



# MOVING IN THE RIGHT DIRECTION



## Q1

QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2005

**May 27, 2005 (Calgary) - RIVAL ENERGY LTD.** (“RGY” – TSX Venture Exchange) is pleased to release its operating and financial performance for the first three months of 2005. For this most recent quarter, Rival Energy’s oil and natural gas revenues rose to a record \$3.2 million, a 20% increase over the first quarter of 2004. Over this same time period, and considering the timing of its completion and tie-in work, the Company still realized a 4% increase in average daily production, averaging 781 barrels of oil equivalent versus 750 for the first quarter of 2004. Rival Energy’s cash flow per share was \$0.07, a 17% increase for this most recent quarter and keeps the Company on track to meet its forecasted growth and performance for fiscal 2005.

## Highlights Table

Three Months Ended  
March 31

<u>Financial</u>	<u>2005</u>	<u>2004</u>	<u>Change %</u>
Oil & gas sales	\$3,179,288	\$2,645,725	20
Cash flow from operations	1,309,279	1,130,169	16
Net income	117,423	76,298	54
Cash flow from operations per share	0.07	0.06	17
Net income per share	0.01	0.00	54
Average shares outstanding (000)	19,121	19,183	0
<u>Operating (6:1 BOE)</u>			
Average daily production			
Natural gas (mcf)	3,052	2,956	3
Oil and NGL (bblsd)	273	257	6
Barrels of oil equivalent (boe)	781	750	4
<u>Average Sales Price</u>			
Natural gas (\$/mcf)	\$ 6.98	\$ 6.35	10
Oil and NGL (\$/bbl)	49.93	39.68	26

Rival Energy remains on track to achieve record corporate performance in 2005. The Company’s targets of averaging 1,000 barrels of oil equivalent per day (boe/d) for calendar 2005 and generating cash flow per share of \$0.34 remain achievable.

Rival Energy's first quarter activities were almost exclusively focused upon the completion, tie-in and placing on-production the nine successful wells the Company participated in during the fourth quarter of 2004. At the same time, however, Rival was also successful in the one exploration well it drilled in the Sedalia area of southeastern Alberta. This shallow natural gas well was also completed and placed on-stream by the end of March this year.

As the Company's second quarter unfolded, Rival completed the sale of its Suffield, Saskatchewan oil property (production and undeveloped land) for \$950,000 to an independent third party. The proceeds from this sale were applied to the Company's bank line. Rival's second quarter drilling activity is currently underway with a drilling program in Robsart, Saskatchewan that will see a minimum of three and a maximum of five wells drilled during this quarter. At the same time, the Company will spud the first of a two well drilling program in Killam within the next week, that will see the Company expand its new pool oil discovery which has been producing steadily at a daily rate of 120 barrels of water-free clean oil - 100 bopd net to Rival (84%) - since mid-February this year. Success with these two wells will have a significant impact on corporate production volumes and will expand our development program for this pool into the third quarter.

Rival expects the results from this drilling program to continue the Company's growth momentum and drive production to record levels. At the same time, considerable effort is being directed toward establishing an additional core area for Rival within central W5M and the Peace River Arch (W6M) areas of Alberta. The Company is interested in gaining a foothold in these areas in order to complement its shallower oil and natural gas opportunities with a few higher impact oil and natural gas plays. Rival believes that its cash flow can now support participation in these areas and we expect to gain access to these areas through a multi-well farmin arrangement or a property or corporate acquisition during 2005. With current production of approximately 825 boe/d, Rival remains on-track to meet or exceed its performance targets for the year.

Rival is filing a notice with the TSX Venture Exchange of its intention to conduct a normal course issuer bid. The maximum number of common shares, which Rival may acquire for cancellation under this bid, is 956,064 shares, representing 5% of the 19,121,281 common shares, which are currently outstanding.

The Company is conducting the normal course issuer bid because, in the view of management, trading prices for the Corporation's shares may at times be less than its asset value per share and lower on a cash flow per share multiple than many of its peer corporations. Rival intends to commence the bid upon receipt of approval from the TSX Venture Exchange. Any purchases made by Rival under the bid will be made through First Associates Investments Inc. and through the facilities of, and subject to approval by, and in accordance with the rules of, the TSX Venture Exchange.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2004 and 2003 and the notes to those audited financial statements.

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.

### ***Production***

The full impact of Rival's fourth quarter 2004 drilling program is not reflected in the Company's first quarter production averages due to the timing of getting wells tied-in and on production. Even with the delays experienced, production volumes still increased by 4% for the first three months of 2005 in comparison to the first quarter of 2004, primarily due to the Killam 10-25-041-15W4 well commencing production in mid-February at 120 barrels of oil per day (100 bopd net to Rival).

On the natural gas side, corporate natural gas production also managed an increase over this time period to average 3.1 million cubic feet per day, up 3 percent over the same quarter of 2004.

### ***Petroleum and Natural Gas Sales***

Petroleum and natural gas sales for the first three months of 2005 rose to a record \$3.2 million, a 20 percent increase over the same period of 2004, due to higher oil and natural gas volumes and stronger prices in 2005 for both commodities.

### ***Royalties***

Royalties were 16.2 percent of sales for the first quarter of 2005 compared to 18.6 percent for the first quarter of 2004. This reduction was mainly attributed to the lower royalties payable on the Company's Bellshill production as the initial rates (flush production) realized have since declined to levels that are subject to lower royalty rates.

## ***Operating Costs***

Well operating costs excluding transportation averaged \$12.52 per barrel of oil equivalent for the first three months of 2005 compared with \$8.77 for the same period in 2004. This increase was due to the near doubling of costs at Robsart after the change of operator in the summer of 2004. Rival Energy Ltd. intends to challenge for operatorship of the Robsart property with a view to re-establishing more effective operating practices and reducing operating costs to their previous levels.

## ***General and Administrative Expenses***

General and administrative expenses (G&A) were 12 percent lower for the first quarter of 2005 compared to the first quarter of 2004 due to the reduction in staff in 2005 and a continuing focus on costs.

## ***Interest Expense***

Interest expense was 32 percent higher in the first three months of 2005 due to higher average loan balances in 2005 as the Company expanded its capital program.

## ***Cash Flow from Operations***

Cash flow from operations was \$1,309,279 (\$0.07 per share), for the first quarter of 2005, a 16 percent increase over the prior year quarter. The Killam 10-25-041-15W4 well added \$175,000 of cash flow to the quarter after production commenced in mid February 2005. Four Robsart wells and one Sedalia well also commenced production during the first quarter of 2005.

## ***Depletion and Depreciation Expense***

Depletion expense for the three months of 2005 was 20 percent higher than the same period in 2004. This increase was due to the first quarter capital program that was directed to well completions, facilities and tie-ins that did not add new reserves during this time period. Another impact to the Company's depletion expense was the expiry of undeveloped land in Robsart (valued at \$446,000) that also increased this expense in the first quarter 2005.

## ***Net Income***

Net income for the 2005 quarter was \$117,423 compared with \$76,298 for the prior year quarter primarily due to the future tax recovery in the current period.

## Capital Acquisitions and Expenditures

The following table summarizes the breakdown of capital expenditures for the quarter:

<i>Petroleum and Natural Gas Properties</i>	<u>2005</u>	<u>2004</u>
Land	\$ 104,569	\$ 152,368
Geological & Geophysical	7,384	(7,386)
Drilling & Completions	341,569	1,126,213
Equipping & facility	1,054,872	-
Abandonment's	-	-
Acquisition (Disposition)	(41,287)	-
Office	-	-
Capitalized overhead	<u>70,000</u>	<u>80,000</u>
	<u>\$ 1,537,107</u>	<u>\$ 1,351,195</u>

## Liquidity

Working capital deficiency at March 31, 2005 was \$8.4 million, including bank debt of \$7.0 million. The Company's operating line, currently at \$7.5 million with a \$2.0 million line for acquisitions or development, is being renewed. The Company expects an increase in the line will be finalized in the first week of June.

At March 31 2005, \$6.4 million was drawn on the line of \$7.5 million and \$0.6 million was drawn on the development line.

## Quarterly operating and financial summary

Per Quarter	2005		2004	
	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>
Natural gas production (mcf/d)	3,052	3,099	2,729	2,593
Oil & NGLs production (bbls/d)	273	223	226	240
Average natural gas price received	\$ 6.98	\$ 6.47	\$ 6.32	\$ 6.90
Average oil & NGLs price received	\$ 49.93	\$ 43.69	\$ 48.16	\$ 43.47
Average shares outstanding (000)	19,121	19,196	19,233	19,200
Net income (loss)	\$ 117,423	\$(212,491)	\$ 64,663	\$ 278,192
Net income (loss) per share	\$ 0.01	\$ (0.01)	\$ 0.00	\$ 0.01
Net income (loss) per share fully diluted	\$ 0.01	\$ (0.01)	\$ 0.00	\$ 0.01

<b><u>Per Quarter</u></b>	2004		2003	
	<b><u>Q1</u></b>	<b><u>Q4</u></b>	<b><u>Q3</u></b>	<b><u>Q2</u></b>
Natural gas production (mcf/d)	2,956	3,322	3,724	1,013
Oil & NGLs production (bbls/d)	257	260	266	282
Average natural gas price received	\$ 6.35	\$ 5.63	\$ 5.73	\$ 7.40
Average oil & NGLs price received	\$ 39.68	\$ 33.93	\$ 35.62	\$ 34.25
Average shares outstanding (000)	19,183	19,183	16,163	9,697
Net income (loss)	\$ 76,298	\$ (4,158,249)	\$ 167,972	\$ (854,853)
Net income (loss)per share	0.00	(0.22)	0.01	(0.09)
Net income (loss) per share fully diluted	0.00	(0.22)	0.01	(0.09)

Note: Product transportation and tariff, which was previously shown as a reduction of sales, has been segregated in the expenses section of the Income Statement. Sales prices are now shown on a gross basis.

Company information applicable to Canadian securities regulations has been filed on the Sedar system at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.rivalenergy.com](http://www.rivalenergy.com)

# RIVAL ENERGY LTD.

## Consolidated Balance Sheets

	March 31,	December 31,
	2005	2004
	Unaudited	
<b>Assets</b>		
Current assets		
Cash	\$ -	\$ -
Accounts receivable	2,446,197	2,096,345
Prepaid	170,832	136,712
	<u>2,617,029</u>	<u>2,233,057</u>
Petroleum and natural gas properties (Note 2)	23,329,766	22,943,793
	<u>\$ 25,946,795</u>	<u>\$ 25,176,850</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,002,832	\$ 3,732,633
* Bank loan (Note 3)	7,009,235	6,667,635
	<u>11,012,067</u>	<u>10,400,268</u>
Asset retirement obligation (Note 5)	1,914,240	1,830,692
Future income tax	293,423	348,612
Total liabilities	<u>13,219,730</u>	<u>12,579,572</u>
Shareholders' equity:		
Share capital (Note 4)	15,539,976	15,539,976
Contributed surplus (Note 4)	275,596	263,232
Retained earnings (deficit)	(3,088,507)	(3,205,930)
	<u>12,727,065</u>	<u>12,597,278</u>
	<u>\$ 25,946,795</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

\* On April 11, 2005, the Company received \$ 950,000 proceeds from the sale of its Suffield property and applied the proceeds against the bank loan. This will be booked as a second quarter transaction.

# RIVAL ENERGY LTD.

Consolidated Statements of Income and Deficit

Three months ended March 31

	2005	2004
	Unaudited	Unaudited
Revenue:		
Oil and gas sales	\$ 3,179,288	\$ 2,645,725
Royalties	(552,967)	(479,450)
Alberta royalty tax credit	28,726	32,900
	<u>2,655,047</u>	<u>2,199,175</u>
Expenses:		
Operating	880,317	598,791
Product transportation and tariff	92,673	65,710
General and administrative	265,232	305,362
Interest and financing costs	78,091	59,143
Depletion and depreciation	1,175,000	980,000
Accretion	59,681	35,885
Stock based compensation	12,364	37,986
	<u>2,563,358</u>	<u>2,082,877</u>
Income before taxes	91,689	116,298
Capital taxes	29,455	40,000
Future tax (recovery)	(55,189)	-
Net income for the period	117,423	76,298
Retained earnings (deficit), beginning	(3,205,930)	(2,359,047)
Accounting policy changes		
Asset retirement obligation	-	(287,172)
Stock based compensation	-	(130,790)
Retained earnings (deficit), end of period	<u>\$ (3,088,507)</u>	<u>\$ (2,700,711)</u>
Net income per share basic and diluted:	\$ 0.01	\$ 0.00

See accompanying notes to consolidated financial statements.

# RIVAL ENERGY LTD.

## Consolidated Statements of Cash Flows

Three months ended March 31

	2005	2004
	Unaudited	Unaudited
Cash provided by (used in):		
Operations		
Income for the period	\$ 117,423	\$ 76,298
Items not involving cash:		
Depletion and depreciation	1,175,000	980,000
Accretion	59,681	35,885
Stock based compensation	12,364	37,986
Future tax (recovery)	(55,189)	-
Cash flow	1,309,279	1,130,169
Abandonment costs	-	-
Change in non-cash working capital	(13,187)	323,501
	1,296,092	1,453,670
Investments:		
Petroleum and natural gas properties	(1,578,394)	(1,351,194)
Proceeds of sale of P&NG properties	41,287	-
Change in non-cash working capital	(100,585)	100,098
	(1,637,692)	(1,251,096)
Financing:		
Bank loan	341,600	(208,184)
	341,600	(208,184)
Increase (decrease) in cash	-	(5,610)
Cash, beginning of period	-	5,610
Cash, end of period	\$ -	\$ -

See accompanying notes to consolidated financial statements

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

---

## 1. Basis of presentation

The accompanying unaudited, consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods used in the consolidated financial statements for the fiscal year ended December 31, 2004.

The disclosures provided herein are incremental to those included with the annual consolidated financial statements and should be read in conjunction with those statements.

## 2. Petroleum and natural gas properties

	Cost	Accumulated depletion & amortization	Net book value
March 31, 2005			
Oil and gas properties	\$ 54,863,298	\$ 31,609,243	\$ 23,254,055
Other assets	165,874	90,163	75,711
	<u>\$ 55,029,172</u>	<u>\$ 31,699,406</u>	<u>\$ 23,329,766</u>
December 31, 2004			
Oil and gas properties	\$ 53,302,325	\$ 30,439,243	\$ 22,863,082
Other assets	165,874	85,163	80,711
	<u>\$ 53,468,199</u>	<u>\$ 30,524,406</u>	<u>\$ 22,943,793</u>

The Company has reviewed the carrying value of its properties at March 31, 2005 and determined that the recoverable value of the reserves, based on the January 1, 2005 price forecast of our independent evaluators, exceeded the recorded net book value.

During the first quarter of 2005, the Company capitalized \$70,000 (2004 - \$80,000) in overhead costs directly relating to petroleum and natural gas properties.

### 3. Bank loan

The Company has a credit facility with a revolving line of credit of \$7.5 million at the bank's prime rate plus ½ percent, and an acquisition and development line of \$2.0 million at the bank's prime interest rate plus one percent. Based on the demand nature of the facility, the Company's debt has been classified as a current obligation. These lines are intended to finance the ongoing activities of the Company, and are secured by a general assignment of book debts and a \$25,000,000 first floating charge debenture on all assets.

### 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

	March 31, 2005		December 31, 2004	
	Number of shares	Amount	Number of shares	Amount
Balance beginning of year	<b>19,121,281</b>	<b>\$15,539,976</b>	19,183,281	\$15,569,162
Common share issue	-	-	50,000	50,000
Share repurchases	-	-	(112,000)	(79,186)
Issued and outstanding	<b>19,121,281</b>	<b>\$15,539,976</b>	19,121,281	\$15,539,976
Weighted average number of shares outstanding	<b>19,121,281</b>		19,203,114	

#### (c) Options

The Company has a fixed stock option plan in which it may grant options to its directors, officers and employees for up to 1,918,328 common share options. 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.

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. On April 13, 2005, 910,000 options with an exercise price of \$1.10 were cancelled, leaving 1,005,000 options outstanding.

#### 4.(d) Stock based compensation

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

Contributed surplus beginning of period	\$	263,232
Stock based compensation 2005		12,364
Exercise of options		-
Closing balance March 31, 2005	\$	275,596

#### 5. Asset retirement obligation

At March 31, 2005 the Company estimates the total inflated and undiscounted amount of cash flows required to settle its asset retirement obligations is \$5,061,253 of which the majority for the wells is expected to be incurred between 2009 and 2020. A credit adjusted risk-free rate of 8% per annum was used to calculate the fair value of the asset retirement obligations.

The following table sets out changes in the asset retirement obligation in the three months ended March 31, 2005.

	March 31,	
	2005	
Opening balance December 31	\$	1,830,692
Current period accretion expense		36,915
Current period additions to asset carrying value		23,867
Revisions to estimated cash flows		22,766
Abandonment costs incurred		-
Closing balance March 31	\$	1,914,240

#### 6. Tax Pools

Rival Energy Ltd. had the following income tax pools available at March 31, 2005,:

	(millions)
Canadian Exploration Expense (CEE)	\$ 2.4
Canadian Development Expense (CDE)	1.1
Canadian Oil and Gas Property Expense (COGPE)	10.4
Undepreciated Capital Cost (UCC)	4.6
Foreign Exploration and Development Expense (FEDE)	1.3
Share issue costs	<u>0.6</u>
Total	\$ <u>20.4</u>

## **7. Subsequent event**

On March 11, 2005 Rival Energy Ltd. entered into an agreement to sell its Suffield oil property effective March 31, 2005 for \$950,000. The transaction closed on April 11, 2005 and the Company applied the proceeds against the bank loan.