

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-17232

FACT CORPORATION

(Exact name of small business issuer as specified in its charter)

COLORADO	84-0888594
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

915 Timber Ridge Court  
Neptune, NJ 07753  
(Address of principal executive offices)

(732) 922-0911  
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:

17,076,367 shares of Class A common stock, no par value, as of August 22, 2005.

Transitional Small Business Disclosure Format (check one): Yes  No

## PART I FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-QSB and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three month periods ended June 30, 2005 and 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004.

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**FACT CORPORATION**  
Consolidated Balance Sheets

	<b>June 30, 2005</b> (Unaudited)	<b>December 31, 2004</b> (Note 1)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	369,903	44,904
Inventory	146,135	314,457
Accounts receivable	91,443	79,233
Account receivable – Capital Reserve Canada Limited	322,785	325,559
Prepaid expenses and deposits	306,750	39,082
<b>Total Current Assets</b>	<b>1,237,016</b>	<b>803,235</b>
<b>Investment in Texas T Companies</b>	-	72,070
<b>Investment in Australian Oil and Gas</b>	12,945	7,265
<b>Investment in Capital Reserve Canada Ltd.</b>	68	68
<b>Property and Equipment</b>		
Intellectual property	2,770,678	2,770,678
Real Property (net of accumulated depreciation of \$91,005)	560,065	2,754,876
Office equipment and computers (net of accumulated depreciation of \$25,720)	10,788	11,172
<b>Total Property and Equipment</b>	<b>3,341,532</b>	<b>5,536,726</b>
<b>Total Assets</b>	<b>4,591,561</b>	<b>6,419,364</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	449,522	621,220
Accounts payable (related parties)	319,378	244,300
Loans payable (related parties)	1,125,855	1,139,851
Loan payable	380,972	2,296,250
Current portion of long-term debt and acquisition cost	112,500	112,500
<b>Total Current Liabilities</b>	<b>2,388,227</b>	<b>4,414,121</b>
<b>Long Term Liabilities</b>		
Acquisition cost payable	1,913,353	1,965,101
<b>Total Liabilities</b>	<b>4,301,580</b>	<b>6,379,222</b>
<i>Commitments and contingencies</i>		

*The accompanying notes are an integral part of these unaudited financial statements*

**FACT CORPORATION**  
Consolidated Balance Sheets

	<b>June 30, 2005</b> (Unaudited)	<b>December 31, 2004</b> (Note 1)
<b>Stockholders' Equity</b>		
Class A Common Stock - authorized 100,000,000 shares of no par value; 17,076,367 and 16,836,367 issued and outstanding as at June 30, 2005 and December 31, 2004.	8,316,938	8,119,630
Class A Common stock warrants	44,522	47,985
Accumulated deficit	(8,155,866)	(8,170,739)
Accumulated other comprehensive (loss)	84,387	43,266
<b>Total Stockholders' Equity</b>	<b>289,982</b>	<b>40,142</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>4,591,561</b>	<b>6,419,364</b>

*The accompanying notes are an integral part of these unaudited financial statements*

**FACT CORPORATION**  
**Consolidated Statements of Operations**  
(Unaudited)

	<u>For the Three Months</u>		<u>For the Six Months Ended</u>	
	<u>Ended June 30,</u>		<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Revenues</b>				
Petroleum & natural gas (net of royalties)	\$ -	\$ 513	\$ -	\$ 1,019
Italian Crème sales	-	76,206	4,326	76,206
Functional food premix	191,744	206,871	354,473	533,284
Consulting fees	100	8,775	323	11,700
Rental income	38,829	11,354	107,923	80,951
	230,672	303,719	467,044	703,160
<b>Costs and Expenses</b>				
Petroleum & natural gas related cost (including depletion)	-	542	-	374
Functional food premix	152,794	98,204	260,109	291,123
Italian Crème costs	9,678	87,198	152,322	87,198
Legal	4,735	16,262	4,735	43,533
Consulting fees	30,880	52,173	77,716	118,876
Fees settled by the issuance of shares	79,200	30,000	136,800	30,000
Depreciation and amortization	13,605	22,235	38,234	44,987
Gain on disposition of assets	(746,450)	(337)	(739,120)	(337)
Write down bad debts	-	3,500	-	3,500
Administrative expenses	134,360	54,298	251,138	143,265
Write down investment in Texas T Petroleum Ltd.	-	-	112,510	-
Equity in loss of Texas T Petroleum Ltd.	-	182	-	48,480
	(321,197)	364,257	294,445	810,999
<b>Income (Loss) from operations</b>	551,870	(60,538)	172,600	(107,839)
<b>Other income and expenses</b>				
Other Income	-	1,469	-	1,624
Interest income	248	22,375	272	43,295
Interest expense	(72,923)	(108,872)	(157,999)	(201,606)
	(72,675)	(85,028)	(157,727)	(156,687)
Provision for income taxes	-	-	-	-
<b>Net Income (Loss)</b>	\$ 479,195	\$ (145,566)	\$ 14,873	\$ (264,526)
<b>Net Income (Loss) per Common Share</b>	\$ .03	\$ (.01)	\$ .00	\$ (0.02)
<b>Weighted Average Number of Common Shares Used in Calculation</b>	17,036,367	16,757,617	16,880,598	16,757,617
<b>Other comprehensive income</b>				
Net Gain (loss)	\$ 479,195	\$ (145,566)	\$ 14,873	\$ (264,526)
Foreign currency translation adjustment	3,634	(10,858)	(40,601)	32,236
Unrealized profit (loss) on marketable securities	(2,877)	(5,065)	-	(11,557)
<b>Total other comprehensive income</b>	\$ 479,954	\$ (161,489)	\$ (25,728)	\$ (243,847)

*The accompanying notes are an integral part of these unaudited financial statements*

**FACT CORPORATION**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	<b>Six months ended</b>	
	<b><u>June 30, 2005</u></b>	<b><u>June 30, 2004</u></b>
<b>Cash From Operating Activities:</b>		
Gain (Loss) from continuing operations	\$ 14,873	\$ (264,526)
<i><b>Reconciling adjustments</b></i>		
Depreciation and amortization	15,208	44,801
Equity in Texas T Petroleum Ltd	(48,561)	289
Services paid by Stock Issuance	136,800	30,000
<i><b>Changes in operating assets and liabilities</b></i>		
Accounts receivable	(9,436)	51,265
Prepaid expenses and deposits	13,540	(1,109)
Tax deposit	(254,808)	-
Inventory	168,322	(265,215)
Gain (loss) on sale of securities	7,330	(337)
Gain on sale of real properties	(746,450)	-
Accounts payable and accrued expenses	(96,620)	257,451
<b>Net Cash Flows From Operating Activities</b>	<b><u>(799,802)</u></b>	<b><u>(147,381)</u></b>
<b>Cash From Investing Activities:</b>		
Proceeds from sale of securities	11,069	8,705
Leasehold improvements	-	(14,022)
Acquisition of property and equipment	(4,749)	(752)
Proceeds from sale of real property	982,131	-
Disposition of investment in Texas T Petroleum	120,786	-
<b>Net Cash Flows From Investing Activities</b>	<b><u>1,109,237</u></b>	<b><u>(6,069)</u></b>
<b>Cash From Financing Activities:</b>		
Loan proceeds	-	393,872
Repayment of long term debt	-	(22,253)
Proceeds from loans payable (related parties)	161,058	267,714
Loan reductions	(175,054)	(390,089)
Acquisition cost payable	(51,748)	(55,256)
Sales of common stock (net of offering costs)	-	19,600
Capital contribution by an officer	22,369	6,916
<b>Net Cash Flows From Financing Activities</b>	<b><u>(43,375)</u></b>	<b><u>220,504</u></b>
<b>Foreign currency translation adjustment</b>	<b>58,939</b>	<b>38,970</b>
<b>Net change in cash and cash equivalents</b>	<b>324,999</b>	<b>106,024</b>
<b>Cash at beginning of period</b>	<b>44,904</b>	<b>53,273</b>
<b>Cash at end of period</b>	<b>\$ <u>369,903</u></b>	<b>\$ <u>159,297</u></b>

*The accompanying notes are an integral part of these unaudited financial statements*

**FACT CORPORATION**  
**Consolidated Statements of Cash Flows**  
*Continued*  
**(Unaudited)**

**Supplemental disclosure of cash flow information:**

<b>Interest paid</b>	\$	94,773	\$	21,606
<b>Income taxes paid</b>	\$	-	\$	-

**Non Cash Transactions:**

<b>Mortgages relieved by sale of properties</b>	\$	1,915,278	\$	-
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*The accompanying notes are an integral part of these unaudited financial statements*

**FACT CORPORATION**  
Notes to Financial Statements  
For the Six Months Ended June 30, 2005

***Note 1 - Management's Statement***

The financial statements included herein have been prepared by FACT Corporation (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations, and the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the December 31, 2004, audited financial statements and the accompanying notes included in the Annual Report on Form 10-KSB. While management believes the procedures followed in preparing these financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year.

The management of the Company believes that the accompanying unaudited financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented.

***Note 2 - Summary of Significant Accounting Policies***

**Organization and Operations**

The Company was incorporated under the laws of the State of Colorado on August 3, 1982. At June 30, 2005, the Company has three wholly owned subsidiaries, Wall Street Investments Corporation (WSIC) (dormant Colorado corporation), Food and Culinary Technology Group Inc. ("FACT Group"), and Wall Street Real Estate Investments Ltd. ("WSRE"). FACT Products Inc. (formerly FACT Bread Company Inc.), a Nevada corporation, was incorporated in November 2001 and is a wholly owned subsidiary of FACT Group.

During the quarter Ended June 30, 2005, the Company and its subsidiary WSRE, closed the sale of two commercial properties located in Calgary, Alberta, Canada. The completed transactions involved purchase agreements with two unrelated buyers for combined gross proceeds of CDN\$3,525,000. After commissions and fees of approximately CDN\$130,000, the sale proceeds have been used to retire outstanding mortgages against the two properties held by Standard Life and the Alberta Treasury Branches totaling CDN\$2,235,000. The CDN\$1,160,000 balance due the Company was reduced by a recoverable tax hold-back of CDN\$310,000. The Company is taking the appropriate actions to secure the release of the CDN\$310,000 presently withheld for tax purposes by the Canadian tax authorities. Management expects to realize these proceeds later this year.

The Company's business operations are currently the business of FACT Group and its subsidiary FACT Products Inc. in Neptune, New Jersey, including the supply and license of functional food formulations to various manufacturers, ingredient distributors and food service clients, as well as the sale of its branded line of non-dairy whipped toppings.

The Company and its subsidiary WSRE sold all of its commercial real estate interests during the quarter ended June 30, 2005.

**FACT CORPORATION**  
Notes to Financial Statements  
For the Six Months Ended June 30, 2005

***Note 3 – Loans Payable (related parties)***

Loans Payable from various related parties have the following terms at March 31, 2005 and December 31, 2004 respectively:

Repayment terms	Interest rate	June 30, 2005	December 31, 2004
Demand	10%	-	-
Demand	10%	140,155	84,774
Demand	10%	21,783	-
No terms	None	-	12,025
Less than 12 months	18%	672,857	782,764
Demand	10%	291,060	260,288
		<u>\$ 1,125,855</u>	<u>\$ 1,139,851</u>

Loan payable of \$672,857 is secured by liens on the Company's commercial properties, as well as the Company's accounts receivable and investments and bears interest at a rate of 18% p.a., maturing on December 31, 2005. Interest accrues monthly until maturity, at which time the principal balance and all accrued and unpaid interest becomes due and payable. During the quarter, the lender agreed to release the Company's commercial properties from the liens in order to facilitate sale of these properties. As a result the lender and the Company agreed that all outstanding interest on the loan would be paid to the date of the sale of the properties, and as such a total of \$94,773 was paid during the quarter. The Company also agreed to reduce the principal balance of the loan by \$150,000. As at the date of this report the agreed reduction in the principal balance has not been remitted to the lender.

***Note 4 – Other Events***

During the quarter, as part of the terms of an agreement entered into during the period ended March 31, 2005, the Company issued a total of 160,000 shares of its common stock to Hobson, Lorenze and Bowersock in consideration for services provided. A total of 120,000 shares or 40,000 shares per month representing the months of April, May and June, having a book value of \$79,200 are expensed during the current period with the remaining 40,000 shares having a book value of \$26,400 having been included as a prepaid expense on the current balance sheet.

***Note 5 – Subsequent Events***

On July 1, 2005, the Company agreed to enter into a convertible loan with Capital Reserve Canada Limited. in the principal amount of \$662,059 convertible for a period of two years from July 1, 2005 at \$0.05 per share. We have agreed to accrue interest on the loan back to the initial date of the loan which was March 1, 2000 at the rate of Bank of America prime plus 1% compounded annually. If not converted the note plus accrued interest will be due on June 30, 2007.

Subsequent to the quarter, under the terms of a trust agreement entered into in fiscal 2000 between the Company and Mr. Scott Lawler, a member of the Company's board of directors, Mr. Lawler elected his option to acquire a residential property acquired in fiscal 2000 by the Company for his personal use. Under the terms of the agreement Mr. Lawler was responsible for mortgage payments, improvements to the property and taxes during the term of his use of the property. Additionally under the agreement, Mr. Lawler had the option to acquire the property by (1) assuming the mortgage, (2) acquiring a new mortgage or (3) paying out the remaining balance of the mortgage. As part of his election to acquire the property, Mr. Lawler will return to treasury a total of 41,961 common shares issued to Mr. Lawler in fiscal 2000 in consideration for proceeds provided to the Company as a down payment for the property.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **a. Plan of Operation**

At present, based on current operations, the Company does not have sufficient cash and liquid assets to satisfy its cash requirements on a monthly basis. While the Company does generate income from sales of functional premix and rental income on a monthly basis, these proceeds are not sufficient to meet the Company's current monthly overhead, which includes the on-going business of three operational subsidiaries. The Company will require approximately \$2,629,000 to cover its anticipated overhead and operational needs, inclusive of inventory, for the upcoming twelve-month period. Revenues generated from operations (excluding real estate operations which have been discontinued as of the second quarter of fiscal 2005 as a result of the sale of the Company's commercial properties) are expected to contribute approximately \$2,344,000 in gross revenues and offset operational overhead by approximately \$703,200. The Company completed a negotiation with the debentureholder during the quarter, whereby the debentureholder agreed to release the two commercial properties to allow their sale to proceed in return for payment of interest outstanding up to the date of the sale, and a lump payment of \$150,000 towards the principal balance of the loan. While the interest payment was completed during the quarter, as of the date of this report, the principal reduction payment remains outstanding. Remaining net proceeds from the sale of the Company's two commercial properties, the liquidation of other marketable securities and a recovery of the Company's investment in Capital Canada, formerly a wholly owned subsidiary, are intended to be allocated to retire the Company's outstanding debt prior to allocating these proceeds to general working capital. At this time the Company cannot predict how much, if any, of these funds will be available for general working capital to meet expenses for the coming 12 months. While the Company has projected gross revenues from its food operations of approximately \$2,344,000 over the upcoming twelve months, such projections are subject to numerous factors that are beyond our control. Projected operational costs and overhead of \$2,629,000 include \$1,640,800 for inventory and premix costs associated with the Company's functional foods business, \$125,000 in advertising and marketing costs for our "at-home" line of premixes currently sold online at our Internet store at [www.eatwellstaywell.net](http://www.eatwellstaywell.net) and \$863,200 in general operating expenses relating to the Company and all of its existing subsidiaries. Presently the Company has placed the marketing costs for its online store on hold while it reviews other marketing strategies for this line of products or a branded retail effort. The Company may be required to raise approximately \$600,000 to meet its projected costs should it not be successful in achieving its projected gross revenues. The Company expects that it will be able to obtain additional equity and/or debt financing to meet this need, or that net proceeds will be available from the divestiture/liquidation of its various non-core assets, once planned debt reduction (discussed above) has been concluded. As noted above, the Company completed the sale of both of its commercial real estate properties during the quarter and proceeds were applied to reduce long term debt and as general working capital. The Company may be required to raise additional capital to meet its ongoing working capital requirements over the next 12 months and may be required to identify additional sources for these funds.

The Company's budget of \$863,200 in general operating expenses includes the expenditure of approximately \$342,640 over the next twelve months on ongoing product refinement, technical support, the development of second and third generation functional formulations, and advertising and marketing for our Nutrition First line of "at-home" premixes currently available for purchase on-line, including amounts paid to employees and consultants retained for the purposes of providing research and development support.

Included in the cash requirements noted above of \$863,200 over the next twelve months is an amount of \$634,184 with respect to the operations of FACT Group, exclusive of inventory requirements and forecasted costs of goods sold, and exclusive of the estimated \$125,000 for direct marketing efforts with respect to its online store at [www.eatwellstaywell.net](http://www.eatwellstaywell.net). From the date of acquisition November 2001 to June 30, 2005 the Company has funded a total of \$797,788 (net of associated interest charges) to FACT Group in respect of its ongoing operational expenses.

Should it be required, and if the Company is able to negotiate favorable terms, the Company may look to raise funds in excess of the current cash requirement by way of debt or equity financing in order to

accelerate its growth. The Company is currently assessing strategic joint ventures with complementary businesses in order to enhance and support its current operational objectives.

The Company anticipates that its subsidiary FACT Group will hire an additional one to three employees during the upcoming twelve months should the functional foods business meet projected operational and revenue targets. The Company will also look to retain one additional employee to assist in corporate development and financial operations.

## **Results of Operations**

### **Comparison of quarters ended June 30, 2005 and 2004**

For the six month periods ended June 30, 2005 and 2004 the Company realized income from operations of \$172,600 and an operating loss of \$107,839 respectively. The June 30, 2005 income from operations includes a substantial gain on the disposition of certain commercial real estate properties of \$746,450, with no similar entries in the comparative quarter, as well as a reduction in legal fees from \$43,533 (2004) to \$4,735 (2005) as a result of the settlement of certain legal matters during the fall of 2003 and completion of associated documentation in early 2004, an increase in consulting fees (paid in cash and by the issuance of shares collectively) from \$148,876 (2004) to \$214,516 (2005) due to the retention of services of an investor relations firm during the first quarter of fiscal 2005, and an increase in administrative expenses totaling \$251,138 (2005) and \$143,265 (2004) over the respective periods. Depreciation and amortization expenses decreased during the respective six month periods from \$44,987 (2004) to \$38,234 (2005) As a result of the divestiture of the commercial real estate during the current period. During the six months ended June 30, 2005, the Company generated revenues from rental income, and sales of functional food premixes and non-dairy whipped toppings totaling \$467,044. Revenues for the same six months in 2004 consisted of premix sales, as well as sales of petroleum and natural gas and rental income totaling \$703,160. While rental income increased slightly over the comparative six month periods totaling \$107,923 (2005) and \$80,951 (2004), the Company has experienced a substantive decrease in its functional premix sales during the comparative periods from \$533,284 (2004) to \$354,473 (2005). This decrease is predominantly associated with a decline in market demand for products marketed as "low carb" products during the close of fiscal 2004 and early 2005, causing several of the Company's clients to discontinue their operations. The Company has re-positioned its product line to suit current industry trends including high fiber, low glycemic and sugar-free or no-added-sugar market positions and expects to remedy this sales deficit during the third and fourth quarters of the current fiscal year.

Other income and expenses include a reduction in interest expenses over the comparative six month periods from \$201,606 (2004) to \$157,999 (2005).

Other costs and expenses over the six months ended June 30, 2005 reflect certain extra-ordinary transactions including the write down of certain inventory assets in the amount of \$152,322 during the current fiscal year, with no comparable entry for fiscal 2004, the divestiture of the Company's investment in Texas T Petroleum Ltd. resulting in a one time loss of \$112,510 from the disposition of certain non-marketable securities, and a loss of \$7,330 from the sale of certain marketable securities; Again there being no comparative transactions to the period ending June 30, 2004.

The Company recorded net income of \$14,873 over the six month period ending June 30, 2005 as compared to a net loss totaling \$264,526 for the comparative six months in 2004.

## **Liquidity and Capital Resources**

### **Summary of Working Capital and Stockholders' Equity**

As of June 30, 2005, the Company had negative working capital of \$1,151,211 and Stockholders' Equity of \$289,982 compared with negative working capital of \$3,610,886 and Stockholders' Equity of \$40,142 as of December 31, 2004. The Company's working capital has increased as a result of the retirement of mortgages associated with the two commercial properties divested during the quarter as well

as a reduction to certain related party loans and accounts payable. Stockholders' Equity increased predominantly as a result of the decreased operating losses for the period. As a result of a one time gain from the divestiture of the Company's two commercial real estate properties and the proceeds received from the sale, the Company was able to meet working capital requirements in amounts sufficient to fund operating losses and cash used as described in our financial statements during the current period.

Financing activities during the six month period resulted in an increase to related party loans payable of \$161,058 from figures reported at the year ended December 31, 2004. The majority of proceeds from the loans were allocated to a shortfall in general working capital. Accounts payable and accrued liabilities decreased by \$96,620, related party loans payable decreased by \$175,054 and loans payable decreased by \$1,915,278 over the period as certain outstanding account balances were reduced by proceeds received from the sale of the Company's two commercial properties. The Company also expended \$4,749 in the acquisition of new computer equipment at its Neptune, NJ and Calgary, Alberta offices. Accounts receivable increased over the respective periods. Inventory was substantially decreased over the respective periods due to the write down of Aunt Lydia's Italian Crème inventory, and minimal product orders associated with the new line during the first six months of fiscal 2005. During the most recently completed six month period, the Company also received proceeds from the sale of certain marketable securities totaling \$11,069.

While the Company was able to obtain additional capital investment in amounts sufficient to fund operating losses and cash used as described in our financial statements for the period ended June 30, 2005, the Company will acquire additional working capital to fund its operating plans over the next 12 months.

### **Liquidity**

The Company anticipates it will need to raise approximately \$600,000 over the next twelve months to fully implement its existing business plan, which includes significant marketing efforts, the continued development and refinement of functional food formulations and products, a consumer awareness and public relations campaign, concepts for development, manufacturing and distribution of a line of our own master brand food products via the internet, expanded management resources and support staff, and other day to day operational activities. The Company may require additional funds over the next three years to assist in realizing its goals should it not achieve anticipated bench marks over the 2005, 2006 and 2007 fiscal years. The amount and timing of additional funds required can not be definitively stated as at the date of this report and will be dependent on a variety of factors. As of the filing of this report, the Company has been successful in raising funds required to meet our existing revenue shortfall for the funding of our operations. Funds have been raised through private loans, equity financing and conventional bank debt. The Company anticipates revenues generated from its functional food business will greatly reduce the requirement for additional funding; however, we can not be certain the Company will be successful in achieving revenues from those operations. Furthermore the Company cannot be certain that we will be able to raise any additional capital to fund our ongoing operations.

### **Sources of Working Capital**

During the quarter ended June 30, 2005, the Company applied revenues generated from our functional foods business, revenues generated by our commercial rental properties and the net proceeds from the following to meet our ongoing expenses and overhead:

- \$161,058 in the form of loans from related parties bearing interest at various rates; and,
- \$11,069 in proceeds from the sale of certain marketable securities; and,
- \$982,131 in net proceeds from the sale of two commercial properties.

As noted above, during the quarter, the Company concluded the divestiture of its real estate assets, having finalized the sale of both of its commercial properties. The Company is also aggressively pursuing the liquidation of all remaining marketable securities. Proceeds from the sale of the commercial real estate assets has been allocated to reduce debt and to general working capital.

On March 6, 2003 the Company announced the pending distribution of all of the issued and outstanding shares of its wholly owned subsidiary, Capital Canada, to the existing shareholders of the Company on the basis of one (1) share of Capital Canada for every five (5) shares of the Company. This transaction concluded in the final quarter of fiscal 2004. As of June 30, 2005 Capital Canada is in debt to the Company in the net amount of \$647,785, which amount has been impaired by \$325,000 on the books of the Company as of the fiscal year ended December 31, 2004, to reflect anticipated recovery, the repayment of which amount remained under negotiation by the Boards of the Company and Capital Canada as at the end of quarter.

On July 1, 2005, the Company agreed to enter into a convertible loan with Capital Reserve Canada Limited in the principal amount of \$662,059 convertible for a period of two years from July 1, 2005 at \$0.05 per share. We have agreed to accrue interest on the loan back to the initial date of the loan which was March 1, 2000 at the rate of Bank of America prime plus 1% compounded annually. If not converted the note plus accrued interest will be due on June 30, 2007.

### **ITEM 3. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our President and acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our President and acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 as of the end of period covered by this report. Based upon the foregoing, our President and our acting Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting identified in connection with the evaluation referred to in the immediately preceding paragraph that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Not Applicable

### **ITEM 2. CHANGES IN SECURITIES**

Pursuant to a consulting agreement between the Company and Hobson, Lorenze and Bowersock the Company issued a total of 160,000 restricted Class A common shares during the quarter with a total book value of \$105,600. Of this amount \$79,200 has been expensed during the current period with \$26,400 having been included on the Company's balance sheet as a prepaid expense.

This issuance of shares was exempt from registration pursuant to Rule 506 of Regulation D. Neither we nor any person acting on our behalf offered or sold these securities by any form of general solicitation or general advertising. The shares sold are restricted securities and the certificate representing these shares has been affixed with a standard restrictive legend, which states that the securities cannot be sold without registration under the Securities Act of 1933 or an exemption therefrom. The purchaser represented to us that he was purchasing the securities for his own account and not for the account of any other persons. The purchaser was provided with written disclosure that the securities have not been

registered under the Securities Act of 1933 and therefore cannot be sold without registration under the Securities Act of 1933 or an exemption therefrom.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

Not Applicable

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not Applicable

**ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

- a. Exhibits and Index of Exhibits – see Exhibit Index below
- b. Exhibits:

REGULATION S-B NUMBER	EXHIBIT	REFERENCE
3.1	Articles of Incorporation, as amended	Incorporated by reference to the Exhibits previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1990
3.2	Amended Bylaws	Incorporated by reference to the Exhibits previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994
3.3	Articles of Amendment to Articles of Incorporation, filed with the State of Colorado Secretary of State on November 26, 2001	Incorporated by reference to the Exhibits previously filed with FACT Corporation's Annual Report for Form 10-KSB for the fiscal year ended December 31, 2002 herewith
3.4	Articles of Amendment to Articles of Incorporation, filed with the State of Colorado Secretary of State on February 8, 2002	Incorporated by reference to the Exhibits previously filed with FACT Corporation's Annual Report for Form 10-KSB for the fiscal year ended December 31, 2002 herewith
10.1	Management Agreement with Mr. Loder	Incorporated by reference to the Exhibits previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998
10.2	Lease Agreement dated January 15, 2000 by and between Capital Reserve Canada Limited and 319835 Alberta Ltd.	Incorporated by reference to Exhibit 10.14 previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999

10.3	Purchase and Sale Agreement dated March 1, 2000 by and between Capital Reserve Canada Limited and Stone Canyon Resources Limited	Incorporated by reference to the Exhibits previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999.
10.4	Consulting Agreement dated April 24, 2000 by and between Capital Reserve Corporation and W. Scott Lawler	Incorporated by reference to the Exhibits previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000.
10.5	Share Exchange Agreement dated November 20, 2001 by and between Capital Reserve Corporation, Food and Culinary Technology Group, Inc. and Shareholders of Food and Culinary Technology Group, Inc.	Incorporated by reference to the Exhibits previously filed with the Registrants Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001.
10.6	Lease and Option to Purchase Agreement dated by and between Capital Reserve Corporation and 5 Crowns Investment Corp.	Incorporated by reference to the Exhibits previously filed with the Registrants Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001.
10.7	Fourth Amendment to the Share Exchange Agreement dated February 2, 2004.	Incorporated by reference to the Exhibits previously filed with the Registrants Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.
10.8	Amended and Restated Shareholders Agreement dated February 2, 2004	Incorporated by reference to the Exhibits previously filed with the Registrants Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.
10.9	Mortgage between FACT Corporation and 948783 Alberta Inc. dated March 17, 2004	Incorporated by reference to the Exhibits previously filed with the Registrants Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.
10.10	Offer to Purchase between FACT Corporation and Calfrac Well Services Ltd. dated December 21, 2004	Incorporated by reference to the Exhibits previously filed with the Registrants Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004.
10.11	Removal of Conditions and Amending Agreement dated February 25, 2005 between FACT Corporation and Calfrac Well Services Ltd.	Incorporated by reference to the Exhibits previously filed with the Registrants Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004.

31	Section 302 Certification- Chief Executive Officer	Filed herewith
32	Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FACT CORPORATION**

Date: August 22, 2005

By: \_\_\_\_\_

Name: Jacqueline Danforth

Title: President and Director