

**Centurion Energy International Inc.**  
**Interim Financial Statements**  
**Three and six months ended June 30, 2006**

**REPORT TO SHAREHOLDERS**

Centurion Energy International Inc., an independent oil and gas exploration and production company, operating principally in the Egyptian Nile Delta, today announces its 2006 second quarter report. Centurion is listed on the Toronto (symbol: CUX) and London AIM (symbol: CUX.L) stock exchanges. The unaudited interim consolidated financial statements and management's discussion and analysis included in this report have been prepared by management and approved by Centurion's Audit Committee on behalf of the Board of Directors.

**Highlights**

- **Cash flow from Centurion's continuing operations (Egypt) totaled \$32.3 million (\$0.35 per share diluted) during Q2, 2006 compared to \$13.2 million (\$0.15 per share diluted) for Q2, 2005.**
- **Earnings for Centurion's continuing operations (Egypt) totaled \$21.0 million (\$0.23 per share diluted) during Q2, 2006 compared to \$4.3 million (\$0.05 per share diluted) in Q2, 2005.**
- **2006 year to date daily production has increased approximately 66% to 32,196 boe per day from 19,371 boe per day for 2005.**
- **A conditional purchase and sale agreement with a private U.S. corporation was terminated in April 2006, which resulted in the refund to Centurion of its US\$11.3 million deposit and payment to Centurion of a break-fee of US\$7.4 million (before expenses).**
- **The Luzi – 1 exploration well was successfully drilled in the West El Manzala concession. The well encountered pay zones in the Upper and Lower Abu Madi formations and flowed at a maximum rate of 9.0 mmscf of gas and 123 barrels of condensate per day from the Lower Abu Madi on test.**
- **On the El Wastani field, EW – 13 was drilled and completed as a Lower Abu Madi/Qawasim gas producer. The well flowed at a maximum rate of 17.3 mmscf of gas and 290 barrels of condensate per day on test, before being tied back for production.**
- **EW - 2 was deepened to test the Qawasim and Lower Abu Madi formations and encountered pay zones in both intervals. The well has been initially completed as a Qawasim producer and flowed at a maximum rate of 10.0 mmscf of gas and 170 barrels of condensate per day on test.**
- **In August 2006, the Company announced the signing of a Memorandum of Understanding to acquire an additional 2 percent working interest share in the Nigeria-Sao Tome Joint Development Zone for US\$4.4 million.**

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This report contains certain forward looking statements that are subject to risks and uncertainties, and actual performance or results may vary from potential performance or results that are stated in this report. These risks and uncertainties include the risk that planned drilling programs may not be successful and may not result in an increase in reserves to the extent set out herein. Additional risks associated with the Company's operations are set out in its Annual Information Form.

All financial information is reported in Canadian dollars and is in accordance with Canadian generally accepted accounting principles (GAAP) unless otherwise noted. The financial measures of cash flow from operations and cash flow per share referred to in this report and Management's Discussion and Analysis (MD&A) are not recognized measures under GAAP.

Natural gas has been converted into barrels of oil equivalent (boe) at 6:1. The abbreviation boe, boe per day and mboe disclosed in this report and MD&A may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**Financial Summary**

(In thousands of Canadian dollars, except per share amounts)

	<b>Three months ended June 30, 2006</b>	<b>Three months ended June 30, 2005</b>	<b>Six months ended June 30, 2006</b>	<b>Six months ended June 30, 2005</b>
<b>Cashflow</b>				
Continuing operations	32,303	13,233	55,085	25,432
Discontinued operations*	-	211	-	6,430
Corporate total	32,303	13,444	55,085	31,862
Basic per share – continuing operations	0.36	0.15	0.62	0.29
Diluted per share – continuing operations	0.35	0.15	0.59	0.28
Basic per share - corporate	0.36	0.15	0.62	0.36
Diluted per share – corporate	0.35	0.15	0.59	0.35
<b>Earnings</b>				
Continuing operations	21,025	4,345	32,559	8,672
Discontinued operations*	-	(473)	-	2,474
Corporate total	21,025	3,872	32,559	11,146
Basic per share – continuing operations	0.23	0.05	0.36	0.10
Diluted per share – continuing operations	0.23	0.05	0.35	0.09
Basic per share - corporate	0.23	0.04	0.36	0.13
Diluted per share – corporate	0.23	0.04	0.35	0.12

\* Discontinued Operations pertain to assets in Tunisia sold effective April, 2005

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**Production Summary for the Periods Ended June 30, 2006**

Field	Natural Gas (mmscf) 3 months	Condensate (bbls) 3 months	LPG's (bbls) 3 months	Oil (bbls) 3 months	Total Q2 BOE (6:1)	Average Q2 BOE/D (6:1)	YTD 6 months BOE (6:1)	YTD 6 months BOE/D (6:1)
El Wastani	13,145	364,794	91,483	-	2,647,049	29,088	5,161,497	28,517
South Manzala	1,147	-	-	-	191,129	2,101	527,981	2,917
West Gharib	-	-	-	68,287	68,287	750	137,913	762
<b>Corporate Total</b>	<b>14,292</b>	<b>364,794</b>	<b>91,483</b>	<b>68,287</b>	<b>2,906,465</b>	<b>31,939</b>	<b>5,827,391</b>	<b>32,196</b>

**OPERATING HIGHLIGHTS**

**Egypt**

**El Manzala Concession  
El Wastani and El Wastani East Development Lease  
(Centurion 100% WI)**

The company continues to make good progress towards the goal of processing all its produced hydrocarbons within the El Wastani Development Lease and thereby maximizing the gas and liquids production rates. The first steps towards this were taken in 2005, with the construction of a Joule-Thompson plant, which currently treats the majority of the gas and condensates from the field. The remaining gas continues to be processed at the third party-operated Abu Madi gas plant, approximately 26km west of the Development Lease.

In the second quarter, work continued on Stage I of a new facilities project, which comprises a Mechanical Refrigeration Unit (MRU) capable of processing all Centurion's gas and associated condensates. All the major equipment has now been installed including the MRU, Condensate Stabilizer Unit and Overhead Compression as well as the related utilities. The commissioning of the Stage I plant will take place during the third quarter.

Concurrently, work is continuing on Stage II of the project, which involves the installation of a Turbo Expander Unit and liquids storage tanks, which will be used to recover additional LPG's from the gas stream. Some of the Stage II facilities have already been installed, while the rest of the equipment is either enroute to location or being fabricated. Commissioning of Stage II is expected to take place before year-end.

A significant safety milestone was also passed during the quarter, namely, the achievement of one million man-hours of work on the new El Wastani facilities project without a lost-time incident.

During the second quarter, development activity also continued on the El Wastani field's multiple reservoirs.

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Well EW-2 was originally drilled prior to Centurion's entry into Egypt and the deeper reservoir intervals encountered in the well were considered to be uneconomic. Consequently, the well was initially completed in the shallow Kafr El Sheikh formation. Upon depletion of the Kafr El Sheikh reserves, Centurion has now re-entered the original wellbore and deepened the well into the Lower Abu Madi and Qawasim formations and 66m of net pay were encountered. The well was completed in the Qawasim, which flowed at 10.0 mmscf per day of gas with 170 barrels per day of condensate, prior to being placed on production. The Lower Abu Madi is expected to be produced at a later date.

Well EW-13 was spud in May 2006 in the interior of the Development Lease. The well reached a total depth of 3034m in the Qawasim formation. The Qawasim and Lower Abu Madi intervals were logged and had 25m and 23m of net pay, respectively. The well was tested at 17.3 mmscf per day of gas, with 290 barrels per day of condensate, before being placed on production.

As previously reported, EWW-1 was spud in the first quarter on the western edge of the Development Lease, targeting an Abu Madi and Qawasim accumulation separated from the main field by a fault. After drilling the Abu Madi and Qawasim intervals, the well encountered unexpectedly high pressures and well control and drilling problems resulted in two sidetracks being drilled unsuccessfully. The well was not completed, but 8m of oil-bearing core was recovered from the Qawasim and two high pressure kicks were taken in the Sidi Salim, indicating further potential in the area.

Production from the El Wastani field averaged 144.4 mmscf per day of gas during the quarter. Related liquids production averaged 4,009 barrels per day of condensate and 1,005 barrels per day of LPGs, for a combined total average daily rate of 29,088 barrels of oil equivalent per day.

**South El Manzala Development Lease**  
**(Centurion 100% W.I.)**

There was no drilling activity on the SEM Development Lease during the quarter. Work plans for the Development Lease during the rest of 2006 will include up to two new wells targeting the shallow El Wastani and Kafr El Sheikh formations.

Production during the quarter averaged 12.6 mmscf per day of gas (2,101 boe per day).

**West El Manzala and West El Qantara Exploration Concessions**  
**(Centurion 50% W.I.)**

The second quarter was marked by ongoing seismic data acquisition and the drilling of the first two wells in the new exploration concessions, with two additional wells being spud during the quarter.

The acquisition and processing of 1400 square kilometers of 3D seismic data on the West El Manzala acreage has been completed and interpretation is underway.

Drilling commenced in February on two locations to the west of the El Wastani field; at the end of the first quarter Al Hamra-1 had reached a depth of 3382m and El Deeb-1 had reached 3194m. As detailed in a Press Release dated May 10, 2006, the wells encountered good quality reservoirs in the Upper and Lower Abu Madi formations, however, open hole logs did not indicate the presence of hydrocarbons. The wells also encountered good Upper Qawasim reservoirs with hydrocarbon shows; however, testing did not recover commercial quantities of hydrocarbons. The wells were ultimately plugged and abandoned after experiencing overpressures, which prohibited the drilling of deeper potential reservoir formations.

Luzi-1 was spud in late May, with the objective of testing the Abu Madi and Qawasim formations in a prospect on trend with the main El Wastani field. As of quarter-end the well has reached a total depth of 2936m (2847m TVDSS) and the well had been open-hole logged registering gas-bearing zones in both

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the Upper and Lower Abu Madi formations. Since then, the Lower Abu Madi formation has been tested and flowed at a maximum gas rate of 9.0 mmscf per day of gas with 123 barrels per day of condensate. The well has been temporarily suspended with a view to initially completing it as a Lower Abu Madi producer. The Upper Abu Madi was not tested in the well to avoid compromising the planned Lower Abu Madi completion but it is anticipated that the Upper Abu Madi intervals will be opened for production later in the well's life.

Al Hurani-1 was spud in early July, targeting an Abu Madi and Qawasim prospect approximately 6 km to the east of the El Wastani field. As of quarter-end the well had been safely drilled to a total depth of 2857m (2935m TVDSS) and open-hole logging had commenced. The well encountered a thick sand interval of 135m in the Abu Madi and Qawasim formations but no commercial gas shows. It has since been plugged and abandoned.

Luzi-1 and Al Hurani-1 represent the third and fourth wells drilled by the new Centurion and Shell Joint Venture. According to the terms of the Joint Venture, if Shell elects to continue as a partner in the exploration concessions after the drilling of an initial five well exploration program, a subsequent payment of US\$20 million will be made by Shell to Centurion, followed by up to a total of US\$225 million, if and when specific discovery volumes and development goals are met. If Shell were to elect not to continue after the initial five well program, their 50 percent interest would revert back to Centurion.

3D seismic activities resumed in June and the new acquisition includes 150 square kilometers of data in West El Manzala (to supplement the 1400 km acquired in 2005) and 412 square kilometers in West El Qantara. Processing of the new data will commence in the third quarter and interpretation will take place on a concurrent basis where possible.

**West Gharib Concession**  
**(Centurion 30% W.I.)**

Exploration drilling has continued aggressively on the West Gharib concession (in advance of the exploration permit expiry during the second quarter of 2006) and has yielded some success.

Arta-1 is an oil discovery which tested 600 barrels per day of oil, declining to 100 barrels per day of oil with minor amounts of water. The well will be stimulated with a fracture treatment prior to being placed on production. The North Hoshia-1 well discovered oil in the Rudeis formation and tested 200 barrels per day of oil. A workover was completed on the South Rahmi-1 well to run a slotted liner. Five other exploration wells were drilled and abandoned during the quarter. At quarter-end the East Hoshia-1 exploration well was drilling, to be followed by East Arta-1, Saad-1 and Hana-12 (a development location).

Production from the combined development leases within the West Gharib concession averaged 2,501 barrels per day of 22 degree API oil (750 barrels per day Centurion share). Production from the West Hoshia field is temporarily shut in awaiting regulatory approval of the Plan of Development. Other development leases awaiting approval from the authorities are North Hoshia, Arta and South Rahmi.

**Kom Ombo Concession**  
**(Centurion 100% W.I.)**

Centurion has high-graded the play to the southern part of the concession where it has acquired an additional 516 kilometers of 2D seismic data. Processing of the newly acquired seismic data has been completed and the interpretation is ongoing with a view to firming up prospects for drilling in early 2007.

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**Nigeria-Sao Tome Joint Development Zone (JDZ)**  
**(Centurion 7.5% W.I.)**

On August 11, 2006, the Company announced the acquisition of an additional 2 percent share in the JDZ. Under the terms of the Memorandum of Understanding, Centurion has agreed to purchase the remaining 25 percent of Hercules Petroleum Limited ("Hercules") that it did not already own for US\$4.4 million. Centurion had previously acquired 75 percent of Hercules in early Q1 2006.

Upon closing, Hercules will become a 100 percent wholly owned subsidiary of Centurion and will represent a 9.5 percent gross interest in Block 4 of the JDZ.

Interpretation of the 3D seismic is ongoing to finalize the mapping of prospects and firm up drilling locations. Subject to rig availability the operator Addax Petroleum plans to drill the first well in the second half of 2007, on one of several large mapped prospects.

**Tunisia**  
**Mellita Permit**  
**(Centurion 27.5% W.I.)**

Work on the Mellita permit during the second quarter was limited to a subsurface review which was conducted in order to position the company for the impending license renewal or relinquishment decision, which will occur in early September.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

August 9, 2006

This Management's Discussion and Analysis (MD&A) is a review of operations, current financial position and outlook for Centurion Energy International Inc. (Centurion or the Company) and should be read in conjunction with the unaudited consolidated financial statements and related notes of Centurion for the periods ended June 30, 2006 and 2005. The unaudited consolidated financial statements included in this MD&A have been prepared by management and approved by Centurion's Audit Committee on behalf of the Board of Directors. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. Refer to the Business Risk Assessment section of this MD&A for additional information related to identified risks, estimates and uncertainties.

**Non GAAP Measurements**

Throughout this quarterly report, Centurion discloses certain financial information (cash flow, cash flow per share and cash flow from operations) that do not have any standardized meaning as prescribed by Canadian GAAP and are therefore considered non GAAP measures. These measures may not be comparable to similar measures presented by other public issuers.

**Quarterly Trends**

**Foreign Exchange Fluctuations**

Centurion operates in a U.S. dollar based environment. All revenues and the majority of our costs (both capital and operating) are paid in U.S. dollars. However, being a Canadian Company trading primarily on a Canadian exchange, Centurion reports its financial results in Canadian funds. Accordingly, all U.S. dollar amounts presented in Centurion's statements of operations and cashflows are converted to Canadian funds for reporting purposes based on the average Canadian to U.S. dollar exchange rates prevailing during the reporting period. Additionally, all dollar figures contained in this MD&A, including per

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barrel of oil equivalent (boe) and per share amounts are expressed in Canadian dollars unless otherwise noted.

During the six month period ended June 30, 2006, the average Canadian to U.S. dollar exchange rate was \$0.88 compared to \$0.81 for the comparable period in 2005. The strengthening Canadian dollar in 2006 had the effect of reducing all U.S. dollar translated amounts on the statements of operations and cashflows by approximately 9 percent compared to 2005. The effect of this reduction on earnings and cashflow was approximately \$0.03 and \$0.05 per share, respectively.

**Commodity Prices**

For the six months ended June 30, 2006, the average price realized, before royalty, by Centurion was US\$2.90 per mscf of natural gas (US\$2.71 per mscf in 2005), US\$63.40 per barrel of condensate (US\$48.23 per barrel in 2005) and US\$44.75 per barrel of oil (US\$29.05 per barrel in 2005). The corporate average price, before royalties, received for a barrel of oil equivalent was \$28.21 compared to \$24.94 in 2005 due to overall increases in world oil and condensate prices. The increase in realized sales gas prices is due to the use of the Company's JT facility, which has a lower liquid yield than the Abu Madi plant resulting in higher heat content sales gas.

**Financial Review**

**Calculation of per Barrel Amounts**

Production and sales volumes for the three and six months ended June 30, 2006 are not the same figure due to the inventorying of approximately 14,485 barrels of condensate in Egypt at December 31, 2005. This volume was subsequently sold in early January 2006 and for financial reporting purposes it has been treated as sales in 2006. Accordingly, all per boe amounts referenced in this MD&A are based on the sales volumes achieved in the six months ended June 30, 2006 which totaled 5,841,876 boe. There is no impact for the three months ended June 30, 2006, related to the year end inventory and as such the boe for that period are 2,906,465.

**Continuing Operations**

On April 26, 2005, Centurion completed the sale of its Tunisian assets to Candax Energy Inc. As a result of this transaction, Centurion has presented all of the 2005 revenues and expenses associated with the operations included in the sale as discontinued operations for financial reporting purposes, with no amounts reported in 2006 due to the sale.

The MD&A has been segregated between continuing operations (primarily Centurion's Egyptian operations) and discontinued operations (Tunisia), as a result of the sale of the Tunisian producing assets. Any prior year comparative figures have been restated to give a meaningful comparison for the current year's activities.

<b>Revenue</b> (\$000s except per boe amounts)	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30, 2006</b>	June 30, 2005	<b>June 30, 2006</b>	June 30, 2005
Oil and gas sales (net of royalties)	46,578	22,892	89,452	44,054
Average gross price realized before royalty (\$ per boe)	28.83	25.81	28.21	24.94

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Sales, net of royalties, for Q2 2006 amounted to \$46.6 million compared to \$22.9 million for Q2 2005, and were \$89.5 for the six months ended June 30, 2006 compared to \$44.1 million for the comparable period in 2005, an increase of 103 percent for both periods. The increase was mainly due to doubling the sales volumes achieved in the El Wastani field associated with both the installation of further field processing equipment and further development drilling in 2006 and 2005 and the increase in realized commodity prices received.

Centurion's share of Egyptian production increased to approximately 38 percent in 2006 from an average of 37 percent in 2005, related to the factors of Cost Recovery allowed under the terms of the Production Sharing Contract (PSC). The production volumes taken under the PSC by the Egyptian Government are in lieu of any further taxes and royalties and the 38 percent allocation Centurion received has no further financial encumbrances upon it.

Centurion accounts for the Egyptian Government's share of production volumes as royalty and tax expense. For the three and six months ended June 30, 2006, the royalty expense approximated \$37.2 million and \$75.4 million (44 and 46 percent of gross sales, respectively) compared to \$24.3 million and \$43.4 million (51 and 50 percent of gross sales, respectively) for the comparable periods in 2005. For more details on the Company's PSC refer to the 2005 annual report.

<b>Operating Expense</b> (\$000s except per boe amounts)	For the three months ended		For the six months ended	
	<b>June 30, 2006</b>	June 30, 2005	<b>June 30, 2006</b>	June 30, 2005
Operating expense	5,575	3,897	11,766	6,905
Field cost per boe (\$)	1.06	0.99	1.20	0.98
Processing cost per boe (\$)	0.86	1.14	0.81	0.99
Per boe (\$)	1.92	2.13	2.01	1.97

Total operating expense for Q2 2006 amounted to \$5.6 million (\$1.92 per boe) compared to \$3.9 million (\$2.13 per boe) for Q2 2005 and were \$11.8 million (\$2.01 per boe) for the six months ended June 30, 2006 compared to \$6.9 million (\$1.97 per boe) for the comparable period in 2005. Total operating expense for 2006 has increased over the prior year as a result of increased production levels and continued workover and routine maintenance expenditures. Per boe amounts have declined as a result of lower liquid yields from the new JT facility which results in lower LPG processing charges.

<b>Netback (\$ per boe)</b>	For the three months ended		For the six months ended	
	<b>June 30, 2006</b>	June 30, 2005	<b>June 30, 2006</b>	June 30, 2005
Revenue (net of royalty)	16.03	12.52	15.31	12.56
Operating expense	(1.92)	(2.13)	(2.01)	(1.97)
Netback	14.11	10.39	13.30	10.59

The netback on the Company's production for the Q2 2006 (revenues net of royalties less operating costs) was \$41.0 million (\$14.11 per boe) compared to \$19.0 million (\$10.39 per boe) for Q2 2005 and were \$77.7 million (\$13.30 per boe) for the six months ended June 30, 2006 compared to \$37.1 million (\$10.59 per boe) for the comparable period in 2005. The increase in netbacks per boe can be largely explained by the increase in gross realized sales prices. Refer to the Commodity Prices section above for further explanation.

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<b>General and Administrative Expenses</b> (\$000s except per boe amounts)	For the three months ended		For the six months ended	
	<b>June 30, 2006</b>	June 30, 2005	<b>June 30, 2006</b>	June 30, 2005
Total	2,010	1,847	4,005	3,297
Capitalized – continuing operations	(642)	(982)	(1,875)	(1,701)
Capitalized – discontinued operations	-	(129)	-	(129)
Expensed	1,368	736	2,130	1,467
Expensed per boe (\$)	0.47	0.40	0.36	0.42

General and administrative expenses for Q2 2006 amounted to \$1.4 million (\$0.47 per boe) compared to \$0.7 million (\$0.40 per boe) for Q2 2005 and were \$2.1 million (\$0.36 per boe) for the six months ended June 30, 2006 compared to \$1.5 million (\$0.42 per boe) for the comparable period in 2005. The increase in expensed general and administrative noted during Q2 2006 is the result of reduced direct capitalized costs incurred during the period.

<b>Depletion, Depreciation and Amortization</b> (\$000s except per boe amounts)	For the three months ended		For the six months ended	
	<b>June 30, 2006</b>	June 30, 2005	<b>June 30, 2006</b>	June 30, 2005
Oil and gas depletion, depreciation and amortization	9,504	7,548	19,426	14,082
Per boe (\$)	3.27	4.13	3.33	4.02
Other depreciation	89	216	175	420

The depletion provision for Q2 2006 amounted to \$9.5 million (\$3.27 per boe) compared to \$7.5 million (\$4.13 per boe) for Q2 2005 and was \$19.4 million (\$3.33 per boe) for the six months ended June 30, 2006 compared to \$14.1 million (\$4.02 per boe) for the comparable period in 2005. The remaining depreciation relates to depreciation of non-oil and gas assets.

<b>Interest and Finance Costs</b> (\$000s)	For the three months ended		For the six months ended	
	<b>June 30, 2006</b>	June 30, 2005	<b>June 30, 2006</b>	June 30, 2005
Total	2,358	295	3,632	570
Capitalized Interest	(1,191)	-	(1,191)	-
Expensed	1,167	295	2,441	570
Per boe (\$)	0.40	0.16	0.42	0.16

Interest and finance costs for Q2 2006 amounted to \$1.2 million (\$0.40 per boe) compared to \$0.3 million (\$0.16 per boe) for Q2 2005 and were \$2.4 million (\$0.42 per boe) for the six months ended June 30, 2006 compared to \$0.6 million (\$0.16 per boe) of the comparable period in 2005. The increase in interest and finance costs results from an increase in Centurion's outstanding debt balance and fees related to performance bonds issued by the Company. Offsetting this increase is the capitalization of interest expenses related to long-term capital projects and the financing of the capital inventory balance. Refer to Changes in Accounting Principles below for a further discussion on capitalized interest. As at June 30, 2006, the Company had drawn US\$84.4 million on its credit facility as compared to US\$10 million at June 30, 2005.

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**Foreign Prospect Review Costs**

Foreign prospect review costs for Q2 2006 amounted to \$0.2 million compared to \$0.2 million for Q2 2005 and were \$0.5 million for the six months ended June 30, 2006 compared to \$0.4 million for the comparable period in 2005. The 2006 costs primarily relate to ongoing efforts in Libya, Angola and Nigeria. Costs associated with these efforts are expensed until a concession or exploration license has been acquired.

**Stock Based Compensation**

Stock based compensation expense for Q2 2006 amounted to \$1.5 million compared to \$1.0 million for Q2 2005 and was \$2.5 million for the six months ended June 30, 2006 compared to \$1.9 million for the comparable period in 2005. The Company expenses stock options based on the Black-Scholes valuation method over the vesting life of the granted options.

**Liquidity, Capital Resources and Capital Expenditures**

Capital asset and materials and supplies expenditures for 2006 totaled \$143.0 million including \$131.3 million spent in Egypt and \$11.7 million spent in Nigeria-Sao Tome. The expenditures in Egypt consisted of the 2006 drilling program costs, facility installation costs, the initial payment to acquire the additional 25% working interest in the West El Manzala and West El Qantara Concessions (refer to Significant Transaction below), pre-purchase of drilling inventory and supplies, 3-D seismic acquisition and general geological and geophysical programs.

Cash on hand at June 30, 2006, was \$25.2 million compared to \$27.1 million at December 31, 2005. Centurion had working capital of \$43.5 million at June 30, 2006, compared to working capital of \$28.9 million at December 31, 2005.

The Company has \$65.6 million in accounts receivable outstanding at June 30, 2006 compared to \$46.8 million at December 31, 2005. \$53.8 million of the June 30, 2006 balance relates to gas and condensate sales to the Egyptian Government, \$11.4 million relates to balances due from joint venture partners and \$0.4 million from other sources. Consistent with prior periods and other industry participants in Egypt, all gas and condensate receivables are due from the Egyptian Government and are expected to be received in the normal course of operations.

During the fourth quarter of 2005, Centurion revised its credit facility with the Standard Bank plc. This new facility has a credit limit of US\$150 million, with US\$100 million available immediately and an option of an additional US\$50 million subject to certain bank restrictions.

In June 2006, the Company signed a term sheet and mandate letter with BNP Paribas to replace the existing credit facility. Under the new facility, the Company will have an allowable borrowing base of US\$215 million available in three tranches including a five year US\$140 million borrowing base loan; a revolving credit facility of US\$50 million secured by accounts receivable from the sale of hydrocarbons to the Egyptian Government; and a US\$25 million tranche which is available for issuing performance and work commitment bonds. The new facility is expected to close during the third quarter of 2006.

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**Summary of Contractual Obligations**

As at June 30, 2006	Obligations Payments Due by Period (\$000s)				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Standard Bank Financing	94,513	-	94,513	-	-
Capital lease obligations(1)	1,720	561	1,159	-	-
Nigeria/Sao Tome JDZ(2)	4,532	-	-	4,532	-
West El Manzala and West El Qantara obligations(3)	11,425	11,425	-	-	-
<b>Total contractual obligations</b>	<b>112,190</b>	<b>11,986</b>	<b>95,672</b>	<b>4,532</b>	<b>-</b>

- (1) A capital lease agreement with Northstar Trade Finance Ltd. for a sales leaseback arrangement of compression equipment previously purchased and installed at the Company's gas fields in Egypt was entered into in May 2004. The lease requires equal monthly payments of US\$51,000 for five years. The lease arrangement results in an interest rate of approximately 8 percent.
- (2) Under the terms of the Nigeria/Sao Tome JDZ Production Sharing Contract, the Company will be obligated to pay for its share of the minimum work program of US\$53 million.
- (3) In May 2004, Centurion was awarded the West El Manzala and West El Qantara blocks, in the Nile Delta of Egypt. Centurion has committed to spend US\$18 million on the blocks (US\$13 million in West El Manzala and US\$5 million in West El Qantara) during the first phase of exploration. In December 2005, the Standard Bank, backed by Export Development Canada, replaced a cash deposit with a performance guarantee for these commitments. As of June 30, 2006, US\$7.8 million of approved spending has been made with respect of these obligations. Approximately US\$15.9 million of past spending is awaiting approval from EGPC which should extinguish this commitment.

**Discontinued Operations**

**Sale of Tunisian Producing Assets**

On April 26, 2005, Centurion completed the sale of its Tunisian assets to Candax Energy Inc. The transaction resulted in final proceeds of approximately \$43.7 million inclusive of working capital adjustments.

Although the sale of the Tunisian properties was effective January 1, 2005, GAAP requires that the vendor continue recording financial activity of the discontinued operations until the transaction actually closes. Accordingly, production volumes, revenues, operating costs and tax expense associated with the discontinued operations have been reported for the period of January 1, 2005 to the closing date of April 26, 2005 by Centurion.

Net income from discontinued operations of approximately was \$2.5 million being recorded in the six months ended June 30, 2005 (no operations related to 2006). Sales, net of royalties for the six months ended June 30, 2005 were \$9.0 million with associated operating costs and income taxes totaling \$3.2 million and \$2.6 million respectively.

**Accounting Policies and Estimates**

**Changes in Accounting Principles**

Effective April 1, 2006, the Company has amended its accounting policy related to capitalizing interest costs incurred in conjunction with significant construction projects and development activities in accordance with Section 3061 "Property, Plant and Equipment" issued by the Canadian Institute of Chartered Accountants. As a result of this amendment, the Company will capitalize interest costs directly attributable to significant capital projects. Capitalization of interest costs will cease for a project when it is determined that the project is substantially complete and ready for productive use. This change in policy has been applied prospectively from the date of adoption.

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**Critical Estimates**

In reporting financial and reserve information, the Company is required to use certain estimates. These estimates relate primarily to the future development costs associated with proved undeveloped reserves, reserve volumes, future production and revenues, and future costs associated with site restoration liabilities. The Company has all of its oil and gas reserves, future development costs and future cash flows from those reserves evaluated and reported on by independent petroleum reserve engineering consultants. The estimation of these amounts is a subjective process, based on engineering data, forecasted prices and production levels and the timing of expenditures. All of these estimates are subject to numerous uncertainties and various interpretations, and consequently will change over time to reflect updated information as it is received.

**Significant Transactions**

**Termination of the Conditional Purchase of a Private Company with Operations in Egypt and Texas**

In February, 2006, the Company entered into a conditional purchase and sales agreement to acquire a private U.S. corporation. The acquisition was to include operated properties in Egypt's Nile Delta region and in Texas, U.S. The purchase agreement was terminated by the Private Company in April 2006, which resulted in the return of the US\$11.3 million deposit paid by the Company in addition to a US\$7.4 million (\$8.5 million Canadian) break fee (before associated expenses).

The \$7.8 million reported as income from terminated acquisition on the statement of operations reflects the break-fee received, net of acquisition due diligence costs incurred by the Company prior to the termination of the agreement. This resulted in a one time increase to earnings and cash flow in the amount of \$0.08 per share diluted for the three months ended June 30, 2006.

**Nigeria/Sao Tome – Joint Development Zone (JDZ)**

On March 14, 2006, the Company signed a Production Sharing Contract (PSC) and received formal granting by the JDZ of its 10 percent (gross) equity interest, 7.5 percent (net) in Block 4. In accordance with the PSC the Company paid US\$ 6.75 million, being its share of the total signature bonus. The Company will also be obligated to pay its share of the minimum work program of three wells, or its share of the total minimum expenditure of US\$53 million for the block.

**CTIP Oil and Gas Limited Acquisition**

On March 15, 2006, the Company entered into an agreement with CTIP Oil and Gas Limited to acquire a 25 percent participating interest in the West El Manzala and West El Qantara Concessions. On April 30, 2006, the Egyptian Government granted formal approval of the acquisition giving the Company a 100 percent participating interest in each of these Concessions.

Under the terms of the acquisition agreement, the Company has paid US\$20 million and issued 1,000,000 common shares at a price of Cdn\$12.10 per share for the Concession interest. The Company has agreed to pay additional payments that could total up to a further US\$25 million as and when specific discovery volumes and development objectives are met. Centurion has also granted a three percent net profits interest to CTIP on future production from the Concessions.

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**West El Manzala and West El Qantara Farm-out**

On March 20, 2006, the Company signed an agreement with Shell Egypt West Manzala GmbH and Shell Egypt West Qantara GmbH ("Shell"). The agreement provides for a Farm-in and LNG Cooperation Agreement, through which Shell will acquire a 50 percent interest in the West El Manzala and West El Qantara Concessions. The farm-out to Shell is subject to certain conditions, including obtaining the government approvals for a transfer that is required under the Concessions agreements.

Under the Shell agreement, Shell made an initial payment to the Company of US\$15 million in April, 2006 and will pay 50 percent of all exploration and development costs for as long as they remain a Concession owner. The US\$15 million proceeds were accounted for as a reduction to the costs subject to depletion.

If Shell continues as a Concession owner after the drilling of an initial five well exploration program, an additional payment of US\$20 million is payable by Shell to the Company. If Shell elects not to continue, the interest of Shell will revert back to Centurion. Shell has agreed to pay additional premiums that could total up to a further US\$225 million if and when specific discovery volumes and development objectives are met.

**Financial Instruments**

**Balance Sheet Financial Instruments**

Centurion's financial instruments presented in the Consolidated Balance Sheet consist of cash and equivalents, accounts receivable, prepaids, accounts payable and long-term debt. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in current market transactions. Based on these assessments, the carrying value of identified financial instruments approximates fair value.

**Concentration of Credit Risk**

Currently, all production of the Company is sold to one customer, the Egyptian Government. The Company is exposed to credit risk in the event that the Egyptian Government is unable to meet its financial obligations.

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**Summary of Quarterly Results**

(\$ millions, except per share amounts)	2006 – Q2	2006 – Q1	2005 – Q4	2005 – Q3
<b>Sales (net of royalties)</b>				
Continuing operations	46.6	42.9	34.3	28.8
Discontinued operations	-	-	-	-
Corporate total	46.6	42.9	34.3	28.8
<b>Cash flow</b>				
Continuing operations	32.3	22.8	18.2	15.6
Discontinued operations	-	-	-	-
Corporate total	32.3	22.8	18.2	15.6
Basic per share – continuing operations	0.36	0.26	0.20	0.18
Diluted per share – continuing operations	0.35	0.25	0.19	0.17
Basic per share – corporate total	0.36	0.26	0.20	0.18
Diluted per share – corporate total	0.35	0.25	0.19	0.17
<b>Earnings</b>				
Continuing operations	21.0	11.5	(9.6)	7.6
Discontinued operations	-	-	-	-
Corporate total	21.0	11.5	(9.6)	7.6
Basic per share – continuing operations	0.23	0.13	(0.11)	0.09
Diluted per share – continuing operations	0.23	0.12	(0.11)	0.08
Basic per share – corporate total	0.23	0.13	(0.12)	0.09
Diluted per share – corporate total	0.23	0.12	(0.12)	0.08

(\$ millions, except per share amounts)	2005 – Q2	2005 – Q1	2004 – Q4	2004 – Q3
<b>Sales (net of royalties)</b>				
Continuing operations	22.9	21.2	16.6	15.0
Discontinued operations	0.3	8.6	3.4	6.9
Corporate total	23.2	29.8	20.0	21.9
<b>Cash flow</b>				
Continuing operations	13.2	12.2	10.2	7.5
Discontinued operations	0.2	6.2	1.3	5.4
Corporate total	13.4	18.4	11.5	12.9
Basic per share – continuing operations	0.15	0.14	0.13	0.09
Diluted per share – continuing operations	0.15	0.13	0.12	0.09
Basic per share – corporate total	0.15	0.22	0.14	0.16
Diluted per share – corporate total	0.15	0.20	0.13	0.15
<b>Earnings</b>				
Continuing operations	4.4	4.3	4.1	1.9
Discontinued operations	(0.5)	3.0	(0.4)	2.0
Corporate total	3.9	7.3	3.7	3.9
Basic per share – continuing operations	0.05	0.05	0.05	0.02
Diluted per share – continuing operations	0.05	0.05	0.05	0.02
Basic per share – corporate total	0.04	0.08	0.04	0.05
Diluted per share – corporate total	0.04	0.08	0.04	0.05

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**Business Risk Assessment**

There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. The following outlines some of the principal risks and their potential impact to the Company.

**Foreign Investments**

All of the Company's oil and gas operations and related assets are located outside Canada. These operations are subject to the risks associated with foreign investment including tax increases, royalty increases, renegotiations of contracts, currency exchange fluctuations and political uncertainty. The jurisdiction, in which the Company primarily operates, Egypt, has a well established fiscal regime and there are some improved fiscal terms to encourage investment. The U.S. dollar is the functional currency in the primary operating area. Centurion is paid in U.S. dollars for the sale of its production.

As operations are primarily carried out in U.S. dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes. Based upon the 2006 cash flow estimate and a Canadian dollar exchange rate between US\$0.85 and US\$0.90, the effect for each \$0.01 change in exchange rate is less than \$0.01 per share, fully diluted.

**Commodity Prices**

Centurion's oil and gas prices are affected by factors such as supply and demand, oil quality and transportation adjustments. During 2006, the Company expects to have oil, gas and natural gas liquids sales from its Egyptian operations. Centurion's gas production from its Egyptian reserves has a sales contract with a selling price of US\$2.65 per mmbtu when the Brent oil reference price is US\$22 or greater. The contract also has a floor of US\$1.50 per mmbtu when the Brent oil price is US\$10 or lower with a sliding scale gas price for Brent oil reference prices between US\$10 and US\$22. Changes in the price for Brent crude oil over US\$22 have no impact on cash flow for Egyptian gas production.

**Competition**

The oil and gas industry is highly competitive. The Company believes that it is well positioned in Egypt; both in terms of Company-owned infrastructure, an excellent land base and significant level of reserves and activity, and can compete strongly with other companies operating there.

**Environment**

The Company has an ongoing program to abandon and reclaim wells and facilities in accordance with government regulations. Centurion maintains adequate insurance for environmental risks.

**Cautionary Statement regarding Forward-Looking Information**

Certain statements contained in this MD&A including statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: statements relating to "reserves" and "resources" as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future; expected cash provided by continuing operations; future capital expenditures, including the amount and

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nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; the maintenance of existing government, supplier and partner relationships; supply channels; accounting policies; balance sheet financial instruments; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us and other factors, many of which are beyond our control. The foregoing factors are not exhaustive and are further discussed herein under the heading "Risk Factors" and in the Annual Information Form of Centurion Energy International Inc. filed on SEDAR at [www.sedar.com](http://www.sedar.com).

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Except as required by law, Centurion Energy International Inc. disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

### **Company Information**

Centurion Energy International Inc. is a Calgary-based oil and gas exploration and development Company engaged in the exploration, development and production of oil, natural gas and natural gas liquids with a focus in Egypt.

Additional information related to the Company, including the Company's Annual Information Form and Management Information Circular, are available at [www.sedar.com](http://www.sedar.com).

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**Centurion Energy International Inc**  
**Consolidated Balance Sheets**

**(\$000's Canadian dollars)**

	As at June 30 2006 (unaudited)	As at December 31 2005 (unaudited)
<b>Assets</b>		
<b>Current Assets</b>		
Cash	25,225	27,111
Accounts receivable	65,580	46,779
Deposits and prepaids	930	873
Condensate inventory	-	85
	<u>91,735</u>	<u>74,848</u>
Capital assets	251,142	162,531
Materials and supplies	35,945	14,198
Deferred financing costs	1,920	2,176
	<u>380,742</u>	<u>253,753</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	47,688	45,362
Short-term portion of capital lease obligation (Note 4)	561	560
	<u>48,249</u>	<u>45,922</u>
Capital lease obligation (Note 4)	1,159	1,504
Long-term debt (Note 3)	94,513	13,618
Asset retirement obligation (Note 5)	4,746	3,743
	<u>148,667</u>	<u>64,787</u>
<b>Non-controlling interest</b> (Note 1)	2,338	-
<b>Shareholders' Equity</b>		
Capital stock (Note 6)	156,424	143,770
Contributed surplus (Note 7)	13,083	10,739
Foreign currency translation adjustment	(26,754)	(19,968)
Retained earnings	86,984	54,425
	<u>229,737</u>	<u>188,966</u>
	<u>380,742</u>	<u>253,753</u>

**Centurion Energy International Inc.**  
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**Centurion Energy International Inc.**  
**Consolidated Statement of Operations and Retained Earnings**

**(\$000's Canadian dollars)**

Periods ending June 30, 2006 and 2005 (Unaudited)

	Three months ended		Six months ended	
	2006	2005	2006	2005
<b>Revenue</b>				
Sales - net of royalties	46,578	22,892	89,452	44,054
Income from terminated acquisition (Note 10)	7,822	-	7,822	-
Other income	309	498	481	831
	<u>54,709</u>	<u>23,390</u>	<u>97,755</u>	<u>44,885</u>
<b>Expenses</b>				
Operating	5,575	3,897	11,766	6,905
Depletion, depreciation and amortization	9,593	7,764	19,601	14,502
General and administrative	1,368	736	2,130	1,467
Foreign prospect review	226	164	461	439
Stock based compensation (Note 8)	1,461	967	2,474	1,947
Interest and finance costs	1,167	295	2,441	570
Amortization of deferred financing costs	136	89	276	178
Foreign exchange loss	385	12	386	137
Accretion	88	68	175	133
	<u>19,999</u>	<u>13,992</u>	<u>39,710</u>	<u>26,278</u>
<b>Income before income taxes</b>	34,710	9,398	58,045	18,607
<b>Current income taxes</b>	13,685	5,053	25,486	9,935
	<u>21,025</u>	<u>4,345</u>	<u>32,559</u>	<u>8,672</u>
<b>Income for the period from continuing operations</b>				
<b>Income for the period from discontinued operations</b>	-	(473)	-	2,474
	<u>21,025</u>	<u>3,872</u>	<u>32,559</u>	<u>11,146</u>
<b>Income for the period</b>				
<b>Retained earnings - Beginning of period</b>	65,959	52,572	54,425	45,298
<b>Retained earnings - End of period</b>	<u>86,984</u>	<u>56,444</u>	<u>86,984</u>	<u>56,444</u>
<b>Basic earnings per share from continuing operations</b>	<b>0.23</b>	<b>0.05</b>	<b>0.36</b>	<b>0.10</b>
<b>Diluted earnings per share from continuing operations</b>	<b>0.23</b>	<b>0.05</b>	<b>0.35</b>	<b>0.09</b>
<b>Basic earnings per share</b>	<b>0.23</b>	<b>0.04</b>	<b>0.36</b>	<b>0.13</b>
<b>Diluted earnings per share</b>	<b>0.23</b>	<b>0.04</b>	<b>0.35</b>	<b>0.12</b>

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**Centurion Energy International Inc.**  
**Consolidated Statement of Cash Flows**

(\$000's Canadian dollars)

Periods ending June 30, 2006 and 2005 (Unaudited)

	Three months ended		Six months ended	
	2006	2005	2006	2005
<b>Cash provided by (used in) operating activities</b>				
Income for the period from continuing operations	21,025	4,345	32,559	8,672
Items not affecting cash				
Depletion, depreciation and amortization	9,593	7,764	19,601	14,502
Amortization of deferred financing costs	136	89	276	178
Stock based compensation	1,461	967	2,474	1,947
Accretion	88	68	175	133
Funds from continuing operations	<u>32,303</u>	<u>13,233</u>	<u>55,085</u>	<u>25,432</u>
Funds from discontinued operations	<u>-</u>	<u>211</u>	<u>-</u>	<u>6,430</u>
	<u>32,303</u>	<u>13,444</u>	<u>55,085</u>	<u>31,862</u>
Changes in continuing non cash working capital items	2,562	(10,669)	(14,376)	(17,532)
Changes in discontinued working capital items	<u>-</u>	<u>2,743</u>	<u>-</u>	<u>1,780</u>
	<u>34,865</u>	<u>5,518</u>	<u>40,709</u>	<u>16,110</u>
<b>Investing activities</b>				
Capital asset and materials and supplies expenditures	(68,220)	(28,115)	(142,955)	(58,959)
Proceeds on sale of working interest	17,336	-	17,336	-
Changes in continuing non-cash working capital items	22,080	1,331	182	11,540
Restricted cash	-	(17,030)	-	(17,030)
Discontinued operations	<u>-</u>	<u>45,634</u>	<u>-</u>	<u>41,442</u>
	<u>(28,804)</u>	<u>1,820</u>	<u>(125,437)</u>	<u>(23,007)</u>
<b>Financing activities</b>				
Issue/(repayments) of long term debt (net)	15,326	(87)	82,562	(265)
Issuance of capital stock	6	313	424	38,210
Discontinued operations	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>(653)</u>
	<u>15,332</u>	<u>221</u>	<u>82,986</u>	<u>37,292</u>
Foreign currency translation	<u>114</u>	<u>(253)</u>	<u>(144)</u>	<u>(585)</u>
<b>Increase / (decrease) in cash</b>	<u>21,507</u>	<u>7,306</u>	<u>(1,886)</u>	<u>29,810</u>
<b>Cash - Beginning of period</b>	<u>3,718</u>	<u>59,920</u>	<u>27,111</u>	<u>37,416</u>
<b>Cash - End of period</b>	<u>25,225</u>	<u>67,226</u>	<u>25,225</u>	<u>67,226</u>

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**Notes to the Consolidated Financial Statements**

All dollar figures are in \$000s of Canadian dollars unless otherwise noted.  
(Unaudited)

These unaudited interim consolidated financial statements for the periods ended June 30, 2006 and 2005 have been prepared in accordance with Canadian Generally Accepted Accounting Principles and should be read in conjunction with the annual financial statements prepared for the year ending December 31, 2005.

**1 Accounting Policies**

These interim consolidated financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended December 31, 2005, except for the amended policy noted below. Please refer to Note 1 "Summary of Accounting Policies" in the 2005 Consolidated Financial Statements for a detailed description of these policies.

**Interest Capitalization**

Effective April 1, 2006, the Company has adopted the accounting policy of capitalizing interest costs relating to significant capital projects in progress as part of property, plant and equipment. Capitalization of interest ceases when the capital asset is substantially complete and ready for its intended productive use.

Interest capitalization for the period represents interest costs incurred in connection with the Company's construction of a gas processing facility in the El Manzala Concession, which is approximately 60% complete at June 30, 2006, and for carrying costs associated with materials and supplies inventory for future drilling and exploration projects.

**Basis of Consolidation**

In March 2006, the Company acquired 75% of the common shares of Hercules Petroleum Limited ("Hercules"). As the Company controls more than 50% of Hercules, all identifiable assets and liabilities of Hercules have been included in the Consolidated Balance Sheet, with the proportion of non-controlling interest classified as minority interest.

**2 Working Interest Acquisition and Farm-out Agreement**

On March 15, 2006, the Company entered into an agreement with CTIP Oil and Gas Limited (CTIP) to acquire a 25 percent working interest in the West El Manzala and West El Qantara Concessions. Following the closing of this acquisition, the Company held a 100 percent participating interest in each of these Concessions.

Under the terms of the acquisition agreement, the Company has paid US\$20 million and issued 1,000,000 common shares at a price of CAD\$12.10 per share for the concession interests. The Company has agreed to pay additional payments that could total up to a further US\$25 million as and when specific discovery volumes and development objectives are met. Centurion has also granted a three percent net profits interest to CTIP on future production from the Concessions. The Egyptian Government granted formal approval of the acquisition on April 30, 2006.

On March 20, 2006, the Company signed an agreement with Shell Egypt West Manzala GmbH and Shell Egypt West Qantara GmbH (together "Shell"). The agreement provides for a Farm-in and LNG Cooperation Agreement, through which Shell will acquire a 50 percent interest in the West El Manzala and West El Qantara Concessions. The farm-out to Shell is subject to certain conditions, including obtaining the government approvals for a transfer that is required under the Concessions agreement. During the second quarter, Shell made an initial payment to the Company of US\$15 million and has paid its share of drilling costs incurred in 2006 on the farm-in lands. Under the terms of the agreement, Shell will pay 50 percent of all exploration and development costs for as long as they remain a partner in the Concessions. If Shell continues as a concession owner after the drilling of an initial five well

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exploration program, an additional payment of US\$20 million is payable by Shell to the Company. If Shell elects not to continue, the interest of Shell will revert back to Centurion. Shell has agreed to pay additional premiums that could total up to a further US\$225 million if and when specific discovery volumes and development objectives are met.

The initial US\$15 million proceeds received by the Company have been accounted for as a reduction to the cost subject to depletion.

**3 Long-Term Debt**

Long-term debt consists of drawings of approximately US\$84.4 million on a credit facility with Standard Bank plc. This debt bears interest at LIBOR plus a margin based on outstanding borrowings ranging between 2.00% and 3.45% and is payable monthly. No principal repayments are required until the end of the 48 month agreement and accordingly have been classified as a long-term obligation. This debt facility is secured by an assignment of all shares of the operating legal entities. As at June 30, 2006, the allowable borrowing base is US\$100 million.

In June 2006, the Company signed a term sheet and mandate letter with BNP Paribas to replace the existing credit facility. Under the new facility, the Company will have an allowable borrowing base of US\$215 million available in three tranches including a five year US\$140 million borrowing base loan; a revolving credit facility of US\$50 million secured by accounts receivable from the sale of hydrocarbons to the Egyptian Government; and a US\$25 million tranche which is available for issuing performance and work commitment bonds. The new facility is expected to close during the third quarter of 2006.

**4 Capital Lease Obligation**

The capital lease obligation of \$1,159 (2005 – \$1,504) represents a capital lease for compression facilities related to the Company's gas fields in Egypt. This obligation is being repaid over a five-year term commencing May 2004 with a blended interest and principal payment of US\$51 thousand per month. An amount of \$561 (2005 - \$560) has been included as the short-term portion of capital lease obligation.

**5 Asset Retirement Obligation**

	<u>(\$000s)</u>
Asset retirement obligation at December 31, 2005	3,743
Additions during 2006	850
Foreign exchange effects	(22)
<u>Accretion expense</u>	<u>175</u>
<u>Asset retirement obligation at June 30, 2006</u>	<u>4,746</u>

The total undiscounted amount of estimated cash flows required to settle the obligations is \$9,162 (2005 – \$7,692). Future obligations have been discounted at the Company's credit adjusted risk-free rate of 9 percent (2005 – 9 percent) and an inflation rate of 2 percent (2005 – 2 percent). These obligations are expected to be paid in 2010 through 2021.

To date, Centurion has not retired any wells or facilities from its continuing operations, nor has it segregated or restricted any funds to fulfill these future liabilities and obligations. Such future obligations will be funded from future cash flows, including future salvage value on existing capital equipment.

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**6 Capital Stock**

Authorized

Unlimited number of common shares  
 Unlimited number of preferred shares (none outstanding)

	Number of shares	(\$000s)
Balance at December 31, 2005	88,577,185	143,770
Issued on acquisition of working interest in Concessions	1,000,000	12,100
Issued on exercise of options (including allocation of contributed surplus)	318,800	554
Balance at June 30, 2006	89,895,985	156,424

**7 Contributed Surplus**

	(\$000s)
Balance – December 31, 2004	3,168
Stock based compensation	7,899
Stock based compensation associated with exercised options	(328)
Balance – December 31, 2005	10,739
Stock based compensation	2,474
Stock based compensation associated with exercised options	(130)
Balance – June 30, 2006	13,083

**8 Stock Options**

	Share Options	Weighted Average Exercise Price (\$)
Balance – December 31, 2005	7,052,533	5.87
Options exercised in 2006	318,800	1.32
Options granted in 2006	520,000	8.25
Balance – June 30, 2006	7,253,733	6.24

For the three and six month periods ended June 30, 2006 an expense of \$1,461 and \$2,474 (2005- \$967 and \$1,947) has been recorded in respect of employee stock options. This expense has been calculated using a Black-Scholes model assuming an average risk free ranging from 3.40% to 4.05%; an average 3 year expected option life; an average share price volatility ranging from 38% - 56%; and no dividend yield.

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**Weighted Average Stock Option Exercise Prices and Remaining Option Lives**

Exercise Price Range (\$)	Options Outstanding	Weighted – Average Remaining Contractual Life in Years	Options Exercisable
0.46 – 1.63	2,588,766	1.3	2,578,766
3.05 – 3.40	1,495,467	3.1	1,320,466
7.31 – 8.09	490,000	4.9	116,667
9.47 – 11.25	165,000	3.8	50,000
11.95 – 12.25	1,499,500	4.3	800,000
13.70 – 13.85	875,000	3.6	275,000
14.13 – 17.8	150,000	3.5	50,000
	<b>7,263,733</b>		<b>5,190,899</b>

**9 Interest and Finance Expense**

For the three months ended	June 30, 2006	June 30, 2005
Interest expense	2,164	295
Capitalized interest	(1,191)	-
Net interest expense	973	295
Other financing expense	194	-
Total interest and financing expense	1,167	295
For the six months ended	June 30, 2006	June 30, 2005
Interest expense	2,748	570
Capitalized interest	(1,191)	-
Net interest expense	1,557	570
Other financing expense	884	-
Total interest and financing expense	2,441	570

**10 Income from Terminated Acquisition**

On February 22, 2006, the Company entered into a conditional purchase and sales agreement to acquire a private U.S. corporation. On April 13, 2006, the private U.S. Corporation terminated the Company's agreement and under the terms of the contract, the US\$11.3 million deposit paid by the Company was returned to the Company in addition to a US\$7.4 million (\$8.5 million Canadian) agreement break fee. The \$7.8 million reported as income from terminated acquisition on the statement of operations reflects the break-fee received, net of acquisition due diligence costs incurred by the Company prior to the termination of the agreement.

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**11 Earnings per Share**

Per share basic amounts are calculated using the weighted average common shares outstanding during the period. Diluted per share amounts are calculated assuming all in the money securities are exercised with the resultant proceeds realized on the exercise of these securities being used to repurchase the Company's common shares at the average share price during the period.

For the three months ended	June 30, 2006	June 30, 2005
Weighted-average number of common shares	89,536,315	88,067,512
Dilutive securities	3,396,297	4,281,699
Weighted-average number of diluted common shares	92,932,612	92,349,211
For the six months ended	June 30, 2006	June 30, 2005
Weighted-average number of common shares	89,182,134	87,490,779
Dilutive securities	3,588,734	4,179,246
Weighted-average number of diluted common shares	92,770,868	91,670,025

**12 Supplemental Cash Flow Information**

Cash taxes and interest

For the three months ended	June 30, 2006	June 30, 2005
Cash taxes paid	13,685	5,053
Cash interest paid	2,028	295
For the six months ended	June 30, 2006	June 30, 2005
Cash taxes paid	25,486	9,935
Cash interest paid	2,612	570

**13 Segmented Information**

The Company has defined its continuing operations as oil and gas operations. The majority of the Company's oil and gas operations are located in Egypt. Certain exploration activities continue in other locations in Africa. Operations that have been discontinued are disclosed in note 14.

**Geographic Segments**  
**(\$000s)**

Three months ended June 30, 2006	Egypt	Tunisia	Nigeria – Sao Tome	Canada and Other	Total
Revenue	46,578	-	-	-	46,578
Other Income	33	-	-	276	309
Depletion Depreciation and Amortization	9,504	-	-	89	9,593
Income Tax Expense	13,685	-	-	-	13,685
Net Income (Loss)	17,830	-	(33)	3,228	21,025
Capital Asset and Material and Supplies Expenditures	56,660	-	11,543	17	68,220

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Six months ended June 30, 2006	Egypt	Tunisia	Nigeria – Sao Tome	Canada and Other	Total
Revenue	89,452	-	-	-	89,452
Other Income	77	-	-	404	481
Depletion Depreciation and Amortization	19,426	-	-	175	19,601
Income Tax Expense	25,486	-	-	-	25,486
Net Income (Loss)	32,746	-	(45)	(142)	32,559
Capital Assets	238,270	-	9,986	548	248,804
Materials and Supplies Inventory	35,945	-	-	-	35,945
Capital Asset and Material and Supplies Expenditures	131,268	-	11,641	46	142,955

Three months ended June 30, 2005	Egypt	Tunisia	Nigeria – Sao Tome	Canada and Other	Total
Revenue	22,892	-	-	-	22,892
Other Income	39	-	-	459	498
Depletion Depreciation and Amortization	7,686	-	-	78	7,764
Income Tax Expense	5,053	-	-	-	5,053
Net Income (Loss)	7,387	-	-	(3,042)	4,345
Capital Asset and Material and Supplies Expenditures	27,823	282	-	10	28,115

Six months ended June 30, 2005	Egypt	Tunisia	Nigeria – Sao Tome	Canada and Other	Total
Revenue	44,054	-	-	-	44,054
Other Income	54	-	-	777	831
Depletion Depreciation and Amortization	14,346	-	-	156	14,502
Income Tax Expense	9,935	-	-	-	9,935
Net Income (Loss)	15,030	-	-	(6,358)	8,672
Capital Asset and Material and Supplies Expenditures	58,573	282	-	104	58,959

Year-ended December 31, 2005	Egypt	Tunisia	Nigeria – Sao Tome	Canada and Other	Total
Capital Assets	160,913	-	941	677	162,531
Materials and Supplies Inventory	14,198	-	-	-	14,198

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**14 Discontinued Operations**

In late 2004, the Company evaluated its ongoing operations in Tunisia and decided to pursue the sale of its operating assets in the country. The Company signed a purchase and sales agreement on February 25, 2005 for the sale of all the Company's Tunisian assets including SEEB, but excluding its interest in the Mellita Permit and a reduced interest in the Ezzaouia and El Biban Triassic prospects. On April 26, 2005, the sales transaction closed for final proceeds of \$43.7 million.

Selected financial information for the operations included in discontinued operations for the six months ended June 30, 2005 is reported below (there were no results for 2006):

<b>(\$000s)</b>	June 30, 2005
Revenues	8,979
Income from discontinued operations before taxes	5,774
Income taxes	2,617
Loss on disposal of discontinued operations	683
Income from discontinued operations	2,474

**15 Contingencies, Commitments**

On June 30, 2005, Centurion awarded Presson-Enerflex a contract for the supply, delivery and project management of the El Wastani phase III stand alone gas plant in Egypt. This contract represents a US\$32.3 million commitment which will be due and payable at project milestones throughout 2006 and is included in Centurion's 2006 capital budget. All amounts under the terms of the contract will be incurred in fiscal 2006.

Centurion has contracted four drilling rigs in connection with the 2006 budgeted drilling program in Egypt. In the event that Centurion does not proceed with planned drilling for these rigs, the Company would be obligated to pay the rig operators a variable rate based on days not utilized under the contracts. The maximum commitment at June 30, 2006 related to these contracts is approximately US\$3.2 million, which could be reduced for farm-outs to other operators.

In May 2004, Centurion was awarded the West El Manzala and West El Qantara blocks, in the Nile Delta of Egypt. Centurion has committed to spend US\$18 million on the blocks during the first phase of exploration. As at June 30, 2006, Centurion has had US\$7.8 million of approved spending related to the total obligation accepted by the Egyptian Government. Expenditures in excess of the remaining commitment of US\$10.2 million have been spent and are awaiting approval from the Egyptian Government. As noted in Note 2, Centurion currently holds a 100% working interest in these Concessions and as such is responsible for the entire obligation. Should Shell continue as a Concession owner following the initial five well exploration program, 50% of the remaining commitment will be transferred to Shell.

On March 14, 2006, the Company signed a Production Sharing Contract (PSC) and formal granting by the Joint Development Zone of its 10 percent (gross) equity interest, 7.5 percent (net) in Block 4 of the Nigeria/Sao Tome. Under the PSC the Company has paid US\$6.8 million, being its share of the total signature bonus. The Company will be obligated to pay US\$4.0 million (net) for its share in the minimum expenditure of US\$53 million for the block. This obligation is expected to be paid through 2007.

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**16 Subsequent Event**

In August 2006, the Company signed a Memorandum of Understanding ("MOU") to acquire the remaining 25 percent share of Hercules Petroleum Limited. This acquisition will result in the acquisition of a further 2 percent working interest share in the Nigeria-Sao Tome Joint Development Zone, thereby increasing its share to 9.5 percent. A deposit of the purchase price amount of US\$4.4 million has been made in connection with the MOU.

**17 Financial Instruments**

**Balance sheet financial instruments**

Centurion's financial instruments presented on the Consolidated Balance Sheet consist of cash, accounts receivable, accounts payable and long-term debt. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in current market transactions. Based on these assessments, the carrying value of identified financial instruments approximates fair value.

**Concentration of credit risk and economic dependence**

Currently, all production of the Company is sold to one customer, the Egyptian Government. The Company is exposed to credit risk in the event that the Egyptian Government is unable to meet its financial obligations.