



First Quarter Report

March 31, 2006

Notice:

The accompanying unaudited interim consolidated financial statements of Valkyries Petroleum Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2006.

VALKYRIES PETROLEUM CORP.
CONSOLIDATED BALANCE SHEET
(in Thousands of Canadian Dollars) (Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33,658	\$ 22,363
Accounts receivable	6,849	7,346
Inventories	2,263	2,089
Prepaid expenses	6,863	2,509
Assets of discontinued operations (Note 5)	-	5,290
	49,633	39,597
Property, plant and equipment (Note 4)	168,537	143,417
Deferred financing costs	1,240	1,307
Other long term assets	-	2,550
	\$ 219,410	\$ 186,871
LIABILITIES		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 8,664	\$ 8,538
Due to related parties (Note 8)	19	16
Interest payable	72	80
Loan payable - current portion (Note 6)	7,008	5,247
Current portion of deferred income	194	168
Liabilities of discontinued operations (Note 5)	-	3
	15,957	14,052
Long-term liabilities		
Loan payable (Note 6)	21,024	24,484
Asset retirement obligation	1,516	1,317
Deferred income	1,504	1,519
Future income tax liabilities	28,767	25,492
	68,768	66,864
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	201,137	171,187
Contributed surplus	5,571	5,132
Deficit	(54,138)	(53,840)
Cumulative translation adjustments	(1,928)	(2,472)
	150,642	120,007
	\$ 219,410	\$ 186,871

Subsequent Events (Note 10)

Approved by the Board:

(signed) "Keith C. Hill"
Director

(signed) "William A. Rand"
Director

VALKYRIES PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(in Thousands of Canadian Dollars)
(Unaudited)

	Three months ended	
	March 31, 2006	March 31, 2005 (restated note 5)
Oil and gas revenue	\$ 14,357	\$ 8,247
Expenses		
Production costs	2,169	917
Transportation expenses	305	432
Depletion, depreciation and amortization	3,005	1,702
General and administrative expense	1,849	798
Stock-based compensation	762	86
Accretion of asset retirement obligation	31	34
Taxes other than income taxes	6,032	3,763
	<u>14,153</u>	<u>7,732</u>
Other (income) expenses		
Interest income	(215)	(28)
Interest and financing costs		
Loan payable	713	744
Foreign exchange (gain)	(361)	(114)
	<u>137</u>	<u>602</u>
Loss from continuing operations before income taxes	<u>(67)</u>	<u>87</u>
Current income tax expense	1,078	555
Future income tax recovery	(557)	(95)
	<u>521</u>	<u>460</u>
Net loss from continuing operations	454	547
Net (earnings) from discontinued operations	<u>(156)</u>	<u>(28)</u>
Net loss for the period	298	519
Deficit, beginning of the period	<u>53,840</u>	<u>40,823</u>
Deficit, end of the period	<u>54,138</u>	<u>41,342</u>
Basic and diluted (earnings) loss per share		
Continuing operations	\$ 0.01	\$ 0.02
Discontinued operations	(0.00)	(0.00)
	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Weighted average number of shares outstanding (000's)	<u>53,942</u>	<u>31,209</u>

VALKYRIES PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Thousands of Canadian Dollars) (Unaudited)

	Three months ended	
	March 31, 2006	March 31, 2005 restated note 5
Cash flows from (for) operating activities		
Net loss from continuing operations	\$ (454)	\$ (547)
Add non-cash items		
Depletion, depreciation and amortization	3,005	1,702
Amortization of deferred financing costs	70	94
Accretion of asset retirement obligation	31	34
Foreign exchange	-	3
Future income tax recovery	(557)	(95)
Stock-based compensation	762	86
Other non-cash items	-	(52)
	<u>2,857</u>	<u>1,225</u>
Changes in non-cash working capital items		
Accounts receivable and prepaid expenses	(3,272)	(1,422)
Inventories	(232)	(53)
Accounts payable and other current liabilities	(1,803)	(564)
	<u>(2,450)</u>	<u>(814)</u>
Net earnings (loss) from discontinued operations	156	28
Gain on sale of discontinued operations	(156)	-
Non-cash items included in discontinued operations	-	501
	<u>(2,450)</u>	<u>(285)</u>
Cash flows from (for) financing activities		
Common shares issued, net of issued costs	28,780	19,062
Repayment of loan payable	(1,731)	(1,830)
Due to related parties	3	(16)
	<u>27,051</u>	<u>17,216</u>
Cash flows from (for) investing activities		
Business acquisition, net of cash acquired	(10,551)	-
Oil and gas interests	(11,188)	(1,967)
Other long term receivable	2,550	2
Advance payment for acquisition of subsidiary	-	(8,610)
Discontinued operations	(1,658)	(423)
Proceed on disposal of discontinued operations	7,101	-
	<u>(13,746)</u>	<u>(10,998)</u>
Effect of exchange rate changes on cash	439	37
Increase in cash	11,295	5,970
Cash, beginning of the period	22,363	4,783
Cash, end of the period	<u>\$ 33,658</u>	<u>\$ 10,753</u>
Supplementary cash flow information (Note 9)		

VALKYRIES PETROLEUM CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2006

1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements of Valkyries Petroleum Corp. (the "Company" or "Valkyries") are prepared in accordance with accounting principles generally accepted in Canada using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's consolidated financial statements for the year ended December 31, 2005.

These interim consolidated financial statements do not contain all of the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements included in the Company's 2005 Annual Report.

2. ACQUISITIONS

CJSC Oilgaztet

On January 31, 2006, Valkyries completed the acquisition of 50% of the shares of Closed Joint Stock Company Oilgaztet ("Oilgaztet") a Russian oil company. The results of operations have been included in the Consolidated Financial Statements since the date of acquisition.

In consideration for this acquisition, Valkyries paid the vendors, US\$9.0 million. An additional US\$1 million bonus will be due to the vendors following the first calendar year in which annual oil production from the Ashirovskoye field exceeds 100,000 metric tons per year (730,000 barrels) and a further US\$1 per metric ton of oil bonus will be due to the vendors for each additional commercial discovery with approved reserves of at least 50,000 tons on the Ashirovskoye license block. The additional contingent consideration has not been recognized as part of the acquisition price as the likelihood of production rates or commercial discoveries in excess of the prescribed rates cannot currently be determined without reasonable doubt. A finder's fee of 120,000 shares of Valkyries common stock was paid in conjunction with this acquisition. A \$7.06 per share value was assigned to the shares issued in association with this transaction, based on the average closing price of Valkyries' shares on the three days prior to and three days following the announcement of the acquisition.

<u>\$ thousands</u>	
Cash consideration (US\$ 9.0 million)	10,251
Finders Fees	847
Transaction costs	300
Total consideration	<u>11,399</u>

The acquisition was accounted for by the purchase method of accounting. The allocation of fair value to the assets acquired and liabilities assumed was:

\$ thousands	
Property, plant and equipment	19,091
Current assets	638
Total assets acquired	<u>19,728</u>
Current liabilities	(2,188)
Long term liabilities	(2,319)
Future income taxes	(3,822)
Total liabilities assumed	<u>(8,330)</u>
Net assets acquired	<u>11,399</u>

3. JOINT VENTURES

The Company's 50% percent equity shareholding with equivalent voting rights in RF Energy Investment Limited is considered to be a joint venture and has been accounted for using the proportionate consolidation method. Under this method, the Company's balance sheets, statements of income, retained earnings and deficit and cash flow include the Company's share of income, expenses, assets, liabilities and cash flows of this joint venture.

The following amounts are included in the Company's consolidated financial statements as a result of the proportionate consolidation of its joint venture:

(\$ thousands)	Three months ended March 31, 2006
Cash	1,435
Current assets, excluding cash	8,159
Long term assets	63,283
Current liabilities	10,984
Long term liabilities	32,290
Revenue	12,056
Expenses	9,324
Net Income	2,732
Cash flow from operating activities	2,431
Cash flow used in financing activities	(1,731)
Cash flow used in investing activities	(2,230)

During the quarter ended March 31, 2005, substantially all of the activities of the Company were carried out through joint ventures. Accordingly, separate disclosure of the proportionate share of assets, liabilities, revenues, expenses, net income and cash flows of the joint ventures is not presented for the comparative period.

4. PROPERTY PLANT AND EQUIPMENT

(\$ thousands)	March 31, 2006	December 31, 2005
Oil and gas property, plant and equipment	179,232	150,944
Other	3,508	3,576
	182,740	154,520
Less: accumulated depletion and depreciation	14,203	11,103
	168,537	143,417

At March 31, 2006, oil and gas properties included \$74.3 million (December 31, 2005: \$64.4 million) relating to unproven properties which have been excluded from the depletion and depreciation calculation. Estimated future development costs on proven undeveloped reserves of \$33.7 million (December 31, 2005: \$38.8 million) are included in the depletion and depreciation calculation.

During 2006, the Company capitalized \$1.2 million (December 31, 2005: \$784,000) of general and administrative costs related to exploration and development activities.

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During the fourth quarter of 2005, Valkyries reached an agreement with Newmex Minerals Inc. to sell all of its oil and gas assets located in the United States. At December 31, 2005 these assets were classified as assets held for sale and were reflected as discontinued operations.

On January 24, 2006, Valkyries closed this transaction and received proceeds of US\$4.6 million plus adjustments for the net cash flow related to the United States oil and gas assets from September 1, 2005 until the closing date. Under the terms of the agreement, additional contingent consideration may be due to Valkyries and will be calculated on the second anniversary date of the sale transaction based on a formula of US\$1 per barrel of oil equivalent of additional net proved oil and gas reserves on three agreed upon exploration prospects. This contingent consideration has not been recorded in the March 31, 2006 financial statements as it may not be reasonably determined whether or not Valkyries will be entitled to receive it.

Selected financial information for the operations included in discontinued operations and the major classes of assets and liabilities categorized as discontinued operations are separately disclosed in the financial statements. Certain financial information has been reclassified in the prior period as discontinued operations.

6. LOANS PAYABLE

(\$ thousands)	March 31, 2006	December 31, 2005
Current portion	7,008	5,247
Long term portion	21,024	24,484
Loan payable	28,032	29,731

7. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares with no par value.

(b) Common shares issued

	2006		2005	
	Number of Shares	Amount (\$ thousands)	Number of Shares	Amount (\$ thousands)
Balance, beginning of year	52,343,414	171,187	27,743,700	65,593
Private placements (c)	2,500,000	28,750	17,000,000	84,000
Business Acquisition (Note 2)	120,000	847	4,000,000	13,942
Finder's fee	-	-	100,000	315
Loan guarantee fee (d)			2,160,714	9,075
Exercise of warrants (e)	-		1,335,000	1,602
Exercise of options	277,000	1,158	4,000	15
Share issue costs (net of tax effect)		(805)		(3,355)
Balance at March 31	<u>55,240,414</u>	<u>201,137</u>	<u>52,343,414</u>	<u>171,187</u>

(c) Private placements

On February 9, 2006, the Company closed a private placement consisting of 2.5 million common shares at a price of \$11.50 per share.

On September 14, 2005 the Company closed a private placement consisting of 11 million shares of the Company at a price of \$6.00 per share.

On February 14, 2005 the Company closed a private placement consisting of 6 million shares of the Company at a price of \$3.00 per share.

(d) Loan guarantee fee

On August 17, 2005, the Company issued 2,160,714 common shares, valued at \$9.1 million, of the Company to Lorito Holdings Ltd. ("Lorito"), an investment company wholly owned by a trust whose settler is Mr. Adolf Lundin. Lorito provided a loan guarantee to Ferrier Lullin Cie SA, who provided the Company with a 9 month US\$50 million bridge loan.

(e) Warrants

All outstanding warrants were exercised during the first quarter of 2005. To date, no further warrants have been issued.

(f) Stock-based compensation

A summary of the status of the Company's stock option plan as of March 31, 2006 and 2005, and changes during the periods ended on those dates is presented below:

	2006		2005	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	1,154,000	\$3.55	732,000	\$2.80
Granted	200,000	\$10.19	65,000	\$2.87
Exercised	(277,000)	\$3.02	-	\$0.00
Balance at March 31	<u>1,077,000</u>	<u>\$4.92</u>	<u>797,000</u>	<u>\$2.81</u>

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	Three months ended March 31	
	2006	2005
Fair value of options granted (\$/share)	3.81	1.24
Risk-free interest rate (%)	2.93	2.90
Expected life (years)	2.00	2.00
Expected volatility (%)	64.31	77.57
Expected dividend yield	-	-

The following table summarizes information regarding stock options outstanding at March 31, 2006.

Exercise price	Number outstanding	Weighted average remaining contractual life - years
2.80	491,000	0.16
2.80	20,000	0.79
2.85	25,000	0.48
2.90	10,000	0.86
3.75	20,000	1.09
3.80	150,000	1.15
5.79	20,000	1.61
6.45	25,000	1.42
6.48	12,500	1.73
7.00	103,500	1.48
7.50	75,000	1.80
11.85	12,500	1.88
11.80	112,500	1.94
<u>4.92</u>	<u>1,077,000</u>	<u>0.86</u>

All options are exercisable at March 31, 2006.

8. RELATED PARTY TRANSACTIONS

During 2006, the Company incurred management and administrative service fees of \$54,000 with a company owned by the Chairman of the Company which provides investor relations, office premises, secretarial and other services in Vancouver. At March 31, 2006 an amount of \$19,200 was due to this company. These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During 2006, the Company sold all of its U.S. oil and gas assets to Newmex Minerals Inc. ("Newmex") (Note 5). Newmex is considered a related party of Valkyries. The consideration agreed upon between the parties was based on fair market values.

9. CASH FLOW INFORMATION

Non-cash financing activity:

(\$ thousands)	Three Months Ended March 31	
	2006	2005
Common shares issued as consideration for business acquisition	847	-
Common shares issued in payment of finder's fee	-	315

Interest and income taxes paid:

(\$ thousands)	Three Months Ended March 31	
	2006	2005
Interest paid	656	644
Income taxes paid	462	564

10. SUBSEQUENT EVENTS

- (a) On May 29, 2006, Lundin Petroleum AB ("Lundin Petroleum") and Valkyries announced that Lundin Petroleum has agreed to acquire all of the outstanding shares of Valkyries in exchange for Lundin Petroleum shares in an all share transaction. Valkyries shareholders will receive one Lundin Petroleum share for each Valkyries common share held.

The proposed acquisition of Valkyries will be completed by way of a Plan of Arrangement in accordance with Canadian law, meaning that a subsidiary of Lundin Petroleum will acquire the shares of Valkyries following approval by Valkyries' shareholders and court approval. Each Valkyries common share will be exchanged for one Lundin Petroleum share. All Valkyries options will also be converted into options to acquire shares of Lundin Petroleum based on the same exchange ratio. The transaction is subject to all requisite regulatory and court approvals and other conditions customary in transactions of this nature.

- (b) Subsequent to March 31, 2006, the following incentive stock options were exercised:

Exercise price	Option exercised subsequent to March 31, 2006	Proceeds
2.80	491,000	1,374,800
5.79	5,000	28,950
	<u>496,000</u>	<u>1,403,750</u>

- (c) Subsequent to March 31, 2006, 100,000 stock options were issued to new employees of Valkyries.