K2 Energy Corp.

ENERGY CORP.

2005 Q1 Management's Discussion & Analysis

The unaudited financial statements of K2 Energy Corp. for the three month period ended March 31, 2005 to which the MD&A relates have not been reviewed by an auditor.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis is management's assessment of the historical financial and operating results of K2 Energy Corp. (the "Company" or "K2") and should be read in conjunction with the unaudited comparative consolidated financial statements of the Company for the quarter ended March 31, 2005, together with the notes thereto all of which has been prepared in accordance with Canadian generally accepted accounting principles and in conjunction with the Management's Discussion and Analysis relating to the consolidated financial statements for the year ended December 31, 2004. Readers should be aware that the following discussion and analysis relates in part to the period ended March 31, 2004. For a discussion relating to each of the following topics: critical accounting estimates by the Corporation, contractual commitments, and changes in accounting standards, please refer to Management's Discussion and Analysis and financial statements for the year ended December 31, 2004.

The date of this Management's Discussion and Analysis is May 13, 2005.

Additional Information relating to the Corporation, including the Management's Discussion and Analysis and financial statements for the year ended December 31, 2004 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

Activities during the first quarter 2005 were focused on the several restructuring activities aimed at positioning the Company to continue with exploration activities on its large land base in northern Montana.

Achievements through the first quarter included successfully entering into an agreement with Aquilon Capital Corp. (formerly MMI Group Inc.) the senior secured lender to the Company to restructure the $1.97 million debenture which had been due to mature on May 31, 2005. In addition, an agreement with the Blackfeet Indian Tribe was entered into whereby the Company would relinquish its rights to the "Western Land Block" (totaling 150,000 tribal mineral acres) in return for a reduction of its yearly land rental payments and go-forward drilling commitments (see commitments and contingencies). The Company continues to retain exploration rights to a large land block on the east side of the Reservation totaling 100,000 tribal mineral acres.

The Annual and Special Meeting for K2 Energy Corp. is scheduled for May 17th and the Board of Directors are seeking several corporate transactions that are considered essential to enable the Company to move forward with a restructuring and recapitalization process. At this meeting, among other items, the Company is seeking the following approvals:

1. Approve a name change of the Company to "Resilient Resources Ltd."
2. Consolidate the outstanding share capital with a thirty to one ratio
3. A reduction of the stated capital attributable to the common shares
4. Approval for the Company to make an offer to exchange certain outstanding convertible secured debentures for common shares and warrants.
5. Approval for the amendment of the terms of the senior secured debenture held by Aquilon Capital Corp.
6. Approval for a post-consolidation private placement financing to recapitalize the Company.

Upon completion of these transactions, the Company plans to seek sources of capital in the range of $3 to $5 million to fund exploration activities on the Blackfeet Reservation and seek new opportunities in Western Canada. The Board of Directors plan to seek to put in place a new management group to grow a vehicle characterized by a large exploration land base with drillable prospects, a TSX public listing and tax losses in both Canada and the United States.

RESULTS OF OPERATIONS

During the quarter the Company's oil and gas activities again focused entirely on the Blackfeet Reservation in northern Montana where operations continued in the pre-production stage with preliminary ongoing exploration and development work. In March, 2005 the Company began focusing their exploration activities exclusively on the 100,000 acres of Eastern Tribal lands as the 150,000 acres of Western tribal lands was surrendered to the Tribe. Commercial production has not commenced and, accordingly, all costs incurred in the area totaling $83,000 for the three months ended March 31, 2005 have been capitalized compared with costs of $576,000 for the corresponding period in 2004. For the three months ended March 31, 2005 revenues (net of operating expenses) of $29,000 were capitalized compared with operating expenses (net of revenues) of $77,000 for the corresponding period in 2004.

The Company recorded a consolidated loss of $398,802 for the three months ended March 31, 2005 compared with a loss of $294,298 for the corresponding period in 2004.

Overhead costs for the three months ended March 31, 2005 totaled $242,560, of which $102,181 related to exploration and development activities and have been capitalized. Overhead costs for the corresponding period in 2004 totaled $234,000 of which $136,000 was capitalized.

Interest expense on the Company's outstanding debentures totaled $78,383 for the three months of 2005 compared with $122,044 for the corresponding period in 2004.

Effective March 1, 2005 the net revenues from the Companies producing oil wells was assigned to Aquilon Capital Corp. as a result the Company's monthly net overhead expense will increase by approximately $20,000 per month which represents the net revenue forgone in exchange for a reduction in the debenture due to Aquilon.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

The financial results of the Company have been and will continue to be significantly affected by a number of corporate financing, and property transactions that were completed during the first three months of 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. As at March 31, 2005, the Company has recorded the $205,000 owing in accounts payable and accrued liabilities.

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 has been 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.

c) Pursuant to the terms of an agreement with Aquilon Capital Corp. (formerly the MMI Group Inc.) dated March 10, 2005, the terms of repayment of the 10%

secured debenture in the amount of $1,971,575 plus accrued interest have been revised. Under the terms of the new agreement, Aquilon has agreed to settlement of a portion of the debenture ranging from a minimum of $800,000 to a maximum of $971,574 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. The final amount of the debenture settled will be calculated at four times the annualized net revenues over a 90-day period commencing March 1, 2005. As at March 31, 2005 the Company has reduced the principal and accrued interest balances payable on the debenture by $800,000 and will adjust this amount if necessary after the 90 day calculation period which terminates at the end of May, 2005. The company has also reduced the carrying value of its oil and gas properties by $800,000. In settlement of the remaining portion of the debenture of $1,220,189, Aquilon took a senior secured convertible debenture ranking equally on all security privileges with the April, 2005 financing (see paragraph (d) below), bearing an interest rate of 10% per annum, interest payable quarterly in cash or common shares, maturing on April 22, 2006 and convertible at the option of the holder into common shares of the Company at any time prior to maturity at $0.05 per share. The debenture is also redeemable by the Company, with payment in common shares of the Company, based on the same terms negotiated in a contemplated corporate financing subsequent to the April 2005 financing referenced in paragraph (d) below. The redemption privilege of the Company at the time of the second corporate financing is subject to raising a minimum of $750,000.

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 mature on April 30, 2006 and bear an interest rate of 10% per annum, payable quarterly in cash or common shares. The notes are secured by a specific assignment of K2 Americas Corporation's US properties and rank equally on all security privileges associated with the Aquilon senior secured debenture. Each $1,000 debenture is convertible into 20,000 common shares and includes 20,000 bonus warrants exercisable into common shares at a price of $0.05 per share until April 30, 2006. In aggregate, the total issue of 1,970 debentures is convertible into 33,200,000 common shares and resulted in the issue of 33,200,000 bonus warrants. In addition the selling agent has been paid a commission of $177,300 and been issued 2,988,000 warrants exercisable into common shares at a price of $0.05 per share until April 30, 2006. The proceeds from the debenture financing are to fund land payments and working capital.

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 loose its major asset.

During the first three months of 2005, the Company's liquidity position was affected by the following agreements, debt restructuring and debt financings, which are outlined in summary form below and can be referenced to a more detailed description under "Major Transactions Affecting Financial Results".

- The Company substantially reduced its commitments to the Blackfeet Tribe by signing the Third Amended Agreement in March, 2005. Under the terms of the Third Amended Agreement the Company's exploration rights and commitments relating to the 150,000 acres of Western Lands have been terminated. The Company continues to maintain its exploration rights in the Eastern lands along with its annual commitments of a $300,000 US lease payment and the drilling of two wells. In addition, the Company is required to pay to the Tribe a one-time payment of $250,000 US as a result of the amendment and revised terms.
- Pursuant to the terms of an agreement with Aquilon Capital Corp effective March 1, 2005 the Company assigned its net oil revenues to Aquilon, for the life of the production, and as consideration Aquilon discharged a portion of the $1.971 million 10% debenture the amount of the discharge estimated as at March 31, 2005 is $800,000. The remainder of the debt of $1.220 million was converted to a 10% senior secured convertible redeemable debenture. As a result of this agreement, the Company's monthly net overhead expense will increase by approximately $20,000 as in past months the offset from net oil revenues reduced the monthly overhead expense.
- In April, 2005 the Company issued 1,970 secured senior convertible debentures at $1,000 each and received net proceeds of $1,792,700. The funds from this financing were used to make the Tribal payment of $686,675 ($550,000 US) due on April 18, 2005, pay outstanding trade payables and ongoing overhead.

As at March 31, 2005, the Company's ability to continue as a going concern is dependent on it raising sufficient capital, to repay the remaining debentures totalling $1,450,000, ongoing overhead expenses and the 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 the Company must spud two wells on the lands by September 1, 2005. Failure to meet its commitment could result in loss of the Eastern Lands, which represents 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 and debt servicing. 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 K2 trade on the Toronto Stock Exchange under the symbol "KTO". The following table summarizes the common shares issued during 2004, 2003, and 2002, which are the only class of share outstanding. There were no shares issued in the three months ending March 31, 2005.

	Common Shares
Balance at December 21, 2001	*42,851,513*
Exercise of Options	*33,333*
Private Placements	*9,414,485*
Balance at December 31, 2002	*52,299,331*
Exercise of Options	*-*
Private Placements	*10,544,771*
Balance at December 31, 2003	*62,844,102*
Exercise of Options	*-*
Rights offering	*7,491,618*
Private placement – debt conversion	*11,487,520*
Private placement – debt extension	*2,220,000*
Interest on 10% Conv Sec Debenture	*703,985*
Balance at March 31, 2005 and December 31, 2004	*84,747,225*

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 K2 in respect of land acquisition and retention, exploration and development activities, including the capitalization of exploration overhead and pre-production operating expenses (net of operating revenues), and disposition of properties for each of the last two years are summarized as follows:

For three months ended March 31st	**2005**	**2004**
	$	**$**
Land acquisition and retention	17,421	133,085
Exploration and development, including exploration overhead and pre-production operating expenses	65,086	481,287
Disposition of oil and gas properties	(800,000)	-
	(717,493)	614,372

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. Minor revenues are offset against capitalized costs until commercial production has commenced.

In 2004, the Company wrote down the carrying value of its oil and gas properties by $11.802 million. The majority of the remaining value is the exploration rights in the 100,000 acres of Eastern Tribal Lands. The Company retained an independent firm in the business of appraising oil and gas properties, to assign a fair value to the Company's properties. As at December 31, 2004 the independent firm assigned a fair value of $4.5 million to the Company's exploration rights in the 100,000 acres of Eastern Tribal Lands.

As at March 31, 2005 the Company's carrying value of its oil and gas properties has been reduced by $800,000 which relates to the assignment of the Company's net revenues from its producing oil and gas wells to Aquilon Capital Corp. Management has reviewed the carrying value of $3,792,790 of its unproven oil and gas properties as at March 31, 2005 and believes there has been no occurrences since year end 2004 that would materially impair the carrying value.

SELECTED QUARTERLY INFORMATION

	2005	*Year ended December 31, 2004*				*Year ended December 31, 2003*		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Interest Income		-	-	-	1,635	4,686	5,628	22,434
Expenses								
General and administrative	140,379	140,895	112,182	125,752	123,700	203,673	80,853	142,951
Debenture interest	78,383	85,658	69,161	46,651	122,044	122,943	124,150	127,538
Deemed interest expense	-	-	-	184,808	-	28,539	28,539	28,229
Depreciation and amortization	177,088	177,220	151,216	259,775	38,162	38,163	38,146	37,343
Write-Down of oil & gas properties	-	11,802,729	-	-	-	-	-	-
Net loss per common share	(0.005)	(0.16)	(0.004)	(0.008)	(0.005)	(0.005)	(0.004)	(0.005)

CONTRACTUAL COMMITMENTS

Contractual Obligations	Payments Due by Period – March 31, 2005				
	Total	Less than 1 year	1 – 3 Years	4 – 5 years	After 5 years
Long term debt (2)(3)	2,670,189	-	2,670,189	-	
Capital Lease Obligations					
Operating Leases	137,973	37,370	77,886	22,717	
Purchase Obligations					
Other Long Term Obligations (1) (4)	1,777,787	674,333	735,636	367,818	
Total Contractual Obligations	4,585,950	711,704	3,483,711	390,535	

(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 to maintain the Eastern lands. The payment due April 18, 2005 is comprised of the annual lease rental fee of $300,000 US plus a one time payment of $250,000 US.

(2) Effective March 1, 2005 the Company assigned the net revenues from its producing oil and gas wells to Aquilon Capital Corp. in return for settlement of a portion of the debenture due to Aquilon. The remaining portion of the debenture was converted to a senior secured debenture convertible into common shares of the Company at either the holders or the Company's option and due April 18, 2006 and as more fully described in note 5 of the Consolidated Financial Statements as at March 31, 2005 and under the section heading "Major Transactions Affecting Financial Results" of this document.

(3) In August, The Company issued convertible secured debentures for gross proceeds of $1,450,000. The debentures mature on June 30, 2006. The debentures are convertible into 8,906,250 common shares and the Company issued 8,906,250 bonus warrants to debenture holders. As more fully described in note 7 of the Consolidated Financial Statements as at Decenber 31, 2004 and under the section heading "Majority Transactions Affecting Financial Results" of this document.

(4) All future commitments in US dollars converted at 1.22606 exchange rate calculated as the average exchange rate for the first quarter of 2005.

(5) 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 Original Agreement, the Company was obligated to drill 9 wells, three per year over the remaining three years commencing April 18th, 2003, (the remaining "Exploration Phase") to earn the right to convert to a 5-year oil and gas lease (the "Development Phase") a total of 150,000 tribal mineral acres. These obligations relate to the Western lands which were surrendered in March 2005.

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 March 31, 2005 can be summarized as follows:

a) A total of eight wells, two wells per year for the last four 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. Recent capital costs for drilling in the immediate area of the Company's assets have ranged from $100,000 to $200,000 US per well for depths ranging from 2,000 to 2,500 feet. The Company estimates costs for its upcoming drill program between $250,000 to $380,000 US for wells ranging between 1800 and 4000 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 has been extended to 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 commitment of an annual rental fee of $300,000 US remains unchanged. Accordingly, the Company has an obligation 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 were 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.

OUTLOOK

Following the completion of the significant corporate restructuring activities, the Board of Directors believe that the Company will be better positioned to be recapitalized enabling further exploration activities on its land base in northern Montana. If these recapitalization efforts are successful, focus will be placed both on drilling its defined prospects in northern Montana, identifying a new management team, and seeking additional oil and gas opportunities in Western Canada.

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"
Geoff Fulton, Director

K2 Energy Corp.

ENERGY CORP.

Interim Consolidated Financial Statements
(Unaudited)
March 31, 2005

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NOTICE TO READER

The accompanying unaudited interim financial statements of K2 Energy Corp. for the quarter ended March 31, 2005 have been prepared by management and approved by the Board of Directors of the Corporation. These statements have not been reviewed by K2 Energy Corp.'s external auditors.

Dated May 13, 2005

On behalf of K2 Energy Corp.

M.J. Geoff Fulton Director	Jeff Francoz Director	Maxon Davis Director

K2 Energy Corp.

Interim Consolidated Balance Sheet
(unaudited)

	March 31, 2005	December 31, 2004
	$	$
Assets		
Current assets:		
Cash and term deposits	37,908	304,593
Accounts receivable	163,080	146,757
Prepaid expenses and deposits	17,446	52,788
	218,434	504,138
Deposit with the Bureau of Indian Affairs	365,190	365,271
Property, plant and equipment (note 3)	3,846,605	4,558,898
Deferred financing charges	149,428	323,971
	4,579,657	5,752,278
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	673,983	710,242
10% Debenture due to Aquilon Capital Corp.	-	1,971,575
	673,983	2,681,817
10 % Debenture due to Aquilon Capital Corp. (note 5)	1,220,189	-
10% Debenture	1,450,000	1,450,000
Asset retirement obligation (note 4)	292,766	289,485
	3,636,938	4,421,302
Shareholders' Equity		
Capital stock (note 6)	38,532,590	38,532,590
Equity portion of 10% debenture	80,000	80,000
Contributed Surplus	792,947	782,402
Deficit	(38,462,818)	(38,064,016)
	942,719	1,330,976
	4,579,657	5,752,278

Approved by the Board of Directors.

Geoff Fulton; Director　　Jeff Francoz; Director　　Max Davis; Director

K2 Energy Corp.

Interim Consolidated Statement of Loss and Deficit
(Unaudited)

	Three month period ended	
	March 31, 2005	March 31, 2004
	$	$
Revenue		
Interest	-	1,635
Expenses		
Asset retirement obligation accretion	3,369	6,717
General and administrative	140,379	123,700
Debenture interest expense	78,383	122,044
Depreciation and amortization	177,088	38,162
Foreign exchange gains	(417)	5,290
	398,802	295,913
Loss for the year	(398,802)	(294,278)
Deficit - Beginning of period	(38,064,016)	(24,139,059)
Asset retirement obligation	-	(129,987)
Stock-based compensation	-	(353,812)
As restated	(38,064,616)	(24,622,858)
Deficit - End of period	(38,462,818)	(24,917,136)
Loss per common share	(0.005)	(0.005)
Weighted average number of shares	84,341,125	62,438,002

K2 Energy Corp.

Interim Consolidated Statement of Cash Flows
(Unaudited)

	Three month period ended	
	March 31, 2005	March 31, 2004
	$	$
Cash provided by (used for):		
Operating activities:		
Loss for the year	(398,802)	(294,278)
Items not affecting cash		
Depreciation and amortization	177,088	38,162
Asset retirement obligation accretion	3,369	6,717
Stock-based compensation	4,218	25,623
Debenture interest expense	48,614	-
Foreign exchange (gain) loss	(417)	5,290
Cash flow from operations	(165,930)	(218,486)
Asset retirement obligation expenditures	-	(25,924)
Changes in non-cash working capital balances	(11,847)	83,990
	(177,777)	(160,420)
Financing activities:		
Increase (decrease) in long term debt	-	(10,726)
Financing costs	(1,000)	-
	(1,000)	(10,726)
Investing activities:		
Expenditures on property, plant and equipment	(82,513)	(575,939)
Changes in non-cash working capital balances	(5,395)	242,905
	(87,908)	(333,034)
Increase (decrease) in cash	(266,685)	(504,180)
Cash, beginning of period	304,593	780,754
Cash, end of period	37,908	276,574

Supplemental Cash Flow Information (note 8).

1 Nature of business and basis of presentation

Nature of Business

K2 Energy Corp. is a corporation formed under the laws of the Province of Alberta. K2 America 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 March 31, 2005, the company had a working capital deficiency of $455,549 (December 31, 2004 – $2,177,679), long-term debt in the principal amount of $2,670,189 (December 31,2004 – $1,450,000) and an accumulated deficit of $38,462,818 (December 31, 2004 – $38,064,016).

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 March 31, 2005, the company had expended $3,792,790 (net) on the acquisition and exploration of its oil and gas properties in Montana, net of recoveries and write-downs of $27,162,729 in 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 overhead costs, continue the exploration and development of its Montana properties and ultimately achieve commercial production in the area sufficient to recover its remaining net book value of $3,792,790.

K2 Blackfeet agreement

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

The Company acquired its exploration rights to approximately 150,000 acres referred to as the "Western Lands" under the terms of an exploration agreement originally signed with the Blackfeet Tribe in 1997 (the "Original Agreement") and the rights to a further 100,000 acres referred to as the "Eastern Lands" in the amendment dated January 2003. (the "Amended Agreement"). 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. As at March 31, 2005 the Company's commitments to retain its exploration rights in the lands going forward are as follows:

Eastern Lands: By April 18, 2005 the Company is obligated to drill 2 wells and pay an annual rental fee of $300,000 US. For the 3 years commencing April 18, 2005 through April 18, 2008 the Company is obligated to drill a total of 6 wells and pay annual rental fees totalling $900,000 US.

The Company's pending drilling obligation of 2 wells on the Eastern Lands has been 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 has an obligation 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 extension of the drilling obligation on the Eastern Lands. This obligation was paid on April 18, 2005, see Subsequent Events note 9.

2 Significant accounting policies

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year ended December 31, 2004 and should be read in conjunction with such audited annual financial statements and notes thereto.

3 Property, plant and equipment

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
	32,098,683	(27,162,729)	(377,056)	4,558,898

As at March 31, 2005

	Cost	Impaired Value	Accumulated Depreciation	Net Book Value
	$	$	$	$
Unproven oil and gas properties	30,955,519	(27,162,729)	-	3,792,790
Building and equipment	435,916	-	(382,101)	53,815
	31,391,435	(27,162,729)	(382,101)	3,846,605

For the quarter ended March 31, 2005 the Company capitalized general and administration costs of $102,181 as compared to $136,635 in the first quarter of 2004 and $113,796 for the quarter ended December 31, 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 $800,000. (see note 5).

4 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:

	Three months ended March 31, 2005 $	Three months ended March 31, 2004 $
Asset retirement obligation – Beginning of period	289,485	386,131
Liabilities settled	-	(25,924)
Accretion expense	3,369	6,717
Foreign exchange loss (gain)	(88)	5,290
Asset retirement obligation –End of period	292,766	372,214

At March 31, 2005 the undiscounted estimated future well abandonment and site reclamation costs were $463,000 (December 31, 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.

5 Debt Obligations

$1,220,189 principal amount of 10% secured debenture

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 a portion of the debenture and accrued interest ranging from a minimum of $800,000 to a maximum of $971,575 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. The final amount of the debenture settled will be calculated at four times the annualized net revenue over a 90 day period commencing March 1, 2005. As at March 31, 2005 the Company has reduced the principal and accrued interest balances payable on the debenture by $800,000 and will adjust this amount if necessary after the 90 day calculation period which terminates at the end of May, 2005. In settlement of the remaining portion of the debenture of $1,220,189, Aquilon took a senior secured convertible debenture ranking equally on all security privileges with the April, 2005 financing (see Subsequent events note 9), bearing an interest rate of 10% per annum, interest payable quarterly in cash or common shares, maturing on April 22, 2006 and convertible at the option of the holder into common shares of the Company at any time prior to maturity at $0.05 per share. The debenture is also redeemable by the Company, with payment in common shares of the Company, based on the same terms negotiated in a contemplated corporate financing subsequent to the April 2005 financing referenced in the Subsequent event note 9. The redemption privilege of the Company at the time of the second corporate financing is subject to raising a minimum of $750,000.

6 Capital stock

a) Authorized

Unlimited number of common voting shares

b) Common shares outstanding

Issued	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 March 31, 2005 and December 31, 2004	84,341,125	38,532,590

c) Contributed surplus

	$
Balance – December 31, 2003	364,107
Stock-based compensation – prior years	410,620
Stock-based compensation – 2005	10,545
Warrants issued to non-employees	7,675
	792,947

d) Stock options

Under the company's Stock Option Plan, the company may grant options to purchase up to 7,000,000 common shares of its capital stock. The options vest over a period of four years with the expiry dates four years from the date of vesting.

During the three months ending March 31, 2005, no stock options were granted, exercised or cancelled.

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

	Options outstanding			Options exercisable	
Exercise prices $	Number of options	Average remaining life in years	Weighted average Exercise Price $	Number of options	Weighted average Exercise Price $
0.14 to 0.50	2,875,000	3.16	0.29	2,077,498	0.33
0.051 to 1.60	1,005,000	2.05	0.78	920,000	0.80
0.14 to 1.60	3,880,000	2.87	0.42	2,997,498	0.49

Options Granted to Employees and Directors

For the three months ended March 31, 2005 the Company recognized a compensation cost of $9,304 (2003 – $44,427) which was allocated 40% to expenses and 60% to property, plant and equipment.

Options Granted to Non-employees

For the three months ended March 31, 2005 the Company recognized a compensation cost of $1,241 (2004 - $19,341) which was allocated 40% to expenses and 60% to property, plant and equipment.

e) Share purchase warrants

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

Number of warrants Outstanding	Exercise Price $	Expiry date
5,743,760	0.25	September 30, 2005
8,000,000	0.25	May 31, 2005
500,000	0.25	September 30, 2005
9,685,313	0.20	December 31, 2005

As at March 31, 2005 the company's share price was $0.04 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 quarter ended March 31, 2005 was 84,341,125. The weighted average number of shares outstanding for the diluted per share calculations for the quarter ended March 31, 2005 was 101,381,968. The dilutive effect from stock options and share purchase warrants, was excluded from the dilution calculation as the exercise prices exceeded the average market price for common shares during the first quarter of 2005 of $0.06.

Weighted Average Common Shares Outstanding - Basic	84,341,125
Effect of Convertible Debentures	17,040,843
Weighted Average Common Shares Outstanding - Diluted	101,381,968

Fully diluted loss per share is not disclosed as the effect of conversion of outstanding options and warrants is anti-dilutive.

7 Related Party Transactions

The Company is indebted to the Aquilon Capital Corp. (formerly the MMI Group Inc.) by a 10% secured debenture in the amount of $1,220,189 and 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 1,348,785 Common Shares of the Company.

8 Supplemental Cash Flow information

Cash flow information	March 31, 2005 $	March 31, 2004 $
Disposition of oil and gas properties	800,000	-
Settlement of portion of 10% secured debenture	(751,386)	-
Settlement of accrued interest	(48,641)	-

9 Subsequent events

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 mature on April 30, 2006 and bear an interest rate of 10% per annum, payable quarterly in cash or common shares. The notes are secured by a specific assignment of K2 Americas Corporation's US properties and rank equally on all security privileges associated with the Aquilon senior secured debenture. Each $1,000 debenture is convertible into 20,000 common shares and includes 20,000 bonus warrants exerciseable into common shares at a price of $0.05 per share until April 30, 2006. In aggregate, the total issue of 1,970 debentures is convertible into 33,200,000 common shres and resulted in the issue of 33,200,000 bonus warrants. In addition the selling agent has been paid a commission of $177,300 and been issued 2,988,000 warrants exercisable into common shres at a price of $0.05 per share until April 30, 2006. The proceeds from the debenture financing are to fund land payments and working capital.

On April 18, 2005 the Company made a payment of $686,675 ($550,000 US) to the Blackfeet Tribe pursuant to the terms of the "Third amended Oil and Gas Exploration Agreement" with the Tribe. The payment of $550,000 US is comprised of an annual rental fee of $300,000 US to maintain the exploration rights on the Eastern Lands and the remainder is a one time additional fee of $250,000 US relating to the extension of the drilling obligation on the Eastern Lands from April 18th to September 1, 2005 and a similar extension for years 2006 and 2007.