

COPY NO: _____

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has not been filed with the Securities and Exchange Commission, or any Canadian provincial securities commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This private placement shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State or Province in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State or Province

Revised September 15, 2001

CONFIDENTIAL DRAFT
PRIVATE PLACEMENT MEMORANDUM

Portal Energies Inc.

A Delaware Corporation

MAXIMUM OFFERING: \$2,600,000 (US Funds)

MINIMUM OFFERING: \$1,000,000 (US Funds)

In

COMMON STOCK OF **Portal Energies Inc.** \$100,000 MINIMUM DENOMINATIONS,
MINIMUM INVESTMENT OF \$200,000 - 2 UNITS (200,000 SHARES COMMON STOCK)

(Par Value US \$0.01)

For US \$1.00 per Share

Portal Energies Inc., a Delaware Corporation (herein the "Company" and "PEI"), is offering common stock in the Company in 100,000 share minimum denominations. The Company calls the 100,000 blocks of stock one (1) Unit. The Company requires a minimum purchase of two (2), Units with a minimum investment of \$200,000. The maximum capital available to the Company through this Offering will be two million and six hundred thousand (\$2,600,000 US). Each investor who purchases share Units in this Offering will, upon acceptance by the Company, become a "Subscriber". See "TERMS OF OFFERING".

Additionally, for every 2 shares purchased in the Company through the Private Placement, the Subscriber will receive a share purchase warrant for an additional one (1) share exercisable for a period of up to one year from the date the company goes public. The exercise price of the warrant is \$2.00 US/share.

This Offering is being made subject to the right of the Company to terminate or to modify the offer, in whole or in part, and the Company reserves the right to accept or reject all or any part of a subscription. In the case this Offering is oversubscribed, the Company reserves the right to allocate shares among subscribers and/or to reject subscriptions, as it deems appropriate.

5.0 Dividend Policy

The Company has not paid any dividends and does not anticipate paying any dividends in the foreseeable future. If the Company's operations are profitable in the future, of which there can be no assurance, any income received is intended to be devoted to expansion of the Company's business.

Dividends on the Common Stock are subordinated to the payment of dividends on the Company's preferred stock, none of which is presently issued, nor is it intended to be issued in the near future. Any payment of future dividends and the amounts thereof will be dependent upon the Company's earnings, cash availability, financial requirements and other factors deemed relevant, including the Company's contractual obligations, by the Company's Board of Directors.

6.0 Dilution

As of this Offering, on a pro forma basis, the fully diluted, net tangible book value (tangible assets less liabilities) of the Company is \$.001 per share.

In determining net tangible book value, the Company is assuming that the Company will be successful with this Offering of Shares. In determining the number of shares of Common Stock outstanding for this calculation, the Company is assuming that there are 4,500,000 shares of Common Stock outstanding. After giving effect to the sale by the Company of an additional 2,600,000 Shares, plus payment to STI of an additional 1,000,000 shares and the receipt of the net proceeds from the Offering (after deducting the estimated offering expenses), the fully diluted pro forma net tangible book value of the Company on March 31, 2002, is expected to be \$2,360,000 or \$0.289 per Share.

7.0 Pro Forma Operating Cash Flow Statement

As a matter of policy, the Company does not make public forecasts of sales, income or cash flow.

However, for illustrative purposes only in conjunction with this Memorandum, the Company's planned pro forma operating cash flow statement is shown in Appendix A and on page 10 above. This forecast was not prepared for public disclosure or to comply with the SEC's published guidelines regarding forecasting of financial information.

The forecast is based on a number of assumptions and is subject to significant contingencies and uncertainties. (See Section 3.0: "Risk Factors"). There can be no assurance that either the forecast and/or the assumptions will be realized. Their inclusion should not under any circumstances be regarded as a representation that they will be achieved, or should they be relied upon in purchasing the securities offered hereby. The Company does not assume any obligation to update the forecasts herein. The cash flow statement is based on the assumptions described herein for the year ending December 31, 2002 and on the preliminary funding of research and development, purchase of certain technology and working capital.

8.0 Business

8.1 Background

The Catalytic Fusion Technology and a device demonstrating this phenomenon are both the inventions of Russ George. George sold the technology and all rights to the Intellectual Property pertaining to the CFT in 1999 to a research company, Saturna Technologies Inc. (STI), which is partially controlled by him. The company has the same directors and shareholders as PEI plus other minority shareholders (see Appendix F).

PEI then agreed to purchase the technology and all Intellectual Property from STI, by way of a Technology Purchase Agreement (see Appendix H), including all rights to the Catalytic Fusion Technology. The Purchase Agreement is subject to a payment of \$600,000 US, due in full upon completion of this Offering, or in part, as a percentage of the funds raised on or before March 31, 2002, assuming the minimum subscription of \$1,000,000 is filled and the balance will be owed upon completion of the offering. In addition, STI was paid 1,000,000 common shares in PEI, also due upon closing.

8.2 Technology Review

Experiments by a number of researchers since 1989 have shown a new class of energy producing fusion reactions can be initiated and controlled in the laboratory.

Russ George, STI'S President and Chief Scientist and a Director and V.P. of PEI, is a recognized leader in this field, and has repeatedly demonstrated his abilities to design protocols to initiate and control these energetic fusion reactions.

Since 1989 and prior to co-founding PEI, Russ George's work has been sponsored and funded by, among others, the Electric Power and Research Institute (EPRI). EPRI is a research consortium of the major electric utility companies within North America. EPRI has funded and facilitated experiments at SRI and at National Laboratories. This association continues today, through collaboration with a senior EPRI scientist and program manager. The most recent collaboration being a paper on Anomalous Isotopes of Moderate Z Fission co authored by Russ George and Tom Passell (EPRI) which was presented at the ICCF8 Conference in Italy in May, 2000.

Other experiments carried out at SRI were also funded by The Defense Advanced Research Projects Administration (DARPA). This research commenced in 1997 and continues today, within SRI, in a limited fashion and is confined to pure research on the helium signature. George also continues to perform experiments on a limited basis at SRI facilities on behalf of STI.

Additional experiments have been performed in the laboratories Los Alamos National Laboratories (LANL), the US Departments of Defense (DARPA and NRL), Energy (DOE), the US Navy, Air Force, and Army laboratories and at STI facilities. At STI, George developed and demonstrated gas phase experiments. The work proved the fusion process.

STI then developed and engineered experiments on a simple, yet effective heat-generating device, which has produced 1 watt of energy continuously for 3 years. The device is housed at SRI. These experiments deliver useful energy and represent dramatic advances over the speculations of Pons and Fleischmann (UK and USA), Case (USA), and Scaramuzzi (Italy).

8.3 Catalytic Fusion Technology

The key element in CFT reactions as demonstrated by the technology, shows this novel energy production mechanism has the characteristics of nuclear processes - high-density energy output from a small quantity of reaction materials. The sole by-product is ordinary benign helium produced at almost immeasurably small rates.

The fuel required to sustain the heat production is deuterium, a benign, common and inexpensive isotope of hydrogen which, when fused to produce helium, delivers orders of magnitude greater energy output per reaction than conventional chemical fuels.

PEI's primary strategy is to produce a "small distributed heat source" in the form of a heating element, which will be configured to deliver heat for a myriad of domestic, industrial, agricultural, military, and aerospace end use applications, with an approximate output from 100-1000 watts of heat energy.

This element will be based on engineering and development of the currently operating, experimental device which produces 1 watt, and has been demonstrated at Stanford Research International (SRI) and reported widely upon in conferences of the American Physical Society, American Chemical Society, and Italian Physical Society. SRI continues to run pure science experiments on this phenomena.

The Company has designated one year as the time frame to meet the first, and most important, of several engineering milestones. This year is not intended to produce a product. The milestones are a) an engineering prototype, b) a manufacturing prototype(s), and c) final product prototype(s) specific to various applications.

The company will proceed by developing a variety of engineering prototypes heating elements, and by scaling up the design of the current device, in steps, to reach the optimum heat output based on size and configuration. A second major challenge at this stage is to engineer control devices to harvest the heat output. It is anticipated at least

one configuration will yield several hundred-watts, and perhaps several thousand watts of thermal output. This heat-producing engineering prototype element will operate continuously over long periods of time with little or no outside energy source once started.

The proposed manufacturing prototype(s), or heating element(s), will utilize an enhanced version of the Catalytic Fusion Technology described above and become the first product of its kind in the world. Product applications derived from the manufacturing prototype, whether they be a configured for portable space heater, or component based and built into other products as a source of heat energy, or linked in series to provide distributed heat generation, are numerous and far reaching. The most significant aspect of all products will be that they will require little or no external energy to operate once started.

The company is confident that once completed, the engineering prototype will allow it to raise significant funds either privately or through an IPO. PEI plans to manufacture sub-license and market all manner of products, based on and derived from the technology. Such products will utilize a clean, safe and emissions-free source of inexpensive energy.

Some of the obvious applications are for space heaters, either as single units for heating confined spaces, electric car applications, industrial pre-heaters, or for greenhouse heating applications, hot water heating, swimming pools, process heating, bridge deck heating, shipboard heating or home heating. Larger heat requirements will be met by combining smaller heating modules into larger arrays. The core fusion technology should also be considered as renewable, green emission free, energy. As such, the energy produced from CFT will be eligible for CO2 emission reduction credits that may provide additional value to the company

8.4 Operation and Facilities

PEI intends to lease incubator space at SRI'S facilities in Palo Alto on a fee for service basis. The Company has had several discussions with SRI management regarding such a lease/contract. This would include the use of offices, laboratory space, the use of specialized equipment -available nowhere else in North America, and the use of key personnel, engineering assistance and technical support to assist in the operation of such equipment, as well as more general engineering assistance where needed. All discussions have been tentative and based on a fee for service basis. The exact cost of such incubator facilities has not been finalized and is subject to funding and further negotiations. A budget figure of ~\$240,000. /year has been allocated. In addition, PEI will hire its own staff and contract with outside personnel as required. (see STI budget Appendix G).

Immediately upon financing, the Company will be in a position to contract with SRI for incubator space. It is anticipated that with 30 days of such funding, PEI would assume occupancy with in SRI's facilities. An outline of the remaining development work required to reach a functioning engineering prototype is as follows:

Total time frame-12 months

Phase 1 (90-120 days)

- move in and set up in SRI incubator facilities
- obtain the necessary personnel and material resources required
- commence development of the detailed engineering specifications
- produce a working models based on those specifications
- develop the methods that will be required to test the models

Phase 2 (90-120 days)

- test the models over a range of operating conditions
- develop methods of operation to obtain the optimum target heat output
- refine the models towards a prototype
- compile documentation for patent applications

heating devices which have been shown to work.

9.0 Management

The following table sets forth certain information concerning the key members of the Company and their respective resumes:

<u>Name</u>	<u>Responsibility</u>
David A. Holt	Director, President
Russ George	Director, Vice President
Robert W. Falls Ph.D.	Director, Secretary Treasurer

David Holt - Director, President Vancouver, BC

With a career in business management, Mr. Holt has worked in private and public companies as well as his own businesses. Historically, positions include: National Sales and Marketing Manager, Western Scientific Services Ltd. with \$15,000,000 in international sales (1978-84); VP Operations for a VSE listed company, Asia Pacific Capital Corporation (1985-88), with specific roles as V.P. Guanghou Public Telephone Company- the first outdoor public telephone company established in China (PRC); President of Mainland Media Ltd., a Hongkong based company marketing advertising in southern China; and V.P. Canamed Ltd.-the first turn key medical distribution business to be joint ventured in the PRC. Mr. Holt has also been active in real estate for over 25 years. From 1992-1997 he was Managing Director of Centronics Technologies Ltd., a company which designed, developed and distributed robotic instrumentation in North America. From 1996, he has served as one of 3 Directors of a private investment Trust, and from 1997-99 was Director of Investment Marketing and Secretary/Treasurer for the proposed Women's Bank of Canada Development Group. In 1999 Mr. Holt (with a partner) successfully syndicated a \$11.6 million USD tax credit investment. He is currently Director, Financial Products for NetDirect Capital Corp. Mr. Holt is also a Director, Secretary and Treasurer of Saturna Technologies Inc.

Russ George – Director, Vice President Palo Alto, CA

Russ George is Chief Scientific Officer and one of the founding partners of Saturna Technologies Ltd. Mr. George is recognized as a leader in the fields of catalytic fusion science, and CO₂ sequestration. In the mid-1970's, he held a professional science position as an Officer of the Queen within the Ministry of Energy Mines and Petroleum Resources. Russ George's work in energy physics, largely as an independent researcher, has included several episodes as a visiting scientist running experiments at Los Alamos National Laboratory, Lawrence Berkeley National Laboratory, Pacific Northwest National Laboratory, Stanford Research International, the University of Osaka, as well as Portland State University. In addition Mr. George has engaged in collaborative experiments with the US Naval Research Laboratory, and the EPRI. Mr. George is also an associate with International Offsets Unlimited Inc., a company retained by large energy companies to develop greenhouse gas mitigation technologies, and he is a director with the IgA Nephropathy Foundation. Mr. George is recognized by his peers within the scientific communities for innovative ideas, talent in the synthesis of meta-source scientific information, and for published work including presentations at meetings of scientific societies in physics, chemistry, medicine, earth sciences, acoustics, and materials science. He is also a Director and the President of Saturna Technologies Inc.

Robert Falls – Director, Secretary Treasurer. Vancouver, BC

Dr. Robert Falls is an industrial scientist and consultant, with a business background in the clean energy and environmental solutions industries. Dr. Falls is the founder of Carboncorp Management Ltd., a Senior Advisor to the Globe Foundation's Energy and Environment Program, and a Faculty member with the University of British

Columbia's Sustainable Development Research Institute and the Banff Centre for Management. Dr. Falls is currently engaged in a number of energy-related emissions reduction projects in Canada and internationally. Before establishing his consulting businesses, he established and headed the Environment for Westcoast Energy Inc., Canada's largest integrated natural gas company. He founded and acted as first chair of GEMCo, the Greenhouse Emissions Management Consortium. Dr. Falls holds a Ph.D. from the University of British Columbia. He is also a Director of Saturna Technologies Inc.

10.0 Transactions between The Company And Management

(See Appendix H STI Purchase Agreement)

The officers and directors of the Company are engaged in other businesses both individually, or through partnerships and corporations, in which they have interests, and hold offices or serve on the boards of directors. Thus, certain conflicts of interest may arise between the Company and its officers and directors. The officers and directors of the Company will attempt to resolve any such conflicts of interest in favor of the Company. The officers and directors of the Company are accountable to both the Company and its shareholders as fiduciaries, which requires that such officers and directors exercise good faith, integrity and sound business judgment in handling the Company's affairs.

11.0 Advisory Board

(see Appendix E Advisory Board (under development))

It is the intention of the company to continue to build a strong and effective Advisory Board made up of leading scientists and business persons who can lend their experience in a variety of areas.

12.0 Executive Compensation

12.1 Description of Executive Compensation

The following table sets forth the annual, base cash compensation that will be paid to the officers of the Company for the first year and following the completion of the Offering described in this document. These salaries do not include benefits and/or bonuses, of which there are none that may be earned if the Company achieves certain financial targets.

<u>Name</u>	<u>Capacity</u>	<u>Cash Compensation (U.S. Funds)</u>
David Holt	President	\$100,000
Robert Falls	Secretary/ Treasurer	\$50,000
Russ George	Chief Scientist	\$100,000

As of the date of this Memorandum, the Company's officers and directors have received no salaries and/or compensation of any kind, and no salaries or compensation are anticipated to be paid until capital is raised through this Offering. The Board of Directors will determine compensation arrangements for all executive officers and directors.

12.2 Indemnification of Officers and Directors

The statutes of the Province of British Columbia, Canada, and/or the State of Delaware, USA, provide that the Company may indemnify its directors and executive officers and may indemnify its other officers, employees and other agents to the fullest extent permitted by Provincial or State law against liabilities incurred in connection with the performance of their duties for the Company, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interest of the Company with respect to any criminal action or proceeding.

PEI's also is empowered under its Bylaws to enter into indemnification contracts with its directors and officers and

Appendix D

Stanford Research Institute International (SRI)

www.sri.com

This world renowned, innovative product engineering & technologies organization is a unique Silicon Valley resource centre structured for the commercial sector, and offering cost-effective innovative solutions and enabling technologies. SRI's strength comes from experience in tackling challenging product development problems in a wide variety of fields. SRI's knowledge base, coupled with its experience and broad expertise, allows it to "cross-pollinate" concepts, technologies, and ideas, driving successful innovations and breakthroughs in product development."

SRI International and its subsidiary, Sarnoff Corporation, are pioneers in the creation, application and commercialization of innovative technologies. For the venture capital community, they are a source for technology-based business investments (20 technology ventures have been created to date), as well as a resource to assist portfolio companies with R&D, serve as a virtual lab or help solve development roadblocks. In addition, venture capital firms can look to SRI as an independent expert during the due diligence process.

SRI International is a pioneer in the creation, application and commercialization of innovative technologies for industry and government. From developing faster and more capable software systems that recognize speech and understand natural language to researching and licensing new cancer therapeutics, SRI's capabilities span a broad array of science and technology areas.

In addition to providing a single source for advanced scientific exploration, technology development and commercial applications, SRI provides clients with an unmatched depth of experience and unique, multidisciplinary insights. It is this combination of breadth and depth that sets SRI apart and provides our clients with the competitive advantage needed to compete successfully in today's global markets.

To provide clients with targeted solutions, SRI International is organized around key fields embracing the sciences, key technologies and applications. SRI's business units provide an environment for our teams to focus and become immersed in markets and specialties of interest to clients, and to deliver the advanced thinking, technology know-how and application development expertise needed for breakthrough results. One of these key fields for SRI is fusion science,

DARPA has a long-standing association with SRI and most recently provided further financial support in the area of fusion research with the purchase of a helium isotope mass spectrometer for approx. \$1 million US. The instrument is the most sensitive of its kind ever built. It will be very useful to PEI in that it can allow for real time observations of the helium by-product that are characteristic of the CFT reactions. Such observations are expected to be useful in fine tuning reactions and reactors and in testing theoretical and engineering ideas.

Note: The Company has had several discussions with SRI management concerning the leasing of incubator space on a yearly contract basis. This would include the use of offices, laboratory space, the use of specialized equipment -available no where else in North America, and the use of key personnel to assist in the operation of such equipment as well as more general engineering assistance where needed. All discussions have been tentative and based on a fee for service basis. The exact cost of such incubator facilities has not been finalized and is subject to funding. A budget figure of ~\$240,000./year has been allocated.