

Centurion Energy International Inc.

Consolidated Financial Statements
December 31, 2006 and 2005

(in thousands of Canadian dollars)

April 5, 2007

Auditors' Report

**To the Shareholders of
Centurion Energy International Inc.**

We have audited the consolidated balance sheets of **Centurion Energy International 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

Centurion Energy International Inc.

Consolidated Balance Sheets

As at December 31, 2006 and 2005

(in thousands of Canadian dollars)

	2006 \$	2005 \$
Assets		
Current assets		
Cash	43,633	27,111
Accounts receivable	67,295	46,779
Deposits and prepaids (note 2)	7,439	873
Condensate inventory	-	85
	<hr/> 118,367	<hr/> 74,848
Capital assets (note 3)	312,863	162,531
Materials and supplies	46,528	14,198
Deferred financing costs	2,774	2,176
	<hr/> 480,532	<hr/> 253,753
Liabilities		
Current liabilities		
Accounts payable	47,981	45,362
Short-term portion of lease obligation (note 7)	609	560
	<hr/> 48,590	<hr/> 45,922
Capital lease obligation (note 7)	896	1,504
Long-term debt (note 7)	163,296	13,618
Asset retirement obligation (note 8)	5,248	3,743
	<hr/> 218,030	<hr/> 64,787
Shareholders' Equity		
Capital stock (note 9)	157,876	143,770
Contributed surplus (note 10)	16,286	10,739
Foreign currency translation adjustment	(17,976)	(19,968)
Retained earnings	106,316	54,425
	<hr/> 262,502	<hr/> 188,966
	<hr/> 480,532	<hr/> 253,753
Contingencies and commitments (note 19)		
Subsequent event (note 20)		

Centurion Energy International Inc.

Consolidated Statements of Operations and Retained Earnings For the years ended December 31, 2006 and 2005

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

	2006 \$	2005 \$
Revenue		
Sales – net of royalties	180,454	107,238
Income from terminated acquisition (note 12)	7,822	-
Other income	903	1,388
	<u>189,179</u>	<u>108,626</u>
Expenses		
Operating	18,519	16,780
Depletion, depreciation and amortization	37,665	43,513
General and administrative (note 13)	11,429	2,708
Foreign prospect review	1,269	1,212
Stock-based compensation (note 11)	5,928	7,899
Interest and finance costs (note 14)	5,113	1,167
Amortization of deferred financing costs (note 14)	2,186	950
Foreign exchange loss	232	90
Accretion	365	229
	<u>82,706</u>	<u>74,548</u>
Income before income taxes	106,473	34,078
Current income taxes	54,582	27,425
Income for the year from continuing operations	51,891	6,653
Income for the year from discontinued operations	-	2,474
Income for the year	51,891	9,127
Retained earnings – Beginning of year	54,425	45,298
Retained earnings – End of year	<u>106,316</u>	<u>54,425</u>

Centurion Energy International Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005

(in thousands of Canadian dollars)

	2006 \$	2005 \$
Cash provided by (used in)		
Operating activities		
Income for the year from continuing operations	51,891	6,653
Items not affecting cash		
Depletion, depreciation and amortization	37,665	43,513
Amortization of deferred financing costs	2,186	950
Stock based compensation	5,928	7,899
Accretion	365	229
	<hr/>	<hr/>
Funds from continuing operations	98,035	59,244
Funds from discontinued operations	-	6,430
	<hr/>	<hr/>
	98,035	65,674
Change in continuing non-cash working capital items	(11,765)	(25,805)
Change in discontinued working capital items	-	1,780
	<hr/>	<hr/>
	86,270	41,649
	<hr/>	<hr/>
Investing activities		
Capital asset and materials and supplies expenditures	(220,006)	(164,772)
Proceeds on sale of working interest	17,336	-
Change in continuing non-cash working capital items	(12,698)	35,898
Discontinued operations	-	41,442
	<hr/>	<hr/>
	(215,368)	(87,432)
	<hr/>	<hr/>
Financing activities		
Issue of long-term debt (net)	145,048	1,448
Issue of capital stock	1,625	38,688
Change in continuing non-cash working capital items	-	(2,038)
Discontinued operations	-	(653)
	<hr/>	<hr/>
	146,673	37,445
	<hr/>	<hr/>
Foreign currency translation	(1,053)	(1,967)
	<hr/>	<hr/>
Increase (decrease) in cash	16,522	(10,305)
	<hr/>	<hr/>
Cash – Beginning of year	27,111	37,416
	<hr/>	<hr/>
Cash – End of year	43,633	27,111
	<hr/>	<hr/>

Centurion Energy International Inc.

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(in thousands of Canadian dollars)

1 Summary of accounting policies

a) Consolidation

These consolidated financial statements are prepared and reported in Canadian dollars in accordance with generally accepted accounting principles (GAAP) in Canada, which differ in some respects from international accounting standards.

The consolidated financial statements include the accounts of Centurion Energy International Inc. (the "Company") and its subsidiaries and the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint ventures.

b) Foreign currency translation

The Company operates in business environments where the US dollar is the functional currency. The financial statements of operationally and financially independent foreign operations are translated into Canadian dollars from the functional currency using the current rate method. Under the current rate method of foreign currency translation, assets and liabilities are translated into Canadian dollars at period end rates and income and expenses are translated into Canadian dollars at average rates in effect during the period. Monetary assets and liabilities denominated in a currency other than the functional currency are revalued at the balance sheet date, and any gains or losses arising on the revaluation are reflected in earnings. Exchange gains and losses on translation are reflected as a separate component of shareholders' equity.

c) Petroleum and natural gas properties and related depletion and amortization

The Company follows the full cost method of accounting, whereby all costs incurred in exploring for and developing oil and gas reserves are capitalized. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities and general and administrative costs directly related to exploration and development activities. Capitalized costs are accumulated on a country-by-country basis and are depreciated and depleted using the unit of production method based upon estimated proved reserves. Natural gas reserves are converted to equivalent barrels of oil on the basis of their relative energy content (6 mcf equals 1 barrel). Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs subject to depreciation and depletion.

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The Company calculates a ceiling test whereby the net capitalized costs of properties cannot exceed the sum of the undiscounted cash flows expected to result from the Company's proved reserves. Cash flows are calculated based on third party quoted forward prices and adjusted for the Company's contract prices and quality differentials. If there is impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the consolidated statement of operations. Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustments would alter the rate of depletion and amortization by more than twenty percent.

d) Materials and supplies

Materials and supplies are valued at the lower of cost and net realizable value.

e) Office furniture and equipment and related amortization

The Company provides for amortization on office furniture and equipment using the straight-line method at annual rates of 20 – 30%.

f) Joint ventures

A portion of the Company's exploration and operating activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

g) Asset retirement obligation

The fair value of estimated asset retirement obligations is recognized when identified and a reasonable estimate of fair value can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the retirement obligation and the related asset retirement cost. Asset retirement costs for natural gas and crude oil are amortized using the unit-of-production method. Amortization of asset retirement costs are included in depletion, depreciation and amortization. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in earnings.

Actual expenditures incurred are charged against the accumulated obligation.

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h) Revenue recognition

Revenues from the sale of oil and gas are recorded when title passes to the customer.

i) Earnings per share

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the year. Diluted per share information assumes exercise of in-the-money options and warrants at the beginning of the year or date of issue, if later. It is assumed that proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

j) Stock-based compensation

The Company has an incentive stock option plan which is described in note 11. Compensation expense based on the fair value of the employee stock options is being recognized over the vesting period of the related stock options and charged to contributed surplus. Stock options and warrants issued to non-employees are recorded at their fair market value at date of issuance.

k) Financial instruments

Canadian accounting standards require the disclosure of the fair value of financial assets and liabilities. The fair value of the Company's current financial assets and liabilities is considered to approximate book value due to their current nature, as does the long-term debt, which is at a floating rate.

l) Measurement uncertainty

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future oil and 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 changes in such estimates in future periods could be significant.

m) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantially enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs. In Egypt, the government receives production in lieu of income tax. The Company records this production as current income tax expense.

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n) 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.

o) Comparative amounts

Certain comparative amounts have been reclassified to conform with the presentation format adopted in the current year.

2 Deposits and prepaids

During the third quarter of 2006, the Company paid a US\$5.6 million deposit to acquire a participation option to acquire a 50 percent working interest in three Concessions in Chad. Upon notification that the vendor has secured Government approvals for the rights to explore, develop or produce hydrocarbons in the Chad Concessions, the Company will have 30 days to review technical and commercial data related to the Concessions and to elect to proceed with the acquisition. Should the Company elect not to participate the US\$5.6 million deposit will be returned. Other deposits and prepaids amounting to \$894 relate to normal operating activities in Egypt.

3 Capital assets

	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Petroleum and natural gas properties and production equipment	417,551	105,675	311,876
Office equipment	4,550	3,563	987
	<u>422,101</u>	<u>109,238</u>	<u>312,863</u>

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	2005		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Petroleum and natural gas properties and production equipment	230,417	69,077	161,340
Office equipment	3,687	2,496	1,191
	<u>234,104</u>	<u>71,573</u>	<u>162,531</u>

As at December 31, 2006, petroleum and natural gas properties include \$104,282 (2005 – \$20,914) in respect of unproved properties in Egypt and Nigeria, which have been excluded from the depletion calculations.

Head office general and administrative costs capitalized during 2006 were \$3,543 (2005 – \$4,165). Interest charges capitalized related to major projects were \$3,841 during 2006 (2005 – \$nil).

As at December 31, 2006, \$46,528 (2005 – \$14,198) of materials and supplies have been included in long-term assets. These materials and supplies represent casing, tubulars and wellheads which will be utilized in the planned drilling program and included in capital assets when used. Materials and supplies are recorded at the lower of market and average cost.

The prices used in the ceiling test evaluation of the Company's crude oil and natural gas reserves at December 31, 2006 were:

	Natural gas	Crude oil	Condensate
	US\$/mscf	US\$/barrel	US\$/barrel
2007	2.80	42.20	57.27
2008	2.80	44.09	59.83
2009	2.80	43.79	59.42
2010	2.80	40.86	55.45
2011	2.80	38.64	52.44
Average until 2021	2.87	42.29	57.39

During the fourth quarter of 2005, the Company completed the drilling of an offshore exploration well in Tunisia. The well was found to be unsuccessful and as such, the Company has reviewed the carrying value of its Tunisian assets for impairment. As a result of this assessment, the Company has written off the net book value of the Tunisian assets (\$14.5 million) and recorded the expense as depletion in the statement of operations.

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4 Deferred financing costs

Deferred financing costs amounted to \$2,774 (2005 – \$2,176) as at December 31, 2006. These costs include legal and financing fees relating to the new credit facility (see note 7). Deferred financing costs are being amortized over the term of the debt financing to which they relate. As a result of the Company's closing of a new credit facility, previously deferred costs in the amount of \$1,726 relating to the former facility have been expensed. Other deferred financing costs relate to the capital lease arrangement with Northstar Trade Finance Ltd (see note 7). These costs are being amortized over the life of the lease.

5 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 was able to acquire a 50 percent interest in the West El Manzala and West El Qantara Concessions. 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 agreed to pay 50 percent of all exploration and development costs for as long as they remain a partner in the Concessions.

On December 29, 2006, Shell and the Company agreed to terminate the Farm-in and LNG Cooperation Agreement. As a result, Shell's 50% working interest in the two Concessions has reverted back to the Company, which retains a 100% working interest.

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

6 Nigeria-Sao Tome additional working interest acquisition

In August 2006, the Company signed a Memorandum of Understanding ("MOU") to acquire the remaining 25 percent share of Hercules Petroleum Limited ("Hercules") for US\$4.4 million. This acquisition resulted in the acquisition of a further 2 percent working interest share in the Nigeria-Sao Tome Joint Development Zone, thereby increasing its share to a net 9.5 percent working interest subject to a third party Net Profit Interest of 0.5 percent.

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7 Long-term debt

	Rate	2006 \$	2005 \$
Credit facility (US \$140 million)	LIBOR + 3.0%	163,296	13,618
Capital lease obligation	7.5%	1,505	2,064
		<hr/>	<hr/>
		164,801	15,682
Amount due within one year		609	560
		<hr/>	<hr/>
		164,192	15,122
		<hr/>	<hr/>

Principal repayments due in the next five years are as follows:

	\$
2006	609
2007	662
2008	163,530
2009	-
2010	-

Credit facility

In September 2006, the Company completed a new credit facility agreement with BNP Paribas which replaces the previous credit facility with Standard Bank plc. Under the new credit facility, the Company will have an allowable borrowing base of US\$215 million available in three tranches:

Tranche A – a US\$140 million borrowing base loan bearing interest at LIBOR plus a margin ranging from 2.75 percent to 3.25 percent. Tranche A is a five year facility with no scheduled repayments for the first two years, subsequently; the facility will be reduced in half-yearly increments based on borrowing base reserve values;

Tranche B – a revolving credit facility of US\$50 million secured by accounts receivable from the sale of hydrocarbons to the Egyptian Government bearing interest at LIBOR plus a margin of 1.50 percent. Tranche B is a revolving 18 month facility with a lender option to extend based on evaluation of accounts receivable balances;

Tranche C – a US\$25 million tranche which is available for issuing performance and work commitment bonds. Tranche C bears interest at 0.30 percent and is available for 5 years.

Long-term debt as at December 31, 2006 consists of drawings of approximately US\$90 million on Tranche A and US\$50 million on Tranche B. Proceeds from the new facility have been used to repay the Standard Bank facility. This credit facility is secured by an assignment of all shares of the operating legal entities.

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(in thousands of Canadian dollars)

Capital lease obligation

The capital lease obligation of \$1,505 (2005 – \$2,064) 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 \$609 (2005 – \$550) has been included as the short-term portion of capital lease obligation. At the inception of the lease, \$3,184 was included in capital assets and is being depleted under the unit-of-production method. The lease includes a bargain purchase option at the end of the lease term. Interest expense of \$149 (2005 – \$ 206) has been recorded relating to this lease.

8 Asset retirement obligation

	\$
Asset retirement obligation at December 31, 2005	3,743
Additions during 2006	1,175
Foreign exchange	(35)
Accretion expense	<u>365</u>
Asset retirement obligation at December 31, 2006	<u>5,248</u>

The total undiscounted amount of estimated costs required to settle the obligations is \$11,291 (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 the period between 2010 and 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.

Centurion Energy International Inc.

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(in thousands of Canadian dollars)

9 Capital stock

Authorized

Unlimited number of common shares

Unlimited number of preferred shares (none outstanding)

Issued and outstanding (common shares)

	Number of shares	Stated value \$
Balance – December 31, 2004	84,055,985	104,754
Issued on Public Offering (net of issue costs and taxes)	2,975,000	37,009
Issued on exercise of options (including allocation of contributed surplus)	1,546,200	2,007
	<hr/>	<hr/>
Balance at December 31, 2005	88,577,185	143,770
Issued on acquisition of working interest in concessions (note 6)	1,000,000	12,100
Issued on exercise of options (including allocation of contributed surplus)	1,349,000	2,006
	<hr/>	<hr/>
Balance at December 31, 2006	90,926,185	157,876

During 2006, 1,349,000 options were exercised by employees of the Company at an average exercise price of \$1.20. In 2005, 1,546,200 options were exercised by employees of the Company at an average exercise price of \$1.09.

In March 2006, 1,000,000 shares were issued to CTIP to acquire a 25 percent working interest in the West El Manzala and West El Qantara Concessions at \$12.10 per share. Refer to note 5.

In January 2005, the Company successfully completed a short-form prospectus offering consisting of 2,975,000 common shares at \$13.25 per share. Net proceeds of the public offering were \$37.0 million.

10 Contributed surplus

	\$
Balance – December 31, 2004	3,168
Stock based compensation	7,899
Stock based compensation associated with exercised options	(328)
	<hr/>
Balance – December 31, 2005	10,739
Stock based compensation	5,928
Stock based compensation associated with exercised options	(381)
	<hr/>
Balance – December 31, 2006	16,286

Centurion Energy International Inc.

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(in thousands of Canadian dollars)

11 Stock options

	Share Options	Weighted- average exercise price \$
Balance – December 31, 2004	6,014,233	1.69
Options exercised in 2005	(1,546,200)	1.09
Options granted in 2005	2,584,500	12.74
	<hr/>	
Balance – December 31, 2005	7,052,533	5.87
Options exercised in 2006	(1,349,000)	1.20
Options forfeited in 2006	(356,000)	5.13
Options granted in 2006	1,237,000	7.70
	<hr/>	
Balance – December 31, 2006	6,584,533	6.69

For the year ended December 31, 2006 an expense of \$5,928 (2005 – \$7,899) has been recorded in respect of employee stock options. This expense has been calculated using a Black-Scholes model assuming risk free rates ranging from 3.40% to 4.05%, an average 3 year expected option life, share price volatility ranging from 38% - 56% and no dividend yield. At December 31, 2006 4,661,869 outstanding options are exercisable at an average exercise price of \$5.70 (2005 – 5,044,700 options at \$3.40).

Weighted average stock option exercise prices and remaining option lives

Exercise price	Options outstanding	Weighted average remaining contractual life in years	Options exercisable
0.46 – 1.63	1,500,366	0.8	1,500,366
3.05 – 3.40	1,318,667	2.5	1,318,667
6.91 – 8.09	1,207,000	4.5	416,667
9.47 – 11.25	140,000	3.3	96,667
11.95 – 12.25	1,468,500	3.7	1,022,835
13.70 – 13.85	875,000	3.1	281,667
14.13 – 17.80	75,000	3.1	25,000
	<hr/>		
	6,584,533		4,661,869

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12 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.

13 General and administrative expenses

	2006 \$	2005 \$
Total expense	14,972	6,873
Capitalized general and administrative	(3,543)	(4,165)
Net general and administrative expense	<u>11,429</u>	<u>2,708</u>

For the year-ended 2006 general and administrative expenses amounted to \$11,429 (2005 – \$2,708). The increase in expensed general and administrative costs is the result of closing costs incurred as a result of the Company's sale to Dana Gas PSJC (see note 20), the opening of the London office, increased staffing levels and a decrease in direct capitalized costs during the period.

14 Interest and financing expense

	2006 \$	2005 \$
Interest expense	7,721	981
Capitalized interest	(3,841)	-
Net interest expense	3,880	981
Other financing expense	1,233	186
Net interest and financing expense	<u>5,113</u>	<u>1,167</u>

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 and for carrying costs associated with materials and supplies inventory for future drilling and exploration projects.

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15 Foreign prospect review

Costs associated with the evaluation of oil and gas opportunities outside of Egypt are expensed as incurred. Should the Company successfully obtain new exploration or development permits in countries of business other than Egypt, all future costs associated with developing or exploring for oil and gas reserves in these new countries will be accounted for under the full cost method of accounting (note 1(c)). The foreign prospect review costs of \$1,269 in 2006 (2005 – \$1,212) represent travel and geological evaluation costs related to opportunities outside of our core areas of operations in Egypt and Tunisia.

16 Supplemental cash flow information

Cash taxes and interest

	2006 \$	2005 \$
Cash taxes paid	54,561	27,425
Cash interest paid	7,721	1,167

17 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 18.

	2006				
	Egypt \$	Tunisia \$	Nigeria – Soa Tome (JDZ) \$	Canada and Other \$	Total \$
Sales	180,454	-	-	-	180,454
Other income	250	-	-	653	903
Interest and finance expense	-	-	-	5,113	5,113
Depletion, depreciation and amortization	37,241	-	-	424	37,665
Income tax expense	54,561	-	-	-	54,582
Net income (loss)	70,652	-	(67)	(18,694)	51,891
Capital assets	292,521	-	18,845	1,497	312,863
Materials and supplies inventory	46,528	-	-	-	46,528
Capital asset and material supplies expenditures	201,110	-	17,652	1,244	220,006

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					2005
	Egypt	Tunisia	Nigeria – Soa Tome (JDZ)	Canada and Other	Total
	\$	\$	\$	\$	\$
Sales	107,238	-	-	-	107,238
Other income	130	-	-	1,258	1,388
Interest expense	-	-	-	1,167	1,167
Depletion, depreciation and amortization	28,652	14,538	-	323	43,513
Income tax expense	27,425	-	-	-	27,425
Net income (loss)	44,249	(14,538)	-	(23,058)	6,653
Capital asset and materials and supplies inventory	156,185	8,426	-	161	164,772
Capital assets	160,913	-	941	677	162,531
Materials and supplies inventory	14,198	-	-	-	14,198

18 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 nine months ended December 31, 2005 is reported below (there were no results for 2006):

	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

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19 Contingencies and commitments

Centurion has contracted four drilling rigs in connection with the 2007 budgeted drilling program in Egypt. In the event that Centurion does not proceed with planned drilling with 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 December 31, 2006 related to these contracts is approximately US\$9.8 million, which could be reduced by 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\$11 million on the West El Manzala block and US\$7 million on the West El Qantara block during the first phase of exploration. These commitments are supported by performance bonds issued by BNP Paribas and supported by Export Development Canada. As at December 31, 2006, Centurion has fulfilled its spending commitment related to the West El Manzala block. During the third quarter, Centurion was notified that the US\$11 million West El Manzala letter of guarantee was released by the Egyptian Government. As described in note 5, Centurion currently holds a 100% working interest in these Concessions and as such is responsible for the entire obligation.

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, 9.5 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\$5.0 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. This commitment is supported by a performance bond issued by BNP Paribas and supported by Export Development Canada.

20 Subsequent event

On January 10 2007, the Company completed a Plan of Arrangement (“Plan”) with Dana Gas PJSC (“Dana Gas”). Under the terms of the Plan, Dana Gas acquired all of the issued and outstanding common shares of the Company for \$12.00 in cash per common share for an aggregate price of approximately \$1 billion and retired debt of US\$140 million. The Plan was approved by the Company’s common share holders during a special meeting on January 8, 2007 and was subsequently approved by the Alberta Court of Queen’s Bench.

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21 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.

