

FM Resources Corp.

Management's Discussion and Analysis
June 30, 2006

The following management's discussion and analysis ("**MD&A**") for FM Resources Corp., was prepared by management based on information available as at August 29, 2006. It should be reviewed together with the unaudited consolidated financial statements for the period ended June 30, 2006 and the MD&A and audited consolidated financial statements for the year ended December 31, 2005. These were filed on SEDAR and are available at www.sedar.com.

As used in this MD&A, the terms "we", "us", "our" and "FM" mean FM Resources Corp., and our subsidiary, Strikewell Capital Corp.

Unless otherwise noted, all dollar amounts are expressed in Canadian dollars ("**Cdn \$**") and any references to common shares are to common shares in the capital of FM Resources Corp., unless the context clearly requires otherwise.

Barrels of oil equivalent ("**boe**") amounts have been calculated using a conversion rate of six thousand cubic feet ("**mcf**") of natural gas per barrel ("**bbl**") of oil or natural gas liquids ("**6:1**") A conversion ratio of one bbl to six mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent equivalency at the wellhead.

Forward-Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are statements that relate to future events or to our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing oil and natural gas, and market demand;
- the risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates;
- the uncertainty of estimates and projections relating to exploration, development and production costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- general economic conditions;
- the effect of acts of, or actions against, international terrorism;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; and
- the risks enumerated in the section of this MD& A entitled "Risk Factors", beginning on page 6.

These risks may cause our actual results or the actual results in our industry, or our levels of activity, performance or achievement, to be materially different from any projected future results, levels of activity, performance or achievements that are expressed or implied in these forward-looking statements.

These forward-looking statements are based on the estimates and opinions of our management at the time they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, we do not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

Description of Business

Our company is a Vancouver based oil and gas issuer with our common shares listed on the TSX Venture Exchange and trades under the symbol "FMR". We own producing petroleum and natural gas interests near Garrington, Alberta, through our wholly-owned subsidiary Strikewell Capital Corp ("**Strikewell**"). We also own our La Forma, Antoniuk, and Ant gold properties located in the Dawson Range of west-central Yukon.

Overall Performance

Yukon

Our Yukon properties are located in central Yukon, 66 km west of Carmacks and 220 km northwest of Whitehorse, and comprise contiguous quartz mining leases and quartz mineral claims encompassing roughly 1,130 hectares (2,785 acres).

Exploration on the Yukon properties has been limited to property maintenance level activities due to low working capital. We have not generated any income from our Yukon properties.

Garrington. Alberta

On January 20, 2006, the Company closed a transaction to acquire all of the issued and outstanding shares of Strikewell. The transaction was effective as of January 1, 2006 and Strikewell is now a wholly-owned subsidiary of FM. Strikewell owns producing petroleum and natural gas interests (the "**Property**") near Garrington, Alberta. According to a report entitled "Economic Evaluation of the Reserves of Strikewell Capital Corp., Garrington, Area, Alberta, Canada" prepared by Henderson & Associates Petroleum Consultants Ltd. on August 29, 2005, the total proved oil with respect to the Property is 54 thousand barrels and the total proved gas is 209 million cubic feet.

Selected Financial Information

The following table contains a summary of our financial results for the six months ended June 30, 2006 and 2005.

(Cdn \$)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Net Income (Loss)	93,896	(104,945)	111,983	(198,527)
Basic per Share	0.04	(0.04)	0.04	(0.08)
Diluted per Share	0.04	(0.04)	0.04	(0.08)
Total Assets	4,108,851	4,802	4,108,851	4,802
Total Long-term Financial Liabilities	4,492,422	Nil	4,492,422	Nil

Our revenue performance and the income that we realize from period to period varies in relation to the number of wells that we have in production, our production volumes and the prices that we receive for our commodities from time to time. The number of successfully developed wells turned to sales, if any, varies from quarter to quarter. Historically, peak commodity pricing for natural gas produced occurs in the fourth and first quarters. As our operations become profitable, we will be subject to taxes in the jurisdictions where we conduct our business.

Summary of Quarterly Results

The following table presents selected unaudited consolidated financial information for the last eight quarters:

(CDN \$)	2006		2005				2004	
Period ended	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	919,617	472,572	28	17	8	6	10	19
Net Income (Loss)	143,691	18,087	(441,042)	(309,795)	(198,527)	(93,582)	(361,264)	(250,778)
Basic per Share	0.04	0.00	(0.18)	(0.13)	(0.08)	(0.04)	(0.15)	(0.10)
Diluted per Share	0.04	0.00	(0.18)	(0.13)	(0.08)	(0.04)	(0.15)	(0.10)

Liquidity

Cash and cash equivalents totaled \$173,687 as at June 30, 2006 versus \$415 at June 30, 2005. At June 30, 2006, we had a net working capital deficit of \$692,784 compared to a net working capital deficit of \$2,617,592 at June 30, 2005.

Cash from operating activities, before changes in non-cash working capital, amounted to \$334,325 for the six months ended June 30, 2006 compared to a deficiency of \$205,067 in the six months ended June 30, 2005. The improvement was attributable to production from the oil and gas properties acquired effective January 1, 2006. Cash used in operating activities was \$28,953 in the six months ended June 30, 2006 versus \$11,957 in the six months ended June 30, 2005. Changes in non-cash working capital offset the positive cashflow from operations in fiscal 2006.

Cash was used in investing activities totaling \$597,400 for the six months ended June 30, 2006 compared to \$Nil for the six months ended June 30, 2005. Financing activities provided \$800,000 for the six months ended June 30, 2006 versus \$Nil in the prior period. All of the

investing and financing activities related to the acquisition of oil and gas properties in January 2006 and associated debt restructuring.

As at June 30, 2006, we had no long-term capital expenditure commitments. Our long-term liabilities are the two promissory notes, as described below, and the asset retirement obligation.

Our objective is to meet our operating and capital requirements by a combination of cash flow from our current and future wells, and re-investment of current capital. However, production volumes and the market price that we receive for the oil and gas that we produce and sell determines our revenue from oil and natural gas sales. As a consequence, our ability to obtain additional capital is substantially dependent on oil and natural gas prices. Future cash flows and the continued availability of financing are subject to a number of uncertainties, such as production rates, the price of oil and gas, and the continued results of our drilling programs.

Capital Resources

On January 20, 2006, the Company closed a transaction to acquire all of the issued and outstanding shares of Strikewell. The transaction was effective as of January 1, 2006 and Strikewell is now a wholly-owned subsidiary of FM. The purchase price for the shares of Strikewell was \$2,886,399.78 paid by the Company by the issuance to Mr. Hislop (the "**Vendor**") of 2,000,000 voting common shares in the capital of the Company at an issue price equal to \$0.40 for a total consideration of \$800,000 and the issuance of a promissory note (the "**Vendor Note**") payable to the Vendor in the principal amount of \$2,086,399.78.

In addition, the Company assumed the payment obligations under debt owed by Strikewell to the Vendor in the amount of \$628,895.16, which was added to the principal owing under the Vendor Note. As part of the transaction, the Company also restructured \$1,832,149.19 of current debt owed by the Company to a company (the "**Vendor Company**") owned by the Vendor by entering into a second promissory note (the "**Second Note**") on the same payment terms as the Vendor Note. The Second Note is payable by the Company to the Vendor Company and replaces the previous payment obligations under the debt owed by the Company to the Vendor Company. In addition, the Company assumed the payment obligations under debt owed by Strikewell to the Vendor Company in the amount of \$1,984,705.06, which was added to the principal owing under the Second Note. The principal owing under the Vendor Note and the Second Vendor Note is due for repayment on the ninth anniversary of issuance of the Notes and bears interest at 2% for the years one and two, 3% for years three and four, 4% for year five and 15% for years six through eight, compounded and payable semi-annually. Both the Vendor Note and the Second Note are secured against all of the assets of the Company.

To date, the Company has been able to generate sufficient capital to fund its ongoing expenses and property acquisitions.

FM has no assurance that additional funding will be available for the exploration and development of future projects. There can be no assurance that we will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of any projects with the possible loss of such properties. There can be no assurance that we will be able to engage in such financings in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant factors. If such a method of financing is employed by our company, it will result in increased dilution to the existing shareholders each time a financing involving equity is conducted.

Off-Balance Sheet and Other Financial Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

We do not have any commitments under oil and gas forward sales contracts or other types of hedging arrangements which might expose us to commodity price or production volume risks. We do not have in place any off-balance sheet financing type arrangements.

Transactions with Related Parties

The aggregate amount of transactions made with related parties not at arms length to FM consist of the following:

- Included in accounts payable and accrued liabilities and loans payable is the amount of \$11,640 representing funds due to directors of FM and to a private company controlled by a director of our company.

Second Quarter

Three-month period ended June 30, 2006 compared to the three-month period ended June 30, 2005

Net income for the three months ended June 30, 2006 was \$93,839 compared to a loss of \$104,945 for the three months ended June 30, 2005. The improvement was a consequence of the production from the oil and gas properties acquired effective January 1, 2006.

Revenue for the second quarter of 2006 increased to \$447,045 compared to \$2 for the same period in 2005.

Direct operating expenses for the three-month period ended June 30, 2006 increased to \$263,310, consisting of \$79,463 in depreciation and depletion, \$121,315 in production expenses and \$62,532 in royalties. This compared to \$nil for the same period in 2005.

The increase in revenue and direct operating expenses reflected the commencement of production activities with the acquisition of oil and properties as of January 1, 2006.

General and administration expenses for the three month period ended June 30, 2006 decreased to \$89,839 compared to \$104,947 for the same period in 2005. Administration charges increased to \$21,035 from \$18,000 in the comparable period in line with increased activity levels. Interest and bank charges decreased to \$31,708 from \$69,719 in the same period in the prior year. This reflected the restructuring of the company's debt in conjunction with the acquisition of oil and gas properties. Professional fees increased to \$22,230 from \$2,006 for the same period the prior year as a consequence of the property acquisition and related debt restructuring.

Six-month period ended June 30, 2006 compared to the six-month period ended June 30, 2005

Net income for the six months ended June 30, 2006 was \$111,983 compared to a loss of \$198,527 for the six months ended June 30, 2005. The improvement was a consequence of the production from the oil and gas properties acquired effective January 1, 2006.

Revenue for the six month period ended June 30, 2006 increased to \$919,617 compared to \$8 for the same period in 2005.

Direct operating expenses for the six-month period ended June 30, 2006 increased to \$614,777, consisting of \$158,926 in depreciation and depletion expenses, \$276,230 in production expenses and \$179,621 in royalties. This compared to \$nil for the same period in 2005.

The increase in revenue and direct operating expenses reflected the commencement of production activities with the acquisition of oil and properties as of January 1, 2006.

General and administration expenses for the six-month period ended June 30, 2006 decreased to \$192,857 compared to \$198,535 for the same period in 2005. Administration charges increased to \$42,050 from \$36,000 in the comparable period in line with increased activity levels. Interest and bank charges decreased to \$63,416 from \$135,546 for the same period the prior year. This reflected the restructuring of the company's debt in conjunction with the acquisition of oil and gas properties. Professional fees increased to \$57,621 from \$2,573 for the same period the prior year. This was as a result of the property acquisition and related debt restructuring in fiscal 2006.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates. See Note 2 to the Financial Statements for our Significant Accounting Policies.

Changes in Accounting Policies including Initial Adoption

We have not adopted any changes in our accounting policies.

Risk Factors

An investment in our shares involves a number of significant risk factors. Any or all of these risks, or other as yet unidentified risks, may have a material adverse effect on our business and/or the return to shareholders.

Potential of Substantial Dilution: If we require additional funds in order to finance proposed operations, we may sell additional equity securities. If we sell additional equity securities of our company, existing investors will experience dilution of their equity interest.

Financial Considerations: Our decision as to whether our properties contain commercial oil and gas deposits and whether these should be brought into production will require substantial funds and depend upon the results of exploration programs, feasibility studies and the recommendations of duly qualified engineers, geologists, or both. This decision will involve consideration and evaluation of several significant factors including but not limited to: (1) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies, and construction of production facilities; (2) availability and costs of financing; (3) ongoing costs of production; (4) market prices for the oil and gas to be produced; (5) environmental compliance regulations and restraints; and (6) political climate, governmental regulation and control. Many of the factors taken into consideration are beyond our control and may have a material effect on the outcome of our decision.

Property Defects: Although we have obtained title reports with respect to some of our properties, we have not obtained title reports with respect to all of our current properties. In addition, the title reports that we obtained are many years old. Title reports are not title insurance and they do not act as a guarantee of title. Our properties may be subject to prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research or which have been asserted since the date the research was completed. Additionally, the land upon which we hold leases may not have been surveyed; therefore, the precise area and location of such interests may be subject to challenge.

Need to Manage Growth: We could experience rapid growth in production, revenues, personnel, complexity of administration and in other areas. There can be no assurance that we will be able to manage the impact that future growth could place on our administrative infrastructure, systems, and controls. If we are unable to manage future growth effectively, our business, operating results and financial condition may be materially and adversely affected.

Dependence on Key Personnel/Employees: We do not have any full time employees and we are dependent on our ability to hire and retain highly skilled and qualified personnel. We face competition for qualified personnel from numerous industry sources, and there can be no assurance that we will be able to attract and retain qualified personnel on acceptable terms. We do not maintain 'key man' insurance. The loss of service of any key personnel could have a material adverse effect on our operations or financial condition.

Conflicts of Interest: In addition to their interest in our company, our management currently engages, and intends to continue to engage in the future, in the oil and gas business independently of our company. As a result, conflicts of interest between our company and our management might arise.

Risks Relating to the Industry

Potential Profitability Of Oil and Gas Ventures Depends Upon Factors Beyond Our Control: The potential profitability of oil and gas properties is dependent upon many factors that are beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These changes and events may materially affect our financial performance.

A productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. The marketability of oil and gas that we may acquire or discover could be affected by numerous factors beyond our control. These factors include the proximity and capacity of pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production, adverse weather conditions and environmental protection. The extent of these factors cannot be accurately predicted and the combination of these factors may result in our company not receiving an adequate return on invested capital.

Competitiveness of the Oil and Gas Industry: The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including many major oil and gas companies, which have substantially greater technical, financial and operational resources and personnel. Accordingly, there is a high degree of competition for desirable leases, suitable properties for drilling operations and necessary drilling equipment, as well as for access to funds. There can be no assurance that the necessary funds can be raised or that any projected work will be completed.

Fluctuating Price and Demand: The marketability of natural resources that we may acquire or discover may be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and natural gas and environmental protection regulations. The impact of these factors cannot be accurately predicted, but the combination of these factors could have an adverse impact on our business.

Comprehensive Regulation of Oil and Gas Industry: Our operations are subject to federal, provincial, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Our operations are also subject to federal, provincial, and local laws and regulations that seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. We can give no assurance that environmental standards imposed by federal, provincial or local

authorities will not be changed or that any such changes would not have materially adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on our business and our company. Additionally, we may be subject to liability for pollution or other environmental damages, which we may elect not to insure against due to prohibitive premium costs and other reasons.

Environmental Regulations: In general, our exploration and production activities are subject to certain federal, provincial and local laws and regulations relating to environmental quality and pollution control. These laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Our operating partners maintain insurance coverage customary to the industry; however, we are not fully insured against all environmental risks.

Risks Associated with Drilling: Drilling operations generally involve a high degree of risk. These include unusual or unexpected geological conditions, power outages, labor disruptions, blow-outs, sour gas leakage, fire, inability to obtain suitable or adequate machinery, equipment or labour, and other risks. We may become subject to liability for pollution or hazards against which we cannot adequately insure or against which we may elect not to insure. Incurring any such liability may have a material adverse effect on our financial position and operations.

Government Regulation/Administrative Practice: There is no assurance that the laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in Canada or any other applicable jurisdiction will not be changed, applied or interpreted in a manner which will fundamentally alter our ability to develop, operate, export or market our products.

The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on our company. Any or all of these situations may have a negative impact on our ability to operate and make a profit.

Operating Hazards and Risks: Operations in which FM has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production, any of which could result in work stoppages, damage to property, and possible environmental damage. We currently do not maintain liability insurance against such liabilities. Although we currently intend to obtain insurance when we commence operations of reasonable significance, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or FM might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event we could incur significant costs that could have a materially adverse effect upon its financial condition.

Uncertainty of Estimates of Reserves

Under applicable regulatory requirements, we will be required to identify and disclose as proved oil and gas reserves, estimated quantities of crude oil, natural gas and natural gas liquids. This geological and engineering data demonstrates with reasonable certainty the estimated quantities of crude oil, natural gas and natural gas liquids, which will be recoverable in future years from known reservoirs under existing economic and operating conditions. However, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from our estimations from year to year. Any significant variance in the assumptions could materially affect the estimated quantities and

present values of reserves. For example, a material drop in oil and gas prices, or a material increase in applicable taxes, will require management to reassess whether known reservoirs can continue to be reasonably judged as economically productive from one year to the next. In addition, the reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our company's control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to the reserves will likely vary from the estimates presented herein, and such variances may be material.

Declining Reserves

In general, production rates from oil and gas properties decline as reserves are depleted. The decline rates depend on reservoir characteristics and vary from steep declines to the relatively slow declines characteristic of long-lived fields in other regions.

Reserves Data and Other Oil and Gas Information

Our independently prepared reserves assessment and evaluation of our oil and gas properties effective June 30, 2005 have been prepared in accordance with mandated National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of Canadian Securities Administrators. The report is available on SEDAR at www.sedar.com.

Outstanding Share Data

Our common shares are listed for trading on the TSX Venture Exchange under the symbol FMR.

The Company has the following securities outstanding as at the date of this MD&A:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	4,397,216
Class A Preference	Nil	Unlimited	Nil

There are no options, warrants or convertibles securities outstanding and an aggregate total of 1,123 common shares are held in escrow.

Additional Information

The Company's Chief Executive Officer and Chief Financial Officer (the "**Responsible Officers**") are responsible for establishing and maintaining disclosure controls and procedures for the Company, designed to provide reasonable assurance that material information relating to the Company and its subsidiary is made known to the Responsible Officers by others within the organization, particularly during this period in which the Company's quarterly financial statements and Management's Discussion and Analysis are being prepared. The Responsible Officers have evaluated the effectiveness of the Company's disclosure controls and procedures as at June 30, 2006, and have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the Company's size, structure and stage of development.

Additional information relating to our company, including periodic quarterly and audited financial reports are available on SEDAR at www.sedar.com. We also maintain a web site at www.fm-resources.bc.ca.