Trust Company

### EXCHANGE LISTING

Toronto Stock Exchange  
Stock Symbol: CR

### BOARD OF DIRECTORS

John A. Brussa  
Partner, Burnet, Duckworth & Palmer LLP

Fred C. Coles  
Independent Businessman

Gary J. Drummond  
Independent Businessman

Dennis L. Nerland  
Partner, Shea Nerland Calnan

Dale O. Shwed  
President, Crew Energy Inc.

John A. Thomson, CA  
Independent Businessman

### OFFICERS

Dale O. Shwed  
President and Chief Executive Officer

Ryan K. Chong  
Vice-President, Production

John G. Leach, CA  
Vice-President, Finance and  
Chief Financial Officer

Ted E. Nitychoruk  
Vice-President, Exploration

Michael D. Sandrelli  
Secretary  
Partner, Burnet, Duckworth & Palmer LLP

### ABBREVIATIONS

|        |  |
|--------|--|
| bbl    | barrels  |
| bbl/d  | barrels per day                                      |
| bcf    | billion cubic feet                                   |
| boe    | barrels of oil equivalent<br>(6 mcf: 1 bbl)          |
| bopd   | barrels of oil per day                               |
| mmbtu  | million British thermal units                        |
| mboe   | thousand barrels of oil<br>equivalent (6 mcf: 1 bbl) |
| mmboe  | million barrels of oil equivalent<br>(6 mcf: 1 bbl)  |
| mcf    | thousand cubic feet                                  |
| mcf/d  | thousand cubic feet per day                          |
| mmcf   | million cubic feet                                   |
| mmcf/d | million cubic feet per day                           |
| ngl    | natural gas liquids                                  |



Suite 1920, Bow Valley Square II  
205 - 5th Avenue S.W.  
Calgary, Alberta T2P 2V7

Telephone: (403) 266-2088  
Fax: (403) 266-6259  
[www.crewenergy.com](http://www.crewenergy.com)

printed in Canada