



 Bow Valley Energy Ltd.

HIGHLIGHTS

- First quarter funds flow of \$6.5 million (\$0.09 per share) is down 24% (31% per share) year-over-year; first quarter earnings of \$1.1 million (\$0.02 per share) are down 12% (unchanged per share) year-over-year;
- Debt and working capital deficiency of \$17.3 million represents a debt to cash flow (2006 three months annualized) ratio of 0.7 times;
- Sales volumes for the first quarter averaged 2,760 boe/d, down 33% year-over-year, largely due to a lower number of tanker liftings in the U.K. and to the tie-back of Kyle production to the Ramform Banff, which reduced production but significantly improved operating costs and has extended the field life;
- U.K. operating costs decreased 65% year-over-year to average \$6.73 per boe resulting in a field operating netback of \$54.05 per boe; corporate operating costs were down 60% (40% per boe) year-over-year to average \$8.05 per boe;
- The Company's three development projects in the North Sea continue to move towards first production; the second Chestnut well was recently spudded and drilling at Blane and Enoch is expected to begin shortly. First production from Enoch is expected before year-end, first production from Blane is now expected at the end of the first quarter or early in the second quarter of 2007 and first production from Chestnut is expected in mid-2007. In aggregate, these three development projects are expected to have total initial production of 43,000 boe/d (gross), 5,550 boe/d (net);
- Bow Valley and partners have submitted a field development plan to the U.K. government for the Etrick field development which would see first production in early 2008. Approval is expected in the second quarter. In its first year of production, the Etrick field is expected to add approximately 18,000 boe/d (gross), 2,160 boe/d (net) of oil and natural gas production. The

Company is currently in discussions with the Bank of Scotland regarding a significantly expanded banking facility which would fully fund the Company's share of the Ettrick development;

- The Company had a successful first quarter drilling campaign. The Company drilled 9 (6.8 net) wells in Canada, resulting in 7 (5.7 net) natural gas wells, 1 (1.0 net) oil well and 1 (0.1 net) dry hole, for a success rate of 89% (98% net). The Company also participated in 1 (0.1 net) well in the U.K. North Sea, which did not encounter commercial hydrocarbons;
- The Company's current Canadian production volumes of approximately 2,000 boe/d are lower than expected partly due to timing delays to tie-in new discoveries. In particular, of the seven successful natural gas wells drilled in the first quarter, representing approximately 750 boe/d of new productive capacity, only two wells were able to be tied-in before spring break-up. Furthermore, approximately 500 boe/d of this productive capacity, being in a winter-only access area, will not be tied-in until the winter of 2006/2007;
- Due to these delays and unexpected production issues associated with a few isolated wells, Canadian production growth will be delayed affecting full year averages. The Company still believes, at this point, that previous guidance regarding Canadian 2006 exit production rates of 3,100 – 3,500 boe/d can be achieved, which would include the tie-in of the winter-only access discoveries. Industry conditions continue to point to the potential for further delays associated with the tight market for services, equipment and personnel;
- U.K. production is expected to significantly grow from current levels of approximately 700 boe/d to more than 8,000 boe/d with the completion of field developments at the Blane, Enoch, Chestnut and Ettrick fields, which are expected to be on production in the next 12-24 months. The field developments are largely on budget and timelines are considered realistic and reliable;
- To accommodate the U.K. production growth, Bow Valley Energy has appointed Mr. Nick Fairbrother to the role of Managing Director, Bow Valley Petroleum (UK) Limited; Mr. Fairbrother brings extensive international oil and natural gas industry experience to the role; Bow Valley has also announced the opening of a new office in Windsor, U.K.;
- Bow Valley has appointed Mr. Gerald Maier, O.C. to its Board of Directors; Mr. Maier has significant energy industry experience and will stand for election at Bow Valley's Annual General and Special Meeting on May 18, 2006.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three Months Ended March 31,		
	2006	2005	% Change
Financial (\$000's except as noted)			
Gross Oil and Gas Revenue	13,045	16,680	(22)
Funds Flow	6,489	8,501	(24)
Basic and diluted per share (\$/share)	0.09	0.13	(31)
Earnings (Loss)	1,141	1,290	(12)
Basic and diluted per share (\$/share)	0.02	0.02	-
Working Capital (Deficiency)	(17,267)	(19,033)	9
Capital Costs			
Canada	11,999	9,682	24
United Kingdom	6,770	240	2721
Total	18,769	9,922	89
Shares Outstanding (000's)			
Basic	69,342	64,652	7
Weighted Average (000's)			
Basic	69,284	64,643	7
Diluted	71,893	65,373	10
Operating			
Sales			
Crude oil (bbls/d)	669	1,444	(54)
Liquids (bbls/d)	203	193	5
Natural gas (mcf/d)	11,329	14,908	(24)
Oil equivalent (boe/d)	2,760	4,122	(33)
Prices			
Crude oil (\$/bbl)	66.60	58.16	15
Liquids (\$/bbl)	51.07	37.78	35
Natural gas (\$/mcf)	7.92	6.31	26
Oil equivalent (\$/boe/d)	52.41	44.96	17
Drilling Activity (gross)			
Oil	1	-	n/a
Natural gas	7	5	40
Abandoned	2	1	100
Suspended	-	1	(100)
Total drilling activity	10	7	43
Drilling Activity (net)			
Oil	1.0	-	n/a
Natural gas	5.7	3.4	68
Abandoned	0.2	1.0	(80)
Suspended	-	1.0	(100)
Total drilling activity	6.9	5.4	28

COMPANY UPDATE

CANADA

The Company enjoyed a successful start to the 2006 drilling program, participating in 9 (6.8 net) wells, resulting in 7 (5.7 net) natural gas wells, 1 (1.0 net) oil well and 1 (0.1 net) dry hole, for a success rate of 89% (98% net). Notable successes include discoveries at Snowfall, Rosevear and Gilby.

Canadian production averaged 2,156 boe/d for the first quarter of 2006, down slightly from the fourth quarter of 2005, but up 7% from the year-ago period. Weather and the availability of services continue to affect the timing of new production tie-ins. In particular, the Company drilled three (2.7 net) successful wells at Snowfall and four (3.0 net) successful wells at Rosevear, yielding approximately 750 boe/d of new productive capacity, however, both areas are predominantly winter-only access. The late development of frozen ground conditions left a narrow window to conduct drilling, completions and pipeline laying operations. In conjunction with the restricted availability of services, these conditions resulted in only two (2.0 net) of the wells being brought on-stream prior to break-up. It is anticipated that the remaining two (1.0 net) Rosevear wells can be accessed during the third quarter, but the Snowfall volumes associated with the three (2.7 net) wells in this area cannot be tied-in until frozen ground conditions occur during the winter of 2006/2007.

The Company's 2006 Canadian production is now anticipated to be lower than originally expected due to these tie-in delays and some unexpected production issues associated with a few isolated wells. The most significant production issue was encountered at the non-operated Hamelin Creek property where excessive water production has resulted in the loss of approximately 180 boe/d of net production that is unlikely to be recovered without additional drilling. Contingency plans for this property are currently being developed in conjunction with the operator. Despite the operational challenges noted above, the Company still expects to achieve 2006 Canadian production exit rates of 3,100 to 3,500 boe/d. The Company retains an inventory of approximately 70 locations that will provide the feedstock for the 20-25 wells that Bow Valley anticipates drilling during the remainder of 2006.

UNITED KINGDOM

The tie-back of production to the Ramform Banff was successfully executed in the fall of 2005, which has had the result of significantly reducing operating costs. Bow Valley's first quarter operating costs in the North Sea averaged \$6.73 per boe, a 65% reduction compared to the year ago period. These lower operating costs contributed to the increase in the Company's U.K. operating netback from \$29.42 per boe in the year ago period to \$54.05 per boe in the current period, an increase of 84%. This higher cash flow and greater profitability will extend the life of the field, which will allow the partners to pursue new initiatives to grow field production.

Sales volumes for the quarter averaged 604 boe/d, which was down 71% compared to the previous year but was up 8% from the fourth quarter of 2005. Volumes were down year-over-year due to the Company receiving its share of three tanker liftings in the year ago period compared to one tanker lifting in the current period. Production volumes

were lower due to natural field declines and the tie back of production to the Ramform Banff. At quarter end, the Company owned 34,000 barrels of oil in inventory.

The Enoch, Blane and Chestnut field developments continue to track towards first production. Drilling the first production well at Blane and the second well at Chestnut began in early May and the Enoch production well is expected to spud shortly. Enoch is expected to come on production in November, 2006 at an initial rate of 15,000 boe/d (gross), 1,800 boe/d (net), while the Blane field is experiencing slight delays, with first production at an initial rate of 18,000 boe/d (gross), 2,250 boe/d (net) now anticipated at the end of the first quarter or early in the second quarter of 2007. The Chestnut field is still expected to come on production in mid-2007 at an initial rate of 10,000 boe/d (gross), 1,500 boe/d (net).

Bow Valley and partners have submitted a field development plan for the Ettrick field, operated by Nexen Inc., to the U.K. government and approval is expected shortly. This field is expected to come on production in early 2008 at first year rates of approximately 18,000 boe/d gross (2,160 boe/d net) and produce into a floating production, storage, and offloading vessel ("FPSO"). Bow Valley and the partnership group in the Ettrick field have contracted Blue Water Energy Services B.V. to construct an FPSO for delivery in late 2007.

The Company has continued to progress its exploration strategy in the U.K. Further analysis has identified additional leads on the 16/27a North block and a seismic program is planned for this summer over the 9/28b block and surrounding area. The Company is in discussions to secure a drilling rig for two operated exploration wells in late summer 2007.

OUTLOOK

The Company anticipates drilling 20 - 25 additional wells in Canada over the remainder of 2006. Bow Valley has one drilling rig under contract, and a healthy inventory of drilling prospects to continue its exploration program. With the success achieved in its first quarter drilling program, Bow Valley believes that a Canadian 2006 production exit rate of between 3,100 and 3,500 boe/d can be achieved. Timing of production additions from future drilling is uncertain due to concerns relating to the availability of equipment and services; however, the remainder of Bow Valley's 2006 program does not carry the same winter-only access issues encountered during the first quarter.

In the U.K., due to the prior contracting of services, project delays have been managed and are not considered material. Bow Valley expects first production from the Enoch field before year-end, first production from the Blane field at the end of the first quarter or early in the second quarter of 2007 and first production from the Chestnut field in mid-2007. At that time, total corporate production is expected to reach 8,000 - 10,000 boe/d. Although cost pressures are apparent, due to the strength of the Canadian dollar, the Company sees no reason to adjust its 2006 budget, which stands at \$105 million. When the Ettrick field is approved for development, the Company will increase its budget to accommodate the spending.

CORPORATE

Bow Valley has announced that Mr. Gerald J. Maier, O.C. has been appointed to its Board of Directors. Mr. Maier has had a long career in the energy business, including roles as Chairman and CEO of Hudson's Bay Oil and Gas and TransCanada PipeLines and CEO of Bow Valley Industries. Mr. Maier will stand for election at Bow Valley's Annual General and Special Meeting, scheduled for May 18, 2006, alongside the proposed slate of directors as presented in the Management Proxy Circular dated February 27, 2006.

Bow Valley has appointed Mr. Nick J. Fairbrother as Managing Director of Bow Valley's U.K. subsidiary, Bow Valley Petroleum (UK) Limited. Mr. Fairbrother has almost thirty years of North Sea oil and natural gas experience, including technical and management positions of increasing responsibility with Amoco, Shell, Kerr-McGee and Amerada Hess. Bow Valley has also announced the opening of an office in Windsor, U.K. from which Mr. Fairbrother will staff the Company's U.K. operations.

The Managing Director role was previously held by Mr. David Fleming, who has guided Bow Valley's U.K. operations, including bringing the undeveloped assets through field development approval. Mr. Fleming retains the role of Vice President, International of Bow Valley Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with the accompanying unaudited financial statements along with the related notes thereto for the three month period ended March 31, 2006 and the Company's audited financial statements and MD&A for the year ended December 31, 2005. All dollar amounts are expressed in Canadian dollars unless otherwise noted. The reader should be aware that historical results are not necessarily indicative of future performance. The effective date of this MD&A is May 10, 2006.

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Bow Valley's management at the time the statements were made. Bow Valley assumes no obligation to update forward-looking statements should circumstances or management's estimates change, except as required by law.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels of oil equivalent at six thousand cubic feet to one barrel of oil equivalent (6 mcf = 1 boe). This conversion ratio is the convention used in the oil and natural gas industry and is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. The use of boe's may be misleading, particularly if used in isolation.

Critical Accounting Policies/Critical Accounting Estimates

There have been no material changes to the Company's Accounting Policies or Estimates and the reader is referred to the annual MD&A for discussion.

Canada

The following discussion applies to the Canadian operations only.

Canadian Revenue and Funds Flow

	Three Months Ended March 31,					
	2006		2005		% Change	
	\$000's	\$/boe	\$000's	\$/boe	\$000's	\$/boe
Operating revenue	9,773	50.37	7,610	42.01	28	20
Transportation expenses	(180)	(0.93)	(154)	(0.85)	17	9
Royalties	(2,320)	(11.95)	(1,924)	(10.62)	21	13
Net revenue	7,273	37.49	5,532	30.54	31	23
Operating costs	1,633	8.42	1,308	7.22	25	17
Operating net back	5,640	29.07	4,224	23.32	34	25
General and administrative costs	747	3.85	604	3.33	24	16
Interest expense	87	0.45	207	1.14	(58)	(61)
Total cash expenses	834	4.30	811	4.47	3	(4)
Funds flow from operations	4,806	24.77	3,413	18.85	41	31
Stock-based compensation	423	2.18	165	0.91	156	140
Depletion and depreciation	3,797	19.57	2,966	16.37	28	20
Accretion expense	52	0.27	55	0.31	(5)	(13)
Future income tax expense (recovery)	251	1.30	252	1.39	0	(6)
Total non-cash expenses	4,523	23.32	3,438	18.98	32	23
Net income	283	1.45	(25)	(0.13)	1232	1215

Canadian Production

	Three Months Ended March 31,		
	2006	2005	% Change
Natural gas (mcf/d)	10,451	10,705	(2)
Oil and NGL (bbl/d)	414	229	81
boe/d	2,156	2,013	7

Canadian Prices

	Three Months Ended March 31,		
	2006	2005	% Change
Natural gas			
AECO (Cdn\$/mcf)	7.17	6.69	7
BVX (Cdn\$/mcf)	8.15	7.04	16
Oil and NGL			
WTI Cushing (US\$/bbl)	63.41	49.84	27
BVX (Cdn\$/bbl)	55.75	39.97	39

Production and Operations

Production increased by 7% to average 2,156 boe/d for the first quarter of 2006 compared to 2,013 boe/d in the same period in 2005. Production is up year-over-year due to production additions from the 2005 capital expenditure program. Production was down 3% quarter-over-quarter from the fourth quarter of 2005 due to natural declines and delays in the tie-in of several successful wells from the first quarter drilling program. These delays were caused by tightness in the availability of services, exacerbated by weather delays.

	Q1/06	Q4/05	Q3/05	Q2/05	Q1/05
Natural gas (mcf/d)	10,451	11,191	10,288	9,949	10,705
Oil and NGL (bbl/d)	414	360	266	249	229
boe/d	2,156	2,225	1,981	1,907	2,013

Revenue

Oil and natural gas revenue increased by 28% to \$9.8 million during the first quarter of 2006 compared to \$7.6 million in the first quarter of 2005. The increase is attributable to the increase in production as well as an increase in prices received. Revenue decreased by 30% from the fourth quarter of 2005 as a result of the slightly lower production and significantly lower natural gas prices received in the quarter.

Royalties

Royalties of \$2.3 million in the first quarter of 2006 were up 21% compared to the year ago period. Royalties were higher due to higher revenues. Royalties represented 24% of operating revenue for the first quarter of 2006 essentially unchanged from the same period in 2005 (25%).

Operating Costs

Operating costs for the first quarter were \$1.6 million (\$8.42 per boe) compared to \$1.3 million (\$7.22 per boe) in the first quarter of 2005. The increase in operating costs relative to the first quarter of 2005 is due to higher production, as well as industry cost increases. Operating costs increased by 6% (12% per boe) from the fourth quarter of 2005 due to general industry cost increases.

U.K.

The following discussion applies to the U.K. operations only.

U.K. Revenue and Funds Flow

	Three Months Ended March 31,					
	2006		2005		% Change	
	\$000's	\$/boe	\$000's	\$/boe	\$000's	\$/boe
Operating revenue	3,272	60.17	9,070	47.79	(64)	26
Transportation expenses	(51)	(0.94)	-	-	n/a	n/a
Interest and other	199	3.65	220	1.16	(10)	215
Royalties	(114)	(2.10)	(14)	(0.07)	714	2900
Net revenue	3,306	60.78	9,276	48.88	(64)	24
Operating costs	366	6.73	3,694	19.46	(90)	(65)
Operating net back	2,940	54.05	5,582	29.42	(47)	84
General and administrative costs	308	5.67	269	1.42	15	299
Legal costs	798	14.68	71	0.37	1024	3868
Interest expense	24	0.44	75	0.40	(68)	10
Risk management - realized	74	1.36	-	-	n/a	n/a
Foreign exchange loss (gain)	53	0.98	80	0.42	(33)	133
Total cash expenses	1,257	23.12	495	2.61	154	786
Funds flow from operations	1,683	30.93	5,087	26.81	(67)	15
Depletion, depreciation, and amortization	1,046	19.24	2,864	15.09	(63)	28
Accretion expense	155	2.85	96	0.51	61	459
Risk management - unrealized	648	11.92	812	4.28	(20)	179
Future income tax expense (recovery)	(1,024)	(18.83)	-	-	n/a	n/a
Total non-cash expenses	825	15.18	3,772	19.88	(78)	(24)
Net income	858	15.75	1,315	6.93	(35)	(127)

U.K. Sales

	Three Months Ended March 31,		
	2006	2005	% Change
Natural gas (mcf/d)	878	4,203	(79)
Oil and NGL (bbl/d)	458	1,408	(67)
boe/d	604	2,109	(71)

U.K. Prices

	Three Months Ended March 31,		
	2006	2005	% Change
Natural gas			
BVX (Cdn\$/mcf)	5.18	4.44	17
Oil and NGL			
Brent (US\$/bbl)	61.89	47.56	30
BVX (Cdn\$/bbl)	69.51	58.31	19

Production and Sales Volumes

Sales volumes decreased by 71% to average 604 boe/d for the first quarter of 2006 compared to the same period in 2005. The decrease in oil sales is attributable to Bow Valley receiving its share of fewer liftings in the current quarter than the year ago period. In the first quarter of 2005, the Company received its share of one lifting from the Maersk Curlew Floating Production Storage and Offloading vessel ("FPSO") and two liftings from the Ramform Banff. In the current quarter, the Company received its share of one lifting from the Ramform Banff. The Company no longer produces into the Maersk Curlew due to the Company terminating its contractual obligations during the third quarter of 2005. The decrease in natural gas sales is attributable to natural field declines and the tie back of production to the Ramform Banff. Actual field production (as compared to sales volumes) for the first quarter of 2006 was 734 boe/d compared to 1,621 boe/d for the first quarter of 2005, a decrease of 55%. The decrease in production is similarly attributable to natural field declines and the tie back of production to the Ramform Banff. At the end of the first quarter, the Company had 34,000 barrels of oil in inventory.

Revenue

Oil and natural gas sales decreased by 64% to \$3.3 million during the first quarter of 2006 compared to \$9.1 million in 2005. The lower revenues are attributable to lower sales volumes (outlined above) offset by higher oil prices.

Royalties

The Company pays a gross overriding royalty to a third party of US\$0.10 per barrel on Kyle oil sales as well as a net profits interest based on the results of Kyle field. The total for these amounts in the quarter were \$0.1 million compared to \$0.01 million in the prior year. The increase in royalties is attributable to a net profits interest becoming payable in 2005.

Operating Costs

Operating costs for the quarter were \$0.4 million (\$6.73 per boe) compared to \$3.7 million (\$19.46 per boe) in the prior year representing a decrease of 90% (65% per boe). The decrease is attributable to the processing of the Kyle field production through the Ramform Banff on a tariff basis in the current year compared to the mainly fixed operating costs that were incurred with the Maersk Curlew FPSO in the first quarter of the prior year. Operating costs of \$0.4 million relating to oil produced, but not sold, have been included in other short-term assets (2005 – \$0.4 million).

Corporate

The following discussion applies to the Company.

Interest and Other Income

For the reporting period, the Company recorded cost recovery from its Balal project of \$0.2 million (2005 - \$0.2 million) in other income. Amortization related to the Balal project of \$0.1 million (2005 - \$0.1 million) was also recorded.

Interest Expense

Interest expense of \$0.1 million for the 2006 first quarter (2005 - \$0.3 million) reflects the decreased borrowings related to the Canadian exploration and development plan as a result of using the proceeds of the share offering in the prior year to reduce Canadian debt outstanding.

General and Administrative Expenses

\$000's	Three Months Ended March 31		
	2006	2005	% Change
Regular G&A	\$ 1,178	\$ 1,046	13
U.K. Office ⁽¹⁾	308	269	14
Stock based compensation	423	166	155
Lawsuit defense costs	798	71	1024
Overhead recoveries	(182)	(218)	(17)
Subtotal	2,525	1,334	89
Capitalized Overhead	(249)	(225)	11
G&A as reported	2,276	1,109	105

⁽¹⁾ allocated amount

General and administrative expenses for the first quarter of 2006 were \$2.3 million compared to \$1.1 million for 2005. This increase is primarily attributable to costs associated with the defending of the Company and subsidiaries in a lawsuit relating to its interest in the Balal (Iran) project that is currently proceeding, and higher non-cash compensation. There is a possibility that the Company could recover a portion of the legal fees spent to date from the plaintiff. It is the Company's opinion that this action is frivolous and without merit. Potential damages are not quantifiable at this time, but in any event, are not likely to be material to the Company.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("DD&A") was \$4.8 million in the first quarter of 2006 (\$19.50 per boe) compared to \$5.8 million in 2005 (\$15.72 per boe). This increase in the DD&A rate is a result of increased costs associated with reserve additions as well as the unsuccessful well in the U.K. The total DD&A amount decreased year-over-year due to lower sales volumes compared to the prior year as previously outlined.

Foreign Exchange

Bow Valley's wholly-owned subsidiary, Bow Valley Petroleum (UK) Limited, has a bank facility that is denominated in U.S. dollars; and current accounts, including accounts payable, which are typically denominated in British pound sterling. As a result of the fluctuations in the value of the Canadian dollar versus the United States dollar and British pound sterling between the time debt and payables were incurred and the time they were paid, or valued on the balance sheet dates, the Company realized a loss of \$0.1 million in the first quarter of 2006 (2005 - loss of \$0.1 million).

Taxes

Bow Valley recorded a future income tax recovery of \$0.8 million in the first quarter of 2006 and a \$0.3 million future income tax expense in the comparable period of 2005. The current quarter future income tax recovery primarily relates to fluctuations in the foreign exchange rate associated with the U.K. tax pools.

Net Earnings

The Company recorded net income of \$1.1 million in the first quarter of 2006 (net income of \$0.02 per share). In the first quarter of 2005, the Company recorded net earnings of \$1.3 million (\$0.02 per share).

Drilling Activity

(wells)	U.K.		Canada	
	Gross	Net	Gross	Net
Oil	-	-	1	1.0
Natural Gas	-	-	7	5.7
Abandoned	1	0.1	1	0.1
Suspended	-	-	-	-
Total	1	0.1	9	6.8

Land

(acres)	Undeveloped		Developed	
	Gross	Net	Gross	Net
Total U.K.	242,098	79,138	5,585	798
Total Canada	88,579	58,079	68,517	30,440
Total	330,677	137,217	82,429	32,428

Capital Costs

\$000's	Three Months Ended March 31		
	2006	2005	% Change
Canada			
Land and lease costs	\$ 1,478	\$ 487	203
Geological and geophysical	713	153	366
Drilling and completion	7,342	7,282	1
Tangible production equipment	2,165	1,478	46
Other	301	282	7
Total Canada	\$11,999	\$ 9,682	24
U.K.			
Development	\$ 5,720	165	3367
Exploration	1,050	75	1300
Total U.K.	\$ 6,770	\$ 240	2721
Total	\$18,769	\$9,922	89

Liquidity and Capital Resources

At March 31, 2006, Bow Valley had a working capital deficiency of \$17.3 million primarily as a result of the demand nature of the bank lines. The Company expects to finance and remedy this deficiency through bank lines and funds from operations. The Company's credit facilities with the Bank of Scotland totaled US\$60 million and at March 31, 2006, US\$6.8 million was drawn on this facility. In Canada, the Company had a \$25.0 million facility and had drawn \$8.3 million at March 31, 2006. The Company had 69,341,516 shares outstanding at March 31, 2006.

Commodity Risk Management

In conjunction with the Company's bank facilities, Bow Valley has entered into several risk management contracts designed to ensure adequate cash flows to repay the loans. In the first quarter of 2006, the Company incurred an unrealized loss of \$0.7 million and a realized loss of \$0.1 million due to risk management contracts. In the same period last year, the Company incurred an unrealized loss of \$0.8 million and nil realized losses. The risk management commitments of the Company as at March 31, 2006 are detailed in note 7 of the Financial Statements.

Financial Controls

The Company has established disclosure controls, procedures and corporate policies so that the consolidated financial results are presented accurately, fairly and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities regulation is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

Quarterly Review

	Net Revenues \$000's	Net Income (Loss) \$000's	Net Income (Loss) Per Share Basic & Diluted \$
2006			
First quarter	10,579	1,141	0.02
2005			
First quarter	14,808	1,290	0.02
Second quarter	12,797	1,445	0.02
Third quarter	11,799	584	0.01
Fourth quarter	13,638	3,159	0.05
Total	53,042	6,478	0.10
2004			
First quarter	8,262	(621)	(0.01)
Second quarter	9,243	(1,049)	(0.02)
Third quarter	6,575	(1,794)	(0.03)
Fourth quarter	8,896	263	0.00
Total	32,976	(3,201)	(0.05)

Outlook/Business Risks

The outlook and business risks for the Company have not materially changed from the disclosure presented in the 2005 year end MD&A. These risks include the availability and costs of equipment and services, particularly in Canada, which may lead to delays in, and higher costs of, production and reserve additions, which could affect the Company's ability to reach publicly disclosed production guidance.

A handwritten signature in black ink, appearing to read 'R. Moffat', with a large, sweeping flourish extending to the right.

Robert G. Moffat
President & Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Matt Janisch', with a large, sweeping flourish extending to the right.

Matthew L. Janisch
Vice President, Finance & Chief Financial Officer

May 10, 2006

BOW VALLEY ENERGY LTD.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(\$000's)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,918	\$ 3,568
Accounts receivable	10,275	13,720
Other	1,128	800
	<u>16,321</u>	<u>18,088</u>
Property, plant and equipment (note 1)	117,381	103,483
Goodwill	8,512	8,512
Other assets	-	263
	<u>\$ 142,214</u>	<u>\$ 130,346</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 16,744	\$ 13,760
Risk management (note 7)	624	240
Bank indebtedness	16,220	8,847
	<u>33,588</u>	<u>22,847</u>
Asset retirement obligation (note 2)	11,175	11,023
Future income taxes	5,901	4,891
SHAREHOLDERS' EQUITY		
Share capital (note 4)	101,184	102,724
Contributed surplus (note 3)	1,862	1,498
Deficit	(11,496)	(12,637)
	<u>91,550</u>	<u>91,585</u>
	<u>\$ 142,214</u>	<u>\$ 130,346</u>

BOW VALLEY ENERGY LTD.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
(Unaudited)
(\$000's)

Three Months Ended March 31,

	<u>2006</u>	<u>2005</u>
Revenue		
Operating	\$ 13,045	\$ 16,680
Transportation expenses	(231)	(154)
Interest and other	199	220
Royalties (net of royalty tax credit)	<u>(2,434)</u>	<u>(1,938)</u>
	10,579	14,808
Expenses		
Operating	1,999	5,002
General and administrative	2,276	1,109
Interest	111	282
Foreign exchange loss (gain)	53	80
Risk management – realized	74	-
Risk management – unrealized	648	812
Depletion, depreciation and amortization	4,843	5,830
Accretion of asset retirement obligation	<u>207</u>	<u>151</u>
	10,211	13,266
Net income before tax	368	1,542
Taxes		
Current	-	-
Future income tax (recovery)	<u>(773)</u>	<u>252</u>
	(773)	252
Net income for the period	\$ 1,141	\$ 1,290
Deficit		
Beginning of the year	(12,637)	(19,115)
End of the period	<u>\$ (11,496)</u>	<u>\$ (17,825)</u>
Earnings per share		
Basic and diluted (note 5)	\$ 0.02	\$ 0.02

BOW VALLEY ENERGY LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(\$000's)

Three Months Ended March 31,

	<u>2006</u>	<u>2005</u>
Operating activities		
Net income for the quarter	\$ 1,141	\$ 1,290
Non-cash items		
Risk management - unrealized	648	812
Depletion, depreciation and amortization	4,843	5,830
Accretion of asset retirement obligation	207	151
Stock based compensation	423	166
Future income tax (recovery)	(773)	252
Funds flow from operations	6,489	8,501
Abandonment costs	(133)	(61)
Net change in non-cash working capital	7,460	(4,854)
	<u>13,816</u>	<u>3,586</u>
Investing activities		
Acquisition of property, plant and equipment	(18,769)	(9,865)
Net change in non-cash working capital	(1,254)	(1,408)
	<u>(20,023)</u>	<u>(11,273)</u>
Financing activities		
Issue of class A common shares	184	5
Bank indebtedness	7,373	10,902
	<u>7,557</u>	<u>10,907</u>
Increase in cash	1,350	3,220
Cash and short-term investments, beginning of period	3,568	4,009
Cash and short-term investments, end of period	\$ 4,918	\$ 7,229
Cash flow supplemental information - cash paid		
Capital taxes paid	-	-
Interest paid	111	257

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2006**

ACCOUNTING POLICIES

The accompanying interim consolidated financial statements of Bow Valley Energy Ltd. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles and following the same accounting policies as the consolidated financial statements for the year-ended December 31, 2005. These unaudited interim consolidated financial statements and the notes thereto should be read in conjunction with the Company's audited financial statements contained in its Annual Report for the year-ended December 31, 2005.

1. Property, Plant and Equipment

March 31, 2006

(\$000's)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties			
U.K.	\$108,096	\$60,350	\$47,746
Canada	117,764	48,257	69,507
	225,860	108,607	117,253
Other	983	855	128
	\$226,843	\$109,462	\$117,381

December 31, 2005

(\$000's)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties			
U.K.	\$101,325	\$59,188	\$42,137
Canada	105,738	44,476	61,262
	207,063	103,664	103,399
Other	931	847	84
	\$207,994	\$104,511	\$103,483

At March 31, 2006, the net book value of U.K. oil and gas properties was \$47.7 million (2005 - \$33.7 million) of which \$26.3 million (2005 - \$17.4 million) consisted of unproven properties which were not depleted.

At March 31, 2006, the net book value of Canadian oil and gas properties was \$69.7 million (2005 - \$52.4 million) of which \$12.3 million (2005 - \$6.0 million) consisted of unproven properties which were not depleted.

During the first quarter of 2006, the Company capitalized \$0.2 million (2005 - \$0.2 million) of overhead relating to exploration activities. The Company capitalized \$0.4 million of interest in the first quarter of 2006 (2005 - nil). Depletion and depreciation amounted to \$4.7 million for the first quarter of 2006 (2005 - \$5.7 million).

2. Asset Retirement Obligation

The following table reconciles the asset retirement obligation associated with the retirement of oil and gas properties.

(\$000's)	Asset Retirement Obligation
As at December 31, 2005	\$ 11,023
Increase in obligations in the period	78
Settlement of obligations in the period	(133)
Accretion expense	207
As at March 31, 2006	\$11,175

3. Stock-Based Compensation

For the three months ended March 31, 2006, \$0.4 million (2005 - \$0.2 million) was included in general and administrative expenses and credited to contributed surplus in respect of stock based compensation. These amounts were determined using the Black-Scholes option pricing model, using a risk-free interest rate ranging from 3.0% to 4.3%, an expected life of four years, expected average volatility ranging from 43% to 61%, and no dividends.

(\$000's)	Contributed Surplus
As at December 31, 2005	\$ 1,498
Employee stock based compensation	423
Stock based compensation associated with exercised options	(59)
As at March 31, 2006	\$1,862

4. Share Capital

a) Issued

Class A Common Shares	Number	Amount (\$000's)
As at December 31, 2005	69,225,181	102,724
Options exercised (including associated contributed surplus)	116,335	243
Tax effect of flow-through share renouncement	-	(1,783)
As at March 31, 2006	69,341,516	101,184

b) Stock Options

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding at December 31, 2005	5,033,766	\$0.95-\$4.61	\$2.15
Granted	492,500	\$5.07-\$5.55	\$5.50
Exercised	(116,335)	\$0.95-\$2.00	\$1.57
Outstanding at March 31, 2006	5,409,931	\$1.18-\$5.55	\$2.46

5. Per Share Information

- a) Basic per share information is calculated on the basis of the weighted average common shares outstanding during the period. For the three months ended March 31, 2006, the weighted average number of common shares outstanding was 69,283,915 (2005 – 64,643,436).
- b) Diluted per share information was calculated using 71,893,095 (2005 - 65,372,612) shares for the three months ended March 31, 2006. This amount represents the sum of the weighted average common shares outstanding for the period ending March 31, 2006 plus 2,609,180 (2005 - 729,176) common shares for the period to account for the dilutive effects of the Company's outstanding stock options.

6. Geographic Segment Information

(\$000's)	Three Months Ended March 31, 2006		
	Canada	U.K.	Consolidated
Operating revenue	\$ 9,773	\$ 3,272	\$ 13,045
Transportation expenses	(180)	(51)	(231)
Interest and other income	-	199	199
Royalties, net of royalty tax credit	(2,320)	(114)	(2,434)
Operating expenses	(1,633)	(366)	(1,999)
General and administrative expense	(1,170)	(1,106)	(2,276)
Interest expense	(87)	(24)	(111)
Foreign exchange loss	-	(53)	(53)
Risk management loss – realized	-	(74)	(74)
Risk management loss – unrealized	-	(648)	(648)
Depletion, depreciation and amortization	(3,797)	(1,046)	(4,843)
Accretion expense of ARO	(52)	(155)	(207)
Taxes - current	-	-	-
- future income tax recovery (expense)	(251)	1,024	773
Net income for the period	\$ 283	\$ 858	\$ 1,141
Goodwill	\$ 8,512	-	\$ 8,512
Identifiable assets	\$ 85,963	\$ 56,251	\$ 142,214
Capital spending	\$ 11,999	\$ 6,770	\$ 18,769

(\$000's)	Three Months Ended March 31, 2005		
	Canada	U.K.	Consolidated
Operating revenue	\$ 7,610	\$ 9,070	\$ 16,680
Transportation expenses	(154)	-	(154)
Interest and other income	-	220	220
Royalties, net of royalty tax credit	(1,924)	(14)	(1,938)
Operating expenses	(1,308)	(3,694)	(5,002)
General and administrative expense	(769)	(340)	(1,109)
Interest expense	(207)	(75)	(282)
Foreign exchange loss	-	(80)	(80)
Risk management loss – realized	-	-	-
Risk management loss – unrealized	-	(812)	(812)
Depletion, depreciation and amortization	(2,966)	(2,864)	(5,830)
Accretion expense of ARO	(55)	(96)	(151)
Taxes - current	-	-	-
- future income tax recovery (expense)	(252)	-	(252)
Net income (loss) for the period	\$ (25)	\$ 1,315	\$ 1,290
Goodwill	\$ 8,512	-	\$ 8,512
Identifiable assets	\$ 52,454	\$ 33,695	\$ 86,149
Capital spending	\$ 9,682	\$ 240	\$ 9,922

7. Risk Management

For the three months ended March 31, 2006, the Company incurred an unrealized loss of \$0.7 million (2005 - \$0.8 million) and a realized loss of \$0.1 million (2005 - nil) from the Company's outstanding risk management contracts.

As at March 31, 2006, the following risk management contracts were outstanding:

	Time Frame	Basis	Volume (bbls)	Price
Swaps				
Oil	First Half 2006	Brent	22,625	US\$56.10
Oil	Second Half 2006	Brent	17,480	US\$55.85
Costless Collars				
Oil	First Half 2007	Brent	181,000 (floor) 90,500 (ceiling)	US\$40.00 US\$67.50
Puts				
Oil	First Half 2007	Brent	181,000	US\$40.00
Oil	Third Quarter 2007	Brent	184,000	US\$40.00
Oil	Fourth Quarter 2007	Brent	228,160	US\$40.00

8. Commitments

As at March 31, 2006, the Company is committed in respect of office space and gathering and transportation contracts with payments as follows:

(\$000's)	Commitments
2006	334
2007	324
2008	73
Thereafter	-
Total	731

The Company also had the following risk management obligations outstanding at March 31, 2006:

	Time Frame	Basis	Volume (bbls)	Price
Swap	First Half 2006	Brent	22,625	US\$56.10
Swap	Second Half 2006	Brent	17,480	US\$55.85
Call	First Half 2007	Brent	90,500	US\$67.50

9. Contingency

The Company is currently engaged in legal proceedings to defend an action regarding its interest in the Balal project. It is the Company's opinion that the action is frivolous and without merit. Potential damages are not quantifiable at this time, but in any event, are not likely to be material to the Company. During the first quarter of 2006, \$0.8 million (2005 - \$0.1 million) was included in general and administrative costs in respect of legal defense fees.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Daryl K. Seaman, O.C. ⁽¹⁾⁽⁵⁾
Chairman of the Board

Robert G. Moffat ⁽⁴⁾
President and Chief Executive
Officer

Henry R. Lawrie ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾

Jack W. Peltier ⁽²⁾⁽³⁾⁽⁵⁾

George Y. Tooley ⁽¹⁾⁽²⁾⁽⁴⁾

Gerald J. Maier, O.C.

⁽¹⁾ Member of the Compensation and Corporate
Governance Committee

⁽²⁾ Member of the Audit Committee

⁽³⁾ Member of the Reserves Committee

⁽⁴⁾ Member of the Hedging Committee

⁽⁵⁾ Member of the Nominating Committee

MANAGEMENT

Robert G. Moffat
President and Chief Executive
Officer

John W. Essex
Vice President, Operations

David A. Fleming
Vice President, International

Matthew L. Janisch
Vice President, Finance and
Chief Financial Officer

Tom J. Ruissen
Vice President, Exploration

Nick J. Fairbrother
Managing Director, Bow Valley
Petroleum (UK) Limited

CORPORATE SECRETARY

R.J. (Bob) Engbloom

CORPORATE OFFICE

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Web site: www.bvenergy.com

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Fax: +44 (0) 1483-562-667

BOARD OF DIRECTORS (U.K.)

Christopher D. Longman

David A. Fleming

Robert G. Moffat

Walter R. Roberts

Matthew L. Janisch

Nick J. Fairbrother

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

Bank of Scotland
National Bank of Canada

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

SOLICITORS

Macleod Dixon LLP
Dundas & Wilson

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: BVX