

## **OVERLORD FINANCIAL INC.**

**FOR THE PERIOD ENDED JUNE 30, 2005**

### **MANAGEMENT DISCUSSION & ANALYSIS FORM 51-102F1**

This management's discussion and analysis ("MD&A") should be read in conjunction with the first quarter unaudited consolidated financial statements for the six month period ended June 30, 2005 and the audited annual consolidated financial statements for the year ended December 31, 2004 and the notes thereto of Overlord Financial Inc. ("Overlord" or the "Company").

The information provided herein is effective as of August 26, 2005 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 public company incorporated under the *Business Corporations Act* (Alberta). During the fourth quarter of fiscal 2001, the Company changed from an oil and gas exploration company to a management and investment company.

The Company's current business plan 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.

#### **Investments and Finance Activities**

During the first half of 2005, the Company acquired 250,000 shares of Sword Energy Ltd at \$1.00 per share for cash consideration of \$250,000. Further, the Company's wholly-owned subsidiary Juno Canada Holdings Ltd., reinvested \$25,000 of income received from Wisevest into additional Wisevest units. The Company also purchased 200,000 units (cost of \$1,992,500) of Catapult Energy Limited Partnership I, a partnership managed by the Company's wholly owned subsidiary, Catapult Energy 2004 Inc. Finally, the Company sold 250,000 shares of ExAlta Energy Inc. for proceeds of \$965,496. The remaining proceeds of \$67,165 relate to the sale of 149,000 Contact Exploration Ltd. shares.

The Company negotiated a margin loan that is interest bearing at prime, repayable on demand and secured by the shares of ExAlta Energy Inc. held by the Company as long-term investments.

#### **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. On June 29, 2005, the Partnership closed its initial public offering and issued 1.5 million units for proceeds of \$15 million. The proceeds will be invested in accordance with the final prospectus and fees will be payable to the general partner for its management and administration of the Partnership assets.

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, the initial trustee being Marcel Tremblay and the sole holder of Wisevest units being Juno. 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

actively seek subscriptions for its debentures in European and other 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. The Company acquired 250,000 shares of SEL at \$1.00 per share for cash consideration of \$250,000. Further, a director of the Company acquired 1,000,000 shares of SEL at \$1.00 per share for cash consideration of \$1,000,000. Through a joint venture management agreement, Sword Management will provide management and administration services to SEL and various joint venture partners and receive a management fee of 5% of the net cash flows from operations.

### Cash Position and Operations

The Company's cash position at June 30, 2005 was \$1.9 million, which had been reduced through the six month period by general and administrative expenses and project identification costs (excluding amortization and stock option expense) of \$1.3 million and net investments of \$1.0 million. Cash increased through interest income earned on money market investments of \$24,104, dividend income of \$39,532 from the investment in Wisevest Income Fund units and recovery of project costs of \$163,000 from Sword Energy Limited and Catapult Energy Limited Partnership I.

### Summary of Quarterly Information

	2005		2004				2003	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	876,139	66,726	25,010	19,444	14,893	78,894	\$ 21,575	\$ 26,119
Expenses	(822,751)	(622,395)	(708,044)	(322,085)	(290,655)	(337,693)	\$(377,630)	\$(420,156)
Income (loss) from discontinued operations	-	-	19,986	-	-	-	\$ 702	\$ (266)
Net income (loss) for period	53,388	(555,669)	(663,048)	(302,641)	(275,762)	(258,799)	\$(355,353)	\$(394,303)

Second quarter 2005 revenues increased from the prior quarter mainly due to gain on the sale of ExAlta Energy Inc. shares and recovery of project costs. A significant portion of second quarter 2005 expenses relate to travel and consulting costs as efforts are intensified to ensure proper and extensive marketing of the Company's products.

### Liquidity

As of June 30, 2005, the Company had \$1.9 million in cash and cash equivalents to finance operational and fund development activities. 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. Each unit is comprised of one common share of the Company and one-fifth of one 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. The Company plans to use the proceeds of this financing to further advance its current business plans that encompasses both Canadian and offshore investment markets. In addition, the Company holds \$4.2 million of long-term investments, parts of which it may or may not realize upon, to support working capital requirements. The Company has sufficient working capital to meet liquidity requirements for at least one year. The Company had working capital of \$1,096,010 at June 30, 2005.

## Commitments

The Company is committed to leased office space with future base rent payments of \$134,117, \$275,226, \$286,660, \$291,104, \$295,548 and \$149,996 for 2005, 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.

## Business Objectives

The Company (OFI), through its wholly owned subsidiary Catapult Energy 2004 Inc., closed its initial public offering of Catapult Energy Limited Partnership I, on June 29, 2005 for proceeds exceeding \$15 million. Management expects to invest these proceeds within the guidelines of the Catapult Energy Limited Partnership I prospectus during the third quarter of 2005. The Company continues to develop its DebMax concept and market its Juno debentures.

## Outstanding Share Data

<u>Capital</u>	<u>Authorized</u>	<u>Outstanding as at August 23, 2005<sup>(1)</sup></u>	<u>Common Shares Underlying Convertible Securities</u>
Common Shares	Unlimited	44,029,459	-
Stock Options	Not Applicable	3,900,000 <sup>(1)</sup>	3,900,000 <sup>(1)</sup>
Warrants	Not Applicable	1,000,000	1,000,000 <sup>(2)</sup>

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. The Company is seeking shareholder approval to amend the plan to provide that the aggregate number of Common Shares that may be reserved for issuance shall be 10% of the issued and outstanding Common Shares from time to time.
- (2) Each Warrant entitles the holder thereof to acquire one Common Share of the Company at a price of \$0.60 on or before March 28, 2006.

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](http://www.sedar.com) where additional disclosure relating to the Company can also be located.

Company Contact: Larry Titley, Vice President and Chief Financial Officer  
Company Address: Suite 3400, 205 – 5 Avenue S.W., Calgary, Alberta, T2P 2V7  
Company Phone Number: (403) 770-4800  
Company Fax Number: (403) 770-4850