

# **Resilient Resources Ltd.**

**2005 Q3 Management's Discussion & Analysis**  
The unaudited financial statements of Resilient Resources Ltd. for the nine month period ended September 30, 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 Resilient Resources Ltd. (formerly K2 Energy Corp.) (the "Company" or "Resilient") and should be read in conjunction with the unaudited comparative consolidated financial statements of the Company for the quarter ended September 30, 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 September 30, 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 November 11, 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](http://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**

During the third quarter of 2005, the Company completed its restructuring and refinancing program.

All Senior and Subordinate Debentures were exchanged for common shares at a price of \$0.75 per share resulting in the issuance of 4,560,002 common shares.

Under the terms of an underwriting agreement with Wolverton Securities Ltd. the Company raised \$2,000,000 gross upon the issuance of 3,076,923 common shares at \$0.65 per share.

At the end of the third quarter the Company had completed the majority of its debt elimination; the remaining secured debenture of \$1,048,615 under Agreement with Aquilon Capital Corporation has subsequently been settled and closed in escrow on October 31, 2005. As of the date of this report the Company had 12,015,841 Common Shares outstanding.

On September 1, 2005 the Company commenced the drilling of the first of two wells on its Montana holdings. As of this date two wells have been drilled and demonstrated sufficient potential to justify the setting of production casing. We are currently in the early stages of completion operations on the first well Moulton #3 and when finalized we will proceed with the completion program on the second well Moulton #4. We also plan to complete the 4 mile 2D seismic line in the immediate future.

## **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 \$1,807,713 for the nine months ended September 30, 2005 have been capitalized compared with costs of \$2,529,000 for the corresponding period in 2004. In 2005, the capitalized costs are comprised of direct cost relating to lease rentals, drilling and seismic of \$1,366,259 and operating and overhead costs of \$441,454.

The Company recorded a consolidated loss of \$1,259,000 for the nine months ended September 30, 2005 compared with a loss of \$1,242,000 for the corresponding period in 2004.

General and administrative costs for the nine months ended September 30, 2005 totaled \$952,000, of which \$441,000 related to exploration and development activities and have been capitalized. General and administrative costs for the corresponding period in 2004 totaled \$732,000 of which \$370,000 was capitalized.

Interest expense on the Company's outstanding debentures totaled \$203,000 for the nine months of 2005 compared with \$238,000 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 increased 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 property transactions, corporate financings and capital and debt restructurings that were completed during the first nine 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 September 30, 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. 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 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 per share. Subsequent to September 30, 2005 the Company converted this debenture into common shares. (see paragraph h )
- 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 matured 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 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. In August 2005 the Company converted the debentures to equity (see paragraph f)
- 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 September 30, 2005 10,515,367 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 September 30, 2005 a balance of \$5,687,428.
- f) 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.
- g) 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.
- h) Subsequent to September 30, 2005, the Company issued 1,398,152 common shares to convert to equity the Aquilon \$1,048,615 10% convertible secured debenture and an additional 42,322 common shares on account of accrued interest. Once the Aquilon debt was converted to equity, the Company has no debt on its Balance Sheet.

## 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 the first nine months of 2005, the Company's liquidity position was affected by the following agreements, debt restructuring, debt financings, and common shares issues 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. The 2005 commitments of \$550,000 USD was paid on April 18, 2005.
- 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 \$1,971,575 10% debenture in the amount of \$971,575. The remainder of the debt of \$1,000,000 and accrued interest of \$48,615 was converted to a 10% senior secured convertible 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.
- 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 September 2005, the Company raised net proceeds of \$1,762,929 from the issuance of 3,076,923 common shares and 1,538,462 attached warrants at the combined price of \$0.65 for one common share and one half of one warrant.
  - On October 29, 2005, the Company issued 1,398,152 common shares to convert to equity the Aquilon \$1,048,615 10% convertible secured debenture and an additional 42,322 common shares on account of accrued interest. After this transaction the Company has no debt.

As at the date of this report, the Company's ability to continue as a going concern is dependent on it raising sufficient capital, 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 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, 2003, and 2002, which are the only class of share outstanding.

	<u>Common Shares</u>
<i>Balance at December 21, 2001</i>	<u>42,851,513</u>
<i>Exercise of Options</i>	33,333
<i>Private Placements</i>	9,414,485
<i>Balance at December 31, 2002</i>	<u>52,299,331</u>
<i>Exercise of Options</i>	-
<i>Private Placements</i>	10,544,771
<i>Treasury Shares</i>	(406,100)
<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 Debenture</i>	16,403
<i>Balance at June 30, 2005</i>	<u>2,851,571</u>
<i>Interest on 10% Conv Sec Debentures</i>	103,274
<i>Debt conversion</i>	4,560,002
<i>Share issue</i>	3,076,923
<i>Balance at September 30, 2005</i>	<u>10,575,367</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:

<b>For nine months ended September 30<sup>th</sup></b>	<b>2005</b>	<b>2004</b>
	\$	\$
Land acquisition and retention	704,096	1,243,595
Exploration and development, including exploration overhead and pre-production operating expenses	1,103,618	1,284,888
Disposition of oil and gas properties	(971,575)	600
	<u>836,139</u>	<u>2,529,083</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. 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 \$11,802,000. 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 September 30, 2005 the Company's carrying value of its oil and gas properties has been 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, the Company's carrying value of its oil and gas properties has increased by \$687,000 (\$550,000 US) which relates to the land payment to the Blackfeet Tribe April 18, 2005 plus exploration and development costs and capitalization of overhead. Management has reviewed the carrying value of \$5,444,161 of its unproven oil and gas properties as at September 30, 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Interest Income	-	-	-	-	-	-	1,635	4,686
Expenses								
General and administrative	204,514	165,196	140,379	140,895	112,182	125,752	123,700	203,673
Debenture interest	18,617	105,972	78,383	85,658	69,161	46,651	122,044	122,943
Deemed interest expense	-	-	-	-	-	184,808	-	28,539
Depreciation and amortization	171,985	180,258	177,088	177,220	151,216	259,775	38,162	38,163
Write-Down of oil & gas properties	-	-	-	11,802,729	-	-	-	-
Net loss per common share	(0.11)	(0.16)	(0.34)	(4.79)	(0.12)	(0.25)	(0.14)	(0.20)

## CONTRACTUAL COMMITMENTS

Contractual Obligations	Payments Due by Period – September 30, 2005				
	Total	Less than 1 year	1 – 3 Years	4 – 5 years	After 5 years
Long term debt <sup>(2)</sup>	1,048,615	1,048,615		-	
Capital Lease Obligations					
Operating Leases	119,850	38,719	77,886	3,245	
Purchase Obligations					
Other Long Term Obligations <sup>(1) (3)</sup>	1,083,483	361,161	722,322		
Total Contractual Obligations	2,251,948	1,448,495	800,208	3,245	

(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) 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 \$971,575 of the debenture due to Aquilon. The remaining portion of the debenture of \$1,000,000 and accrued interest of \$48,615 was converted to a senior secured debenture convertible into common shares of

the Company and due May 1, 2006 and as more fully described in note 5 of the Consolidated Financial Statements as at September 30, 2005 and under the section heading "Major Transactions Affecting Financial Results" of this document.

- (3) All future commitments in US dollars converted at 1.20387 exchange rate calculated as the average exchange rate for the third quarter of 2005.
- (4) 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 18<sup>th</sup>, 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 18<sup>th</sup>, 2003 through April 18<sup>th</sup>, 2008 ("Exploration Phase").

The outstanding Drilling Commitment as at September 30, 2005 can be summarized as follows:

- a) A total 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. 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 was 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 Company has 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 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.

## **GOVERNANCE**

Subsequent to the end of the quarter, 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.

## **OUTLOOK**

We are very pleased to now have a Company restructured and in a position to become a growing junior oil and gas company. We are hopeful the two wells to be completed will result in providing new cash flow to the Company to further evaluate its holdings on the Blackfeet Indian Reservation in Montana and provide a basis to further expand our exploration activities.

## **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](http://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.**

**Interim Consolidated Financial Statements  
(Unaudited)  
September 30, 2005**

## **NOTICE TO READER**

The accompanying unaudited interim financial statements of Resilient Resources Ltd. for the quarter ended September 30, 2005 have been prepared by management and approved by the Board of Directors of the Corporation. These statements have not been reviewed by Resilient Resources Ltd.'s external auditors.

Dated November 11, 2005

On behalf of Resilient Resources Ltd.

*“Signed by”*

D. M. (Bud) McDonald

Director, President & Chief Executive Officer

**Resilient Resources Ltd.**  
 Interim Consolidated Balance Sheet  
 (unaudited)

	September 30, 2005	December 31, 2004
	\$	\$
<b>Assets</b>		
<b>Current assets:</b>		
Cash and term deposits	1,699,902	304,593
Accounts receivable	417,936	146,757
Prepaid expenses and deposits	84,325	52,788
	<u>2,202,163</u>	<u>504,138</u>
Deposit	351,390	365,271
Property, plant and equipment (note 3)	5,444,161	4,558,898
Deferred financing charges	-	323,971
	<u>7,997,714</u>	<u>5,752,278</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,259,990	710,242
10% Debenture due to Aquilon Capital Corp (note 5)	1,048,615	1,971,575
	<u>2,308,605</u>	<u>2,681,817</u>
10% Debentures issued August 13, 2004	-	1,450,000
Asset retirement obligation (note 4)	299,506	289,485
	<u>2,608,111</u>	<u>4,421,302</u>
<b>Shareholders' Equity</b>		
Capital stock (note 6)	5,607,428	38,532,590
Equity portion of 10% debenture	80,000	80,000
Contributed Surplus	961,562	782,402
Deficit	(1,259,387)	(38,064,016)
	<u>5,389,603</u>	<u>1,330,976</u>
	<u>7,997,714</u>	<u>5,752,278</u>

Approved by the Board of Directors.

Geoff Fulton; Director

Bud McDonald; Director

# Resilient Resources Ltd.

## Interim Consolidated Statement of Loss and Deficit (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>Revenue</b>				
Interest	-	-	-	1,635
<b>Expenses</b>				
Asset retirement obligation accretion	3,211	6,440	10,113	18,933
General and administrative	204,514	112,182	510,089	361,634
Debenture interest expense	18,617	69,161	202,972	237,856
Deemed interest expense	-	-	-	184,808
Depreciation and amortization	171,985	151,216	529,331	449,153
Foreign exchange gains	2,044	(28,638)	6,882	(9,171)
	<u>400,371</u>	<u>310,361</u>	<u>1,259,387</u>	<u>1,243,213</u>
<b>Loss for the period</b>	(400,371)	(310,361)	(1,259,387)	(1,241,578)
<b>Deficit - Beginning of period</b>	(859,016)	(25,554,075)	(38,064,016)	(24,139,059)
Asset retirement obligation	-	-	-	(129,987)
Stock-based compensation	-	-	-	(353,812)
Reduction of stated capital (note 6)	-	-	38,064,016	-
As restated	<u>(859,016)</u>	<u>(25,554,075)</u>	<u>-</u>	<u>(24,622,858)</u>
<b>Deficit - End of period</b>	<u>(1,259,387)</u>	<u>(25,864,436)</u>	<u>(1,259,387)</u>	<u>(25,864,436)</u>
<b>Loss per common share</b>	<u>(0.11)</u>	<u>(0.12)</u>	<u>(0.36)</u>	<u>(0.49)</u>
<b>Weighted average number of shares</b>	<u>3,538,140</u>	<u>2,546,823</u>	<u>3,538,140</u>	<u>2,546,823</u>

# Resilient Resources Ltd.

## Interim Consolidated Statement of Cash Flows (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Cash provided by (used for):</b>				
<b>Operating activities:</b>				
Loss for the period	(400,371)	(310,361)	(1,259,387)	(1,241,578)
Items not affecting cash				
Depreciation and amortization	171,985	151,216	529,331	449,153
Asset retirement obligation accretion	3,211	6,440	10,113	18,933
Stock-based compensation	23,525	(13,010)	31,233	24,751
Debenture interest expense	73,283	-	188,616	-
Deemed interest expense	-	-	-	184,808
Foreign exchange loss	2,044	(28,639)	6,882	(9,172)
Cash flow from operations	(126,323)	(194,354)	(493,212)	(573,105)
Asset retirement obligation expenditures	-	-	-	(64,777)
Changes in non-cash working capital balances	301,692	(349,134)	183,915	(150,924)
	175,369	(543,488)	(309,297)	(788,806)
<b>Financing activities:</b>				
Increase in long term debt	-	1,450,000	-	1,470,054
Issue of 10% debenture	-	-	1,970,000	-
Financing costs	-	(147,321)	(200,724)	(147,321)
Issue of Common Shares	1,679,929	23,449	1,679,929	1,529,681
	1,679,929	1,326,158	3,449,205	2,852,414
<b>Investing activities:</b>				
Expenditures on property, plant and equipment	(790,482)	(134,273)	(1,807,713)	(2,529,083)
Changes in non-cash working capital balances	(90,660)	(214,895)	63,114	150,599
	(881,142)	(349,168)	(1,744,599)	(2,378,484)
<b>Increase (decrease) in cash</b>	<b>974,156</b>	<b>433,472</b>	<b>1,395,309</b>	<b>(314,876)</b>
<b>Cash, beginning of period</b>	<b>725,746</b>	<b>32,406</b>	<b>304,593</b>	<b>780,754</b>
<b>Cash, end of period</b>	<b>1,699,902</b>	<b>465,878</b>	<b>1,699,902</b>	<b>465,878</b>

Supplemental Cash Flow Information (note 8).

# **Resilient Resources Ltd.**

Notes to Interim Consolidated Financial Statements  
(unaudited) September 30, 2005

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## **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 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 September 30, 2005, the company had a working capital deficiency of \$106,442 (see Note 9 Subsequent Event) (December 31, 2004 – a deficit of \$2,177,679), no long-term debt (December 31, 2004 – \$1,450,000) and an accumulated deficit of \$ 1,259,387, (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 September 30, 2005, the company had expended \$5,400,673 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 \$5,400,673.

### **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 June 30, 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 was 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,

# Resilient Resources Ltd.

## Notes to Interim Consolidated Financial Statements (unaudited) September 30, 2005

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2008 the Company was obligated to drill a total of 8 wells, 2 wells per year, and pay annual rental fees totalling \$1,200,000 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 had 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. The Company has met its drilling obligation, having drilled 2 wells on the Eastern Lands.

### 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
	<u>32,098,683</u>	<u>(27,162,729)</u>	<u>(377,056)</u>	<u>4,558,898</u>

#### As at September 30, 2005

	Cost	Impaired Value	Accumulated Depreciation	Net Book Value
	\$	\$	\$	\$
Unproven oil and gas properties	32,563,402	(27,162,729)	-	5,400,673
Building and equipment	435,916	-	(392,428)	43,488
	<u>32,999,318</u>	<u>(27,162,729)</u>	<u>(392,428)</u>	<u>5,444,161</u>

For the quarter ended September 30, 2005 the Company capitalized general and administration costs of \$232,953 as compared to \$93,339 in the third quarter of 2004 and \$113,796 for the quarter ended December 31, 2004. For the nine months ended September 30, 2005 the Company capitalized general and administration costs of \$441,454 as compared to \$370,707 in the first nine months of 2004 and \$347,868 for the nine months ended December 21, 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 5).

# Resilient Resources Ltd.

Notes to Interim Consolidated Financial Statements  
(unaudited) September 30, 2005

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## 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:

	Nine months ended September 30, 2005	Year ended December 31, 2004
	\$	\$
Asset retirement obligation – Beginning of period	289,485	386,131
Liabilities incurred	11,495	19,581
Liabilities settled	-	(66,065)
Liabilities assigned	-	(53,002)
Accretion expense	10,113	24,237
Foreign exchange loss (gain)	(11,587)	(21,397)
Asset retirement obligation –End of period	<u>299,506</u>	<u>289,485</u>

At September 30, 2005 the undiscounted estimated future well abandonment and site reclamation costs were \$470,000 (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

- a) \$1,048,615 principal amount of 10% convertible 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 \$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. Subsequent to September 30, 2005 the Company converted this debenture into common shares. (see Subsequent Event note )

- b) \$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

# Resilient Resources Ltd.

## Notes to Interim Consolidated Financial Statements (unaudited) September 30, 2005

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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.

The Company did not assign a value to the warrants as shortly after their issue the debentures were converted to common shares and all rights related to the warrants were cancelled.

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.

### 6 Capital stock

a) Authorized

Unlimited number of common voting shares

b) Issued

<b>Common Shares</b>	<b>Number of shares</b>	<b>Amount</b>
		<b>\$</b>
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
Shares issued in payment of interest	103,274	104,038
Shares issued pursuant to conversion of debenture	4,560,002	3,420,000
Shares issued pursuant to private placement	3,076,923	1,691,542
Share issue costs	-	(421,148)
Balance September 30, 2005	10,575,367	5,298,970

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# Resilient Resources Ltd.

## Notes to Interim Consolidated Financial Statements (unaudited) September 30, 2005

Warrants	Number of Warrants	Amount \$
Balance beginning of year	797,636	-
Broker's warrants on debt issue	118,200	-
Warrants issued pursuant to private placement	1,538,462	308,458
Broker warrants on debt conversion	166,000	-
Warrants cancelled or expired	(771,667)	-
Balance September 30, 2005	1,848,631	308,458
Balance in Capital stock, September 30, 2005		5,607,428

- 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:
- 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. 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%

### c) Contributed surplus

Balance – December 31, 2003	\$ 364,107
Stock-based compensation – prior years	410,620
Stock-based compensation – 2005	78,083

# Resilient Resources Ltd.

## Notes to Interim Consolidated Financial Statements (unaudited) September 30, 2005

Warrants issued to non-employees	7,675
Agents options on Share issue	101,077
	<u>961,562</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, 2004 there were 129,346 stock options outstanding under the Company's Stock Option Plan. During the nine months ending September 30, 2005, the Company granted 88,025 stock options under the Plan and cancelled 65,667 stock options. The Company 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.

The following table summarizes information about options outstanding at September 30, 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 0.80	145,000	5.57	0.78	145,000	0.78
4.20 to 15.00	41,839	2.88	9.79	32,144	10.51
16.50 to 48.00	21,840	1.76	26.38	20,172	27.18
4.20 to 48.00	<u>208,679</u>	<u>4.60</u>	<u>5.26</u>	<u>197,317</u>	<u>5.06</u>

### 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	0.863
Risk-free interest rate	3.11%
Weighted average expected life in years	2.00
Expected dividend yield	0.00%

For the Third quarter of 2005 the company recognized compensation costs of \$29,339 (2004 - \$16,154). For the nine months ended September 30, 2005 the Company recognized a compensation cost of \$46,122 (2004 - \$30,262) for both the quarter and nine month period the costs were allocated 40% to expenses and 60% to property, plant and equipment.

# Resilient Resources Ltd.

Notes to Interim Consolidated Financial Statements  
(unaudited) September 30, 2005

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## Options Granted to Non-employees

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

Volatility factor of expected market price	0.869
Risk-free interest rate	3.08%
Weighted average expected life in years	2.00
Expected dividend yield	0.00%

For the third quarter of 2005 the Company recognized a compensation cost of \$29,473 (2004 - \$16,376). For the nine months ended September 30, 2005 the Company recognized a compensation cost of 31,961 (2004 - \$12,432). For both the quarter and nine month period the costs were allocated 40% to expenses and 60% to property, plant and equipment.

## e) Share purchase warrants

At September 30, 2005, the following share purchase warrants are outstanding:

Number of warrants Outstanding	Exercise Price \$	Expiry date
25,969	6.00	December 31, 2005
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 September 30, 2005 the Company's share price was \$1.60 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 nine months ended September 30, 2005 was 3,538,140. The weighted average number of shares outstanding for the diluted per share calculations for the quarter ended September 30, 2005 was 6,603,244. The in-the-money warrants and options are assumed exercised and the proceeds used to repurchase shares at the period end date of September 20, 2005. The average market price for common shares during the first nine months of 2005 was \$0.85.

Weighted Average Common Shares Outstanding - Basic	3,538,140
Effect of Convertible Debentures	1,094,877
Effect of Warrants and Options	1,970,227
Weighted Average Common Shares Outstanding - Diluted	<u>6,603,244</u>

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

## 7 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 remains indebted to Aquilon Capital Corp. by a 10% secured debenture in the amount of \$1,048,615 (see notes 5(a) and 9). A director of the Company is one of the principals and

# Resilient Resources Ltd.

Notes to Interim Consolidated Financial Statements  
(unaudited) September 30, 2005

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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.

## 8 Supplemental Cash Flow information

Cash flow information	September 30, 2005	September 30, 2004
	\$	\$
<b>Non cash financing activities</b>		
Disposition of oil and gas properties	971,575	-
Shares issued to convert debt and extend term	3,420,000	3,671,200
Shares issued to repay shareholder loan	-	833,778
Shares issued to pay interest on debt	188,616	-
Equity portion of debentures	-	80,000
Decrease in long term debt	(3,420,000)	(3,210,000)
Increase in deferred charges	-	(541,200)
Decrease in shareholders loan	-	(833,778)
Settlement of portion of 10% secured debenture	(971,575)	-
Interest paid	31,100	201,308

## 9. Subsequent Event

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.