



# MOVING IN THE RIGHT DIRECTION

## Q3

QUARTERLY REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

November 27, 2006 (Calgary) - RIVAL ENERGY LTD. ("RGY" – TSX Venture Exchange) is pleased to release its operating and financial performance for the fiscal third quarter and first nine months of 2006.

### Highlights Table

	Three Months Ended September 30			Nine Months Ended September 30		
<u>Financial</u>	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>
Oil & gas sales	\$3,766,536	\$5,121,099	(26)	\$11,294,210	\$11,744,157	(4)
Cash flow from operations	1,249,209	2,988,970	(58)	4,270,747	6,040,682	(29)
Net income	5,365	1,288,740	(100)	303,434	1,931,598	(84)
Cash flow per share	0.06	0.16	(61)	0.22	0.32	(33)
Net income per share	0.00	0.07	(100)	0.02	0.10	(85)
Average shares outstanding (000)	19,809	19,121	4	19,809	19,121	4
<u>Operating (6:1 BOE)</u>						
Average daily production						
Natural gas (mcf)	2,568	2,820	(9)	2,592	2,947	(12)
Oil and NGL (bblsd)	<u>403</u>	<u>444</u>	<u>(9)</u>	<u>394</u>	<u>338</u>	<u>17</u>
Barrels of oil equivalent (boe)	831	914	(9)	826	829	0
<u>Average Sales Price</u>						
Natural gas (\$/mcf)	\$ 5.81	\$ 9.43	(38)	\$ 6.43	\$ 7.88	(18)
Oil (\$/bbl)	65.75	66.25	(1)	61.56	58.63	5

### Q3 Highlights:

- Ø Drilled three potential oil wells during the quarter. The first well resulted in a new pool oil discovery in Bellshill (100%) and the remaining two wells were cased as potential oil wells.
- Ø Rival received approval for additional drilling in its Bellshill North discovery (late 2005) and has recently completed the drilling of four additional oil wells into this pool.
- Ø Rival commenced a 12 well drilling program late in Q3 and has drilled 9 wells to date.

- Ø Rival (50%) completed arrangements to have two high impact oil plays drilled during the fourth quarter this year. Both locations, if successful, could have a significant impact on Rival's production and reserves.
- Ø Four drilling locations have been approved and surveyed on the Company's Morinville property (acquired during Q2 this year) and these natural gas targets will be drilled once natural gas prices have demonstrated improved strength and stability.

Rival, like many of its peer companies, experienced delayed activity and an increased cost structure throughout much of this year. Combined with significantly lower natural gas prices, this operating environment challenged Rival's ability to achieve certain corporate objectives for the year.

These challenges have simply delayed Rival's drilling program and the expected growth in production volumes, revenues and resultant cash flow. Production volumes for Q3 2006 were 9% lower than the same period in 2005, but with the Company currently producing over 900 boe/d (with an additional 200 boe/d to be brought on-stream within the next 30 days) Rival will post a solid exit rate of production to set a strong start for 2007.

With corporate revenues and cash flow also trailing expectations and down significantly from the same period of 2005, due to a significant (38%) drop in average natural gas prices and a significant increase in operating costs for the quarter, Rival expects these anomalous results to be corrected on a go-forward basis. Natural gas prices have shown substantial improvement, the overall cost structure for the industry appears to be moderating and with the exception of power and fuel costs, operating costs per barrel of oil equivalent will be brought back to historical norms.

The activity delays have been resolved as the requisite approvals were finally received (seven month delay) and Rival commenced a 12-well drilling program which was undertaken in mid-September. To date the Company has drilled 9 oil wells, with 100% success. The remaining three wells will be drilled prior to mid-December this year. Of the initial nine wells drilled in this program, three wells are now producing and five of the remaining six wells will be placed on production over the next few weeks. This drilling program has the potential to push Rival's production volumes to about 1100 boe/d as a 2006 exit rate.

With a strong exit from 2006, Rival is in a good position to capitalize on its expanded drilling inventory as 2007 unfolds. Stronger production numbers and cash flow for 2007 will enable Rival to maintain a very active drilling program over the next 12 months. Rival's growth strategy is a two-pronged plan incorporating grass-roots exploration and complementary or strategic acquisitions. With the recent financial changes impacting our industry, Rival will be very active on the acquisition and M&A side of the market throughout 2007 as we believe this time of uncertainty and change will provide considerable opportunities for growth and future value creation.

## 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, 2005 and 2004 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.*

*Natural gas volumes are expressed in terms of barrels of oil equivalent (boe) based upon the estimated relative energy content of six thousand cubic feet of gas to one barrel of oil.*

### **Production**

Production sales volumes decreased by 9 percent to average 831 boe per day for the third quarter of 2006, compared to 914 boe per day for the same quarter of 2005. Production volumes dropped as a result of the delay in Rivals 2006 drilling program and the shutting in of several gas wells due to lower natural gas prices. Rival Energy Ltd. expects to add 200-300 boe per day prior to year end as a result of its recent successful drilling program.

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

A 38 percent reduction in natural gas prices and a nine percent decline in production volumes in the September 2006 quarter led to the decrease in Rival's oil and natural gas sales to \$3.7 million from the \$5.1 million realized for the same quarter last year.. For the nine months in 2006, oil and natural gas sales were four percent lower than for the same period in 2005 as a result of lower natural gas prices and gas production volumes.

<u>Average Benchmark Prices</u>	<u>Three months ended September 30, 2006</u>	<u>Nine months ended September 30, 2006</u>
Natural gas Aeco daily \$CAD per mcf	5.62	6.38
Crude Oil WTI -\$US/bbl	70.48	68.22
Exchange rate \$US/\$CAD	1.1212	1.1327
Crude Oil Edmonton Par Price -\$CAD/bbl	79.08	75.53
<u>Rival average prices received</u>		
Natural gas \$CAD per mcf	5.81	6.43
Crude Oil \$CAD per bbl	65.75	61.56

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

	Three months ended September 30, <u>2006</u>	Three months ended September 30, <u>2005</u>	Nine months ended September 30, <u>2006</u>	Nine months ended September 30, <u>2005</u>
Sales price	\$ <b>49.82</b>	\$ 60.88	\$ <b>50.08</b>	\$ 51.91
Royalties	( <b>8.52</b> )	(12.38)	( <b>9.47</b> )	(9.84)
ARTC	<b>2.65</b>	1.04	<b>1.54</b>	0.73
Operating expenses	( <b>17.67</b> )	(8.21)	( <b>14.59</b> )	(10.10)
Transportation expenses	( <b>0.96</b> )	( <u>1.30</u> )	( <b>1.09</b> )	( <u>1.32</u> )
Operating netback	\$ <b><u>25.32</u></b>	\$ <u>40.03</u>	\$ <b><u>26.47</u></b>	\$ <u>31.38</u>

### ***Royalties***

Royalties averaged 17.1 percent of sales for the third quarter of 2006, compared to 20.3 percent for the same quarter of 2005 due to lower freehold oil production volumes at Killam, where the freehold royalty rate is 25%. For the nine months, royalties were 18.9 percent of sales for both the 2006 and 2005 periods.

### ***Operating Costs***

A number of significant events contributed to Rivals dramatic increase in operating costs for this calendar quarter. Well operating costs, excluding transportation charges, were 93% higher and averaged \$17.67 per boe for the third quarter of 2006, versus \$8.21 per boe for the same period of 2005. This jump in operating costs resulted from a significant increase in electrical costs, which form a large portion of Rival's fixed costs, combined with other one-time costs such as: a repair and cleanup cost of \$150,000 for a pipeline break at Morinville, annual battery turnaround costs at Bellshill and Killam, and a significant increase in the overall operating cost structure experienced throughout the industry. On a year to date basis operating costs averaged \$14.59 per boe versus \$10.10 in the 2005 nine months.

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

Transportation and tariff costs averaged \$0.96 per boe for the September quarter, which was lower than the \$1.30 in the September 2005 quarter. This savings was primarily a result of production increases from Rival's oil properties at North Bellshill and West Bellshill which are both pipeline connected, in conjunction with lower volumes of oil trucked at Killam due to natural declines. Trucking costs are significantly more expensive than pipeline tariffs to move the same volume of oil. For the nine months transportation and tariff costs averaged \$1.09 per boe in 2006 compared with \$1.32 for the same period in 2005.

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

General and administrative expenses (G&A) for the September 2006 quarter were five percent higher than the same quarter of 2005 and 46 percent higher for the nine months of 2006 over the same period in 2005. Rival increased its staff with the addition of a Vice President, Exploration, a Land Manager and a senior geologist in the third quarter of 2005, and also added a senior geophysicist in the second quarter of 2006. Higher rent from new office space and other costs in 2006 were also partly responsible. G&A costs were 45 percent higher for the 2006 nine months compared to the 2005 nine month period for the same reasons.

## ***Interest***

Interest expense for the September 2006 quarter was 2.8 times higher than the same period in 2005 due to the increase in debt at the end of May 2006, which was incurred to fund the two minor property acquisitions completed during that quarter. Bank debt increased from \$6,000,000 to \$16,023,000 to fund the acquisitions. For the nine months interest expense was 63 percent higher in 2006 than the same 2005 period due, as well, to increased debt to fund the acquisitions.

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

Cash flow from operations was \$1,249,209 (\$0.06 per share) for the third quarter of 2006, a 58 percent reduction from the third quarter of 2005. Significantly lower natural gas prices, combined with higher operating costs and lower production volumes in the third quarter of 2006 contributed to this decrease in cash flow. For the first nine months of 2006, cash flow from operations was 29 percent lower than in the same period in 2005, due mainly to weaker natural gas prices and a higher overall cost structure.

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

	Three months ended September 30, <u>2006</u>	Three months ended September 30, <u>2005</u>	Nine months ended September 30, <u>2006</u>	Nine months ended September 30, <u>2005</u>
Net income	\$ 5,365	\$ 1,288,740	\$ 303,434	\$ 1,931,598
Depletion and depreciation	1,130,000	1,130,000	3,480,000	3,230,000
Accretion	53,783	35,701	138,681	108,827
Stock based compensation	60,061	136,529	175,435	161,257
Future income tax	-	398,000	173,197	609,000
Cash flow from operations	<u>\$ 1,249,209</u>	<u>\$ 2,988,970</u>	<u>\$ 4,270,747</u>	<u>\$ 6,040,682</u>

## ***Depletion and Depreciation***

The depletion expense provision for the third quarter of 2006 was the same as the third quarter of 2005 and slightly higher for the nine months in 2006.

## ***Accretion***

Accretion expense in the September 2006 quarter was 50 percent higher than the first quarter of 2006 due to the added liability from the acquisition of properties in the second quarter. Accretion expense for the September 2006 nine months was 27 percent higher than the same period of 2005 also due to the added liability from the acquired properties.

## ***Stock Based Compensation***

Stock based compensation expense was 56 percent lower in the third quarter of 2006 than the third quarter of 2005 due to the issue of 665,000 options in the third quarter of 2005 versus 50,000 in the third quarter of 2006. For the nine months of 2006 stock based compensation was nine percent higher than the 2005 period reflecting a larger number of options outstanding.

## ***Income Taxes***

Capital taxes for the third quarter of 2006 were seven percent higher than the third quarter of 2005 and 30 percent higher for the 2006 nine months primarily as a result of a credit in 2005 from a prior year over accrual. The Company is not currently taxable except for capital taxes. The Company has a provision of nil for future income taxes in the September 2006 quarter compared with \$398,000 for the 2005 quarter due to a higher taxable income in the 2005 quarter. Future income taxes for the nine months of 2006 were also lower than the same 2005 period due to lower taxable income in 2006.

## ***Net Income***

Net income was \$5,365 (\$0.00 per share) for the 2006 third quarter compared with net income of \$1,288,740 (\$0.07 per share) in the third quarter of 2005, due to weaker natural gas prices, lower production volumes and higher operating costs. Year to date net income was \$303,434 for 2006 (\$0.02 per share) compared to \$1,931,598 (\$0.10 per share) for 2005 due to lower natural gas prices, higher operating and general and administrative costs in 2006.

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

The following table summarizes the breakdown of capital expenditures for the first nine months of 2006 and 2005:

<b><i>Petroleum and Natural Gas Properties</i></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Land	\$ 765,634	\$ 271,725
Geological & geophysical	810,715	44,529
Drilling & completion	5,007,592	1,718,762
Equipping & facility	996,183	1,590,540
Abandonment	16,364	-
Acquisition (disposition)	9,166,080	(991,287)
Office	18,975	11,905
Capitalized overhead	445,000	195,000
	\$ <u>17,226,543</u>	\$ <u>2,841,174</u>

## ***Liquidity***

The working capital deficiency at September 30, 2006 was \$17.3 million, including bank debt of \$16.0 million which is shown in current liabilities. At September 30, 2006 Rival was not in compliance with a covenant in its lending agreement which specifies a minimum working capital ratio. The lender has provided a waiver at September 30, 2006. On October 25, 2006 Rival Energy Ltd. raised additional capital in a flow through share issue to help fund its proposed 2006 and 2007 capital program (See Subsequent Financing).

## *Subsequent Financing*

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 estimated share issue costs of \$285,000

## *Commitments*

The Company has entered into an office lease effective November 1, 2005, and has committed to the expenditure of \$1.8 million, including operating costs, over five years.

## *Quarterly operating and financial summary*

Per Quarter	2006			2005
	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>
Natural gas production (mcf/d)	2,568	2,582	2,655	2,807
Oil & NGL production (bbls/d)	403	414	369	419
Average natural gas price received	\$ 5.81	\$ 5.85	\$ 7.63	\$ 11.39
Average crude oil price received	65.75	64.46	53.18	54.83
Average shares outstanding (000)	19,809	19,809	19,809	19,809
Net income	\$ 5,365	\$ 24,691	\$ 273,378	\$ 952,630
Net income per share	0.00	0.00	0.01	.05
Net income per share fully diluted	0.00	0.00	0.01	.05

## *Quarterly operating and financial summary*

Per Quarter	2005			2004
	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>
Natural gas production (mcf/d)	2,820	2,972	3,052	3,099
Oil & NGLs production (bbls/d)	444	294	273	223
Average natural gas price received	\$ 9.43	\$ 7.38	\$ 6.98	\$ 6.47
Average crude oil price received	66.25	54.85	51.67	44.71
Average shares outstanding (000)	19,121	19,121	19,121	19,196
Net income (loss)	\$ 1,288,740	\$ 580,624	\$ 62,234	\$ (212,491)
Net income (loss) per share	0.07	0.03	0.00	(0.01)
Net income (loss) per share fully diluted	0.07	0.03	0.00	(0.01)

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.**

Nine months ended September 30, 2006 and 2005

# RIVAL ENERGY LTD.

## Consolidated Balance Sheets

(Unaudited)

	September 30, 2006	December 31, 2005
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	\$ 2,176,186	\$ 2,826,762
Prepaid	312,584	175,262
	<u>2,488,770</u>	<u>3,002,024</u>
Petroleum and natural gas properties (Note 3)	38,471,595	24,050,009
	<u>\$ 40,960,365</u>	<u>\$ 27,052,033</u>
 <b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,764,912	\$ 4,198,436
Bank loan (Note 4)	16,023,425	3,147,359
	<u>19,788,337</u>	<u>7,345,795</u>
Asset retirement obligation (Note 7)	2,592,413	1,778,689
Future income tax (Note 8)	1,584,011	1,410,814
	<u>23,964,761</u>	<u>10,535,298</u>
 <b>Shareholders' equity</b>		
Share capital (Note 5)	16,354,233	16,354,233
Contributed surplus (Note 5)	659,639	484,204
Retained earnings (deficit)	(18,268)	(321,702)
	<u>16,995,604</u>	<u>16,516,735</u>
	<u>\$ 40,960,365</u>	<u>\$ 27,052,033</u>

See accompanying notes to consolidated financial statements.

# RIVAL ENERGY LTD.

## Consolidated Statements of Income and Deficit (Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
<b>Revenue:</b>				
Oil and gas sales	\$ 3,766,536	\$ 5,121,099	\$ 11,294,210	\$ 11,744,157
Royalties	(644,231)	(1,041,199)	(2,134,713)	(2,227,413)
Alberta royalty tax credit	73,364	87,780	220,612	164,568
	<u>3,195,669</u>	<u>4,167,680</u>	<u>9,380,109</u>	<u>9,681,312</u>
<b>Expenses:</b>				
Operating	1,335,990	690,801	3,290,768	2,284,777
Product transportation and tariff	72,873	109,183	245,681	298,584
General and administrative	292,162	278,445	1,127,565	774,099
Interest and financing costs	219,095	75,645	377,144	230,857
Depletion and depreciation	1,130,000	1,130,000	3,480,000	3,230,000
Accretion	53,783	35,701	138,681	108,827
Stock based compensation	60,061	136,529	175,435	161,257
	<u>3,163,964</u>	<u>2,456,304</u>	<u>8,835,274</u>	<u>7,088,401</u>
Income before taxes	31,705	1,711,376	544,835	2,592,911
Capital taxes	26,340	24,636	68,204	52,313
Future income taxes	-	398,000	173,197	609,000
Net income for the period	5,365	1,288,740	303,434	1,931,598
Retained earnings (deficit), beginning of period	(23,633)	(2,563,072)	(321,702)	(3,205,930)
Retained earnings (deficit), end of period	\$ (18,268)	\$ (1,274,332)	\$ (18,268)	\$ (1,274,332)
Net income per share basic and diluted:	\$ -	\$ 0.07	\$ 0.02	\$ 0.10

See accompanying notes to consolidated financial statements.

# RIVAL ENERGY LTD.

## Consolidated Statements of Cash Flows (Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net income for the period	\$ 5,365	\$ 1,288,740	\$ 303,434	\$ 1,931,598
Items not involving cash:				
Depletion and depreciation	1,130,000	1,130,000	3,480,000	3,230,000
Accretion	53,783	35,701	138,681	108,827
Stock based compensation	60,061	136,529	175,435	161,257
Future income tax	-	398,000	173,197	609,000
Cash flow from operations	1,249,209	2,988,970	4,270,747	6,040,682
Abandonment costs	(16,364)	-	(16,364)	-
Change in non-cash working capital	276,609	(1,011,721)	(267,870)	(1,392,957)
	1,509,454	1,977,249	3,986,513	4,647,725
<b>Investments:</b>				
Petroleum and natural gas properties	(2,343,634)	(1,091,590)	(8,044,099)	(3,832,463)
Purchase of P&NG properties	-	-	(9,166,080)	-
Sale of P&NG properties	-	-	-	991,287
Change in non-cash working capital	111,850	29,000	347,600	(222,494)
	(2,231,784)	(1,062,590)	(16,862,579)	(3,063,670)
<b>Financing:</b>				
Bank loan	722,330	(914,659)	12,876,066	(1,584,055)
	722,330	(914,659)	12,876,066	(1,584,055)
Increase (decrease) in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -

See accompanying notes to consolidated financial statements

# RIVAL ENERGY LTD.

Notes to Consolidated Financial Statements

Nine months ended September 30, 2006 and 2005

(Unaudited)

---

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, 2005.

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.

## 2. Business acquisitions

During the second quarter, the Company completed two transactions in which it purchased petroleum and natural gas interests, for cash, as follows:

### (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
Purchase price net of adjustments	7,016,080

### (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
Purchase price net of adjustments	2,150,000

The purchase price adjustments on both acquisitions are not final. They will be finalized in the coming months

### 3. Petroleum and natural gas properties

September 30, 2006	Cost	Accumulated depletion & depreciation	Net book value
Oil and gas properties	\$ 76,576,806	\$ 38,231,243	\$ 38,345,563
Other assets	259,195	133,163	126,032
	<u>\$ 76,836,001</u>	<u>\$ 38,364,406</u>	<u>\$ 38,471,595</u>

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

The Company has reviewed the carrying value of its properties at September 30, 2006 and determined that the recoverable value of the reserves, based on forecast prices, exceeded the recorded net book value.

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

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Capitalized general & administrative costs	\$170,000	\$ 70,000	\$445,000	\$195,000

#### Bank loan

The Company has a demand credit facility at a Canadian chartered bank with \$16.5 million (2005 - \$8.5 million) available at the bank's prime rate plus ¼ percent, and a conditional acquisition line of \$1.6 million (2005 - \$2.0 million,) which is subject to bank approval and is undrawn, at the bank's prime interest rate plus ¾ percent. Based on the demand nature of this facility, the Company's debt has been classified as a current obligation. These lines 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

	September 30, 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 (c)	-	-	687,500	825,000
Share issue costs (c)		-	-	(10,743)
Issued and outstanding	19,808,781	\$ 16,354,233	19,808,781	\$ 16,354,233
Weighted average basic shares outstanding	19,808,781		19,293,156	
Diluted average shares outstanding	20,301,669		19,451,226	

(c) Share issues

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

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 estimated share issue costs of \$285,000

(d) Options

The Company has a rolling stock option plan in which it may grant up to 10% of the outstanding common share options to its directors, officers and employees. Under this plan, the exercise price of each option equals the market price of the Company's stock on the date of grant, options vest over three years and an option's maximum term is five years. Options are granted periodically throughout the year. At September 30, 2006, 2,070,000 options were outstanding, (of which 89,122 are subject to shareholders' approval at the next annual meeting,) and 1,057,500 were vested. In the first nine months of 2006, 150,000 options were issued in May at \$1.44 and 50,000 in September at \$1.27.

The fair value of the options granted during the quarters in 2006 (2005 – Nil) was estimated using the Black Scholes model and the following assumptions:

	<u>2006</u>
Risk free rate	4%
Expected life (years)	5
Expected volatility	44%
Weighted average fair value of options granted	\$0.56

(e) Stock based compensation

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

	<u>2006</u>
Opening balance January 1, 2006	\$ 484,204
Stock based compensation for the period	175,435
Exercise of options	-
<u>Closing balance June 30, 2006</u>	<u>\$ 659,639</u>

**5. Related party transactions**

During the nine months of 2006, the Company incurred and paid legal fees of \$10,307 (2005 – Nil), to a law firm, one of the partners of which became a director of the Company in August of 2005.

## 6. Asset retirement obligation

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is \$7,137,648 (December 31, 2005 - \$5,276,457) 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:

	Nine months ended September 30 2006	Year ended December 31 2005
Asset retirement obligations		
Opening balance, January 1	\$ 1,778,689	\$ 1,830,692
Current period accretion expense	138,681	145,716
Current additions to asset carrying value	716,558	144,611
Revisions to estimated cash flows	(25,151)	(234,267)
Abandonment costs incurred	(16,364)	(108,063)
Closing balance, end of period	\$ 2,592,413	\$ 1,778,689

## 7. Income taxes

The Company had the following income tax pools available at September 30, 2006:

Tax Pools	(millions)
Canadian Exploration Expense (CEE)	\$ 3.9
Canadian Development Expense (CDE)	3.4
Canadian Oil and Gas Property Expense (COGPE)	15.9
Undepreciated Capital Cost (UCC)	6.6
Foreign Exploration and Development Expense (FEDE)	1.0
Share issue costs	0.2
Total	\$ 31.0

## 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  
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*

Joe Pozzobon  
*Senior Geologist*

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)

