

*MANAGEMENT'S DISCUSSION & ANALYSIS*

**Portrush Petroleum Corporation**

**MD&A**

**Description of Business and effective Date of this Report**

Portrush Petroleum Corporation is a junior oil and gas exploration and development company. The Company, in conjunction with others, will invest in oil and gas related operations or acquire an interest in properties in order to determine the existence, location, extent and quality of the oil and gas resources located on the properties and will drill, complete, and participate in the operation of or development of oil or gas wells and related operations.

This discussion should be read in conjunction with the financial statements and related notes of the Company for the year ended December 31, 2004 (the "Financial Statements"). The information in this Management Discussion and Analysis ("MD&A") contains forward-looking information or statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The information contained in this report is made as of April 29, 2005.

**Performance Summary and Update**

In 2001 the Company drilled a discovery well (the Richards 1-20) in the Lenox Project, Macomb County, SE Michigan. Portrush has a 22.5% working interest in this project. A second well (the Martin 1-21) was drilled in 2002. Both wells were productive in the Brown Niagaran. Production from the property commenced in January 2002 and the Richards and Martin wells are both on production.

Oil production from the wells is presently being curtailed and the wells are choked back in order to avoid excessive gas production. This excess gas is currently being flared. Production revenue for fiscal 2003 was \$415,000 and for fiscal 2004 production revenue was \$442,000.

Follow up wells, the Schmude LaTorre 1-20 and the Savoy Werderman 1-21 north and east of the producing wells were drilled in the fourth quarter of 2003 and April 2004 respectively. The Brown Niagaran was not encountered at either well.

**Selected Annual Financial Information**

The following table provides a brief summary of the Issuer's financial operations. For more detailed information, refer to the audited financial statements and unaudited financial statements of the Issuer which are attached to and form part of this form.

	<b>Year-end 12/31/04</b>	<b>Year-end 12/31/03</b>	<b>Year-end 12/31/02</b>
Revenues (Net) Other (Interest)	442,368	415,244	302,915 120
General and Administrative Expenses (not including stock based compensation)	569,691	343,110	216,004
Stock Based Compensation Expenses	298,482	Nil	Nil
Write-off of oil & gas properties <sup>(1)</sup>	Nil	Nil	1,441,793
Settlement of lawsuit & write-off of receivable <sup>(2)</sup>	73,022	Nil	4,000
Net Income (Loss) per share	(766,320) (0.02)	(746,498) (0.03)	(1,749,571) (0.10)
Working Capital	(286,850)	(306,989)	(574,732)
<b>Oil &amp; Gas Properties</b> Property Expenditures	1,642,393	173,758	375,827
Long Term Liabilities	Nil	Nil	Nil
<b>Shareholders' Equity</b> Dollar Amount Number of Securities <sup>(3)</sup>	1,349,070 40,342,417	(139,704) 26,693,667	(366,832) 20,060,608

- (1) In fiscal 2002, the Company wrote-off the deferred oil& gas exploration costs on its Alberta properties.
- (2) In fiscal 2004, the Company wrote-off an accounts receivable of \$73,022.
- (3) There were 40, 342,417 (2003: 26,693,667) shares issued and outstanding as of December 31, 2004 of which 103,125 are escrowed shares which will be released only upon obtaining the consent of the appropriate regulatory authority.

The Company's accounting policy is to record its resource properties at cost. Exploration and development expenditures relating to resource properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

## **Properties of the Company**

### **Mission River Project, Texas**

In Texas, the company has entered into a joint venture with the McAlester Fuel Company of Houston, Texas to develop the Mission River Project, situated in Refugio and Goliad Counties, Gulf Coast, Texas.

The Mission River Oil and Gas field was discovered in 1930. The immediate area has produced over 944,000,000 barrels of oil and eventually will produce another 500,000,000 barrels, plus at least a trillion cubic feet of natural gas.

The initial twelve (12) well program was designed to test bypassed oil and gas payzones in the traditional producing intervals from 5,000 to 6,400 feet; The first well was spudded on April 30<sup>th</sup> 2004 and five additional wells have since been drilled and completed as gas wells. All six wells are currently on production. A gas pipeline runs through the property. Total production from the field for the month of March amounted to 30.127 million cubic feet of gas and 1,917 barrels of oil.

McAlester Fuel, the operator of the property, has applied for a drilling permit for the McAlester "Scanio-Shelton # 6", a deep test on the property. McAlester has defined the prospect by a combination of sub-surface well control and an innovative exploration technology known as electro-magnetic imaging. This well will be drilled to a depth of more than 10,000 feet.

Mr. Wesley Franklin chief geologist for the operator commented; "Based on previously drilled deep producers on the property we anticipate multiple pays in the 8,100 to 8,500 Lower Vicksburg. Furthermore, we expect the zones will require fracing and we look forward to the zones producing at 5 million cubic feet a day or greater and recover 3 to 6 BCF."

### **Lenox Project, Michigan**

In June 2000, the Company acquired a 25% 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.

The Company focused its efforts on the Lenox project in Macomb County, SE Michigan where the Company earned a 22.5% working interest. At present the Company has two oil wells on production and excess gas is being flared. Lenox has provided most of the oil and gas revenue during 2004.

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 and gas filled reefs are the principal target for exploration companies in the basin.

### **Exploration Risks**

Oil and gas exploration and development involves significant risks. Few wells which are drilled are developed into commercially producing fields. Substantial expenditures may be required to establish reserves and no assurance can be given that commercial quantities or further reserves will be discovered or, if found, will be present in sufficient quantities to enable the Company to recover the costs incurred. The Company's estimates of exploration and production costs can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, and unusual or unexpected formations, pressures and work interruptions. There can be no assurance that actual exploration cost will not exceed projected cost.

## Results of Operations

During the year, the Company recorded non-cash expenses for stock based compensation of \$298,482 and depletion of \$121,937 compared to nil and 599,679 in the previous year. Well operating expenses were 145,556 compared with 123,767 in the previous year.

General and administration expenses before the non-cash expenses were \$569,691 compared with \$343,110 for 2003. The Company expects general and administrative expenses to continue to increase as the Company becomes more active based on the Company's increased drilling activity in Texas and its ongoing participation in a number of trade shows and conferences. The Company paid or accrued to the President of the Company management fees of \$72,000.

## Summary of Quarterly Results

		1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
2002	Net Loss	(35,494)	(45,964)	(92,871)	(1,575,242) <sup>(1)</sup>
	Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.10)
2003	Net Loss	(43,389)	(58,300)	(161,319)	(483,490)
	Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.02)
2004	Net Loss	(49,234)	(601,270) <sup>(2)</sup>	(249,247)	133,431
	Basic and diluted loss per share	(0.01)	(0.02)	(0.01)	0.01

(1) In fiscal 2002, the Company wrote-off the deferred oil& gas exploration costs on its Alberta properties.

(2) During the quarter, the Company recorded stock based compensation expenses of \$428,612.

## Liquidity

The Company has been credited with operating revenue derived from the production of the Lenox wells and the operator has setoff this revenue against various drilling and exploration costs incurred by the operator on the Company's behalf. Historically, the Company has received revenues only from interest earned on cash reserves held. The Company expects to continue to rely upon equity financing as a significant 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 the mineral 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.

## Investor Relations

The Company is continuing its corporate awareness program to enhance the Company's visibility and foster a clear understanding of its performance and strategic direction. To date, Martin Cotter, the Company's President has travelled to a number of financial centres in the United States in order

to meet with key members of the investment community regarding ongoing financing programs and projects for the Company. As part of this ongoing program, the company developed a corporate video presentation which was released during the previous quarter and added to the Company's web site.

The company is currently reviewing its investor relations activities with a view to redesigning its web site and enhancing its investor communications systems.

### **Financing, Principal Purposes and Milestones**

During the year, the Company raised net proceeds of \$1,956,611 through the issuance of shares. (See note 4 of the financial statements for further details) These funds were used to pay for the Company's interest in the Mission River project in Texas and for development drilling in Lenox and general and administrative expenses. The Company expects to complete the Lenox gas pipeline and begin receiving revenue from the Mission River project before year end.

### **Outstanding Share Data**

The Company has 40,966,917 common shares outstanding as at April 29, 2005.

The following stock options and share purchase warrants were outstanding at April 29, 2005:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	200,000	0.15	September 15, 2005
	2,375,500	0.15	April 5, 2006
<b>Warrants</b>	1,057,059	0.24	October 14, 2005
	387,500	0.20	June 2, 2006

### **Capital Resources**

The Company has not entered into a property option agreement that requires the Company to meet certain yearly exploration expenditure requirements.

### **Off-Balance Arrangements**

The Company has not entered into any off-balance sheet financing arrangements.

### **Transactions with Related Parties**

During the year the Company accrued management fees in the amount of \$72,000 to Martin Cotter for his services as the President of the Company.

## **Changes in Accounting Policies**

### **Stock Options**

During the year ended December 31, 2003 the Company elected the early adoption, on a prospective basis, of the CICA released amendments to Section 3870, “Stock Based Compensation and Other Stock-based Payments”, which require an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options. During fiscal 2002, the Company disclosed the effects of accounting for stock-based compensation to directors and employees as compensation expense, using the fair-value based method, as pro-forma information in the share capital note.

### **Site Restoration**

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.

### **Subsequent Events**

Subsequent to December 31, 2004, the Company issued 624,500 common shares for proceeds of \$93,675 pursuant to the exercise of stock options. On April 25, 2005 the Company announced a private placement of 2,600,000 units at \$0.15 per unit with each unit consisting of one share and one warrant to purchase an additional share at \$.15.