

OVERLORD FINANCIAL INC.

FOR THE YEAR ENDED DECEMBER 31, 2005

MANAGEMENT DISCUSSION & ANALYSIS FORM 51-102F1

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited annual consolidated financial statements for the years ended December 31, 2005 and December 31, 2004 and the notes thereto of Overlord Financial Inc. ("Overlord" or the "Company").

The information provided herein is effective as of March 24, 2006 and is, at least in part, based upon assumptions regarding future events and results, which may vary.

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Overlord's management at the time the statements were made. Overlord assumes no obligation to update forward-looking statements should circumstances or management's estimates change.

Overview

Overlord is a company listed on the TSX Venture Exchange and incorporated under the *Business Corporations Act* (Alberta). The Company's business focuses on managing energy-related investment funds and assets. To that end, Overlord has created wholly-owned subsidiary corporations which have defined platforms and objectives of their own, all as part of Overlord's business plan. Overlord's management, employees and consultants are working within these subsidiaries to develop their respective businesses.

Marketable Securities and Long Term Investments

During 2005, the Company acquired 450,000 shares of Sword Energy Ltd. for cash consideration of \$500,000. Further, the Company's wholly owned subsidiary Juno Canada Holdings Ltd., reinvested \$25,000 of income received from Wisevest (as defined below) into additional Wisevest units. The Company also purchased 200,000 units (cost of \$1,992,000) of Catapult Energy Limited Partnership I, a partnership managed by the Company's wholly owned subsidiary, Catapult Energy 2004 Inc. Finally, the Company sold 628,390 shares of ExAlta Energy Inc. for net proceeds of \$3,012,539. The remaining proceeds of \$117,500 relate to the sale of 250,000 Contact Exploration Ltd. shares.

Business Interests

Overlord has established four wholly-owned subsidiaries to conduct its various lines of business, which include Catapult Energy 2004 Inc. ("Catapult"), Juno Canada Holdings Ltd. ("Juno"), PortfolioCo Inc. ("PortfolioCo") and Sword Management Inc. ("Sword Management").

Catapult, an Alberta company, is the general partner of the Catapult Energy Limited Partnership I (the "Partnership") and is responsible for managing the investments in private and public junior resource issuers for the Partnership. The Partnership closed its initial public offering on June 29, 2005 and is listed on the TSX under the ticker symbol CPU.UN.

Juno, an Alberta company, sells debentures and invests the proceeds in the Wisevest Income Fund ("Wisevest"). Wisevest was established by deed of trust on January 1, 2004 and Juno is the sole holder of Wisevest units. Wisevest's investment objective is to maximize distributions primarily through investment in securities of Canadian royalty and income trusts. Currently, Juno has issued debentures totaling \$250,000 and has in turn placed the funds with Wisevest. Juno continues to seek subscriptions for its debentures in offshore markets. PortfolioCo., an Alberta company and wholly-owned subsidiary of Overlord, is the manager of Wisevest and earns fees for its management and administration services.

Sword Management, an Alberta company, identifies potential oil and natural gas exploration and development opportunities in both the private and public sectors. Sword Management's mandate is to identify, acquire and manage oil and gas properties on behalf of high net worth and institutional investors. In March 2005, Sword Management formed Sword Energy Ltd. ("SEL") on behalf of private equity shareholders and acquired exploratory oil and gas properties valued at less than \$1.5 million. During the year, SEL acquired a greater

working interest percentage in the properties. In December 2005, SEL raised \$5.86 million through a share issuance at \$1.25 per share (\$1.40 per flow through share). Subsequent to year end, a further \$3.6 million was raised at the same price.

In 2005, the Company acquired a total of 450,000 shares of SEL for cash consideration of \$500,000. Further, directors of the Company acquired 70,000 flow-through shares of SEL at \$1.40 per share. Through a joint venture management agreement, Sword Management provides management and administration services to SEL and joint venture partners and receives a management fee of 5% of the net cash flows from operations.

Cash Position and Results of Operations

The Company's cash position at December 31, 2005 was approximately \$1.8 million. During the year, cash decreased due to funds required for continuing operations of \$2.1 million and the acquisition of long term investments of \$2.5 million. Cash increased mainly from proceeds on the sale of marketable securities of \$3.1 million and the issuance of common shares for \$2.0 million.

Overall, the Company incurred a net loss for the year of \$230,612. This includes revenue of \$2,608,620 mainly from the gain on sale of marketable securities and management fees offset by net expenses of \$2,839,232. Included in net expenses are non-cash related expenses of \$462,190.

Summary of Quarterly Information

	2005				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	\$ 46,535	\$ 732,838	\$1,073,679	\$755,568	\$ 78,894	\$ 14,893	\$ 19,444	\$ 25,010
Expenses	(602,204)	(679,450)	(690,200)	(867,378)	(337,693)	(290,655)	(322,085)	(708,044)
Income from discontinued operations	-	-	-	-	-	-	-	19,986
Net income (loss) for period	\$(555,669)	\$ 53,388	\$ 383,479	\$(111,810)	\$(258,799)	\$(275,762)	\$(302,641)	\$(663,048)

Quarterly revenues increased over the last three quarters of 2005 mainly due to the gain on the sale of marketable securities of \$2,359,993 and management fees of \$158,535. Fourth quarter expenses consist mainly of consulting (\$243,000), rent (\$95,000), professional fees (\$185,000), salaries (\$109,000) and travel (\$43,000). Fourth quarter expenses also include non-cash expense items relating to the write down of Sonomax shares in marketable securities (\$89,762) and the impairment of long-term investment related to the Sonomax note (\$37,500).

During the year, management obtained additional leased office space of 8,668 square feet starting July 1, 2005 of which 3,500 square feet was subleased starting October 1, 2005 (refer to "Commitments and Guarantees" section).

Selected Annual Information

	2005	2004	2003
Total Revenues	\$ 2,608,620	\$ 138,241	\$ 165,605
Net Loss	\$ (230,612)	\$ (1,500,250)	\$ (1,414,250)
Net Loss per Share – basic and diluted	\$ (0.005)	\$ (0.038)	\$ (0.037)
Total Assets	\$ 6,130,425	\$ 3,945,642	\$ 5,057,121
Total Long Term Debt	\$ 250,000	\$ 250,000	-

The increase in total revenues from 2004 to 2005 relates mainly to an increase in the gain on sale of marketable securities and increase in management fees. Total assets have increased mainly as a result of

cash from the sale of shares of ExAlta Energy Inc. Long term debt represents Juno debentures issued to the Canadian Balance Return Fund Ltd. in 2004.

Liquidity

As of December 31, 2005, the Company had \$1.8 million in cash and cash equivalents to fund operational activities. In addition, the Company holds \$0.8 million of marketable securities at cost (market value of \$3.7 million at December 31, 2005), parts of which it may, or may not, realize upon to support working capital requirements. The Company has sufficient working capital to meet operational requirements for at least one year. The Company had working capital of \$2.6 million (\$3.1 million - 2004) at December 31, 2005.

Commitments and Guarantees

The Company is committed to leased office space with future base rent payments of \$275,226, \$286,660, \$291,104, \$295,548 and \$149,996 for 2006, 2007, 2008, 2009 and 2010, respectively. The Company is also required to pay their proportionate share of operating and property tax costs for the premises.

In 2006, the Company is committed to payments of approximately \$21,500 per month (2005 - \$38,500 per month) under existing consulting agreements with officers of the Company. The remaining commitment at December 31, 2005 approximates \$159,000 per year (2004 - \$265,500 per year) expiring on September 30, 2006.

The Company has agreed to indemnify certain individuals, who have acted at the Company's request to be an officer or director of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individual as a result of their services. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to the beneficiary of such indemnification agreement. The Company has purchased various insurance policies to reduce the risks associated with such indemnification.

In the ordinary course of business, the Company and its subsidiaries enter into contracts which contain indemnification provisions, such as letter agreements, service agreements and purchase and sale agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. In some cases the Company requires indemnities from its service providers, related to the Company's indemnification obligations to customers. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

Catapult Energy 2004 Inc. a wholly owned subsidiary of the Company, has guaranteed all the debts, liabilities and obligations of Catapult Energy Limited Partnership I, as the General Partner.

Related Party Transactions

During 2005, the Company incurred legal expenses and disbursements of \$Nil (2004 - \$214,765) to a law firm in which a former director of the Company was a partner. Also, the Company paid consulting fees to and reimbursed travel expenses in 2005 of Basek Consulting Ltd. of \$152,212 with payable of \$27,327 and Basek Holdings Inc. of \$Nil (2004 - \$2,091). Both companies are owned directly by the President of Juno.

Accounts receivable includes management fees receivable from Catapult Energy Limited Partnership I of \$127,065 for services provided by Catapult Energy 2004 Inc., as general partner for the period July 1 to December 31, 2005. Catapult Energy 2004 Inc. is a wholly owned subsidiary of the Company. During the year, the Company recovered project costs of \$124,545 from Catapult Energy Limited Partnership I for costs associated with closing the initial public offering on June 29, 2005.

On March 29, 2005, the Company closed a non-brokered private placement financing for gross proceeds of \$2,000,000 in return for the issuance of 5,000,000 units at a price of \$0.40 per unit. The units were subscribed for by a company owned and controlled by Mr. Purdy, President of Juno. Each unit is comprised

of one common share of the Company and one-fifth of a common share purchase warrant of the Company, each whole warrant entitling the holder to acquire one common share at a price of \$0.60 on or before March 28, 2006. Subsequent to year end, the 1,000,000 warrants associated with this transaction expired unexercised.

The Company recovered \$26,695 (2004 - \$Nil) in rent and office costs from a company owned and controlled by the President of Juno.

The Company invested \$500,000 in the common shares of Sword Energy Limited, a private company managed by Sword Management Inc., a wholly owned subsidiary of the Company.

The Company invested \$1,992,500 in the units of Catapult Energy Limited Partnership I, a limited partnership managed by Catapult Energy 2004 Inc., a wholly owned subsidiary of the Company.

Accounting Change

The CICA issued AcG-18 Accounting Guideline (the "Guideline") for investment companies effective for fiscal years beginning on or after July 1, 2004. This guideline provides guidance for the measurement by an investment company of its investment, the determination of whether an entity is an investment company and when a parent company of an investment company should account for its investments in a manner consistent with the accounting by an investment company. The Company has determined that it should account for its investments in a wholly owned subsidiary under this guideline.

Accordingly, the Company has accounted for the investments of its wholly owned investment company subsidiaries at fair market value based on quoted market prices. The Company has applied the Guideline prospectively and has reported an adjustment to increase the opening retained earnings by \$20,268 to reflect the difference between the market value and carrying value of these investments at January 1, 2005.

Subsequent Events

Subsequent to year end, the Company announced the signing of a Letter Agreement with an underwriter to structure, arrange and market a collateralized fund obligation transaction of income trust equity. In addition, the Company entered into a Letter Agreement with an portfolio management company to provide management and administrative services for this transaction. The Company will act as a sub-adviser to this transaction.

Subsequent to year end, the Board of Directors unanimously approved the sale of all the issued and outstanding shares of Sword Management Inc. to Sword Energy Limited ("SEL") in exchange for the issuance of 1,150,000 common shares of SEL. This transaction is subject to the approval of the shareholders of SEL.

Subsequent to year end, 150,000 options were exercised at \$0.28 per share and 300,000 options were granted at \$0.38 per share vesting equally over three years.

Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit risk and interest rate risk. The Company manages its exposure to this risk by operating in a manner that minimizes its exposure to the extent practical.

Credit risk

At December 31, 2005 the Company held all of its cash at Canadian chartered banks, and as such was exposed to all of the risks of those institutions. Management manages this risk by banking with recognized financial institutions. In addition, the Company's marketable securities and long term investments were held in certain companies, and as such, the Company is exposed to concentrations of risk from these companies.

Interest rate risk

The Company's fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

At December 31, 2005, the increase or decrease in net losses for each 1% change in interest rates on floating rate debt amounts to approximately \$2,500 (2004 - \$2,500) per annum.

Fair value risk

The Company's carrying amount of the Juno debenture approximates its fair value. The debenture obligation was renegotiated in 2005 and current borrowing rates have not substantially changed.

Business Objectives

In 2006, the Company plans to market and close its collateralized fund obligation product. To expand the Catapult initiative, the Company hopes to develop and market a junior oil and gas investment fund for a variety of investors. Overlord plans to renew marketing efforts for its current and proposed investment products with international partners and investors. Finally, the Board of Directors has approved the sale of the shares of Sword Management Inc. to Sword Energy Limited in exchange for share ownership of Sword Energy Limited.

Effectiveness of Disclosure Controls and Procedures

Overlord has in place certain disclosure controls and procedures to provide reasonable assurance that material information relating to Overlord, including its consolidated subsidiaries, is made known to Overlord by others within those entities, particularly during the period in which annual filings are being prepared. Management of Overlord has concluded that the disclosure controls and procedures which it had in place as at the end of the financial year December 31, 2005 are effective.

Outstanding Share Data

<u>Capital</u>	<u>Authorized</u>	<u>Outstanding as at March 24, 2006⁽¹⁾</u>	<u>Common Shares Underlying Convertible Securities</u>
Common Shares	Unlimited	44,212,792	-
Stock Options	Not Applicable	3,450,000 ⁽¹⁾	3,450,000 ⁽¹⁾

Notes:

- (1) The Company received shareholder approval to reserve for issuance up to 10% of the issued and outstanding Common Shares at the date of the creation for its incentive stock option plan.

Reference is made in this Management Discussion & Analysis to the Company's consolidated financial statement disclosure for the relevant periods filed on the SEDAR website at www.sedar.com where additional disclosure relating to the Company can also be located.

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