

**MOUNTAINVIEW ENERGY LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**US Funds**

**Unaudited**

## **NOTICE**

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These interim consolidated financial statements for the six months ended June 30, 2006 of Mountainview Energy Ltd. have been prepared by management and have not been subject to review by the Company's auditors.

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**Interim Consolidated Balance Sheets**

US FUNDS

Unaudited

| <b>ASSETS</b>  | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|--------------------------|------------------------------|
| <b>Current</b>   |                          |                              |
| Cash and term deposits   | \$ 352,720               | \$ 462,991                   |
| Accounts receivable - trade  | 197,311                  | 148,163                      |
| Inventory  | 8,301                    | 4,333                        |
| Property held for resale (Note 4d)   | 190,938                  | 165,784                      |
|  | <u>749,270</u>           | <u>781,271</u>               |
| <b>Property, Plant and Equipment</b> , net of accumulated amortization<br>of \$26,834 (2005 - \$2,397) | 87,819                   | 98,917                       |
| <b>Petroleum &amp; Natural Gas Interest</b> (Note 4)   | 1,436,888                | 1,225,414                    |
|  | <u>\$ 2,273,977</u>      | <u>\$ 2,105,602</u>          |
| <b>LIABILITIES</b>   |                          |                              |
| <b>Current</b>   |                          |                              |
| Accounts payable - trade   | \$ 336,600               | \$ 479,647                   |
| Income tax payable   | 168,600                  | 84,200                       |
|  | <u>505,200</u>           | <u>563,847</u>               |
| <b>Future Income Tax Payable</b> (Note 8)  | 75,300                   | 75,300                       |
| <b>SHAREHOLDERS' EQUITY</b>  |                          |                              |
| <b>Share Capital</b> (Note 5)  | 1,071,140                | 1,071,140                    |
| <b>Retained Earnings</b> - Statement 2   | 622,337                  | 395,315                      |
|  | <u>1,693,477</u>         | <u>1,466,455</u>             |
|  | <u>\$ 2,273,977</u>      | <u>\$ 2,105,602</u>          |

ON BEHALF OF THE BOARD:

“Joseph V. Montalban”, Director

“Bruce P. Young”, Director

## Interim Consolidated Statements of Income and Retained Earnings

US FUNDS

Unaudited

|  | Six<br>Months<br>Ended<br>June 30,<br>2006 | Three<br>Months<br>Ended<br>June 30,<br>2006 | Six<br>Months<br>Ended<br>June 30,<br>2005 | Three<br>Months<br>Ended<br>June 30,<br>2005 |
|--|--|--|--|--|
| <b>Revenue</b>   |  |  |  |  |
| Gross sales  | \$ 1,173,102                               | \$ 637,860                                   | \$ 662,540                                 | \$ 334,175                                   |
| Less royalties   | (160,170)                                  | (83,775)                                     | (94,199)                                   | (47,523)                                     |
|  | <u>1,012,932</u>                           | <u>554,085</u>                               | <u>568,341</u>                             | <u>286,652</u>                               |
| <b>Cost of Sales</b>   |  |  |  |  |
| Production taxes   | 111,059                                    | 49,261                                       | 85,589                                     | 42,981                                       |
| Amortization and depletion - petroleum and<br>natural gas interest               | 107,708                                    | 67,124                                       | 36,526                                     | 16,547                                       |
| Utilities  | 56,198                                     | 43,228                                       | 43,388                                     | 16,633                                       |
| Field repairs and maintenance  | 50,716                                     | 44,847                                       | 12,464                                     | 2,028  |
| Field labour   | 46,621                                     | 25,235                                       | 60,491                                     | 21,329                                       |
| Vehicle expenses   | 38,616                                     | 16,710                                       | 25,321                                     | 13,916                                       |
| Materials  | 14,219                                     | 2,047  | 8,366                                      | 4,450  |
| Liability insurance  | 10,740                                     | 1,203  | 5,361                                      | 4,288  |
| Amortization - equipment   | 10,168                                     | 5,085  | 1,297                                      | 688  |
| Engineering reports - Citadel  | 6,108                                      | 6,108  | 3,058                                      | -  |
| Consulting fees  | 4,523                                      | -  | 1,125                                      | -  |
| Inventory - Beginning of year  | 4,333                                      | 4,333  | 2,821                                      | 2,821  |
| Property taxes   | 3,112                                      | 3,112  | 2,908                                      | 2,908  |
| Miscellaneous production costs   | 623  | 223  | 406  | 213  |
|  | <u>464,744</u>                             | <u>268,516</u>                               | <u>289,121</u>                             | <u>128,802</u>                               |
| Inventory - End of period  | (8,301)                                    | (8,301)                                      | (4,400)                                    | (4,400)                                      |
|  | <u>456,443</u>                             | <u>260,215</u>                               | <u>284,721</u>                             | <u>124,402</u>                               |
| <b>Gross Margin</b>  | <b>556,489</b>                             | <b>293,870</b>                               | <b>283,620</b>                             | <b>162,250</b>                               |
| <b>General and Administrative Expenses - Schedule</b>                            | <b>160,867</b>                             | <b>92,856</b>                                | <b>115,855</b>                             | <b>65,692</b>                                |
| <b>Income from Operations</b>  | <b>395,622</b>                             | <b>201,014</b>                               | <b>167,765</b>                             | <b>96,558</b>                                |
| <b>Provision for Income Taxes</b>  | <b>(168,600)</b>                           | <b>(90,130)</b>                              | <b>(65,400)</b>                            | <b>(37,400)</b>                              |
| <b>Net Income for the Period</b>   | <b>227,022</b>                             | <b>110,884</b>                               | <b>102,365</b>                             | <b>59,158</b>                                |
| Retained earnings - Beginning of period  | 395,315                                    | 511,453                                      | 177,398                                    | 220,605                                      |
| <b>Retained Earnings - End of Period</b>   | <b>\$ 622,337</b>                          | <b>\$ 622,337</b>                            | <b>\$ 279,763</b>                          | <b>\$ 279,763</b>                            |
| <b>Income per Share - Basic</b>  | <b>\$ 0.02</b>                             | <b>\$ 0.01</b>                               | <b>\$ 0.01</b>                             | <b>\$ 0.01</b>                               |
| <b>Income per Share - Diluted</b>  | <b>\$ 0.02</b>                             | <b>\$ 0.01</b>                               | <b>\$ 0.01</b>                             | <b>\$ 0.01</b>                               |
| <b>Weighted Average Number Common Shares<br/>Outstanding - Basic and Diluted</b> | <b>9,766,850</b>                           | <b>9,766,850</b>                             | <b>9,766,850</b>                           | <b>9,766,850</b>                             |

Mountainview Energy Ltd.  
**Interim Consolidated Statements of Cash Flows**

Statement 3

US FUNDS  
 Unaudited

|  | Six<br>Months<br>Ended<br>June 30,<br>2006 | Three<br>Months<br>Ended<br>June 30,<br>2006 | Six<br>Months<br>Ended<br>June 30,<br>2005 | Three<br>Months<br>Ended<br>June 30,<br>2005 |
|--|--|--|--|--|
| <b>Cash Resources Provided By (Used In)</b>                                    |  |  |  |  |
| <b>Operating Activities</b>  |  |  |  |  |
| Cash receipts from customers   | \$ 1,048,676                               | \$ 595,453                                   | \$ 619,812                                 | \$ 329,819                                   |
| Direct costs   | (367,061)                                  | (203,399)                                    | (346,905)                                  | (240,484)                                    |
| Cash paid to suppliers and employees   | (246,830)                                  | (95,740)                                     | (148,206)                                  | (85,896)                                     |
| Interest income  | -  | -  | 1,724                                      | 867  |
|  | <b>434,785</b>                             | <b>(296,314)</b>                             | <b>126,425</b>                             | <b>4,306</b>                                 |
| <b>Investing Activities</b>  |  |  |  |  |
| Petroleum and natural gas interest   | (545,056)                                  | (48,390)                                     | (35,489)                                   | (16,640)                                     |
| Property, plant and equipment  | -  | -  | (69,382)                                   | (29,657)                                     |
|  | <b>(545,056)</b>                           | <b>(48,390)</b>                              | <b>(104,871)</b>                           | <b>(46,297)</b>                              |
| <b>Net Increase (Decrease) in Cash</b>   | <b>(110,271)</b>                           | <b>247,924</b>                               | <b>21,554</b>                              | <b>(41,991)</b>                              |
| Cash position - Beginning of period  | 462,991                                    | 104,796                                      | 552,996                                    | 616,541                                      |
| <b>Cash Position - End of Period</b>   | <b>\$ 352,720</b>                          | <b>\$ 352,720</b>                            | <b>\$ 574,550</b>                          | <b>\$ 574,550</b>                            |
| <b>Supplemental Schedule of Non-Cash Investing and Financing Transactions:</b> |  |  |  |  |
| Amortization and depletion   | \$ 118,806                                 | \$ 72,674                                    | \$ 38,230                                  | \$ 17,438                                    |
| <b>Supplemental Cash Flow Information:</b>                                     |  |  |  |  |
| Income tax paid  | \$ 84,200                                  | \$ -   | \$ 26,657                                  | \$ 11,572                                    |

- See Accompanying Notes -

Mountainview Energy Ltd.

Schedule

**Interim Consolidated Schedules of Administrative Expenses**

US FUNDS

Unaudited

|                                  | Six<br>Months<br>Ended<br>June 30,<br>2006 | Three<br>Months<br>Ended<br>June 30,<br>2006 | Six<br>Months<br>Ended<br>June 30,<br>2005 | Three<br>Months<br>Ended<br>June 30,<br>2005 |
|----------------------------------|--|--|--|--|
| Wages and benefits               | \$ 63,692                                  | \$ 31,245                                    | \$ 46,792                                  | \$ 24,973                                    |
| Legal, accounting and consulting | 45,121                                     | 29,419                                       | 24,129                                     | 21,303                                       |
| Travel and promotion             | 22,527                                     | 17,344                                       | 16,383                                     | 7,751  |
| Office supplies and utilities    | 12,808                                     | 6,547  | 15,163                                     | 4,551  |
| Transfer agent fees              | 5,807                                      | 4,879  | 2,539                                      | 2,064  |
| Regulatory and exchange fees     | 3,675                                      | -  | 4,543                                      | 2,053  |
| Telephone                        | 3,425                                      | 1,722  | 5,517                                      | 2,683  |
| Foreign exchange                 | 2,882                                      | 1,235  | 382  | 111  |
| Amortization                     | 930  | 435  | 407  | 203  |
|                                  | <b>\$ 160,867</b>                          | <b>\$ 92,856</b>                             | <b>\$ 115,855</b>                          | <b>\$ 65,692</b>                             |

- See Accompanying Notes -

Mountainview Energy Ltd.

## Notes to Interim Consolidated Financial Statements

June 30, 2006

US FUNDS

Unaudited

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### 1. Nature of Business

The Company was incorporated on May 31, 2000 under the Company Act of British Columbia. The Company was classified as a Capital Pool company as defined in the TSX Venture Exchange ("TSX-V") policies. Upon acquisition of the Red Creek Unit oil and gas property on April 12, 2001, which constituted the Company's qualifying transaction, the Company ceased to be a Capital Pool company. The Company is now considered a Tier 2 issuer and is an operating oil and gas company.

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### 2. Significant Accounting Policies

These interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual consolidated financial statements, except as follows below. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements as at December 31, 2005

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### 3. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and term deposits, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

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Mountainview Energy Ltd.

Notes to Interim Consolidated Financial Statements

June 30, 2006

US FUNDS

Unaudited

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4. Petroleum and Natural Gas Interest

a) Cumulative details are as follows:

|  | June 30,<br>2006    | June 30,<br>2005  |
|--|---------------------|-------------------|
| <u>Proved and Producing</u>                                  |                     |                   |
| Red Creek Unit, Montana, USA:                                |                     |                   |
| Purchase price   | \$ 475,000          | \$ 475,000        |
| Engineering Reports  | 22,968              | 22,068            |
| Legal and other costs (Title opinions and professional fees) | 105,525             | 105,525           |
| Due diligence and investigation costs                        | 30,706              | 30,706            |
| Drilling and completion costs                                | 906,359             | -                 |
| Workover costs   | 267,867             | 237,550           |
| Accumulated amortization and depletion                       | (463,868)           | (250,299)         |
|  | <u>\$ 1,344,557</u> | <u>\$ 621,450</u> |
| <u>Reclamation Bond –Montana, USA:</u>                       | <u>\$ 92,331</u>    | <u>\$ 91,522</u>  |
| <u>Unproved</u>  |                     |                   |
| Shannon Properties, Montana, USA:                            |                     |                   |
| Purchase price   | \$ -                | \$ 62,496         |
| Lease rentals  | -                   | 59,626            |
|  | <u>\$ -</u>         | <u>\$ 122,122</u> |
| Total petroleum and natural gas interests                    | <u>\$ 1,436,888</u> | <u>\$ 835,094</u> |

b) Workover expenditures incurred during the six months ended June 30, 2006 were \$NIL (2005 - \$7,232).

c) The Company is required by the State of Montana to deposit monies into a reclamation bond. The bond is refundable at the time that the Company performs the site restoration of the wells that are dry or are no longer in use. The amount of the bond is \$92,331 (2005 - \$91,522), which includes accrued interest of \$12,331 (2004 - \$11,522).

d) The Company owns a 100% working interest (87.5% revenue interest) in the Shannon Property (petroleum leasehold interests). The interests are also subject to a 5% overriding royalty in favour of the vendor. In the current period, the Company decided to hold this property for resale.

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Mountainview Energy Ltd.

**Notes to Interim Consolidated Financial Statements**

June 30, 2006

US FUNDS

Unaudited

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**5. Share Capital**

a) Authorized:

100,000,000 common shares without par value  
100,000,000 preferred shares without par value

b) Issued and fully paid:

|                 | Common Shares    |                      | Amount           |                      |
|-----------------|------------------|----------------------|------------------|----------------------|
|                 | June 30,<br>2006 | December 31,<br>2005 | June 30,<br>2006 | December 31,<br>2005 |
| Opening balance | 9,766,850        | 9,766,850            | \$ 1,071,140     | \$ 1,071,140         |
| Closing balance | 9,766,850        | 9,766,850            | \$ 1,071,140     | \$ 1,071,140         |

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**6. Related Party Transactions**

Related party transactions not disclosed elsewhere in the financial statements are as follows:

- During the six months ended June 30, 2006, wages and benefits of \$20,769 (2005 - \$18,147) were paid to a director and officer of the Company.

The above 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 party.

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**7. Comparative Figures**

Certain comparative figures have been reclassified to conform to the current period presentation.

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**8. Future Income Tax**

The Company has recorded the future income tax liability that will arise due to the difference between the accounting value of the oil and gas properties and the taxation value of such.

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**Form 51-102F1**  
**Management Discussion and Analysis**  
**For**  
**MOUNTAINVIEW ENERGY LTD**  
**Quarter Ended June 30, 2006**

**Description of Business**

Mountainview Energy Ltd (the “Company”), an oil and gas exploration and production company, was incorporated in British Columbia on May 31, 2000. The Company was listed for trading as a capital pool company on the Canadian Venture Exchange, now known as the TSX Venture Exchange, (the “TSX”) in March 2001. Mountainview Energy Ltd currently operates the Red Creek Field located south of the U.S./Canadian Border in Northern Glacier County, Montana. The Red Creek Field was acquired as a qualifying transaction on July 1, 2001. The completion of this transaction qualified the Company as a “Tier II Issuer.” The Company acquired the Shannon River Project located in Carter County, Montana in July of 2004. As reported in the Management’s Discussion and Analysis for the period Ended December 31, 2005 and March 31, 2006, Management is planning to sell its acreage position in the Shannon River Project, due to the location of this property in relation to the Red Creek Field, being approximately 400 miles to the East. Management is confident that the property can be sold at a price which would allow for full recovery of all costs to-date.

**Change in Reporting Format**

As noted earlier in the Financial Statements, Mountainview Energy Ltd is reporting in U.S. Dollars for the Quarter-Ended June 30, 2006. Since the majority of the Company’s operations are based in the United States, Management felt it was proper to report in U.S. Dollars rather than converting everything to Canadian Dollars at reporting time. This also provides for a more accurate depiction of the Company’s financial activity.

**Operations and Financial Condition**

Gross Revenues for 2<sup>nd</sup> Quarter 2006 of \$637,860 increased by \$303,865 from the \$334,175 in Gross Revenues reported for the 2<sup>nd</sup> Quarter 2005 (Gross Revenues include a nominal amount of bookkeeping revenue and interest income). The change in the revenues between these two periods is a direct result of the increase in the price received per barrel of oil, as well as an increase in sales volumes. The following schedule shows a trend of increasing revenues received and barrels of oil sold by the Company during the past thirteen quarterly periods:

| <b>Period</b>                | <b>Sales Volumes</b> | <b>Average Price</b> | <b>Gross Sales</b> |
|------------------------------|----------------------|----------------------|--------------------|
| 2 <sup>nd</sup> Quarter 2006 | 10,714               | 59.28                | 635,081            |
| 1 <sup>st</sup> Quarter 2006 | 10,013               | 53.21                | 532,738            |
| 4 <sup>th</sup> Quarter 2005 | 7,973                | 52.03                | 414,820            |
| 3 <sup>rd</sup> Quarter 2005 | 7,912                | 55.31                | 437,598            |
| 2 <sup>nd</sup> Quarter 2005 | 7,591                | 43.66                | 331,411            |
| 1 <sup>st</sup> Quarter 2005 | 8,006                | 40.66                | 325,506            |
| 4 <sup>th</sup> Quarter 2004 | 8,573                | 41.84                | 358,658            |
| 3 <sup>rd</sup> Quarter 2004 | 6,450                | 38.24                | 246,639            |

| <b>Period</b>                | <b>Sales Volumes</b> | <b>Average Price</b> | <b>Gross Sales</b> |
|------------------------------|----------------------|----------------------|--------------------|
| 2 <sup>nd</sup> Quarter 2004 | 6,352                | 32.72                | 207,830            |
| 1 <sup>st</sup> Quarter 2004 | 6,876                | 29.83                | 205,081            |
| 4 <sup>th</sup> Quarter 2003 | 7,534                | 26.03                | 196,047            |
| 3 <sup>rd</sup> Quarter 2003 | 7,285                | 25.34                | 184,878            |
| 2 <sup>nd</sup> Quarter 2003 | 7,659                | 24.00                | 183,635            |

As depicted in the foregoing schedule the average price increased by approximately \$15.62 per barrel at \$59.28 for the Second Quarter 2006 compared to the \$43.66 received during the Second Quarter 2005. The price received per barrel of oil has increased by \$26.56 since the 2<sup>nd</sup> Quarter 2004 where the Company saw an average of \$32.72 per barrel for the period. As detailed there has been a steady increase in the price received per barrel of oil over the past thirteen quarters. The Company continues to see an increase in oil prices and steady production volumes into the Third Quarter of 2006.

### Summary of Quarterly Results

| <b>Period</b>                | <b>Net Revenue</b> | <b>Net Income</b> | <b>Income per Share Basic Earnings</b> | <b>Income Per Share Diluted</b> | <b>Total Assets</b> | <b>Total Long-Term Liabilities</b> |
|------------------------------|--------------------|-------------------|--|---------------------------------|---------------------|------------------------------------|
| 2 <sup>nd</sup> Quarter 2006 | 554,085            | 110,884           | 0.01                                   | 0.01                            | 2,273,977           | 75,300                             |
| 1 <sup>st</sup> Quarter 2006 | 458,847            | 116,123           | 0.01                                   | 0.01                            | 2,052,518           | 75,300                             |
| 4 <sup>th</sup> Quarter 2005 | 359,862            | 52,672            | 0.01                                   | 0.01                            | 2,105,602           | 75,300                             |
| 3 <sup>rd</sup> Quarter 2005 | 376,852            | 64,175            | 0.01                                   | 0.01                            | 1,763,050           | 25,000                             |
| 2 <sup>nd</sup> Quarter 2005 | 284,928            | 57,909            | 0.01                                   | 0.01                            | 1,603,075           | 25,000                             |
| 1 <sup>st</sup> Quarter 2005 | 281,689            | 43,161            | 0.00                                   | 0.00                            | 1,634,674           | 25,000                             |
| 4 <sup>th</sup> Quarter 2004 | 327,572            | 105,362           | 0.01                                   | 0.01                            | 1,509,451           | 25,000                             |
| 3 <sup>rd</sup> Quarter 2004 | 214,084            | 21,167            | 0.00                                   | 0.00                            | 1,340,071           | Nil                                |
| 2 <sup>nd</sup> Quarter 2004 | 184,989            | (8,165)           | 0.00                                   | 0.00                            | 1,240,365           | Nil                                |
| 1 <sup>st</sup> Quarter 2004 | 185,541            | 39,984            | 0.00                                   | 0.00                            | 1,265,716           | Nil                                |
| 4 <sup>th</sup> Quarter 2003 | 178,078            | 17,935            | 0.00                                   | 0.00                            | 1,194,216           | Nil                                |
| 3 <sup>rd</sup> Quarter 2003 | 161,022            | 33,134            | 0.00                                   | 0.00                            | 1,167,423           | Nil                                |
| 2 <sup>nd</sup> Quarter 2003 | 164,436            | 43,175            | 0.00                                   | 0.00                            | 1,121,459           | Nil                                |

The drilling and completion of four new wells in the Red Creek Field strengthens the Company's steady revenue stream. However, the amount of generated revenue is not only relative to production but also to the price received per barrel of oil.

The Company realized income from operations of \$201,014 during the Second Quarter 2006, which is an increase of \$104,456 over the income from operations reported for Second Quarter 2005 of \$96,558. This variance is due to an increase in Gross Revenues. The Company reported General and Administrative Expenses of \$92,856 during Second Quarter 2006 compared to \$65,692 reported for the same period in 2005. The Company realized Net Income from Operations during the Second Quarter 2006 of \$110,884 after the Provision for Income Tax. The Provision for Income Tax increased significantly from \$37,400 during Second Quarter of 2005 to \$90,130 for Second Quarter 2006, as a result of the Companies increase in revenue for the period.

The Company's Cash Position decreased during the Second Quarter of 2006 with a reported figure of \$352,720 compared to Second Quarter 2005 in which the Company reported a Cash Position of \$574,550. This decrease of approximately \$211,830 in 2006 is a direct result of the costs associated with the four-well drilling and completion program in the Red Creek Field, commenced during the Fourth Quarter of 2005 and concluded during the First Quarter of 2006. The Company continues to build its Cash Position, as a result of steady revenues and increasing oil prices.

As depicted in the Consolidated Statement of Income and Retained Earnings (Deficit), the major operating expense during the Second Quarter 2006 was Amortization and Depletion, a non-cash item, which was reported at \$67,124. This is a significant increase over the \$16,547 reported for Second Quarter 2005 due to the capital costs associated with the recent drilling and completion program. Another significant expense continues to be Production Taxes. The Company is again subject to a higher tax rate based on the price received per barrel, as tax rates for the Second Quarter 2006 remained at the non-stripper rate, as implemented by the State of Montana. Normally, the wells in the Red Creek Field would be taxed at a stripper rate of 5.76%. However, if at any time during a quarterly period the West Texas Intermediary posting price for a barrel of oil exceeds \$30.00, the stripper rate becomes null and void and the wells are taxed at the regular rate of 12.76%, thus leading to a higher tax liability. Another major operating expense to note for Second Quarter 2006 was for repairs and maintenance. This expense was mainly comprised of costs associated with the rebuilding and overhauling of a water injection pump in the Red Creek Field. Bringing another injection pump on line was necessary in order to accommodate the additional water produced by the newly drilled and completed wells. Another large expense for the period was for electrical costs or utilities. This expense is comprised of charges for electricity used in operating electrical pumps, water disposal units, etc in the Red Creek Field. The increase for the Second Quarter 2006 from that which was reported during the Second Quarter 2005 is a result of the four new wells coming on production, as well as, the operation of the rebuilt injection pump.

There were no dispositions of capital assets during the Second Quarter of 2006 nor have there been any material write-offs or write-downs of assets during the period.

### **Risks and Uncertainties:**

Mountainview Energy Ltd is an oil and gas exploration and production company, whose current source of revenue is from oil production generated in the Red Creek Field. As such, the risks and uncertainties affecting the Company, as an oil and gas producer, include the ability to sustain production through drilling and production enhancement programs in addition to commodity prices. The Company intends to rely on the revenue generated in the Red Creek Field to fund future drilling and enhancement programs.

## **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions which affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the reporting period. Actual results could differ from those reported.

## **Forward Looking Information**

This MD&A contains forward-looking statements relating to regulatory compliance and the sufficiency of current working capital to continue on-going operations. These statements reflect Management's view with respect to future events. Assumptions made herein, with respect to these future events, are subject to certain uncertainties and many factors could cause actual results to differ from those implied by these forward-looking statements.

## **Related Party Transactions**

As reported earlier in the Notes to Consolidated Financial Statements, the following related party transactions occurred during the Six Months Ended June 30, 2006:

- a) Wages and Benefits of \$20,769 (2005 – \$18,147) were paid to a Director and Officer of the Company.

## **Company Progress:**

As a result of the four-well drilling program and production from the completed wells, along with the steady price of oil, the Company expects to meet or exceed its earlier reported estimates for monthly revenues. There have been no material variances to-date that have impacted the Company's ability to continue its objectives as previously reported.

## **Financial Instruments**

Mountainview Energy Ltd's financial instruments consist of Cash, Term Deposits, Accounts Receivable/Trade and Accounts Payable. Unless otherwise noted, it is Management's opinion that Mountainview Energy Ltd is not exposed to significant interest, currency or credit risks arising from the financial instruments.

## **Outstanding Share Data**

To-date the Company has 9,766,850 outstanding shares with Shareholder Equity of \$1,071,140. As of June 30, 2006, there were no shares held in escrow, warrants outstanding and no outstanding options.

## **Liquidity and Solvency**

Working Capital for the Quarter Ended June 30, 2006 was \$244,070 (Current Assets less Current Liabilities). This is an increase from December 31, 2005, at which time the Company reported Working Capital of \$217,424. This increase is a result of a decrease in accounts payable for the period. Another variable to note is that the Shannon River Property has been reclassified as a current asset due to the re-sale status. As mentioned before, the Company intends to sell this acreage. Consequently, the Company's Working Capital for the Quarter Ended June 30, 2006 would have been significantly less than stated, before this reclassification. The Company's cash reserves are down as a result of the drilling and completion costs, however, Management expects to build the reserves back up with the steady monthly revenues the Company continues to receive, as

discussed earlier in “Operations and Financial Condition.” With respect to the Company’s short-term liabilities, as of June 30, 2006, the Company had an obligation of \$336,600 in Accounts Payable. This figure is mainly comprised of accrued royalty and production tax expenses for the period. The majority of these accounts payable obligations will be extinguished during the course of the Third Quarter 2006. The \$168,600 for Current Income Taxes Payable is based on the Company’s tax liability on First and Second Quarter 2006 revenues and the \$75,300 for Future Income Tax Payable is an estimate of what the Company will owe for future income taxes, based on the assumption that the Company will continue to have taxable income. These taxes will be paid when they become due.

The steady monthly revenues enable the Company to continue to meet its ongoing obligations and the Company has no long-term financial liabilities or obligations.

### **Changes in Accounting Policies**

The Company’s Financial Statements for the Quarter Ended June 30, 2006, follow the same accounting policies and methods of application as the most recent Annual Consolidated Financial Statements for the Year Ended December 31, 2005.

### **Subsequent Events**

There have been no subsequent events to report, since June 30, 2006

### **Corporate Matters**

The Company’s Annual General Meeting was held on June 16, 2005. The meeting resulted in the following individuals being elected as Directors of the Company: Joseph V. Montalban, Carla Barringer, Bruce P. Young and Bo L. Mikkelsen. Mr. Clarence Munson declined to stand for re-election and the Board decided that his position would be filled at a later date. At a subsequent Directors’ meeting the Board appointed the following officers of the Company: Joseph V. Montalban, Chairman of the Board, President & Chief Executive Officer and Carla Barringer-Vice President/Corporate Secretary.

### **Approval**

The Audit Committee of Mountainview Energy Ltd has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

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**Joseph V. Montalban, Chairman of the Board  
President & Chief Executive Officer**