VALKYRIES PETROLEUM CORP.

Letter to Shareholders

To our shareholders:

Valkyries is pleased to announce that it has reached agreement with Lundin Petroleum AB to merge the two companies at a 1 to 1 share ratio. The combination of the Valkyries Russian assets and local contacts with the Lundin strong balance sheet and depth of technical expertise should allow the resultant company to grow at a rapid rate both within Russia and elsewhere. Lundin currently produces over 33,000 barrels of oil per day and during 2005 generated operating cash flow averaging more than US$1 million per day. The Boards of Directors for both companies have voted in favor of the transaction and a fairness opinion has been given by RBC Dominion Securities Inc. The transaction will require shareholder approval on both sides and is expected to close in late July.

Focusing on Valkyries' results to date during 2006, the Company's strong growth momentum continued unabated with successful drilling on all of its key development projects and the acquisition of two new proven oil fields. Total net production now exceeds 4,500 barrels of oil per day.

With the completion of the sale of its U.S. assets early in the quarter, Valkyries is now wholly focused in Russia. To date in 2006, Valkyries further expanded its presence in Russia through the acquisition of the Ashirovskoye oil field in the Orenburg region and the signing of a binding share purchase agreement, anticipated to close during the second quarter, for a 50% interest in the North Irael field in the Komi Republic.

Preparations are underway for the drilling of the first exploration well on the Morskoye Prospect in the offshore Caspian Sea Lagansky permit. This prospect is located immediately adjacent to and directly on trend with Lukoil's recently announced major new oil discovery (V. Filanovsky) Test rates of the new well were in excess of 800 tons per day (approximately 6,240 bopd) of ultra-light (44^{o} API), water-free, low-sulfur oil. The Company is currently converting a set of shallow draft barges for the drilling operations and finalizing negotiations on a rig. The prospect is located in approximately 2 metres of water offshore. Drilling will target three main Cretaceous and Jurassic reservoirs with depths ranging from 800 to 1600 meters. The anticipated spud date is in mid August.

In January, the Company closed the acquisition of a 50% interest in the Ashirovskoye oil field license which is estimated to contain net proven reserves (1P) of 1.15 million barrels of oil, net proven and probable reserves (2P) of 6.8 million barrels and proven, probable and possible reserves (3P) of 29.9 million barrels of oil according to third party reports. The Company has drilled and completed one new well on the field and is currently drilling ahead on a second appraisal well. Based on the analysis of the electric logs on the first well, two intervals in Devonian age rocks were tested. The first interval, in the Afoninsky Horizon, was perforated and swabbed. Water free, light oil flowed from the reservoir at relatively low rates. However, this is significant as the Afoninsky zone had never before tested oil in the field. Valkyries will review alternatives for increasing the flow of this section by stimulation techniques including hydraulic fracturing and horizontal drilling of this reservoir on future wells. The second interval that was tested in the well is the Devonian Pashinsky Sandstone. The well flowed at a rate of 907 BOPD with a flowing wellhead pressure of 200 psi. The oil recovered was 31° API gravity with no formation water. An early production system for this well is presently being installed and test production has commenced. The second well is located in the eastern part of the structure in an area of the field which was drilled in the 1950's and 1960's with good indications of oil on logs, but which was never tested. The well is targeting Permian and deeper Devonian objectives.

Under terms of an agreement signed in May, RF Energy Investments Ltd, which is owned 50% by Valkyries and 50% by Arawak Energy Corp., will acquire 100% of the shares in LLC NC Recher-Komi ("Recher"), whose principal asset is the North Irael Field. The field is located on trend and approximately 10 kilometres from the Sotchemyu-Talyu fields, in which Valkyries holds a 50% interest. The North Irael Field is currently producing approximately 400 barrels of oil per day ("bopd") from the same Devonian reef horizon that is productive at Sotchemyu-Talyu. There are 6 wells in the North Irael Field that have tested oil and gas with 4 of these wells currently on natural flow production. Preliminary estimates of the gross proved and proved plus probable reserves as of December 31, 2005 from a report being prepared by independent reserve auditors Ryder Scott Company, L.P. are 1.5 and 4.8 million barrels of oil respectively. The short term plan for the field is to carry out a workover program and install pumps on all 6 wells which the company believes will significantly increase production levels. The oil will be transported initially by truck over the short 35 kilometer route to PNG's existing processing facilities and sold through the pipeline system. It is expected that the North Irael operations can be handled by PNG's existing Komi staff at minimal incremental cost. Additional development is planned for the second half of 2006.

Three new wells were drilled and completed in the first quarter of 2006 at the Sotchemyu-Talyu fields, resulting in a new production record for the fields of 7586 barrels of oil per day. The accelerated drilling program continues with the three existing rigs drilling ahead or preparing to spud development wells in the field. A fourth lightweight rig has also been mobilized to drill horizontal sidetracks from existing wells and is expected to commence operations shortly.

Work continues aggressively on the Company's other projects. At the Caspian Field, onshore Kalmykia (51% interest), the Company completed drilling its first two horizontal wells and both are now in production bringing field production levels up to 1,500 bopd. Workovers and optimization programs continue and a new third horizontal well is currently being drilled and is anticipated to be completed during the second quarter.

On the corporate side, the Company raised during the quarter Cdn $28.75 million by way of private placement of 2.5 million common shares at a price of Cdn $11.50 per share.

Year end reserves grew to 12.8 million barrels 1P (2004: 11.4 million) and 22.4 million barrels 2P (2004: 13.2 million). Estimated 3P reserves are 33.7 million barrels. These year end figures do not include the recently acquired Ashirovskoye and North Irael fields.

The Company looks forward to closing the proposed transaction with Lundin Petroleum and continuing to grow the combined entity through an aggressive exploration, development and acquisition agenda, with Russia as a continued key area of growth.

On Behalf of the Board

Keith C. Hill
President

May 29, 2006

VALKYRIES PETROLEUM CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(Amounts in Canadian Dollars unless otherwise indicated)
THREE MONTHS ENDED MARCH 31, 2006 AND 2005

The following discussion and analysis of the results of operations and financial condition ("MD&A") for Valkyries Petroleum Corp. (the "Company" or "Valkyries") should be read in conjunction with the consolidated financial statements for the year ended December 31, 2005 and related notes therein. The financial information in this MD&A is derived from the Company's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is May 29, 2006.

Valkyries is a Canadian-based company whose common shares are traded on the TSX Venture Exchange (TSXV) under the symbol "VPC". Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

Company Overview

With the strategic decision made during 2005 to dispose of all oil and gas properties in the United States, Valkyries is now focused exclusively on the acquisition, exploration and development of oil and gas properties located in Russia. Valkyries has continued to expand Russian operations in 2006 with the acquisition of a 50% interest in the Ashirovskoye Field in the Orenburg Region of Russia and by entering into a binding agreement to acquire a 50% interest in the North Irael Field in the Komi Republic of Russia.

Russia – Orenburg Region

During the first quarter of 2006, Valkyries completed the acquisition of a 50% interest in Closed Joint Stock Company Oilgaztet ("OGT"). OGT holds the exploration and production license for the Ashirovskoye Field located in the Orenburg region of Russia. Valkyries will act as operator on this project.

In consideration for this acquisition, Valkyries paid the vendors US$9 million and has agreed to arrange financing for OGT to carry out the exploration and development program required under the Ashirovskoye exploration and production license. An additional US$1 million will be due to the vendors following the first calendar year in which production from the Ashirovskoye Field exceeds 100,000 metric tons. If additional fields are discovered in the Ashirovskoye license area, in commercial quantities, Valkyries will be obliged to pay additional consideration of US$1 per each metric ton of additional recoverable proven reserves on the new fields. Valkyries issued 120,000 common shares to IMD Inc. Oil Ventures as a finder's fee related to this acquisition.

The Ashirovskoye Field exploration and production license was granted to OGT in 2000 and has a 25 year term. The remaining exploration activity that is required to be completed under the exploration terms of the license includes 38 kilometers of 2D seismic and the drilling of two exploratory wells. It is anticipated these exploratory works will be completed during 2006.

During March 2006 the first new development well was placed on production testing. Two intervals were selected for testing and have produced oil. Oil production rates in excess of 900 barrels per day ("bbl/d") have been recorded during a short term test. The Company is currently in the process of constructing an early production system to allow for the continued production and marketing of the oil produced from wells expected to drilled during 2006. It is anticipated that the early production system will be operational in June; at which point long term rates of oil productivity will be established. The Ashirovskoye field is located in close proximity to existing oil transportation infrastructure. A second well is currently being drilled in the eastern section of the field.

An independent, third-party, reserve report has been completed on the Ashirovskoye Field by DeGoyler and McNaughton (September 26, 2005). The report was prepared in accordance with National Instrument 51-101 and estimates proven reserves of 2.3 million barrels of oil (1.2 million barrels net to Valkyries) and an additional 11.4 million barrels of probable reserves (5.7 million barrels net to Valkyries) and a further 45 million barrels of possible reserves (22.5 million barrels net to Valkyries). The reserve report, utilizing constant price parameters, establishes a net present value of the Company's interest in OGT's proven reserves of US$8.6 million (proven plus probable: US$36.6 million, proven plus probable plus possible: US$151.3 million) using a 10% discount rate.

<u>Russia – Kalmykia Republic</u>

Lagansky Block

Preparations are well underway to commence drilling this summer on the Morskoye prospect; the first exploratory well on the Lagansky block. A barge-mounted drilling platform is being constructed and submissions are being made for all required regulatory approvals. The Morskoye prospect is situated at approximately 2 meters depth in the Caspian Sea and is on trend with the Vladimir Filanovsky field, recently announced (January 2006) as a new discovery by Lukoil.

Valkyries acquired a 70% interest in the block during 2005 and has assumed the role of operator. Valkyries has agreed to provide loan funding to finance the costs of the minimum work program under the exploration license and will be entitled to 100% of the positive operating cash flow until such time as the loan is repaid. The Lagansky Block is located offshore in the Russian sector of the Caspian Sea and is directly adjacent to the onshore Caspian Field project operated by Valkyries. Valkyries owns 70% of Mintley (Caspian) Limited, whose wholly owned Russian subsidiary; LLC PetroResurs ("PetroResurs") holds the Lagansky Block exploration license.

The Lagansky Block exploration license was granted in August of 2004 and has a five year primary exploration term. The minimum work program, for the 5-year period, calls for the acquisition of 1400 kilometers of 2D seismic data, 300 square kilometers of 3D seismic data and the drilling of 4 exploration wells. Fiscal terms are standard Russian terms which include a 24% corporate income tax, a petroleum production tax and a duty on exports. During 2005, 368 kilometers of 2D seismic were acquired. Results of this program are being integrated into the existing seismic interpretation and have highlighted several locations suitable for drilling.

The Lagansky Block is 2,000 square kilometers (494,000 acres) in size and is located in the Central Caspian Basin. Several of the largest oil and gas fields in the world are currently being evaluated and developed in this basin. A third party resource report has been prepared on the Lagansky Block by DeGolyer and MacNaughton. The report was prepared in accordance with National Instrument 51-101. Should the prospects evaluated in the report result in successful discovery and development, the estimated range of gross prospective oil resources is between 471.5 million barrels and 1.5 billion barrels, with a best estimate of 152.2 million barrels (adjusted for the probability of geologic success and the threshold economic field size). Reservoirs are expected to be primarily Aptian sandstones and Upper Jurassic carbonates which are productive on trend.

Caspian Field

The first two horizontal development wells on the Caspian Field have completed drilling and been put on production. With the two new wells online and the results of an ongoing workover program, focused on re-perforating existing wells, the estimated productive capacity of the Caspian Field is now in excess of 1,500 bbl/day. Operations personnel are currently focused on maximizing production from the existing wells to bring the actual production figure closer to the productive capacity of the field. Areas of focus are: improving the reliability of electric supply to ensure predictable pump performance, improving quality of workover operations to reduce time required and speed of well recovery, and focusing on pump optimization. Average daily production in April exceeded 1,100 bbl/d as a result of these initiatives. A third well is currently being drilled and is anticipated to be completed during the second quarter.

Valkyries wholly-owned subsidiary, Mintley Cyprus Limited ("Mintley Cyprus"), owns a 51% interest in CJSC Kalmeastern ("Kalmeastern"), whose principal asset is the Caspian Field license. Valkyries has assumed the role of operator on the field. The Caspian Field is located on the flanks of the Caspian Sea and is in close proximity to established oil export routes. As agreed upon when acquiring this interest, Valkyries will be required to issue an additional 1 million common shares to Mintley Investments Limited upon the Caspian Field sustaining a gross production rate of 2,500 bbl/d, for a period of 30 consecutive days. Valkyries' conditional obligation to issue the additional 1 million common shares, valued at $3.5 million, has been recognized in the March 31, 2006 balance sheet.

An independent, third-party, reserve report, effective December 31, 2005, has been completed on the Caspian Field by DeGolyer and MacNaughton Canada Limited. According to the report, proven reserves for this field net to the Company are 3.2 million barrels, proven plus probable 9.4 million barrels and proven plus probable plus possible of 20.8 million barrels.

Russia – Komi Republic

Operations on the Sotchemyu-Talyu Field continued to focus on developmental drilling with three new wells being completed during the first quarter of 2006, two of which were horizontal. The two horizontal wells are currently producing in excess of 1,000 bbl/d. During the second quarter, it is anticipated that three further horizontal development wells will be completed. There are currently four drilling rigs active in the field.

During May 2006, Valkyries announced the signing of an agreement to acquire a 50% interest in the North Irael Field, which is located in close proximity to the company's existing Sotchemyu-Talyu fields in the Komi republic of Russia. Under the agreement, RF Energy Investments Ltd, which is owned 50% by Arawak Energy Corp. and 50% by Valkyries, will acquire 100% of the shares in LLC NC Recher-Komi ("Recher"), whose principal asset is the North Irael Field. Gross consideration related to this acquisition is US $18 million (Valkyries portion: US$9 million). The deal is subject to various regulatory approvals. RF Energy Investments Ltd is also the owner of 100% of ZAO Pechoraneftegas ("PNG"), whose primary assets include the Sotchemyu-Talyu producing fields and the Kadzherom exploration license.

Through the Recher acquisition, Valkyries adds 0.75 million net barrels of proven and 2.4 million net barrels of proven and probable reserves, as well as immediate production which we feel can be increased to over 1,000 bbl/d (Valkyries share 500 bbl/d) with minimal additional capital investment.

U.S Oil and Gas Interests

The strategic decision was reached during 2005 for Valkyries to focus exclusively on Russian oil and gas projects. Accordingly, on December 22, 2005 Valkyries announced that it had signed a letter of intent with Newmex Minerals Inc. ("Newmex") to sell all of its U.S. oil and gas properties. The disposition closed on January 24, 2006. Valkyries 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 (adjustment date) 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 oil equivalent of additional net proved oil and gas reserves on three agreed upon exploration prospects. This contingent consideration has not been considered in calculating the anticipated pre-tax gain. The properties sold to Newmex comprise all of Valkyries' U.S. oil and gas assets, including: leasehold and royalty interests in California, Texas and Louisiana (including production from oil and gas wells in the South Texas Queen City trend), the rights to an offshore OCS block (Mustang Island Area, East Addition, Area Number TX3A, Block 736), and a strategic working interest investment in Rincon Energy Partners LLC, a U.S. based oil and gas prospect generation company specializing in Gulf Coast and California oil and gas exploration.

Proceeds from the sale are being used by Valkyries for Russian exploration and development expenditures.

Oracle Ridge

The Company, through its wholly owned subsidiary, Union Copper Inc., holds a 70% partnership interest in Oracle Ridge Mining Partners ("Oracle Ridge"). Oracle Ridge had rights to an underground copper mine near Tucson, Arizona, which was shut down in February 1996. Reclamation of the mine was completed during the three months ended March 31, 2004 and Oracle Ridge is in the process of applying for a certificate to release the reclamation bonds from the State of Arizona. Oracle Ridge sold the real estate associated with the mine and no further work is envisioned on this project.

Selected Quarterly Information

	Three Months Ended:							
Financial Data for Eight Quarters ($ thousands)	**Mar 2006**	**Dec 2005**	**Sept 2005(1)**	**June 2005(1)**	**Mar 2005(1)**	**Dec 2004(1)**	**Sept 2004(1)**	**June 2004(1)**
Total revenues	14,357	14,675	15,370	11,057	8,247	7,898	3,179	-
Net loss (earnings) from continuing operations	454	5,833	8,112	186	547	411	869	1,075
Net loss (earnings)	298	4,719	7,871	(92)	519	537	879	153
Basic and diluted loss from continuing operations per share ($/share)	0.01	0.15	0.18	0.01	0.02	0.02	0.03	0.06
Basic and diluted loss (earnings) per share ($/share)	(0.00)	0.13	0.18	-	0.02	0.02	0.03	0.01

(1) Restated for effect of discontinued operations

Quarterly Highlights

Valkyries made the transition from a pre-production stage company into an oil and gas producing company during the third quarter of 2004, with the acquisition of PNG. Total revenue has further increased since June 1, 2005 with the recognition of revenue attributable to Valkyries' investment in Kalmeastern.

The second quarter of 2005 marked the first quarter in which Valkyries recorded net earnings. Favorable world oil prices and increasing production resulted in this breakthrough. Production increases and strong oil prices were offset in the third quarter of 2005 by a $9.1 million financing expense. The increased financing expense relates to a guarantee fee associated with bridge financing which was necessary to provide funding for the Lagansky acquisition. Additional acquisitions, completed during the second quarter of 2005 and the increased overhead related to Valkyries' growing Russian presence has resulted in operating losses in subsequent quarters.

The increased loss in the fourth quarter of 2005 may be attributed to several factors. Depletion of $4.6 million was charged during the quarter, in comparison to $2.1 during the third quarter. As depletion is calculated on a country basis, the depletion charge increased as a result of reductions in year end estimated proven reserves attributable to Valkyries. Increased administrative costs, both in Russia and corporately, also impacted the fourth quarter as Valkyries increased its investment in the staff required to manage Valkyries' expanded Russian operations. Year end tax accruals and foreign exchange adjustments also contributed to the increased fourth quarter loss.

Operational Highlights

	Three month ended March 31	
	2006	**2005**
Crude oil volume produced (barrels "bbl")	364,573	251,558
Sales price ($/bbl)	39.52	34.35
Taxes other than income taxes ($/bbl)	16.55	14.96
Production costs ($/bbl)	5.95	3.65
Transportation costs ($/bbl)	0.84	1.72
Netback	16.19	14.03

Production from the Sotchemyu-Talyu Field accounted for 83% of Valkyries' Russian oil production during the first quarter of 2006 (2005: 100%). In comparison to the first quarter of 2005, Sotchemyu-Talyu production has increased 22%. Production growth is expected to continue through 2006 with continued developmental drilling on all of Valkyries' fields.

Russian production costs per barrel continued to increase during the first quarter of 2006, mainly due to workover activities and lower than expected production rates on the Caspian Field. As production increases with further Russian field development and field optimization, we expect production costs per barrel to be reduced significantly. Transportation expenses per barrel vary dramatically depending on the sales mix between the various markets for Russian crude (see Oil Marketing below).

Average Daily Production

	Three month ended March 31	
	2006	**2005**
Sotchemyu-Talyu Field (bbl/d)	3,377	2,795
Caspian Field (bbl/d)	674	-

Valkyries acquired its interest in the Caspian Field during the second quarter of 2005. Accordingly, no comparative figures are presented above.

Russian production, related to Valkyries' interest in the Sotchemyu-Talyu Field, has continued to climb since the end of the 2005 with current production rates in excess of 7,500 bbl/d (3,750 bbl/d net to Valkyries). This increase represents a 24% increase over 2005 average production rates.

Valkyries' interest in the Caspian Field has positively impacted Russian daily production. A focused effort is being placed on maximizing production from the existing wells as it is anticipated that the production capacity currently on the Caspian Field is approximately double the first quarter average daily production rates. We expect continued production growth in both fields during 2006 with continued developmental drilling. Completion of the early production facilities on the Ashirovskoye Field and continued developmental drilling should further increase daily production rates.

Oil Marketing

Russian crude is sold on the Russian domestic market and is also exported by pipeline and sold as Urals Export Blend at various Baltic and Black Sea ports. Russian crude may also be exported to near-abroad markets, such as Belarus, which have favorable customs arrangements with Russia resulting in export duty and VAT exemptions. Sales on the Russian domestic attract lower prices than export sales, however are not subject to export duties. Marketing results for the first quarter are presented below.

	March 31, 2006			
	Domestic	Export	Near-abroad	Total
Volume (bbl)	303,461	59,806	-	363,266
Volume %	84%	16%	-	100%
Revenue (thousands)	10,228	4,128	-	14,357
Average price per barrel (US$/bbl)	29.20	59.80	-	34.24

	March 31, 2005			
	Domestic	Export	Near-abroad	Total
Volume (bbl)	114,278	94,086	32,124	240,488
Volume %	48%	39%	13%	100%
Revenue (thousands)	2,423	5,022	802	8,246
Average price per barrel (US$/bbl)	17.27	43.50	20.35	27.94

Total Russian sales volume increased 51% over the comparative quarter in 2005 as a result of increased Sotchemyu-Talyu production levels and with the acquisition of Valkyries' interest in the Caspian Field. The sales mix during the first quarter of 2006 was 84% domestic and 16% export versus 48% domestic, 39% export and 13% near-abroad in the first quarter of 2005. At the end of 2005 the port of Butinge (Lithuania) was shut down due to operational reasons and remained closed in the early part of 2006 which led the Company to increase sales to the domestic market as other Russian export routes were at capacity.

The average price per barrel received for export sales increased US$16.3/bbl, in comparison to the first quarter of 2005. The benefits of selling into the export market are partially offset by export duties that are not levied on domestic and near-abroad sales. The average price per barrel received for domestic sales increase US$11.93/bbl, in comparison to the first quarter of 2006.

There have been not been any near-abroad sales to date in 2006 due to capacity issues in the Belarusian markets.

Taxes Other Than Income Tax

The two major Russian taxes, other than income tax, are Export Duty and Unified Extraction Tax.

Export duties averaged US$21.90 per export barrel during the first quarter of 2006 (first quarter 2005: US$12.20 per export barrel). The average export duty rate during 2005 was US$18.33 per export barrel. The export duty rate is set by the Russian Federation and generally changes in relation to changes in export prices.

The Unified Extraction tax is levied on every barrel of oil produced in Russia. The tax is based on a formula resulting in the rate of tax varying in relation to world oil prices. The rate of tax averaged US$10.80/bbbl during the first quarter of 2006 (first quarter 2005: US$7.53/barrel).

General and Administration and Stock Based Compensation

	Three month ended March 31	
	2006	2005
Russia - general and administration ($/bbl)	3.62	1.19

Russian general and administrative expenses increased during the second half of 2005 with Valkyries' continued acquisition activity. As production increases with further Russian field development, we expect the administrative cost per barrel to be reduced significantly. A significant driver of increased administrative costs during 2005 was the investment required in personnel experienced in Russian operations. Several key positions have been added to the Valkyries organization, with a focus on attracting strong Russian personnel and expatriate managers with experience in the Former Soviet Union.

($ thousands)	Three month ended March 31 2006	2005
Corporate - general and administration	531	467
Stock based compensation	762	86

Interest Expense

	Three month ended March 31 2006	2005
Borrowing base revolving loan facility	713	744

Financing costs are related to the interest and amortization of deferred financing costs on borrowing base revolving facilities provided to Valkyries, related to it proportionate interest in PNG.

Income Taxes

Income taxes recorded during 2005 and 2004 were recorded on earnings in the Russian Federation. The rate of Russian corporate income tax is 24%. For the foreseeable future, Valkyries has the benefit of operating tax loss carry forwards in the United States and Canada that are expected to shield the Company from income tax in those countries.

Earnings from Discontinued Operations

Valkyries has categorized all U.S. activities as discontinued operations.

Included in earnings from discontinued operations is $156,000 related to the disposition of all U.S. oil and gas assets to Newmex.

Capital Expenditures

Valkyries continues to execute an aggressive Russian growth strategy primarily through acquisitions.

($ Canadian thousands)	Three month ended March 31 2006	2005
Oilgaztet acquisition	15,269	-
Development	6,673	1,960
Exploration	1,125	-
Capitalization of general and administration	1,237	-
Future income tax gross-up on corporate acquisitions	3,822	-
Corporate	-	7
	28,125	1,967

Liquidity and Capital Resources

During the first quarter of 2006, Valkyries completed a non-brokered private placement of 2.5 million common shares at a price of $11.50 per share for gross proceeds of $28.75 million. Net proceeds of the private placement will be utilized in 2006 for exploration and development expenditures as well as for general working capital. Since the start of 2005, Valkyries has raised $112.75 million (gross) by way of private placements. As a result of the private placement during the first quarter of 2006, net working capital grew to $33.6 million (December 31, 2005: $25.5 million).

The Company's long term expectation is that the Russian oil producing companies will generate sufficient cash flow from operations to fund their exploration and development activities. However, during the exploration and initial development stage, Valkyries may be required to provide funding depending on the company's stage of production.

The ability of Russian oil producing companies to generate cash flow is dependant on oil prices in both the international and Russian domestic markets. When Urals Mediterranean prices are above US$25/bbl, as they currently are, export duties in the Russian Federation generally increase by 65 cents for every dollar. As export duties are not levied on domestic sales, and approximately 65% of Russian producers sales are into the domestic market, the domestic price of oil has a considerable impact on liquidity. Accordingly, the ability of Valkyries to generate Russian cash flow is more sensitive to changes in production than to oil price variances.

Valkyries does not currently generate sufficient cash flow from operations to fund its acquisitions and exploration and development activities. The Company is actively engaged in evaluating several potential acquisition targets. Valkyries has therefore relied and will continue to rely upon the sale of equity and debt securities to provide additional financings. It follows that there can be no assurance that financings, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any period and, if available, that it can be obtained on terms satisfactory to the Company.

Related Party Transactions

The Company's transactions with related parties are disclosed in Note 8 of the consolidated financial statements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As at May 26, 2006, the Company had 55,736,414 common shares outstanding and 681,000 share options outstanding under its stock-based incentive plan.

Under the terms of the Kalmeastern acquisition agreement, Valkyries has a contingent obligation to issue an additional 1,000,000 common shares.

Risks and Uncertainties

The Company is exposed to a number of risks and uncertainties inherent in exploring for, developing and producing crude oil and natural gas. These risks and uncertainties include, but are not limited to, the following:

- Fluctuations in crude oil or natural gas prices and exchange rates which could have a material effect on the Company's operations and financial condition and the value of its oil and gas reserves;
- Valkyries' operations in Russia make it subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results;
- Political or economic developments in Russia which may adversely affect the Company's operations, including, but not limited to, a change in crude oil or natural gas pricing policies, a change in taxation policies, the imposition of currency controls, the risk of war, terrorism, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts;

- Risks and hazards including the possibilities of fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment or personal injury;
- Uncertainties with respect to discovering economically viable quantities of oil and gas ;
- Uncertainties in estimating the volume of reserves that may be developed and produced in the future which may differ materially from actual results;
- Uncertain environmental regulation which imposes, or may impose, among other things, restrictions, liabilities and obligations in connection with water and air pollution control, waste management, permitting requirements and restrictions on operations in environmentally sensitive areas;
- Competition within the oil and gas industry, which is highly competitive in all aspects of the business, including the acquisition of oil and gas interests, the marketing of oil and natural gas, acquiring or gaining access to necessary drilling and other equipment and supplies and marketing infrastructure;
- Increased competition from alternative forms of energy, fuel and related products that could have a material adverse effect on the Company's business, prospects and results of operations;
- Cost of capital risks associated with securing needed capital at an acceptable rate to carry out the Company's operations and development; and
- The ability to retain current employees or to attract and retain new key employees which could have a materially adverse effect on the Company's growth and profitability.

Disclosure Control and Procedures

Disclosure controls and procedures are defined under Multilateral Instrument 52-109 – Certification of Disclosure Controls in Issuers' Annual and Interim Filings ("MI 52-109") as "… controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure". The Company has conducted a review and evaluation of its disclosure controls and procedures, with the conclusion that it has an effective system of disclosure controls, and procedures as defined under MI 52-109. In reaching this conclusion, the Company recognizes that two key factors must be and are present:

- the Company is very dependant upon its advisors and consultants (principally its legal counsel) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements; and
- an active Board and management with open lines of communication.

Proper disclosure necessitates that one not only be aware of the pertinent disclosure requirements, but one is also sufficiently involved in the affairs of the Company and/or receives the communication of information to assess any necessary disclosure requirements. Accordingly, it is essential that there be proper communication among those people who manage and govern the affairs of the Company, this being the Board of Directors and senior management. The Company believes this communication exists.

While the Company believes it has adequate disclosure controls and procedures in place, lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company will take whatever steps necessary to minimize the consequences thereof.

Proposed Transactions

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. In accordance with applicable Canadian corporate laws and Rule 61-501, the proposed transaction must also be approved by at least two-thirds of the votes cast by the shareholders of Valkyries, as well as by a simple majority of disinterested Valkyries shareholders. In addition, the issuance of the Lundin Petroleum shares to the Valkyries shareholders will require approval at a shareholders' meeting of Lundin Petroleum by a simple majority. These Valkyries and Lundin Petroleum shareholder meetings are both expected to be held before the end of July 2006, with the transaction anticipated to close shortly thereafter. Valkyries will mail to its shareholders in June 2006 an information circular providing details of the proposed transaction.

Outlook

Valkyries intends to increase its investment in the Russian oil and gas industry through further acquisitions, development and exploration. Exploration and development activities are aggressively being pursued on all of Valkyries' Russian projects and the Company is currently evaluating several potential oil and gas opportunities in Russia. Whilst there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside the Russian Federation, relatively high inflation, and an unpredictable regulatory and legal environment. The prospects for future economic, regulatory and political stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments which are beyond the Company's control.

Non-GAAP Financial Measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("Canadian GAAP") such as Cash Flow from Operations and Cash Flows and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management's use of these measures has been disclosed further in this MD&A as these measures are discussed and presented.

Forward Looking Information

This MD&A contains forward-looking statements and information. Forward-looking statements are statements that are not historical fact and are generally identified by words such as believes, anticipates, expects, estimates or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, political stability, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing and currency exchange rate fluctuations. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

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
	14,153	7,732
Other (income) expenses		
Interest income	(215)	(28)
Interest and financing costs		
Loan payable	713	744
Foreign exchange (gain)	(361)	(114)
	137	602
Loss from continuing operations before income taxes	(67)	87
Current income tax expense	1,078	555
Future income tax recovery	(557)	(95)
	521	460
Net loss from continuing operations	454	547
Net (earnings) from discontinued operations	(156)	(28)
Net loss for the period	298	519
Deficit, beginning of the period	53,840	40,823
Deficit, end of the period	54,138	41,342
Basic and diluted (earnings) loss per share		
Continuing operations	$ 0.01	$ 0.02
Discontinued operations	(0.00)	(0.00)
	$ 0.01	$ 0.02
Weighted average number of shares outstanding (000's)	53,942	31,209

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

	Three months ended March 31, 2006	Three months ended 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)
	2,857	1,225
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)
	(2,450)	(814)
Net earnings (loss) from discontinued operations	156	28
Gain on sale of discontinued operations	(156)	-
Non-cash items included in discontinued operations	-	501
	(2,450)	(285)
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)
	27,051	17,216
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	-
	(13,746)	(10,998)
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	$ 33,658	$ 10,753

Supplementary cash flow information (Note 9)

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.

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

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	19,728
Current liabilites	(2,188)
Long term liabilities	(2,319)
Future income taxes	(3,822)
Total liabilities assumed	(8,330)
Net assets acquired	11,399

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	55,240,414	201,137	52,343,414	171,187

(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	1,077,000	$4.92	797,000	$2.81

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
4.92	1,077,000	0.86

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:

	Three Months Ended March 31	
($ thousands)	**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:

	Three Months Ended March 31	
($ thousands)	**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
	496,000	1,403,750

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