

# **RIVAL ENERGY LTD.**

## Highlights

	3 Months Ended			Year Ended		
	December 31		Percent	December 31		Percent
<u>Financial</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>
Oil & gas sales	\$ 4,061,431	\$ 5,106,627	(20)	\$ 15,355,641	\$ 16,847,517	(9)
Cash flow from operations	1,677,007	2,632,436	(36)	5,947,754	8,673,118	(31)
Net income (loss)	(249,990)	952,630	(126)	53,444	2,884,228	(98)
Cash flow per share	0.08	0.13	(38)	0.29	0.45	(35)
Net income (loss) per share	(0.01)	0.05	(122)	0.00	0.15	(98)
Average shares outstanding (000)	22,309	19,809	13	20,434	19,293	6

## Operating (6:1 BOE)

### Average daily production

Natural gas (mcf)	2,302	2,807	(18)	2,534	2,912	(13)
Oil and NGL (bblsd)	516	419	23	426	358	19
Barrels of oil equivalent (boe)	899	887	1	848	843	1

### Average Sales Price

Natural gas (mcf)	\$ 7.11	\$ 11.39	(38)	\$ 6.59	\$ 8.73	(25)
Crude Oil (bbl)	53.15	54.83	(3)	59.08	57.67	2

## 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, 2006 and 2005 and the notes to those audited financial statements.

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

## DISCLOSURE CONTROLS

The Chief Executive Officer and the Chief Financial Officer have reviewed the Company's disclosure controls and procedures over financial reporting and found them to be effective at December 31, 2006. Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer by others within the Company, in an accurate and timely manner in order for the Company to comply with its continuous disclosure and financial reporting obligations and in order to safeguard assets, particularly during the period in which the annual filings of the Company are being prepared. Management has concluded that the Company's disclosure controls and procedures, as of the end of December 31, 2006 were effective in providing reasonable assurance that material information was accumulated and disclosed accurately. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

One of the inherent weaknesses in internal controls in a small company is a lack of segregation of duties. Management believes this weakness is mitigated by the active involvement of the Chief Executive Officer and the Chief Financial Officer who each have more than 29 years of related oil and gas experience.

## **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 2007 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. For Probable reserves, it must be equally likely that the actual remaining quantities recovered will be equal to or greater than the sum of the reserve estimates.

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 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 Company is required to review the carrying value of its petroleum and natural gas (P&NG) assets for potential impairment. Impairment occurs when the carrying value of the P&NG assets is greater than their fair value. The fair value is equal to the estimated future cash flows from proven and probable reserves using future price and production rate forecasts, and other relevant assumptions, and discounted using a risk free rate, plus undeveloped land and salvage. 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**

The Company records a liability for the fair value of legal obligations to abandon and reclaim its oil and gas wells and facilities, at the end of their estimated economic lives. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is equal to the discounted fair value of the obligation when the asset is recorded, with an equal offset to the carrying amount of the asset, which is subject to depletion. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flow, with the accretion charged to earnings. 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.

<b>(\$000s, except per share amounts)</b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Revenues, net of royalties	\$12,497	\$ 13,492	\$ 8,648
Net income	53	2,884	207
Net income per share	0.00	0.15	0.01
Net income per share diluted	0.00	0.15	0.01
Total assets	46,522	27,052	25,177
Total long-term financial liabilities	4,215	3,190	2,179
Cash dividends declared per share	-	-	-

## **PRODUCTION AND OPERATIONS OVERVIEW**

The year 2006 proved to be very challenging for most oil and natural gas entities, perhaps even more so for the majority of the “junior” exploration companies. Rival’s average daily production rate for 2006 increased to 848 barrels of oil equivalent per day, a nominal increase from the 843 boe per day averaged in 2005. The main reasons for this lack of growth was a combination of natural declines in our natural gas properties (13%), a lack of natural gas drilling undertaken by Rival in 2006 and the timing of approvals required to enable Rival to commence its development drilling program on its oil prospects. Once the required approvals were in-place, Rival embarked upon an aggressive drilling program throughout the final four months of 2006, but the results did not increase our production until the first quarter of 2007. This successful drilling program, predominately in the Bellshill area, has enabled Rival to continue to produce more than 1100 boe per day (65% oil) throughout the first quarter of 2007.

Throughout 2006, Rival participated in the drilling of 21 wells and this activity resulted in the completion of 15 wells and the abandonment of six, for an overall success rate of 71% for the year. Eleven of these wells were drilled into two of our newer oil pools in the Bellshill area and the success of these wells has been responsible for the growth in production volumes over the past two quarters.

Also during 2006, Rival participated in the drilling of four higher impact exploration wells within its core activity areas. Unfortunately none of these prospects proved to be economically commercial in the end. The Company had mitigated the majority of the risk in these wells by entering into joint ventures or farmouts with industry partners to reduce our overall risk exposure. While these results were disappointing, the fact of the matter is that full-cycle exploration is a key aspect of Rival’s growth strategy and we must continue to expose the Company to this type of opportunity as we continue our efforts to grow and add value for our shareholders. Exploration is a risky business, but when conducted with technical expertise and economic discipline, it also has the greatest impact on growth for the smaller oil and natural gas companies like Rival.

## **BENCHMARK AND COMPANY COMMODITY PRICES**

	<b>Three months ended <u>Dec. 31/06</u></b>	<b>Three months ended <u>Dec. 31/05</u></b>	<b>Year ended <u>Dec. 31/06</u></b>	<b>Year ended <u>Dec. 31/05</u></b>
<b><u>Average Benchmark Prices</u></b>				
Natural gas Aeco daily \$CAD/ mcf	\$ <b>6.90</b>	\$ 11.31	\$ <b>6.51</b>	\$ 8.71
Crude Oil WTI \$US/bbl	<b>60.21</b>	60.02	<b>66.22</b>	56.56
Exchange rate \$CAD/\$US	<b>1.1393</b>	1.1732	<b>1.1344</b>	1.2114
Crude Oil Edmonton Par \$CAD/bbl	<b>64.49</b>	71.18	<b>72.77</b>	68.72
<b><u>Rival average prices received</u></b>				
Natural gas \$CAD per mcf	<b>7.11</b>	11.39	<b>6.59</b>	8.73
Crude Oil \$CAD per bbl	<b>53.15</b>	54.83	<b>59.08</b>	57.67

## **OIL AND NATURAL GAS PRICES RECEIVED**

Natural gas prices were much lower throughout 2006, starting in March of 2006, and experienced further price erosion in the summer season due to the increasing volumes of natural gas in storage. The Company received an average price of \$7.11 per mcf for natural gas in the fourth quarter of 2006, a 38 percent reduction from the fourth quarter of 2005. The average natural gas price received for the full 2006 calendar year was 25 percent lower than the price received during 2005. Crude oil prices in the fourth quarter of 2006 were 3 percent lower than for the same quarter in 2005 and for the full-year 2006, crude oil prices averaged \$59.08 per barrel, up 2 percent over the 2005 twelve month price. Natural gas liquids make up only one 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 2006 were 20 percent lower than the same quarter of 2005 due to a 38 percent decrease in natural gas prices and an 18 percent decrease in natural gas volumes. This reduction in oil and natural gas sales for Q4 was partially offset by a 23 percent increase in oil volumes.

	<b>Three Months Ended <u>December 31</u></b>			<b>Year Ended <u>December 31</u></b>		
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>Percent Change</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>Percent Change</u></b>
Oil and natural gas sales	\$ <b>4,061,431</b>	\$5,106,627	(20)	\$ <b>15,355,641</b>	\$ 16,847,517	(9)

## OIL AND NATURAL GAS OPERATING NETBACKS PER BOE

	Three months ended December 31, <u>2006</u>	Three months ended December 31, <u>2005</u>	Year ended December 31, <u>2006</u>	Year ended December 31, <u>2005</u>
Sales price	\$ <b>49.09</b>	\$ 62.60	\$ <b>49.60</b>	\$ 54.73
Royalties	<b>(8.75)</b>	(13.83)	<b>(9.23)</b>	(10.90)
ARTC	<b>2.68</b>	1.05	<b>1.42</b>	0.81
Operating expenses	<b>(16.07)</b>	(10.88)	<b>(14.92)</b>	(10.30)
Transportation expenses	<b>(0.86)</b>	<u>(1.49)</u>	<b>(1.02)</b>	<u>(1.37)</u>
Operating netback	\$ <b><u>26.09</u></b>	\$ <u>37.45</u>	\$ <b><u>25.85</u></b>	\$ <u>32.97</u>

## ROYALTIES

Royalties were lower in 2006 compared with the prior year due to lower natural gas prices and higher oil production from crown lands in the new Bellshill pool which are lower than the 25 percent freehold royalty at Killam. Natural gas liquids royalties amounted to \$82,000 in total for 2006 compared with \$77,000 in 2005.

<u>ROYALTIES</u>	<u>Year Ended December 31</u>		<u>Percent Change</u>
<u>As a percentage of sales</u>	<u>2006</u>	<u>2005</u>	
Natural gas royalties	<b>17.8%</b>	17.5%	2
Crude oil royalties	<b>19.0%</b>	19.5%	(3)

## ALBERTA ROYALTY TAX CREDIT

The Alberta royalty tax credit (ARTC) was \$441,519 compared to \$250,375 for 2005, an increase of 76 percent, due to a positive adjustment resulting from an audit of prior years. The ARTC program ends at the end of 2006.

## OTHER INCOME

Other income was \$73,366 compared with \$3,271 in 2005. Most of the difference was due to the reversal of an old accrual which is no longer applicable.

## OPERATING COSTS

Rival's operating costs were \$4,620,045 (\$14.92 per boe) in 2006 compared with \$3,172,230 (\$10.30 per boe) for calendar 2005, an increase of 46 percent. The following table shows the largest contributors to the increase in costs:

<u>Operating cost detail</u>	<u>2006</u>	<u>2005</u>	<u>Increase</u>	<u>% Increase</u>
Power	\$ 859,000	\$ 583,000	\$ 276,000	47
Subsurface repairs	307,000	93,000	215,000	231
Property taxes	414,000	81,000	333,000	413
Contract operator	638,000	466,000	172,000	37
Surface repairs	441,000	317,000	124,000	39

Surface and subsurface repairs were unusually high in 2006 and management believes these costs should be lower in 2007. Most of the property tax increase came from a non operated property where the operator billed us for 2005 property taxes in 2006. The balance of the increase was due to acquisitions and additional equipment as more wells were tied in.

## TRANSPORTATION AND TARIFF

Transportation and tariff costs were \$ 1.02 per boe for 2006, compared with \$1.37 per boe for 2005. This decrease of 26 percent was due to the increase in volumes at Bellshill, which is pipeline connected, and the reduction of trucked volumes from Killam which is a more expensive operation.

## GENERAL AND ADMINISTRATIVE (G&A)

G&A costs were \$2,432,416 before overhead recoveries and G&A capitalized, compared with \$1,759,608 for 2005.

### G&A ANALYSIS

	<u>Year ended December 31</u>		
	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>
Salaries and benefits	\$ 1,360,756	\$ 913,915	49
Consulting	131,377	146,804	(11)
Rent and office	450,714	346,431	30
Computer network and software	144,887	84,611	71
Audit, legal and reserves	114,558	118,827	(4)
Insurance and bank fees	107,094	88,282	21
Transfer agent, filing fees, travel and shareholder reporting	123,030	60,738	103
G&A before recoveries	\$ 2,432,416	\$ 1,759,608	38
Capitalized	(640,000)	(335,000)	91
Recoveries	(286,241)	(314,705)	(9)
<b>Net G&amp;A costs</b>	<b>\$ 1,506,175</b>	<b>\$ 1,109,903</b>	<b>36</b>

Salaries and benefits, which account for over half of Rival's G&A, were 49 percent higher in 2006 versus 2005 primarily due to the addition of a geophysicist in May of 2006, plus a full year for the land manager hired in July 2005, and the two senior geologists who 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 the salaries and benefits component of our G&A in 2006. Consulting fees were slightly lower in 2006 than in 2005 because the Company used the services of a geophysical consultant for ten months in 2006 compared with the full year of 2005. Rent and office costs were 30 percent higher in 2006 reflecting higher office lease rates in Calgary after the Company moved offices on October 1, 2005 when the previous office lease expired.

Computer network and software charges were 71 percent higher in 2006 due to the doubling of Accumap fees compared to 2005. Audit, legal and reserve evaluation fees decreased by 4 percent in 2006 because Rival conducted a joint venture audit in 2005 but not in 2006. Insurance and bank fees were 21 percent higher in 2006 due to additional bank fees to increase the credit facility from \$8.5 million to \$16.5 million in 2006.

Capitalized G&A was 91 percent higher in 2006 due to the additional two geologists and one geophysicist in 2006 as well as the 2006 increase in Accumap fees which are capitalized.

### **INTEREST EXPENSE**

Interest expense was \$595,164 for 2006, a 113 percent increase from \$279,240 in 2005. This was a result of higher loan balances primarily resulting from the two acquisitions Rival completed in 2006 and higher interest rates in 2006. Prime interest rates averaged 5.7 percent in 2006 compared to 4.4 percent for 2005.

### **DEPLETION AND DEPRECIATION**

Depletion costs were \$5,215,000 in 2006, versus \$4,335,000 for 2005, with depreciation adding \$30,000 in 2006 and \$25,000 in 2005. Proved oil reserves increased by 34 percent to January 1, 2006 net of produced oil, which was offset by a one percent decline in natural gas reserves net of production. The lower forecast for natural gas prices going forward at December 31 2006, compared to the previous year, lowered reserves, increasing depletion expense. Higher capital spending in 2006 also contributed to the increase in depletion expense.

### **ACCRETION**

Accretion costs were \$195,297 in 2006, compared with \$145,716 for the prior year. The two acquisitions completed by Rival in 2006 increased the number of wells to be abandoned at a future date, increasing accretion expense.

### **STOCK BASED COMPENSATION**

Stock based compensation was \$240,358 in 2006, compared with \$220,972 for 2005. Stock based compensation expense was higher in 2006 because the Company had more stock options outstanding, and options issued in 2006 and 2005 were at higher prices than prior years. Note 5(d) to the financial statements illustrates the option prices on issued options. 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, 2006 and 2005 the Company reviewed the carrying value of its properties and determined that the recoverable value of the reserves plus salvage and undeveloped land, 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, 2006 and 2005.

## INCOME AND CAPITAL TAXES

Capital taxes were \$26,540 in 2006 compared with \$91,117 in 2005. The 2006 amount included the reversal of a prior year over-accrual. The future tax provision was \$213,655 for 2006 compared to \$1,062,202 for 2005 due to the reduction in taxable income in 2006.

Rival Energy Ltd. had the following income tax pools available at January 1, 2007, before deducting partnership taxable income of \$5.8 million for the partnership year ended January 2, 2007:

<u>TAX POOLS</u>	<u>(millions)</u>
Canadian Exploration Expense (CEE)	5.2
Canadian Development Expense (CDE)	6.7
Canadian Oil and Gas Property Expense (COGPE)	17.3
Undepreciated Capital Cost (UCC)	9.8
Foreign Exploration and Development Expense (FEDE)	1.1
Non capital losses	0.4
Share issue costs	0.6
Total	\$ <u>41.1</u>

## CASH FLOW FROM OPERATIONS AND NET INCOME

Cash flow from operations was a disappointing \$5,947,754 (\$0.29 per share) for 2006, a reduction of 31 percent from the \$8,673,118 (\$0.45 per share) recorded in 2005. The decrease was primarily due to the 25 percent decline in natural gas prices coupled with significantly higher operating costs in 2006. Net income for 2006 decreased to \$53,444 from \$2,884,228 in 2005 as a result of the lower cash flows and higher depletion costs in 2006.

## CASH NETBACKS

Rival's operating and cash netbacks are as follows:

	<u>\$/Boe</u>	
	<u>2006</u>	<u>2005</u>
Oil and gas sales	\$ 49.60	\$ 54.73
Royalties	(9.23)	(10.90)
ARTC	1.42	0.81
Operating expenses	(14.92)	(10.30)
Transportation and tarriff	(1.02)	(1.37)
Operating netback	25.85	32.97
Other income	0.24	0.00
General and administrative expenses	(4.87)	(3.60)
Interest expense	(1.92)	(0.91)
Capital taxes	(0.09)	(0.29)
Cash netback	\$ <u>19.21</u>	\$ <u>28.17</u>

**CAPITAL EXPENDITURES**

	<b>Year ended December 31</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Land	\$ 877,235	\$ 445,592
Geological & geophysical	990,879	172,853
Drilling & completions	9,009,986	3,126,441
Equipping & facilities	2,712,299	2,392,926
Acquisitions (dispositions)	9,194,675	(991,287)
Abandonment and site restoration	32,589	108,063
Office	21,990	74,347
Capitalized overhead	640,000	335,000
Total capital expenditures	<b><u>\$ 23,479,653</u></b>	<b><u>\$ 5,663,935</u></b>

**LIQUIDITY AND CAPITAL RESOURCES**

Rival Energy Ltd. had a working capital deficit of \$18.2 million at December 31, 2006 with the inclusion of bank debt in current liabilities compared with \$4.3 million at December 31, 2005. The Company's credit facility was increased to \$17.5 million in February 2007 from \$16.5 million at December 31, 2007. This facility is subject to review by May 31, 2007 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, 2006 the Company was not in compliance because of its accelerated capital spending in the fourth quarter of 2006. The Company's lender has provided a waiver of the covenant at December 31, 2006. The Company expects capital spending to be \$2 million for the first quarter of 2007 which will be funded from cash flow. After the first quarter of 2007, Rival intends to prioritize its capital spending to projects that will meet its flow-through share obligations, and will utilize excess cash flow to pay down debt. Rival Energy Ltd. had 22,333,781 common shares outstanding at April 16, 2007.

**Cash Inflows (Outflows)****Year ended December 31 (\$ millions)**

	<b><u>2006</u></b>	<b><u>2005</u></b>
Cash flow from operations	\$ 5.9	\$ 8.7
Common share issue, net	3.7	0.8
Bank loan change	<u>12.5</u>	<u>(3.5)</u>
	22.1	6.0
Capital expenditures, net of dispositions	(23.4)	(5.8)
Change in non cash working capital	<u>1.3</u>	<u>(0.2)</u>
Change in cash	\$ -	\$ -

**Contractual Obligations (\$ millions)**

	<b><u>2007</u></b>	<b><u>2006</u></b>
Bank loan	\$ 15.7	\$ 3.1
Office rent	<u>0.4</u>	<u>0.4</u>
Total contractual obligations	<b><u>\$ 16.1</u></b>	<b><u>\$ 3.5</u></b>

<b>Quarterly Comparison</b>	<b>2006</b>			
	<b><u>Q4</u></b>	<b><u>Q3</u></b>	<b><u>Q2</u></b>	<b><u>Q1</u></b>
Natural gas production (mcf)	2,302	2,568	2,582	2,655
Oil & NGLs production (bblsd)	516	403	414	369
Average natural gas price received	\$ 7.11	\$ 5.81	\$ 5.85	\$ 7.63
Average oil price received	53.15	65.75	64.46	53.18
Average shares outstanding (000)	22,309	19,809	19,809	19,809
Net income (loss)	\$ (249,990)	\$ 5,365	\$ 24,691	\$ 273,378
Net income (loss) per share	(0.01)	0.00	0.00	0.01
Net income (loss) per share diluted	(0.01)	0.00	0.00	0.01

<b>Quarterly Comparison</b>	<b>2005</b>			
	<b><u>Q4</u></b>	<b><u>Q3</u></b>	<b><u>Q2</u></b>	<b><u>Q1</u></b>
Natural gas production (mcf)	2,807	2,820	2,972	3,052
Oil & NGLs production (bblsd)	419	444	294	273
Average natural gas price received	\$ 11.39	\$ 9.43	\$ 7.38	\$ 6.98
Average oil price received	54.83	66.25	54.67	49.93
Average shares outstanding (000)	19,809	19,121	19,121	19,121
Net income	\$ 952,630	\$1,288,740	\$ 580,624	\$ 62,234
Net income per share	.05	.07	.03	.00
Net income per share diluted	.05	.07	.03	.00

## **SUMMARY OF ITEMS AFFECTING QUARTERLY COMPARABILITY -2006**

### **First Quarter**

There were no significant items affecting comparability in the first quarter of 2006.

### **Second Quarter**

Natural gas prices averaged \$5.85 for the quarter, a 23 percent reduction from the first quarter of 2006.

### **Third Quarter**

Rival discovered a new oil pool in Bellshill.

### **Fourth Quarter**

Rival issued 2,500,000 flow-through shares in a private placement, and drilled nine wells in the quarter, developing our new pool in Bellshill and increasing production to 1,100 barrels of oil equivalent per day at the end of the quarter.

## **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.

### **Second Quarter**

There were no significant items affecting comparability in the second quarter of 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.

Additional information concerning Rival Energy Ltd. is available on Sedar at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.rivalenergy.com](http://www.rivalenergy.com)

Consolidated Financial Statements of

**RIVAL ENERGY LTD.**

Years ended December 31, 2006 and 2005

## **AUDITORS' REPORT TO THE SHAREHOLDERS**

**To the Shareholders of  
Rival Energy Ltd.**

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

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

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

Signed "Deloitte & Touche LLP"  
Chartered Accountants  
Calgary, Alberta  
March 30, 2007

# RIVAL ENERGY LTD.

## Consolidated Balance Sheets

December 31

	2006	2005
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	\$ 3,210,606	\$ 2,826,762
Prepaid	299,193	175,262
	<u>3,509,799</u>	<u>3,002,024</u>
<b>Petroleum and natural gas properties (Note 3)</b>	<b>43,012,622</b>	<b>24,050,009</b>
	<u>\$ 46,522,421</u>	<u>\$ 27,052,033</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 6,051,399	\$ 4,198,436
Bank loan (Note 4)	15,663,114	3,147,359
	<u>21,714,513</u>	<u>7,345,795</u>
Asset retirement obligation (Note 7)	2,701,945	1,778,689
Future income tax (Note 8)	1,513,469	1,410,814
	<u>25,929,927</u>	<u>10,535,298</u>
<b>Shareholders' equity</b>		
Share capital (Note 5)	20,136,190	16,354,233
Contributed surplus (Note 5)	724,562	484,204
Retained earnings (deficit)	(268,258)	(321,702)
	<u>20,592,494</u>	<u>16,516,735</u>
	<u>\$ 46,522,421</u>	<u>\$ 27,052,033</u>

Commitments & contingency (Note 10)

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

	2006	2005
<b>Revenue:</b>		
Oil and gas sales	\$ 15,355,641	\$ 16,847,517
Royalties	(2,858,367)	(3,355,508)
Alberta royalty tax credit	441,519	250,375
Other income	73,366	3,271
	<u>13,012,159</u>	<u>13,745,655</u>
<b>Expenses:</b>		
Operating	4,620,045	3,172,230
Product transportation and tariff	316,481	420,047
General and administrative	1,506,175	1,109,903
Interest and financing costs	595,164	279,240
Depletion and depreciation	5,245,000	4,360,000
Accretion	195,297	145,716
Stock based compensation	240,358	220,972
	<u>12,718,520</u>	<u>9,708,108</u>
Income before taxes	293,639	4,037,547
Capital taxes	26,540	91,117
Future income taxes	213,655	1,062,202
Net income for the year	53,444	2,884,228
Retained earnings (deficit), beginning of year	(321,702)	(3,205,930)
Retained earnings (deficit), end of year	\$ (268,258)	\$ (321,702)

Net income per share basic and diluted: (Note 5) \$ - \$ 0.15

See accompanying notes to consolidated financial statements.

# RIVAL ENERGY LTD.

## Consolidated Statements of Cash Flows

Years ended December 31

	2006	2005
<hr/>		
Cash provided by (used in):		
Operations:		
Net income for the year	\$ 53,444	\$ 2,884,228
Items not involving cash:		
Depletion and depreciation	5,245,000	4,360,000
Accretion	195,297	145,716
Stock based compensation	240,358	220,972
Future income tax	213,655	1,062,202
	<hr/>	<hr/>
	5,947,754	8,673,118
Abandonment costs	(32,589)	(108,063)
Change in non-cash working capital	679,482	(32,670)
	<hr/>	<hr/>
	6,594,647	8,532,385
Investments:		
Petroleum and natural gas properties	(14,252,389)	(6,547,159)
Purchase of P&NG properties (Note 2)	(9,244,675)	-
Sale of P&NG properties	50,000	991,287
Change in non-cash working capital	665,705	(270,494)
	<hr/>	<hr/>
	(22,781,359)	(5,826,366)
Financing:		
Bank loan	12,515,755	(3,520,276)
Common share issue	4,000,000	825,000
Share issue costs	(329,043)	(10,743)
	<hr/>	<hr/>
	16,186,712	(2,706,019)
Increase (decrease) in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to consolidated financial statements

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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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

# **RIVAL ENERGY LTD.**

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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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 cost less impairment 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 cost less impairment of 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 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 5(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 substantively enacted tax rates.

# **RIVAL ENERGY LTD.**

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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(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 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.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

## 2. P&NG property acquisitions

During the second quarter of 2006, the Company completed two transactions in which it purchased petroleum and natural gas interests, for cash. Following are the final adjusted details of the purchase price for each acquisition:

### (a) Morinville area, Alberta

Effective date	May 1, 2006
Closing date	May 31, 2006
Purchase price	\$ 7,125,000
Asset retirement obligation	553,000
Tax pools acquired	7,125,000
Final purchase price net of adjustments	7,117,500

### (b) Bellshill area, Alberta

Effective date	Apr 1, 2006
Closing date	June 8, 2006
Purchase price	\$ 2,300,000
Asset retirement obligation	113,000
Tax pools acquired	2,300,000
Final purchase price net of adjustments	2,127,175

## 3. Petroleum and natural gas properties

	Cost	Accumulated depletion & depreciation	Net book value
<b>December 31, 2006</b>			
Oil and gas properties	\$ 82,879,818	\$ 39,989,243	\$ 42,890,575
Other assets	262,210	140,163	122,047
	<b>\$ 83,142,028</b>	<b>\$ 40,129,406</b>	<b>\$ 43,012,622</b>

	Cost	Accumulated depletion & depreciation	Net book value
December 31, 2005			
Oil and gas properties	\$ 58,694,195	\$ 34,774,243	\$ 23,919,952
Other assets	240,220	110,163	130,057
	<b>\$ 58,934,415</b>	<b>\$ 34,884,406</b>	<b>\$ 24,050,009</b>

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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, 2006 and 2005. The following table provides the commodity price assumptions used in determining the ceiling test valuation at December 31, 2006:

Year	WTI Oil (\$US/bbl)	Exchange Rate (\$US/\$Cdn)	Edmonton Light Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu) (2)
2007	62.00	0.87	70.25	7.00
2008	60.00	0.87	68.00	7.45
2009	58.00	0.87	65.75	7.75
2010	57.00	0.87	64.50	7.80
2011	57.00	0.87	64.50	7.85
2012	57.50	0.87	65.00	8.15
2013	58.50	0.87	66.25	8.30
2014	59.75	0.87	67.75	8.50
2015	61.00	0.87	69.00	8.70
2016	62.25	0.87	70.50	8.90
2017	63.50	0.87	71.75	9.10
2018+	+ 2.0%/yr	0.87	+ 2.0%/yr	+ 2.0%/yr
Remainder (1)				

(1) Percentage change represents the change in each year after 2018 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, 2006 of \$2,508,000 (2005 - \$1,472,000) and salvage of \$5,005,000 (2005 - \$3,682,000) have been excluded from the depletion calculation. Future development costs related to proved non-producing and proved undeveloped reserves of \$414,000 (2005 - \$1,985,000) are included in the depletion calculation.

During 2006, the Company capitalized \$640,000 (2005 - \$335,000) in overhead costs directly relating to petroleum and natural gas properties.

#### 4. Bank loan

The Company has a demand credit facility at a Canadian chartered bank which was increased to \$17.5 million from \$16.5 million at December 31, 2006 (2005 - \$8.5 million). Interest on advances is charged at the bank's prime rate plus ¼ percent (2005 prime plus ½).

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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The facility is subject to review prior to May 31, 2007. 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. The lending agreement requires the Company to maintain a specified minimum working capital position which the Company was not in compliance with at December 31, 2006. The lender has provided a waiver of the covenant at December 31, 2006.

## 5. 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 – Common shares

	December 31, 2006		December 31, 2005	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	19,808,781	\$ 16,354,233	19,121,281	\$ 15,539,976
Common share issue	2,500,000	4,000,000	687,500	825,000
Share issue costs		(329,043)		(10,743)
Income tax effect of share issue costs		111,000		-
Balance, end of year	22,308,781	\$ 20,136,190	19,808,781	\$ 16,354,233
Weighted average basic shares outstanding	20,433,781		19,293,156	
Diluted average shares outstanding	20,627,781		19,451,226	

The dilution calculation has excluded 400,000 options (2005 - 200,000) because their exercise price was higher than the average share price for the year.

### (c) Share issues

On October 25, 2006 the Company completed an issue of 2,500,000 flow-through shares at \$1.60 for a total consideration of \$4,000,000 before share issue costs of \$329,043.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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.

## (d) Options

The Company has a 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, 2006		December 31, 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	1,870,000	\$ 0.88	1,915,000	\$ 0.86
Granted	200,000	1.40	865,000	1.14
Exercised	-	-	-	-
Expired	-	-	-	-
Cancelled	-	-	(910,000)	1.10
Stock options outstanding, end of year	2,070,000	0.93	1,870,000	0.88
Exercisable at year end	1,273,750	\$ 0.84	756,250	\$ 0.79

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

Exercise price	Number outstanding	Weighted average contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price of exercisable options
\$ 1.50	200,000	3.8	\$ 1.50	100,000	\$ 1.50
1.44	150,000	4.4	1.44	37,500	1.44
1.27	50,000	4.7	1.27	12,500	1.27
1.05	515,000	3.7	1.05	257,500	1.05
0.95	150,000	3.5	0.95	75,000	0.95
0.65	1,005,000	2.6	0.65	791,250	0.65
	2,070,000			1,273,750	

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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## (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 and resulting values:

	December 31,	December 31,
	2006	2005
Risk-free interest rate	4%	4%
Volatility	43%	48%
Dividend yield	-	-
Weighted average life (years)	5	5
Weighted average fair value (\$/option)	1.40	1.14

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

	2006	2005
Balance, beginning of year	\$ 484,204	\$ 263,232
Stock based compensation for the period	240,358	220,972
Balance, end of year	\$ 724,562	\$ 484,204

## 6. Related party transactions

During 2006, the Company paid legal fees of \$61,000 (2005 - \$26,000) to a law firm, one of the partners of which became a director of the Company in August of 2005. These transactions were done at fair value.

## 7. Asset retirement obligation

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be \$7,327,036 (2005 - \$5,276,457) 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.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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

	Year ended		Year ended	
	December 31		December 31	
Asset retirement obligations	2006		2005	
Balance, beginning of year	\$	1,778,689	\$	1,830,692
Accretion expense		195,297		145,716
Liabilities incurred - drilling		195,044		144,611
Liabilities incurred - property acquisitions		666,000		-
Change in estimate		(100,496)		(234,267)
Liabilities settled		(32,589)		(108,063)
Balance, end of year	\$	2,701,945	\$	1,778,689

## 8. 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 for the year. The major components of these differences are as follows:

	2006		2005	
Statutory tax rate		34.5%		35.0%
Expected income tax provision	\$	101,305	\$	1,413,141
Add (deduct)				
Non-deductible Crown charges		-		204,362
Federal resource allowance		-		(338,557)
Stock based compensation		82,924		77,340
Other		29,426		(294,084)
	\$	213,655	\$	1,062,202

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

The components of the net future income tax liability at December 31, 2006 and 2005 are as follows:

	2006	2005
Future income tax assets (liabilities)		
Share issue costs	\$ 153,882	\$ 199,113
Asset retirement obligation	885,427	622,541
Property, plant and equipment	(556,160)	597,822
Partnership with a different tax year	(1,996,618)	(2,830,290)
	\$ (1,513,469)	\$ (1,410,814)

The Company had the following income tax pools available at December 31, 2006, before deducting partnership taxable income of approximately \$5.8 million for the partnership year ended January 2, 2007:

Tax Pools	(millions)
Canadian Exploration Expense (CEE)	\$ 5.2
Canadian Development Expense (CDE)	6.7
Canadian Oil and Gas Property Expense (COGPE)	17.3
Undepreciated Capital Cost (UCC)	9.8
Foreign Exploration and Development Expense (FEDE)	1.1
Non-capital losses	0.4
Share issue costs	0.6
Total	\$ 41.1

## 9. 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 is with customers and joint venture partners in the oil and gas industry and is 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.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements,  
Years ended December 31, 2006 and 2005

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In March 2007 the Company entered into an agreement to fix the sales price for 1,200 gigajoules per day of natural gas production from April 1 to October 31, 2007 at \$7.525 per gigajoule. In 2006 and 2005 the Company had no agreements to fix the sales price of any of its production.

## (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 at December 31, 2006.

## 10. Commitments and contingency

The Company has the following obligations to make future office lease payments at December 31, 2006:

(000's)	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Office lease	\$ 407	\$ 416	\$ 416	\$ 312

In March 2007 the Company renounced \$4 million of oil and natural gas expenditure tax pools to flow through share subscribers effective December 31, 2006. As of December 31, 2006 Rival incurred \$1 million of eligible expenditures, leaving \$3 million to be spent in 2007.

The Company is in a dispute with partners regarding processing of third party oil at one of the facilities Rival operates. The outcome of the dispute is not determinable at this time.

## Corporate Information

### Directors

Larry M. Jones  
*Independent Businessman*  
Calgary, Alberta

Colin F. Ogilvy  
*President and Chief Executive Officer,*  
*Rival Energy Ltd.*  
Calgary, Alberta

Douglas R. Martin  
*President, Charles Avenue Capital Corp.*  
Calgary, Alberta

F.K. Roy Gillespie  
*Independent Businessman*  
Calgary, Alberta

Harley L. Winger  
Partner, Burstall Winger LLP  
Calgary, Alberta

### Officers

Larry M. Jones  
*Chairman*

Colin F. Ogilvy  
*President and Chief Executive Officer*

John E. Clark  
*Vice President, Engineering*

George D. Ziroff  
*Vice President, Finance and Chief Financial Officer*

John C. Wilson  
*Vice President, Exploration*

Harley L. Winger  
*Corporate Secretary*

### Abbreviations

bbl barrel  
mcf thousand cubic feet  
mdbl thousand barrels  
mmcf million cubic feet  
bcf billion cubic feet  
boe barrel of oil equivalent  
mboe thousand barrels of oil equivalent

### Key Employees

Clarence A. Murray  
*Operations Manager*

Ron G. Britton  
*Senior Geologist*

R. Kenneth Pretty  
*Manager, Land*

Steven W. Book  
*Senior Accountant*

Deborah A. Sears  
*Revenue / Joint Venture Accountant*

Gilbert Dubuc  
*Senior Geophysicist*

### Auditors

Deloitte & Touche LLP

### Banker

National Bank of Canada

### Reserve Engineers

GLJ Petroleum Consultants Ltd.

### Legal Counsel

Burstall Winger LLP

### Transfer Agent

Olympia Trust Company

### Stock Exchange

TSX Venture Exchange Listing: "RGY"

### Head Office

1700, 333-5th Avenue S.W.  
Calgary, Alberta T2P 3B6  
Tel: 403-233-0039  
Fax: 403-265-8452  
E-mail: [info@rivalenergy.com](mailto:info@rivalenergy.com)  
Website: [www.rivalenergy.com](http://www.rivalenergy.com)

