

CALVALLEY PETROLEUM INC.

**2006
2nd Quarter
Interim Report
to Shareholders**

2



CORPORATE PROFILE

Calvalley Petroleum Inc. ("Calvalley" or the "Company") is a Calgary, Alberta-based junior international oil and gas company focused on the exploration and development of the 2,234 km² Block 9 in the Republic of Yemen where it is the Operator and a 50% working interest owner. Calvalley's common shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "CVI.A."

Calvalley has made a number of significant oil discoveries in the Republic of Yemen over the past several years and initiated early production from Block 9 in the 4th Quarter of 2005. The Company is party to a Production Sharing Agreement, dated February 23, 1997, with the Ministry of Oil and Minerals of the Republic of Yemen, which permits the Company to explore for, and produce, oil and natural gas on Block 9. The Company is well financed, debt free, and continues to increase its exploration, development, and production activities at Block 9.

Web site: www.calvalleypetroleum.com

SECOND QUARTER 2006 HIGHLIGHTS

- Calvalley entered into a crude oil sales agreement with Occidental Crude Sales Inc. (International), a wholly-owned subsidiary of Occidental Petroleum Corporation.
- Calvalley awarded a contract for the acquisition of 753 km of new 2-D seismic data. The data will be acquired during the 3rd Quarter over multiple leads and prospects in preparation for the 2007 exploration drilling program.
- Calvalley has been in extensive negotiations with the Ministry of Oil and Minerals (the "Ministry") for construction of a pipeline from the Block 9 production facilities to the existing government owned export line from Block 18 to Ras Isa Terminal on the Red Sea and has reached agreement on several key issues that has measurably advanced this high priority effort.
- The completion of the Hiswah-14, Hiswah-15, Hiswah-16 and Hiswah-17 wells brought to eight (8) the number of horizontal production wells drilled and completed in the Saar-Naifa Formation of the Hiswah Field since January 1, 2006.
- A vertical appraisal well, HQ-1, was drilled at the Hiswah Field to assess the hydrocarbon potential in the Qishn Clastics Formation discovered in the Hiswah-5 development well. The well intersected a 9.8 metre oil column having 8.2 metres of net pay with 17% average porosity which further identifies the existence of a second pool at the Hiswah structure. This pool will be the focus of ongoing evaluation.
- Another vertical Hiswah appraisal well, HNE-1, successfully confirmed the structural high that exists as an extension to the main Hiswah Field. The drilling of a horizontal producing leg, from that vertical wellbore, was underway at the beginning of the 3rd Quarter.
- A second drilling rig was contracted and will be available for the planned 2006 exploration program during the 4th Quarter.

Note: Since January 1, 2005, Calvalley has chosen to state all of its financial reporting in U.S. currency so as to better reflect the nature of the Company's business and the functional currency of the Yemen Joint Venture. Amounts in Canadian dollars are specifically noted.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S MESSAGE

Continued Production in Yemen and Achievements on the Block

In the 2nd Quarter of 2006, some significant accomplishments were achieved by Calvalley as the Operator of Block 9. Hiswah-3, 6, 7, 9 and 10 horizontal wells were tied in and are currently producing. During the 2nd Quarter, oil deliveries to the Safer-Operated Facility by truck averaged 4,800 barrels per day with interruptions for construction and maintenance at both the Block 9 loading and Block 18 offloading facilities. For the month of June oil deliveries averaged 5,600 barrels per day. Construction of the Central Processing Facility ("CPF") at Block 9 continued during the 2nd Quarter and the Company anticipates that the CPF will be partially operational during the 3rd Quarter with production volumes expected to increase towards the 10,000 barrels per day maximum trucking limitation presently being imposed by the Ministry.

Continued Drilling Success at Hiswah

Calvalley has continued its commitment to an aggressive exploration and development strategy while simultaneously delivering early production and constructing permanent surface facilities. Recently completed horizontal development wells add operational flexibility and reliability for consistent sales volumes from Block 9. The inventory of existing pre-drilled idle wells at the Hiswah Field will provide an all important access to production "behind pipe" once the pipeline is constructed and operational. These wells are being equipped and each will be individually tested longer term at the CPF which is anticipated to commence in the 3rd Quarter. Additional oil reserves in the Qishn Clastics Formation at the Hiswah Field would provide a further diversification in oil production sources. Furthermore, proposals for additional horizontal development wells at Hiswah-22 through Hiswah-27 have been prepared and submitted for approvals to the Government and Joint Venture partners.

Production Sales & Marketing Agreements

On June 26, 2006, Calvalley entered into a crude oil sales agreement with Occidental Crude Sales (International) Inc., a wholly-owned subsidiary of Occidental Petroleum Corporation. Under the terms of this agreement, the Company and its Joint Venture partners have agreed to sell 500,000 barrels of Marib light oil during the month of August 2006 for lifting from the Ras Isa Terminal on the Red Sea. Specifically, the sale volume is net of royalties and related production attributable to the Yemen Government and the Yemen Oil and Gas General Company. Negotiations continue to positively progress with several major crude buyers in respect of additional short term takeoffs and a longer term marketing agreement.

Pipeline Transmission System Negotiations

Calvalley has reached agreement on a number of key issues with the Yemen Government regarding the construction of a pipeline from the CPF to the export line at Block 18. Discussions between the Ministry and the license holder of a separate Block along the pipeline route planned for the 3rd Quarter. This has a direct impact on the pipeline and Calvalley is awaiting the results of those discussions to recommence its negotiations with the Ministry. As a corollary to the pipeline construction, legal counsel for Calvalley continues to be engaged in the preparation of a tariff and facilities usage agreement regarding throughput at the Safer-Operated Facility and the pipeline transmission system to the Ras Isa Terminal.

Outlook

Calvalley plans continued high levels of activity on multiple fronts during the remainder of 2006, including 753 km of 2-D seismic data acquisition, an active exploration and development drilling campaign, and construction of surface facilities and gathering system infrastructure.

Respectfully submitted,

“Edmund M. Shimon”

Edmund M. Shimon, P.Eng.
Chairman and Chief Executive Officer
August 14, 2006

Operations Review

Calvalley has a 50% working interest and is the Operator of the 2,234 km² (552,044 acres) Block 9 concession, in the Sayun-Masila Basin, Republic of Yemen. During the 2nd Quarter, drilling operations focused on the development and appraisal of the Hiswah structure for the purposes of inventorying additional oil production from Block 9 for increased sales once the pipeline is constructed and functional. The following is a brief synopsis of Calvalley's 2006 2nd Quarter drilling results.

Hiswah-14h

Hiswah-14h was spud late in the 1st Quarter and completed early in the 2nd Quarter. Fair to good oil shows were encountered from initial reservoir penetration to 34 metres above the top transition zone. Oil shows increased in quality after an additional 13 metres was drilled. As usual, oil shows were accompanied by significant mudgas liberation in the majority of the horizontal section. The well was drilled to a total depth of 1719 metres with 485 metres of open horizontal hole in the oil-bearing Saar-Naifa Formation. Petrophysical analysis has determined that the well encountered 15% average porosity over 78 metres of net pay.

Hiswah-15h

Hiswah-15h is located in the north-western part of the Hiswah Field and was drilled horizontally in a southerly direction, to a total depth of 1699 metres. The top of the reservoir was intersected approximately 57 metres above the top of the transition zone and was identified by robust mudgas liberation and fair to good oil shows. The quality of the oil shows improved 14 metres into the reservoir when coarser-grained carbonate lithologies were encountered. Approximately 497 metres of horizontal open-hole was drilled in the oil-bearing Saar-Naifa reservoir, and petrophysical analysis calculates 121 metres of net pay having 16% average porosity and 12% water saturation.

Hiswah-16h

Hiswah-16h was drilled horizontally into the northwestern culmination, in an easterly direction, to a total depth of 1660 metres, with a total open hole of 470 metres in the Saar-Naifa Formation. The top of the Saar-Naifa reservoir was intersected approximately 107 metres above the top of the transition zone. Good mudgas liberation was evident upon reservoir penetration, and oil shows became noteworthy 34 metres in when courser carbonate grainstones were encountered. Of the 470 metres of open hole, 162 metres calculates as net pay showing 15% average porosity and 9% average water saturation.

Hiswah-17h

Hiswah-17h was drilled horizontally in the central part of the Hiswah Field, in a southerly direction, to a total depth of 1563 metres. Fair to good oil and mudgas shows were evident upon reservoir penetration, which in the Hiswah-17h wellbore was approximately 39 metres above the top transition zone. Oil shows improved when coarser-grained carbonate facies were penetrated. The horizontal wellbore encountered oil-bearing, Saar-Naifa limestones over 304 metres of open hole section and calculates to have 148 metres of net pay with 16% average porosity and 12% average water saturation.

HQ-1

The vertical HQ-1 appraisal well was drilled to test the Qishn Clastics Formation updip from Hiswah-5h. The well successfully encountered a 9.8 metre oil column in the upper Qishn Clastics sandstones having 8.2 metres of net pay with 17% average porosity and 26% average water saturation. There were strong oil shows throughout the pay section and the well was cased. Remedial work on this well will be required to determine an optimum completion strategy.

HNE-1

The Hiswah North-East appraisal well, HNE-1, was drilled to test the eastern extension of the Hiswah Field. The vertical well was spud near the end of the 2nd Quarter and encountered the top of the Saar-Naifa reservoir approximately 12 metres higher than prognosed. The gas cap that is present in the southeast culmination of the Hiswah Field is 34 metres thick at the HNE-1 location followed by a 25 metre oil column and 44 metre transition zone. The vertical wellbore confirmed typical reservoir characteristics of the Saar-Naifa Formation and was plugged back to facilitate drilling a Hiswah horizontal producer, commencing immediately in the 3rd Quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated August 14, 2006 and should be read in conjunction with the unaudited interim consolidated financial statements of Calvalley Petroleum Inc. ("Calvalley" or the "Company") ended June 30, 2006 and the audited annual consolidated financial statements of Calvalley for the twelve months ended December 31, 2005.

Advisory

This MD&A highlights significant business results and statistics from Calvalley's unaudited financial statements for the six months ended June 30, 2006 (the "2nd Quarter") and the accompanying notes thereto. In the interest of providing its shareholders and potential investors with information regarding Calvalley, including management's assessment of its future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties. Such risks and uncertainties include, but are not limited to, risks associated with conventional oil operations; the volatility in commodity prices and currency exchange rates; general economic, market and business conditions; changes in environmental legislation and regulations; the availability of sufficient capital from internal and external sources and such other risks and uncertainties described from time to time in Calvalley's regulatory reports and filings made with securities regulators.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof.

Forward-looking statements and other information contained herein concerning the oil industry and Calvalley's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Calvalley believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Calvalley is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

Change in Reporting Currency

The Company adopted the United States dollar as its reporting currency in 2005, rather than the Canadian dollar as in previous years. Most of the Company's operations were conducted by its non-Canadian subsidiaries in United States dollars. All numbers reported in these financial statements are reported in United States dollars unless otherwise noted. As substantially all of the operations are conducted in United States dollars, management is of the opinion that the United States dollar more accurately reflects the balance sheet and the net exposure to the

Canadian dollar is reflected in the income statement. The net exposure to the Canadian dollar primarily comes from Canadian dollar denominated accounts such as cash and trade payables.

As the Company's financial resources and the majority of its operations are denominated in United States dollars, the main effect of this change in reporting currency has been the elimination of foreign exchange losses that arose on the retranslation of the United States dollar denominated net current assets.

Summary of Quarterly Results

Most of this discussion is focused on the construction and investment activities carried on by the Company as Operator and 50% owner of the Joint Venture that is exploring, developing and constructing facilities in the Malik Block 9 concession in Yemen. Although the oil revenue indicated on the consolidated income statement is from a Canadian resource property, that property and related income is relatively insignificant as compared to the Yemen operations. It is anticipated that sales revenues from Block 9 will become the significant revenue source for the Company in future quarters.

Calvalley's net income for the 2nd Quarter of \$1,160,000 compares to a net loss of \$65,000 in 2005 largely reflecting the impact of foreign exchange. The main reasons for the difference are the following:

- Almost all of the Company's net income for the second period can be attributed to a reported foreign exchange gain of \$1,158,000 that arose from holding cash reserves of Canadian dollars in excess of \$42 million through the period and from the foreign currency translation policy as it is applied to assets, liabilities and equity acquired or incurred in Canadian funds.

The foreign exchange gain is comprised of a foreign exchange gain of \$1,722,000 arising from holding Canadian funds, partially offset by an accounting foreign exchange loss related to differences in the exchange rates applied to property and equipment and share capital as compared to other balance sheet items. During the 2nd Quarter the exchange rate between Canadian and U.S. funds appreciated in favor of the Canadian dollar. As these financial statements are reported in U.S. currency, the relative strength of these Canadian funds has resulted in a foreign exchange gain.

- Although the Company began to produce oil and truck it to the Safer-Operated Facility in Block 18, approximately 280 km from the Hiswah Field, the Company continued to inventory its crude and therefore has not recorded any revenue in the 2nd Quarter. The Company has, however, negotiated a sales agreement on behalf of the Block 9 Joint Venture for crude delivery during the month of August. Revenue from this sale will be reported in the 3rd Quarter. The delivery is for 500,000 barrels with Calvalley's portion at 50% of that amount. Produced oil continues to accumulate at the export point in anticipation of this sale.
- A substantial increase in activity at Block 9 required greater support and administrative services such that general and administrative expenses increased to \$380,000 as compared to \$294,000 for the same period in 2005.
- The Company recorded cumulative stock-based compensation expenses of \$394,000 during the 2nd Quarter as compared to \$28,000 in 2005. The Company records the stock-based compensation expense for options over the period in which they vest, on a straight-line basis. The expense recorded in the second period was for the six months ended June 30, 2006 because a 1st Quarter sum had not been recorded.
- As the Company has entered the commerciality phase of its contract with the Yemen Government, certain costs that might otherwise have been capitalized are now deducted as general and administrative or operating costs.
- The Company is now liable for Yemen payroll taxes that commenced with achieving commerciality. These taxes were \$127,000 in the 2nd Quarter.

Comparative Quarterly Information

(\$000)	Net Income (loss)	Earnings per basic share	Earnings per diluted share	Total revenue
2006 Q2	\$ 1,160	\$ 0.1	\$ 0.1	\$ 912
2006 Q1	\$ (1,236)	\$ (0.1)	\$ (0.1)	\$ 442
2005 Q4	\$ (853)	\$ -	\$ -	\$ 93
2005 Q3	\$ 114	\$ -	\$ -	\$ 120
2005 Q2	\$ (65)	\$ -	\$ -	\$ 274
2005 Q1	\$ 68	\$ -	\$ -	\$ 294
2004 Q4	\$ (821)	\$ -	\$ -	\$ 130
2004 Q3	\$ 118	\$ -	\$ -	\$ 121
2004 Q2	\$ 1,379	\$ 0.02	\$ 0.01	\$ 151
2004 Q1	\$ 1,676	\$ 0.02	\$ 0.02	\$ 81

Other items of discussion related to the consolidated income statement are:

Oil Sales

The Block 9 Joint Venture began to produce oil in the last few weeks of 2005 which continued throughout the 1st and 2nd Quarters of 2006. Daily production during the 2nd Quarter increased from 1,636 bopd in the 1st Quarter to 3,000 bopd in April, 2006, 5,792 bopd in May, 2006, and 5627 bopd in June, 2006. Production was lower than planned in the 2nd Quarter due to construction interruptions at Block 9 and Block 18 as well as some operational constraints encountered with the Early Production Facility ("EPF"). An additional test separator package was located in the United Arab Emirates late in the 2nd Quarter and should arrive at Block 9 in August in effort to further increase production capacity towards the maximum allowable 10,000 barrels per day by truck, ahead of producing through the CPF, when operated in tandem with the existing EPF.

Pursuant to accounting policy, neither revenues nor inventories were recognized in the 1st and 2nd Quarters. Operationally, however, 618,000 barrels had been produced by the Block 9 Joint Venture and shipped to the Safer-Operated Facility as of June 30, 2006. Calvalley's share of this production under the Production Sharing Agreement between the Company and the Government of Yemen is 28.2% or 174,276 barrels.

Calvalley did not accrue oil revenues from Canadian sources during the 2nd Quarter. Revenues of \$43,000 were accrued for the 1st Quarter as compared to \$199,000 for the twelve months ended December 31, 2005 and \$43,000 for the 1st Quarter, 2005. This production is related to a minor interest in a Canadian property that the Company continued to own through these periods. The Company has divested itself of most of its Canadian properties so as to devote its energies to Block 9 in Yemen.

Other Revenue

Other revenue, comprised primarily of interest revenue, was \$611,000 for the 2nd Quarter of 2006, \$596,000 for the 2005 year and \$205,000 for the Quarter ended June 30, 2005. The increased interest revenue resulted from holding cash reserves in excess of \$42,000,000 during the 2nd Quarter of 2006 following the issuance of 9,000,000 Class "A" common voting shares in February and the exercise of warrants.

Operating Expenses

Operating expenses for the Quarter were \$nil as no oil and gas revenue was earned or accrued in the three months ended June 30, 2006. This compares to \$6,800 for the same period in 2005.

General and Administration

General and administration expenses in the 2nd Quarter were \$380,000 in 2006 as compared to \$294,000 for 2005 due to increased support activities expenses. These expenses for the 1st Quarter of 2006 were \$900,000. This amount included a special management bonus of \$500,000.

Depletion and Depreciation

Calvalley recorded depletion, depreciation and amortization expenses of \$8,000 for the Quarter ended June 30, 2006 as compared to \$2,000 in 2005. Although the Yemen Joint Venture commenced production in December 2005 and through the 1st Quarter of 2006, the Company did not record depletion because no revenue was received for that production before year end or prior to June 30, 2006.

Asset Retirement Obligations

The amount provided in 2006 for asset retirement obligations was \$1,000 compared to \$nil recorded for the Quarter ended June 30, 2005. During 2004 most of the Canadian properties were sold for consideration that included the assumption of the associated asset retirement obligation. No provision has been made for an asset retirement obligation in respect of the Yemen properties because the Company is not under a legal requirement for reclamation expenses and therefore is not required to recognize an asset retirement obligation under GAAP. Provision for reclamation costs has been made in the reserve report because the Company intends to maintain good environmental practices as part of its corporate governance.

Liquidity and Capital Resources

Calvalley's total cash flow for the 2nd Quarter was an outflow of \$9,382,000 due primarily to continued investment in the Yemen Block 9 venture.

Working capital

As at June 30, 2006, the Company's working capital was \$62,721,000 as compared to \$26,600,000 on December 31, 2005 and \$26,258,000 on June 30, 2005. Of this, \$37,630,000 was in Canadian dollars. The Company has sufficient funds with which to meet its capital budget obligations for 2006. The significant increase in working capital is due to the sale of common stock in the 1st Quarter of 2006.

Share transactions

There were no shares issued or options exercised during the 2nd Quarter of 2006. The Company issued 175,000 stock options exercisable at CDN\$8.05 per share to senior management and consultants of the Company. These options vest over a three year period and expire in five years.

Capital expenditures and Yemen-related working capital of \$10,841,000 were made in Yemen for the 2nd Quarter compared to \$8,079,000 in 2005.

On February 21, 2006 the Company issued 9,000,000 Class "A" common voting shares for cash consideration of CDN\$53,939,000 (US\$47,749,000) net of commissions, legal fees, private placement financing fees to the Toronto Stock Exchange. No warrants were issued with this placement.

During the 1st Quarter 120,000 share options were exercised for proceeds of CDN\$141,000 (US\$121,000) and 407,143 warrants were exercised for proceeds of CDN\$1,589,000 (US \$1,378,000).

During 2005 the Company issued 8,142,857 Class "A" common voting shares for cash

consideration of \$24,432,700 on March 24, 2005. The net proceeds from the offering totaled \$21,581,057 after deduction of legal fees, private placement financing fees to the TSX Venture Exchange, and cash commissions paid to the syndicate of underwriters. In addition to the cash commission, the syndicate of underwriters received warrants equivalent to 5% of the shares issued, exercisable until March 24, 2006 at a price of CDN\$3.90 per common share purchase warrant in connection with the offering; all of these warrants were exercised in 2006. Also during 2005, the Company issued 8,724,513 Class "A" common voting shares for cash consideration of \$11,176,873 upon the exercise of warrants, such warrants expiring on June 10, 2005 and originally being issued as part of a private placement which took place in December 2003.

During 2005 a total of 676,700 options were exercised for \$833,000. A total of 773,300 options were exercised for \$452,000 in 2004.

Share price performance

The trading price of Calvalley's Class "A" common voting shares was actively traded on the Toronto Stock Exchange throughout the 2nd Quarter, 2006 and closed on June 30 at CDN\$6.88. As at June 30, 2005, the closing price for the Class "A" common voting shares on the TSX Venture Exchange was CDN\$4.57. As at December 31, 2005, the closing price for the Class "A" common voting shares on the Toronto Stock Exchange was CDN\$4.52.

Other

No operating loans were taken out in either 2006 or 2005.

At December 31, 2005 the Company had Canadian tax pools of approximately \$19.5 million of which \$4.8 million were non-capital losses, \$13.0 were Canadian resource tax pools and \$1.7 million were deferred financing costs. The total pools were \$19.7 million in 2004. No provision has been made to record these pools due to the insignificance of its Canadian operations and assets.

The Company has no Canadian long term contractual obligations other than operating leases for office space and parking which total approximately \$145,000 for 2006 and 2007. Its long-term commitments regarding its Yemen property include its 50% proportionate share of government allowances and bonuses of \$450,000 per year, plus certain other bonus payments of \$2,000,000, \$3,000,000 and \$4,000,000 should sustainable production exceed 25,000, 75,000 and 100,000 barrels of oil per day, respectively. Also, the Company is committed to paying \$1.25 per bbl of production from Block 9 to a maximum of \$5,125,000 in connection with a financing arrangement entered into in March 2004.

Off Balance Sheet Arrangements

Calvalley had no off balance sheet arrangements as at June 30, 2006 or at December 31, 2005.

Block 9 Republic of Yemen – Exploration and Development Program

Calvalley is the Operator and 50 percent working interest owner of Block 9. Exploration and development expenditures during the 1st Quarter of 2006 were \$6.125 million as compared to \$14.1 million during all of 2005 and \$7.405 million in the 2nd Quarter of 2005.

Block 9 Oil Production and Construction of Infrastructure

In the 2nd Quarter the Company produced oil from Hiswah wells 3, 6, 7, 9 and 10 and processed it through an Early Production Facility ("EPF"). Site preparation and construction of facilities that expanded the Company's offloading facility at Block 18 was also completed in the 2nd Quarter. Deliveries to the Safer-operated Block averaged 3,000, 5,792 and 5,627 for the months of April, May and June respectively. Production and delivery volumes were impacted by unplanned EPF capacity constraints and construction interruptions at Block 9 and Block 18.

Production is expected to increase in the 3rd Quarter as additional wells are tied-in to expanded early production facilities and construction of the CPF reaches a point that production can be routed through this facility.

The Company continues to actively negotiate with the Ministry on a pipeline from Block 9 to Block 18 that would facilitate unrestricted production and transportation of crude oil from Block 9.

Critical Accounting Estimates

Because a precise determination of certain assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations, which have been made using readily accepted standards. The financial information provided in this MD&A and in the consolidated financial statements has, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below. Financial results incorporate estimates on the following items:

- Depletion, depreciation and accretion are based on estimates of oil reserves.
- Estimated value of future income tax liabilities.
- Estimated value of asset retirement obligations that is dependent upon the future costs and timing of related expenditures.
- Estimated fair value of unit-based compensation.

To estimate the economically recoverable oil reserves and related future net cash flows, the Company incorporated many factors and assumptions including:

- expected reservoir characteristics based on geological, geophysical and engineering assessments.
- future production rates based on historical performance and expected future operating and investment activities.
- future oil prices and quality differentials.
- assumed effects of regulation by governmental agencies.
- future development and operating costs.

It is believed these factors and assumptions are reasonable, based on the information available at the time these estimates were prepared. However, actual results could vary considerably, which could cause material variances in:

- estimated quantities of proved oil reserves in aggregate and for any particular group of properties.
- reserve classification based on risk of recovery.
- future net revenues, including production, revenues, taxes and development and operating expenditures.
- financial results including the annual rate of depletion and recognition of property impairments.
- assessing, when necessary, oil assets for impairment. Estimated future undiscounted cash flows are determined using proved reserves.

As circumstances change and additional data becomes available, reserve estimates may also change, impacting net income. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information, and a changing environment may impact these estimates. Revisions to reserve estimates can arise from actual versus projected reservoir performance. Such revisions can be either positive or negative.

Changes in Accounting Policy

The Company has not adopted any changes in accounting policy for this Quarter ended June 30, 2006.

The Company adopted the United States dollar as its reporting currency in 2005 which is

discussed above.

Financial Instruments

Financial instruments of the Company consist mainly of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values.

Disclosure of Outstanding Share Data

As of this date the Company reports the following with respect to outstanding shares:

100,857,165 Class "A" common voting shares were issued and outstanding;

2,945,000 options are outstanding that are convertible into additional Class "A" common voting shares at exercise prices ranging from CDN\$0.50 to CDN\$8.05 per options. Of these, 2,010,000 are exercisable.

There are no warrants outstanding.

Additional information relating to Calvalley Petroleum Inc., including Calvalley's Annual Information Form, can be found on SEDAR at www.sedar.com.

AUDITOR REVIEW OF FINANCIAL STATEMENTS

The Company's independent auditor has not performed a review of these financial statements for the period ended June 30, 2006 in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. The Company's former auditor had not previously performed a review of these financial statements for the period ended June 30, 2005 in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"Edmund M. Shimon"

Edmund M. Shimon
Chairman & Chief Executive Officer

"Cameron W. Dow"

Cameron W. Dow
Chief Financial Officer

CALVALLEY PETROLEUM INC. – 2006 2nd Quarter Interim Report

Consolidated Balance Sheets (Unaudited)

(Expressed in U.S. Dollars)

<i>(\$ 000)</i>	As at June 30, 2006 \$	As at December 31, 2005 \$
ASSETS		
Current		
Cash and cash equivalents	56,637	24,288
Accounts receivable	8,909	5,274
Prepaid expenses	55	69
	65,601	29,631
Property and equipment [note 3]	37,666	24,095
	103,267	53,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	2,880	2,974
Taxes payable	-	7
	2,880	2,981
Asset retirement obligations	46	44
	2,926	3,025
Commitment [note 6]		
Shareholders' equity		
Share capital [note 5]	118,644	69,388
Contributed surplus [notes 4 & 5]	2,265	1,806
Cumulative translation adjustment	3,963	3,963
Deficit	(24,531)	(24,456)
	100,341	50,701
	103,267	53,726

See accompanying notes

ON BEHALF OF THE BOARD OF DIRECTORS

[Bowne please insert signatures]

Edmund M. Shimoon
Director and Chief Executive Officer

Gary Robertson
Director

CALVALLEY PETROLEUM INC. – 2006 2nd Quarter Interim Report

Consolidated Statements of Income (Loss) & Deficit (Unaudited)

(Expressed in U.S. Dollars)

(\$ 000)	Three months ended		Six months ended	
	June 30		June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
REVENUE				
Oil sales [Note 2c]	-	31	47	77
Management fee	301	40	301	134
Royalties (net of Alberta Royalty Credit)	-	(2)	(4)	(5)
	301	69	344	206
Interest and royalties	611	205	1,010	363
	912	274	1,354	569
EXPENSES				
Operating	-	7	7	15
General and administration	380	294	1,280	485
Depletion and depreciation	8	2	15	4
Stock-based compensation	394	28	394	46
Accretion	1	-	1	-
	783	331	1,697	550
Income (loss) before other	129	(57)	(343)	19
Foreign exchange gain (loss)	1,158	-	522	-
Income before income tax	1,287	(57)	179	19
Income tax expense – current	127	8	254	15
Net income (loss) for the period	1,160	(65)	(75)	4
Deficit, beginning of period	(25,691)	(23,402)	(24,456)	(23,471)
Deficit, end of period	(24,531)	(23,467)	(24,531)	(23,467)
Earnings per share (basic and diluted)	0.01	0.00	0.00	0.00

See accompanying notes

CALVALLEY PETROLEUM INC. – 2006 2nd Quarter Interim Report

Consolidated Statements of Cash Flows (Unaudited)

(Expressed in U.S. Dollars)

(\$ 000)	Three months ended June 30		Six months ended June 30	
	2006 \$	2005 \$	2006 \$	2005 \$
OPERATING ACTIVITIES				
Net income (loss) for the period	1,160	(64)	(75)	4
Add (deduct) items not affecting cash				
Depletion and depreciation	8	2	15	4
Asset retirement obligation	1	-	1	
Stock based compensation	394	28	394	
				46
Unrealized foreign exchange gain	(1,671)	-	(1,671)	-
Cash flow from operating activities	(108)	(34)	(1,336)	54
Change in non-cash working capital related to operating activities	(165)	(118)	(203)	89
Cash provided by (used in) operating activities	(273)	(152)	(1,539)	143
INVESTING ACTIVITIES				
Additions to property & equipment	(7,697)	(3,895)	(13,572)	(11,299)
Change in non-cash working capital related to investing activities	(3,144)	(4,184)	(3,520)	(4,272)
Cash used in investing activities	(10,841)	(8,079)	(17,092)	(15,571)
FINANCING ACTIVITIES				
Issuance of share capital	-	9,557	49,257	33,390
Cash provided by (used in) financing activities	-	9,557	49,257	33,390
Effect of exchange rate changes on cash and cash equivalents	1,732	(86)	1,723	(217)
Increase (decrease) in cash	(9,382)	1,240	32,349	17,745
Cash and cash equivalents beginning of period	66,019	23,417	24,288	6,912
Cash and cash equivalents end of period	56,637	24,657	56,637	24,657

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2006

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

1. BASIS OF PRESENTATION

The interim consolidated financial statements of Calvalley Petroleum Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles.

Effective January 1, 2005 the Company adopted the U.S. dollar as its reporting currency. This change is attributable to the fact that the Company has divested itself of most of its Canadian properties, leaving substantially all of its assets and operations in Block 9, the Republic of Yemen where all of the Company's activity is conducted in U.S. currency. Refer to note 2 for disclosure of the effect of this change in reporting currency on the financial statements for the prior year and period.

These interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2005. The disclosures included below are incremental to those included with 2005 annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2005.

2. SELECTED ACCOUNTING POLICIES

(a) Changes in Reporting Currency

Effective December 31, 2005, management changed the reporting currency of the Company from Canadian dollars (CDN\$) to United States dollars (\$), as this currency is more appropriate for the Company's investors and other users of the financial statements. In making this change in reporting currency, the Company followed recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), set out in EIC-130, "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency".

Financial statements for all periods presented have been translated from Canadian dollars into US dollars using the current rate method, based on EIC-130 recommendations effective January 1, 2004. Using this method, all consolidated assets and liabilities have been translated using the exchange rate at the balance-sheet dates, while shareholders' equity has been translated using the historical rates of exchange in effect on the dates of the corresponding transactions. The consolidated statements of loss and deficit and consolidated cash flow statements have been translated using the prevailing average exchange rates for the periods. Any resulting exchange difference due to this translation has been included in shareholders' equity as a cumulative translation adjustment. All comparative financial information being presented has been restated to reflect the Company's financial statements as if they have been historically reported in US dollars and the effect on the consolidated financial statements resulted in a cumulative translation adjustment of \$3,963,000.

(b) Foreign currency translation

The activities of the Canadian parent have been translated into United States dollars using the temporal method. Under this method, monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates in effect on the dates the assets were acquired or liabilities were incurred. Revenue and expenses are translated at the rates of exchange prevailing at the date of the transaction. Foreign exchange gains and losses are included in net loss in the period in which they arise

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2006

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

(c) Revenue recognition

Oil and gas sales are recognized when reserves are produced and delivered to the purchaser. Although the Company produced oil from its Yemen properties during the 1st and 2nd Quarters of 2006, the Company had not entered into a sales agreement until the 2nd Quarter. (See note 6).

3. PROPERTY AND EQUIPMENT

	June 30, 2006		
	Cost	Accumulated Depletion and Depreciation	Net book value
	\$	\$	\$
Canada			
Oil and gas properties	115	32	83
Other capital assets	111	51	60
	226	83	143
Yemen			
Oil and gas properties	37,523	-	37,523
	37,749	83	37,666

	December 31, 2005		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Canada			
Oil and gas properties and equipment	112	26	86
Other capital assets	87	43	44
	199	69	130
Yemen			
Oil and gas properties	23,966	-	23,966
	24,186	69	24,096

Canada

During 2003, the Company commenced a process to dispose of its Canadian oil and gas properties and equipment to enable it to focus its upstream activities on Block 9 in Yemen. At December 31, 2003 the Canadian cost centre held one remaining property which was disposed of on January 23, 2004, for proceeds of CDN\$819,935, comprised of cash of CDN\$500,000 and assumption of the site restoration obligation for this property, for which CDN\$319,935 had been accrued at December 31, 2003. During 2003 the Company recognized losses of CDN\$1,158,195 in connection with the write down of this property. During 2004 the Company recognized a loss of CDN\$2,547 in connection with the sale.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2006

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

Yemen

In early 1997, the Company entered into a Production Sharing Agreement ("PSA") with the Republic of Yemen. Under the terms of the PSA, the Company is entitled to recover the majority of its exploration and development costs out of an approximate 56.5% interest in any future production. The Company's expenditures incurred as of March 31, 2005 were \$24,230,259. After these costs are recovered, it will continue to share in production at a reduced rate. As the Yemen cost centre is in the pre-development stage, direct expenses to date have been capitalized.

The current exploration period under the PSA commenced on October 4, 2004 and runs to March, 2008. The Company and its partners committed to spend an additional \$1,000,000 on seismic and \$5,000,000 on exploration drilling during this time frame. The Company and its partners exceeded this commitment and therefore, no further commitment is required in this regard.

In 2001 the Company entered into a Participation Agreement ("PA") with HoodOil Limited ("HoodOil"), an unrelated party, whereby the Company assigned 40% of its interest in exchange for a Letter of Guarantee to finance future exploratory costs under the PSA to a maximum amount of \$10,000,000 over both the first and second exploration periods.

As of November 1, 2001 the Company entered into a Joint Operating Agreement ("JOA") with HoodOil in relation to the ongoing exploration and development under the PSA. The Company is the designated Operator under the terms of the JOA.

During the 1st Quarter ended March 31, 2002, the PA relating to the PSA with the Republic of Yemen was amended. The amendment transferred 50% of the 40% interest in the PSA from HoodOil to Reliance Industries Limited ("Reliance"). The terms and conditions of the JOA were also amended to take this into consideration.

Expenditures by HoodOil and Reliance required to meet their \$10 million commitment under the PA are not reflected in these financial statements.

In 2004 both of the Company's Joint Venture partners exercised options granted in 2001 to increase their respective interests by 5% each. The Company received \$2,500,000 from HoodOil during the 1st Quarter of 2004 and \$2,500,000 from Reliance during the 2nd Quarter of the year, in return for the combined 10% increase in their working interests. As at December 31, 2004 the Company recognized gains of \$3,290,350 on the sale of those working interests.

In March, 2004 the Company entered into a financing arrangement with a private fund established for the purpose of financing international oil and gas projects. During the first six months of 2004 the Company received \$2.5 million in an unsecured non-equity investment for the drilling of the Al Roidhat 2 and 3 wells. These funds are only repayable from production from Block 9 at a rate of \$1.25 per bbl, to a maximum of \$5.125 million. Given the nature of this transaction, the value of the Company's Yemen property and equipment ("P&E") was reduced by the full amount of the funds received and future depletion will be correspondingly reduced by the lower P&E.

In October, 2004 the Company entered into the Second Exploration Period, under the PSA. At that time Calvalley relinquished 25% of the original surface area of Block 9 thereby reducing its land holdings to 3,546 km² (876,236 acres).

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2006

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

4. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of Class "A" Common Voting Shares.

Issued:

	First Quarter			Year ended		
	2006			2005		
	Number	Amount \$CDN	Amount \$U.S.	Number	Amount \$CDN	Amount \$U.S.
Class "A" Common Voting Shares						
Shares outstanding, beginning of year	91,330,022	91,569	69,388	73,785,952	50,390	35,757
Issued on exercise of options	120,000	158	137	676,700	1,007	833
Issued for cash	9,000,000	58,500	50,895	8,142,857	28,500	23,427
Issued on the exercise of warrants	407,143	1,588	1,378	8,724,513	13,864	11,173
Share issuance costs		(3,571)	(3,154)		(2,192)	(1,802)
Shares outstanding, June 30	100,857,165	148,244	118,644	91,330,022	91,569	69,388

No shares were issued during the Quarter ended June 30, 2006.

On February 21, 2006 the Company completed an offering of 9,000,000 Class "A" common voting shares at a price of CDN\$6.50 per share, for total proceeds of \$53,939,000 net of commissions. 407,143 Class "A" common voting shares were issued on the exercise of warrants at a price of CDN\$3.90 per share and an additional 120,000 Class "A" common voting shares were issued upon the exercise of stock options at exercise prices of from CDN\$0.50 to CDN\$2.00 per share.

On March 24, 2005 the Company closed a private placement of 8,142,857 Class "A" common voting shares at a price of CDN\$3.50 per share. In addition, during the 1st Quarter of 2005, 1,317,586 Class "A" common voting shares were issued on the exercise of warrants at an exercise price of CDN\$1.66 per share and a further 176,700 shares were issued upon the exercise of stock options.

b) Stock options

The Company's restated stock option plan, as approved May 10, 2006 and dated effective March 21, 2006 provides for the issue of stock options to directors, officers, employees and consultants. Vesting terms are determined by the Board as they are granted and currently include periods ranging from immediate, to the time a specific objective is achieved, and finally, evenly over 3 or 5 years. The options maximum term is 5 years (10 years for options granted prior to October 1, 2001).

As the restated stock option plan is a revolving plan, the total number of Class "A" common voting shares which are reserved for issuance under the plan shall not exceed 10% of the aggregate number of issued and outstanding shares of the Company.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2006

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

b) Stock options - *continued*

The following is a continuity of stock options outstanding for the six month period ended June 30, 2006.

	Options	2006	
		Weighted Average Exercise Price	
		\$CDN	\$U.S.
Balance, December 31, 2005	2,890,000	2.31	1.98
Exercised	(120,00)	(1.60)	(1.43)
Balance, March 31, 2006	2,770,770	2.43	2.17
Granted	175,000	8.05	7.19
Balance, June 30, 2006	2,945,000	2.76	2.47

Stock options outstanding at March 31, 2006 were as follows:

Number of Options		Exercise Price		Expiry Date
Granted	Exercisable	\$CDN	\$U.S.	
400,000	400,000	0.50	0.45	2009
400,000	400,000	0.90	0.80	2011
50,000	50,000	1.40	1.25	2009
50,000	50,000	1.60	1.43	2008
500,000	500,000	1.60	1.43	2009
135,000	-	1.60	1.43	2010
200,000	125,000	3.80	3.39	2010
685,000	-	4.05	3.62	2010
350,000	350,000	4.20	3.75	2010
175,000	-	8.05	7.19	2011
2,945,000	2,010,000			

During the six months ended June 30, 2006 stock based compensation expense of \$394,000 was expensed and credited to contributed surplus.

At December 31, 2005 stock based compensation expense of \$998,235 was expensed and credited to contributed surplus.

The fair value of the options granted in 2005 was \$589,000 using a Black-Scholes Option Pricing model with the following assumptions:

	2006	2005
Risk-free interest rate	4%	4%
Expected hold period to exercise	5 years	5 years
Volatility in the price of the Company's shares	66%	66%
Dividend yield	\$nil	\$nil

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2006

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

c) Broker's warrants

On December 10, 2003, the Company issued warrants in connection with the sale of investment units that consisted of both Class "A" common voting shares and share purchase warrants. The Company issued 7,396,081 warrants that allowed the holder to purchase one Class "A" common voting share for \$1.33 (CDN\$1.66) for each warrant tendered and 1,344,742 warrants that allowed the holder to purchase one Class "A" common voting share for \$0.99 (CDN\$1.20) for each warrant tendered until June 10, 2005. These warrants were exercised in 2005.

On March 24, 2005 the Company issued 407,143 brokers' warrants that allow the purchaser to acquire one Class "A" common voting share for \$3.35 (CDN\$3.90) for each warrant tendered. The warrants expired on March 24, 2006. All warrants were exercised before their expiry. The warrants were valued at \$295,098 using a Black-Scholes Option Pricing model with assumptions similar to those shown above and an expected life of one year. These warrants were exercised in the 1st Quarter of 2006.

The following is a continuity of warrants outstanding:

	Six months ended June 30, 2006			Year ended December 31, 2005		
	Weighted Average Exercise Price			Weighted Average Exercise Price		
	Warrants	\$Cdn	\$US	Warrants	\$Cdn	\$US
Opening balance	407,143	3.90	3.24	8,740,823	1.59	1.32
Issued				407,143	3.90	3.35
Forfeited				(16,310)	1.59	1.32
Exercised	(407,143)	3.90	3.24	(8,724,513)	1.59	1.32
Ending balance	-	-	-	407,143	3.90	3.24

5. CONTRIBUTED SURPLUS

	2006	2005
Opening balance	\$ 1,806	\$ 736
Stock based compensation	474	998
Stock based compensation associated with exercised options	(15)	(223)
Amount attributable to broker warrants	-	295
Closing balance	\$2,265	\$1,806

6. COMMITMENT

The Company has committed to sell its share of oil attributed to it produced from the Yemen Block 9 Joint Venture property from December 2005 to August 2006. Pursuant to the sales agreement the Company's share will be 250,000 barrels of oil at a price based on the average of IPE Brent Crude Oil for the month of August.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2006

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

7. GEOGRAPHICAL INFORMATION

Income statement information for Canada and Yemen at June 30, 2006 and December 31, 2005 is as follows.

	Six months ended June 30, 2006		
	Yemen	Canada	Total
(\$000)	\$	\$	\$
Sales revenue (net)	-	47	47
Interest and other revenue	2	1,008	1,010
Depletion and depreciation	-	15	15
Income and capital tax expense		-	254
Net income (loss)	16	(91)	(75)
Capital assets	143	37,523	37,666
Expenditures for segmented capital assets	13,565	7	13,572

	Year ended December 31, 2005		
	Yemen	Canada	Total
(\$000)	\$	\$	\$
Sales revenue	-	199	199
Interest and other revenue	15	581	596
Depletion and depreciation	-	32	32
Income and capital tax expense	-	12	12
Net income (loss)	(478)	(258)	(736)
Capital assets	23,966	130	24,096
Expenditures for segmented capital assets	14,067	28	14,095

CORPORATE INFORMATION

Corporate Offices

Head Office

#700, 600 – 6th Ave SW
Calgary, AB T2P 0S5
Ph:(403) 297-0490
Fax:(403) 297-0499

Sana'a Office

PO Box 7090,
Hadda, Sana'a
Republic of Yemen
Ph: +9671 41 5555
Fax: +9671 42 3580

Website:

www.calvalleypetroleum.com

Directors

Edmund M. Shimoon
Calgary, Alberta

Thomas H. Skupa*
Calgary, Alberta

Thomas E. Lester
Calgary, Alberta

Gary Robertson*
Montreal, Quebec

David A. Williams*
Toronto, Ontario

Thomas E. Valentine
Calgary, Alberta

Kenneth M. Stephenson
Calgary, Alberta

* *Member Audit Committee*

Officers

Edmund M. Shimoon
Chairman & CEO

David Tkachuk
Senior Vice President & Managing Director

Cameron Dow
Chief Financial Officer

Thomas E. Valentine
Corporate Secretary

Stock Listing

Toronto Stock Exchange
Stock Symbol: CVI.A

Bankers

Bank of Nova Scotia
First Calgary Savings & Credit Union Ltd.

Auditors

Deloitte & Touche LLP

Investor Relations

Renmark Financial Communications

Transfer Agent

Computershare Trust Company of Canada

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks, may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Calvalley's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Calvalley believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Calvalley is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

