

**FORM 20-F/A**  
**ANNUAL REPORT**  
**FISCAL YEAR ENDED 12/31/2004**

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)  
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For Fiscal Year Ended: December 31, 2004

OR

☐ 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 0-27768

**PORTRUSH PETROLEUM CORPORATION**

(Exact name of Registrant as specified in its charter)

British Columbia, Canada

(Jurisdiction of incorporation or organization)

1687 West Broadway #200, Vancouver, British Columbia V6J 1X2

(Address of principal executive offices)

Securities to be registered pursuant to Section 12(b) of the Act:

None

Securities to be registered pursuant to Section 12(g) of the Act:

Common Shares, without par value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d)  
of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of  
capital or common stock as of the close of the period covered by the annual  
report. 40,342,417

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 12 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 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 ninety days. Yes xxx No     

Indicate by check mark which financial statement item the registrant has  
elected to follow: Item 17 xxx Item 18

**PORTRUSH PETROLEUM CORPORATION**  
**FORM 20-F/A ANNUAL REPORT**  
**FISCAL YEAR ENDED DECEMBER 31, 2004**  
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## **INTRODUCTION**

Portrush Petroleum Corporation was organized under the laws of British Columbia, Canada. In this Annual Report, the "Company", "we", "our" and "us" refer to Portrush Petroleum Corporation (unless the context otherwise requires). Summary discussions of documents referred to in this Annual Report may not be complete and we refer you to the actual documents for more complete information. Our principal corporate offices are located at 1687 West Broadway #200, Vancouver, British Columbia, Canada V6J 1X2. Our telephone number is 604-696-2555.

## **BUSINESS OF PORTRUSH PETROLEUM CORPORATION**

The Company is in the business of acquiring, exploring, and developing (when appropriate) oil/gas properties. The Company maintains: a 22.5% working interest in the Lenox Prospects, a producing oil/gas property in Michigan; and a 10% working interest in the Mission River Development Project, a producing oil/gas property in Texas.

## **FINANCIAL AND OTHER INFORMATION**

In this Annual Report, unless otherwise specified, all dollar amounts are expressed in Canadian Dollars ("CDN\$" or "\$"). The Government of Canada permits a floating exchange rate to determine the value of the Canadian Dollar against the U.S. Dollar (US\$).

## **FORWARD-LOOKING STATEMENTS**

This amended Annual Report on Form 20-F/A contains forward-looking statements principally in ITEM #4, "Information on the Company" and ITEM #5, "Management's Discussion and Analysis of Financial Condition and Results of Operations". These statements may be identified by the use of words like "plan", "expect", "aim", "believe", "project", "anticipate", "intend", "estimate", "will", "should", "could" and similar expressions in connection with any discussion, expectation, or projection of future operating or financial performance, events or trends. In particular, these include statements about the Company's strategy for growth, property exploration, mineral prices, future performance or results of current or anticipated mineral production, interest rates, foreign exchange rates, and the outcome of contingencies, such as acquisitions and/or legal proceedings.

Forward-looking statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors, including, among other things, the factors discussed in this Registration Statement under ITEM #3, "Key Information, Risk Factors" and factors described in documents that we may furnish from time to time to the Securities and Exchange Commission. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise.

## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.**

--- No Disclosure Necessary ---

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.**

--- No Disclosure Necessary ---

### **ITEM 3. KEY INFORMATION.**

#### **3.A.1. Selected Financial Data**

#### **3.A.2. Selected Financial Data**

The Company's financial statements are stated in Canadian Dollars (CDN\$) and are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), the application of which, in the case of the Company, conforms in all material respects for the periods presented with US GAAP, except as discussed in footnotes to the financial statements.

These financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the financial statements based on their audits. The auditors conducted their audits in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that the auditors plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In Table No. 1, the selected financial data of the Company for Fiscal 2004, Fiscal 2003 and Fiscal 2002 ended December 31st was derived from the financial statements of the Company which have been audited by Davidson & Company, Chartered Accountants, as indicated in their audit report which is included elsewhere in this Annual Report. The selected financial data set forth for Fiscal 2001 and Fiscal 2000 ended December 31st are derived from the Company's audited financial statements, not included herein.

The selected financial data should be read in conjunction with the financial statements and other financial information included elsewhere in the Annual Report.

The Company has not declared any dividends since incorporation and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain future earnings for use in its operations and the expansion of its business.

All per-share figures and number of shares are adjusted for the one-for-five stock consolidation effective March 2000.

Table No. 1  
Selected Financial Data  
(CDN\$ in 000, except per share data)

	Year Ended 12/31/2004	Year Ended 12/31/2003	Year Ended 12/31/2002	Year Ended 12/31/2001	Year Ended 12/31/2000
<u>Canadian GAAP</u>					
Net Revenue	\$442	\$415	\$303	\$ 0	\$ 0
Operating Income (Loss)	(\$693)	(\$651)	(\$382)	(\$255)	(\$187)
Net Income (Loss)	(\$766)	(\$747)	(\$1750)	(\$1812)	(\$185)
(Loss) per Share	(\$0.02)	(\$0.03)	(\$0.10)	(\$0.12)	(\$0.04)
Dividends Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Wtd. Avg. Shares (000)	33859	22236	17767	15705	5109
Period-end Shares O/S	40342	26694	20061	16769	9540
Working Capital	(\$287)	(\$307)	(\$575)	(\$1018)	\$96
Oil/Gas Properties	1642	174	376	2077	1123
Long-Term Obligations	6	6	168	0	0
Capital Stock	12854	10534	9956	9654	8003
Shareholders' Equity	1349	(140)	(367)	1058	1219
Total Assets	1790	183	397	2206	1304
<u>US GAAP</u>					
US GAAP Loss Per Share	(\$0.02)	(\$0.03)	(\$0.10)		
US GAAP Wtd. Avg. Shares	33756	22133	17664		
(1) Under US GAAP, the calculation of weighted average number of shares used in the calculation of Loss Per Share would not have included 103,125 escrowed, contingently cancelable common shares.					

### **3.A.3. Exchange Rates**

In this Annual Report Statement, unless otherwise specified, all dollar amounts are expressed in Canadian Dollars (CDN\$). The Government of Canada permits a floating exchange rate to determine the value of the Canadian Dollar against the U.S. Dollar (US\$).

Table No. 2 sets forth the rate of exchange for the Canadian Dollar at the end of the five most recent fiscal periods ended December 31st, the average rates for the period, and the range of high and low rates for the period. The data for each month during the previous six months is also provided.

For purposes of this table, the rate of exchange means the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. The table sets forth the number of Canadian Dollars required under that formula to buy one U.S. Dollar. The average rate means the average of the exchange rates on the last day of each month during the period.

Table No. 2  
U.S. Dollar/Canadian Dollar

	<u>Average</u>	<u>High</u>	<u>Low</u>	<u>Close</u>
June 2005		1.26	1.23	1.24
May 2005		1.27	1.24	1.25
April 2005		1.26	1.21	1.26
March 2005		1.25	1.20	1.21
February 2005		1.24	1.22	1.24
January 2005		1.24	1.20	1.24
December 2004		1.24	1.19	1.20
-----				
Fiscal Year Ended 12/31/2004	1.30	1.40	1.18	1.20
Fiscal Year Ended 12/31/2003	1.38	1.57	1.29	1.29
Fiscal Year Ended 12/31/2002	1.57	1.61	1.51	1.58
Fiscal Year Ended 12/31/2001	1.55	1.60	1.49	1.59
Fiscal Year Ended 12/31/2000	1.50	1.56	1.44	1.50

### **3.B. Capitalization and Indebtedness**

No Disclosure Necessary ---

### **3.C. Reasons For The Offer And Use Of Proceeds**

No Disclosure Necessary ---

### **3.D. Risk Factors**

The Company is subject to a number of risks and uncertainties, including the following:

#### **Competition**

Oil and gas exploration is intensely competitive and involves a high degree of risk. There can be no assurance that commercial production of hydrocarbons can be obtained from any of the Company's properties, nor are there any assurances that production, if obtained, will be in sufficient quantities to be profitable. In its efforts to acquire properties, the Company competes with other companies that have significantly greater resources. Many of these companies not only explore for and produce oil and gas, but also conduct refining and petroleum marketing operations on a worldwide basis. Competition for producing properties will be affected by the amount of funds available to the Company, information available to the Company and any standards established by the Company for the minimum projected return on investment. Competition may also be presented by alternative fuel sources.

#### **Risks Associated with Oil and Gas Exploration**

There can be no assurance that the Company will recover commercial quantities of hydrocarbons in the future. The marketability of any oil and gas acquired or discovered will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, proximity and capacity of oil and gas pipelines and processing equipment and government regulations (including regulations relating to royalties, allowable production, importing and exporting of oil and gas, and environmental protection). In addition, hazards such as unusual or unexpected formations, pressures or other conditions are involved in drilling and operating wells.

#### **Limited Operating History and History of Losses**

The Company has historically incurred losses from operations. As at 12/31/2004, the Company had a cumulative deficit of (\$11,857,774). There can be no assurance that the Company will achieve profitability in the future. In addition, should the Company be unable to continue as a going concern, realization of assets and settlement of liabilities in other than the normal course of business may be at amounts significantly different from those in the financial statements.

#### **Financial Risks**

The Company does not presently have sufficient financial resources to undertake by itself all of its planned exploration and development programs. The exploration and development of the Company's properties depend, therefore, on the Company's ability to obtain additional financing through joint ventures, debt financing, equity financing or other means. There can be no assurance that the Company will obtain necessary additional financing or that any joint venture partner will obtain financing under the terms of any joint venture agreement into which it enters with the Company. The failure of the Company to obtain additional financing on a timely basis or on terms favorable to the Company could result in the loss or substantial dilution of the Company's interests (as existing or as proposed to be acquired) in its properties. In addition, the failure of any joint venture partner to obtain any required financing could adversely affect the Company's ability to complete the exploration or development of any such joint venture project on a timely basis.

Should the Company elect to satisfy its cash commitments through the issuance of securities, by way of either private placement or public offering, there can be no assurance that the Company's efforts to raise such funding will be successful, or achieved on terms favorable to the Company or its existing shareholders.

#### Currency Fluctuations

The Company incurs costs and expenses in Canadian dollars. The Company expects that any future production revenues will be denominated in Canadian dollars; however, oil and gas prices are generally quoted in United States dollars. If the Canadian dollar goes down in value against the United States dollar while other factors remain constant, the Company will see a relative increase in production revenues and, conversely, if the United States dollar goes down in value against the Canadian dollar while other factors remain constant, the Company will see a relative decrease in production revenues. The Company does not presently hedge against currency fluctuations; as such, fluctuations will have a minimal effect on its operations until the Company has sustained production revenues.

#### Absence of Dividends

The Company has never paid cash dividends and does not intend to do so in the foreseeable future. There can be no assurance that the Company's directors will ever declare cash dividends, which action is completely within their discretion.

#### Dependence on Key Personnel

The Company is heavily dependent upon the expertise of certain of its key officers and directors, and the loss of one or more of these individuals could have a material adverse effect on the Company. None of these individuals have entered into employment agreements with the Company and the Company does not maintain key-person insurance policies on any of its executive officers.

#### Conflicts of Interest

Certain of the Company's directors and officers serve as directors or officers of, and/or own securities of, other resource companies, whereby such persons may have a conflict of interest in allocating their time and resources among the Company and such other companies; and to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest.

#### Expiration of Licenses and Leases

The Company's properties are held in the form of licenses, leases, and working interests in licenses and leases. If the Company or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Company's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Company's results of operation and business.

#### Environmental Regulation

Hazards incident to the exploration and development of oil and gas properties such as accidental spills or leakage of petroleum liquids and other unforeseen conditions may be encountered by the Company. The Company may be subject to liability for pollution and other damages due to hazards that cannot be insured against due to prohibitive premium costs or for other reasons. Governmental regulations relating to environmental matters could also increase the cost of doing business or require alteration or cessation of operations in certain areas.



Existing and possible future environmental legislation, regulations and actions could give rise to additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Regulatory requirements and environmental standards are subject to constant evaluation and may be significantly increased, which could materially and adversely affect the business of the Company or its ability to develop its properties on an economically feasible basis. Before development and production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals will be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or preclude entirely the economic development of a property.

#### Fluctuation in Oil and Gas Prices

As with most other companies involved in resource exploration, the Company may be adversely affected by future increases in the costs of conducting exploration, development and resource extraction that may not be fully offset by increases in the price received on sale of the petroleum or natural gas.

#### Volatility of Oil and Gas Prices

The Company's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources.

Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

#### Title to Properties

It is the practice of the Company in acquiring oil and gas leases or interests in oil and gas leases not to undergo the expense of retaining lawyers to fully examine the title to the interest to be placed under lease or already placed under the lease. Rather, the Company relies upon the judgment of oil and gas lease brokers or landmen who actually do the field work in examining records in the appropriate governmental office before attempting to place under lease a specific interest. The Company believes that this practice is widely followed in the oil and gas industry.

Prior to the drilling of a well for oil and gas, it is the normal practice of the oil and gas industry for the person or company acting as the operator of the well to hire a lawyer to examine the title to the spacing unit within which the proposed oil and gas well is to be drilled. Frequently, because of such examination, certain curative work must be done to correct deficiencies in the marketability of the title, and the curative work entails expense. The work might include obtaining affidavits of heirship or causing an estate to be administered. From time to time, the examination made by the title lawyers reveals that the oil and gas lease or leases are worthless, having been purchased in error from a person who is not the owner of the mineral interest desired. In such instances, the amount paid for such oil and gas lease or leases may be lost.

There may be title defects that affect lands comprising a portion of the Company's Properties.

#### History of Losses

The Company has had a history of losses and there is no assurance that it can reach profitability in the future. The Company will require significant additional funding to meet its business objectives. Capital will need to be available to help expand not only the production capacity of the corporation's vendors but also to improve market penetration and sales through an increasing distribution network. The Company may not be able to obtain additional financing on reasonable terms, or at all. If equity financing is required, as expected, then such financings could result in significant dilution to existing shareholders.

#### Broker-Dealers May Be Discouraged From Effecting Transactions In Our Common Shares Because They Are Considered Penny Stocks And Are Subject To The Penny Stock Rules

Rules 15g-1 through 15g-9 promulgated under the Securities Exchange Act of 1934, as amended, impose sales practice and disclosure requirements on NASD broker-dealers who make a market in "a penny stock". A penny stock generally includes any non-NASDAQ equity security that has a market price of less than US\$5.00 per share. Our shares are quoted on the TSX Venture Exchange and the price of our shares ranged from CDN\$0.15 (low) to CDN\$0.46 (high) during the period from 1/1/2004 to 12/31/2004. The closing price of our shares on 12/31/2004 was CDN\$0.28; the closing price of our shares on 6/30/2005 was CDN\$0.115. Refer to ITEM #9.A for additional trading information. The additional sales practice and disclosure requirements imposed upon broker-dealers may discourage broker-dealers from effecting transactions in our shares, which could severely limit the market liquidity of the shares and impede the sale of our shares in the secondary market.

Under the penny stock regulations, a broker-dealer selling penny stock to anyone other than an established customer or "accredited investor" (generally, an individual with net worth in excess of US\$1,000,000 or an annual income exceeding US\$200,000, or US\$300,000 together with his or her spouse) must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt.

In addition, the penny stock regulations require the broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the US Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the registered representative and current quotations for the securities. Finally, a broker-dealer is required to send monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

There Is Uncertainty As To Our Shareholders' Ability To Enforce Civil Liabilities In Canada or Ireland

The preponderance of our assets are located outside the United States and are held through companies incorporated under the laws of Canada. In addition, a majority of our directors and officers are nationals and/or residents of countries other than the United States. All or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for shareholders to effect service of process within the United States upon these persons. In addition, there is uncertainty as to whether the courts of Canada or Ireland, would recognize or enforce judgments of United States courts obtained against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in Canada or Ireland against us or such persons predicated upon the securities laws of the United States or any state thereof.

As a "foreign private issuer", the Company is exempt from the Section 14 proxy rules and Section 16 of the 1934 Securities Act: The submission of proxy and annual meeting of shareholder information (prepared to Canadian standards) on Form 6-K may result in shareholders having less complete and timely data. The exemption from Section 16 rules regarding sales of common shares by insiders may result in shareholders having less data.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **4.A. History and Development of the Company**

###### Introduction

Portrush Petroleum Corporation (hereinafter, together with its subsidiary, is also referred to as the "Company") is engaged in the exploration for and production of oil/gas. Without any material properties at 12/31/1999, the Company acquired interests in five oil/gas properties during 2000 (including the Lenox Prospects) and two oil/gas properties during 2001. The less promising properties have been disposed of and during 2002-2003 focused its efforts on the oil/gas producing Lenox Property in Michigan, USA. The Mission River Development Project was acquired in January 2004.

It is the intention of the Company, either alone or with others, to carry out or participate in exploration and development programs on its properties and on other properties that it may acquire an interest in, to determine the existence, location, extent and quality of the oil and gas resources located on its properties and to drill and complete, where appropriate, oil or gas wells.

The Company's executive office is located at:

1687 West Broadway #200, Vancouver, British Columbia, Canada V6J 1X2

Telephone: 604-696-2555; and

Facsimile: 604-648-9568.

Website: <http://www.portrushpetroleum.com/>

e-mail: [info@portrushpetroleum.com](mailto:info@portrushpetroleum.com)

The Company's registered office is located at:

595 Howe Street #700, Vancouver, British Columbia, Canada V6C 2T5

Telephone: 604-687-2923; and

Facsimile: 604-687-5960.

The contact person is: Neal Iverson, Secretary

The Company's fiscal year ends December 31st.

The Company has one wholly-owned subsidiary: Portrush Petroleum (US) Corporation, incorporated in Michigan, USA, on 11/17/2003.

The Company's common shares trade on the TSX Venture Exchange in Canada under the symbol "PSH" and on the OTC Bulletin Board in the USA under the symbol "PRRPF".

The Company has 100,000,000 of no-par common shares authorized. At 12/31/2004, the end of the Company's most recent fiscal year, there were 40,342,417 common shares issued and outstanding. At 6/30/2005, there were 40,986,917 shares issued and outstanding.

Effective 3/15/2000, the Company completed a one-for-five stock consolidation. All references to per share data and numbers of shares refer to post-split data.

The Company's financial statements are stated in Canadian Dollars ("CDN\$") and are prepared in accordance with Canadian GAAP. Material variations in the accounting principles, practices and methods used in preparing those financial statements from principles, practices and methods accepted in the United States are disclosed in notes to the financial statements.

Herein, all references to "\$" and "CDN\$" refer to Canadian Dollars and all references to "US\$" refer to United States Dollars. All references to common shares refer to the Company's Common Shares without Par Value unless otherwise indicated.

The information contained in this Annual Report is current as at 5/31/2005, except where a different date is specified.

## History and Development

### Incorporation/Name Changes

The Company was incorporated under the laws of Ontario, Canada, on 2/9/1965 under the name "Barbi Lake Copper Mines Limited". The Company's name was changed to "Bar Resources Limited" on 4/28/1983, to "Southern Bar Minerals Corporation" on 10/31/1995, to "Texas Gulf Petroleum Corporation" on 2/12/1996, and to "Portrush Petroleum Corporation" on 3/15/2000.

### Stock Consolidations

The Company consolidated its common shares on a 1-for-3.5 basis effective 12/19/1994 and on a 1-for-5 basis on 3/15/2000. All references to number of shares and to per share data reflect post-consolidation basis unless otherwise indicated.

### Property Acquisitions

Fiscal 1999: No properties acquired

Fiscal 2000: Lambton/Kent Counties = Michigan Basin Property, Ontario  
Cranberry-Botha Prospects, Alberta  
Lenox Prospects, Michigan

Fiscal 2001: Rock Springs Prospects, Wyoming

Fiscal 2003: Lenox North Prospects, Michigan

Fiscal 2004: Mission River Development Project, Texas

Fiscal 2005 To-Date: None

### Property/Asset Dispositions

Fiscal 1999: None

Fiscal 2000: None

Fiscal 2001: Lambton/Kent Counties = Michigan Basin Property, Ontario

Fiscal 2002: Rock Springs Prospects, Wyoming

Fiscal 2003: None

Fiscal 2004: None

Fiscal 2005 To-Date: None

### Financings

The Company has financed its operations through funds raised in loans, public/private placements of common shares, shares issued for property, shares issued in debt settlements, and shares issued upon exercise of stock options and share purchase warrants. The following table lists equity offerings:

Year	Nature of Share Issuance	Number of Shares	Capital Raised
2000:	Special Warrant Offering	2,541,667 Special Warrants	\$305,000
	Private Placement	2,694,000 Units	\$942,900
2001:	Private Placement	5,000,000 Units	\$150,000
2002:	Private Placement	600,000 Units	\$ 60,000
	Private Placement	2,500,000 Units	\$250,000
2003:	Convertible Debt Offering	8% Convertible Debentures (1)	\$180,000
	Private Placement	2,100,000 Units	\$315,000
	Private Placement	2,037,059 Units	\$346,300
2004:	Private Placement	3,100,000 Units	\$620,000
	Private Placement	1,500,000 Shares	\$300,000
	Exercise of Warrants	7,680,000 Shares	\$1,090,200
	Exercise of Stock Options	1,050,000 Shares	\$110,000
2005-to-date:			
	Exercise of Stock Options	624,500 Shares	\$93,675

(1) Converted to 1,500,000 common shares during FY2003.

### **4.B. BUSINESS OVERVIEW**

#### **Business of the Company - 2005/2004/2003/2002/2001/2000**

In April/May 2000, the Company acquired the Lambton/Kent Prospects in Ontario, Canada. In June 2000, the Company acquired the Lenox Prospects in Michigan, USA. In January 2001, the Company acquired the Cranberry-Botha Property in Alberta, Canada; the Company still holds various working interests (up to 33%) which is subject to a farm-in proposal; the Company has written off its investment in the project. In September 2001, the Company acquired the Rock Springs Property in Wyoming, USA; this project was abandoned in August 2002.

#### **Lenox Prospects, Michigan, USA**

The Michigan Basin contains extensive belts of organic reefs composed of carbonate rocks (limestone and dolomite) formed under shallow seas in the Silurian period. These oil/gas-filled reefs are the principal target for exploration companies in the basin. The Company is now in a position to form relationships with the industry partners to evaluate other Silurian reef projects in the basin. The Company will avoid exposing itself to unnecessary risks in pursuing these opportunities.

The focus of the Company's operations remains the Lenox Prospects where the Company has a 22.5% working interest. A successful well was brought into production in January 2002 and a second well was completed in January 2003. The initial producing well, Richards #1-20, was drilled to a total depth of 3,000 feet and intersected the Brown Niagaran reef anomaly at approximately 2,900 feet. The second producing well, the Martin #1-21, is a 600-foot step-out from the discovery well. A 2-D seismic program has been completed. The Shmude LaTorre 1-20 well, located north of the other wells, encountered a gas charged zone up-hole of the Reef formation. Management anticipates that drilling expenditures on this property will not be significant during Fiscal 2005.

At present, the Company has two wells on production currently producing at a combined rate of 717 barrels of oil per day (December 2004), with a small amount of gas being flared.

Production revenue for 2002 was \$302,915, primarily derived from the Richards #1-20 well at the Lenox Prospects that went on stream in January 2002. Production revenue for 2003 was \$415,244, derived from the combined production of the Richards #1-20 and the Martin #1-21 (placed on production in April 2003), both located at the Lenox Prospects. Production revenue from the Lenox Prospects for 2004 was \$349,550, derived from the combined production of the Richards #1-20 and the Martin #1-21.

#### Lenox North Prospects

In September 2003, the Company acquired a 22.5% working interest in a leasehold immediately north of its Lenox Prospect property in southeast Michigan. The Company has also agreed an area of mutual interest ("AMI") of approximately 2,000 acres comprising of leases in and around the said leasehold. The operator plans to drill four wells on the property. The Company has the option to participate in the drilling of the initial four wells and any further development wells within the AMI. The target on the leasehold, which has seismic cover, is an extension of Niagarian reef that was discovered on the Lenox property. Typical reefs in the area can vary in size from approximately 300,000 barrels and 2BCF to over 1,000,000 barrels and 10 BCF of recoverable reserves and are contained in surface area between 80 to 300 acres.

In October 2003, the LaTorie #1-20 Well was drilled. This well, located approximately 1,300 north of the Richards #1-20 Well and Martin #1-21 Well, did not encounter the Silurian Reef, as hoped for, and was abandoned.

In April 2004, the Werderman #1-21 Well was drilled. This well, located approximately 650 feet from the Martin #1-21 Well, was on a seismic line and was testing the southeastern extension of the platform reef from the Richards #1-20 and Martin #1-21 wells. The reef was not encountered and the well was abandoned.

#### Mission River Development Project

In February 2004, the Company entered into an agreement to participate in a 12-well development-drilling program, at a 10% interest. The initial 12-well program is estimated to cost approximately US\$10.5 million or approximately US\$800,000 per well. A successful well can be drilled and producing within six weeks. The property is crossed over by a natural gas pipeline and can be serviced by two natural gas transmission systems.

In October 2004, the Company did not exercise its right to acquire up to an additional 19% interest in the Mission River Development Project.

Natural gas in the area is typically sold into the local spot market at an estimated discount of US\$0.50/mcf, relative to the Henry Hub price. The Henry Hub price on 3/31/2005 was about US\$7.00 per Mmbtu and averaged about US\$5.90 per Mmbtu during 2004. A compression fee may be applied to the wellhead price. The operating costs of a typical gas well are estimated to be US\$2,500 per month. Crude oil in the area is trucked to a local refinery and nets an estimated wellhead price of Cushing Spot less a US\$1.50/barrel discount. The Cushing Spot price on 3/31/2005 was about US\$55 per barrel and averaged about US\$41 per barrel during 2004. The operating costs of a typical oil well are estimated to be US\$3,500 per month.

The operator, High Plains Gas Systems Inc, drilled the first well on 5/14/2004. The Scanio-Sheldon Well #2 was drilled to the Massive Zone at 6,800 feet and was tested: for bypassed oil and gas pay between 5,000 and 6,800 feet; for untested oil zones in the lower 4,000 feet range; and untested gas zones down to 2,300 feet. A total of 120 sidewall-cores/eight formation-pressure-tests/log analysis identified eight zones as having probable reserves. The well was completed as a gas well, without yet testing the seven other zones including the main target zone.

During 2004/2005, the Company completed the next four wells on the project, producing oil, gas, and condensate:

- July 2004: Scanio-Sheldon Well #4;
- July 2004: Scanio-Sheldon Well #5;
- August 2004: Scanio-Sheldon Well #3;
- August 2004: Scanio-Sheldon Well #1 (oil only); and
- February 2005: Scanio-Sheldon Well #9 (oil only).

Production revenue from the Mission River Development Project for 2004 was \$87,500, derived from the combined production of the first five wells noted above.



The Mission River field has six wells on production and at 3/31/2005 was producing approximately 1.1 million cubic feet of gas and 120 barrels of oil a day. Six shallow wells remain to be drilled and the operator has advised the next well will test the Lower Vicksburg at 8,500 feet and should commence drilling as soon as a rig becomes available. The operator has advised this is likely to be no later than September 2005. The Mission river lease is operated by the McAlester Fuel Company ("McFuel") and is located at the south end of the town of Refugio, Refugio County, Texas. The field has multiple pays at depths ranging from 2,000 to 8,500 feet. The operator commented in March 2005:

*"Most of the production from wells on the McFuel lease has been from the 6,400-foot Massive Vicksburg ("Tom O Connor" Sand) and "G" series (6,300 feet) Frio zones. A down-dip well south of the McFuel lease has produced substantial oil from 10 feet of net pay in the FQ-31 Sand. Two wells on the McFuel lease have each produced over 150,000 barrels of oil from the "FT-8 Sand" from only a five-foot-net-pay-thickness. A significant untapped shallow oil play exists at approximately 4,150-to 4,200 feet. Less than two miles south of the McFuel lease the uppermost Oligocene Age Discorbis zones have produced substantial oil/gas in the shallow wells located in the Woodsbororo South Field (4,200 feet); each pay-zone ranges from four to six feet of net pay thickness".*

In April 2005, the Company received a technical evaluation from the operator, McFuel, on its proposal to drill a well to a depth of approximately 10,000 feet on the Mission River Development Project. McFuel gave the following reasons why they are convinced significant oil and gas reserves remain untapped at deeper levels:

*"McAlester Fuel has applied for a drilling permit for the McAlester Scanio-Shelton #10". McAlester has defined the prospect by a combination of sub-surface well control and an innovative exploration technology known as electro-magnetic imaging.*

*On the Scanio-Shelton lease, three nearby wells encountered hydrocarbon shows and production from depths ranging in depths from 8,200-to-8,500 feet in the Lower Vicksburg formation. From an individual sandstone reservoir, one well produced at an initial rate of 12 million cubic feet of gas per day, and 240 barrels of oil per day.*

*Two other wells drilled in the early 1960's, each had initial potentials of 8 million cubic feet of gas per day from individual reservoirs. McFuel believes the original objectives for these wells were oil producing targets and that additional zones had been bypassed. At the time these wells were drilled, the price for natural gas was below US\$0.20 per thousand cubic feet, whereas current gas price exceeds US\$7.50 per thousand cubic feet. Additionally, the sandstones in the older wells were not fracture stimulated, a commonly used technique in the industry today to enhance producing rates and the increase the ultimate recovery of the hydrocarbons.*

*Electro-magnetic prospecting is a relatively new technology that grew out of the research group at Exxon. In fact, Exxon has publicly stated that it will add this technique to its exploration arsenal, which includes the acquisition of 3-D seismic data, for all its world-wide prospects. The technique involves the generation of continuous electrical energy at the surface to investigate the earth's subsurface geological structure and stratigraphy. The electromagnetic waves propagate downward and encounter various geologic boundaries. Those boundaries having conductivity contrast reflect a portion of the waves back to the earth's surface, much as sound wave energy is generated and reflected in seismic recording. The electrical-magnetic waves become organized such that a direct relationship between the resonating frequencies and the depths to the various geologic boundaries occur. The electrical contrast between hydrocarbon bearing rocks and their surrounding formations, an electro-magnetic signature can be detected and measured. The phenomenon results in the direct detection of the hydrocarbons, as well as the depth and thickness of potential reservoirs. When used in combination with subsurface well control on the Scanio-Shelton lease, this technology has produced a good estimate of the potential for deeper prospects in the range of 8,000-to-10,000 feet.*

*The McFuel Scanio-Shelton #10 will be spud as soon as a rig capable of drilling to 10,000 feet becomes available." The operator concluded.*

The Mission River field has six wells on production. Total production from the field for the month of March 2005 was 30.127 million cubic feet of gas and 1,917 barrels of oil. Six shallow wells remain to be drilled. The focus has now shifted to the deeper potential of the lease. The Company anticipates expending \$300,000 on exploration/development during 2005.

#### **United States vs. Foreign Sales/Assets**

During 2004, 2003 and 2002, respectively, the Company generated \$442,368, \$415,244 and \$302,915 in oil/gas production revenue, from the Lenox Prospects in Michigan, USA and the Mission River Development Project in Texas, USA.

At 12/31/2004 and 12/31/2003, respectively, \$149,560 and nil of the Company's capital assets were located in Canada; the remainder were located in the United States, principally the Lenox Prospects, Lenox North Prospects, and the Mission River Development Project.

**Oil/Gas Operations**

Summary of the Company's appraised interests in oil and gas reserves after royalties is contained in Table No. 3, at 12/31/2004, all proved reserves are located at the Lenox Prospects in Michigan, USA.

Table No. 3  
Supplemental Information on Oil and Gas Producing Activities  
Schedule of Changes in Reserves  
For the Years Ended 12/31/2004, 12/31/2003, 12/31/2002, and 12/31/2001

	Oil <u>SBL</u>	Gas <u>MMcf</u>
<b>Reserves, 12/31/2001</b>	<b>0.0</b>	<b>0.0</b>
Discoveries/Extensions:	24,904	10.0
Revisions	(0.0)	(0.0)
Production	(6,521)	(0.0)
<b>Reserves, 12/31/2002</b>	<b>18,383</b>	<b>10.0</b>
Discoveries/Extensions:	0	0.0
Revisions	5,604	(10.0)
Production	(8,854)	(0.0)
<b>Reserves, 12/31/2003</b>	<b>15,133</b>	<b>0.0</b>
Discoveries/Extensions:	1,240	41.7
Revisions	10,145	0.0
Production	(7,599)	(16.8)
<b>Reserves, 12/31/2004</b>	<b>23,135</b>	<b>24.9</b>

Average sales price per unit and average production cost for oil and gas produced during the periods are shown in Table No. 4. Production costs are allocated based on the weighted average of oil and gas sales. In 2003 and 2002, production was primarily crude oil.

Table No. 4  
Product Pricing and Production Costs

Year	Average Sales Price		Average Production Costs	
	Gas (per mcf)	Liquids (per bbl)	Gas (per mcf)	Liquids (per bbl)
2004	\$7.50	\$43	\$0.80	\$6
2003	---	\$30	---	\$6
2002	---	\$35	---	\$6
2001	---	---	---	---

Productive wells as of 5/31/2005 were as follows:

Table No. 5  
Productive Wells

	<u>Gross Wells</u>		<u>Net Wells</u>	
	<u>Gas</u>	<u>Oil</u>	<u>Gas</u>	<u>Oil</u>
Lenox Prospects	0	2	0.0	0.45
Mission River Development Project	5	1	0.5	0.10

Total developed and undeveloped acreage interests owned by the Company is summarized by geographic area in Table No. 6, as of 5/31/2005.

Table No. 6  
Productive/Undeveloped Acreage

	<u>Productive Acreage</u>		<u>Undeveloped Acreage</u>	
	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Michigan, USA	160.0	37.5	200	45.0
Texas, USA	623.0	62.3	780	59.0

Productive and dry wells drilled during the following fiscal periods:

Table No. 7  
Drilling Activity

<u>Year</u>	<u>Gross</u>		<u>Net</u>	
	<u>Productive</u>	<u>Dry</u>	<u>Productive</u>	<u>Dry</u>
2005-to-date	0	0	0	0
2004	6	0	0.600	0
2003	0	2	0.000	0.45
2002	1	0	0.225	0
2001	1	10	0.225	4
2000	0	0	0	0

#### Present Activities

There is one well being drilled as of 5/31/2005.

#### Delivery Commitments

There are no delivery commitments as of 5/31/2005.

## **Plan Of Operations**

### **Source of Funds for Fiscal 2005**

Historically, the Company's primary source of funds since incorporation was through the issuance of common stock and loans. The Company generated \$442,368 in oil/gas revenue in the 2004 and anticipates \$700,000 in oil/gas revenues during Fiscal 2005.

The Company had negative working capital balance of (\$286,850) at 12/31/2004. During Fiscal 2005-to-date, the Company: raised \$93,675 from the issuance of 624,500 common shares pursuant to the exercise of stock options.

At 6/1/2005, the Company had 2,597,000 outstanding stock options with an exercise price of \$0.15. At 6/1/2005, the Company had 1,444,559 outstanding share purchase warrants with exercise prices ranging from \$0.20 to \$0.24.

The Company has had discussions with third parties about additional equity offerings; but, the talks as of 5/31/2005 were preliminary.

### **Use of Funds for Fiscal 2005**

During Fiscal 2005, the Company estimates that total general/administrative costs will be approximately \$1 million.

During Fiscal 2005, the Company estimates that it will expend \$0.3 million on property acquisition/exploration/development.

### **Anticipated Changes to Facilities/Employees**

Since the signing of the property acquisition agreements, the Company added no additional personnel to assist property acquisition/exploration/development programs or for administrative/general activities. There are no plans to add additional in-house personnel; rather, the Company is relying on the property operators to provide all technical staff.

## **4.C. Organization Structure**

The Company has one wholly-owned subsidiary: Portrush Petroleum (US) Corporation, incorporated in Michigan, USA, on 11/17/2003.

#### **4.D. Property, Plant and Equipment**

##### Executive Offices

The Company's executive offices are located in shared, rented premises of approximately 250 square feet at 1687 West Broadway #200, Vancouver, British Columbia V6J 1X2. The Company began occupying this facility in May 2000 and considers the facility adequate for current needs.

##### Lenox Prospects, Michigan, USA

In June 2000, the Company acquired a 22.5% working interest in two Silurian-Ordovician prospects, and associated leased lands (approximately 2,560 acres) located in St. Clair County, Cottrellville Township and Macomb County, Lenox Township, Southeast Michigan in consideration of cash payments to Range of \$150,000 for each of the two areas. The Company holds a 22.5% working interest in the property. A successful well (Richards #1-20) was drilled and completed; the well commenced production in January 2002 and remains on production. A second well (Martin #1-21) was drilled and completed in January 2003 and began producing in April 2003.

##### Lenox North Prospects

In September 2003, the Company acquired a 22.5% working interest in a leasehold immediately north of the Lenox Prospect property in southeast Michigan. The Company has also agreed an area of mutual interest ("AMI") of approximately 2,000 acres comprising of leases in and around the said leasehold. The operator plans to drill four wells on the property. The Company has the option to participate in the drilling of the initial four wells and any further development wells within the AMI. The target on the leasehold, which has seismic cover, is an extension of Niagarian reef that was discovered on the Lenox property. Typical reefs in the area can vary in size from approximately 300,000 barrels and 2BCF to over 1,000,000 barrels and 10 BCF of recoverable reserves and are contained in surface area between 80 to 300 acres.

##### Mission River Development Project

In January 2004, the Company acquired from McAlester Fuel Company, a 10% interest in 620 contiguous acres, subject to a 25% royalty interest held by Slack Oil Company. The Company paid US\$1.044,000 to acquire the interest and it is fully carried on the planned 12-well drilling program. The Mission River Development Project is adjacent to the producing Refugio oil/gas complex.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion for the fiscal years ended 12/31/2004, 12/31/2003, and 12/31/2002 should be read in conjunction with the Company's consolidated financial statements and notes thereto.

### **Overview**

Without any material properties at 12/31/1999, the Company acquired interests in five oil/gas properties during 2000 (including the Lenox Prospects) and two oil/gas properties during 2001. The less promising properties have been disposed of and during 2002-2003 focused its efforts on the oil/gas producing Lenox Property in Michigan, USA. The Lenox North Property was acquired in September 2003 and the Mission River Development Project was acquired in January 2004.

The funds raised in the equity financings discussed below have been used for the aforementioned property acquisitions and the funding of the Company's share of oil/gas well exploration/development. This has led to eight producing oil/gas wells, \$442,368 in oil/gas revenue in Fiscal 2004, and production of 7,600 barrels of oil and 16,839 MCF of gas in Fiscal 2004.

### **Financings**

In May 2003, the Company issued a convertible debenture for proceeds of \$180,000 maturing 5/1/2005, bearing interest at 8% per annum, convertible, at the option of the lender, into units at \$0.12 per unit until 5/1/2004 and thereafter at \$0.14 per unit until 5/1/2005. Each unit was comprised of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional common share for \$0.12 per share until 5/1/2004 and thereafter at \$0.14 per share expiring 5/1/2005. The funds were used for working capital and to pay for the completion costs on the Martin 1-21 well. During November 2003, the convertible debentures were converted into 1,500,000 units of common shares and warrants.

In August 2003, the Company completed a private placement of 2,100,000 units at \$0.10 a unit, raising \$210,000. Two of the Company's Directors subscribed for \$110,000 of the placement. Each unit consisted of one common share and one share purchase warrant. One warrant and an additional \$0.10 will entitle the holder to purchase one additional common share until 8/28/2005.

In October 2003, the Company concluded a private placement of 2,037,059 units at \$0.17 a unit, raising \$346,300. Each unit consisted of one common share and one share purchase warrant. One warrant and an additional \$0.24 will entitle the holder to purchase one additional common share until 10/14/2005.

In June 2004, the Company concluded a private placement of 3,100,000 units at \$0.20 a unit, raising \$620,000. Each unit consisted of one common share and one share purchase warrant. Eight warrants and an additional \$0.20 will entitle the holder to purchase one additional common share until 6/2/2006; the warrants will entitle the holders to purchase a total of 387,500 common shares. The Company issued 225,000 common shares at a value of \$45,000 as a finder's fee.

In August 2004, the Company concluded a private placement of 1,500,000 common shares at \$0.20 per share, raising \$300,000. The Company issued 93,750 common shares at a deemed value of \$18,750 as a finder's fee.

During Fiscal 2004, the Company raised: \$1,090,200 through the issuance of 7,680,000 common shares pursuant to the exercise of warrants; and \$110,000 through the issuance of 1,050,000 common shares pursuant to the exercise of stock options.

During 2005-to-date, the Company raised \$93,675 through the issuance of 624,000 common shares pursuant to the exercise of stock options.

### US GAAP Reconciliation

Under US GAAP, the calculation of weighted average number of shares used in the calculation of Loss Per Share would not have included 103,125 escrowed, contingently cancelable common shares (post consolidation).

### Oil and gas properties

Under both US and Canadian GAAP, property, plant and equipment must be assessed for potential impairments. Under US GAAP, if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, then an impairment loss (the amount by which the carrying amount of the asset exceeds the fair value of the asset) should be recognized. Fair value is calculated as the present value of estimated expected future cash flows. Prior to 1/1/, under Canadian GAAP, the impairment loss was the difference between the carrying value of the asset and its net recoverable amount (undiscounted). Effective 1/1/2004, the CICA implemented a new pronouncement on impairment of long-lived assets, which eliminated the US/Canadian GAAP difference going forward.

### Stock based compensation

Under United States GAAP, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation ("SFAS 123") recommends, but does not require, companies to establish a fair market value based method of accounting for stock-based compensation plans. The Company has elected for the years ended 12/31/2004 and 12/31/2003 to account for stock-based compensation using SFAS 123. Accordingly, compensation cost for stock options is measured at the fair value of options granted.

For the year ended 12/31/2002, the Company elected to account for stock-based compensation using Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options was measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the option price. Since stock options are granted at exercise prices that are at or above the quoted market value of the Company's common shares at the date of grant, there was no compensation cost to be recognized by the Company.

Under Canadian GAAP, the Company accounts for stock based compensation as disclosed in Note 2. Accordingly, there is no difference between Canadian GAAP and United States GAAP on the accounting for stock-based compensation for the years ended 12/31/2004, 12/31/2003 and 12/31/2002.

### Loss per share

Under both Canadian GAAP and United States GAAP basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Under United States GAAP, the weighted average number of common shares outstanding excludes any shares that remain in escrow, but may be earned out based on the Company incurring a certain amount of exploration and development expenditures. The weighted average number of shares outstanding under United States GAAP for the years ended 12/31/2004, 12/31/2003 and 12/31/2002 were 33,755,501, 22,132,652 and 17,663,899, respectively. Accordingly, the loss per share for the years ended 12/31/2004, 12/31/2003 and 12/31/2002 was \$(0.02), \$(0.03) and \$(0.10), respectively.



#### Asset retirement obligations

Under United States GAAP, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" requires companies to record the fair value of the liability for closure and removal costs associated with the legal obligations upon retirement or removal of any tangible long-lived assets. Under this standard, the initial recognition of the liability is capitalized as part of the asset cost and depreciated over its estimated useful life.

Under Canadian GAAP, the Company was required to record asset retirement obligations as at 12/31/2004 for estimated future net costs of well abandonment and site restoration including removal of production facilities at the end of their useful life of \$6,473 (2003 - \$6,473). New accounting and disclosure standards were introduced under Canadian GAAP and adopted by the Company effective 1/1/2003. Accordingly, there is no difference between Canadian GAAP and United States GAAP as at 12/31/2004 and 12/31/2003.

#### Critical Accounting Policies

Management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On a regular basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. During the year ended 12/31/2004, the Company did not adopt any new accounting policy that would have a material impact on the consolidated financial statements, nor did it make changes to existing accounting policies. Senior management has discussed with the Audit Committee the development, selection and disclosure of accounting estimates used in the preparation of the consolidated financial statements.

#### Accounting Pronouncements

##### Canadian GAAP

Effective 1/1/2002, the Company adopted CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("CICA 3870") which recommends the fair value-based methodology for measuring compensation costs. CICA 3870 also permits, and the Company has adopted, the use of the intrinsic value-based method which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted.

Effective for the year ended 12/31/2003, the Company adopted prospectively the amended recommendations of CICA 3870 with respect to stock-based compensation whereby, the Company recognizes compensation costs for the granting of all stock options and direct awards of stock.

The Company has adopted the recently issued CICA Handbook Section 3110 "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for any changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time.

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which will be effective for annual and interim periods beginning on or after 11/1/2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. Management is assessing the impact, if any, of the adoption of this guideline on the Company's consolidated financial statements.

#### New accounting pronouncements

In January 2003, FASB issued Financial Interpretation No. 46 "*Consolidation of Variable Interest Entities*" ("*FIN 46*") (revised in 12/17/2003). The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after 12/15/2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after 3/15/2004.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Non-Monetary Assets - an amendment of APB Opinion No. 29" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Non-monetary Transactions", to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after 6/15/2005.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("SFAS 123R"). SFAS 123R supersedes APB 25 and its related implementation guidance by requiring entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards (with limited exceptions) and revises SFAS 123 as follows:

- a. Public entities are required to measure liabilities incurred to employees in share-based payment transactions at fair value and non-public entities may elect to measure their liabilities to employees incurred in share-based payment transactions at their intrinsic value, whereas under SFAS 123 all share based payment liabilities were measured at their intrinsic value.
- b. Non-public entities are required to calculate fair value using an appropriate industry sector index for the expected volatility of its share price, if it is not practicable to estimate the expected volatility of the entity's share price.
- c. Entities are required to estimate the number of instruments for which the requisite service is expected to be rendered as opposed to accounting for forfeitures as they occur.
- d. Incremental compensation cost for a modification of the terms or conditions of an award is measured by comparing the fair value of the modified award with the fair value of the award immediately before the modification, whereas SFAS 123 required that the effect of a modification be measured as the difference between the fair value of the modified award at the date it is granted and the award's value immediately before the modification, determined based on the shorter of (1) its remaining initially estimated expected life or (2) the expected life of the modified award.

SFAS 123R also clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or a liability and attributing compensation cost to reporting periods. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued in EITF 96-18. SFAS 123R also does not address the accounting for employee share ownership plans which are subject to Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". Public entities (other than those filing as small business issuers) will be required to apply SFAS 123R as of the first annual reporting period that begins after 6/15/2005. Public entities that file as small business issuers will be required to apply SFAS 123R in the first annual reporting period that begins after 12/15/2005. For non-public entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after 12/15/2005. The adoption of this new pronouncement is not expected to have a material effect on the Company's consolidated financial position or results of operations.

### **Results Of Operations**

#### **Fiscal 2004 Ended December 31, 2004 versus Fiscal 2003**

The Company acquired interests in five oil/gas properties during 2000 (including the Lenox Prospects) and two oil/gas properties during 2001. The less promising properties have been disposed of. During 2002-2003, the Company has focused its efforts on the oil/gas producing Lenox Property in Michigan, USA. The Lenox North Property was acquired in September 2003 and the Mission River Development Project was acquired in January 2004.

The Company generated \$442,368 during 2004 (versus \$415,244) in oil/gas revenue from the Lenox Prospects and Mission River project. Offsetting this revenue was \$121,937 (versus \$577,679) in depletion costs; the ceiling test calculation determined that the net book value of the Company's assets in the USA exceeded net future cash flows from proven reserves and, accordingly, the Company recorded a ceiling test write-down of \$319,950 during 2003. Oil/gas operating expenses were \$145,556 (versus \$123,767), reflecting increased production activity. Gross Profit (loss) was \$174,875 [versus (\$308,202)].

General/Administrative (excluding stock-based compensation of \$298,482) expenses increased by 60% to \$569,691 during 2004 (versus \$343,110), as expected, due to the Company's increased exploration and development activity, fund raising, and investor relations effort. Investor Relations expenses rose more than six-fold to \$164,344 from \$24,860 as a result of the hiring of an outside consulting firm and the development of a corporate awareness program. Office/Miscellaneous expenses rose 73% to \$107,355 from \$62,040 due to the general increase in corporate activity and consulting/administrative expenses tripled to \$107,170 from \$34,322 as well.

#### Fiscal 2003 Ended December 31, 2003 versus Fiscal 2002

The Company acquired interests in five oil/gas properties during 2000 (including the Lenox Prospects) and two oil/gas properties during 2001. The less promising properties have been disposed of. During 2002-2003, the Company has focused its efforts on the oil/gas producing Lenox Property in Michigan, USA. The Lenox North Property was acquired in September 2003 and the Mission River Development Project was acquired in January 2004.

The Company generated \$415,244 in oil/gas revenue from the Lenox Prospects. Offsetting this revenue was \$599,679 in depletion and \$123,767 in oil/gas operating expenses. Gross Profit (loss) was (\$308,202).

General/Administrative expenses increased by 59% to \$343,110 during Fiscal 2003, as expected, due to the Company's increased exploration and development activity and fund raising undertaken. Professional fees (primarily for legal and accounting) rose to \$100,702 compared to \$65,253 last year, due to increased corporate activity and fund raising undertaken. Management fees rose to \$87,000 from \$60,000 last year. The \$87,000 (\$27,000 increase) included \$72,000 (versus \$60,000) paid/accrued to Martin Cotter, President/CEO/ Director of the Company; and \$15,000 paid/accrue to Bruce Nurse. Office/miscellaneous expenses tripled to \$62,040 from \$21,722 last year due to increased corporate activity and fund raising.

Other Items were (\$95,186) versus (\$1,368,148) last year. This year the material items were \$2,464 gain on settlement of accounts payable; (\$12,191) interest expense; and (\$85,459) foreign exchange loss resulting from the increased value of the Canadian Dollar (CDN\$) versus the US Dollar because the Company earns its revenue in the USA and most of its assets are in the USA. Last year's "other items" were dominated by the (\$1,441,793) write-off of oil/gas properties.

Net Loss for Fiscal 2003 was (\$746,498) versus (\$1,749,571). Net Loss Per Share was (\$0.03) versus (\$0.10). Weighted average number of shares was 22,235,777 versus 17,767,024 last year.

#### Fiscal 2002 Ended December 31, 2002 versus Fiscal 2001

Administrative expenses decreased during Fiscal 2002 despite the Company's increased exploration and development activity and fund raising undertaken. Administration expenses fell to \$216,124 compared to \$256,160 last year. Professional fees fell to \$65,253 compared to \$89,203 last year. Martin Cotter, the President of the Company, was paid and/or accrued management fees of \$60,000 for Fiscal 2002 compared to \$60,000 in Fiscal 2001. In addition, the Company paid consulting fees of \$19,700 compared to \$41,009 for Fiscal 2001 for work related to reviewing various oil/gas prospects.

Net Loss for Fiscal 2002 was (\$1,749,571) including the (\$1,441,793) write-off of oil/gas property interests and depletion expenses of \$398,046 (\$nil last year). Net Loss Per Share was (\$0.10). Weighted average number of shares was 17,767,024 versus 15,705,472 in Fiscal 2001.

## **Liquidity and Capital Resources**

### **Fiscal 2004 Ended December 31, 2004**

Working Capital was a negative (\$ 286,850) at 12/31/2004.

The Company generated \$442,368 in revenue from oil/gas production during Fiscal 2004. While the Company anticipates increased revenue during Fiscal 2005 and beyond, profitability from its oil/gas operations is not expected to be sufficient to fund all corporate operations and growth during the next fiscal year. Thus, the Company expects to rely upon equity financing as its primary source of funding.

The Company has sufficient financial resources to undertake by itself the exploration and development of its planned exploration and development programs during Fiscal 2005. Long-term, the payment of property payments and the development of its property interests will depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing or other means. There is no assurance that the Company will be successful in obtaining the required financing or that financing will be available on terms and conditions acceptable to the Company or that will not cause significant dilution to shareholders.

Cash Used in Fiscal 2004 Operating Activities totaled (\$318,125), including the (\$766,320) Net Loss. Material adjustments included depletion of \$121,937, recovery of write-off of receivables of \$73,022, accrual of management fees of \$72,000, and the (\$117,247) decrease in non-cash working capital. Cash Used in Fiscal 2004 Investing Activities totaled (\$1,590,572), for oil/gas property expenditures. Cash Provided by Fiscal 2004 Financing Activities totaled \$1,978,259 , predominately from the aforementioned private placements and offset by advances from related parties.

### **Fiscal 2003 Ended December 31, 2003**

Working Capital was a negative (\$306,989) at 12/31/2003.

The Company generated \$415,244 in revenue from oil/gas production during Fiscal 2003. While the Company anticipated increased revenue during Fiscal 2004, profitability from its oil/gas operations is not expected to be sufficient to fund all corporate operations and growth; the Company expects to rely upon equity financing as its primary source of funding.

Cash Used in Fiscal 2003 Operating Activities totaled (\$478,991), including the (\$746,498) Net Loss. Material adjustments included depletion of \$599,679 and the (\$341,899) decrease in non-cash working capital. Cash Used in Fiscal 2003 Investing Activities totaled (\$391,138), for oil/gas property expenditures; predominately for the Lenox Prospects in Michigan, USA. Cash Provided by Fiscal 2003 Financing Activities totaled \$857,654 from the aforementioned private placements, convertible debenture, the exercise of warrants and advances from related parties.

Fiscal 2002 Ended December 31, 2002

The Company generated \$302,915 in revenue from oil/gas production. While the Company anticipates increased revenue during Fiscal 2003 and beyond, profitability from its oil/gas operations is not expected to be sufficient to fund all corporate operations and growth; the Company expects to rely upon equity financing as its primary source of funding.

The Company does not presently have sufficient financial resources to undertake by itself the exploration and development of its planned exploration and development programs. The payment of property payments and the development of its property interests will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing, public financing or other means. There is no assurance that the Company will be successful in obtaining the required financing or that financing will be available on terms and conditions acceptable to the Company or that will not cause significant dilution to shareholders.

Working Capital was a negative (\$ 574,732) at 12/31/2002.

Cash Used in Fiscal 2002 Operating Activities totaled (\$198,318), including the (\$1,749,571) Net Loss. Material adjustments included the \$1,441,793 write-off of oil/gas properties, depletion of \$398,046, and the (\$233,415) decrease in non-cash working capital. Cash Used in Fiscal 2002 Investing Activities totaled (\$61,328), for oil/gas property expenditures; predominately the oil/gas expenditures were for the Lenox Prospects in Michigan, USA. Cash Provided by Fiscal 2002 Financing Activities totaled \$259,116 from two private placements, the exercise of warrants, proceeds for loan payable, and repayment of advances from related parties.

**5.C. Research and development, patents and licenses, etc.**

**5.D. Trend information**

**5.G. Safe harbor.**

--- No Disclosure Necessary ---

**5.E. Off-Balance Sheet Arrangements.**

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

**5.F. Tabular disclosure of contractual obligations.**

The Company does not have any contractual obligations as of 5/31/2005 that will require significant cash outlays in the future.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES**

### **6.A. Directors and Senior Management**

Table No. 8  
Directors and Senior Management  
June 30, 2005

Name	Position	Age	Date of First Election or Appointment
Martin P. Cotter (1) (2)	President/CEO/Director	54	January 1996
Neal Iverson (1) (3)	Secretary/Director	54	March 2000
Wes Franklin (4)	Director	58	May 2005
<hr/>			
(1) Member of Audit Committee.			
(2) He spends over half of his time on the affairs of the Company. Resident/Citizen of Ireland Business address: 65 Main Street, Blackrock, Dublin, Ireland.			
(3) He spends about 10% of his time on the affairs of the Company. Resident/Citizen of British Columbia, Canada Business address: c/o Portrush Petroleum Corp. 1687 West Broadway #200, Vancouver, BC V6J 1X2			
(4) Resident/Citizen of Washington, USA Business address: 561 Mussel Beach, Coupeville, WA 98239			

Martin P. Cotter, President/CEO/Director of the Company is a professional engineer resident in Dublin, Ireland. He also manages Ashcliff Holdings, a private property and investment company.

Neal Iverson, Secretary of the Company, is a commercial realtor who has been associated with Western Mortgage Realty Corporation in Vancouver, British Columbia for over fifteen years.

Wes Franklin, Director of the Company, is a registered geologist with both the State of Washington and the American Association of Petroleum Geologists, and he is a member of SPE and SE.G. He has been in the exploration and production segment of the petroleum industry for 34 years and spent over 16 years in senior management positions for Tenneco Oil Company and Fina Oil and Chemical Company. Since his retirement from Fina in 1997, he has been an active consultant in both domestic and international exploration plays. He is currently the Executive Vice President of Touchstone Resources U.S.A., Inc.

The Directors have served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting or until a successor is duly elected, unless the office is vacated in accordance with the Articles/By-Laws of the Company.

The Senior Management serves at the pleasure of the Board of Directors with management service contracts but without term of office, except as disclosed in ITEM #6B below.

Despite the Company's Executive Officers spending material portions of their time on businesses other than the Company, the Company believes that they devote sufficient time to the Company to properly carry out their duties.

No Director and/or Executive Officer has been the subject of any order, judgment, or decree of any governmental agency or administrator or of any court or competent jurisdiction, revoking or suspending for cause any license, permit or other authority of such person or of any corporation of which he is a Director and/or Executive Officer, to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining or enjoining any such person or any corporation of which he is an officer or director from engaging in or continuing any conduct, practice, or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security or any aspect of the securities business or of theft or of any felony.

There are no arrangements or understandings between any two or more Directors or Executive Officers, pursuant to which he was selected as a Director or Executive Officer. There are no family relationships between any two or more Directors or Executive Officers.

#### 6.B. Compensation

Director Compensation. The Company has no formal plan for compensating its Directors for their service in their capacity as Directors. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the Board of Directors. The Board of Directors may award special remuneration to any Director undertaking any special services on behalf of the Company other than services ordinarily required of a Director. Other than indicated below no Director received any compensation for his services as a Director, including committee participation and/or special assignments.

Senior Management Cash Compensation. During Fiscal 2004 Ended 12/31/2004, the Company paid/accrued cash compensation/salary (directly and indirectly) to one Senior Management/Director totaling \$72,000, to Martin Cotter.

Table No. 9 details compensation paid/accrued for Fiscal 2004/2003/2002 ended December 31st for the Senior Management and Directors.

Table No. 9  
Summary Compensation Table  
Senior Management and Directors

					<u>Long-Term Compensation</u>			
		<u>Annual Compensation</u>			<u>Awards</u>			
Name and				Other	Restricted			All
Principal	Fiscal			Annual	Stock	Options/	LTIP	Other
<u>Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Comp.</u>	<u>Award(s)</u>	<u>SARS(#)</u>	<u>Payouts</u>	<u>Comp.</u>
Martin Cotter: President/CEO/Director (1)								
	2004	\$72,000	nil	\$55,000	1,000,000	nil	nil	nil
	2003	\$72,500	nil	nil	0	nil	nil	nil
	2002	\$60,500	nil	nil	500,000	nil	nil	nil

- (1) Other Annual Compensation includes:  
\$35,000 "value realized" from the exercise of 500,000 stock options.  
\$20,000 "intrinsic value" of stock options granted at "below market".
- (2) Other Compensation are consulting fees paid for non-director services.



Options/SARs Granted During The Most Recently Completed Fiscal Year

During the most recently completed fiscal year, the following incentive stock options were granted to Senior Management, Directors and employees/consultants. No SARs (stock appreciation rights) were granted during this period.  
HELP???

Table No. 10  
Stock Option Grants in Fiscal 2004 Ended 12/31/2004

Name	Percentage		Exer. Price Per Share	Market Value of Securities		
	Number of Options Granted	of Total Options Granted		Grant Date	Expiration Date	Underlying Options on Date of Grant Per Share
Martin Cotter	1,000,000	31.1%	\$0.15	4/05/2004	4/05/2006	\$0.17
Bruce Nurse	100,000	3.1%	\$0.15	4/05/2004	4/05/2006	\$0.17
Neal Iverson	200,000	6.2%	\$0.15	4/05/2004	4/05/2006	\$0.17
Employees/Consultants	1,900,000	59.6%				
<b>TOTAL</b>	<b>3,200,000</b>	<b>100.0%</b>				

Options/SARs Exercised During The Most Recently Completed Fiscal Year

During the most recently completed fiscal year, 1,050,000 stock options were exercised by Senior Management, Directors and/or employees/consultants; no stock options expired unexercised or were cancelled. No SARs (stock appreciation rights) were granted/exercised during this period.

The following table gives certain information concerning stock option exercises during Fiscal 2004 by the Company's Senior Management and Directors. It also gives information concerning stock option values.

Table No. 11  
Aggregated Stock Options Exercises in Fiscal 2004  
Fiscal Yearend Unexercised Stock Options  
Fiscal Yearend Stock Option Values  
Senior Management/Directors

Name	Number		Value of Unexercised		Value of Unexercised	
	of Shares Acquired on Exercise	Aggregate Value Realized	Unexercised Options at Fiscal Yearend Exercisable/ Unexercisable	Number of Options at Fiscal Yearend Exercisable/ Unexercisable	In-the Money Options at Fiscal Yearend Exercisable/ Unexercisable	Value of Unexercised Options at Fiscal Yearend Exercisable/ Unexercisable
Martin Cotter	500,000	\$35,000	1,000,000/ nil	nil	\$130,000/ \$nil	\$130,000/ \$nil
Bruce Nurse	200,000	\$34,000	300,000/ nil	nil	\$39,000/ \$nil	\$39,000/ \$nil
Neal Iverson	<u>100,000</u>	<u>\$17,000</u>	<u>100,000/</u> <u>nil</u>	<u>nil</u>	<u>\$13,000/</u> <u>\$nil</u>	<u>\$13,000/</u> <u>\$nil</u>
Subtotal	800,000	\$86,000	1,400,000/ nil	nil	\$182,000/ \$nil	\$182,000/ \$nil
Consultants	250,000	\$17,500	800,000/ nil	nil	\$104,000/ \$nil	\$104,000/ \$nil
Employees	<u>0</u>	<u>\$ 0</u>	<u>1,000,000/</u> <u>nil</u>	<u>nil</u>	<u>\$130,000/</u> <u>\$nil</u>	<u>\$130,000/</u> <u>\$nil</u>
Subtotal	250,000	\$17,500	1,800,000/ nil	nil	\$234,400/ \$nil	\$234,400/ \$nil
<b>TOTAL</b>	<b>1,050,000</b>	<b>\$103,500</b>	<b>3,200,000/</b> <b>nil</b>	<b>nil</b>	<b>\$416,000/</b> <b>\$nil</b>	<b>\$416,000/</b> <b>\$nil</b>

Stock Options. The Company may grant stock options to Directors, Senior Management and employees. Refer to ITEM #6.E., "Share Ownership" and Table No. 9, No. 10, No. 11, and No. 12 for information about stock options.

Change of Control Remuneration. The Company has no plans or arrangements in respect of remuneration received or that may be received by Executive Officers of the Company in Fiscal 2005 to compensate such officers in the event of termination of employment (as a result of resignation, retirement, change of control) or a change of responsibilities following a change of control, where the value of such compensation exceeds US\$100,000 per Senior Management.

Other Compensation. No Senior Management/Director received "other compensation" in excess of the lesser of US\$25,000 or 10% of such officer's cash compensation, and all Senior Management/Directors as a group did not receive other compensation which exceeded US\$25,000 times the number of persons in the group or 10% of the compensation, other than disclosed in Table No. 11 and ITEM #7.B.

Bonus/Profit Sharing/Non-Cash Compensation. Except for the stock option program discussed in ITEM #6.E., the Company has no material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to the Company's Directors or Senior Management.

Pension/Retirement Benefits. No funds have been set aside or accrued by the Company since incorporation to provide pension, retirement or similar benefits for Directors or Senior Management.

Written Management Agreements  
--- No Disclosure Necessary ---

#### 6.C. Board Practices

All directors hold office until the next meeting of the shareholders of the Company unless they resign or are removed in accordance with the Company's Articles. Senior Management are appointed to serve at the discretion of the Board of Directors. The Board of Directors and the Audit Committee of the Board schedule regular meetings over the course of the year.

The fundamental objective of the Board is to ensure that it operates in a fashion that maximizes shareholder value over the long term. The Board's duties and responsibilities are all carried out in a manner consistent with that fundamental objective. The principal duty and responsibility of the Board is to oversee the management and operations of the Company, with the day-to-day management of the business and affairs of the Company delegated by the Board to the President/CEO and other Senior Management.

The Board's responsibilities include overseeing the conduct of the Company's business, providing leadership and direction to its management, and setting policies. Strategic direction for the Company is developed through the Board's annual planning process. Through this process, the Board adopts the operating plan for the coming year, and monitors management's progress relative to that plan through a regular reporting and review process.

The Board has delegated to the President/CEO and other Senior Management responsibility for the day-to-day management of the business of the Company. Matters of policy and issues outside the normal course of business are brought before the Board for its review and approval, along with all matters dictated by statute and legislation requiring Board review and approval. The President/CEO and Senior Management review the Company's progress in relation to the current operating plan at in-person and telephone-conference Board meetings. The Board meets on a regular basis with and without management present. Financial, operational and strategic issues facing the Company are reviewed, monitored and approved at the Board meetings.

6.C.1. Terms of Office. Refer to ITEM 6.A.1.

6.C.2. Directors' Service Contracts. - No Disclosure Necessary -

6.C.3. Board of Director Committees.

The Company only has an Audit Committee, which recommends to the Board of Directors the engagement of the independent auditors of the Company and reviews with the independent auditors the scope and results of the Company's audits, the Company's internal accounting controls, and the professional services furnished by the independent auditors to the Company. The Audit Committee met four times in Fiscal 2004 and has met twice times during Fiscal 2005-to-date.

Multilateral Instrument 52-110 of the Canadian Securities Administrators ("MI 52-110") requires the Company, as a "venture issuer", to disclose annually in its Information Circular certain information concerning the constitution of its audit committee and its relationship with its independent auditor, as set forth in the following:

The audit committee is chartered as a committee of the Board of Directors of the Company that is independent of the Company's management and represents the interests of the Company's shareholders.

The audit committee is authorized by the board of directors to:

- (a) oversee the process of selecting/appointing the Company's external auditor,
- (b) oversee the conduct of the audit, and
- (c) have primary responsibility for the relationship between the Company and its external auditor.

The audit committee's responsibilities include:

- (a) take reasonable steps, at the time the auditor's appointment is under consideration, to ensure that the auditor is independent of management of the Company in accordance with applicable standards,
- (b) determine whether the audit fees charged by the auditor appear adequate in relation to the work required to support an audit opinion, without regard to fees that might be paid to the auditor for other services,
- (c) meet with the auditor, regularly and when otherwise appropriate, without management present to determine whether there are any contentious issues between the auditor and management relating to the Company's financial disclosure and, if so, whether those issues have been resolved to the auditor's satisfaction,
- (d) establish, and monitor compliance with, the Company's policies regarding:
  - (i) the auditor's providing services beyond scope of the Company's audit,
  - (ii) the Company's hiring individuals formerly employed by the auditor to fill senior officer positions of the Company, and
- (e) prepare annually a report describing the steps it has taken to ensure that the auditor is independent of management of the Company, including:
  - (i) the policies and procedures followed so that any contracts for non-audit services to be provided by the auditor do not compromise the auditor's independence, and
  - (ii) the nature of any non-audit service contracts entered into and the amount of the related fees.

The Company's audit committee is comprised of three directors: Martin Cotter, Wes Franklin, and Neal Iverson. All audit committee members are "financially literate" (as defined in MI 52-110) and only Martin Cotter, the President, is not "independent".

Since the commencement of the Company's most recently completed financial year, the Company's Board of Directors has not failed to adopt a recommendation of the audit committee to nominate or compensate an external auditor.

Since the effective date of MI 52-110, the Company has not relied on the exemptions contained in sections 2.4 or 8 of MI 52-110. Section 2.4 provides an exemption from the requirements that the audit committee must pre-approve all non-audit services to be provided by the auditor, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditor in the fiscal year in which the non-audit services were provided.

Section 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of MI 52-110, in whole or in part.

The audit committee has not adopted specific policies and procedures for the engagement of non-audit services. Subject to the requirements of MI 52-110, the engagement of non-audit services is considered by the Company's Board of Directors, and where applicable the audit committee, on a case-by-case basis.

The Company is relying on the exemption provided by section 6.1 of MI 52-110 that provides that the Company, as a venture issuer, is not required to comply with Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) of MI 52-110.

#### 6.D. Employees

As of 6/1/2005, the Company had four employees, including two Senior Management. As of 12/31/2004, 12/31/2003, and 12/31/2002, there were four, two, and two employees (including the two Senior Management), respectively. None of the Company's employees are covered by collective bargaining agreements.

#### 6.E. Share Ownership

Table No. 12 lists, as of 6/30/2005, Directors/Senior Management who beneficially own the Company's voting securities and the amount of Company's voting securities owned by the Directors and Executive Officers as a group. Table No. 11 also includes all persons/companies (none) where the Company is aware that they have 5% or greater beneficial interest in the Company's securities.

Table No. 12  
Shareholdings of Directors and Executive Officers  
Shareholdings of 5% Shareholders

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class #
Common	Martin P. Cotter (1)	4,296,666	10.2%
Common	Neal Iverson (2)	200,000	4.9%
Common	Wes Franklin	0	0.0%
<b>Total Directors/Officers/5% Shareholders</b>		<b>4,496,666</b>	<b>15.1%</b>
(1) 1,000,000 represent currently exercisable stock options.			
(2) 200,000 represent currently exercisable stock options.			
# Based on 40,986,917 shares outstanding as of 6/30/2005 and share purchase warrants and stock options held by each beneficial holder exercisable within sixty days.			

Stock Options. The terms of incentive options grantable by the Company are done in accordance with the rules and policies of the TSX Venture Exchange and the British Columbia Securities Commission, including the number of common shares under option, the exercise price and expiry date of such options, and any amendments thereto. The Company adopted a formal written stock option plan (the "Stock Option Plan") on 6/15/2004.

The principal purposes of the Company's stock option program are to (a) promote a proprietary interest in the Company among the officers, directors and employees of the Company and its affiliates, (b) retain and attract the qualified officers, directors and employees the Company requires, (c) provide a long-term incentive element in overall compensation, and (d) promote the long-term profitability of the Company.

The Stock Option Plan provides that stock options may be granted to directors, senior officers, employees and consultants of the Company and management company employees. For the purposes of the Stock Option Plan, the terms "employees", "consultants" and "management company employees" have the meanings set out in TSX Venture Exchange Policy 4.4. In addition, the term "director" is defined in TSX Venture Exchange Policy 4.4 to include directors, senior officers and management company employees.

Under the Stock Option Plan, the Company's board of directors (the "Board") may, from time to time, designate a director or other senior officer or employee of the Company as administrator (the "Administrator") for the purposes of administering the Plan. Currently, the Administrator is the Corporate Secretary of the Company.

The Plan provides for the issuance of stock options to acquire at any time up to a maximum of a "rolling" 10% of the issued and outstanding common shares of the Company (subject to standard anti-dilution adjustments). If a stock option expires or otherwise terminates for any reason without having been exercised in full, the number of common shares reserved for issuance under that expired or terminated stock option shall again be available for the purposes of the Plan. Any stock option outstanding when the Plan is terminated will remain in effect until it is exercised or it expires. The Plan provides that it is solely within the discretion of the Board to determine who should receive stock options and in what amounts, subject to the following conditions:

- (a) options will be non-assignable and non-transferable except that they will be exercisable by the personal representative of the option holder in the event of the option holder's death;
- (b) options may be exercisable for a maximum of five years from grant date;
- (c) options to acquire no more than 5% of the issued shares of the Company may be granted to any one individual in any 12 month period;
- (d) options to acquire no more than 2% of the issued shares of the Company may be granted to any one consultant in any 12 month period;
- (e) options to acquire no more than an aggregate of 2% of the issued shares of the Company may be granted to an employee conducting investor relations activities (as defined in TSX Venture Exchange Policy 1.1), in any 12 month period;
- (f) options held by an option holder who is a director, employee, consultant or management company employee must expire within 90 days after the option holder ceases to be a director, employee, consultant or management company employee;
- (g) options held by an option holder who is engaged in investor relations activities must expire within 30 days after the option holder ceases to be employed by the Company to provide investor relations activities; and
- (h) in the event of an option holder's death, the option holder's personal representative may exercise any portion of the option holder's vested outstanding options for one year following the option holder's death.

The Stock Option Plan provides that other terms and conditions may be attached to a particular stock option, such terms and conditions to be referred to in a schedule attached to the option certificate. Stock options granted to directors, senior officers, employees or consultants will vest when granted unless otherwise determined by the Board on a case by case basis, other than stock options granted to consultants performing investor relations activities, which will vest in stages over 12 months with no more than one-fourth of the options vesting in any three month period.

In addition, under the Stock Option Plan a stock option will expire immediately in the event a director or senior officer ceases to be a director or senior officer of the Company as a result of (i) ceasing to meet the qualifications under the *Company Act* (British Columbia), (ii) the passing of a special resolution by the shareholders or (iii) an order made by a regulatory authority. A stock option will also expire immediately in the event an employee ceases to be an employee as a result of termination for cause or an employee or consultant ceases to be an employee or consultant as a result of an order made by a regulatory authority.

The price at which an option holder may purchase a common share upon the exercise of a stock option will be as set forth in the option certificate issued in respect of such option and in any event will not be less than the discounted market price of the Company's common shares as of the date of the grant of the stock option (the "Award Date"). The market price of the Company's common shares for a particular Award Date will typically be the closing trading price of the Company's common shares on the day immediately preceding the Award Date, or otherwise in accordance with the terms of the Stock Option Plan. Discounted market price means the market price less a discount of up to 25% if the market price is \$0.50 or less; up to 20% if the market price is between \$2.00 and \$0.51; and up to 15% if the market price is greater than \$2.00.

In no case will a stock option be exercisable at a price less than the minimum prescribed by each of the organized trading facilities or the applicable regulatory authorities that would apply to the award of the stock option in question.

The Stock Option Plan also provides that (a) disinterested shareholder approval will be obtained for any reduction in the exercise price of an option held by an insider of the Company and (b) options cannot be granted to employees, consultants or management company employees that are not bona fide employees, consultants or management company employees, as the case may be.

Common shares will not be issued pursuant to stock options granted under the Stock Option Plan until they have been fully paid for by the option holder. The Company will not provide financial assistance to option holders to assist them in exercising their stock options.

The names and titles of the Directors/Executive Officers of the Company to whom outstanding stock options have been granted and the number of common shares subject to such options are set forth in Table No. 13 as of 6/30/2005, as well as the number of options granted to Directors and all employees as a group.

Table No. 13  
Stock Options Outstanding

Name	Number of Shares of Common Stock	CDN\$ Exer. Price	Grant Date	Expir'n Date
Martin P. Cotter	1,000,000	\$0.15	4/05/04	4/05/06
Neal Iverson	200,000	\$0.15	4/05/04	4/05/06
Wes Franklin	nil			
Total Officers/Directors	1,200,000			
Former Director	200,000	\$0.15	9/15/03	9/15/05
	100,000	\$0.15	4/05/04	4/05/06
Employee/Consultant	1,530,000			
<b>Total Officers/Directors/Etc.</b>	<b>3,030,000</b>			

#### **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

##### 7.A. Major Shareholders

##### 7.A.1.a. Holdings By Major Shareholders

Refer to ITEM #6.E. and Table No. 11.

##### 7.A.1.b. Significant Changes in Major Shareholders' Holdings

The participation in private placements of equity by the Company and exercise of stock options/share purchase warrants has lead over the last several year to some significant changes in the holdings of major shareholders; table reflects direct/indirect holdings of common shares (excluding stock options and warrants), refer to Table No. 11 for additional information.

	Shares Owned 12/31/2004	Shares Owned 12/31/2003	Shares Owned 12/31/2002
Martin P. Cotter	3,296,666	1,546,666	546,666
Nextel Investment Properties	0	157,000	1,400,000
Dhoon Bay Limited	0	0	1,100,000
Garwick Bay Limited	0	0	1,100,000

7.A.1.c. Different Voting Rights. The Company's major shareholders do not have different voting rights.



7.A.2. Canadian Share Ownership. On 4/26/2005, the Company's shareholders' list showed 40,986,917 common shares outstanding, with 328 registered shareholders. 87 of these shareholders were U.S. residents, holding 2,663,897 common shares (representing about 7% of the issued/outstanding shares); 225 registered shareholders were resident in Canada, holding 33,057,406 common shares (81%), and 16 registered shareholders were resident in other countries, holding 5,265,614 common shares (13%).

The Company has researched the indirect holding by depository institutions and other financial institutions; based on this research and other research into the indirect holdings of other institutions, the Company believes that it has approximately 1000 beneficial owners of its common shares.

7.A.3. Control of Company. The Company is a publicly-owned Canadian corporation, the shares of which are owned by U.S. residents, Canadian residents and other foreign residents. The Company is not controlled by any foreign government or other person(s) except as described in ITEM #4.A., "History and Development of the Company", and ITEM #6.E., "Share Ownership".

7.A.4. Change of Control of Company Arrangements.

--- No Disclosure Necessary ---

#### 7.B. Related Party Transactions

##### Martin Cotter, President/Director

During Fiscal 2003/2002/2001, the Company paid/accrued to Martin Cotter fees totalling \$72,000, \$72,000 and \$60,000, respectively.

At 12/31/2004 and 12/31/2003, due to related parties included \$150,000 and \$42,954 owing to Martin Cotter.

##### Bruce Nurse, Director

During Fiscal 2004/2003, respectively, the Company paid/accrued \$0 and \$15,000 to Bruce Nurse for consulting fees related to investor relations.

Other than as disclosed above and in prior Annual Reports on Form 20-F, there have been no transactions since 12/31/2001, or proposed transactions, which have materially affected or will materially affect the Company in which any director, executive officer, or beneficial holder of more than 10% of the outstanding common stock, or any of their respective relatives, spouses, associates or affiliates has had or will have any direct or material indirect interest. Management believes the transactions referenced above were on terms at least as favorable to the Company as the Company could have obtained from unaffiliated parties.

#### 7.C. Interests of Experts and Counsel

None of the named experts or counselors employed on a contingent basis owns shares in the company or its subsidiaries or has a material, direct or indirect economic interest in the Company.

## **ITEM 8. FINANCIAL INFORMATION**

### **8.A. Consolidated Statements and Other Financial Information**

The Company's financial statements are stated in Canadian Dollars (CDN\$) and are prepared in accordance with Canadian GAAP, the application of which, in the case of the Company, conforms in all material respects for the periods presented with United States GAAP, except as discussed in footnotes to the financial statements.

The financial statements as required under ITEM #17 are attached hereto and found immediately following the text of this Annual Report. The audit reports of Davidson & Company, Chartered Accountants, are included herein immediately preceding the financial statements and schedules.

Audited Financial Statements  
for Fiscal 2004, Fiscal 2004, and Fiscal 2002, Ended December 31st

#### **8.A.7. Legal/Arbitration Proceedings**

During August 2002, the Company concluded outstanding litigation brought against the Company by a former Director (Donald Specht). The settlement resulted in \$87,000 being paid to Mr. Specht.

The Directors and the management of the Company know of no material, active or pending, legal proceedings against them; nor is the Company involved as a plaintiff in any material proceeding or pending litigation.

The Directors and the management of the Company know of no active or pending proceedings against anyone that might materially adversely affect an interest of the Company.

#### **8.B. Significant Changes**

No undisclosed significant change has occurred since the date of the annual financial statements, and/or since the date of the most recent interim financial statement.

**ITEM 9. THE OFFER AND LISTING****9.A.4. Common Share Trading Information**

The Company's common shares began trading on the OTC Bulletin Board on 3/19/2002 under the symbol PRRPF.OB. Table No. 14 lists the volume of trading and high, low and closing sales prices on the OTC Bulletin Board for the Company's common shares for: the last six months, the last ten fiscal quarters, and the last three fiscal years.

Table No. 14  
OTC Bulletin Board  
Common Shares Trading Activity

Period Ended	Volume	High	Low	- Sales - US Dollars Closing
Monthly				
6/30/2005	515,340	\$0.12	\$0.08	\$0.11
5/31/2005	972,871	0.125	0.07	0.10
4/30/2005	538,703	0.16	0.11	0.13
3/31/2005	879,275	0.19	0.14	0.15
2/28/2005	795,114	0.24	0.18	0.19
1/31/2005	1,015,324	0.25	0.17	0.20
Quarterly				
6/30/2005	2,026,994	\$0.16	\$0.07	\$0.11
3/31/2005	2,689,713	0.25	0.14	0.15
12/31/2004	3,623,492	0.34	0.19	0.21
9/30/2004	6,224,418	0.40	0.15	0.33
6/30/2004	3,598,901	0.18	0.11	0.14
3/31/2004	2,581,470	0.20	0.10	0.17
12/31/2003	3,965,779	0.26	0.12	0.17
9/30/2003	1,882,600	0.21	0.06	0.19
6/30/2003	1,306,500	0.20	0.055	0.07
3/31/2003	1,462,500	0.15	0.045	0.05
Yearly				
12/31/2004	16,028,281	\$0.40	\$0.10	\$0.21
12/31/2003	8,617,379	0.26	0.045	0.05
12/31/2002	1,340,750	0.16	0.02	0.035

The Company's common shares trade on the TSX Venture Exchange in Toronto, Ontario, under the symbol "PSH.V". The initial public offering was effective on the Vancouver Stock Exchange under the auspices of the British Columbia Securities Commission in August 1980 under a former name, "Barbi Lake Copper Mines Limited".

Table No. 13 lists the volume of trading and high, low and closing sales prices on the TSX Venture Exchange (Canadian Venture Exchange prior to 8/2/1002 and the Vancouver Stock Exchange prior to November 1999) for actual trades of common shares of the Company for the last six months, last ten fiscal quarters, and last five fiscal years, adjusted for March 2000 1:5 stock consolidation.

Table No. 13  
TSX Venture Exchange  
Common Shares Trading Activity

Period Ended	Volume	High	Low	- Sales - Canadian Dollars Closing
-----				
Monthly				
6/30/2005	1,322,100	\$0.14	\$0.12	\$0.12
5/31/2005	1,783,900	0.16	0.09	0.12
4/30/2005	936,600	0.19	0.15	0.16
3/31/2005	2,129,100	0.24	0.16	0.18
2/28/2005	2,242,600	0.29	0.22	0.24
1/31/2005	1,993,500	0.29.	0.23	0.25
-----				
Quarterly				
6/30/2004	4,042,600	\$0.19	\$0.09	\$0.12
3/31/2005	6,365,200	0.29	0.16	0.18
12/31/2004	7,408,000	0.42	0.23	0.28
9/30/2004	16,959,700	0.50	0.22	0.40
6/30/2004	10,578,500	0.23	0.16	0.20
3/31/2004	5,987,000	0.27	0.15	0.20
12/31/2003	4,889,600	0.33	0.19	0.21
9/30/2003	4,770,900	0.26	0.09	0.24
6/30/2003	2,717,855	0.16	0.09	0.09
3/31/2003	4,100,627	0.20	0.07	0.10
-----				
Yearly				
12/31/2004	40,933,200	\$0.50	\$0.15	\$0.28
12/31/2003	16,468,982	0.33	0.07	0.21
12/31/2002	8,107,321	0.30	0.05	0.09
12/31/2001	15,128,926	0.65	0.10	0.16
12/31/2000	176,900	1.52	0.05	0.28
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#### The TSX Venture Exchange

The TSX Venture Exchange is a result of the acquisition by the Toronto Stock Exchange of the Canadian Venture Exchange ("CDNX") from its member firms on 8/1/2001. The CDNX resulted from the merger between the Vancouver Stock Exchange and the Alberta Stock Exchange that took place on 11/29/1999, to form the CDNX. The TSX Venture Exchange currently operates as a complementary but independent exchange from its parent, the Toronto Stock Exchange.

The initial roster of the CDNX was made up of venture companies previously listed on the Vancouver Stock Exchange or the Alberta Stock Exchange and later incorporated junior listings from the Montreal Stock Exchange, the Winnipeg Stock Exchange, and the CDN Over-The-Counter Market. The TSX Venture Exchange is a venture market as compared to the Toronto Stock Exchange that is Canada's senior market and the Montreal Exchange that is Canada's market for derivatives products.

The TSX Venture Exchange currently has five service centers: Calgary, Toronto, Vancouver, Winnipeg and Montreal. These service centers provide corporate finance, surveillance and marketing expertise. The corporate office for the TSX Venture Exchange is located in Calgary and the operations office is located in Vancouver.

The TSX Venture Exchange is a self-regulating organization owned and operated by the Toronto Stock Exchange, which in turn is owned by its member brokerage firms. It is governed by representatives of member firms and the public.

Organizationally, the TSX Venture Exchange is comprised of seven business areas: Corporate Finance Services, Trading Services and Market Information Services, Compliance, Marketing, Technology, Corporate Affairs and Human Resources.

The TSX Venture Exchange acts as a business link between TSX members, listed companies and investors. TSX Venture Exchange policies and procedures are designed to accommodate companies still in their formative stages and recognize those that are more established. Listings are predominately small and medium sized companies.

Investors in Canada are protected by the Canadian Investor Protection Fund ("CIPF"). The CIPF is a private trust fund established to protect customers in the event of the insolvency of a member of any of the following self-regulatory organizations: the TSX Venture Exchange; the Montreal Exchange; the Toronto Stock Exchange; the Toronto Futures Exchange; and the Investment Dealers Association of Canada.

Post-trade monitoring of market activity occurs in the market surveillance department. Sophisticated software analyses trade data from TRADETSX to detect possible market improprieties. A variety of surveillance and investigative tools allow the TSX Venture Exchange to perform electronic market monitoring and trade reviews.

The surveillance department is also responsible for monitoring and reviewing listed company activities and detecting breaches of the listing policies or the listing agreement. Market surveillance and listed company surveillance activities are closely coordinated.

#### 9.C. Markets Identified

The common shares trade on the TSX Venture Stock Exchange in Canada and on the OTC Bulletin Board in the United States. Refer to ITEM #9.A.4.

## **ITEM 10. ADDITIONAL INFORMATION**

### **10.B. Memorandum and Articles of Association**

Following shareholder approval of a "special resolution" at the 5/31/2005 Special and Annual Meeting of shareholders, the Company adopted a new set of Articles. The Company undertook this action to bring the Company into compliance with the new, updated *British Columbia Corporations Act*. The principle changes include: the reduction of the required vote for a "special resolution" from three-quarters to two-thirds; Directors are able to approve a name change for the Company without a shareholder vote; Directors can set the location of the Annual General Meeting outside British Columbia, Canada; and deleted the requirement for a pro rate purchase of the shares of the Company.

In addition, the new British Columbia Corporations Act removed the requirement that a majority of Company directors be resident in British Columbia.

Refer to discussion in Fiscal 2001 Annual Report on Form 20-F, for more information about the Company's articles.

### **10.C. Material Contracts:** --- No Disclosure Necessary ---

### **10.D. Exchange Controls**

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws in Canada or exchange restrictions affecting the remittance of dividends, profits, interest, royalties and other payments to non-resident holders of the Company's securities, except as discussed in ITEM 10, "Taxation" below.

### **Restrictions on Share Ownership by Non-Canadians**

There are no limitations under the laws of Canada or in the organizing documents of the Company on the right of foreigners to hold or vote securities of the Company, except that the Investment Canada Act may require review and approval by the Minister of Industry (Canada) of certain acquisitions of "control" of the Company by a "non-Canadian". The threshold for acquisitions of control is generally defined as being one-third or more of the voting shares of the Company. "Non-Canadian" generally means an individual who is not a Canadian citizen, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

### **10.E Taxation**

The following is a brief summary of some of the principal Canadian federal income tax consequences to a holder of common shares of the Company (a "U.S. Holder") who deals at arm's length with the Company, holds the shares as capital property and who, for the purposes of the *Income Tax Act* (Canada) (the "Act") and the *Canada - United States Income Tax Convention* (the "Treaty"), is at all relevant times resident in the United States, is not and is not deemed to be resident in Canada and does not use or hold and is not deemed to use or hold the shares in carrying on a business in Canada. Special rules, which are not discussed below, may apply to a U.S. Holder that is an insurer that carries on business in Canada and elsewhere.

This summary is of a general nature only and is not, and should not be interpreted as, legal or tax advice to any particular U.S. Holder and no representation is made with respect to the Canadian income tax consequences to any particular person. Accordingly, U.S. Holders are urged to consult their own tax advisors with respect to their particular circumstances.

Under the Act and the Treaty, a U.S. Holder of common shares will generally be subject to a 15% withholding tax on dividends paid or credited or deemed by the Act to have been paid or credited on such shares. The withholding tax rate is 5% where the U.S. Holder is a corporation that beneficially owns at least 10% of the voting shares of the Company and the dividends may be exempt from such withholding in the case of some U.S. Holders such as qualifying pension funds and charities.

In general, a U.S. Holder will not be subject to Canadian income tax on capital gains arising on the disposition of shares of the Company unless (i) at any time in the five-year period immediately preceding the disposition, 25% or more of the shares of any class or series of the capital stock of the Company was owned by (or was under option of or subject to an interest of) the U.S. holder or persons with whom the U.S. holder did not deal at arm's length, and (ii) the value of the common shares of the Company at the time of the disposition derives principally from real property (as defined in the Treaty) situated in Canada. For this purpose, the Treaty defines real property situated in Canada to include rights to explore for or exploit mineral deposits and other natural resources situated in Canada, rights to amounts computed by reference to the amount or value of production from such resources, certain other rights in respect of natural resources situated in Canada and shares of a corporation the value of whose shares is derived principally from real property situated in Canada.

The US Internal Revenue Code provides special anti-deferral rules regarding certain distributions received by US persons with respect to, and sales and other dispositions (including pledges) of stock of, a passive foreign investment company. A foreign corporation, such as the Company, will be treated as a passive foreign investment company if 75% or more of its gross income is passive income for a taxable year or if the average percentage of its assets (by value) that produce, or are held for the production of, passive income is at least 50% for a taxable year. The Company believes that it was not a passive foreign investment company for the taxable year ended 12/31/2004 and, furthermore, expects to conduct its affairs in such a manner so that it will not meet the criteria to be considered passive foreign investment company in the foreseeable future.

#### **10.H. Document on Display**

The Company's documents can be viewed at its North American office, located at: 1687 West Broadway, #200, Vancouver, British Columbia, Canada V6J 1X2. The Company files reports, registration statements and other information with the Securities and Exchange Commission (the "SEC"). The Company's reports, registration statements and other information can be inspected on the SEC's website at [www.sec.gov](http://www.sec.gov) and such information can also be inspected and copies ordered at the public reference facilities maintained by the SEC at the following location: Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549.

#### **10.I. Subsidiary Information**

The Company has one wholly-owned subsidiary, Port Rush Petroleum (US) Corporation, incorporated in Michigan on November 14, 2003

#### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company has not entered into any activities in derivative financial instruments, other financial instruments, or derivative commodity instruments. The Company's financial assets in the form of cash and cash equivalents are held in short term interest-bearing deposits at institutions with high credit quality ratings.

The reporting currency of our consolidated financial statements is the Canadian Dollar. Revenues from our operations outside of Canada represented 100% of our revenues in Fiscal 2004 and Fiscal 2003, all located in the United States and recorded in U.S. Dollars. As a result, we enter into transactions with customers and suppliers in U.S. Dollars. We are exposed to market risks from changes in foreign currency exchange rates that may affect our results of operations and financial condition and, consequently, our fair value. We do not enter into forward exchange contracts. We manage these risks through internal risk management policies. Many of our strategies are based on historical trading patterns and correlations and our management's expectations of future events. However, these strategies may not be fully effective in all market environments or against all types of risks. Unexpected market developments may affect our risk management strategies during this time, and unanticipated developments could impact our risk management strategies in the future. If any of the variety of instruments and strategies we utilize are not effective, we may incur losses.

The oil and gas industry is exposed to a variety of risks including the uncertainty of finding and recovering new economic reserves, the performance of hydrocarbon reservoirs, securing markets for production, commodity prices, interest rate fluctuations, potential damage to or malfunction of equipment and changes to income tax, royalty, environmental or other governmental regulations. We mitigate these risks to the extent we are able by:

- a. employing highly-skilled staff and focusing them in areas where they have a strong knowledge base in order to maximize value;
- b. utilizing competent, professional consultants as support teams to Company staff;
- c. performing careful and thorough geophysical, geological and engineering analyses of each prospect;
- d. using current, cost-effective and where feasible, leading-edge technology;
- e. focusing on a limited number of core properties;
- f. striving to be a low-cost producer to maximize field netbacks;
- g. maintaining a balanced portfolio of sales contracts;
- h. staying informed about industry changes and trends through appropriate association memberships, publications, subscriptions and conferences.

Our future financial performance remains closely linked to hydrocarbon commodity prices, which can be influenced by many factors including global and regional supply and demand, worldwide political events and weather. These factors, among others, can result in a high degree of price volatility.

We currently have no hedge positions, however, we manage our potential exposure to commodity price volatilities through diversification as follows:

- a. Our oil/gas portfolio is split between two primary markets: southern Michigan and southeast Texas; and
- b. Commodity mix: our sales portfolio is comprised of natural gas, crude oil and natural gas liquids. Crude oil and natural gas liquids are sold at prices with volatilities that differ from those of natural gas.



**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

<u>12.A. Debt Securities</u>	--- No Disclosure Necessary --
<u>12.B. Warrants and Rights</u>	--- No Disclosure Necessary --
<u>12.C. Other Securities</u>	--- No Disclosure Necessary --
<u>12.D. American Depository Shares</u>	--- No Disclosure Necessary --

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

--- No Disclosure Necessary ---

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY**

**HOLDERS AND USE OF PROCEEDS** - No Disclosure Necessary -

**ITEM 15. CONTROLS AND PROCEDURES**

The Board of Directors has overall responsibility for reviewing the Company's disclosure to ensure the Company provides full and plain disclosure to shareholders and other stakeholders. The Board discharges its responsibilities through its committees, specifically, with respect to financial disclosure to the Audit Committee, which is responsible for reviewing the Company's financial reporting procedures and internal controls to ensure full and accurate disclosure of the Company's financial position.

At the end of Fiscal 2004 Ended 12/31/2004 (the "Evaluation Date"), under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15e under the Exchange Act). Based upon that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company (or its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. The Company's management's, including its Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are designed and are effective to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, identified no change in the Company's internal control over financial reporting that occurred during the Company's Fiscal Year Ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- a. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- b. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- c. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures or internal controls and procedures will prevent all error and all fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**ITEM 16. RESERVED****ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Company does not have an "audit committee financial expert" serving on its audit committee. The Company's Audit Committee consists of an unrelated director, the President/CEO of the Company, and the Corporate Secretary of the Company, all of whom are both financially literate and very knowledgeable about the Company's affairs. Because the Company's structure and operations are straightforward, the Company does not find it necessary to augment its Board with a financial expert.

**ITEM 16B. CODE OF ETHICS**

The Company has not adopted a written "code of ethics" that meets the new United States' Sarbanes-Oxley standards; the Board of Directors believes that existing Canadian standards and procedures is adequate for its purposes. The Company has not seen any need to adopt a written code of ethics on the basis that its corporate culture effectively deters wrongdoing and promotes honest and ethical conduct, full, fair and accurate, timely, and understandable disclosure in reports and documents, the compliance with applicable governmental laws, rules and regulations; the prompt internal reporting of violations of the code; and accountability for adherence to the code.

**Item 16C. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The audit committee is directly responsible for the appointment, compensation and oversight of auditors; the audit committee has in place procedures for receiving complaints and concerns about accounting and auditing matters; and has the authority and the funding to engage independent counsel and other outside advisors.

The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals required by this policy / procedure. The decisions of any Audit Committee member to whom authority is delegated to pre-approve a service shall be presented to the full Audit Committee at its next scheduled meeting.

In accordance with the requirements of the US Sarbanes-Oxley Act of 2002 and rules issued by the Securities and Exchange Commission, we introduced a procedure for the review and pre-approval of any services performed by Davidson & Company, including audit services, audit related services, tax services and other services. The procedure requires that all proposed engagements of Davidson & Company for audit and permitted non-audit services are submitted to the finance and audit committee for approval prior to the beginning of any such services.

Fees, including reimbursements for expenses, for professional services rendered by Davidson & Company to the Company are detailed below.

Fiscal Year ended December 31, 2004 and 2003 Principal Accountant Fees and Services	Fiscal Year 2004	Fiscal Year 2003
Audit Fees	\$14,000	\$15,000
Audit Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0
Total	\$14,000	\$15,000

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

--- No Disclosure Necessary ---

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

--- No Disclosure Necessary ---

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

The Company's financial statements are stated in Canadian Dollars (CDN\$) and are prepared in accordance with Canadian GAAP, the application of which, in the case of the Company, conforms in all material respects for the periods presented with United States GAAP, except as discussed in footnotes to the financial statements. The financial statements as required under ITEM #17 are attached hereto and found immediately following the text of this Annual Report. The audit report of Davidson & Company, Chartered Accountants, are included herein immediately preceding the financial statements and schedules.

Audited Financial Statements

Report of Independent Registered Public Accounting Firm, dated 4/29/2005  
Consolidated Balance Sheets at 12/31/2004 and 12/31/2003  
Consolidated Statements of Operations and Deficit  
for the years ended 12/31/2004, 12/31/2004 and 12/31/2003  
Consolidated Statements of Cash Flows  
for the years ended 12/31/2004, 12/31/2003 and 12/31/2002  
Notes to Consolidated Financial Statements

**ITEM 18. FINANCIAL STATEMENTS**

The Company has elected to provide financial statements pursuant to ITEM #17.

**ITEM 19. EXHIBITS**

1. Certificates of Incorporation and Name Changes, By-Laws/Articles  
--- Incorporated by reference to the Registration Statement as amended;  
Annual Reports on Form 20-F, and Form 6-K's ---
2. Instruments defining the rights of holders of equity or debt securities being registered. --- Refer to Exhibit No. 1 ---
3. Voting Trust Agreements: No Disclosure Necessary
4. Material Contracts:  
--- Incorporated by reference to the Registration Statement as amended;  
Annual Reports on Form 20-F, and Form 6-K's ---
5. Foreign Patents: No Disclosure Necessary
6. Earnings Per Share Calculation: No Disclosure Necessary
7. Ratio of Earnings To Fixed Charges: No Disclosure Necessary
8. List of Subsidiaries: No Disclosure Necessary
9. Statement Regarding Date of Financial Statements: No Disclosure Necessary
10. Notice Required by Rule 104 of Regulation BTR: No Disclosure Necessary
11. Code of Ethics as required by ITEM No. 16: No Disclosure Necessary
12. The certifications required by Rule 13a-14(a) or Rule 15d-14(a).....74
13. The certifications required by Rule 13a-14(b) or Rule 15d-14(b) and  
Section 1350 of Chapter 63 of Title 18 of the United States Code 75
14. Additional Exhibits:  
--- Incorporated by reference to the Registration Statement as amended;  
Annual Reports on Form 20-F, and Form 6-K's ---

**PORTRUSH PETROLEUM CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian dollars)**

**DECEMBER 31, 2004**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of  
Portrush Petroleum Corporation

We have audited the consolidated balance sheets of Portrush Petroleum Corporation as at December 31, 2004 and 2003 and the consolidated statements of operations, shareholders' equity (deficiency) and cash flows for the years ended December 31, 2004, 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004, 2003 and 2002 and the results of its operations and cash flows for the years ended December 31, 2004, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 29 2005

**COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA –  
U.S. REPORTING DIFFERENCE**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated April 29, 2005 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 29 2005

**PORTRUSH PETROLEUM CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2004	2003
<b><u>ASSETS</u></b>		
<b><u>Current</u></b>		
Cash	\$ 74,543	\$ 4,981
Receivables	67,694	3,832
Prepays	5,625	-
	147,862	8,813
<b>Oil and gas properties (Note 3)</b>	1,642,393	173,758
	<u>\$ 1,790,255</u>	<u>\$ 182,571</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 283,110	\$ 257,848
Due to related parties (Note 7)	151,602	57,954
	434,712	315,802
<b>Future site restoration</b>	6,473	6,473
	<u>441,185</u>	<u>322,275</u>
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 4)		
Authorized		
100,000,000 common shares without par value		
Issued and outstanding		
40,342,417 common shares (2003 – 26,693,667)	12,854,161	10,534,248
Share subscriptions received in advance	-	146,950
Contributed surplus (Note 4)	352,683	270,552
Deficit	(11,857,774)	(11,091,454)
	<u>1,349,070</u>	<u>(139,704)</u>
	<u>\$ 1,790,255</u>	<u>\$ 182,571</u>

**Nature and continuance of operations (Note 1)**

**Subsequent event (Note 11)**

**On behalf of the Board:**

\_\_\_\_\_  
Director Director

The accompanying notes are an integral part of these consolidated financial statements.

**PORTRUSH PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollars)  
**YEAR ENDED DECEMBER 31**

	2004	2003	2002
<b>REVENUE</b>			
Oil and gas revenue, net of royalties	\$ 442,368	\$ 415,244	\$ 302,915
<b>EXPENSES</b>			
Depletion	121,937	599,679	398,046
Operating	145,556	123,767	70,288
General and administrative (Note 5)	868,173	343,110	216,004
Total expenses	(1,135,666)	(1,066,556)	(684,338)
	(693,298)	(651,312)	(381,423)
<b>Loss before other items</b>			
<b>OTHER INCOME (EXPENSE)</b>			
Gain on settlement of lawsuit	-	2,464	-
Interest expense	-	(12,191)	-
Foreign exchange loss	-	(85,459)	-
Recovery of resource property costs	-	-	77,645
Write-off of oil and gas properties (Note 3)	-	-	(1,441,793)
Write-off of receivable	(73,022)	-	-
Settlement of lawsuit	-	-	(4,000)
Total other income (expense), net	(73,022)	(95,186)	(1,368,148)
<b>Loss for the year</b>	(766,320)	(746,498)	(1,749,571)
<b>Deficit, beginning of year</b>	(11,091,454)	(10,344,956)	(8,595,385)
<b>Deficit, end of year</b>	\$ (11,857,774)	\$ (11,091,454)	\$ (10,344,956)
<b>Basic and diluted loss per share</b>	\$ (0.02)	\$ (0.03)	\$ (0.10)
<b>Weighted average number of shares outstanding</b>	33,858,626	22,235,777	17,767,024

The accompanying notes are an integral part of these consolidated financial statements.



**PORTRUSH PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
YEAR ENDED DECEMBER 31

	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the year	\$ (766,320)	\$ (746,498)	\$ (1,749,571)
Items not affecting cash:			
Accrued interest	-	12,191	-
Depletion	121,937	599,679	398,046
Gain on settlement of accounts payable	-	(2,464)	-
Write-off of oil and gas properties	-	-	1,441,793
Write-off of receivable	73,022	-	-
Recovery of resource property costs	-	-	(77,645)
Accrual of management fees	72,000	-	-
Stock based compensation expense	298,483	-	22,474
Changes in non-cash working capital items:			
(Increase) decrease in receivables	(136,884)	19	107,318
Increase in prepaids	(5,625)	-	-
Increase (decrease) in accounts payable and accrued liabilities	25,262	(341,918)	(340,733)
Cash used in operating activities	(318,125)	(478,991)	(198,318)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advances from (repaid to) related parties	21,648	51,954	(210,643)
Net proceeds from issuance of capital stock	1,956,611	646,676	301,833
Proceeds from convertible debentures	-	12,074	167,926
Share subscriptions received in advance	-	146,950	-
Cash provided by financing activities	1,978,259	857,654	259,116
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Oil and gas property expenditures	(1,590,572)	(391,138)	(138,972)
Proceeds of resource property costs recovered	-	-	77,645
Cash used in investing activities	(1,590,572)	(391,138)	(61,327)
<b>Change in cash position during year</b>	69,562	(12,475)	(529)
<b>Cash position, beginning of year</b>	4,981	17,456	17,985
<b>Cash position, end of year</b>	\$ 74,543	\$ 4,981	\$ 17,456

**Supplemental disclosure with respect to cash flows (Note 6)**

The accompanying notes are an integral part of these consolidated financial statements.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2004

---

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is incorporated under the laws of British Columbia and its principal business activity is the acquiring and developing of oil and gas properties.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

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	2004	2003
Working capital (deficiency)	\$ (286,850)	\$ (306,989)
Deficit	(11,857,774)	(11,091,454)

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary. Significant inter-company transactions have been eliminated on consolidation.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 revenue and expenses during the period. Actual results could differ from these estimates.

**Oil and gas properties**

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs of exploring for and developing oil and natural gas reserves are capitalized and accumulated in cost centres on a country-by-country basis. Costs include land acquisition costs, geological and geophysical charges, carrying charges on non-productive properties and costs of drilling both productive and non-productive wells. General and administrative costs are not capitalized other than to the extent of the Company's working interest in operated capital expenditure programs on which operator's fees have been charged equivalent to standard industry operating agreements. At December 31, 2004, the Company has not capitalized any interest, general or administrative costs.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Oil and gas properties (cont'd...)**

The costs in each cost centre, including the costs of well equipment, are depleted and depreciated using the unit-of-production method based on the estimated proved reserves before royalties. Natural gas reserves and production are converted to equivalent barrels of crude oil based on units of revenue. The costs of acquiring and evaluating significant unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties. The total capitalized costs less accumulated depletion and depreciation, site restoration provision and future income taxes of all cost centres is further limited to an amount equal to the future net revenue from proved reserves plus the cost (net of impairments) of unproved properties of all cost centres less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Proceeds from the sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Estimated future site restoration and abandonment costs, net of expected recoveries, are provided over the life of the proved reserves using the unit-of-production method. Costs are estimated each year by management based on current regulations, costs, technology and industry standards.

Certain of the Company's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

**Site restoration**

The Company has adopted CICA Handbook Section 3110 "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for any changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. Under this section, the Company has recognized an estimated future net costs of well abandonment and site restoration, including removal of production facilities at the end of their useful life of \$6,473 (2003 - \$6,473).

**Revenue recognition**

Revenue from oil and gas operations is recognized in the accounts when oil and natural gas are shipped, title passes and collection of the sale is reasonably assured.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Foreign currency translation**

The Company's subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in the loss for the year.

**Stock-based compensation**

Effective January 1, 2002, the Company adopted CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("CICA 3870") which recommends the fair value-based methodology for measuring compensation costs. CICA 3870 also permits, and the Company has adopted, the use of the intrinsic value-based method which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted.

Effective for the year ended December 31, 2003, the Company adopted prospectively the amended recommendations of CICA 3870 with respect to stock-based compensation whereby, the Company recognizes compensation costs for the granting of all stock options and direct awards of stock.

**Income taxes**

The Company follows the asset/liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and those reported in the financial statements. The future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For loss per share the dilutive effect has not been computed as it proved to be anti-dilutive. At December 31, 2004, 2003 and 2002, the total number of potentially dilutive shares excluded from loss per share is 4,644,559, 9,687,059 and 9,600,000 respectively.

Loss per share is calculated using the weighted-average number of shares outstanding during the year.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2004

**3. OIL AND GAS PROPERTIES**

The Company entered into agreements to acquire interests in various oil and gas properties as follows:

	2004	2003
Oil and gas properties:		
U.S.A., proved	\$ 2,612,495	\$ 1,171,483
Canada, unproved	149,560	-
	<u>2,762,055</u>	<u>1,171,483</u>
Less: Accumulated depletion	<u>(1,119,662)</u>	<u>(997,725)</u>
	<u>\$ 1,642,393</u>	<u>\$ 173,758</u>

At December 31, 2004, the oil and gas properties include \$149,560 (2003 - \$Nil) relating to unproved properties that have been excluded from the depletion calculation.

**Alberta prospects, Canada**

The Company had working interests in certain prospects ranging from 16.67% to 20.83% located in Alberta, Canada. During the year ended December 31, 2002, the prospects located in Alberta were abandoned and all related costs of \$1,441,793 were written-off.

**Ontario prospect, Canada**

The Company entered into an agreement to acquire a 5% working interest in a prospect located in Ontario, Canada in exchange for funding 50% of the project costs. The Company will receive a payout of all costs incurred plus a 5% working interest in the prospect.

**Michigan and Wyoming, U.S.A.**

The Company has a 22.5% working interest in a prospect located in Michigan, U.S.A. The Company also had a 25% working interest in a prospect located in Wyoming, U.S.A., however, during the year ended December 31, 2002, the prospect was abandoned. During the year ended December 31, 2003, the ceiling test calculation determined that the net book value of the Company's assets in the U.S.A. exceeded net future cash flows from proven reserves and, accordingly, the Company recorded a ceiling test write-down of \$319,950 included in accumulated depletion.

**Texas, U.S.A.**

The Company acquired a 10% working interest in certain oil and gas leases located in the Refugio and Goliad Counties, Texas, U.S.A. As consideration for its interest, the Company made staged payments totaling US\$1,044,000.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2004

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized 100,000,000 common voting shares, no par value			
Issued			
Balance, December 31, 2001	16,768,942	\$ 9,653,817	\$ -
Private placement	3,100,000	310,000	-
Exercise of warrants	41,666	5,833	-
Exercise of options	150,000	15,000	-
Stock-based compensation	-	-	22,474
Share issuance costs	-	(29,000)	-
Balance, December 31, 2002	20,060,608	9,955,650	22,474
Private placements	4,137,059	351,251	205,049
Exercise of options	50,000	5,000	-
Exercise of warrants	946,000	141,900	-
Conversion of convertible debentures	1,500,000	116,439	63,561
Share issuance costs	-	(35,992)	(20,532)
Balance, December 31, 2003	26,693,667	10,534,248	270,552
Exercise of options	1,050,000	110,000	-
Exercise of warrants	7,680,000	1,090,200	-
Finders fee	318,750	63,750	-
Private placements	4,600,000	920,000	-
Contributed surplus on exercise of warrants and options	-	216,352	(216,352)
Stock-based compensation	-	-	298,483
Share issuance costs	-	(80,389)	-
Balance, December 31, 2004	40,342,417	\$ 12,854,161	\$ 352,683

Included in issued capital stock are 103,125 (2003 – 103,125) common shares held in escrow that may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Private placements**

In August 2003, the Company issued 2,100,000 units at \$0.10 per unit for total proceeds of \$210,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.10 until August 28, 2005. The share purchase warrants issued with this private placement have been recorded at a fair value of \$79,313 which is included in contributed surplus. The Company incurred share issuance costs of \$12,780 on the private placement which were allocated on a pro-rata basis between capital stock and contributed surplus.

In October 2003, the Company issued 2,037,059 units at \$0.17 per unit for total proceeds of \$346,300. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.24 until October 14, 2005. The share purchase warrants issued with this private placement have been recorded at a fair value of \$125,736 which is included in contributed surplus. The Company incurred share issuance costs of \$36,444 on the private placement which were allocated on a pro-rata basis between capital stock and contributed surplus.

During the year ended December 31, 2003, the Company issued convertible debentures bearing interest at 8% per annum for total proceeds of \$180,000, of which \$167,926 was received during the year ended December 31, 2002. In November, 2003, at the option of the holder, the debentures were converted into 1,500,000 units. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share for \$0.12 until May 1, 2004 and thereafter for \$0.14 until May 1, 2005. The share purchase warrants issued with this conversion have been recorded at a fair value of \$65,561 which is included in contributed surplus. The Company incurred share issuance costs of \$7,300 on the conversion which were allocated on a pro-rata basis between capital stock and contributed surplus.

In June 2004, the Company issued 3,100,000 units at \$0.20 per unit for total proceeds of \$620,000. Each unit consisted of one common share and one non-transferable share purchase warrant. A total of eight warrants entitles the holder to acquire one additional common share for \$0.20 until June 2, 2006. The Company issued 225,000 common shares at a value of \$45,000 as a finder's fee.

In August 2004, the Company issued 1,500,000 shares at \$0.20 per share for total proceeds of \$300,000. The Company issued 93,750 common shares at a value of \$18,750 as a finder's fee.

During the year ended December 31, 2004, the Company issued 7,680,000 common shares pursuant to the exercise of warrants for proceeds of \$1,090,200 of which \$146,950 was received during the year ended December 31, 2003. The Company also issued 1,050,000 common shares pursuant to the exercise of stock options for proceeds of \$110,000.

**Stock options**

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers and certain consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options can be granted for a maximum term of 5 years.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2004

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

The following incentive stock options and share purchase warrants were outstanding at December 31, 2004:

	Number of Shares	Exercise Price	Expiry Date
Options	200,000 3,000,000	\$ 0.15 0.15	September 15, 2005 April 5, 2006
Warrants	1,057,059 387,500	0.24 0.20	October 14, 2005 June 2, 2006

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2001	8,312,503	\$ 0.36	970,000	\$ 0.27
Granted/repriced	3,100,000	0.15	1,150,000	0.10
Exercised	(41,666)	0.14	(150,000)	0.10
Expired/cancelled	<u>(3,270,837)</u>	0.20	<u>(470,000)</u>	0.35
Outstanding, December 31, 2002	8,100,000	0.27	1,500,000	0.13
Granted	5,637,059	0.17	-	-
Exercised	(946,000)	0.15	(50,000)	0.10
Expired/cancelled	<u>(4,054,000)</u>	0.15	<u>(500,000)</u>	0.20
Outstanding, December 31, 2003	8,737,059	0.15	950,000	0.10
Granted	387,500	0.20	3,300,000	0.15
Exercised	(7,680,000)	0.14	(1,050,000)	0.10
Expired/cancelled	<u>-</u>	-	<u>-</u>	-
Outstanding, December 31, 2004	1,444,559	\$ 0.23	3,200,000	\$ 0.15
Number currently exercisable	1,444,559	\$ 0.23	3,200,000	\$ 0.15



**PORTRUSH PETROLEUM CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**PORTRUSH PETROLEUM CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2004

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock-based compensation**

Included in stock options granted and repriced during the year ended December 31, 2002 are 300,000 stock options issued to consultants and non-employees. Using the Black-Scholes option pricing model, the stock options granted are marked to fair value through charges to the statements of operations. Total stock-based compensation for stock options granted to consultants and non-employees recognized during the year ended December 31, 2002 was \$22,474 which has been recorded in the consolidated statement of operations as professional fees with corresponding additional paid-in capital recorded in stockholders' equity.

The Company also granted and repriced 850,000 stock options to employees and directors during the year ended December 31, 2002. The Company has elected to measure compensation costs using the intrinsic value-based method for employee stock options. Under this method, no compensation expense was recognized when the stock options were granted. Had compensation costs been determined based on the fair value of the options granted using the Black-Scholes option-pricing model, additional compensation expense would have been recorded as follows:

	2002
Loss for the year as reported	\$ (1,749,571)
Additional compensation expense	(63,674)
Pro-forma loss	\$ (1,813,245)
Pro-forma basic and diluted loss per share	\$ (0.10)

During the year ended December 31, 2004, the Company granted 3,300,000 (2003 – Nil) stock options resulting in stock-based compensation expense under the Black-Scholes pricing model of \$298,483 (2003 - \$Nil), with a corresponding credit to contributed surplus on the balance sheet.

The following weighted average assumptions were used in the valuation of stock options granted:

	2004	2002
Risk-free interest rate	2.4%	4.3%
Expected life of options	2 years	2 years
Annualized volatility	160%	159%
Dividend rate	0.00%	0.00%

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2004

**5. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses are comprised of the following:

	2004	2003	2002
Consulting and administration fees	\$ 107,170	\$ 34,322	\$ 19,700
Investor relations	164,344	24,860	-
Management fees – related party	72,000	87,000	60,000
Office and miscellaneous	107,355	62,040	21,722
Professional fees	60,545	100,702	65,253
Stock-based compensation	298,482	-	-
Transfer agent and regulatory fees	24,981	22,266	19,307
Travel and promotion	33,296	11,920	30,022
	<u>\$ 868,173</u>	<u>\$ 343,110</u>	<u>\$ 216,004</u>

**6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2004	2003	2002
Cash paid during the year for interest	\$ -	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -	\$ -

The significant non-cash transactions during the year ended December 31, 2004 was the issuance of 318,750 common shares valued at \$63,750 for finders' fees on private placements.

Significant non-cash transactions during the year ended December 31, 2003 included:

- a) The issuance of 1,500,000 units pursuant to the conversion of debentures with an aggregate face value of \$180,000.
- b) The accrual of future site restoration costs of \$6,473.

The Company did not have any non-cash financing or investing transactions during the year ended December 31, 2002.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2004

**7. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$72,000 (2003 - \$87,000; 2002 - \$60,000) to directors.
- b) Paid or accrued rent of \$Nil (2003 - \$4,000; 2002 - \$6,000) to a director.

Amounts due to related parties are non-interest bearing, unsecured and have no specific terms of repayment.

Related party transactions are in the normal course of operations, occurring on terms and conditions that are similar to those of transactions with unrelated parties and, therefore, are measured at the exchange amount.

**8. INCOME TAXES**

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2004	2003	2002
Loss for the year	\$ (776,320)	\$ (746,498)	\$ (1,749,571)
Expected income taxes (recovery)	\$ (272,810)	\$ (280,683)	\$ (692,830)
Write-off of oil and gas properties	-	-	570,950
Non-deductible items for income tax purposes	43,410	225,479	157,626
Other items deductible for income tax purposes	(56,285)	(53,402)	(80,216)
Unrecognized benefits of non-capital losses	285,685	108,606	44,470
Actual income tax recovery	\$ -	\$ -	\$ -

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

	2004	2003
Future income tax assets:		
Oil and gas properties	\$ 1,287,892	\$ 1,054,369
Mineral property and related exploration expenditures	95,334	95,334
Financing fees	68,279	95,944
Operating losses available for future periods	640,519	1,297,299
Capital losses available	527,409	527,409
	2,619,433	3,070,355
Valuation allowance	(2,619,433)	(3,070,355)
Net future income tax asset	\$ -	\$ -

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. INCOME TAXES (cont'd...)**

The Company has incurred operating losses of approximately \$1,800,000 which, if unutilized, will expire commencing 2005. Subject to certain restrictions, the Company also has capital losses and resource exploration expenditures available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements, as their realization is not judged likely to occur.

**9. SEGMENT INFORMATION**

All of the Company's operations are in the oil and gas industry and all of the revenues have been generated in the U.S.A.

The total amount of capital assets attributable to Canada is \$149,560 (2003 - \$Nil) and the total amount of capital assets attributable to the U.S.A. is \$1,492,833 (2003 - \$173,758).

**10. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

**11. SUBSEQUENT EVENT**

Subsequent to December 31, 2004, the Company issued 624,500 common shares for proceeds of \$93,675 pursuant to the exercise of stock options.

**12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). Material variations in the accounting principles, practices and methods used in preparing these consolidated financial statements from principles, practices and methods accepted in the United States ("United States GAAP") are described and quantified below.

**PORTRUSH PETROLEUM CORPORATION**  
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**12. DIFFERENCE BETWEEN CANADIAN AND UNITED STATES GENERALLY  
ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

**Consolidated financial statement balances under United States GAAP**

	2004	2003
<b>Consolidated balance sheets</b>		
Total assets under Canadian GAAP and United States GAAP	\$ 1,790,255	\$ 182,571
Total liabilities under Canadian GAAP and United States GAAP	\$ 441,185	\$ 322,275
Capital stock, share subscriptions received in advance and contributed surplus under Canadian GAAP	13,206,844	10,951,750
Cumulative compensation expense on granting of stock options	759,296	759,296
Capital stock, share subscriptions received in advance and contributed surplus under United States GAAP	13,966,140	11,711,046
Deficit under Canadian GAAP	(11,857,774)	(11,091,454)
Cumulative compensation expense on granting of stock options	(759,296)	(759,296)
Deficit under United States GAAP	(12,617,070)	(11,850,750)
Total shareholders' equity (deficiency) under United States GAAP	1,349,070	(139,704)
Total liabilities and shareholders' equity (deficiency) under United States GAAP	\$ 1,790,255	\$ 182,571

The impact of the differences between Canadian GAAP and United States GAAP do not materially affect the consolidated statements of operations and cash flows.

**12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY  
ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

**Oil and gas properties**

Under both US and Canadian GAAP, property, plant and equipment must be assessed for potential impairments. Under US GAAP, if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, then an impairment loss (the amount by which the carrying amount of the asset exceeds the fair value of the asset) should be recognized. Fair value is calculated as the present value of estimated expected future cash flows. Prior to January 1, 2004, under Canadian GAAP, the impairment loss was the difference between the carrying value of the asset and its net recoverable amount (undiscounted). Effective January 1, 2004, the CICA implemented a new pronouncement on impairment of long-lived assets, which eliminated the US/Canadian GAAP difference going forward.

**Stock based compensation**

Under United States GAAP, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation ("SFAS 123") recommends, but does not require, companies to establish a fair market value based method of accounting for stock-based compensation plans. The Company has elected for the years ended December 31, 2004 and 2003 to account for stock-based compensation using SFAS 123. Accordingly, compensation cost for stock options is measured at the fair value of options granted.

For the year ended December 31, 2002, the Company elected to account for stock-based compensation using Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options was measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the option price. Since stock options are granted at exercise prices that are at or above the quoted market value of the Company's common shares at the date of grant, there was no compensation cost to be recognized by the Company.

Under Canadian GAAP, the Company accounts for stock based compensation as disclosed in Note 2. Accordingly, there is no difference between Canadian GAAP and United States GAAP on the accounting for stock-based compensation for the years ended December 31, 2004, 2003 and 2002.

**Loss per share**

Under both Canadian GAAP and United States GAAP basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

Under United States GAAP, the weighted average number of common shares outstanding excludes any shares that remain in escrow, but may be earned out based on the Company incurring a certain amount of exploration and development expenditures. The weighted average number of shares outstanding under United States GAAP for the years ended December 31, 2004, 2003 and 2002 were 33,755,501, 22,132,652 and 17,663,899, respectively. Accordingly, the loss per share for the years ended December 31, 2004, 2003 and 2002 was \$(0.02), \$(0.03) and \$(0.10), respectively.

**12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY  
ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

**Asset retirement obligations**

Under United States GAAP, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" requires companies to record the fair value of the liability for closure and removal costs associated with the legal obligations upon retirement or removal of any tangible long-lived assets. Under this standard, the initial recognition of the liability is capitalized as part of the asset cost and depreciated over its estimated useful life.

Under Canadian GAAP, the Company was required to record asset retirement obligations as at December 31, 2004 for estimated future net costs of well abandonment and site restoration including removal of production facilities at the end of their useful life of \$6,473 (2003 - \$6,473). New accounting and disclosure standards were introduced under Canadian GAAP (Note 2) and adopted by the Company effective January 1, 2003. Accordingly, there is no difference between Canadian GAAP and United States GAAP as at December 31, 2004 and 2003.

**New accounting pronouncements**

In January 2003, FASB issued Financial Interpretation No. 46 "*Consolidation of Variable Interest Entities*" ("*FIN 46*") (revised in December 17, 2003). The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after December 15, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after March 15, 2004.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Non-Monetary Assets – an amendment of APB Opinion No. 29" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Non-monetary Transactions", to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("SFAS 123R"). SFAS 123R supersedes APB 25 and its related implementation guidance by requiring entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards (with limited exceptions) and revises SFAS 123 as follows:

**12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY  
ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

**New accounting pronouncements (cont'd...)**

- i. Public entities are required to measure liabilities incurred to employees in share-based payment transactions at fair value and non-public entities may elect to measure their liabilities to employees incurred in share-based payment transactions at their intrinsic value, whereas under SFAS 123 all share based payment liabilities were measured at their intrinsic value.
- ii. Non-public entities are required to calculate fair value using an appropriate industry sector index for the expected volatility of its share price, if it is not practicable to estimate the expected volatility of the entity's share price.
- iii. Entities are required to estimate the number of instruments for which the requisite service is expected to be rendered as opposed to accounting for forfeitures as they occur.
- iv. Incremental compensation cost for a modification of the terms or conditions of an award is measured by comparing the fair value of the modified award with the fair value of the award immediately before the modification, whereas SFAS 123 required that the effect of a modification be measured as the difference between the fair value of the modified award at the date it is granted and the award's value immediately before the modification, determined based on the shorter of (1) its remaining initially estimated expected life or (2) the expected life of the modified award.

SFAS 123R also clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or a liability and attributing compensation cost to reporting periods. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued in EITF 96-18. SFAS 123R also does not address the accounting for employee share ownership plans which are subject to Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". Public entities (other than those filing as small business issuers) will be required to apply SFAS 123R as of the first annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply SFAS 123R in the first annual reporting period that begins after December 15, 2005. For non-public entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after December 15, 2005.

The adoption of this new pronouncement is not expected to have a material effect on the Company's consolidated financial position or results of operations.

***Canadian Standards***

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which will be effective for annual and interim periods beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. Management is assessing the impact, if any, of the adoption of this guideline on the Company's consolidated financial statements.



**SIGNATURE PAGE**

Pursuant to the requirements of Section 12g of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F/A and has duly caused this Annual Report Amendment No. 1 to be signed on its behalf by the undersigned, thereunto duly authorized.

Portrush Petroleum Corporation; SEC # 0-27768  
Registrant

July 22, 2005  
Date

By s/s Martin Cotter  
Martin Cotter, President/Director

July 22, 2005  
Date

By s/s Neal Iverson  
Neal Iverson, Corporate Secretary/Director

## Exhibit 12.1

I, Martin Cotter, Chief Executive Officer and Chief Financial Officer, certify that:

1. I have reviewed this Annual Report Amendment No. 1 on Form 20-F/A of Portrush Petroleum Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the Annual Report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 22, 2005

/s/ Martin Cotter

Martin Cotter, Chief Executive Officer and Chief Financial Officer

**EXHIBIT 13.1**

**Certification of Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report Amendment No. 1 of Portrush Petroleum Corporation, a company organized under the *British Columbia Corporations Act* (the "Company") on Form 20-F/A as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Martin P. Cotter, President/CEO/Director of the Company, certifies, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Martin P. Cotter

Martin P. Cotter, President/CEO/CFO/Director

Date: July 22, 2005