

PORTRUSH PETROLEUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2007

**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, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2007, 2006 and 2005. 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 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, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 23, 2008

**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 23, 2008 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 23, 2008



PORTRUSH PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)
AS AT DECEMBER 31

	2007	2006
ASSETS		
Current		
Cash	\$ 34,617	\$ 50,691
Receivables	46,949	127,873
Prepays	<u>24,183</u>	<u>22,559</u>
	105,749	201,123
Advances on oil and gas properties	-	62,599
Oil and gas properties (Note 4)	<u>514,105</u>	<u>1,347,654</u>
	<u>\$ 619,854</u>	<u>\$ 1,611,376</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 93,702	\$ 58,616
Loan payable (Note 5)	<u>103,047</u>	<u>-</u>
	196,749	58,616
Future site restoration (Note 6)	<u>36,022</u>	<u>10,494</u>
	<u>232,771</u>	<u>69,110</u>
Shareholders' equity		
Capital stock (Note 7)	13,590,071	13,508,437
Contributed surplus (Note 7)	595,755	486,968
Deficit	<u>(13,798,743)</u>	<u>(12,453,139)</u>
	<u>387,083</u>	<u>1,542,266</u>
	<u>\$ 619,854</u>	<u>\$ 1,611,376</u>

Nature and continuance of operations (Note 1)
Subsequent events (Note 13)

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

	2007	2006	2005
REVENUE			
Oil and gas revenue, net of royalties	\$ 392,534	\$ 777,455	\$ 593,598
DIRECT COSTS			
Depletion	1,233,325	399,036	122,269
Operating expenses	94,912	195,070	221,664
Total direct costs	(1,328,237)	(594,106)	(343,933)
EXPENSES			
Consulting and administration fees	29,419	22,882	34,750
Interest expense	2,337	-	-
Investor relations	44,355	75,208	53,635
Management fees – related party	79,900	80,875	72,000
Office and miscellaneous	53,657	27,161	48,760
Professional fees	91,377	154,858	58,694
Shareholder costs	13,272	16,508	25,633
Stock-based compensation	46,671	205,385	75,193
Transfer agent and regulatory fees	22,219	19,795	25,546
Travel and promotion	10,644	11,977	8,488
Total expenses	(393,851)	(614,649)	(402,699)
Loss before other item	(1,329,554)	(431,300)	(153,034)
OTHER ITEM			
Foreign exchange loss	(16,050)	(3,817)	(7,214)
Loss and comprehensive loss for the year	(1,345,604)	(435,117)	(160,248)
Deficit, beginning of year	(12,453,139)	(12,018,022)	(11,857,774)
Deficit, end of year	\$ (13,798,743)	\$ (12,453,139)	\$ (12,018,022)
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	44,633,841	43,938,176	41,572,559

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

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	\$ (1,345,604)	\$ (435,117)	\$ (160,248)
Items not affecting cash:			
Depletion	1,233,326	399,036	122,269
Write-off of accounts payable	-	-	(8,215)
Accrual of management fees	-	-	72,000
Stock-based compensation expense	46,671	205,385	75,193
Changes in non-cash working capital items:			
(Increase) decrease in receivables	83,551	(52,305)	(5,955)
(Increase) decrease in prepaids	(1,624)	(22,559)	5,625
Increase (decrease) in accounts payable and accrued liabilities	<u>35,086</u>	<u>(30,507)</u>	<u>(185,772)</u>
Cash provided by (used in) operating activities	<u>51,406</u>	<u>63,933</u>	<u>(85,103)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repaid to related parties	-	(16,571)	(207,031)
Loan payable	103,047	-	-
Proceeds from issuance of capital stock	150,000	93,750	479,175
Share issuance costs	-	-	(24,942)
Capital stock purchased for cancellation	<u>(6,250)</u>	<u>(40,000)</u>	<u>-</u>
Cash provided by financing activities	<u>246,797</u>	<u>37,179</u>	<u>247,202</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances on oil and gas properties	-	(62,599)	-
Oil and gas property recoveries	61,355	-	-
Oil and gas property expenditures	<u>(375,632)</u>	<u>(177,368)</u>	<u>(47,096)</u>
Cash used in investing activities	<u>(314,277)</u>	<u>(239,967)</u>	<u>(47,096)</u>
Change in cash during the year	(16,074)	(138,855)	115,003
Cash, beginning of year	<u>50,691</u>	<u>189,546</u>	<u>74,543</u>
Cash, end of year	<u>\$ 34,617</u>	<u>\$ 50,691</u>	<u>\$ 189,546</u>

Supplemental disclosure with respect to cash flows (Note 8)

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, 2007

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.

	2007	2006
Working capital (deficiency)	\$ (91,000)	\$ 142,507
Deficit	(13,798,743)	(12,453,139)

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 year. Actual results could differ from these estimates. Significant accounts that require estimates relate to the impairment and depletion of oil and gas property interests, valuation allowances for future income tax assets, stock-based compensation and the valuation of warrants in private placements.

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, 2007, 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.

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.

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.

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. Revenue 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.

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

Stock-based compensation

The Company uses the fair value-based method for stock-based compensation and therefore all awards to employees and non-employees will be recorded at fair value on the date of the grant and expensed over the period of vesting. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Any consideration paid by the option holders to purchase shares is credited to capital 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 year. For loss per share the dilutive effect has not been computed as it proved to be anti-dilutive. At December 31, 2007, 2006 and 2005, the total number of potentially dilutive shares excluded from loss per share is 5,500,000, 5,880,000, 5,362,500 respectively.

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

Recent accounting pronouncements

The Canadian Institute of Chartered Accountants ("CICA") has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2008. The Company will adopt the requirements commencing in the interim period ended March 31, 2008 and is currently considering the impact this will have on the Company's financial statements.

Assessing going concern

The Canadian Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

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

Recent accounting pronouncements (cont'd...)

Financial instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation*, and Section 3865, *Hedges*.

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation*, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Capital disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed.

International financial reporting standards (“IFRS”)

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The ASB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the ACSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

PORTRUSH PETROLEUM CORPORATION
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3. CHANGE IN ACCOUNTING POLICY (cont'd...)

Financial instruments – recognition and measurement (Section 3855)

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after January 1, 2007. This standard requires all financial instruments within its scope, including derivatives, to be included on the Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations or accumulated other comprehensive income, depending on the classification of the related instruments.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to January 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are classified into one of the following categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income until the gain or loss is recognized in income.
- Held for trading financial instruments are measured at fair value. All changes in fair value are included in net earnings in the period in which they arise.
- All derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. Changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case gains and losses are recognized in other comprehensive income.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash is classified as held-for-trading.
- Receivables are classified as loans and receivables.
- Accounts payable and accrued liabilities and loan payable are classified as other liabilities.

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities and loans payable approximate their fair values due to their short term nature. 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.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. CHANGE IN ACCOUNTING POLICY (cont'd...)

Hedging (Section 3865)

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any financial instruments which qualify for hedge accounting.

Comprehensive income (Section 1530)

Comprehensive income is the change in the Company's shareholder equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings.

This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity. The presentation of "accumulated other comprehensive loss" in the shareholders' equity section of the consolidated balance sheet is not required because the closing balance is nil.

4. OIL AND GAS PROPERTIES

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

	2007	2006
Oil and gas properties:		
U.S.A., proved	\$ 3,053,310	\$ 2,879,005
Canada, unproved	<u>335,087</u>	<u>109,616</u>
	3,388,397	2,988,621
Less: Accumulated depletion	<u>(2,874,292)</u>	<u>(1,640,967)</u>
	<u>\$ 514,105</u>	<u>\$ 1,347,654</u>

At December 31, 2007, the oil and gas properties include \$335,087 (2006 - \$109,616) relating to unproved properties that have been excluded from the depletion calculation.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2007

4. OIL AND GAS PROPERTIES (cont'd...)

Ontario prospects, 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 by paying US\$120,000. The Company will receive a payout of all costs incurred plus a 5% working interest in the prospect.

During fiscal 2007, the Company paid net acquisition costs of \$252,489 (2006 - \$22,009) on an additional prospect located in Ontario, Canada. The Company has a 89% interest in this prospect.

Michigan, U.S.A.

The Company has a 22.5% working interest in a prospect located in Michigan, U.S.A.

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. During fiscal 2007, 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 \$1,049,683 included in accumulated depletion.

The full cost ceiling test results as of December 31, 2007 resulted in impairment of evaluated oil and gas properties. The future prices used in the December 31, 2007 ceiling test are as follows:

	Natural Gas		Oil	
	(Cdn \$/Mmbtu)		(Cdn \$/Bbl)	
2008	\$	7.00	\$	76.93
2009		7.54		69.92
2010		7.45		71.49
2011		7.40		67.39

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. LOAN PAYABLE

On July 25, 2007, the Company established a US\$300,000 credit facility with the Regions Bank in Texas, USA maturing on July 25, 2008. The loan payable is secured by the Company's interests in the Mission River property in Texas, USA.

As at December 31, 2007, the Company had taken advances on the loan payable of \$103,047 (US\$98,732) bearing interest rates ranging from 7.25% to 8.25% per annum. Subsequent to December 31, 2007, the Company transferred the loan to the Texas Community Bank under the same terms with an increased credit facility of US\$350,000.

6. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

	2007	2006
Asset retirement obligation, beginning of year	\$ 10,494	\$ 10,494
Liabilities incurred	<u>25,528</u>	<u>-</u>
Asset retirement obligation, end of year	<u>\$ 36,022</u>	<u>\$ 10,494</u>

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$52,739 (2006 - \$10,494). The obligation was calculated using a credit-adjusted risk free discount rate of 10% and an inflation rate of 5%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2008 and 2011.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common voting shares, no par value			
Issued and outstanding:			
Balance, December 31, 2004	40,342,417	\$ 12,854,161	\$ 352,683
Exercise of options	1,194,500	179,175	-
Private placement	2,000,000	300,000	-
Escrow shares cancelled	(103,125)	(31,556)	31,556
Contributed surplus on exercise of options	-	121,685	(121,685)
Stock-based compensation	-	-	75,193
Share issuance costs	-	(24,942)	-
Balance, December 31, 2005	43,433,792	13,398,523	337,747
Exercise of options	625,000	93,750	-
Stock-based compensation	-	-	205,385
Contributed surplus on exercise of stock options	-	56,164	(56,164)
Purchased for cancellation	44,058,792 (300,000)	13,548,437 (40,000)	486,968 -
Balance, December 31, 2006	43,758,792	13,508,437	486,968
Private placement	1,500,000	150,000	-
Finder's fee	53,571	5,357	-
Stock-based compensation	-	-	46,671
Purchased for cancellation	(50,000)	(6,250)	-
Reclassification on cancellation	-	(62,116)	62,116
Share issuance costs	-	(5,357)	-
Balance, December 31, 2007	45,262,363	\$ 13,590,071	\$ 595,755

Common shares returned to treasury

On December 7, 2005, the Company cancelled 103,125 common shares that were held in escrow.

On November 14, 2006, the Company filed a notice of intention to undertake a normal course issuer bid with the British Columbia Securities Commission for up to 5% of the Company's issued share capital (2,200,000 common shares) over a 12 month period. The issuer bid was approved by the TSX Venture Exchange. During fiscal 2007, the Company purchased 50,000 (2006 - 300,000) common shares for \$6,250 (2006 - \$40,000) to return to treasury. These 350,000 common shares were cancelled during fiscal 2007 resulting in a reclassification of \$62,116 from capital stock to contributed surplus.

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

Private placements

During the year ended December 31, 2007, the Company issued the following units:

- i) 1,500,000 units at \$0.10 per unit for gross proceeds of \$150,000. Each unit consists of one common share and one share purchase warrant exercisable at \$0.12 per share expiring July 6, 2009. The Company issued 53,571 common shares valued at \$5,357 as Finder's Fees.

During the year ended December 31, 2006, the Company issued the following common shares:

- i) 625,000 common shares pursuant to the exercise of stock options for gross proceeds of \$93,750.

During the year ended December 31, 2005, the Company issued the following common shares:

- i) 1,194,500 common shares pursuant to the exercise of stock options for proceed of \$179,175.
- ii) In September 2005, the Company issued 2,000,000 units at \$0.15 per unit for gross proceeds of \$300,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.15 per share expiring September 14, 2007. The Company paid a finder's fee and other issuance costs of \$24,942.

Stock options and warrants

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 and vest at the discretion of the Board of Directors.

The following incentive stock options and share purchase warrants were outstanding at December 31, 2007:

	Number of Shares	Exercise Price	Expiry Date
Options	300,000	\$ 0.18	June 8, 2008
	1,600,000	0.15	April 10, 2009
	300,000	0.15	April 25, 2009
	175,000	0.15	October 31, 2009
	100,000	0.15	November 30, 2009
	325,000	0.10	May 31, 2010
	950,000	0.10	August 9, 2010
	350,000	0.10	October 4, 2010
Warrants	1,500,000	0.12	July 6, 2009

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options and warrants (cont'd...)

Warrants and stock option transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2004	1,444,559	\$ 0.23	3,200,000	\$ 0.15
Granted	2,000,000	0.15	1,349,500	0.15
Exercised	-	-	(1,194,500)	0.15
Expired/cancelled	<u>(1,057,059)</u>	0.12	<u>(380,000)</u>	0.15
Outstanding, December 31, 2005	2,387,500	0.16	2,975,000	0.15
Granted	-	-	2,725,000	0.15
Exercised	-	-	(625,000)	0.15
Expired/cancelled	<u>(387,500)</u>	0.20	<u>(1,195,000)</u>	0.15
Outstanding, December 31, 2006	2,000,000	0.15	3,880,000	0.15
Granted	1,500,000	0.12	1,625,000	0.10
Expired/cancelled	<u>(2,000,000)</u>	0.15	<u>(1,405,000)</u>	0.15
Outstanding, December 31, 2007	1,500,000	\$ 0.12	4,100,000	\$ 0.13
Number currently exercisable	1,500,000	\$ 0.12	4,100,000	\$ 0.13

Stock-based compensation

During the year ended December 31, 2007, the Company granted 1,625,000 (2006 – 2,725,000; 2005 – 1,349,500) stock options to directors and consultants at a weighted average fair value of \$0.03 (2006 - \$0.08; 2005 - \$0.06) per option. As at December 31, 2007, all of these options had vested with an attributed stock-based compensation expense of \$46,671 (2006 - \$205,385; 2005 - \$75,193) credited to contributed surplus. The compensation recognized was calculated using the Black-Scholes option pricing model.

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock-based compensation (cont'd...)

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

	2007	2006	2005
Risk-free interest rate	4.5%	4.1%	3.4%
Expected life of options	3 years	1.4 years	2 years
Annualized volatility	52%	93%	81%
Dividend rate	0.00%	0.00%	0.00%

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2007	2006	2005
Cash paid during the year for interest	\$ 2,337	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -	\$ -

Significant non-cash transactions during the year ended December 31, 2007 included:

- a) Recognizing \$2,627 in oil and gas recoveries through receivables.
- b) Issuing 53,571 common shares at a value of \$0.10 to pay \$5,357 as finder's fees for a private placement.
- c) Incurring oil and gas property expenditures through advances paid previously of \$62,599.
- d) Reclassifying \$62,116 from capital stock to contributed surplus on the purchase and cancellation of 350,000 common shares
- e) Accruing future site restoration costs of \$34,550

During the year ended December 31, 2006 the Company recognized \$1,919 in oil and gas recoveries through receivables.

Significant non-cash transactions during the year ended December 31, 2005 included:

- a) The accrual of future site restoration costs of \$4,021.
- b) The cancellation of 103,125 escrow shares with a value of \$31,556.

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9. RELATED PARTY TRANSACTIONS

The Company paid management fees of \$79,900 (2006 - \$80,875; 2005 - \$72,000) to a director. Included in prepaid expenses as at December 31, 2007 is management fees of \$21,533 (December 31, 2006 – \$20,527).

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.

10. INCOME TAXES

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

	2007	2006	2005
Loss for the year	\$ (1,345,604)	\$ (435,117)	\$ (160,248)
Expected income tax recovery	\$ (457,854)	\$ (157,870)	\$ (54,794)
Non-deductible items for income tax purposes	435,255	209,857	56,503
Other items deductible for income tax purposes	(68,352)	(224,401)	(108,310)
Unrecognized benefits of non-capital losses	<u>90,951</u>	<u>172,414</u>	<u>106,601</u>
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:

	2007	2006
Future income tax assets:		
Oil and gas properties	\$ 450,114	\$ 803,779
Mineral property and related exploration expenditures	214,605	83,016
Financing fees	7,035	18,116
Operating losses available for future periods	<u>645,483</u>	<u>702,674</u>
	1,317,237	1,607,585
Valuation allowance	<u>(1,317,237)</u>	<u>(1,607,585)</u>
Net future income tax asset	\$ -	\$ -

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10. INCOME TAXES (cont'd...)

The Company has incurred operating losses of approximately \$2,391,000 in Canada which, if unutilized, will expire through 2027. 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.

11. SEGMENT INFORMATION

All of the Company's operations are in the oil and gas industry and 100% of the revenues have been generated in the U.S.A.

The total amount of capital assets attributable to Canada is \$335,087 (2006 - \$109,616) and the total amount of capital assets attributable to the U.S.A. is \$179,388 (2006 - \$1,238,038).

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loan payable. 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.

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2007, the Company:

- a) Negotiated an option to acquire up to a 90% interest in leases in the Chico Martinez oil field in Kern County, California, in conjunction with Petromark Energy Group. The Company is currently evaluating the property, the development plans for the project and the final interest the Company may acquire.
- b) Granted stock options to acquire 600,000 common shares exercisable at \$0.10 per share expiring on January 23, 2010.

14. 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.

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

Consolidated financial statement balances under United States GAAP

	2007	2006
Consolidated balance sheets		
Total assets under Canadian GAAP and United States GAAP	\$ 619,854	\$ 1,611,376
Total liabilities under Canadian GAAP and United States GAAP	\$ 232,771	\$ 69,110
Capital stock, common shares returned to treasury and contributed surplus under Canadian GAAP	14,185,826	13,995,405
Cumulative compensation expense on granting of stock options	759,296	759,296
Capital stock, common shares returned to treasury and contributed surplus under United States GAAP	14,945,122	14,754,701
Deficit under Canadian GAAP	(13,798,743)	(12,453,139)
Cumulative compensation expense on granting of stock options	(759,296)	(759,296)
Deficit under United States GAAP	(14,558,039)	(13,212,435)
Total shareholders' equity under United States GAAP	387,083	1,542,266
Total liabilities and shareholders' equity under United States GAAP	\$ 619,854	\$ 1,611,376

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

Oil and gas properties

Under both United States and Canadian GAAP, property, plant and equipment must be assessed for potential impairment.

Under Canadian GAAP, a ceiling test is applied to ensure that capitalized costs for oil and gas properties and equipment do not exceed the sum of estimated undiscounted, future net revenues from proven reserves less the cost incurred or estimated to develop those reserves, interest and general and administration costs, and an estimate for restoration costs and applicable taxes. Any impairment loss as a result of the ceiling test is to be measured as the amount by which the carrying amount of the asset exceeds the expected future cash flows discounted using a risk free interest rate.

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

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

Under United States GAAP, costs accumulated in each cost center are limited to an amount equal to the present value, discounted at 10%, of the estimated future net operating revenues from proved reserves, net of restoration costs and income taxes. Under United States GAAP an additional ceiling test write-down was not required as at December 31, 2007, 2006 and 2005.

Stock-based compensation

Under both United States and 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, 2007, 2006 and 2005.

For the year ended December 31, 2002 and prior, for United States GAAP purposes, 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.

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, 2007, 2006, and 2005 was 44,633,841, 43,951,326 and 41,476,215, respectively. Accordingly, the loss per share for the years ended December 31, 2007, 2006, and 2005 was \$(0.03), \$(0.01) and \$(0.01), respectively.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.

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

Recent accounting pronouncements (cont'd...)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "Fair Value Measurements".

The Company does not expect that the adoption of these new accounting pronouncements will have a significant effect on its financial statements.