



**MOVING IN THE  
RIGHT DIRECTION**



**Q1**

QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2007

**May 24, 2007 (Calgary) - RIVAL ENERGY LTD.** (“RGY” – TSX Venture Exchange) is pleased to release its operating and financial performance for the first three months of 2007. For this most recent quarter, Rival Energy’s oil and natural gas revenues and average production volumes were at record levels.

## Highlights Table

Three Months Ended  
March 31

<u>Financial</u>	<u>2007</u>	<u>2006</u>	<u>Change %</u>
Oil & gas sales	\$5,317,220	\$3,633,016	46
Cash flow from operations	2,442,969	1,650,426	48
Net income	67,470	273,378	(75)
Cash flow from operations per share	0.11	0.08	38
Net income per share	0.00	0.01	(70)
Average shares outstanding (000)	22,309	19,809	13
<u>Operating (6:1 BOE)</u>			
Average daily production			
Natural gas (mcf)	2,157	2,655	(19)
Oil and NGL (bblsd)	776	369	110
Barrels of oil equivalent (boe)	1,136	812	40
<u>Average Sales Price</u>			
Natural gas (\$/mcf)	\$ 7.57	\$ 7.63	(1)
Crude oil (\$/bbl)	54.88	53.18	3

## **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, 2006 and 2005 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.*

*Netbacks, which are calculated on a barrel of oil equivalent basis are used in this MD&A as a key measure of performance, have no standardized meaning prescribed by GAAP and may not be comparable to the calculation of similar measures by other companies.*

*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*

### **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.*

### **Production and Operations Overview**

Rival's active 2006 Q4 drilling program provided a dramatic improvement in production volumes leading into Q1 of 2007. Average production volumes increased to 1136 barrels of oil equivalent per day (boe/d) for this most recent quarter, a 40% increase driven by oil volumes that more than doubled the 2006 quarter. Oil volumes grew by 110 percent as the six new Bellshill oil wells were placed on production in December 2006. First quarter natural gas volumes for 2007 were 19 percent lower than the first quarter of 2006 due to a lack of natural gas drilling and natural declines.

Rival Energy's first quarter activities were almost exclusively focused upon the completion, tie-in and placing on-production the remaining wells from the nine (net) successful oil wells the Company drilled during the last four months of 2006. During the first quarter of 2007, Rival drilled two wells in its core Morinville area and this activity resulted in one successful exploration well (natural gas) and one abandonment. This shallow natural gas well is expected to be tied-in and placed on-stream by the end of May this year.

Rival's capital program for the initial part of 2007 has been curtailed due to the current industry environment. Higher drilling and field operating costs continue to encourage us to delay certain projects, and with an extended Spring break-up, additional drilling will not occur until the end of May or beginning of June this year. Throughout this period Rival has been working to increase its inventory of drillable prospects and develop more activity specific to its newer core areas within W5M and W6M. Rival remains committed to an active program for the latter part of 2007 and is working hard to prioritize its drilling prospects and capital spending program.

Corporate sales volumes remain strong as production from our most recent wells continues to perform to expectations through the initial flush production stage. With two wells to be tied-in and placed on production during Q2 (one oil and one natural gas), Rival expects to maintain its average production at approximately 1100 boe/d for the quarter.

Operationally, Rival realized a significant reduction in both its operating costs and transportation tariffs throughout the first calendar quarter of 2007. The increased oil production at the Company's owned and operated facilities in Bellshill, where a high proportion of the facility costs are fixed, showed a marked improvement in operating costs on a per barrel of oil equivalent basis due to the increased throughput. Transportation costs per boe were also down due to the increased volumes of oil that were pipeline connected versus those that were trucked to processing facilities.

Rival is in the process of putting significant emphasis on expanding the development of its internal prospect inventory. The Company is putting substantial time and energy into its new core areas in central and northern W5M and the central W6M of the Peace River Arch. Currently Rival has plans for three 3D seismic programs to be shot at the earliest opportunity and has identified a considerable number of prospects that must be further evaluated internally prior to attempting to acquire land deals to access the prospects of interest. Rival expects the results from these programs to continue the Company's growth momentum and allow it to establish a stronger foothold in these newer core areas.

### ***Oil and Natural Gas Sales***

Oil and natural gas sales for the first quarter of 2007 were a record \$5.3 million, a 46 percent increase over the first quarter of 2006. The increase in oil production volumes combined with continued strength in commodity prices led to the record oil and natural gas sales for the quarter.

<u>Average Benchmark Prices</u>	<u>Three months ended March 31, 2007</u>	<u>Three months ended March 31, 2006</u>
Natural gas Aeco daily \$CAD per mcf	7.41	7.52
Crude Oil WTI -\$US/bbl	58.16	63.48
Exchange rate \$US/\$CAD	1.1716	1.1545
Crude Oil Edmonton Par Price -\$CAD/bbl	67.09	68.96
<u>Rival average prices received</u>		
Natural gas \$CAD per mcf	7.57	7.63
Crude Oil \$CAD per bbl	54.88	53.18

## ***Oil and Natural Gas Operating Netbacks per Boe***

	Three months ended <u>March 31, 2007</u>	Three months ended <u>March 31, 2006</u>
Sales price	\$ <b>52.01</b>	\$ 49.72
Royalties	(10.44)	(10.36)
ARTC	-	1.06
Operating expenses	(9.77)	(10.60)
Transportation expenses	<u>(0.66)</u>	<u>(1.28)</u>
Operating netback	\$ <b><u>31.15</u></b>	\$ <u>28.55</u>

### ***Royalties***

Royalties averaged 20 percent of sales for the first quarter of 2007 which was almost identical to the 19.4 percent for the first quarter of 2006.

### ***Operating Costs***

Well operating costs, excluding transportation charges, were eight percent lower, averaging \$9.77 per boe for the first quarter of 2007 versus \$10.60 per boe for the first quarter of 2006. Increased production volumes from the new pool at Bellshill are processed through Company owned facilities, resulting in lower per unit costs.

### ***Product Transportation and Tariff***

Transportation and tariff costs were \$0.66 per boe in the March 2007 quarter which was a 48 percent reduction from \$1.28 for the first quarter of 2006. Oil volumes from the new pool in Bellshill which is pipeline connected, replaced oil declines at Killam where the oil has to be trucked, saving considerably on product transportation costs.

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

General and administrative expenses (G&A) were 33 percent higher for the March 2007 quarter than the same quarter of 2006 due to the addition of a senior geophysicist in the second quarter of 2006 and higher insurance costs in 2007.

### ***Interest***

Interest expense was 404 percent higher for the March 2007 quarter compared with the first quarter of 2006 due to the increase in debt from \$4.1 million in 2006 to \$16.3 million at March 31, 2007, The Company's increase in debt was due to the two property acquisitions completed in Q2 last year and Rival's expanded Q4, 2006 capital program of \$6.2 million.

## **Cash Flow from Operations**

Cash flow from operations was \$2,442,969 (\$0.11 per share) for the first quarter of 2007, a 48 percent increase over the first quarter of 2006. Higher oil production volumes in the first quarter of 2007 generated the increase in cash flow.

## **Reconciliation of Cash Flow from Operations to Net Income**

	Three months ended March 31, <u>2007</u>	Three months ended March 31, <u>2006</u>
Net income	\$ 67,470	\$ 273,378
Depletion and depreciation	2,160,000	1,120,000
Accretion	57,813	36,635
Stock based compensation	69,849	47,216
Unrealized loss on derivatives	15,604	-
Future income tax	72,233	173,197
Cash flow from operations	<u>\$ 2,442,969</u>	<u>\$ 1,650,426</u>

## **Depletion and Depreciation**

Depletion expense for the first quarter of 2007 was 93 percent higher than the first quarter of 2006. Proved oil reserves increased by 34 percent to January 1, 2007 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 and higher production volumes in 2007 also contributed to the increase in depletion expense.

## **Accretion**

Accretion expense in the March 2007 quarter was 58 percent higher than the first quarter of 2006. The two acquisitions completed by Rival in 2006, along with the wells drilled in 2006, increased the number of wells to be abandoned at a future date, increasing the Company's accretion expense.

## **Stock Based Compensation**

Stock based compensation expense was 48 percent higher in the first quarter of 2007, compared with the first quarter of 2006, due to the re-pricing of employee stock options in March, 2007.

## **Income Taxes**

Capital taxes for the first quarter of 2007 were 38 percent lower than the same quarter in 2006 due to reductions in the tax rate, and because a greater percentage of the production is coming from wells drilled in recent years, which are taxed at a lower rate. The Company is not currently taxable except for capital taxes.

The Company has provided \$72,233 for future income taxes in the March 2007 quarter compared with \$173,197 for the 2006 quarter.

### ***Net Income***

Net income was \$67,470 (\$0.00 per share) for the first quarter of 2007, compared with \$273,378 (\$0.01 per share) in the same quarter of 2006, as cash flows from higher oil production were offset by a higher depletion expense in 2007.

### ***Capital Acquisitions and Expenditures***

The following table summarizes the breakdown of capital expenditures for the first three months of 2007 and 2006:

<b><i>Petroleum and Natural Gas Properties</i></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Land	\$ <b>111,084</b>	\$ 322,219
Geological & geophysical	<b>215,892</b>	306,206
Drilling & completion	<b>932,970</b>	1,806,365
Equipping & facility	<b>(103,803)</b>	270,202
Abandonment	<b>57,813</b>	-
Acquisition (disposition)	<b>(57,000)</b>	-
Office	<b>1,320</b>	11,924
Capitalized overhead	<b><u>150,000</u></b>	<u>125,000</u>
	<b><u>\$ 1,308,276</u></b>	<b><u>\$ 2,841,916</u></b>

### ***Liquidity***

Rival Energy Ltd. had a working capital deficit of \$17.1 million at March 31, 2007 with the inclusion of bank debt in current liabilities, which was down from \$18.2 million at December 31, 2006. This facility is currently under review, and Rival expects the facility to be renewed at a level of \$16.0 million as of October 2007. The Company is prioritizing its capital spending to lower risk development projects and those other projects that will meet its flow-through share obligations and using its excess cash flow to pay down debt.

### **Quarterly operating and financial summary**

<b>Per Quarter</b>	<b>2007</b>		<b>2006</b>	
	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>
Natural gas production (mcf/d)	<b>2,157</b>	2,302	2,568	2,582
Oil & NGL production (bbls/d)	<b>776</b>	516	403	414
Average natural gas price received	\$ <b>7.57</b>	\$ 7.11	\$ 5.81	\$ 5.85
Average crude oil price received	<b>54.88</b>	53.15	65.75	64.46
Average shares outstanding (000)	<b>22,309</b>	22,309	19,809	19,809
Net income (loss)	<b>67,470</b>	\$ (249,990)	\$ 5,365	24,691
Net income (loss) per share	<b>0.00</b>	(0.01)	0.00	0.00
Net income (loss) per share fully diluted	<b>0.00</b>	(0.01)	0.00	0.00

### **Quarterly operating and financial summary**

<b>Per Quarter</b>	<b>2006</b>		<b>2005</b>	
	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>
Natural gas production (mcf/d)	2,655	2,807	2,820	2,972
Oil & NGLs production (bbls/d)	369	419	444	294
Average natural gas price received	\$ 7.63	\$ 11.39	\$ 9.43	\$ 7.38
Average crude oil price received	53.18	54.83	\$ 66.25	\$ 54.67
Average shares outstanding (000)	19,809	19,809	19,121	19,121
Net income	273,378	\$ 952,630	\$ 1,288,740	\$ 580,624
Net income per share	0.01	.05	\$ 0.07	\$ 0.03
Net income per share fully diluted	0.01	.05	\$ 0.07	\$ 0.03

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)

Consolidated Financial Statements of

**RIVAL ENERGY LTD.**

Three months ended March 31, 2007 and 2006

# RIVAL ENERGY LTD.

## Consolidated Balance Sheets

(Unaudited)

	March 31, 2007	December 31, 2006
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	\$ 2,908,222	\$ 3,210,606
Prepaid	272,898	299,193
	3,181,120	3,509,799
Petroleum and natural gas properties (Note 2)	42,096,220	43,012,622
	\$ 45,277,340	\$ 46,522,421
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,951,389	\$ 6,051,399
Bank loan (Note 3)	16,302,356	15,663,114
	20,253,745	21,714,513
Asset retirement obligation (Note 6)	2,695,080	2,701,945
Future income tax (Note 7)	2,897,702	1,513,469
	25,846,527	25,929,927
<b>Shareholders' equity</b>		
Share capital (Note 4)	18,843,849	20,136,190
Contributed surplus (Note 4)	787,752	724,562
Retained earnings (deficit)	(200,788)	(268,258)
	19,430,813	20,592,494
	\$ 45,277,340	\$ 46,522,421

Commitments & contingency (Note 10)

See accompanying notes to consolidated financial statements.

# RIVAL ENERGY LTD.

Consolidated Statements of Income, Comprehensive Income and Deficit  
(Unaudited)

	Three months ended	
	March 31,	
	2007	2006
Revenue:		
Oil and gas sales	\$ 5,317,220	\$ 3,633,016
Royalties	(1,066,813)	(756,756)
Alberta royalty tax credit	-	77,629
	<u>4,250,407</u>	<u>2,953,889</u>
Expenses:		
Operating	998,679	774,507
Product transportation and tariff	66,981	93,534
General and administrative	484,903	363,562
Interest and financing costs	242,085	47,898
Depletion and depreciation	2,160,000	1,120,000
Accretion	57,813	36,635
Stock based compensation	69,849	47,216
Unrealized loss on financial derivatives	15,604	-
	<u>4,095,914</u>	<u>2,483,352</u>
Income before taxes	154,493	470,537
Capital taxes	14,790	23,962
Future income taxes	72,233	173,197
Net income and comprehensive income	67,470	273,378
Retained earnings (deficit), opening	(268,258)	(321,702)
Retained earnings (deficit), ending	\$ (200,788)	\$ (48,324)
Net income per share basic and diluted: (Note 4)	\$ -	\$ 0.01

See accompanying notes to consolidated financial statements.

# RIVAL ENERGY LTD.

## Consolidated Statements of Cash Flows (Unaudited)

	Three months ended March 31,	
	2007	2006
Cash provided by (used in):		
Operations:		
Net income	\$ 67,470	\$ 273,378
Items not involving cash:		
Depletion and depreciation	2,160,000	1,120,000
Accretion	57,813	36,635
Stock based compensation	69,849	47,216
Unrealized loss on financial derivatives	15,604	-
Future income tax	72,233	173,197
	2,442,969	1,650,426
Abandonment costs	(53,984)	-
Change in non-cash working capital	(1,095,835)	(50,724)
	1,293,150	1,599,702
Investments:		
Petroleum and natural gas properties	(1,319,292)	(2,841,916)
Sale of P&NG properties	65,000	-
Change in non-cash working capital	(691,100)	242,000
	(1,945,392)	(2,599,916)
Financing:		
Bank loan	639,242	1,000,214
Common share issue	13,000	-
	652,242	1,000,214
Increase (decrease) in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	\$ -	\$ -

Changes in non-cash working capital (Note 9)

See accompanying notes to consolidated financial statements

# **RIVAL ENERGY LTD.**

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

(Unaudited)

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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**

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, 2006 except as noted below.

The disclosures provided herein are incremental to those included with the annual consolidated financial statements (the “annual statements”). Certain disclosures, which are required to be included in the notes to the annual statements, have been condensed or omitted in these interim consolidated financial statements, which should be read in conjunction with the annual statements.

### Financial instruments

On January 1, 2007 the Company adopted three new standards issued by the CICA relating to the accounting for and disclosure of financial instruments.

Section 3855 – “Financial Instruments – Recognition and Measurement” prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet, as well as its measurement amount depending on its classification. This Section also specifies how gains and losses on financial instruments are to be presented.

Section 3865 – “Hedges” expands on and replaces Accounting Guideline 13 – “Hedging Relationships” by specifying how hedge accounting is to be applied and what disclosures are necessary when it is applied.

Section 1530 – “Comprehensive Income” introduces new standards for reporting and disclosure of comprehensive income. Comprehensive income is the change in equity of the Company during that period from transactions and changes in prices, markets, interest rates and exchange rates. Comprehensive income includes unrealized gains and losses on financial assets classified as available for sale; unrealized translation gains and losses from self-sustaining foreign operations and changes in the fair value of the effective portion of cash flow hedging instruments.

The current period disclosure for the above changes is presented in note 8 “Financial instruments”.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

(Unaudited)

The Company's financial instruments include accounts receivable, a bank revolving credit facility, accounts payable and accrued liabilities. Accounts receivable are measured at amortized cost consistent with the "loan and receivable" classification. The financial liabilities include accounts payable, accrued liabilities and the bank revolving credit facility, which are all measured at amortized cost consistent with the "other liabilities" classification. The fair value of these financial instruments approximates their carrying value due either to their short term to maturity or, as with the credit facility, to the fact that it bears interest at a floating market rate.

Risk management assets and liabilities are derivative financial instruments classified as "held for trading" unless designated for hedge accounting. Derivative instruments are recorded at fair value on the Balance Sheet. The change in fair value is recognized in earnings.

In addition, the Company does not have any items related to comprehensive income for the three months ended March 31, 2007 and, accordingly, comprehensive income is equivalent to net income.

The Company also adopted Section 1506 – "Accounting Changes", the only impact of which is to provide disclosure when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 1535 – "Capital Disclosures", Section 3862 – "Financial Instruments Disclosures" and Section 3863 – "Financial Instruments Presentations" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

## 2. Petroleum and natural gas properties

	Cost	Accumulated depletion & depreciation	Net book value
<b>March 31, 2007</b>			
Oil and gas properties	\$ 84,122,096	\$ 42,141,243	\$ 41,980,853
Other assets	263,530	148,163	115,367
	<b>\$ 84,385,626</b>	<b>\$ 42,289,406</b>	<b>\$ 42,096,220</b>

	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>

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

(Unaudited)

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The Company has reviewed the carrying value of its properties at March 31, 2007 and determined that the recoverable value of the reserves, based on forecast prices, exceeded the recorded net book value.

The costs of unproven land and seismic at March 31, 2007 of \$2,311,000 (2006 - \$1,664,000) and salvage of \$5,015,000 (2006 - \$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 (2006 - \$1,589,000) are included in the depletion calculation.

The Company capitalized the following overhead costs directly relating to petroleum and natural gas properties:

	Three months ended March 31,	
	2007	2006
Capitalized general & administrative costs	\$ 150,000	\$ 125,000

### 3. Bank loan

The Company has a demand credit facility of \$17.5 million (2006 - \$8.5 million) at a Canadian chartered bank. Interest on advances is charged at the bank's prime rate plus ¼ percent (2006 - prime plus ½). 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 in compliance with at March 31, 2007.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

(Unaudited)

## 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, 2007		December 31, 2006	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	22,308,781	\$ 20,136,190	19,808,781	\$ 16,354,233
Common share issue	20,000	19,659	2,500,000	4,000,000
Share issue costs		-		(329,043)
Tax effect of share issue costs		-		111,000
Tax effect of flow through shares renounced		(1,312,000)		-
Balance, end of period	22,328,781	\$ 18,843,849	22,308,781	\$ 20,136,190
Weighted average basic shares outstanding	22,315,448		20,433,781	
Diluted average shares outstanding	22,637,491		20,627,781	

### (c) Share issues

In March of 2007, the Company issued 20,000 shares on the exercise of options for consideration of \$19,659.

### (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. No options were issued in the first quarter of 2007 or 2006.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

(Unaudited)

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## (e) Stock based compensation

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

	Three months ended March 31 2007		Year ended December 31 2006	
Balance, beginning of period	\$	724,562	\$	484,204
Stock based compensation		39,849		240,358
Exercise of options		(6,659)		-
Balance, end of period	\$	757,752	\$	724,562

## 5. Related party transactions

During the first three months of 2007, the Company incurred and paid legal fees of Nil (2006 – \$3,372) to a law firm, one of the partners of which is a director of the Company.

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

(Unaudited)

## 6. Asset retirement obligation

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is \$7,350,700 (December 31, 2006 - \$7,327,036) of which the majority for the wells is expected to be incurred between 2012 and 2021. 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.

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

	Three months ended March 31	Year ended December 31
	2007	2006
Asset retirement obligations		
Balance, beginning of period	\$ 2,701,945	\$ 1,778,689
Accretion expense	57,813	195,297
Liabilities incurred - drilling	21,339	195,044
Liabilities incurred - property acquisitions	-	666,000
Change in estimate	-	(100,496)
Liabilities settled or dispositions	(86,017)	(32,589)
Balance, end of period	\$ 2,695,080	\$ 2,701,945

## 7. Income taxes

The Company had the following income tax pools available at March 31, 2007, after deducting \$4.0 million of flow through share renunciations:

Tax Pools	(millions)
Canadian Exploration Expense (CEE)	\$ 0.9
Canadian Development Expense (CDE)	5.2
Canadian Oil and Gas Property Expense (COGPE)	15.3
Undepreciated Capital Cost (UCC)	7.4
Foreign Exploration and Development Expense (FEDE)	1.0
Share issue costs	0.4
	\$ 30.2

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

(Unaudited)

## 8. Financial instruments

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 the Company had no agreements to fix the sales price of any of its production. This natural gas hedge is a derivative financial instrument, but has no embedded derivatives. The Company does not apply hedge accounting under Section 3865, so the commodity contract is measured at mark-to-market on each reporting date.

## 9. Statement of Cash Flows

Changes in non-cash working capital balances are as follows:

	Three months ended March 31	
	2007	2006
Accounts receivable	\$ 302,384	\$ (29,378)
Prepaid	26,295	(41,109)
Accounts payable and accrued liabilities	(2,100,010)	261,763
Total Balance Sheet	(1,771,331)	191,276
Amounts related to operating activities	(1,095,835)	(50,724)
Unrealized loss on financial derivatives	15,604	-
Amounts related to investing activities	(691,100)	242,000
Amounts related to financing activities	-	-
Total Statement of Cash Flows	\$ (1,771,331)	\$ 191,276

## 10. Commitments and contingency

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 March 31, 2007 Rival has incurred \$2 million of eligible expenditures, leaving \$2 million to be spent in the balance of 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. Zirotf  
*Vice President, Finance and Chief Financial Officer*

John C. Wilson  
*Vice President, Exploration*

Harley L. Winger  
*Corporate Secretary*

### Abbreviations

bbbl	barrel
mcf	thousand cubic feet
mbbl	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

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