

Resilient Resources Ltd.

2005 Management's Discussion & Analysis

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis is management's assessment of the historical financial and operating results of Resilient Resources Ltd. (formerly K2 Energy Corp.) (the "Company" or "Resilient") and should be read in conjunction with the audited comparative consolidated financial statements of the Company for the year ended December 31, 2005, together with the notes thereto all of which has been prepared in accordance with Canadian generally accepted accounting principles.

The date of this Management's Discussion and Analysis is March 20, 2006.

Additional Information relating to the Corporation, and the latest Annual Information Form filed by the Company, is available on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

This disclosure includes forward-looking statements and assumptions respecting the Company's strategies, future operations, expected financial results, financing sources, commodity prices, costs of production and quantum of oil and natural gas reserves and discusses certain issues, risks and uncertainties that can be expected to impact on any of such matters.

By their nature, forward-looking statements are subject to numerous risks and uncertainties that can significantly affect future results. Actual future results may differ materially from those assumed or described in such forward-looking statements as a result of the impact issues, risks and uncertainties whether described herein or not, which the Company may not be able to control. The reader is therefore cautioned not to place undue reliance on such forward-looking statements.

The Company disclaims any intention or obligation to update or revise these forward-looking statements, as a result of new information, future events or otherwise.

OVERALL PERFORMANCE

The following significant corporate changes were undertaken during 2005:

1. Elimination of all corporate debt providing a much improved balance sheet.
2. A major capital restructuring to reduce the issued capital to approximately 12,000,000 common shares
3. By agreement with the Blackfeet Tribe we reduced our holdings and commitments to 100,000 acres located on the eastern perimeter of the Reservation and reduced the number of commitment wells from five to two per year.
4. The Company entered into a \$2,000,000 underwriting agreement with Wolverton Securities Ltd. whereby 3,076,923 units were issued at a price of \$0.65 per unit providing a net of \$1,763,000 to the Company. Each unit consisted of one common share and one half of one non-transferable warrant.

The funds provided from the underwriting were expended on the further evaluation of the Tribal holdings and the drilling of two exploratory wells. The two exploratory wells were located after a detailed assessment of all well and seismic information available and offered opportunities in a minimum of four prospective oil and gas zones.

The initial well Moulton #3 was commenced on September 1, 2005 and required 28 days to reach total depth of 4,100 ft. Following a detailed logging program production casing was set to total depth and those zones appearing on logs to have potential were evaluated. The most promising was in the Sun River dolomite at 3900 ft, the well provided oil and gas shows, however formation water was present in large volumes and the zone was considered uneconomical. The second well, Moulton #4 was commenced on September 30, 2005. This well was drilled to a total depth of 4,000 ft and following the logging program casing was set to further evaluate the Sun River dolomite. After detailed testing, the zone proved to be uneconomic due to high formation water volumes.

The Company anticipated other zones could have potential but with the exception of the Bell Fourche sand at 2400 ft the remaining zones appeared tight or were not developed. Although the Bell Fourche was not perforated it could be evaluated at some future date.

On March 3, 2006, the Company entered into an amalgamation agreement with Guardian Exploration Inc., a private oil and gas exploration and development company with current production of approximately 200Boe/d and approximately 9,300 gross (3,000 net) acres of undeveloped lands. Pursuant to the agreement the shareholders of Resilient will receive approximately 9.5% (on the basis of 1 Resilient share for 0.159 Amalco shares) of the outstanding shares in Amalco. However, Guardian is undertaking to raise approximately \$9.3 net million by way of a private placement. If this is fully subscribed prior to the amalgamation, the Resilient shareholders' interest will be reduced to approximately 8.2% of Amalco (on the basis of 1 Resilient share for 0.136 Amalco shares).

RESULTS OF OPERATIONS

The Company continues to focus its activity entirely on the 100,000 acres of Eastern Tribal lands on the Blackfeet Reservation in northern Montana. For the year ended December 31, 2005 the Company incurred expenditures of approximately \$3.6 million of which \$1.3 million represented general and administrative and operating expenses of the Calgary office and the Montana operations. The remaining \$2.3 million was invested in direct costs for a lease payment to the Blackfeet Tribe and drilling costs for the Moulton #3 and #4 wells. The total expenditures were financed by a debenture offering of \$1.970 million (net \$1.793 million) in April 2005 and a share offering of \$2.0 million (net \$1.763 million) in September 2005. Commercial production has not commenced and costs of \$3,058,008, which includes operating and overhead costs of \$555,559, have been capitalized compared with costs of \$2,834,245, including operating and overhead costs of \$484,503, capitalized in 2004.

The Company recorded a consolidated loss of \$6,559,187 for the 2005 year compared with a loss of \$13,442,158 for the 2004 year. Management reviewed the carrying value of its unproven oil and gas properties of \$6,586,472 as at December 31, 2005 and believes the value has been impaired and wrote down the carrying value by \$5,086,472 (2004 - \$11,802,729) to \$1,500,000.

Interest expense on the Company's outstanding debentures totalled \$212,000 for the 2005 year compared with \$324,000 for 2004.

Effective March 1, 2005 the net revenues from the Company's producing oil wells was assigned to Aquilon Capital Corp. as compensation for the settlement of \$971,575 of debt due to Aquilon Capital Corp. For the 10 month period of March 1 to December 31, 2005 the Company paid net revenues totalling \$205,312 to Aquilon Capital Corp.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

The financial results of the Company have been and will continue to be significantly affected by a number of property transactions, corporate financings and capital and debt restructurings that were completed during 2005. These transactions are summarized below:

- a) On February 7, 2005 the Company signed a Release and Settlement Agreement with a drilling service company and in settlement issued a promissory note for \$205,000 US due and payable by December 31, 2005 and bearing interest at a rate of 5% per annum. In September 2005, the Company paid the \$205,000 owing on the promissory note.
- b) Under the terms of the "Third Amended Oil and Gas Exploration Agreement" signed by the Blackfeet Tribe in March, 2005 the Company's outstanding obligations and future exploration rights relating to the Western lands have been terminated. The company continues to retain its exploration rights and commitments relating to the Eastern Lands. However, the Company's pending

drilling obligation of 2 wells on the Eastern Lands was extended to September 1, 2005. This extension from April to September applies as well to the drilling commitments in the following 2 years, but does not apply to 2008. The commitment of an annual rental fee of \$300,000 US remains unchanged. Accordingly, the Company paid the Blackfeet Tribe on April 18, 2005 a total amount of \$550,000 US, which was comprised of the annual rental fee of \$300,000 US for the Eastern Lands, and an additional \$250,000 US relating to the termination of the Company's commitments for the Western lands and the extension of the drilling obligation on the Eastern Lands. In September 2005, the Company drilled two exploration wells on its Eastern Lands.

- c) Pursuant to the terms of an agreement with Aquilon Capital Corp. (formerly the MMI Group Inc.) the terms of repayment of the 10% secured debenture in the amount of \$1,971,575 were revised. Effective March 1, 2005 Aquilon agreed to settlement of \$971,575 of the debenture in return for an assignment of the net revenues for the life of the production from the Company's producing oil and gas wells in the Palmer/Tesoro Unit and the Kye Trout field. In settlement of the remaining portion of the debenture of \$1,000,000 and accrued interest of \$48,615, Aquilon took a senior secured convertible debenture, bearing an interest rate of 10% per annum, interest payable quarterly in cash or common shares, maturing on May 1, 2006 and convertible at the option of the Company or the holder into common shares of the Company at any time prior to maturity at \$0.75 per share. On October 31, 2005, the Company issued 1,398,152 common shares to convert to equity the Aquilon's \$1,048,615 10% convertible secured debenture and an additional 42,322 common shares on account of accrued interest. With the Aquilon debt converted to equity, the Company has no debt other than accounts payable.
- d) In April 2005, the Company raised \$1,970,000 (net \$1,793,000 after agent's commission) through the issue of 1,970 debentures at a price of \$1,000 each. The debentures were to mature on April 30, 2006 and bore an interest rate of 10% per annum, payable quarterly in cash or common shares. Each \$1,000 debenture was convertible into 667 common shares and included 667 bonus warrants exercisable into common shares at a price of \$1.50 per share until April 30, 2006. In aggregate, the total issue of 1,970 debentures was convertible into 1,313,334 common shares and resulted in the issue of 1,313,334 bonus warrants. In addition the selling agent was paid a commission of \$177,300 and has been issued 118,200 warrants exercisable into common shares at a price of \$1.50 per share until April 30, 2006. The proceeds from the debenture financing were used to fund land payments and working capital. On August 29, 2005 the Company issued 4,560,002 common shares to convert the \$1,450,000 and \$1,970,000 10% secured debentures to equity. In addition, the Company paid an agent a solicitation commission of 2.5% of the principal amount of the debentures and issued broker's warrants, exercisable for a period of 12 months to purchase 166,000 common shares at \$0.75 per share. As part of the conversion agreement the debenture holders cancelled their rights under related warrants originally issued with the debentures.

- e) At the Annual General and Special meeting on May 17, 2005 shareholders approved the following two special resolutions that effected the Company's Share Capital:
- 1.) Share Consolidation: to amend the Articles of the Company to consolidate the Common shares on a thirty to one basis. At June 30, 2005 the company had 2,851,571 shares outstanding and at December 31, 2005 12,015,841 shares outstanding.
 - 2.) Reduction of Stated Capital: the Company's stated capital attributable to its Common Shares be reduced by the accumulated deficit as at December 31, 2004 of \$38,064,016. At June 30, 2005 the Company's Capital Stock account had a balance of \$535,293 and at December 31, 2005 a balance of \$6,806,313.
- f) In September 2005, the Company completed a private placement financing, raising gross proceeds of \$2,000,000 (net- \$1,762,929). The private placement financing consisted of the issuance of 3,076,923 units at \$0.65 per unit. Each unit consisted of one common share and one half of one non-transferable warrant, entitling the holder to purchase an additional common share for a period of 24 months at a price of \$0.75 per share for the first 6 months and \$0.90 for the last 18 months. The agents received a fee equal to 9% of the gross proceeds as well as an agent's option exercisable for a period of 12 months to purchase an additional 276,923 Units of the Company at a price of \$0.65 per Unit.
- g) On March 3, 2006, the Company entered into an amalgamation agreement with Guardian Exploration Inc. ("Guardian"), a private oil and gas exploration and development company with current production of approximately 200Boe/d and approximately 9,300 gross (3,000 net) acres of undeveloped lands. Pursuant to the agreement the shareholders of Resilient will receive approximately 9.5% (on the basis of 1 Resilient share for 0.159 Amalco shares) of the outstanding shares in Amalco. However, Guardian is undertaking to raise approximately \$9.3 million net by way of a private placement. If this is fully subscribed prior to the amalgamation, the Resilient shareholders' will be reduced to approximately 8.2% of Amalco (on the basis of 1 Resilient share for 0.136 Amalco shares).

LIQUIDITY – GOING CONCERN

The Company's financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon it raising additional debt or equity financing and/or the completion of joint venture arrangements with third parties in order to pay overhead costs, continue the exploration and development of its properties and ultimately achieve commercial production.

The Company is subject to certain fluctuations and trends, such as market conditions, interest rate levels, commodity prices, and industry conditions which could affect its ability to raise the necessary capital to remain as a going concern. The current commodity price environment has resulted in buoyant market conditions for oil and gas

focused companies, however, a significant decrease in commodity prices could have a negative effect. In addition, the Company remains focused on exploration of oil and gas prospects and the results of drilling these prospects could materially affect the Company's ability to raise additional capital.

The Company's working capital requirements remain significant due to its contractual obligations under its agreement with the Blackfeet Tribe. The Company plans to meet its exploration and development expenditures and overhead costs through the raising of additional debt or equity financing and/or the completion of joint venture partnerships with third parties. If the Company is unable to meet its contractual obligations under the K2/Blackfeet Exploration Agreement, the Agreement could be subject to cancellation, and the Company would lose its major asset.

During 2005, the Company's liquidity position was affected by debt restructuring, debt financings, conversions, and common shares issues which are outlined in detail under the heading "Major Transactions Affecting Financial Results".

As at December 31, 2005 the Company has a working capital deficiency of \$341,007, the Company's ability to continue as a going concern is dependent on it raising sufficient capital, to fund its working capital deficiency, to pay ongoing overhead expenses and pay its annual lease payments and annual drilling costs for the 2 well drilling commitment on the Eastern Lands or find a suitable joint venture partner willing to drill the wells in return for an interest in the acreage.

To maintain its exploration rights on the Eastern tribal acreage for the next year the Company must pay a lease rental of \$300,000 US by April 18, 2006 and must spud two wells on the lands by September 1, 2006. Failure to meet its commitment could result in loss of the Eastern Lands, which represents the most significant portion of the Company's entire asset base.

The Company continues to incur substantial costs associated with its exploration and development activity on the Blackfeet Indian Reservation along with ongoing working capital requirements. The Company continues to seek equity or debt financing and/or joint venture partnerships to remain as a going concern. If the Company is unsuccessful in obtaining such financing or joint ventures it could have a material adverse affect on the Company and its equity and/or debt holders.

CASH FLOW FROM OPERATIONS

The Company currently is in the pre-production stage of exploration and development and thus all costs associated with the exploration and development of its properties are capitalized.

OUTSTANDING SHARE DATA

The common shares of Resilient Resources Ltd. trade on the Toronto Stock Exchange under the symbol "RRL". The following table summarizes the common shares issued during 2005, 2004, and 2003, which are the only class of share outstanding.

	<u>Common Shares</u>
<i>Balance at December 31, 2003</i>	<u>62,438,002</u>
<i>Exercise of Options</i>	-
<i>Rights offering</i>	7,491,618
<i>Private placement – debt conversion</i>	11,487,520
<i>Private placement – debt extension</i>	2,220,000
<i>Interest on 10% Conv Sec Debenture</i>	703,985
<i>Balance at December 31, 2004</i>	<u>84,341,125</u>
<i>Interest on 10% Conv Sec Debenture</i>	712,152
<i>Balance at May 17, 2005 (pre consolidation)</i>	<u>85,053,277</u>
<i>Share Consolidation (30 shares to 1 share)</i>	(82,218,109)
<i>Balance at May 18, 2005 (post consolidation)</i>	<u>2,835,168</u>
<i>Interest on 10% Conv Sec Debentures</i>	210,415
<i>Debt conversion</i>	5,983,335
<i>Share issue</i>	3,076,923
<i>Balance at December 31, 2005</i>	<u>12,015,841</u>

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

The Company continues to incur substantial capital expenditures as required to meet its obligations under the K2/Blackfeet Indian Mineral Development Agreement (see “Commitments and Contingencies”).

Costs incurred by the Company in respect of land acquisition and retention, exploration and development activities, including the capitalization of exploration overhead and disposition of properties for each of the last two years are summarized as follows:

For the year ended December 31st	2005	2004
	\$	\$
Land acquisition and retention	728,862	1,283,595
Exploration and development, including exploration overhead and pre-production operating expenses	2,329,147	1,341,157
Additions (Disposition) of oil and gas properties	(971,575)	600
	<u>2,086,434</u>	<u>2,625,352</u>

The Company’s oil and gas operations are conducted solely in the US and are regarded to be in the pre-production stage as exploration and development work continues and planned principal operations have not commenced. Accordingly, all costs incurred in this cost centre have been capitalized and will commence to be amortized once commercial production levels have been attained or written-off if permanent impairment in value has been determined.

In 2005 the Company’s carrying value of its oil and gas properties was reduced by \$971,575 which relates to the assignment of the Company’s net revenues from its producing oil and gas wells to Aquilon Capital Corp. Also, during 2005 the Company spent \$3,058,000 on exploration costs. These costs were written off in the year as no commercial quantities of hydrocarbons were found. In addition, at year end 2005, the

Company wrote down the carrying value of its unproven oil and gas properties by an additional \$2,028,464 to reflect management's estimate of fair value.

SELECTED QUARTERLY INFORMATION

	Year Ended December 31, 2005				Year Ended December 31, 2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest Income	-	-	-	-	-	-	-	1,635
Expenses								
General and administrative	151,439	204,514	165,196	140,379	140,895	112,182	125,752	123,700
Debenture interest	8,905	18,617	105,972	78,383	85,658	69,161	46,651	122,044
Deemed interest expense	-	-	-	-	-	-	184,808	-
Depreciation and amortization	1,545	171,985	180,258	177,088	177,220	151,216	259,775	38,162
Write-Down of oil & gas properties	5,086,472	-	-	-	11,802,729	-	-	-
Net loss per common share	(0.46)	(0.11)	(0.16)	(0.34)	(4.79)	(0.12)	(0.25)	(0.14)

CONTRACTUAL COMMITMENTS

Contractual Obligations	Payments Due by Period – June 30, 2005				
	Total	Less than 1 year	1 – 3 Years	4 – 5 years	After 5 years
Operating Leases	110,339	38,943	71,395		
Purchase Obligations					
Other Long Term Obligations ^{(1) (2)}	1,056,501	352,167	704,334		
Total Contractual Obligations	1,166,840	391,110	775,730		

- (1) Under the terms of the first Amended Agreement to an exploration agreement originally signed with the Blackfeet Tribe in 1997, the Company is committed to pay to the Tribe an annual lease rental payment of \$300,000 US on April 18, 2006, 2007 & 2008 to maintain the Eastern lands.
- (2) All future commitments in US dollars have been calculated at the average exchange rate for the forth quarter of 2005 of 1.17389.
- (3) The above data does not include cost associated with the Company's drill obligations with the Blackfeet Tribe. Please see "Commitments and Contingencies" of this document for further discussion as to these drilling obligations and their estimated associated costs.

Commitments and Contingencies

a) Exploration Commitments

The Company holds its exploration rights on the Reservation under the terms of an exploration agreement originally signed with the Blackfeet Tribe in 1997 (the "Original Agreement") and subsequently three Amending Agreements have been made as follows:

- 1) First Amended Agreement, January 2003 – assigns the Company exploration rights in the 100,000 acres of Eastern Tribal lands.
- 2) Second Amended Agreement, June 2004 – deals with clarification of certain terms and commits the Company to pay an annual rental payment of

\$450,000 on April 18, 2004, 2005 and 2006. These payments relate to the 150,000 acres of Western Tribal lands.

- 3) Third Amended Agreement, March 2005 – deals with the Company surrendering the 150,000 acres of Western Tribal lands.

Under the terms of the First Amended Agreement, the Company paid a \$1,000,000 US land bonus to the Blackfeet on April 23, 2003, in consideration for the exploration rights to an additional 100,000 tribal mineral acres (Eastern Lands) to be earned through the drilling of 10 wells, two per year over a five-year period between April 18th, 2003 through April 18th, 2008 (“Exploration Phase”).

The outstanding Drilling Commitment as at December 31, 2005 requires the drilling of six wells, two wells per year for the last three years of the “Exploration Phase”, both wells to be drilled on the Company’s Eastern Land Block.

The Company has adopted a corporate strategy of seeking out and identifying joint venture partners to share in or absorb the capital cost of the above drilling commitments. If no joint venture partners can be identified for these drilling commitments, the Company will be obligated to incur such costs and such costs could be substantial. The Company’s costs for its 2005 drilling program ranged between \$800,000 to \$850,000 US for wells ranging between 4,000 and 4,500 feet.

Under the terms of the First Amended K2/Blackfeet Agreement, the Company is also obligated to pay a \$3.00 US per acre annual rental commencing in years two through five of Exploration Phase for the additional 100,000 tribal mineral acres under the Amended Agreement.

Under the terms of the “Third Amended Oil and Gas Exploration Agreement” signed by the Blackfeet Tribe on March, 2005 the Company’s outstanding obligations and future exploration rights relating to the Western lands have been terminated. The company continues to retain its exploration rights and commitments relating to the Eastern Lands. However, the Company’s pending drilling obligation of 2 wells on the Eastern Lands required the commencement of drilling operations by September 1, 2005. This extension from April to September 1 applies as well to the drilling commitments in the following 2 years, but does not apply to 2008. The Company drilled two exploration wells in September 2005. The commitment of an annual rental fee of \$300,000 US remains unchanged. Accordingly, the Company was obligated to pay to the Blackfeet Tribe by April 18, 2005 a total amount of \$550,000 US, which comprises the annual rental fee of \$300,000 US for the Eastern Lands, and an additional \$250,000 US relating to the termination of the Company’s commitments for the Western lands and the extension of the drilling obligation on the Eastern Lands. The Company made the required \$550,000 US payment on April 18, 2005.

Following the completion of the drilling obligations and the expiration of the respective “Exploration Phase” of the agreement in 2008, the Company will become obligated to pay an annual rental of \$2.00 US per acre commencing on the first anniversary date of the expiration of the respective “Exploration Phase” for any of the exploration acreage covered under the Original or Amended Agreement that has been converted to 5-year oil

and gas leasehold interests by the Company, except for those leases that are held by oil and gas production from the property.

In the event that the Company fails to comply with its obligations as outlined above, particularly its drilling obligations, it could be required within five days of receipt of written notification from the Blackfeet Tribe of the Company's failure to comply, to surrender and relinquish all of the subject lands outside of the spacing units established for any producing or capable of producing wells that have been drilled and completed prior to the failure of the Company to timely comply with the well obligations. This potential requirement under the agreement for surrender of acreage currently would account for the majority of the Company's existing assets. The Company may, however, make requests for extensions to its drilling commitments provided that said extensions shall not exceed one year and the request is not unreasonable. The Blackfeet Tribe may not unreasonably withhold its consent to the Company's requests for extensions provided that requests are not made based on economic or financial need or necessity.

In the event of certain commercial gas discoveries, the Company and/or its joint venture partner(s) may be required to incur considerable costs associated with the construction of pipelines and related gathering and production facilities. The Company's calculated maximum distance to an existing gas sales line is 22 miles in the Eastern Land Block.

The above referenced capital requirements are significant due to its contractual obligations under its agreement with the Blackfeet Tribe. The Company plans to meet its exploration and development expenditures and overhead costs through the raising of additional debt or equity financing and/or the completion of joint venture partnerships with third parties. If the Company is unsuccessful in obtaining such financing or joint ventures it could have a material adverse affect on the Company and its equity and/or debt holders.

GOVERNANCE

In October 2005, Mr. Michael C. Erickson resigned as Vice President, COO and Corporate Secretary of the Company due to other business commitments and opportunities. Mr. Erickson has agreed to remain available as an advisor to the Company in regards to a variety of Corporate and Operational activities. The Board of Directors wish to thank Mr. Erickson for his many valuable contributions over the years.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in all material respects as of December 31, 2005.

OUTLOOK

As previously outlined, the Company has entered into an amalgamation agreement with Guardian Exploration Inc. giving the shareholders of Resilient approximately a 9% ownership in the amalgamated company which has interests and prospects in a number of oil and gas properties in northeast British Columbia and Alberta. The amalgamated company will retain Resilient's listing on the Toronto Stock Exchange. The amalgamation will provide continued liquidity for shareholders and allow them to participate in the future growth of the oil and gas business in Western Canada and Montana.

OTHER BUSINESS RISKS AND UNCERTAINTIES

This document contains statements about expected future events and/or financial results that are forward looking in nature and subject to substantial risks and uncertainties. The Company cautions the readers that actual performance will be affected by a number of factors, many of which are beyond its control, as many may respond to changes in economic and political circumstances around the world. These external factors beyond the Company's control may affect the marketability of oil and natural gas produced, industry conditions including changes in laws and regulations, changes income tax regulations, increased competition, fluctuations in commodity prices, interest rates, and variations in the Canadian/United States dollar exchange rate.

In addition, the Company is exposed to several risks inherent to the oil and gas exploration and production industry including, but not limited to:

- Finding and developing oil and natural gas reserves at economic costs;
- Production of oil and natural gas in commercial quantities; and
- Marketability of oil and natural gas produced.

The Company strives to mitigate these risks by effective and proactive management, employing qualified experienced staff and consultants in all areas of its operation, with careful regard for environmental and safety concerns.

The Company will need to raise additional capital and/or complete joint venture arrangements with third parties in order to fund the further development of its natural gas properties and ultimately achieve sufficient commercial oil and gas production to continue as a going concern. If the Company is unsuccessful in obtaining such financing or joint ventures it could have a material adverse affect on the Company and its equity and/or debt holders.

Reference is hereby made to the Company's Annual Information Form filed on www.sedar.com for further Business Risks and Uncertainties.

Submitted on behalf of the Board of Directors

“Signed by”

D. M. (Bud McDonald)

Director; President & Chief Executive Officer

Resilient Resources Ltd.

Consolidated Financial Statements For the years ended December 31, 2005 and 2004

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Resilient Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. PricewaterhouseCoopers LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

March 13, 2006

Auditors' Report

To the Shareholders of
Resilient Resources Ltd.

We have audited the consolidated balance sheets of Resilient Resources Ltd. as at December 31, 2005 and 2004 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

Resilient Resources Ltd.
 Consolidated Balance Sheet
 As at December 31, 2005 & 2004

	2005	2004
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	367,132	304,593
Accounts receivable	539,523	146,757
Prepaid expenses and deposits	50,508	52,788
	<u>957,163</u>	<u>504,138</u>
Deposit (note 3)	349,800	365,271
Property, plant and equipment (note 4)	1,539,978	4,558,898
Deferred financing charges	-	323,971
	<u>2,846,941</u>	<u>5,752,278</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,298,170	710,242
10% Debenture (note 6)	-	1,971,575
	<u>1,298,170</u>	<u>2,681,817</u>
10% Debenture (note 6)	-	1,450,000
Asset retirement obligation (note 5)	312,879	298,485
	<u>1,611,049</u>	<u>4,421,302</u>
Shareholders' Equity		
Capital stock (note 7)	6,806,313	38,532,590
Equity portion of 10% debenture (note 7)	-	80,000
Contributed Surplus (note7)	988,766	782,402
Deficit	(6,559,187)	(38,064,016)
	<u>1,235,892</u>	<u>1,330,976</u>
	<u>2,846,941</u>	<u>5,752,278</u>

Refer to basis of presentation in note 1.

Approved by the Board of Directors.



Geoffrey Fulton, Director



Maxon Davis, Director

Resilient Resources Ltd.

Consolidated Statement of Loss and Deficit

For the year ended December 31, 2005 & 2004

	2005	2004
	\$	\$
Revenue		
Interest	-	1,635
Expenses		
Asset retirement obligation accretion (note 5)	13,480	24,237
General and administrative	661,528	502,529
Debenture interest expense	211,877	323,514
Deemed interest expense	-	184,808
Depreciation and amortization	575,790	626,373
Foreign exchange loss (gain)	10,040	(21,397)
Write-down of oil and gas properties (note 4)	5,086,472	11,802,729
	<u>6,559,187</u>	<u>13,442,793</u>
Loss for the year	(6,559,187)	(13,441,158)
Deficit - Beginning of year	(38,064,016)	(24,139,059)
Asset retirement obligation	-	(129,987)
Stock-based compensation	-	(353,812)
Reduction of Stated capital (note 7)	38,064,016	-
As restated	<u>-</u>	<u>(24,622,858)</u>
Deficit - End of year	<u>(6,559,187)</u>	<u>(38,064,016)</u>
Basic loss per share	<u>(1.18)</u>	<u>(5.28)</u>
Weighted average number of shares	<u>5,552,644</u>	<u>2,546,823</u>

Resilient Resources Ltd.

Consolidated Statement of Cash Flows

For the year ended December 31, 2005 & 2004

	2005	2004
	\$	\$
Cash provided by (used for):		
Operating activities:		
Loss for the year	(6,559,187)	(13,441,158)
Items not affecting cash		
Depreciation and amortization	575,790	626,373
Deemed interest expense	-	184,808
Asset retirement obligation accretion	13,480	24,237
Stock-based compensation	42,115	30,399
Shares issued in payment of interest	228,230	55,141
Foreign exchange loss (gain)	10,040	(21,397)
Write-down of oil and gas properties	5,086,472	11,802,729
	<u>(603,060)</u>	<u>(738,868)</u>
Asset retirement obligation expenditures	-	(66,065)
Changes in non-cash working capital balances	401,269	(51,784)
	<u>(201,791)</u>	<u>(753,149)</u>
Financing activities:		
Increase in long term debt	-	1,470,054
Loan from shareholders	-	833,778
Issue of 10% debenture	1,970,000	-
Financing costs	(200,724)	(153,043)
Issue of common shares	1,665,653	675,338
	<u>3,434,929</u>	<u>2,826,127</u>
Investing activities:		
Expenditures on property, plant and equipment	(2,966,771)	(2,625,352)
Changes in non-cash working capital balances	(203,829)	76,213
	<u>(3,170,599)</u>	<u>(2,549,139)</u>
Increase (decrease) in cash	62,539	(476,161)
Cash, beginning of year	<u>304,593</u>	<u>780,754</u>
Cash, end of year	<u>367,132</u>	<u>304,593</u>

Supplemental Cash Flow Information (note 12)

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2005

1 Nature of business and Basis of presentation

Nature of business

Resilient Resources Ltd. (formerly K2 Energy Corp.) is a corporation formed under the laws of the Province of Alberta. K2 America Corp. a wholly owned subsidiary, explores for and develops oil and gas reserves in the state of Montana.

Basis of presentation

These financial statements have been prepared on the going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As at December 31, 2005, the company had a working capital deficiency of \$341,007 (December 31, 2004 – a deficiency of \$2,177,679), no long-term debt (December 31, 2004 – \$1,450,000) and an accumulated deficit of \$6,559,187 (December 31, 2004 – \$38,064,016). On May 17, 2005 at the Annual General and Special Meeting the Shareholders of the Corporation passed a special resolution reducing the Company's accumulated deficit by \$38,064,016 by deducting that amount from the stated share capital account.

The company's activities over the past seven years have been primarily directed towards the acquisition, exploration and development of oil and gas properties on the Blackfeet Indian Reservation ("Reservation") in northern Montana. The company's primary asset is the rights to a large block of exploratory acreage on the Reservation where exploration activity is continuing. As at December 31, 2005, the company had expended \$33,749,201 on the acquisition and exploration of its oil and gas properties in Montana and has written-down the carrying value of the properties by a total of \$32,249,201 throughout 2005 and prior years.

The company's ability to continue as a going concern is dependent upon it raising additional debt or equity financing and/or the completion of joint venture arrangements with third parties in order to pay accounts payable, overhead costs, continue the exploration and development of its Montana properties and ultimately achieve commercial production in the area sufficient to recover overhead expenses and capitalized costs.

Refer to note 13 Subsequent Event.

Blackfeet Tribal agreement

The Company owns the rights to explore for oil and gas on approximately 100,000 tribal mineral acres titled the Eastern Lands on the Blackfeet Indian Reservation in northern Montana.

As at December 31, 2005 the Company's commitments to retain its exploration rights in the lands going forward are as follows:

- payments to the Blackfeet Tribe of an annual rental fees of \$300,000 US until 2008.
- an obligation to drill a total of 6 wells, 2 wells in each of 2006 and 2007 by September 1st and the remaining 2 wells by April 18, 2008, when the exploration agreement with the Blackfeet tribe expires.

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2005

2 Significant accounting policies

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

a) Consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, K2 America Corp. and K2 Operating Corp. They were incorporated under the General and Business Corporate Law of the State of Montana on November 16, 1995 and February 12, 1998, respectively.

b) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and, the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of asset retirement obligations, impairment of oil and gas properties and deferred exploration expenditures, and rates of depreciation and amortization. Actual results could differ from these estimates

c) Oil and gas operations

The company's oil and gas activities are conducted solely in the US and are regarded to be in the pre-production stage as exploration and development work continues and planned principal operations have not commenced. Accordingly, all costs incurred in this cost centre have been capitalized and will commence to be amortized once commercial production levels have been attained or written-off if permanent impairment in value has been determined. Minor revenues are offset against capitalized costs until commercial production has commenced.

d) Other property and equipment

Office furniture and equipment is recorded at cost and depreciated on a straight-line method over the estimated useful lives of the assets at rates varying from three to ten years.

e) Foreign currency translation

Operations of the US subsidiary are considered to be integrated and therefore the financial statements of the subsidiary, which are prepared in US dollars, are included in these consolidated financial statements on the basis that monetary assets and liabilities are translated at the exchange rate in effect at year end, non-monetary assets and liabilities are translated at historical rates and revenues and expenses are translated at the average exchange rate for the period.

f) Income taxes

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

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The company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

g) **Deferred financing charges**

Deferred financing charges represent costs incurred in connection with debt financing and restructuring and are being amortized on a straight-line basis over the respective terms of the financing.

h) **Financial instruments**

i) **Credit Risks:** A substantial portion of the accounts receivable are with customers in the petroleum and natural gas industry and are subject to normal industry credit risk. Purchasers of petroleum and natural gas are subject to an internal credit review to minimize the risk of non-payment.

ii) **Fair Values:** At December 31, 2005, the carrying value of financial assets (cash and accounts receivable) and liabilities (accounts payable and accrued liabilities) approximate their fair values due to the relatively short periods to maturity or demand nature of the instruments

i) **Loss per share**

Loss per share computations are based upon the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Fully diluted loss per share is not disclosed, as the effect of conversion of outstanding options and warrants is anti-dilutive.

j) **Asset retirement obligations**

Effective January 1, 2004 the Company retroactively adopted the new Canadian accounting standard with respect to asset retirement obligations. Under the new standard, legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

k) **Stock based compensation**

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

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The Company has one stock-based compensation plan, as described in Note 7(d). Effective January 1, 2004 the Company adopted expensing the fair value of all stock options awarded to employees and directors on a prospective basis from this date. The Company uses the Black Scholes method to estimate fair value. Prior to January 1, 2004 no compensation was recognized for options granted to employees and directors and compensation for options granted to consultants was recognized using the fair value method.

1) Cash and cash equivalents

Cash and cash equivalents include short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased.

3 Deposit

As part of the finalization of the Amended Agreement with the Blackfeet Nation, the company has placed a deposit of \$349,800 (\$300,000 US), with the Bureau of Indian Affairs-Blackfeet Agency to cover the costs of future site restoration and abandonment liabilities. This deposit is considered to be refundable, subject to application for refund, which may or may not be granted. Accordingly, the deposit is shown as a long-term asset.

4 Property, plant and equipment

As at December 31, 2005

	Cost	Impaired Value	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$
Unproven oil and gas properties	33,749,201	(32,249,201)	-	1,500,000
Building and equipment	435,916	-	(395,938)	39,978
	<u>34,185,117</u>	<u>(32,249,201)</u>	<u>(395,938)</u>	<u>1,539,978</u>

As at December 31, 2004

	Cost	Impaired Value	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$
Unproven oil and gas properties	31,662,767	(27,162,729)	-	4,500,038
Building and equipment	435,916	-	(377,056)	58,860
	<u>32,098,683</u>	<u>(27,162,729)</u>	<u>(377,056)</u>	<u>4,558,898</u>

For the year ended December 31, 2005 the Company capitalized general and administration costs of \$555,559 as compared to \$484,503 in 2004. Effective March 1, 2005 the Company assigned the net revenue for the life of the production from the Company's producing oil and gas wells in the Palmer/Tesoro Unit and the Kye Trout field for settlement of a portion of the 10% secured debenture due to Aquilon Capital Corp. Accordingly in March, 2005 the Company reduced the carrying value of its unproven oil and gas properties by \$971,575. (see note 6).

During 2005 the Company spent \$3,058,008 on exploration costs. These costs were written off in the year as no commercial quantities of hydrocarbons were found. In addition, at year end 2005, the Company

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2005

wrote down the carrying value of its unproven oil and gas properties by an additional \$2,028,464 to reflect management's estimate of fair value.

5 Asset retirement obligation

For the Company, asset retirement obligations relate to the abandonment of oil and gas producing facilities. Changes in asset retirement obligations were as follows:

	Year ended December 31, 2005 \$	Year ended December 31, 2004 \$
Asset retirement obligation – Beginning of year	289,485	386,131
Liabilities incurred	22,703	19,581
Liabilities settled	-	(66,065)
Liabilities assigned	-	(53,002)
Accretion expense	13,480	24,237
Foreign exchange gain	(12,789)	(21,397)
Asset retirement obligation –End of year	<u>312,879</u>	<u>289,485</u>

At December 31, 2005 the undiscounted estimated future well abandonment and site reclamation costs were \$490,000 (2004 - \$460,000). This amount was inflated by the inflation rate and discounted using a credit adjustment rate of 9.5% over the expected useful life of the underlying assets.

6 Debt Obligations

- a) \$1,971,575 principal amount of 10% unsecured debenture due to Aquilon Capital Corp. (issued May 2003 and settled on assignment of net production revenue and the balance converted to Common stock, October, 2005).

Pursuant to the terms of an agreement with Aquilon Capital Corp. (formerly the MMI Group Inc.) the terms of repayment of the 10% secured debenture in the amount of \$1,971,575 were revised. Effective March 1, 2005 Aquilon has agreed to settlement of \$971,575 of the debenture in return for an assignment of the net revenues for the life of the production from the Company's producing oil and gas wells in the Palmer/Tesoro Unit and the Kye Trout field. In settlement of the remaining portion of the debenture of \$1,000,000 and accrued interest of \$48,615, Aquilon took a senior secured convertible debenture, bearing an interest rate of 10% per annum, interest payable quarterly in cash or common shares, maturing on May 1, 2006 and convertible at the option of the Company or the holder into common shares of the Company at any time prior to maturity at \$0.75. On October 31, 2005 the Company issued 1,398,152 common shares to convert to equity the \$1,048,615 10% convertible secured debenture and an additional 42,322 common shares on account of accrued interest.

- b) \$1,450,000 principal amount of 10% convertible secured debentures. (issued August, 2004 and converted to common stock August, 2005)

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

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In August, 2005 the Company made an offer to convert the debentures to common shares at \$0.75 per share which was accepted by all debenture holders and on August 29, 2005 the Company issued 1,933,330 common shares to convert the debt of \$1,450,000.

- c) \$1,970,000 principal amount of 10% convertible secured debentures
(issued April, 2005 and converted to common stock August, 2005)

In April 2005, the Company raised \$1,970,000 (net \$1,793,000 after agent's commission) through the issue of 1,970 debentures at a price of \$1,000 each. The debentures were to mature on April 30, 2006 and bore an interest rate of 10% per annum, payable quarterly in cash or common shares. The notes were secured by a specific assignment of K2 Americas Corporation's US properties and ranked equally on all security privileges associated with the Aquilon senior secured debenture. Each \$1,000 debenture was convertible into 667 common shares and included 667 bonus warrants exercisable into common shares at a price of \$1.50 per share until April 30, 2006. In aggregate, the total issue of 1,970 debentures was convertible into 1,313,334 common shares and resulted in the issue of 1,313,334 bonus warrants. In addition the selling agent has been paid a commission of \$177,300 and been issued 118,200 warrants exercisable into common shares at a price of \$1.50 per share until April 30, 2006. The proceeds from the debenture financing was used to fund land payments and working capital.

In August, 2005 the Company made an offer to convert the debentures to common shares at \$0.75 per share, which was accepted by all debenture holders and on August 29, 2005 the Company issued 2,626,670 common shares to convert the debt of \$1,970,000.

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

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7 Capital stock

a) Authorized

Unlimited number of common voting shares

b) Issued

Common Shares	Number of shares	Amount
		\$
Balance December 31, 2003	62,438,002	33,297,133
Shares issued for cash on exercise of rights issue	7,491,618	1,648,156
Shares issued pursuant to conversion of long term debentures	10,952,520	3,286,029
Shares issued in payment of fees related to debenture conversion	535,000	160,500
Shares issued pursuant to extension of long term debenture	1,600,000	336,000
Shares issued in payment of fees related to debenture extension	620,000	125,200
Share issue costs	-	(375,569)
Shares issued in payment of interest	703,985	55,141
Balance December 31, 2004	84,341,125	38,532,590
Shares issued in payment of interest	712,152	35,964
Balance pre share consolidation and reduction of stated capital	85,053,277	38,568,554
Share Consolidation	(82,218,109)	-
Reduction of stated capital	-	(38,064,016)
Balance post share consolidation and reduction of stated capital	2,835,168	504,538
Equity portion of 10% debenture	-	80,000
Shares issued in payment of interest	210,415	192,284
Shares issued pursuant to conversion of debentures	4,560,002	3,420,000
Shares issued pursuant to offering	3,076,923	1,691,542
Shares issued pursuant to conversion of Aquilon Debenture	1,333,333	1,000,000
Share issue costs	-	(435,423)
Balance December 31, 2005	12,015,841	6,452,941
Warrants	Number of Warrants	Amount
		\$
Balance beginning of year	797,636	-
Broker's warrants on debt issue	118,200	44,914
Warrants issued pursuant to private placement	1,538,462	308,458
Broker warrants on debt conversion	166,000	-
Warrants cancelled or expired	(797,636)	-
Balance December 31, 2005	1,822,662	353,372
Balance in Capital stock, December 31, 2005		6,806,313

- i) At the Annual General and Special Meeting on May 17, 2005 shareholders approved the following two special resolutions that effected the Company's Share Capital:

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

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- 1.) Share Consolidation: to amend the Articles of the Company to consolidate the Common Shares on a thirty to one basis.
 - 2.) Reduction of Stated Capital: the Company's stated capital attributable to its Common Shares be reduced by the accumulated deficit as at December 31, 2004 of \$38,064,016.
- (ii) Pursuant to a private placement closing on August 29, 2005 the Company issued 4,560,002 common shares to convert the \$1,450,000 and \$1,970,000 10% secured debentures to equity. (see note 6) In addition, the Company paid an agent a solicitation commission of 2.5% of the principal amount of the debentures and issued broker's warrants, exercisable for a period of 12 months to purchase 166,000 common shares at \$0.75 per share. The fair value of the broker's warrants is zero using the Black-Scholes option-pricing model with the following assumptions as outlined in paragraph (iii) below.
- (iii) The Company completed a private placement financing in September 2005, raising gross proceeds of \$2,000,000. The private placement financing consisted of the issuance of 3,076,923 units at \$0.65 per unit. Each unit consisted of one common share and one half of one non-transferable warrant, entitling the holder to purchase an additional common share for a period of 24 months at a price of \$0.75 per share for the first 6 months and \$0.90 for the last 18 months. In addition, the agents received a fee equal to 9% of the gross proceeds as well as an agent's option exercisable for a period of 12 months to purchase 276,923 Units of the Company at a price of \$0.65 per Unit.

The fair value of the warrants and the agent's option and related warrants is \$308,458 and \$101,077 respectively using the same Black-Scholes option-pricing model with the following assumptions:

Volatility factor of expected market price	95.72% – 112.06%
Risk-free interest rate	2.74% - 2.93%
Weighted average expected life in years	.5 – 1.0
Expected dividend yield	0.00% - 0.00%

- (iv) Pursuant to an amended and restated senior secured debenture between the Company and Aquilon Capital Corp. effective March 1, 2005 in the principal amount of \$1,048,641; on October 31, 2005 the Company issued 1,398,152 common shares to convert to equity the principal amount of the debenture and issued an additional 42,322 common shares on account of interest.

c) Contributed surplus

Balance – December 31, 2004	\$ 782,402
Stock-based compensation – 2005	105,287
Agents options on Share issue	<u>101,077</u>
	<u>988,766</u>

d) Stock options

Under the company's Stock Option Plan, the company may grant options to purchase up to 233,334 common shares of its capital stock. As at December 31, 2005 there were 191,297 stock options outstanding under the Company's Stock Option Plan. During the year ending December 31, 2005, the Company granted 152,625 stock options under the Plan and cancelled 90,674 stock options. The Company

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

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granted an additional 56,975 stock options outside of the Plan under the 2% rule set forth by the Toronto Stock Exchange relating to newly appointed management.

Stock option transactions for the respective periods are summarized as follows:

	2005		2004	
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
Outstanding, beginning of year	129,346	12.60	147,902	16.50
Granted	209,600	1.02	40,667	6.00
Cancelled	(90,674)	10.64	(59,222)	17.70
Outstanding, end of year	248,272	3.54	129,346	12.60
Exercisable at December 31	194,066	3.88	90,139	14.70

The weighted average grant-date fair value of options granted during the year ended December 31, 2005 is \$0.56.

The following table summarizes information about options outstanding at December 31, 2005

Exercise prices \$	Options outstanding			Options exercisable		
	Number of options	Average remaining life in years	Weighted average Exercise Price \$	Number of options	Weighted average Exercise Price \$	
0.75 to 1.31	209,600	3.58	1.02	161,150	0.85	
5.40 to 46.50	38,672	2.00	17.19	32,916	18.71	
0.75 to 46.50	248,272	3.33	3.54	194,066	3.88	

Options Granted to Employees and Directors

The fair value for options granted to employees and directors was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Volatility factor of expected market price	0.86 to 1.02
Risk-free interest rate	3.11% to 3.87%
Weighted average expected life in years	2.46
Expected dividend yield	-

For the year ended December 31, 2005 the Company recognized a compensation cost of \$73,326 (2004 – \$45,535) which was allocated 40% to expenses and 60% to property, plant and equipment.

Resilient Resources Ltd.

Notes to Consolidated Financial Statements

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Options Granted to Non-employees

Options granted to non-employees are valued at the end of each quarter using the same Black-Scholes option-pricing model with the following assumptions:

Volatility factor of expected market price	.86
Risk-free interest rate	3.08%
Weighted average expected life in years	2.00
Expected dividend yield	-

For the year ended December 31, 2005 the Company recognized a compensation cost of \$31,961 (2004 - \$11,277) which was allocated 40% to expenses and 60% to property, plant and equipment.

e) Share purchase warrants

At December 31, 2005, the following share purchase warrants are outstanding:

Number of warrants Outstanding	Exercise Price \$	Expiry date
118,200	1.50	April 30, 2006
166,000	0.75	July 31, 2006
1,538,462	6 months at 0.75	March 16, 2006
	18 months at 0.90	September 16, 2007

As at December 31, 2005 the company's share price was \$0.37 and all of the outstanding warrants were exercisable.

f) Diluted average common shares outstanding

The weighted average number of shares outstanding for the basic per share calculations for the year ended December 31, 2005 was 5,552,644. The in-the money warrants and options are assumed exercised and the proceeds used to repurchase shares at the period end date of December 31, 2005. The average market price for common shares since the first warrants and options were granted on July 31, 2005 to December 31, 2005 was \$0.98.

Weighted Average Common Shares Outstanding - Basic	5,552,644
Effect of Warrants and Options	1,708,870
Weighted Average Common Shares Outstanding - Diluted	<u>7,261,514</u>

Fully diluted loss per share is not disclosed as the effect is anti-dilutive.

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Notes to Consolidated Financial Statements

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8 Income Taxes

The income tax provision differs from the expected tax recovery calculated by applying the combined Canadian federal and provincial corporate tax rates to the loss before income taxes. These differences are accounted for as follows:

	2005 \$	2004 \$
Loss before income taxes	(6,559,187)	(13,441,158)
Corporate tax rate	33.62%	40.60%
Calculated income tax recovery	(2,205,199)	(5,457,110)
Increase in taxes resulting from – Future tax benefits not recognized	2,205,199	5,457,110
Provision for income taxes	-	-

As of December 31, 2005, the company has unused Canadian tax pool balances and losses totalling approximately \$12.7 million (2004 – \$12.1 million) available for income tax purposes, of which approximately \$4.8 million represented tax losses expiring over the years 2006 to 2012. In addition, the company's US subsidiary had unused US tax deductions, including losses, totalling approximately US \$25.0 million, of which approximately US \$17.0 million represented tax losses expiring from time to time to 2025 (2004 – total US \$22.3 million).

As at December 31, 2005, the benefit of the above losses and unused tax pools are not reflected in the financial statements as there is significant doubt that these benefits will be realized.

9 Related Party Transactions

The Company assigned the net revenues of its producing oil and gas wells to Aquilon Capital Corp. in settlement of \$971,575 of debt and converted to equity the remaining debt of \$1,048,615 and accrued interest of \$39,631 owed to Aquilon Capital Corp. by issuing 1,440,474 common shares. A director of the Company is one of the principals and President of the Aquilon Capital Corp., which is an independent investment firm that specializes in portfolio management. Also, Aquilon Capital Corp. manages accounts represented by 70,325 Common Shares of the Company.

10 Commitments and Contingencies

a) Lease commitments for base rental payments for offices that expire through 2008 are as follows:

	\$
2006	39,000
2007	39,000
2008	32,000

Resilient Resources Ltd.

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b) The Company has annual rental payments to maintain its exploration rights on the Blackfeet tribal mineral acres of \$300,000 US until 2008 and a commitment to drill 2 wells each year through to April 18, 2008.

c) The Company has agreed to indemnify its directors and certain of its officers and employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

11 Segmented information

In 2005 and 2004, the Company's business was conducted in Canada and the United States.

	Canada \$	United States \$	Total \$
December 31, 2005			
Revenue by geographic segment	-	-	-
Segment loss for the year	1,459,235	5,099,952	6,559,187
Identifiable assets	420,816	2,426,125	2,846,941
December 31, 2004			
Revenue by geographic segment	1,635	-	1,635
Segment loss for the year	1,635,589	11,805,569	13,441,158
Identifiable assets	635,623	5,116,655	5,752,278

Revenues of the Company's US subsidiary have been capitalized.

12 Supplemental Cash Flow information

Cash flow information	2005 \$	2004 \$
Interest paid	-	251,440
Non cash financing activities		
Disposition of oil and gas properties	971,575	-
Shares issued to convert debt and extend term	4,420,000	3,671,200
Shares issued to repay shareholders loan	-	833,778
Shares issued to pay interest on debt	228,230	55,141
Equity portion of 10% debenture	-	80,000
Decrease in long term debt	(4,420,000)	(3,210,000)
Increase in deferred charges	-	(541,200)
Decrease in shareholders loan	-	(833,778)
Settlement of portion of 10% secured debenture	(971,575)	-

13 Subsequent Event

On March 3, 2006, the Company entered into an amalgamation agreement with Guardian Exploration Inc. ("Guardian"), a private oil and gas exploration and development company with current production of approximately 200Boe/d and approximately 9,300 gross (3,000 net) acres of undeveloped lands. Pursuant to the agreement the shareholders of Resilient will receive approximately 9.5% (on the basis of 1 Resilient

Resilient Resources Ltd.

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share for 0.159 Amalco shares) of the outstanding shares in Amalco. However, Guardian is undertaking to raise approximately \$9.3 million net by way of a private placement. If this is fully subscribed prior to the amalgamation, the Resilient shareholders' interest will be reduced to approximately 8.2% of Amalco (on the basis of 1 Resilient share for 0.136 Amalco shares).