

Overlord Financial Inc.
Consolidated Financial Statements
For the years ended December 31, 2003 and
2002

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Auditors' Report

To the Shareholders of Overlord Financial Inc.

We have audited the consolidated balance sheets of Overlord Financial Inc. as at December 31, 2003 and 2002, and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Calgary, Alberta
March 8, 2004

**Overlord Financial Inc.
Consolidated Balance Sheets**

As at December 31 **2003** **2002**

Assets

Current

Cash and cash equivalents	\$ 3,192,794	\$ 4,784,450
Short term investment	-	600,000
Accounts receivable	<u>60,645</u>	<u>183,748</u>
	3,253,439	5,568,198

Prepaid expenses 52,231 52,536

Long-term investments, at cost (Note 3) 1,627,499 500,000

Property and equipment (Note 4) 123,952 138,345

\$ 5,057,121 **\$ 6,259,079**

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities \$ 40,833 \$ 38,541

Shareholders' equity

Share capital (Note 7)	9,963,248	9,753,248
Contributed surplus	183,396	183,396
Deficit	<u>(5,130,356)</u>	<u>(3,716,106)</u>
	5,016,288	6,220,538

\$ 5,057,121 **\$ 6,259,079**

Approved on behalf of the Board:

Marcel Tremblay

John Burns

Overlord Financial Inc.
Consolidated Statements of Operations and Deficit

For the years ended December 31	2003	2002
Revenue		
Advisory fees	\$ 45,052	\$ 184,994
Interest income	120,553	148,400
	<u>165,605</u>	<u>333,394</u>
Expenses		
Amortization	33,183	41,120
Salaries and benefits	620,203	401,378
Professional fees	284,875	29,101
Rent	222,809	225,582
Travel	211,258	178,961
Office	74,347	91,498
Consulting	49,317	63,256
Business promotion	26,956	45,987
Shareholder expenses	20,523	21,666
Business taxes	13,433	15,151
	<u>1,556,904</u>	<u>1,113,700</u>
Loss from continuing operations before other items	<u>(1,391,299)</u>	<u>(780,306)</u>
Other		
Project identification costs (Note 2(j))	(20,595)	(197,288)
Loss from continuing operations	<u>(1,411,894)</u>	<u>(977,594)</u>
Loss from discontinued operations (Note 8)	<u>(2,356)</u>	<u>(106,493)</u>
Net loss for the year	<u>(1,414,250)</u>	<u>(1,084,087)</u>
Deficit, beginning of year	<u>(3,716,106)</u>	<u>(2,632,019)</u>
Deficit, end of year	<u>\$ (5,130,356)</u>	<u>\$ (3,716,106)</u>
<hr/>		
Loss per share	\$ (0.037)	\$ (0.028)
Weighted average number of shares	38,713,021	38,640,930

No diluted loss per share has been disclosed as its effect would be antidilutive.

Overlord Financial Inc.
Consolidated Statements of Cash Flows

For the years ended December 31	2003	2002
Cash flows from operating activities		
Loss from continuing operations	\$ (1,411,894)	\$ (977,594)
Adjustments for:		
Amortization of property and equipment	33,183	41,120
Cash flow from continuing operations	<u>(1,378,711)</u>	<u>(936,474)</u>
Loss from discontinued operations	(2,356)	(106,493)
Write down of assets held for disposal	-	107,379
Cash flow from discontinued operations	<u>(2,356)</u>	<u>886</u>
Cash flow from operations	(1,381,067)	(935,588)
Changes in non-cash working capital balances		
Accounts receivable	123,103	(152,172)
Accounts payable	2,292	(2,404)
	<u>(1,255,672)</u>	<u>(1,090,164)</u>
Cash flows from investing activities		
Prepaid expenses	305	12,357
Acquisition of property and equipment	(18,790)	(160,639)
Investment in private company, long-term	(727,500)	(500,000)
Investment in public company, long-term	(399,999)	-
Short-term investment	600,000	(600,000)
	<u>(545,984)</u>	<u>(1,248,282)</u>
Cash flow from financing activity		
Proceeds from exercise of stock options	210,000	45,000
Decrease in cash and cash equivalents	(1,591,656)	(2,293,446)
Cash and cash equivalents, beginning of year	4,784,450	7,077,896
Cash and cash equivalents, end of year	<u>\$ 3,192,794</u>	<u>\$ 4,784,450</u>

Overlord Financial Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

1. Nature of Operations

Overlord Financial Inc. (the "Company") is a public company incorporated under the Business Corporations Act (Alberta) that was engaged in production, development and exploration of oil and natural gas in Canada. During 2001 the Company discontinued its oil and gas activities and implemented a new business plan. The Company's future business focuses on managing energy-related investment funds.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation

The consolidated financial statements included the accounts of the Company and its wholly owned subsidiary from the date of acquisition. That subsidiary is inactive.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments with maturities of three months or less.

(c) Long-term investments

Long-term investments are carried at the lower of cost and market value. Investments are only written down if there is a permanent decline in market value. The assigned valuation of private companies held in the investment portfolio is determined by a recent third party transaction when available. If a recent transaction has not occurred, valuation is determined in accordance with guidelines established that are based upon generally accepted valuation parameters.

(d) Property and equipment

Property and equipment are recorded at cost. Amortization, based on the estimated useful life of the assets to their residual value, is as follows:

Office equipment, furniture and fixtures	- 20% declining balance
Computer	- 30% declining balance
Leasehold improvements	- straight line over the term of the lease
Artwork	- Nil

(e) Revenue

Advisory revenue is recognized upon the completion of agreement milestones. Investment income is recognized when, a dividend is declared and when, an investment is sold.

Overlord Financial Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

2. Significant Accounting Policies - continued

(f) Financial instruments

The Company carries a number of financial instruments as detailed on the balance sheet. Unless otherwise disclosed it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(g) Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to determine the effect of dilutive instruments, in accordance with new standards approved by the Canadian Institute of Chartered Accountants. Diluted loss per share has not been disclosed, as the effects of share conversion and the exercise of options would be anti-dilutive.

(h) Future income taxes

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The new method was applied retroactively without restatement of the prior years. Under the recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. No future income tax asset has been recorded, as the ultimate utilization is uncertain.

(i) Stock-based compensation plan

Effective January 1, 2002, the Company adopted the recommendations of the CICA Handbook Section 3870, Stock-based compensation and stock-based payments. This section requires that direct awards of stock and liabilities based on the price of the common stock be measured at fair value at each reporting date, with the change in fair value reported in the statements of operations and deficit, and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. In accordance with the recommendations the Company has elected to use the intrinsic method to recognize stock based compensation to employees. None of the company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the Company's stock, and as a result, the implementation of the section has had no current impact on financial statements.

In 2003, the Company adopted the new recommendation of the CICA Handbook to record the fair value of all compensation expenses when stock or stock options are issued after January 1, 2003 under the plan.

No options have been issued after January 1, 2003.

(j) Project identification cost

The Company incurred expenses related to the set up and financing of an income fund. The financing contemplated in 2002 was not completed. While it is management's intention to pursue this project, there are no firm commitments at December 31, 2003, and therefore these costs have been written off.

Overlord Financial Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

3. Long-Term Investments

	<u>2003</u>	<u>2002</u>
1,333,333 Common shares of Sonomax Hearing Healthcare Inc. (less than 5% of voting shares) (quoted market value - \$840,000)	\$ 399,999	\$ -
1,151,190 (2002 – 500,000) Common shares of ExAlta Energy Inc. (less than 5% of voting shares) (market value - \$1,496,548 based on recent transaction price)	1,227,500	500,000
	<u>\$ 1,627,499</u>	<u>\$ 500,000</u>

4. Property and Equipment

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer	\$ 52,894	\$ 22,820	\$ 30,074	\$ 41,353	\$ 12,406	\$ 28,947
Leasehold	87,295	36,832	50,463	82,945	20,736	62,209
Furniture & Fixtures	37,699	23,289	14,410	37,699	19,686	18,013
Office Equipment	39,320	25,592	13,728	36,421	22,522	13,899
Artwork	15,277	-	15,277	15,277	-	15,277
Total Property and Equipment	\$ 232,485	\$ 108,533	\$ 123,952	\$ 213,695	\$ 75,350	\$ 138,345

5. Loan Facility

The Company has a direct revolving reducing loan facility of up to \$150,000 (2002 - \$150,000). The loan bears interest at prime plus one quarter percent per annum, and is secured by hypothecation of a \$2,000,000 demand debenture, creating a first floating charge over all the assets and undertaking of the Company.

Overlord Financial Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

6. Income Taxes

The income tax provision on the statements of operations and deficit differs from the expected income tax provision as follows:

	2003	2002
Expected recovery at an effective rate of 39%	\$ (551,550)	\$ (422,794)
Add (deduct) effects of:		
Write off of petroleum and natural gas and related assets	-	41,878
Unrecognized benefit future tax assets	546,400	370,725
Other permanent differences	5,150	10,191
	\$ -	\$ -

At December 31, 2003, the Company had approximately \$2,716,555 (2002 - \$1,348,700) of non-capital loss carryover balances, which commence expiring in 2005. In addition, the Company has capital cost pools, resource pools and deferred financing cost pools of \$171,600 (2002 - \$152,800) in excess of carrying values to deduct against future taxable income. No future tax asset has been recorded for these available losses and tax pools as their ultimate utilization is not more likely than not.

7. Share Capital

(a) Authorized
Unlimited number of Common voting shares

	2003		2002	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	37,979,459	\$ 9,753,248	45,921,783	\$ 9,708,248
Shares cancelled	-	-	(8,167,324)	-
Stock options exercised	1,050,000	210,000	225,000	45,000
Balance, end of year	39,029,459	\$ 9,963,248	37,979,459	\$ 9,753,248

Overlord Financial Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

7. Share Capital - continued

In 2002, there were 8,167,324 shares being held in escrow with respect to a seismic acquisition completed by the Company in prior years. The escrow agreement resulted from a business combination effected in 1997 and provided for the release of one share for every \$0.435 of future expenditures incurred on the properties to which the seismic data acquired relates. Any shares remaining in escrow on the fifth anniversary of the escrow agreement (January 31, 2002) were to be cancelled within six months. All the remaining shares held in escrow were cancelled in 2002. These shares were initially issued to two directors of the Company, one of who resigned when the financing was completed in 2001. As these shares were forfeited in conjunction with the change in business undertaken by the Company and the financing completed in 2001 no value has been attributed to the shares upon their cancellation. After the cancellation of these shares, the Company had 37,979,459 shares issued and outstanding.

(c) Options

The Company has granted stock options to directors, officers and employees of the Company as follows (all stock options are fully vested):

	Number of Shares	Option Prices per Share	Weighted Average Exercise Price
Options outstanding, Dec. 31, 2001	1,275,000	\$0.20	\$0.20
Options exercised	(225,000)	\$0.20	\$0.20
Options outstanding, Dec. 31, 2002	1,050,000	\$0.20	\$0.20
Options exercised	(1,050,000)	\$0.20	\$0.20
Options outstanding, Dec. 31, 2003	-	\$ -	\$ -

As of December 31, 2003, there were no stock options outstanding.

The following table summarizes information about the stock options outstanding at December 31, 2002:

Options outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Exercisable	Weighted Average Exercise Price of Options Exercisable
<u>1,050,000</u>	\$0.20	\$0.20	4 months	<u>1,050,000</u>	\$0.20

Overlord Financial Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

8. Discontinued Operations

The oil and gas related activities were discontinued effective October 9, 2001. The net loss from discontinued operations consists of:

	2003	2002
Oil and gas sales, net of royalties	\$ 2,039	\$ 3,757
Adjustment on payable	-	3,334
Operating costs	(4,395)	(6,205)
Write down of assets held for disposal	-	(107,379)
	\$ (2,356)	\$ (106,493)

The net assets of the discontinued operations held for disposal included:

	2002		
	Cost	Accumulated Depletion and Write downs	Net Book Value
Petroleum and natural gas properties	\$ 313,356	\$ 313,356	\$ -
Rights to usage of seismic data	1,991,332	1,991,332	-
Total petroleum and natural gas and related assets	\$ 2,304,688	\$ 2,304,688	\$ -

All the net assets of the discontinued operations held for disposal were written off in 2002.

9. Related Party Transactions

- (a) In 1996, the Company signed a joint venture agreement with Pegaz Energy Inc. of which a Director of the Company was a significant shareholder, officer and director. Included in accounts receivable is a net amount of \$Nil (2002 - \$22,150) receivable from Pegaz Energy Inc. for net joint venture accounts receivable.
- (b) In 2003, the Company incurred legal expenses and disbursements of \$264,650 to a law firm in which a director of the Company is a partner. The Company is committed to a minimum \$200,000 per annum fees plus disbursements to this firm in exchange for legal services.

10. Financial Instruments

As disclosed in Note 2(f), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk. The Company manages its exposure to this risk by operating in a manner that minimizes its exposure to the extent practical.

Overlord Financial Inc.
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

10. Financial Instruments - continued

Concentrations of risk

At December 31, 2003 the Company held all of its cash at one financial institution, and as such was exposed to all of the risks of that institution. Management manages this risk by banking with a recognized financial institution. In addition the Company's long term investments were held in two companies, as such, the Company is exposed to concentrations of risk from these companies.

11. Commitments

The Company is committed to leased office premises with future base rent payments as follows:

2004	\$ 100,554
2005	50,277
	<u>\$ 150,831</u>

The Company is also required to pay their proportionate share of operating and property tax costs for the premises.

12. Subsequent Events

- (a) Subsequent to year-end, the Company invested \$100,000 (250,000 shares at \$0.40) in common shares of Contact Exploration Inc., a public entity. The Company also entered into a farmout agreement with Contact Exploration Inc, whereby Overlord has agreed to participate in the drilling of a test oil and gas well (16.67% of the first \$900,000 of expenditures, 10% on costs thereafter). In return, Overlord is to receive a 10% working interest in the lands and title documents.
- (b) On March 8, 2004, the Company invested in a convertible promissory note of Sonomax Hearing Healthcare Inc. The convertible promissory note of \$150,000 bears interest at 10% and comes due on April 1, 2009. The notes are unsecured. The conversion price varies from \$0.85 to \$1.50 based on timing of conversion.
- (c) In November 2003 the Company was contemplating (i) the set up of a venture capital firm; (ii) to be run by the former President and director of the Company. After consideration of the terms and others factors, the Company has decided not to so proceed.
-