

**Overlord Financial Inc.**

**Consolidated Financial Statements  
For the Years Ended  
December 31, 2005 and 2004**

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**Contents**

<b>Auditors' Report</b>	<b>2</b>
<b>Consolidated Financial Statements</b>	
<b>Consolidated Balance Sheets</b>	<b>3</b>
<b>Consolidated Statements of Operations and Deficit</b>	<b>4</b>
<b>Consolidated Statements of Cash Flows</b>	<b>5</b>
<b>Notes to Consolidated Financial Statements</b>	<b>6-16</b>

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## Auditors' Report

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### To the Shareholders of Overlord Financial Inc.

We have audited the consolidated balance sheets of Overlord Financial Inc. as at December 31, 2005 and 2004, and the consolidated statements of operations and deficit 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, 2005 and 2004, 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 24, 2006

**Overlord Financial Inc.**  
**Consolidated Balance Sheets**

As at December 31	2005	2004
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,752,852	\$ 1,445,973
Marketable securities (Note 3)	826,741	1,686,549
Accounts receivable (Note 12(c))	294,586	30,413
Prepaid expenses	29,688	82,314
	<u>2,903,867</u>	<u>3,245,249</u>
Prepaid deposits	68,565	38,101
Long-term investments (Note 4)	3,027,693	557,500
Property and equipment (Note 5)	130,300	104,792
	<u>\$ 6,130,425</u>	<u>\$ 3,945,642</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 293,421	\$ 104,604
Debentures (Note 8)	250,000	250,000
	<u>543,421</u>	<u>354,604</u>
<b>Shareholders' equity</b>		
Equity instruments (Note 9(b))	11,967,101	9,963,248
Contributed surplus (Note 10)	460,853	258,396
Deficit	(6,840,950)	(6,630,606)
	<u>5,587,004</u>	<u>3,591,038</u>
	<u>\$ 6,130,425</u>	<u>\$ 3,945,642</u>

Approved on behalf of the Board:

Signed "Kirk Purdy"  
Kirk Purdy

Signed "Jean Desmarais"  
Jean Desmarais

**Overlord Financial Inc.**  
**Consolidated Statements of Operations and Deficit**

For the years ended December 31	2005	2004
<b>Revenue</b>		
Management fees	\$ 158,535	\$ 1,947
Gain on sale of marketable securities	2,359,993	61,065
Dividend and royalty income	47,431	16,098
Interest income	42,661	59,131
	<u>2,608,620</u>	<u>138,241</u>
<b>Expenses</b>		
Amortization (Note 5)	97,876	35,444
Business promotion	62,162	32,491
Business taxes	14,823	12,814
Consulting	727,625	223,589
Impairment of long-term investment	37,500	-
Insurance	45,853	8,599
Interest on margin loan	6,856	-
Interest on debenture	21,978	15,353
Office	181,744	76,382
Professional fees	415,812	210,520
Project identification costs (recoveries) (Note 2(l))	(190,564)	123,807
Rent	372,361	219,180
Travel	277,066	229,480
Stock compensation	206,977	75,000
Salaries and benefits	331,612	370,163
Shareholder expenses	109,714	25,655
Unrealized loss on long-term investment	30,075	-
Write down of marketable securities	89,762	-
	<u>2,839,232</u>	<u>1,658,477</u>
<b>Loss from continuing operations</b>	<b>(230,612)</b>	<b>(1,520,236)</b>
<b>Income from discontinued operations (Note 11)</b>	<b>-</b>	<b>19,986</b>
<b>Net loss for the year</b>	<b>(230,612)</b>	<b>(1,500,250)</b>
<b>Deficit, beginning of year</b>	<b>(6,630,606)</b>	<b>(5,130,356)</b>
<b>Accounting change (Note 2(n))</b>	<b>20,268</b>	<b>-</b>
	<u><b>(6,610,338)</b></u>	<u><b>(5,130,356)</b></u>
<b>Deficit, end of year</b>	<b>\$ (6,840,950)</b>	<b>\$ (6,630,606)</b>
<hr/>		
<b>Weighted average number of shares</b>	<b>42,823,980</b>	<b>39,029,459</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.005)</b>	<b>\$ (0.038)</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Overlord Financial Inc.**  
**Consolidated Statements of Cash Flows**

For the years ended December 31

2005

2004

	2005	2004
<b>Cash flows from operating activities</b>		
Loss from continuing operations	\$ (230,612)	\$ (1,520,236)
Adjustments for:		
Amortization	97,876	35,444
Gain on sale of marketable securities	(2,359,993)	(61,065)
Impairment of long-term investments	37,500	-
Stock compensation	206,977	75,000
Unrealized loss on long-term investment	30,075	-
Write down of marketable securities	89,762	-
Cash flow (deficiency) from continuing operations	<u>(2,128,415)</u>	<u>(1,470,857)</u>
Cash flows from discontinued operations	<u>-</u>	<u>19,986</u>
	(2,128,415)	(1,450,871)
Changes in non-cash working capital items		
Accounts receivable	(264,173)	30,232
Prepaid expenses	52,626	(82,314)
Accounts payable and accrued liabilities	188,817	63,771
	<u>(2,151,145)</u>	<u>(1,439,182)</u>
<b>Cash flows from investing activities</b>		
Prepaid deposits	(30,464)	14,130
Purchase of property and equipment	(123,384)	(16,284)
Proceeds from sale of marketable securities	3,130,039	102,015
Acquisition of long-term investments	(2,517,500)	(657,500)
	<u>458,691</u>	<u>(557,639)</u>
<b>Cash flows from financing activities</b>		
Issuance of equity instruments	2,000,000	-
Share issue costs	(10,000)	-
Proceeds from exercise of stock options	9,333	-
Issuance of debentures	-	250,000
	<u>1,999,333</u>	<u>250,000</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>306,879</b>	<b>(1,746,821)</b>
Cash and cash equivalents, beginning of year	<u>1,445,973</u>	<u>3,192,794</u>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,752,852</b>	<b>\$ 1,445,973</b>
<b>Supplementary Information</b>		
Cash paid for interest	\$ 23,582	\$ 9,353

The accompanying notes are an integral part of these Consolidated Financial Statements.

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**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

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**1. Nature of Operations**

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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's business focus changed to managing energy-related investment funds and assets.

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**2. Significant Accounting Policies**

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The consolidated 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 consolidated 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 judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries from the date of acquisition or incorporation.

(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. Included in cash and cash equivalents is a term deposit restriction of \$310,000 related to a loan facility (Note 6).

(c) Marketable securities

Marketable securities held are detailed in Note 3. These securities are available for sale and are carried at the lower of cost or market value.

(d) Long-term investments

Long-term investments are carried at cost except to recognize any permanent declines 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. The carrying value of each long term investment is reviewed on a regular basis, at least annually, to determine if they have become impaired. Management considers an investment to be impaired in those instances where a decline in value is considered to be of a permanent nature. If impairment is deemed likely, the asset will be written down to its estimated fair value.

(e) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. 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

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**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

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**2. Significant Accounting Policies - continued**

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(f) Revenue

Investment income is recognized when, a dividend is declared and collection is reasonably assured or when an investment is sold or when interest income is earned on an accrued basis. Management fees are based on the net asset value of the funds managed and are recognized on an accrual basis as the service is performed.

(g) 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.

(h) Earnings (loss) per share

Basic earnings (loss) per common share are computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive instruments.

(i) Future income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences, the difference between the carrying amount of an asset and liability in the balance sheet and its tax basis, the carry forward of unused tax pools and unamortized share issue costs. Future income tax assets and liabilities are measured using income tax rates expected to apply on the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that the change is substantially enacted. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

(j) Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in Note 9(c). Commencing in 2003, stock-based compensation expense, based on the fair value of stock options, is recorded with a corresponding increase to contributed surplus. The fair value of options granted is estimated at the time of the grant using the Black-Scholes valuation model. Upon the exercise of the stock options, consideration paid by employees or directors together with the amount previously recognized in contributed surplus is recorded as an increase to equity instruments.

(k) Measurement uncertainty

The amounts recorded for stock-based compensation and carrying values for long-term investments are based on estimates. The Black-Scholes model is based on estimates of assumptions for expected volatility, dividends, life and risk-free interest rates. The fair value of marketable securities and long-term investments is based on assumptions of possible effects of price fluctuations, market liquidity and future business plans and cash flows. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

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**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

**2. Significant Accounting Policies - continued**

(l) Project identification costs (recoveries)

The Company incurred expenses in prior periods related to the set up and financing of certain projects that closed in 2005. The recovery of these costs was recorded in 2005, the period in which the costs were recovered.

(m) Variable interest entities

The CICA issued AcG-15, Consolidation of Variable Interest Entities ("VIE"), which provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. AcG-15 became effective for all annual and interim periods beginning on or after December 1, 2004. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The Company has reviewed its relationships and determined that there are no entities whose financial results would be required to be included in the consolidated results for the year ended December 31, 2005.

(n) Investment Accounting

The CICA issued AcG-18 Accounting 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 subsidiary at fair value based on quoted market prices. The Company has applied this 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.

**3. Marketable Securities**

	2005	2004
522,800 Common shares of ExAlta Energy Inc. (quoted market value \$3,398,200) <sup>(1)</sup>	\$ 557,454	\$ 1,227,500
1,196,833 Common Shares of Sonomax Hearing Healthcare Inc. (quoted market value \$269,287) <sup>(1)</sup>	269,287	359,049
Nil Common shares of Contact Exploration Ltd.	-	100,000
	<u>\$ 826,741</u>	<u>\$ 1,686,549</u>

<sup>(1)</sup> Quoted trading prices are based on the last traded price of the security or closest to December 31, 2005. The fair value of these securities may differ from the quoted trading price due to the effect of market fluctuations and adjustment for quantities traded.

**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

**4. Long-Term Investments**

	2005	2004
450,000 Common shares of Sword Energy Limited <sup>(2) (3)</sup>	\$ 500,000	\$ -
200,000 Catapult Energy Limited Partnership I units (quoted market value \$1,880,000) <sup>(1)</sup>	1,992,500	-
27,500 Wisevest Income Fund units (quoted market value \$265,193) <sup>(5)</sup>	265,193	250,000
Sonomax convertible promissory note, unsecured, 10% due April 1, 2009 <sup>(4)</sup>	112,500	150,000
Parsons Pond investment, farmout agreement to participate in test drilling of oil and gas well with a 10% working interest in lands and title documents (16.67% of the first \$900,000 of expenditures, 10% on costs thereafter)	157,500	157,500
	<u>\$3,027,693</u>	<u>\$ 557,500</u>

- (1) Quoted trading prices are based on the last traded price of the security or closest to December 31, 2005. The fair value of these securities may differ from the quoted trading price due to the effect of market fluctuations and adjustment for quantities traded.
- (2) Market value not disclosed as there is no quoted price for the company's shares.
- (3) As part of the purchase of 200,000 shares of Sword Energy Limited, the Company is entitled to one half (0.5) of a share purchase warrant, each full warrant entitling the holder thereof to purchase one (1) common share in the capital of the Corporation at a price of \$1.50 on or before December 31, 2006, and one half (0.5) of a share purchase warrant, each full warrant entitling the holder thereof to purchase one (1) common share in the capital of the Corporation at a price of \$2.00 on or before December 31, 2007.
- (4) The Sonomax note is convertible as follows: \$1.10 per share to April 1, 2006, \$1.25 per share to April 1, 2007 and \$1.50 per share to April 1, 2009.
- (5) Investment in Wisevest Income Fund is accounted for on a fair value mark-to-market basis as follows:

	Units	Average Cost	Market Value
Acclaim Energy Trust	2,500	\$ 39,200	\$ 47,375
Bonavista Energy Trust	1,300	41,314	49,530
Gienow Income Fund	5,300	55,571	36,835
Keg Royalties Income Fund	4,800	68,722	59,472
Transalta Power LP	7,300	70,117	71,540
Cash on account			441
		<u>\$ 274,924</u>	<u>\$ 265,193</u>

**5. Property and Equipment**

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer	\$ 155,902	\$ 68,317	\$ 87,585	\$ 65,297	\$ 35,096	\$ 30,201
Leasehold	91,205	88,104	3,101	87,760	52,986	34,774
Furniture & Fixtures	37,699	29,054	8,645	37,699	26,892	10,807
Office Equipment	47,963	32,271	15,692	42,736	29,003	13,733
Artwork	15,277	-	15,277	15,277	-	15,277
<b>Net book value</b>	<u>\$ 348,046</u>	<u>\$ 217,746</u>	<u>\$ 130,300</u>	<u>\$ 248,769</u>	<u>\$ 143,977</u>	<u>\$ 104,792</u>

Included in amortization expense for 2005 is \$24,107 (2004 - \$Nil) related to the write-down of certain property and equipment.

**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

**6. Loan Facility**

The Company has a direct revolving reducing loan facility of up to \$250,000 (2004 - \$150,000). The loan bears interest at prime plus one quarter percent per annum, and is secured by the assignment of term deposits for \$310,000. At December 31, 2005, the Company had drawn \$Nil on the loan facility.

**7. Income Taxes**

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

	<u>2005</u>	<u>2004</u>
Expected recovery at an effective rate of 33.62%	\$ (78,000)	\$ (504,000)
Add (deduct) effects of:		
Stock compensation	70,000	25,000
Non-taxable gain on sale of marketable securities	(397,000)	(10,000)
Change in valuation allowance	373,000	485,000
Other permanent differences	32,000	4,000
	<u>\$ -</u>	<u>\$ -</u>

- (b) At December 31, 2005, the Company had approximately \$5,034,000 (2004 - \$4,099,000) of non-capital loss carryover balances. In addition, the Company has capital cost pools, resource pools and other tax pools of \$249,000 (2004 - \$63,000) 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, that are subject to assessment of tax authorities, as their ultimate utilization is not considered more likely than not.

- (c) The components of the Company's future income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

<b>Nature of temporary differences</b>	<u>2005</u>	<u>2004</u>
Property and equipment	\$ 41,000	\$ 28,000
Share issue costs	3,000	-
Impairment of long-term investment and write down of marketable securities	20,000	-
Unused tax losses carry forward	1,692,000	1,378,000
	<u>1,756,000</u>	<u>1,406,000</u>
Valuation allowance	(1,756,000)	(1,406,000)
<b>Future income tax asset (liability)</b>	<u>\$ -</u>	<u>\$ -</u>

**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

December 31, 2005 and 2004

**8. Debentures**

In May 2004, the Company's wholly owned subsidiary, Juno Canada Holdings Ltd., issued debentures for \$250,000 cash. Of this amount, the \$100,000 debenture is unsecured and bears interest at 13.5% per annum, which is payable quarterly commencing September 30, 2004. The remaining \$150,000 debenture is collateralized by Juno's investments in the Wisevest Income Fund units (Note 4) and bears interest at 7% per annum, which is payable quarterly commencing September 30, 2004. Both debentures mature May 11, 2012.

On April 20, 2005, Juno amended and consolidated the above debentures to provide a \$250,000 debenture (fully collateralized by the Wisevest Income Fund units) bearing interest at 8.4% per annum to mature May 11, 2012.

**9. Equity Instruments**

(a) Authorized

Unlimited number of Common voting shares

(b) Issued

Common shares

	2005		2004	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	39,029,459	\$ 9,963,248	39,029,459	\$ 9,963,248
Issued for cash (Note 12(d))	5,000,000	1,887,069	-	-
Share issue costs	-	(10,000)	-	-
Stock options exercised – cash portion (Note 9 (c))	33,333	9,333	-	-
Stock options exercised – fair value portion	-	4,520	-	-
<b>Balance, end of year</b>	<b>44,062,792</b>	<b>\$ 11,854,170</b>	<b>39,029,459</b>	<b>\$ 9,963,248</b>

Warrants

	2005		2004	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	-	\$ -	-	\$ -
Issued	1,000,000	112,931	-	-
<b>Balance, end of year</b>	<b>1,000,000</b>	<b>\$ 112,931</b>	<b>-</b>	<b>\$ -</b>
<b>Total equity instruments</b>	<b>45,062,792</b>	<b>\$ 11,967,101</b>	<b>39,029,459</b>	<b>\$ 9,963,248</b>

**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

**9. Equity Instruments - continued**

(b) Issued - continued

During the year the Company completed a non-brokered private placement of 5,000,000 units at a price of \$0.40 per unit, for total proceeds of \$2,000,000. Each unit consists of one common share and one-fifth of one common share purchase warrant. Each full purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.60 per share. The purchase warrant is exercisable until March 2006. The Company paid a total of \$10,000 filing fees to the TSX Venture Exchange in connection with this private placement.

For accounting purposes, the Company estimated and allocated a total fair value of \$112,931 to the warrants using the Black Scholes option pricing model with the following weighted average assumptions:

Risk free interest rate	2.97%
Expected life of warrants	1 year
Expected dividend	Nil
Expected share price volatility	103.79%

As of December 31, 2005, all 1,000,000 warrants remain outstanding. Subsequent to year end, the 1,000,000 warrants expired unexercised.

(c) Options

The Company has a stock option plan for employees, directors, officers and consultants. Stock options can be issued up to a maximum number of common shares equal to 10% of the issued and outstanding common shares of the Company. The exercise price and vesting period of options granted is not less than the market price of the common shares traded and is determined by the Board of Directors. Options granted have a term of up to 5 years.

The Company has granted stock options to employees, directors, officers and consultants of the Company as follows:

	Number of Options	Option Prices per Share \$	Weighted Average Exercise Price \$	Weighted Average Remaining Term	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable \$
Options outstanding, December 31, 2003	-		-	-	-	-
Options granted, September 13, 2004	3,600,000	\$0.28				
Options outstanding, December 31, 2004	3,600,000		\$0.28	4.7 years	1,200,000	\$0.28
Options granted, June 17, 2005	400,000	\$0.48	\$0.48	4.5 years	400,000	\$0.48
Options granted, December 10, 2005	100,000	\$0.32	\$0.32	4.9 years	-	-
Options exercised	(33,333)	\$0.28	\$0.28	-	(33,333)	\$0.28
Options forfeited	(766,667)	\$0.28	\$0.28	-	(33,333)	\$0.28
<b>Options outstanding, December 31, 2005</b>	<b>3,300,000</b>		<b>\$0.31</b>	<b>3.8 years</b>	<b>1,533,334</b>	<b>\$0.33</b>

**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

**9. Equity Instruments - continued**

(c) Options - continued

During the year, the Company granted a total of 500,000 options to two directors, of which 400,000 options vested immediately and the remaining 100,000 options vest over a three year period. The fair values of options issued were \$0.18 and \$0.27 respectively per option. The weighted average contractual life of exercisable options at December 31, 2005 is 3.9 years. A total compensation expense of \$206,977 was recorded in the statements of operations and deficit and credited to contributed surplus for options that were granted in 2004 and 2005 using the Black-Scholes option pricing model with the following weighted average assumptions:

	<u>2005</u>	<u>2004</u>
Risk free interest rate	3.42% – 3.85%	3.5%
Expected life of options	5 year	5 year
Expected dividend	Nil	Nil
Expected share price volatility	86% - 97%	70%

Subsequent to the 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.

**10. Contributed Surplus**

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 258,396	\$ 183,396
Stock compensation	206,977	75,000
Stock options exercised -fair value portion	(4,520)	-
Balance, end of year	<u>\$ 460,853</u>	<u>\$ 258,396</u>

**11. Discontinued Operations**

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

	<u>2005</u>	<u>2004</u>
Oil and gas sales, net of royalties	\$ -	\$ 19,986
Operating costs	-	-
	<u>\$ -</u>	<u>\$ 19,986</u>

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

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**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

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**12. Related Party Transactions**

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Except as disclosed elsewhere in the financial statements, the Company had the following related party transactions:

- a) 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.
- b) During 2005, the Company paid consulting fees to, and reimbursed travel expenses of Basek Consulting Ltd. of \$152,212 (2004 - \$86,435) and payable of \$27,327 (2004 - \$38,215) and Basek Holdings Inc. of \$Nil (2004 - \$2,091). The companies are owned directly, or indirectly, by the President of Juno Canada Holdings Ltd., a wholly owned subsidiary of Overlord Financial Inc.
- c) 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 during the year. Catapult Energy 2004 Inc. is a wholly owned subsidiary of the Company.
- d) 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.
- e) 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.
- f) 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.
- g) 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.
- h) The Company recovered \$26,695 (2004 - \$Nil) 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.

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

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**13. Financial Instruments**

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As disclosed in Note 2(g), 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.

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**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

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**13. Financial Instruments - continued**

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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 (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.

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.

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.

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

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**14. Commitments and Guarantees**

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

2006	\$ 275,226
2007	286,660
2008	291,104
2009	295,548
2010	149,996
	<u>\$ 1,298,534</u>

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

- (b) 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.
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**Overlord Financial Inc.**  
**Notes to the Consolidated Financial Statements**

**December 31, 2005 and 2004**

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**14. Commitments and Guarantees - continued**

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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 can not be estimated.

- (c) 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.
  - (d) 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.
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**15. Subsequent Events**

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- (a) 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 a portfolio management company to provide management and administrative services for this transaction. The Company will act as a sub-adviser to this transaction.
  - (b) 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. Sword Management Inc., a wholly owned subsidiary of the Company, manages the oil and gas properties owned by SEL. This transaction is subject to the approval of the SEL Board of Directors and shareholders.
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**16. Segmented Information**

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The Company operates in one segment, managing energy-related investment funds and assets. All of the Company's assets are held in Canada.

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**17. Comparative Figures**

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Certain comparative figures have been reclassified to conform to the current year's presentation.

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