

RIVAL ENERGY LTD.

Highlights

	3 Months Ended			Year Ended		
	December 31		Percent	December 31		Percent
<u>Financial</u>	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2005</u>	<u>2004</u>	<u>Change</u>
Oil & gas sales	\$ 5,106,627	\$ 2,772,159	84	\$ 16,847,517	\$10,563,047	59
Cash flow from operations	2,632,436	1,170,468	125	8,673,118	4,417,211	96
Net income (loss)	952,630	(212,491)	548	2,884,228	206,662	1296
Cash flow per share	0.13	0.06	117	0.45	0.23	96
Net income (loss) per share	.05	(0.01)	552	0.15	0.01	1289
Average shares outstanding (000)	19,809	19,196	3	19,293	19,203	0
 <u>Operating (6:1 BOE)</u>						
<u>Average daily production</u>						
Natural gas (mcf)	2,807	3,099	(9)	2,912	2,845	2
Oil and NGL (bblsd)	419	<u>223</u>	<u>88</u>	358	<u>237</u>	<u>51</u>
Barrels of oil equivalent (boe)	887	739	20	843	711	19
 <u>Average Sales Price</u>						
Natural gas (mcf)	\$ 11.39	\$ 6.47	76	\$ 8.73	\$ 6.50	34
Crude Oil (bbl)	54.83	44.71	23	57.67	43.95	31

MANAGEMENT'S REVIEW OF RESULTS:

The following discussion and analysis ("MD&A") of the financial and operating results for Rival Energy Ltd. ("Rival" or "the Company"), should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2005 and 2004 and the notes to those audited financial statements. This MD&A is dated as of April 11, 2006.

The Chief Executive Officer and the Chief Financial Officer have reviewed the Company's internal controls over financial reporting and found them to be effective at December 31, 2005.

The term barrel of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

NON-GAAP ITEMS

Cash flow from operations, which is determined before changes in non-cash working capital, is used by the Company as a key measure of performance. Cash flow from operations does not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other companies. Cash flow from operations as presented is not intended to represent operating profits for the period nor should it be viewed as an alternative to cash provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Cash flow from operations per share is calculated using the same share bases that are used in the determination of earnings per share.

FORWARD LOOKING STATEMENTS

The MD&A contains forward-looking information. Estimates provided for 2006 and beyond are based on assumptions of future events, and actual results could be significantly different than these estimates. Events or circumstances may cause actual results to be materially different from these predictions. The reader is cautioned not to place undue reliance on this forward-looking information.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Rival Energy Ltd. are disclosed in the notes to Rival's audited financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company, and the likelihood of materially different results being reported. Rival's Management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

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

Proven Oil and Gas Reserves

Under National Instrument 51-101 (NI 51-101), "Proven" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable (it is likely that the actual remaining quantities recovered will exceed the estimated Proven reserves). In accordance with this definition, the level of certainty targeted by the reporting Company should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. There was no such consideration of probability under NP 2B. In the case of "Probable" reserves, which are obviously less certain to be recovered than Proven reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proven plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proven plus Probable, the reporting company must believe that there is at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated Proven plus Probable reserves. The implementation of NI 51-101 has resulted in a more rigorous and uniform standardization of Reserve evaluation.

Proven plus Probable reserves as defined in NI 51-101 are viewed by many industry participants as being comparable to the "Established" reserves definition that was used historically. Under the previous rules, the Established reserves category was generally calculated on the basis that Proven plus half of Probable reserves (as those terms were defined in NP 2B) represented the best estimate at the time. Rival Energy Ltd believes that its Established reserves reported under NP 2B were calculated on a conservative basis as its estimate of reserves that would ultimately be recovered. As a result, and for comparison purposes, Rival Energy Ltd has included Established reserves from its December 31, 2002 Reserve Report as the December 31, 2003 opening balances under the Proven Plus Probable reserves category reconciled on a Company Interest basis. Similarly, Rival Energy Ltd. has included 50 percent of Probable reserves from the December 31, 2002 Reserve Report as the opening balances under the Probable reserves category, again reconciled on a Company interest basis. The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proven oil and gas reserves on the financial results and position of the Company is described under the heading "Full Cost Accounting for Oil and Gas Activities (Ceiling Test)".

Depletion expense

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether or not the activities funded were successful. The aggregate of net capitalized costs and estimated future development costs, less estimated salvage values, is amortized using the unit-of-production method based on estimated proven oil and gas reserves. An increase in estimated proven oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Unproven Properties

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

Full Cost Accounting Ceiling Test

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved and probable reserves, production rate, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

Income Tax Accounting

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

Asset Retirement Obligations

Asset retirement obligations are estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment's and reclamations discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

SUMMARY FINANCIAL PERFORMANCE

The following table summarizes certain corporate financial performance for the last three years.

			Restated
(\$000s, except per share amounts)	2005	2004	2003
Revenues, net of royalties	\$ 13,492	\$ 8,648	\$ 7,314
Net income (loss)	2,884	207	(4,267)
Net income (loss) per share	0.15	0.01	(0.33)
Net income (loss) per share diluted	0.15	0.01	(0.33)
Total assets	27,052	25,177	23,649
Total long-term financial liabilities	3,189	2,179	1,785
Cash dividends declared per share	-	-	-

AVERAGE DAILY PRODUCTION

In 2005, Rival successfully grew its average daily production rate to 843 boe per day from the 711 boe per day produced in 2004. The highlight of 2005 for Rival was the continued development of its Killam oil pool and the discovery of a similar oil pool in the Bellshill Lake area. This new discovery, drilled in Q4, has only recently been completed and placed on production. Rival has recently drilled two additional wells into this pool, which will be completed and put on production during the month of April, and further development of this pool will occur in Q2 or Q3 of this year depending upon the timing of the required regulatory approvals for the proposed development.

As challenges continue to mount for all oil and natural gas producers, perseverance played a large part in Rival's success in 2005. The ability to gain access to drilling rigs and other oilfield services, combined with the timing delays experienced in gaining surface access and regulatory approvals to conduct operations had a significant adverse impact on Rival's performance in 2005. This difficulty permitted the Company to participate in only 12 drilling operations this year, versus 17 for calendar 2004. At year-end 2005 Rival carried an additional 12 drilling locations forward into 2006 due to surface access and a shortage of available drilling rigs during the fourth quarter of 2005.

Rival's drilling program for 2005 was split evenly between 6 natural gas targets and 6 oil prospects. The initial results of this program produced 6 oil wells, 3 natural gas wells and 3 wells that were abandoned. This 75% success rate helped the Company increase its corporate reserves by 12% for 2005, after replacing production. Due to the fact Rival employed only 70% of its 2005 cash flow into capital expenditures last year, reserves were added at a cost of \$10.63 and \$11.00 per barrel of oil equivalent per for proven and proven plus probable reserve categories.

BENCHMARK AND COMPANY COMMODITY PRICES

	Three months ended December 31, 2005	Year ended December 31, 2005
<u>Average Benchmark Prices</u>		
Natural gas Aeco daily \$CAD per mcf	\$ 11.31	\$ 8.71
Crude Oil WTI -\$US/bbl	60.02	56.56
Exchange rate \$US/\$CAD	1.1732	1.2114
Crude Oil Edmonton Par Price -\$CAD/bbl	71.18	68.72
<u>Rival average prices received</u>		
Natural gas \$CAD per mcf	11.39	8.73
Crude Oil \$CAD per bbl	54.83	57.67

OIL AND NATURAL GAS PRICES RECEIVED

The Company received an average price of \$11.39 per mcf for natural gas in the fourth quarter of 2005, an increase of 76 percent over the fourth quarter of 2004. The average natural gas price received for the full 2005 calendar year was 34 percent higher, (\$8.73 per mcf) than that received during 2004. Crude oil prices in the fourth quarter of 2005 were 23 percent higher than they were for the same period in 2004 and for the full-year 2005, crude oil prices averaged \$57.67 per barrel, up 31 percent over the 2004 twelve month price. Natural gas liquids make up less than six percent of total liquids volumes so prices received do not have a material effect on liquids sales.

OIL AND NATURAL GAS SALES

Oil and natural gas sales for the fourth quarter of 2005 were eighty four percent higher than the same quarter of 2004 due to an eighty-eight percent increase in oil volumes coupled with a seventy six percent increase in natural gas prices and a twenty three percent increase in oil prices. Sales for the full year 2005 were 59 percent higher than for 2004 due to higher oil volumes from our Killam discovery wells and higher oil and natural gas prices.

	<u>Three Months Ended</u> <u>December 31</u>			<u>Year Ended</u> <u>December 31</u>		
	<u>2005</u>	<u>2004</u>	<u>Percent</u> <u>Change</u>	<u>2005</u>	<u>2004</u>	<u>Percent</u> <u>Change</u>
Oil and natural gas sales	\$5,106,627	\$2,772,159	84	\$16,847,517	\$10,563,047	59

OIL AND NATURAL GAS OPERATING NETBACKS PER BOE

	<u>Three months ended</u> <u>December 31,</u> <u>2005</u>	<u>Three months ended</u> <u>December 31,</u> <u>2004</u>	<u>Year ended</u> <u>December 31,</u> <u>2005</u>	<u>Year ended</u> <u>December 31,</u> <u>2005</u>
Sales price	\$ 62.60	\$ 40.75	\$ 54.73	\$ 40.61
Royalties	(13.83)	(6.78)	(10.90)	(7.36)
ARTC	1.05	0.38	0.81	0.40
Operating expenses	(10.88)	(12.22)	(10.30)	(10.29)
Transportation expenses	(1.49)	(1.20)	(1.37)	(1.07)
Operating netback	\$ 37.45	\$ 20.93	\$ 32.97	\$ 22.29

ROYALTIES

Royalties were substantially higher in 2005 than in 2004 due to the effect of higher prices for both natural gas and oil and higher oil volumes. On a percentage of sales basis, 2005 full year oil royalties were 3.1 percent higher than in 2004 primarily due to production volumes from the new Killam pool wells which are subject to a 25 percent freehold royalty rate. Natural gas liquids royalties amounted to \$76,000 in total for 2005 up from \$56,000 in 2004.

<u>ROYALTIES</u>	Year Ended		Percent
	<u>December 31</u>		
<u>As a percentage of sales</u>	<u>2005</u>	<u>2004</u>	<u>Change</u>
Natural gas royalties	17.5%	18.9%	(1.4)
Crude oil royalties	19.5%	16.4%	3.1

ALBERTA ROYALTY TAX CREDIT

The Alberta royalty tax credit (ARTC) was \$250,375 for 2005, an increase of 143 percent over 2004, due to higher crown royalties resulting from higher commodity prices and an adjustment that was required after an audit of prior years' payments was concluded.

OTHER INCOME

Other income was \$3,271 in 2005 compared with \$76,015 received in 2004. This was due to the one-time cost recovery, from certain of Rival's partners, in 2004 of insurance premiums, overhead and marketing fees from prior years that had not previously been charged by Rival's predecessor company.

OPERATING COSTS

Rival's operating costs were \$3,172,230 (\$10.30 per boe) for calendar 2005, a reduction of nine percent from the \$11.36 per boe realized in 2004. The reduction resulted from the increase in oil volumes at Killam, through a Rival owned and operated battery, which resulted in the fixed costs being spread over a larger number of barrels and thereby reducing the per boe costs.

TRANSPORTATION AND TARIFF

Transportation and tariff costs were \$ 1.36 per boe for 2005, compared with \$1.07 per boe for 2004. This increase of 27 percent was predominantly due to the additional production from Killam, where the production must be trucked to a terminal, and the increase in prices for oil hauling that impacted all oil producers in 2005

GENERAL AND ADMINISTRATIVE (G&A)

G&A costs were \$1,759,609 before overhead recoveries and G&A capitalized compared with \$1,571,305 for 2004

G&A ANALYSIS

	<u>Year ended December 31</u>		
	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>
Salaries and benefits	\$ 913,915	\$ 833,608	10
Consulting	146,804	124,217	18
Rent and office	346,431	303,054	14
Computer network and software	84,611	80,974	4
Audit, legal and reserves	118,827	79,704	49
Insurance and bank fees	88,282	60,049	47
Transfer agent, filing fees, travel and shareholder reporting	60,738	<u>89,699</u>	(32)
G&A before recoveries	\$ 1,759,608	\$ 1,571,305	12
Capitalized	(335,000)	(320,000)	5
Recoveries	(314,705)	<u>(261,518)</u>	<u>20</u>
Net G&A costs	\$ <u>1,109,903</u>	\$ <u>989,787</u>	12

GENERAL AND ADMINISTRATIVE CONTINUED

Salaries and benefits were 10 percent higher in 2005 versus 2004 primarily due to the addition of a landman (Manager, Land) in July 2005, a Vice President of Exploration (geologist) and an additional senior geologist joined Rival in September 2005. This together with a general salary increase that was required to ensure Rival remained competitive with salary levels of our peers, increased salaries and benefits in 2005. Consulting fees were higher in 2005 than in 2004 because the Company used the services of a geological consultant for six months in 2005. Rent and office costs were 19 percent higher in 2005 due to the expiry of the previous office lease, the rental rate increase in Calgary office space and moving costs when the Company moved offices on October 1, 2005.

Computer network and software charges were seven percent higher in 2005 due to higher Accumap fees for an increase in the number of modules in 2005. Audit, legal and reserve evaluation fees increased by 28 percent in 2005 due to higher audit fees, (greater demand for services and complexity of the work performed) and the fact the Auditors reviewed each quarterly report and the tax returns in 2005. In 2005 Rival also conducted a joint venture audit. Insurance costs were 47 percent higher in 2005 due to credits from the reversal of an accrual in 2004 and costs relating to 2004 that were recorded in 2005.

Capitalized G&A was 5 percent higher than in 2004 due to the Company employing more geologists in 2005.

INTEREST EXPENSE

Interest expense was \$279,240 for 2005 a 5 percent decrease from \$291,749 in 2004 due to slightly lower loan balances in 2005.

DEPLETION AND DEPRECIATION

Depletion costs were \$4,335,000 in 2005, versus \$3,582,000 for 2004, with depreciation adding \$25,000 in 2005 and \$13,000 in 2004. Proved oil reserves increased by 88 percent to January 1, 2006, which was offset by a decline in natural gas reserves by nine percent. Rival incurred a total capital spending program of \$5,663,935 in 2005, compared to the \$5,757,947 spent in 2004. For the year 2005, Rival added 533,000 boe to its base of proven reserves, before production of 308,000 boe replacing production by 1.7 times.

ACCRETION

Accretion costs were \$145,716 in 2005, compared with \$134,495 for the prior year. Strong commodity prices have led to an increase in the economic life of Rival's wells, which reduces the present value of the liability to abandon and reclaim the wells.

STOCK BASED COMPENSATION

Stock based compensation was \$220,972 in 2005, compared with \$132,442 for 2004. Stock based compensation expense was higher in 2005 due to the fact the Company had more stock options outstanding and it issued many of these options at higher prices as the trading price of the Company's common shares increased throughout the year. Note 4(d) to the financial statements illustrates the option prices on issued options for both years. Stock based compensation is determined using the Black-Scholes option method that determines the fair value of an option based on the volatility of the underlying common share price. The expense is amortized over the vesting period of the option.

CEILING TEST

At December 31, 2005 and 2004 the Company reviewed the carrying value of its properties and determined that the recoverable value of the reserves exceeded the recorded net book value. The crude oil and natural gas future prices used in the ceiling test were obtained from Rival's independent engineering firm and represent management's best estimate of the future pricing environment for the Company as at December 31, 2005 and 2004.

INCOME AND CAPITAL TAXES

Capital taxes were \$91,117 in 2005 compared with \$174,537 in 2004. The 2004 amount included a Saskatchewan Resource Surcharge of \$134,162, which was lower in 2005, and a Federal Large Corporations Tax of \$40,375. The 2004 Federal Large Corporations Tax of \$ 40,375 arose from the Company's 2003 tax return and was nil in 2005 because of the \$50 million deduction allowed in calculating a company's taxable capital in 2004, compared to the \$10 million deduction previously allowed. The future tax provision was \$1,062,202 for 2005 compared to \$348,612 for the prior year due to the significant increase in taxable income in 2005.

Rival Energy Ltd. had the following income tax pools available at January 1, 2006, before deducting partnership taxable income of \$8.1 million for the partnership year ended January 2, 2006:

<u>Tax Pools</u>	<u>(millions)</u>
Canadian Exploration Expense (CEE)	4.9
Canadian Development Expense (CDE)	3.6
Canadian Oil and Gas Property Expense (COGPE)	10.0
Undepreciated Capital Cost (UCC)	5.5
Foreign Exploration and Development Expense (FEDE)	1.3
Share issue costs	<u>0.7</u>
Total	<u>\$ 26.0</u>

CASH FLOW FROM OPERATIONS AND NET INCOME

Cash flow from operations was \$8,673,118 (\$0.45 per share) for 2005, an increase of 96 percent from \$4,417,211 (\$0.23 per share) in 2004. This increase was primarily due to a 51 percent increase in oil production volumes and the increased commodity prices of 34 percent for natural gas and 31 percent for oil received by Rival. Net income for 2005 increased to \$2,884,228 from 206,662 for 2004 as a result of the significantly higher cash flows while the Company was able to keep most of its expenses to a modest increase.

CASH NETBACKS

Rival's operating and cash netbacks are as follows:

\$/Boe

	<u>2005</u>	<u>2004</u>
Oil and gas sales	\$ 54.73	\$ 40.61
Royalties	(10.90)	(7.36)
ARTC	0.81	0.40
Operating expenses	(10.30)	(10.29)
Transportation and tariff	(1.37)	(1.07)
Operating netback	32.97	22.29
Other income	0.00	0.29
General and administrative expenses	(3.60)	(3.81)
Interest expense	(0.91)	(1.12)
Capital taxes	(0.29)	(0.67)
Cash netback	\$ 28.17	\$ <u>16.98</u>

CAPITAL EXPENDITURES**Year ended December 31**

	<u>2005</u>	<u>2004</u>
Land	\$ 445,592	\$ 540,741
Geological & geophysical	172,853	116,304
Drilling & completions	3,126,441	3,905,009
Equipping & facilities	2,392,926	770,348
Acquisitions (dispositions)	(991,287)	(18,552)
Abandonment and site restoration	108,063	69,944
Office	74,347	54,153
Capitalized overhead	335,000	<u>320,000</u>
Total capital expenditures	\$ 5,663,935	\$ <u>5,757,947</u>

FINDING AND DEVELOPMENT COSTS

Rival has determined its Finding and Development costs in accordance with NI 51-101, including all costs related to exploration and development activities for the year and the change in the current year of the estimated future development costs relating to those reserves and excluding acquisitions and dispositions.

	<u>\$/BOE</u>		
	<u>2005</u>	<u>2004</u>	<u>Average (1)</u>
Total Proved	\$ 14.46	\$ 16.21	\$ 15.34
Total Proved + Probable	14.71	9.61	12.16

(1) The average value represents the last two years only, as Rival Energy Ltd. was reorganized under new management in June of 2003.

Considering only capital expenditures for 2005 in the calculation, the Finding and Development costs decrease to \$11.97 for Total Proved and \$12.17 for Total Proved + Probable.

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

NET ASSET VALUE

	<u>Value (000)</u>	<u>Notes</u>
Reserves proved plus probable	\$ 35,446	GLJ Report, 10% discount before tax
Undeveloped land	5,763	Management estimate at \$125 per acre
Seismic	750	Management estimate
Tax pools	<u>1,800</u>	Estimated value of \$0.10 per \$1
Total	43,759	
Less debt and working capital deficiency	<u>(4,343)</u>	
Net asset value-basic	39,416	
Stock option proceeds	<u>1,637</u>	
Net asset value diluted	\$ <u>41,053</u>	
Common shares outstanding basic	19,808	
Common shares outstanding diluted	21,678	
Net asset value per share basic	\$ 1.99	
Net asset value per share diluted	1.89	

LIQUIDITY AND CAPITAL RESOURCES

Rival Energy Ltd. had a working capital deficit of \$4.3 million at December 31, 2005 with the inclusion of bank debt in current liabilities compared with \$8.2 million at December 31, 2004. The Company has a credit facility consisting of an \$8.5 million operating line of credit and a \$2 million line for acquisitions or capital projects. The facility is subject to review by April 30, 2006 and accordingly is shown as a current liability. Rival expects this facility to be renewed under similar terms as the current facility. The lending agreement requires the Company to maintain a specified minimum working capital position. The Company was in compliance with this covenant at December 31, 2005 however at December 31, 2004 the Company was not in compliance by \$67,211, because of its accelerated capital spending in the fourth quarter of 2004.

The lender provided a waiver of the covenant at that time. The Company expects capital spending to be \$10-12 million for 2006 and this amount will be funded from cash flow based on expected average production volumes of 1,000 boe per day using forecast pricing of \$57.00 US per barrel for WTI and \$8.00 per Mmbtu for AECO gas, and available bank lines. Rival Energy Ltd. had 19,808,781 common shares outstanding at April 11, 2006.

Cash inflows (outflows)

Year ended December 31, (\$ millions)

	<u>2005</u>	<u>2004</u>
Cash flow from operations	\$ 8.7	\$ 4.4
Common share issue, net	0.8	-
Bank loan change	<u>(3.5)</u>	<u>0.6</u>
	6.0	5.0
Capital expenditures, net of dispositions	(5.8)	(5.6)
Shares repurchased	-	(0.1)
Other	<u>(0.2)</u>	<u>0.7</u>
Change in cash	\$ <u>-</u>	\$ <u>-</u>

Contractual Obligations (\$ millions)

	<u>2006</u>	<u>2005</u>
Bank loan	\$ 3.1	\$ 6.6
Office rent	<u>0.4</u>	<u>0.2</u>
Total contractual obligations	\$ <u>3.5</u>	\$ <u>6.8</u>

Quarterly Comparison	<u>Q4</u>	<u>2005</u>		<u>Q2</u>	<u>Q1</u>
		<u>Q3</u>			
Natural gas production (mcf/d)	2,807	2,820		2,972	3,052
Oil & NGLs production (bbls/d)	419	444		294	273
Average natural gas price received	\$ 11.39	\$ 9.43	\$	7.38	\$ 6.98
Average oil & NGLs price received	55.51	66.25		54.67	49.93
Average shares outstanding (000)	19,809	19,121		19,121	19,121
Net income (loss)	\$ 952,630	\$1,288,740		580,624	62,234
Net income (loss) per share	.05	.07		.03	.00
Net income (loss) per share diluted	.05	.07		.03	.00

Quarterly Comparison	<u>Q4</u>	<u>2004</u>		<u>Q2</u>	<u>Q1</u>
		<u>Q3</u>			
Natural gas production (mcf/d)	3,099	2,729		2,593	2,956
Oil & NGLs production (bbls/d)	223	226		240	257
Average natural gas price received	\$ 6.47	\$ 6.32	\$	6.90	\$ 6.35
Average oil & NGLs price received	\$ 43.69	\$ 48.16	\$	43.47	\$ 39.68
Average shares outstanding (000)	19,196	19,233		19,200	19,183
Net income	\$ (212,491)	\$ 64,663	\$	278,192	\$ 76,298
Net income per share	\$ (0.01)	\$ 0.00	\$	0.01	\$ 0.00
Net income per share diluted	\$ (0.01)	\$ 0.00	\$	0.01	\$ 0.00

SUMMARY OF ITEMS AFFECTING QUARTERLY COMPARABILITY -2005**First Quarter**

At the end of the first quarter, Rival sold its interests in the Suffield oil property. Production from the new Killam discovery well commenced in February, 2005.

Third Quarter

Oil prices increased by 21 percent and natural gas prices increased by 28 percent over the second quarter of 2005.

Fourth Quarter

Rival issued 687,500 shares in a private placement. Rival was unable to complete its proposed drilling program due to a shortage of available drilling rigs, resulting in a delay until the first and second quarters of 2006.

SUMMARY OF ITEMS AFFECTING QUARTERLY COMPARABILITY -2004

First Quarter

Natural gas prices increased by 25 percent from the fourth quarter of 2003 to \$6.35 per mcf. Oil and natural gas liquids prices were 18 percent higher than the fourth quarter of 2003.

Second Quarter

Natural gas prices and oil prices were nine percent higher than in the first quarter.

Third Quarter

Saskatchewan wells drilled in the first quarter were put on production by the operator at the end of the quarter.

Fourth Quarter

The Company repurchased 112,000 of its common shares at an average price of \$0.70 through a normal course issuer bid, and discovered a new oil pool at Killam.

Additional information concerning Rival Energy Ltd. is available on Sedar at www.sedar.com and on the Company's website at www.rivalenergy.com

Consolidated Financial Statements of

RIVAL ENERGY LTD.

Years ended December 31, 2005 and 2004

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of Rival Energy Ltd.

We have audited the consolidated balance sheet of Rival Energy Ltd. as at December 31, 2005 and the consolidated statement of income and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

The comparative financial statements as at and for the year ended December 31, 2004 presented for comparative purposes were audited by another firm of Chartered Accountants which expressed an opinion without reservation on those financial statements in their report dated April 13, 2005.

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
March 24, 2006

RIVAL ENERGY LTD.

Consolidated Balance Sheets

December 31

	2005	2004
Assets		
Current assets		
Accounts receivable	\$ 2,826,762	\$ 2,096,345
Prepaid	175,262	136,712
	<u>3,002,024</u>	<u>2,233,057</u>
Petroleum and natural gas properties (Note 2)	24,050,009	22,943,793
	<u>\$ 27,052,033</u>	<u>25,176,850</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,198,436	\$ 3,732,633
Bank loan (Note 3)	3,147,359	6,667,635
	<u>7,345,795</u>	<u>10,400,268</u>
Asset retirement obligation (Note 6)	1,778,689	1,830,692
Future income tax (Note 7)	1,410,814	348,612
	<u>10,535,298</u>	<u>12,579,572</u>
Shareholders' equity		
Share capital (Note 4)	16,354,233	15,539,976
Contributed surplus (Note 4)	484,204	263,232
Retained earnings (deficit)	(321,702)	(3,205,930)
	<u>16,516,735</u>	<u>12,597,278</u>
	<u>\$ 27,052,033</u>	<u>\$ 25,176,850</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board

(signed) Colin F. Ogilvy, Director

(signed) Larry M. Jones, Director

RIVAL ENERGY LTD.

Consolidated Statements of Income and Deficit

Years ended December 31

	2005	2004
Revenue:		
Oil and gas sales	\$ 16,847,517	\$ 10,563,047
Royalties	(3,355,508)	(1,914,916)
Alberta royalty tax credit	250,375	103,186
Other income	3,271	76,015
	<u>13,745,655</u>	<u>8,827,332</u>
Expenses:		
Operating	3,172,230	2,675,871
Product transportation and tariff	420,047	278,177
General and administrative	1,109,903	989,787
Interest and financing costs	279,240	291,749
Depletion and depreciation	4,360,000	3,595,000
Accretion	145,716	134,495
Stock based compensation	220,972	132,442
	<u>9,708,108</u>	<u>8,097,521</u>
Income before taxes	4,037,547	729,811
Capital taxes	91,117	174,537
Future income taxes	1,062,202	348,612
Net income for the year	<u>2,884,228</u>	<u>206,662</u>
Retained earnings (deficit), beginning of year	(3,205,930)	(3,412,592)
Retained earnings (deficit), end of year	<u>\$ (321,702)</u>	<u>\$ (3,205,930)</u>
Net income per share basic and diluted:	\$ 0.15	\$ 0.01

See accompanying notes to consolidated financial statements.

RIVAL ENERGY LTD.

Consolidated Statements of Cash Flows

Years ended December 31

	2005	2004
Cash provided by (used in):		
Operations:		
Net income for the year	\$ 2,884,228	\$ 206,662
Items not involving cash:		
Depletion and depreciation	4,360,000	3,595,000
Accretion	145,716	134,495
Stock based compensation	220,972	132,442
Future income tax	1,062,202	348,612
Cash flow	8,673,118	4,417,211
Abandonment costs	(108,063)	(69,944)
Change in non-cash working capital	(32,670)	458,790
	8,532,385	4,806,057
Investments:		
Petroleum and natural gas properties	(6,547,159)	(5,638,004)
Sale of petroleum properties	991,287	-
Change in non-cash working capital	(270,494)	298,494
	(5,826,366)	(5,339,510)
Financing:		
Bank loan	(3,520,276)	607,029
Share repurchases	-	(79,186)
Common share issue	825,000	-
Share issue costs	(10,743)	-
	(2,706,019)	527,843
Increase (decrease) in cash	-	(5,610)
Cash, beginning of year	-	5,610
Cash, end of year	\$ -	\$ -

See accompanying notes to consolidated financial statements

RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2005 and 2004

Rival Energy Ltd. (the “Company”) is in the business of exploring for, acquiring and producing petroleum and natural gas in Canada.

1. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and a partnership.

(b) Petroleum and natural gas operations

The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country basis; currently all costs are in Canada. Such costs include land acquisitions, geological and geophysical activities, lease rentals on non-producing properties, the drilling of both productive and unproductive wells, asset retirement costs and production equipment. Overhead which is directly attributable to acquisition, exploration and development activities is capitalized as part of petroleum and natural gas properties. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

The accumulated costs in a cost centre from which there is production, plus estimated future costs to develop proved reserves, and the associated future asset retirement costs not yet recognized on the Company’s books, less the costs of unproved properties, are depleted using the unit-of-production method, based on total proved reserves as determined by an independent reservoir engineer. Natural gas reserves and production are stated in equivalent barrels of oil based upon the estimated relative energy content of six thousand cubic feet of gas to one barrel of oil.

The costs of acquiring and evaluating unproved properties are initially excluded from the depletion calculation. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

Petroleum and natural gas properties and production equipment are evaluated in each reporting period to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, and the lower of cost and market of unproved properties exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, plus the lower of cost and market of

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Notes to Consolidated Financial Statements,
Years ended December 31, 2005 and 2004

unproved properties. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Asset retirement obligations

The fair value of statutory, contractual or legal obligations to retire long-lived assets are recorded as a long term liability with a corresponding increase to the carrying value of the related asset. The liability amount is increased due to the passage of time through accretion and is charged to income. Revisions to the estimated amount or timing of the obligations are reflected as increases or decreases to the asset retirement obligation. Actual asset retirement expenditures are charged to the asset retirement obligation liability to the extent of the recorded liability with resulting gains or losses being recognized to income in the period of settlement. Amounts capitalized to the related assets are amortized to income consistent with the depletion or depreciation of the underlying asset.

(d) Stock-based compensation plans

The Company has a stock option plan described in Note 4(d).

The Company uses the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(e) Income taxes

The Company uses the liability method of accounting for future income taxes. Under the liability method, the difference between tax assets and liabilities and their financial reporting basis is computed and measured using the expected tax rates.

(f) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The Company's share capital is reduced and future taxes are increased by the estimated future tax liability attributable to the tax deductions when they are renounced to the investors.

(g) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares

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Notes to Consolidated Financial Statements,
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at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(h) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities such as oil and gas interests and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Specifically, the amounts recorded for depletion and depreciation of oil and natural gas properties and equipment and the provision for asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, 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.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

(i) Revenue recognition

Revenue from petroleum and natural gas production is recognized by the Company when title passes and delivery has taken place.

2. Petroleum and natural gas properties

		Accumulate d depletion & depreciation	Net book value
December 31, 2005	Cost		
Oil and gas properties	\$ 58,694,195	\$ 34,774,243	\$ 23,919,952
Other assets	240,220	110,163	130,057
	\$ 58,934,415	\$ 34,884,406	\$ 24,050,009
		Accumulated	Net book
December 31, 2004	Cost	depletion & depreciation	value
Oil and gas properties	\$ 53,302,325	\$ 30,439,243	\$ 22,863,082
Other assets	165,874	85,163	80,711
	\$ 53,468,199	\$ 30,524,406	\$ 22,943,793

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The Company has reviewed the carrying value of its properties and determined that the recoverable value of reserves exceeded the recorded net book value at December 31, 2005 and 2004. The following table provides the commodity price assumptions used in determining the ceiling test valuation at December 31, 2005.

Year	WTI Oil (\$US/bbl)	Foreign Exchange Rate	Edmonton Light Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu) (2)
2006	57.00	0.85	66.25	10.60
2007	54.00	0.85	62.75	9.25
2008	49.00	0.85	57.00	8.00
2009	45.25	0.85	52.50	7.50
2010	43.00	0.85	50.00	7.20
2011	40.75	0.85	47.25	6.90
2012	40.00	0.85	46.50	6.90
2013	40.00	0.85	46.25	7.05
2014	40.00	0.85	46.25	7.20
2015	40.00	0.85	46.50	7.40
2016	40.00	0.85	46.25	7.55
2017+	40.00	0.85	46.25	2.0%
Remainder (1)	2.0%	0.85	2.0%	

(1) Percentage change represents the change in each year after 2017 to the end of the reserve life

(2) This plant gate price represents the price before raw gas gathering and processing charges are deducted.

The costs of unproven land and seismic at December 31, 2005 of \$1,472,000 (2004 - \$2,285,000) have been excluded from the depletion calculation. Future development costs related to proved non-producing and proved undeveloped reserves of \$1,985,000 (2004 - \$542,000) are included in the depletion calculation.

During 2005, the Company capitalized \$335,000 (2004 - \$320,000) in overhead costs directly relating to petroleum and natural gas properties.

3. Bank loan

The Company has a demand credit facility at a Canadian chartered bank with \$8.5 million (2004 - \$7.5 million) available at the bank's prime rate plus ½ percent, and an acquisition and development line of \$2.0 million (2004 - \$2.0 million) at the bank's prime interest rate plus one percent. The facility is subject to review prior to April 30, 2006. Based on the demand nature of this facility, the Company's debt has been classified as a current obligation. The facility is secured by a general assignment of book debts and a \$25,000,000 first floating charge debenture on all assets.

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Notes to Consolidated Financial Statements,
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4. Share capital

(a) Authorized

Unlimited number of common shares.

Unlimited number of preferred shares issuable in series, rights and privileges to be determined upon issue.

(b) Issued

	December 31, 2005		December 31, 2004	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of year	19,121,281	\$ 15,539,976	19,183,281	\$ 15,569,162
Common share issue	687,500	825,000	50,000	50,000
Share issue costs		(10,743)	-	-
Share repurchases	-	-	(112,000)	(79,186)
Issued and outstanding	19,808,781	\$ 16,354,233	19,121,281	\$ 15,539,976
Weighted average number of shares outstanding	19,293,156		19,203,114	

The weighted average number of shares outstanding for the year ended December 31, 2005 was 19,293,156 (2004 - 19,203,114). In computing diluted earnings per share, 158,070 shares (2004 - Nil) were added to the weighted average number of common shares outstanding during the year for the dilutive effect of employee stock options. The dilution calculation has excluded 200,000 options because their exercise price was higher than the average share price for the year.

(c) Share issues

In October 2005, the Company issued 687,500 shares to directors, officers and employees for a total consideration of \$825,000 before share issue costs of \$10,743.

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Notes to Consolidated Financial Statements,
Years ended December 31, 2005 and 2004

(d) Options

The Company has a fixed stock option plan in which the Company may grant options to its directors, officers and employees for up to 10% of the outstanding shares of common stock. Under this plan, the exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is five years. Options are granted periodically throughout the year.

	December 31, 2005		December 31, 2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	1,915,000	\$ 0.86	1,040,000	\$ 1.10
Granted	865,000	1.14	1,105,000	0.83
Exercised	-	-	-	-
Expired	-	-	-	-
Cancelled	(910,000)	1.10	(230,000)	1.10
Stock options outstanding, end of year	1,870,000	0.88	1,915,000	0.86
Exercisable at year end	756,250	\$ 0.79	731,250	\$ 0.92

The following table summarizes information about fixed stock options outstanding at December 31, 2005.

Exercise price	Number outstanding	Weighted average contractual life (years)	Exercise price	Number exercisable	Weighted average exercise price of exercisable options
\$ 1.50	200,000	4.8	\$ 1.50	50,000	\$ 1.50
1.05	515,000	4.7	1.05	128,750	1.05
0.95	150,000	4.5	0.95	37,500	0.95
0.65	1,005,000	3.6	0.65	540,000	0.65

In 2004 the Company granted 440,000 common share options to directors, officers and employees at the market price of \$1.10. On December 15, 2004 the Company re-priced 340,000 options for employees to the market price of \$0.65 and issued 665,000 options to directors and officers at \$0.65. The options vest over four years and expire five years from the date of issue.

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Notes to Consolidated Financial Statements,
Years ended December 31, 2005 and 2004

(e) Stock based compensation

The Company determined the fair value of stock options issued using the modified Black-Scholes option pricing model under the following assumptions.

	2005	2004
Weighted average fair value (\$/option)	\$ 1.14	\$ 0.43
Risk-free interest rate	4%	4%
Volatility	48%	51%
Dividend yield	Nil	Nil
Weighted average life (years)	5.0	5.0

The following table sets out the changes in contributed surplus related to the stock based compensation expense.

	2005	2004
Amount relating prior to 2004	\$ 263,232	\$ 130,790
Stock based compensation 2004	-	132,442
Stock based compensation 2005	220,972	-
Exercise of options	-	-
Closing balance December 31	\$ 484,204	\$ 263,232

5. Related party transactions

During 2005, the Company paid legal fees of \$26,200 to a law firm, one of the partners of which became a director of the Company in August of 2005.

6. Asset retirement obligation

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is \$5,276,457 (2004 - \$4,891,120) of which the majority for the wells is expected to be incurred between 2009 and 2020. A credit adjusted risk-free rate of 8% and an inflation factor of 2% per annum were used to calculate the fair value of the asset retirement obligations.

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The following table sets out changes in the asset retirement obligation.

Asset retirement obligations	2005		2004	
Opening balance, January 1	\$	1,830,692	\$	1,784,810
Current period accretion expense		145,716		134,495
Current additions to asset carrying value		144,611		235,155
Revisions to estimated cash flows		(234,267)		(253,824)
Abandonment costs incurred		(108,063)		(69,944)
Closing balance, December 31	\$	1,778,689	\$	1,830,692

7. Income taxes

The income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial corporate tax rate to income (loss) for the year. The major components of these differences are as follows.

	2005		2004	
Statutory tax rate		35%		40%
Expected income tax provision	\$	1,413,141	\$	291,924
Add (deduct)				
Non-deductible Crown charges		204,362		450,802
Federal resource allowance		(338,557)		(342,521)
Stock based compensation		77,340		57,956
Other		(294,084)		224,950
Change in valuation allowance		-		(334,499)
	\$	1,062,202	\$	348,612

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Notes to Consolidated Financial Statements,
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The components of the net future income tax liability at December 31, 2005 and 2004 are as follows.

	2005	2004
Future income tax assets (liabilities)		
Share issue costs	\$ 199,113	\$ 282,791
Asset retirement obligation	622,541	653,557
Property, plant and equipment	597,322	372,837
Partnership with a different tax year	(2,830,290)	(1,703,123)
Non-capital loss	-	45,326
	\$ (1,411,314)	\$ (348,612)

The Company had the following income tax pools available at January 1, 2006, before deducting partnership taxable income of approximately \$8.1 million for the partnership year ended January 2, 2006:

Tax Pools	(millions)
Canadian Exploration Expense (CEE)	\$ 4.9
Canadian Development Expense (CDE)	3.6
Canadian Oil and Gas Property Expense (COGPE)	10.0
Undepreciated Capital Cost (UCC)	5.5
Foreign Exploration and Development Expense (FEDE)	1.3
Share issue costs	0.7
Total	\$ 26.0

8. Risk management

(a) Foreign currency exchange risk

The Company is exposed to foreign currency fluctuations as crude oil prices received are referenced to U.S. dollar denominated prices.

(b) Credit risk

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Company's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(c) Financial instruments

The carrying amounts of financial instruments included in the balance sheet approximate their fair value due to their short-term maturity.

The Company has no agreements to fix the sales price for its production.

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Notes to Consolidated Financial Statements,
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(d) Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's bank debt, which is subject to a floating interest rate. The Company had no interest rate swaps or financial hedges at December 31, 2005.

9. Commitment

The Company has obligations to make future office lease payments at December 31, 2005:

(000's)	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Office leases	\$ 376	\$ 378	\$ 386	\$ 386	\$ 320