

PORTRUSH PETROLEUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

AUDITORS' REPORT

To the Shareholders of
Portrush Petroleum Corporation

We have audited the consolidated balance sheets of Portrush Petroleum Corporation as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY”

Vancouver, Canada

Chartered Accountants

May 4, 2004

A Member of SC INTERNATIONAL

PORTRUSH PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2003	2002
ASSETS		
Current		
Cash	\$ 4,981	\$ 17,456
Receivables	<u>3,832</u>	<u>3,851</u>
	8,813	21,307
Oil and gas properties (Note 3)	<u>173,758</u>	<u>375,826</u>
	<u>\$ 182,571</u>	<u>\$ 397,133</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	\$ 257,848	\$ 590,039
Due to related parties (Note 8)	<u>57,954</u>	<u>6,000</u>
	315,802	596,039
Convertible debentures (Note 4)	-	167,926
Future site restoration	<u>6,473</u>	<u>-</u>
	<u>322,275</u>	<u>763,965</u>
Shareholders' deficiency		
Capital stock (Note 5)	10,534,248	9,955,650
Share subscriptions received in advance (Note 5)	146,950	-
Contributed surplus (Note 5)	270,552	22,474
Deficit	<u>(11,091,454)</u>	<u>(10,344,956)</u>
	<u>(139,704)</u>	<u>(366,832)</u>
	<u>\$ 182,571</u>	<u>\$ 397,133</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

On behalf of the Board:

"Neal Iverson" Director "Martin Cotter" Director

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

PORTRUSH PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2003	2002
REVENUE		
Oil and gas revenue, net of royalties	\$ 415,244	\$ 302,915
EXPENSES		
Depletion	599,679	398,046
Operating	123,767	70,288
General and administrative (Note 6)	343,110	216,004
	<u>(1,066,556)</u>	<u>(684,338)</u>
Loss before other items	<u>(651,312)</u>	<u>(381,423)</u>
OTHER ITEMS		
Gain on settlement of accounts payable	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)
Settlement of lawsuit	-	(4,000)
	<u>(95,186)</u>	<u>(1,368,148)</u>
Loss for the year	(746,498)	(1,749,571)
Deficit, beginning of year	<u>(10,344,956)</u>	<u>(8,595,385)</u>
Deficit, end of year	<u>\$ (11,091,454)</u>	<u>\$ (10,344,956)</u>
Basic and diluted loss per share	\$ (0.03)	\$ (0.10)
Weighted average number of shares outstanding	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
YEAR ENDED DECEMBER 31

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (746,498)	\$ (1,749,571)
Items not affecting cash:		
Accrued interest	12,191	-
Depletion	599,679	398,046
Gain on settlement of accounts payable	(2,464)	-
Write-off of oil and gas properties	-	1,441,793
Recovery of resource property costs	-	(77,645)
Stock-based compensation expense	-	22,474
Changes in non-cash working capital items:		
Decrease in receivables	19	107,318
Decrease in accounts payable and accrued liabilities	<u>(341,918)</u>	<u>(340,732)</u>
Net cash used in operating activities	<u>(478,991)</u>	<u>(198,317)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from (repaid to) related parties	51,954	(210,643)
Net proceeds from issuance of capital stock	646,676	301,833
Share subscriptions received in advance	146,950	-
Proceeds from convertible debentures	<u>12,074</u>	<u>167,926</u>
Net cash provided by financing activities	<u>857,654</u>	<u>259,116</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Oil and gas property expenditures	(391,138)	(138,973)
Proceeds of resource property costs recovered	<u>-</u>	<u>77,645</u>
Net cash used in investing activities	<u>(391,138)</u>	<u>(61,328)</u>
Decrease in cash during the year	(12,475)	(529)
Cash, beginning of year	<u>17,456</u>	<u>17,985</u>
Cash, end of year	<u>\$ 4,981</u>	<u>\$ 17,456</u>

Supplemental disclosure with respect to cash flows (Note 7)

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

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of British Columbia and its principal business activity is the acquisition and development 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 any adjustments relating to the recoverability and classification of recorded assets and the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

	2003	2002
Working capital (deficiency)	\$ (306,989)	\$ (574,732)
Deficit	(11,091,454)	(10,344,956)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity 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 revenues 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 operating capital expenditure programs on which operator's fees have been charged equivalent to standard industry operating agreements. At December 31, 2003, 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 relative energy content. 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 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. 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 (2002 - \$Nil).

Revenue recognition

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

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; 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 loss for the year.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Stock-based compensation

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. The new section also permits, and the Company 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.

During the current year, the Company adopted, on a prospective basis, the fair value based method of accounting for all stock-based compensation.

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 loss 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. Dilutive instruments include options and warrants which, if exercised, would increase capital stock by 9,687,059 (2002 – 9,600,000) common shares.

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.

3. OIL AND GAS PROPERTIES

	2003	2002
Oil and gas properties, U.S.A.	\$ 1,171,483	\$ 773,872
Less: Accumulated depletion	<u>(997,725)</u>	<u>(398,046)</u>
	<u>\$ 173,758</u>	<u>\$ 375,826</u>

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. OIL AND GAS PROPERTIES (cont'd...)

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.

Michigan and Wyoming, U.S.A.

At December 31, 2003, the oil and gas properties located in the United States of America ("U.S.A.") include \$Nil (2002 - \$773,872) relating to unproved properties that have been excluded from the depletion calculation. 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 (2002 - \$164,456) included in accumulated depletion.

4. CONVERTIBLE DEBENTURES

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. The debentures were converted, at the option of the holder, into 1,500,000 units (Note 5) during the year.

5. 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

PORTRUSH PETROLEUM CORPORATION
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5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

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

During the year ended December 31, 2003, the Company received subscriptions of \$146,950 in advance of the issuance of common shares pursuant to the exercise of warrants. The common shares were issued subsequent to the year end (Note 12).

In August 2003, the Company issued 2,100,000 units at a price of \$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 a price of \$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.

In November 2003, the Company issued 1,500,000 units pursuant to the conversion of debentures with an aggregate face value of \$180,000 (Note 4). 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.

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. 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. The maximum number of shares reserved for issuance under the plan is equal to 2,100,000.

The following incentive stock options and share purchase warrants were outstanding at December 31, 2003:

	Number of Shares	Exercise Price	Expiry Date
Options	950,000	\$ 0.10	April 5, 2004 (Note 12)
Warrants	3,100,000	0.15	June 18, 2004
	1,500,000	0.12	May 1, 2004
		then at 0.14	May 1, 2005
	2,100,000	0.10	August 28, 2005
	2,037,059	0.24	October 14, 2005

PORTRUSH PETROLEUM CORPORATION
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5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2001	970,000	\$ 0.27
Options granted and re-priced	1,150,000	0.10
Options expired and cancelled	(470,000)	0.35
Options exercised	<u>(150,000)</u>	0.10
Balance, December 31, 2002	1,500,000	0.13
Options expired and cancelled	(500,000)	0.20
Options exercised	<u>(50,000)</u>	0.10
Balance, December 31, 2003	950,000	\$ 0.10
Number of options currently exercisable	950,000	\$ 0.10

6. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	2003	2002
Consulting and administration fees	\$ 34,322	\$ 19,700
Management fees	87,000	60,000
Office and miscellaneous	62,040	21,722
Professional fees	100,702	65,253
Transfer agent and regulatory fees	22,266	19,307
Travel and promotion	<u>36,780</u>	<u>30,022</u>
	\$ 343,110	\$ 216,004

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

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 (Note 5).
- b) The accrual of future site restoration costs of \$6,473.

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

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$87,000 (2002 - \$60,000) to two directors.
- b) Paid or accrued rent of \$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.

9. INCOME TAXES

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

	2003	2002
Loss for the year	\$ (746,498)	\$ (1,749,571)
Expected income tax recovery	\$ (280,683)	\$ (692,830)
Write-off of oil and gas properties	-	570,950
Non-deductible items for tax	225,479	157,626
Other	(53,402)	(80,216)
Unrecognized benefits of non-capital losses	108,606	44,470
Total income tax recovery	\$ -	\$ -

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

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

	2003	2002
Future income tax assets:		
Oil and gas properties	\$ 1,054,369	\$ 1,106,696
Mineral property and related exploration expenditures	95,334	104,074
Financing fees	95,944	124,762
Operating losses available for future periods	1,297,299	2,066,698
Capital losses available	<u>527,409</u>	<u>263,922</u>
	3,070,355	3,666,152
Valuation allowance	<u>(3,070,355)</u>	<u>(3,666,152)</u>
Net future income tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has incurred operating losses of approximately \$3,644,000 which, if unutilized, will expire commencing 2004. 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.

10. SEGMENT INFORMATION

All of the Company's operations are in the oil and gas industry in the U.S.A.

The total amount of assets attributable to Canada is \$8,813 and the total amount of assets attributable to the U.S.A. is \$173,758.

11. 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.

PORTRUSH PETROLEUM CORPORATION
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12. SUBSEQUENT EVENTS

Subsequent to December 31, 2003, the Company entered into the following transactions:

- a) The Company issued 2,560,000 common shares pursuant to the exercise of warrants for proceeds of \$426,500 of which \$146,950 was received prior to December 31, 2003.
- b) The Company issued 950,000 common shares pursuant to the exercise of options for proceeds of \$95,000.
- c) The Company entered into an agreement to acquire a 10% working interest in certain oil and gas leases located in the Refugio and Goliad Counties, Texas. As consideration for its interest, the Company is required to make staged payments totalling USD\$1,044,000.