

PACIFIC ENERGY RESOURCES LTD.

Financial Statements

December 31, 2004

and

December 31, 2003

DE VISSER GRAY

CHARTERED ACCOUNTANTS

401 - 905 West Pender Street
Vancouver, BC Canada
V6C 1L6

Tel: (604) 687-5447
Fax: (604) 687-6737

AUDITORS= REPORT

To the Shareholders of Pacific Energy Resources Ltd.,

We have audited the balance sheets of Pacific Energy Resources Ltd. as at December 31, 2004 and 2003 and the statements of operations and deficit, cash flows and petroleum and natural gas interests for the years then ended. 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. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"De Visser Gray"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
May 12, 2005

PACIFIC ENERGY RESOURCES LTD.

Balance Sheets
As at December 31,

	2004	2003
	\$	\$
A S S E T S		
Current Assets		
Cash	156,939	102,025
Cash - restricted	27,192	25,664
Amounts receivable	252,761	139,426
Due from joint venture participants (note 6)	545,323	156,479
Prepays and other current assets	98,231	6,001
Short-term investments	75,125	25,930
	<u>1,155,571</u>	<u>455,525</u>
Deferred charges (note 5)	112,086	94,917
Petroleum and natural gas interests (notes 3 and 9)	2,361,618	2,455,485
	<u>3,629,275</u>	<u>3,005,927</u>
L I A B I L I T I E S		
Current Liabilities		
Accounts payable and accrued liabilities	618,325	540,556
Due to related parties (note 6)	276,389	345,659
Due to joint venture participant (note 6)	33,588	427,496
Note payable	257,046	-
Other liabilities	3,595	-
Share subscriptions received (note 10)	-	56,810
	<u>1,188,943</u>	<u>1,370,521</u>
Convertible debentures (notes 6 and 11)	1,482,684	1,337,964
Other liabilities	-	25,664
	<u>2,671,627</u>	<u>2,734,149</u>
S H A R E H O L D E R S- E Q U I T Y		
Share capital (note 7)	14,156,180	13,453,778
Convertible debentures (notes 6 and 11)	90,164	-
Deficit	(13,288,696)	(13,182,000)
	<u>957,648</u>	<u>271,778</u>
Continuing operations (note 1)	<u>3,629,275</u>	<u>3,005,927</u>

Approved by the Board of Directors:

"Darren Katic"

"Vladimir Katic"

PACIFIC ENERGY RESOURCES LTD.Statements of Operations and Deficit
For the Years Ended December 31,

	2004	2003
	\$	\$
Revenues		
Oil and gas production revenue	1,545,838	1,207,845
Production expenses	(916,157)	(794,130)
Royalty payments	(34,965)	(22,101)
Depletion	(100,691)	(84,276)
Net oil and gas income	494,025	307,338
Gain on sale of assets	120,977	-
Other revenue	9,810	-
	<u>624,812</u>	<u>307,338</u>
Expenses		
Accretion on convertible debentures	39,660	-
Amortization	-	30
Consulting	101,460	128,402
General exploration	-	10,000
Interest	99,935	96,194
Legal, accounting and audit	180,626	234,528
Office and administration	36,549	30,899
Operating overhead	178,292	106,377
Salary expense	-	132,064
Shareholder communications	4,376	4,316
Travel and accommodation	-	43,404
Trust and filing	20,386	33,302
Foreign exchange gain	(6,539)	(236,178)
Write-off of amounts receivable	16,297	-
Write-off of deferred charges	60,466	-
Write-off of petroleum and natural gas interests (note 3)	-	1,350,241
	<u>731,508</u>	<u>1,933,579</u>
Net loss for the year	(106,696)	(1,626,241)
Deficit - beginning of year	(13,182,000)	(11,555,759)
Deficit - end of year	<u>(13,288,696)</u>	<u>(13,182,000)</u>
Loss per share (note 8)	\$ (0.01)	\$ (0.20)
Weighted average number of common shares outstanding	<u>12,645,185</u>	<u>8,301,394</u>
<i>(2003 is post-consolidation)</i>		

See notes to the financial statements

PACIFIC ENERGY RESOURCES LTD.

Statements of Cash Flows
For the Years Ended December 31,

	2004	2003
	\$	\$
Cash Provided by (Used for):		
Operating Activities		
Net loss for the year	(106,696)	(1,626,241)
Adjustment for items not affecting cash:		
Amortization and depletion	100,691	84,306
Accretion on convertible debentures	39,660	-
Write-off of amounts receivable	16,297	-
Write-off of deferred charges	60,466	-
Write-off of petroleum and natural gas interests	-	1,350,241
	<u>110,418</u>	<u>(191,694)</u>
Net changes in non-cash working capital components:		
Cash restricted	(1,528)	(25,664)
Amounts receivable	(129,632)	(15,594)
Accounts payable and accrued liabilities	77,700	80,506
Prepaid expenses	(92,230)	-
Note payable	257,046	-
Due to related parties	(463,178)	1,420,712
Due from joint venture participants	(388,844)	(103,007)
	<u>(630,248)</u>	<u>1,165,259</u>
Investing Activities		
Cash paid for short term investments	(49,195)	-
Petroleum and natural gas expenditures	(6,824)	(1,753,103)
Deferred charges	(77,635)	(94,795)
	<u>(133,654)</u>	<u>(1,847,898)</u>
Cash acquired upon acquisition of joint venture interest	<u>-</u>	<u>120,214</u>
Financing Activity*		
Cash received for common shares issued	623,592	600,000
Share subscriptions received	-	56,810
Cash received for convertible debentures issued	195,224	-
	<u>818,816</u>	<u>656,810</u>
Net cash provided during the year	54,914	94,385
Cash - beginning of year	<u>102,025</u>	<u>7,640</u>
Cash - end of year	<u><u>156,939</u></u>	<u><u>102,025</u></u>

* *Supplemental disclosure of non-cash investing and financing activities:* Refer to note 4

See notes to the financial statements

PACIFIC ENERGY RESOURCES LTD.
Statements of Petroleum and Natural Gas Interests
For the Years Ended December 31, 2003 and 2002

	December 31, 2002	Net Additions/ (Write-downs)	December 31, 2003	Net Recoveries	December 31, 2004
	\$	\$	\$	\$	\$
Pacific Energy Resources Joint Venture					
Acquisition costs and other (note 9)	-	2,455,484	2,455,484	(93,867)	2,361,617
Forum Project					
Acquisition costs	513,837	(513,837)	-	-	-
Exploration	3,459,669	(3,459,669)	-	-	-
Depletion	(3,633,947)	3,633,947	-	-	-
Recovery	(39,559)	39,559	-	-	-
	<u>300,000</u>	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Lost Hills Temblor Prospect					
Acquisition costs	415,259	(415,259)	-	-	-
Absaroka Ridge Project					
Acquisition costs	80,322	(80,322)	-	-	-
Russian Projects					
Acquisition costs	82,555	(82,555)	-	-	-
Rincon Creek Project					
Acquisition costs	136,487	(136,486)	1	-	1
Sawtelle Project					
Exploration - drilling	122,904	(122,904)	-	-	-
Total petroleum and natural gas interests	<u>1,137,527</u>	<u>1,317,958</u>	<u>2,455,485</u>	<u>(93,867)</u>	<u>2,361,618</u>

See notes to the financial statements

PACIFIC ENERGY RESOURCES LTD.

Notes to the Financial Statements

December 31, 2004 and 2003

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in British Columbia, Canada and on February 4, 2005 redomiciled to the United States and combined with Petrocal Incorporated its joint venture partner in the Pacific Energy Resources Joint Venture (PER). Refer to note 10.

The Company's activity is the acquisition and exploration of petroleum and natural gas interests located primarily in the United States of America. The recoverability of amounts recorded as petroleum and natural gas assets is dependent upon the commercialization of economically recoverable reserves. The Company does not generate sufficient cash flows from operations to fund its exploration activities and has therefore relied principally upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations and exploration activities to the extent that such instruments are issuable under terms acceptable to the Company. Accordingly, the Company's financial statements are presented on a going concern basis, which assumes the Company's ability to realize its assets and discharge its liabilities in the normal course of operations. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable values of its assets may decline materially from current estimates.

Refer to note 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements included the accounts of the company and the Company's proportionate interest in the accounts of the PER Joint Venture.

Accounting Principles and Use of Estimates

These financial statements are prepared in conformity with Canadian generally accepted accounting principles which requires management to make informed judgements and estimates, which affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the fiscal year. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and, therefore, are inherently imprecise. Changes in assumptions could significantly affect these estimates and actual results may differ from them.

Joint Operations

All of the Company's activities relate to the exploration and production of petroleum and natural gas, some of which are conducted jointly with other companies and, accordingly, the accounts reflect only the Company's proportionate interest in these activities.

Translation of Foreign Currency

The Company's revenues and expenses which are conducted in foreign currencies are translated into Canadian dollars at the average rate of exchange for the year; monetary assets and liabilities are translated into Canadian dollars at the rate prevailing on the balance sheet date and all other assets and liabilities are translated into Canadian dollars at the rates prevailing on the dates of the transactions. Exchange gains and losses are recorded in operations in the year in which they occur.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Financial Instruments

The carrying amounts for amounts receivable, due from related parties and accounts payable approximate their fair values due to the limited terms of these instruments. The Company does not engage in hedging activities or have any outstanding derivative instruments.

Share Capital

Share capital issued for non-monetary consideration is recorded at its fair value as of the date the agreement to issue the shares was entered into as determined by the Board of Directors of the Company, based on the trading price of the shares on the TSX Venture Exchange.

Petroleum and Natural Gas Properties

The Company uses the successful efforts method of accounting for oil and gas properties. Under this methodology, costs incurred to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized.

Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs and costs of carrying and retaining unproved properties are expensed.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drilling, terms of leases and historical lease expirations.

Capitalized costs of producing oil and gas properties are depleted by the units-of-production method on a field-by-field basis. Lease costs are depleted using total proved reserves while lease equipment and intangible development costs are depleted using proved developed reserves. The Company's proved properties are evaluated on a field-by-field basis for impairment. An impairment loss is indicated whenever net capitalized costs exceed expected future net cash flow based on engineering estimates. In this circumstance, the Company recognizes an impairment loss for the amount by which the carrying value of the properties exceeds the estimated fair value (based on discounted cash flow).

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depletion and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depletion and amortization with a resulting gain or loss recognized in earnings.

On the sale of an entire interest in an unproved property, a gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in a unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Income Taxes

The Company accounts for future tax assets and liabilities attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases, and are measured using tax rates expected to apply in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. The Company has taken a valuation allowance for the full amount of all potential tax assets.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Stock-based Compensation Plan

The Company records compensation for stock options granted to consultants, directors and employees using a fair value measured basis and records the expense when the options vest.

The adoption of this accounting policy has been applied prospectively to all stock options granted subsequent to January 1, 2003. No stock options were granted during the year ended December 31, 2004. There are no stock options outstanding at December 31, 2004.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

Asset Retirement Obligations

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets with a corresponding increase in the carrying amount of the related long-lived asset. This liability is subsequently allocated to expense over its expected life. Currently the Company's assessment of its asset retirement obligations are deemed to be not material.

Environmental Expenditures

The operations of the Company may be affected by changes in environmental regulations, including those for site restoration costs. The likelihood of new regulations and their effect upon the Company varies and is not predictable. The Company's policy is to meet environmental standards set by legislation.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

3. **PETROLEUM AND NATURAL GAS INTERESTS**

Pacific Energy Resources Agreement

Los Angeles, California, USA

The Company has a 25% interest in the Pacific Energy Resources joint venture, which owns oil and gas leases in Signal Hill, Rosecrans and Wilmington fields in Los Angeles County, California. The leases are subject to leasehold royalties of 12% to 21% and overriding royalties of 2% of all production and 5% of production in excess of 500 barrels per day. The lease interest was acquired by the payment of US\$1,250,000 of which US\$500,000 was paid by the issue of a convertible debenture (note 11).

Refer also to note 9 for the business combination and acquisition of the balance of the PER joint venture.

3. **PETROLEUM AND NATURAL GAS INTERESTS** *(continued)*

Forum Prospect

Los Angeles County, California, USA

The Company had a 61.1% net working interest in this prospect, subject to payment of annual land owner and overriding royalties, which varied with the drilling location, acquired by the issuance of 1,000,000 common shares. During 2003, the property was abandoned and all costs associated with it were written-off.

Lost Hills Temblor Prospect

Salinas and San Joaquin Basin, California, USA

The Company had a 20% working interest in these properties which had been acquired for \$1,114,259, which amount had been paid in part by the issuance of 5,400,000 Special Warrants which had been converted to shares. During 2003, the property was abandoned and all costs associated with the it were written-off.

Sawtelle Prospect

Los Angeles County, California, USA

The Company had a 2.5% working interest in this prospect. During 2003, the property was abandoned and all costs associated with it were written-off.

Rincon Creek Project

Ventura Country, California

The Company has a 100% working interest in this prospect, which had been acquired for US\$63,000, subject to a 20% royalty interest on a lease-by-lease basis. During 2003, the Company wrote down the deferred costs associated with this property to \$1. The Company will continue to explore this prospect but will write-off all unsuccessful exploration expenditures.

4. **SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES**

- During 2004, the Company issued 73,333 common shares to settle \$22,000 of debts.
- During 2003, the Company completed its acquisition of a 25% interest in the Pacific Energy Resources Joint Venture, and issued 400,000 shares to settle \$40,000 of debts. Refer to note 3.

5. **DEFERRED CHARGES**

During 2004, the Company incurred \$112,096 (2003 - \$94,059) in deferred property development costs for three different off-shore properties, located in California, which the Company proposes to acquire.

6. **RELATED PARTY TRANSACTIONS**

Transactions with related parties are measured at their fair value as determined by management. In addition to items disclosed elsewhere, the year end balances referred to below are non-interest bearing, unsecured, due on demand. All of the PER joint venture participants are related by management. Balances due to or from joint venture participants have arisen from the operation of the PER Joint Venture.

- a) In 2004 the Company repaid \$427,496 of the outstanding balance due to a private company owned by the President of the Company. At December 31, 2004 the balance due to this Company from net property acquisition costs incurred and accrued in 2004 is \$1,337,964 (2003 - \$1,765,460) this balance, which is inclusive of \$670,864 (2003 - \$670,864 (US\$425,001)) and \$667,100 (2003 - \$667,100 (US\$500,000)) convertible debentures, remained outstanding. Refer to note 11.

6. **RELATED PARTY TRANSACTIONS** (continued)

- b) The Company wrote-off the outstanding balance of \$16,297 (2003 - \$16,297) in deferred charges in 2004 owed to a former director.
- c) In 2004, the Company accrued \$Nil (2003 - US\$60,000) in salary and expense reimbursements to its President and repaid \$30,973 of this balance during the year. At December 31, 2004 the Company owed this individual \$192,309 (2003 - \$223,282).
- d) In 2004, the Company accrued \$Nil (2003 - \$48,000) in salary and expense reimbursements to a former director and issued 73,333 shares at \$0.30 per share for debt settlement of \$22,000 during the year. At December 31, 2004 the Company owed this individual \$84,080 (2003 - \$106,080).
- e) In 2003, the Company settled \$40,000 of debts owed to a director by the issuance to him of 400,000 common shares at \$0.10 per share.

7. **SHARE CAPITAL**

Authorized share capital of the Company consists of 100,000,000 common shares without par value.

	Price Per Share	Number of Shares	Amount
Balance - December 31, 2002		31,403,633	\$ 12,813,778
Debt settlement	0.10	400,000	40,000
Private placement	0.10	2,000,000	200,000
Private placement	0.15	2,933,333	400,000
Balance - December 31, 2003		36,736,966	13,453,778
Private placement	0.20	2,000,000	⁽¹⁾ 240,402
Finder's fee	0.20	200,000	40,000
Consolidation of 3:1		(25,957,977)	-
Debt settlement	0.30	73,333	22,000
Private placement	0.60	666,667	⁽²⁾ 360,000
Finder's fee	0.60	66,667	40,000
Balance – December 31, 2004		13,785,656	14,156,180

(1) net of share issue costs of \$159,598, inclusive of a finders fee of 200,000 common shares valued at \$40,000.

(2) net of share issue costs of \$40,000 for issuance of 66,667 common shares for a finders fee..

Summary of options and warrants outstanding at December 31, 2004:

Stock Options	Weighted- Average Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (Year)
	\$		
Balance - December 31, 2002	0.30	1,339,183	1.5
Expired		(1,339,183)	
Balance - December 31, 2003 and 2004		-	

7. **SHARE CAPITAL** (continued)

Warrants	Exercise Price	Number Outstanding	Expiry Date
	\$		
Balance - December 31, 2002		-	
	0.30	666,666	June 17, 2005
	0.45	888,889	October 3, 2005
Balance - December 31, 2003		*1,555,555	
	0.60	*666,667	March 15, 2006
	0.60	666,667	October 19, 2006
Balance - December 31, 2004		<u>2,888,889</u>	

* During the year ended December 31, 2004, the Company consolidated their common shares outstanding on a 3:1 basis. As a result, these warrants were consolidated on a 3:1 basis as well.

8. **LOSS PER SHARE**

Loss per share is calculated using the weighted-average number of common shares outstanding during the year. Fully diluted loss per share has not been disclosed as it is anti-dilutive.

9. **JOINT VENTURE**

The Company's proportionate interest in the accounts of the PER Joint Venture are as follows:

Balance Sheet at December 31	2004	2003
	\$	\$
Cash	151,525	94,550
Cash - restricted	27,192	25,664
Amounts receivable	171,635	121,992
Prepays - other current assets	57,964	6,001
Short-term investment	75,125	25,930
Due (to)from joint venture participants	(130,102)	195,553
Accounts payable and accrued liabilities	(349,744)	(444,026)
Other liabilities	(3,595)	(25,664)
Petroleum and natural gas interests	2,361,618	2,454,484
Net identifiable assets	<u>2,361,618</u>	<u>2,454,484</u>

9. **JOINT VENTURE** (continued)**Statements of Operations and Deficit for the year ended December 31**

	2004	2003
Revenue	\$	\$
Gross oil and gas production revenue	1,545,838	1,207,845
Production expenses	<u>(916,157)</u>	<u>(900,507)</u>
Net oil and gas revenues	629,681	307,338
Other revenues	<u>130,787</u>	<u>-</u>
	<u>760,468</u>	<u>307,338</u>
Expenses		
Office and administration	178,292	(560)
Foreign exchange loss	<u>94,073</u>	<u>-</u>
	<u>272,365</u>	<u>(560)</u>
Net income for the year	<u>488,103</u>	<u>307,898</u>

Statement of Cash Flows:**Cash Provided by (Used for):**

Net earnings for the year	488,103	307,898
Less: Net earnings transferred to the Company	(488,103)	-
Add: Loss on foreign exchange translation	<u>-</u>	<u>(35,215)</u>
	-	272,683
Net changes in non-cash working capital items:		
Cash - restricted	(1,528)	(3,574)
Amounts receivable	(49,643)	(67,198)
Prepays and other current assets	(51,963)	(6,484)
Due from joint venture partners	325,655	(679,585)
Accounts payable	<u>(116,351)</u>	<u>344,464</u>
	<u>106,170</u>	<u>(139,694)</u>

	Year ended December 31,	
	2004	2003
Investing Activities	\$	\$
Short-term investments	<u>(49,195)</u>	<u>(12,259)</u>
Net cash used during the year	56,975	(151,953)
Cash - beginning of the year	<u>94,550</u>	<u>246,503</u>
Cash - end of the year	<u>151,525</u>	<u>94,550</u>

10. **REDOMESTICATION AND BUSINESS COMBINATION**

On February 2, 2005, the Company re-domesticated to the State of Delaware, USA and on March 5, 2005, acquired Petrocal Incorporated (“Petrocal”) and continued as Pacific Energy Resources Ltd., resulting in the Company having a 100% interest in the Pacific Energy Resources Joint Venture. The Company issued 39,637,531 shares to acquire all of the outstanding share capital of Petrocal, which had a 75% interest in the Pacific Energy Resources Joint Venture, and the Company, which had a 25% interest.

Petrocal and the Company were both controlled by the same related parties, and accordingly as there has been no substantive change in ownership of the assets, the transaction has been accounted for as a continuing entity with no recognition of fair value. The share consideration issued has been recorded as the book value of the assets acquired.

Summary of assets acquired by issuance of shares:

Current assets	\$ 1,510,985
Fixed assets – net	8,369,112
Other assets	994,141
Current liabilities	(1,128,414)
Long term liabilities	(3,810,903)
Net assets	<u>\$ 5,934,921</u>

11. **CONVERTIBLE DEBENTURES**

The Company has outstanding three convertible debentures for \$670,864 (U.S. \$425,001), \$667,100 (U.S. \$500,000) and \$195,223 (U.S. \$150,000), bearing interest at a rate of 10% per annum, calculated semi-annually and convertible into common shares at \$0.25 per share. As a compound financial instrument consisting of debt and equity components, these separate components are subject to measurement on a fair value basis. The Company has measured the equity component at \$90,164 and is accreting this amount to earnings on a straight-line basis over the term of the convertible debentures.

12. **INCOME TAXES**

The Company redomiciled to the United States subsequent to the year end and no longer recognizes any Canadian tax assets. Its United States tax assets are comprised of \$5,127,000 (US\$4,265,000) of operating losses which expire prior to 2019. The Company has taken a valuation allowance for this amount as it is uncertain whether it is more likely than not that the net deferred tax asset will be realized by future operating results.

13. **SUBSEQUENT EVENTS**

The following transactions have occurred during the period subsequent to December 31, 2004:

- C The Company issued convertible debentures for \$727,100 (U.S.\$581,208.38) bearing interest at 7%, maturing March 2, 2008 and convertible at CDN \$0.75 per share.
- C The Company is proposing a private placement of 7,750,000 units at \$0.80 per unit for gross proceeds of \$6,200,000, with each unit comprising of one share one share purchase warrant which is exercisable at \$1.00 to acquire an additional share for a period of 18 months, subject to an exercise acceleration clause if the Company’s shares trade at \$1.25 per share or greater for 30 days. The Company’s agent will receive a commission of 7% and agent’s warrants equal to 10% of the units sold, exercisable on the same terms.
- C Refer to note 10.