

OVERLORD FINANCIAL INC.

FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006 and December 31, 2005 and the notes thereto of Overlord Financial Inc. ("Overlord" or the "Company").

The information provided herein is effective as of April 18, 2007 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.

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.

Long Term Investments

During 2006 the Company sold one of its subsidiary operations, Sword Management Inc. ("SMI"), to Sword Energy Ltd. ("SEL"). SMI was the manager of SEL up until its sale on May 31, 2006. The Company received 1,150,000 shares of SEL valued at \$1.00/share plus \$25,000 cash. This resulted in a gain on sale of subsidiary of \$1,125,000. As a result of the \$1.00/share valuation of SEL, the Company also recognized an impairment of \$50,000 on its initial 450,000 share investment in SEL, which was being carried at \$500,000, its original acquisition cost in 2005. This transaction brought Overlord's total SEL holdings to 1,600,000 shares.

On September 15, 2006 the shareholders of SEL approved a sale of SEL to Eagle Rock Exploration Ltd. ("Eagle Rock"). The transaction took place on a 1:1 share exchange basis, resulting in Overlord acquiring 1,600,000 shares of Eagle Rock in exchange for its 1,600,000 shares of SEL. At the time of this transaction, Eagle Rock shares were valued at \$0.63/share, resulting in a loss on sale of investment of \$592,000. The Company granted 1,214,912 warrants on its Eagle Rock shares to former shareholders of SEL. The 1,214,912 warrants expire on December 31, 2007 and as a result those shares encumbered by warrants have been carried as long-term investments as at December 31, 2006. The remaining 385,088 Eagle Rock shares were classified as marketable securities.

On December 31, 2006 Overlord performed an impairment test on its long-term investments. The results of the impairment test are that the investment in Parson's Pond is now carried at \$Nil and the investment in Catapult Limited Partnership I is now carried at its year-end quoted trading price of \$1,450,000.

Marketable Securities

Of the 385,088 Eagle Rock shares the Company classified as marketable securities upon culmination of the sale of SEL to Eagle Rock, 269,088 are held at December 31, 2006. The 116,000 Eagle Rock shares that were sold resulted in approximately \$42,000 in gains on sale of marketable securities.

Throughout 2006, the Company sold 252,800 of its shares of Exalta Energy Inc. ("Exalta") resulting in gains on sale of marketable securities totaling approximately \$1,254,000.

During 2006, Overlord converted the promissory note of Sonomax Hearing Healthcare Inc. ("Sonomax") as well as accrued interest receivable on the note into 525,000 common shares of Sonomax. The Company had already owned 1,196,833 shares of Sonomax as at December 31, 2005. Throughout the remainder of the

year, Overlord sold 1,696,833 shares of Sonomax resulting in approximately \$24,000 in gains on sale of marketable securities.

Business Interests

Overlord's five wholly-owned subsidiaries conducted its various lines of business during 2006. These subsidiaries include Catapult Financial Management Inc. ("Catapult"), Catapult Energy 2006 Inc. ("Catapult 2006"), Juno Canada Holdings Ltd. ("Juno"), PortfolioCo Inc. ("PortfolioCo"), Sword Management Inc. ("Sword Management") and Aston Hill Financial Ltd. ("Aston Hill").

Catapult, an Alberta company formerly named Catapult Energy 2004 Inc., 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.

Catapult 2006, an Alberta Company, is the general partner of the Catapult Energy Small Cap FTS Limited Partnership (the "FTS Partnership") and is responsible for advising on the management of the investments in flow-through shares of private and public junior resource issuers for the FTS Partnership. The FTS Partnership closed its initial public offering on October 31, 2006 and is not listed on any public markets.

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. 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 May of 2006, Sword Management was sold to SEL, which was later sold to Eagle Rock. Currently, the Company does not manage any oil and gas properties however plans are in place to resume oil and gas management in 2007. The Company has retained the Sword name and will incorporate a company to manage the oil and gas business under the Sword banner when appropriate.

Aston Hill, an Alberta company, is focused on investments in dividend paying common shares, income trusts and other yield vehicles. Subsequent to year end, Aston Hill signed an Advisory Agreement with Arrow Hedge Partners Inc. ("Arrow Hedge"). Aston Hill will provide portfolio advisory services to Arrow Hedge on its new fund, Arrow Canadian Income Fund (the "Fund"). The investment objective of the Fund is to achieve a high level of income and potential capital gains with an attractive risk-adjusted return with moderate volatility.

Subsequent to year end, Overlord incorporated Catapult Energy 2007 Inc. ("Catapult 2007"), an Alberta Company, to act as the general partner of the Catapult Energy Small Cap FTS Limited Partnership 2007 (the "FTS 2007 Partnership"). Catapult 2007 is responsible for developing and implementing all aspects of the FTS 2007 Partnership's communications, marketing and distribution strategies and will manage its ongoing business and administrative affairs. Catapult will be retained by Catapult 2007 to advise on the management of the investments in flow-through shares of private and public junior resource issuers for the FTS 2007 Partnership. The FTS 2007 Partnership is scheduled to close its initial public offering in the second quarter of 2007 and has no plans to be listed on any public markets.

Cash Position and Results of Operations

The Company's cash position at December 31, 2006 was approximately \$3.0 million (2005 - \$1.8 million). During the year, the majority of the cash increase was due to a private placement of common shares which raised \$1.2 million and the proceeds on sale of marketable securities which brought in \$2.1 million, offset by the funds required for continuing operations of \$2.0 million.

Overall, the Company incurred a net loss for the year of \$1,478,748 (2005 - \$230,612 loss). This includes revenue of \$353,809 (2005 - \$158,535) from management fees and income from investing activities of \$1,117,943 (2005 - \$2,292,748) offset by net operations expenses of \$2,950,500 (2005 - \$2,681,895). Included in operations expenses are non-cash related expenses for stock compensation and amortization of \$516,180 (2005 - \$304,853).

Investing activities include cash and non-cash gains and losses on marketable securities and long-term investments. In 2006, Overlord recorded an unrealized loss on sale of long-term investments of \$592,000 (2005 - \$Nil) relating to Eagle Rock's acquisition of SEL. In addition, the Company recognized impairment losses on long-term investments of \$750,000 (2005 - \$37,500) \$50,000 of which related to SEL, \$157,500 related to Overlord's investment in Parson's Pond and \$542,500 related to Overlord's investment in Catapult. Overlord's subsidiary, Wisevest realized losses of \$47,272 (2005 - \$Nil) and recorded mark-to-market losses of \$16,722 (2005 - \$30,075).

Summary of Quarterly Information

	2006 ⁽¹⁾				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	\$ 118,712	\$ 105,000	\$64,978	\$65,119	\$ 1,022	\$ 8,226	\$ 63,928	\$85,359
Expenses	(737,857)	(681,198)	(870,766)	(660,679)	(602,204)	(679,450)	(690,200)	(710,041)
Investing	1,217,679	1,121,740	(643,742)	(577,734)	45,513	724,612	1,009,751	512,872
Net income (loss) for period	\$ 598,534	\$ 545,542	\$(1,449,530)	\$(1,173,294)	\$(555,669)	\$ 53,388	\$ 383,479	\$(111,810)

(1) Pursuant to CICA 3870 regarding stock based payments, the Company has recognized stock compensation expense relating to options granted by a major shareholder. Prior affected interim periods have been restated to reflect this accounting treatment resulting in a \$203,684 charge to prior reported interim periods. Prior year amounts were not affected.

Quarterly revenues were higher in the first two quarters of 2006 due to the management fees generated from Catapult Energy Limited Partnership I. On May 31, 2006, the Company sold Sword Management Inc. to SEL and did not receive management fees from SEL from that date resulting in the reduced revenues in the last two quarters of 2006.

Expenses in 2006 were relatively consistent from quarter to quarter with the following exceptions: third quarter expenses were slightly higher as new employees were added to the Overlord team in terms of salaries and stock compensation; and fourth quarter expenses were lower with the recovery of some previously expensed stock compensation as during the quarter several former employees' options expired unexercised. Non-cash stock compensation for the first three quarters of 2006, included in expenses, was \$149,474, \$142,610 and \$205,313, respectively. A \$24,411 recovery of stock compensation was recorded in the fourth quarter.

Investing activities brought in \$1.2 million in the first quarter due to the sale of some of Overlord's shares in Exalta. The \$1.1 million in investing activities for the second quarter relate to the gain recognized on the sale of SMI to SEL, offset by the impairment of SEL recognized. The third quarter investing activities are represented largely by the \$0.6 million loss recognized on the SEL shares when Eagle Rock purchased, on a 1:1 share exchange basis, all of the outstanding common shares of SEL. The fourth quarter loss from investing activities resulted from Overlord recognizing an impairment of \$0.2 million on its Parson's Pond investment and an impairment on the Catapult Energy Limited Partnership units of \$0.5 million, offset by gains from the sale of marketable securities such as Sonomax, Eagle Rock and Exalta.

Selected Annual Information

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Revenues	\$ 353,809	\$ 158,535	\$ 138,241
Net Loss	\$ (1,478,748)	\$ (230,612)	\$ (1,500,250)
Net Loss per Share – basic and diluted	\$ (0.033)	\$ (0.005)	\$ (0.038)
Total Assets	\$ 6,695,283	\$ 6,130,425	\$ 3,945,642
Total Long Term Debt	\$ 250,000	250,000	\$ 250,000

The increase in total revenues from 2005 to 2006 relates mainly to the increase in management fees from the management of SEL for the first half of 2006. The net loss has increased primarily because the gain from the sale of Exalta shares in 2005 was over \$1 million greater than the gain from sale of such shares in 2006. Total assets have increased mainly as a result of cash from the sale of shares of ExAlta. Long term debt represents Juno debentures issued to the Canadian Balance Return Fund Ltd. in 2004.

Liquidity

As of December 31, 2006, the Company had \$3.0 million (2005 - \$1.8 million) in cash and cash equivalents to fund operational activities. In addition, the Company holds \$0.5 million (2005 - \$0.8 million) of marketable securities at cost. The market value of these securities is \$1.2 million (2005 - \$3.7 million) at December 31, 2006, parts of which Overlord 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 \$3.5 million (\$2.6 million - 2005) at December 31, 2006.

Commitments and Guarantees

The Company is committed to leased office space with future base rent payments of \$286,697, \$291,104, \$295,585 and \$148,763 for 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 2007, the Company is committed to payments of approximately \$Nil per month (2006 - \$21,500 per month) under existing consulting agreements with officers of the Company.

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 Financial Management 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.

Catapult Energy 2006 Inc. a wholly owned subsidiary of the Company, has guaranteed all the debts, liabilities and obligations of Catapult Energy Small Cap FTS Limited Partnership, as the General Partner.

Related Party Transactions

During 2006, the Company paid consulting fees to, and reimbursed travel expenses of Basek Consulting Ltd. ("Basek") of \$192,459 (2005 - \$152,212). Of this amount, \$7,140 (2005 - \$27,327) was payable as at December 31, 2006. Basek is owned directly, or indirectly, by the President of Juno Canada Holdings Ltd., a wholly owned subsidiary of Overlord Financial Inc.

Accounts receivable includes management fees receivable from Catapult Energy Limited Partnership I of \$70,175 (2005 - \$127,065) for services provided by Catapult Energy Financial Management Inc., as general partner and advisor during the year. During the year, \$255,246 (2005 - \$127,065) was recorded as revenue in respect of these management fees. Catapult Energy Financial management Inc. is a wholly owned subsidiary of the Company.

Accounts receivable includes management fees receivable from Catapult Energy Small Cap FTS Limited Partnership of \$8,835 (2005 - \$Nil) for services provided by Overlord, as advisor during the year. During the year, \$8,335 (2005 - \$Nil) was recorded as revenue in respect of these management fees.

In 2005, the 5,000,000 units (stated in Note 9(b)) were subscribed for by a company owned and controlled by the President of Juno Canada Holdings Ltd., a wholly owned subsidiary of the Company.

During 2005, the Company recovered \$124,545 of project costs from Catapult Energy Limited Partnership I whereby a wholly owned subsidiary of the Company is the general partner.

In 2005, the Company invested \$1,992,500 in the units of Catapult Energy Limited Partnership I, a limited partnership managed by Catapult Financial Management Inc., a wholly owned subsidiary of the Company and recorded the amount as a long-term investment.

The Company recovered \$39,975 (2005 - \$26,695) in rent and office costs from a company owned and controlled by the President of Juno Canada Holdings Ltd., a wholly owned subsidiary of the Company. Of this amount \$9,818 (2005 - \$Nil) was receivable at December 31, 2006.

Recent Canadian Accounting and Related Pronouncements

Convergence of Canadian GAAP with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with International Financial Reporting Standards over a transitional period. The Accounting Standards Board is expected to develop and publish a detailed implementation plan with a transition period expected to be approximately five years. This convergence initiative is in its early stages as of the date of these annual consolidated financial statements and the Company also has the option to adopt U.S. GAAP at any time prior to the expected conversion date. Accordingly, it would be premature to assess the impact of the initiative, if any, on the Company at this time.

Financial Instruments, Comprehensive Income and Hedges

The Accounting Standards Board (AcSB) has issued five new accounting standards relating to the recognition, measurement, disclosure and presentation of financial instruments. The new standards comprise five handbook sections:

CICA Section 3855 – Financial Instruments – Recognition and Measurement

This standard establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. Financial liabilities will be classified as either held-for-trading or other. Held-for-trading instruments will be recorded at fair value with realized and unrealized gains and losses reported in net income. Other instruments will be accounted for at amortized cost with gains and losses reported in net income in the period that the liability is settled.

Derivatives will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value on the

consolidated balance sheet. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value will be reported in net income and will be substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives' fair value will be initially recognized in other comprehensive income and the ineffective portion will be recorded in net income. The amounts temporarily recorded in other comprehensive income will subsequently be reclassified to net income in the periods when net income is affected by the variability in the cash flows of the hedged item.

CICA Section 3865 – Hedges

This standard provides optional alternative treatment to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It will replace Accounting Guideline 13 (AcG 13) – Hedging Relationships, and build on Section 1560 – Foreign Currency Translation, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. Retroactive application of this Section is not permitted.

CICA Section 1530 – Comprehensive Income

This standard introduces a new requirement to temporarily present certain gains and losses as part of a new earnings measurement called comprehensive income.

CICA Section 3862 – Financial Instruments – Disclosures

This standard requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments to the entity's financial position and performance. It also requires that entities disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Section 3863 – Financial Instruments – Presentation

This standard establishes presentation guidelines for financial instruments and non-financial derivatives and deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

CICA sections 3855, 3865 and 1530 are effective for annual and interim periods in fiscal years beginning on or after October 1, 2006. At this time we are unable to quantify the impact these sections will have on Overlord as our investments will be recorded on the balance sheet at fair value with the offset recorded to opening accumulated other comprehensive income.

CICA sections 3862 and 3863 are effective for annual and interim periods beginning on or after October 1, 2007.

Accounting changes

The AcSB issued CICA Section 1506, Accounting Changes. The standard prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. The standard requires the retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. Application is on a prospective basis and is effective for changes in accounting policies and estimates and correction of errors made in fiscal years beginning on or after January 1, 2007.

We do not expect the adoption of this standard will have any material impact on our results of operations or financial position.

Subsequent Events

Subsequent to year end, Aston Hill signed an Advisory Agreement with Arrow Hedge Partners Inc. ("Arrowhedge"). Aston Hill will provide portfolio advisory services to Arrow Hedge on its new fund, Arrow Canadian Income Fund (the "Fund"). The investment objective of the Fund is to achieve a high level of income and potential capital gains with an attractive risk-adjusted return with moderate volatility.

In addition, subsequent to year end, Overlord incorporated Catapult Energy 2007 Inc. ("Catapult 2007"), an Alberta Company, to act as the general partner of the Catapult Energy Small Cap FTS Limited Partnership 2007 (the "FTS 2007 Partnership"). Catapult 2007 is responsible for developing and implementing all aspects of the FTS 2007 Partnership's communications, marketing and distribution strategies and will manage its ongoing business and administrative affairs. Catapult will be retained by Catapult 2007 to advise on the management of the investments in flow-through shares of private and public junior resource issuers for the FTS 2007 Partnership. The FTS 2007 Partnership is scheduled to close its initial public offering in the second quarter of 2007 and has no plans to be listed on any public markets.

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, 2006 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 (Note 3) and long term investments (Note 4) 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, 2006, the increase or decrease in net losses for each 1% change in interest rates on floating rate debt amounts to approximately \$Nil (2005 - \$Nil) per annum.

Fair value risk

The Company's carrying amount of the debenture (Note 8) approximates its fair value. The debenture obligation was renegotiated in 2005 and current borrowing rates have not substantially changed.

The related disclosure regarding these debt instruments is found in Note 6 and 8 to the consolidated financial statements.

Business Objectives

Overlord plans to renew marketing efforts for its current and proposed investment products with retail, high net worth and institutional investors and industry partners. In 2007, the Company plans to expand the Catapult initiative by developing and marketing further junior oil and gas investment funds for a variety of investors. Overlord also plans to develop and market further high yield products to be managed by Aston Hill. Finally, the Company intends to re-enter the oil and gas property management business under the Sword banner.

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, 2006 are effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outstanding Share Data

<u>Capital</u>	<u>Authorized</u>	<u>Outstanding as at April 18, 2007⁽¹⁾</u>	<u>Common Shares Underlying Convertible Securities</u>
Common Shares	Unlimited	50,962,792	-
Stock Options	Not Applicable	3,700,000 ⁽¹⁾	3,700,000 ⁽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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