

PORTRUSH PETROLEUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2008

**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, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years ended December 31, 2008, 2007 and 2006. 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, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 22, 2009

**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 22, 2009 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 22, 2009



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

	2008	2007
ASSETS		
Current		
Cash	\$ 95,648	\$ 34,617
Receivables	92,366	46,949
Prepays	<u>-</u>	<u>24,183</u>
	188,014	105,749
Oil and gas properties (Note 4)	<u>840,790</u>	<u>514,105</u>
	<u>\$ 1,028,804</u>	<u>\$ 619,854</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 279,499	\$ 93,702
Loan payable (Note 5)	<u>550,260</u>	<u>103,047</u>
	829,759	196,749
Future site restoration (Note 6)	<u>58,577</u>	<u>36,022</u>
	<u>888,336</u>	<u>232,771</u>
Shareholders' equity		
Capital stock (Note 7)	13,609,131	13,590,071
Contributed surplus (Note 7)	740,004	595,755
Deficit	<u>(14,208,667)</u>	<u>(13,798,743)</u>
	<u>140,468</u>	<u>387,083</u>
	<u>\$ 1,028,804</u>	<u>\$ 619,854</u>

Nature and continuance of operations (Note 1)

Subsequent event (Note 14)

On behalf of the Board:

"Martin Cotter" Director _____
"Neal Iverson" Director

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

PORTRUSH PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2008	2007	2006
REVENUE			
Oil and gas revenue, net of royalties	\$ 669,710	\$ 392,534	\$ 777,455
DIRECT COSTS			
Depletion	250,148	1,233,325	399,036
Operating expenses	<u>169,080</u>	<u>94,912</u>	<u>195,070</u>
Total direct costs	<u>(419,228)</u>	<u>(1,328,237)</u>	<u>(594,106)</u>
EXPENSES			
Consulting and administration fees	35,196	29,419	22,882
Interest expense	29,739	2,337	-
Investor relations	28,750	44,355	75,208
Financing fee (Note 5)	106,000	-	-
Management fees – related party	76,280	79,900	80,875
Office and miscellaneous	45,797	53,657	27,161
Professional fees	88,230	91,377	154,858
Property investigation (Note 4)	100,000	-	-
Shareholder costs	8,898	13,272	16,508
Stock-based compensation	38,249	46,671	205,385
Transfer agent and regulatory fees	21,630	22,219	19,795
Travel and promotion	<u>7,863</u>	<u>10,644</u>	<u>11,977</u>
Total expenses	<u>(586,632)</u>	<u>(393,851)</u>	<u>(614,649)</u>
Loss before other item	<u>(336,150)</u>	<u>(1,329,554)</u>	<u>(431,300)</u>
OTHER ITEM			
Foreign exchange loss	<u>(73,774)</u>	<u>(16,050)</u>	<u>(3,817)</u>
Loss and comprehensive loss for the year	(409,924)	(1,345,604)	(435,117)
Deficit, beginning of year	<u>(13,798,743)</u>	<u>(12,453,139)</u>	<u>(12,018,022)</u>
Deficit, end of year	<u>\$ (14,208,667)</u>	<u>\$ (13,798,743)</u>	<u>\$ (12,453,139)</u>
Basic and diluted loss per share	\$ (0.01)	\$ (0.03)	\$ (0.01)
Weighted average number of shares outstanding	45,287,449	44,633,841	43,938,176

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

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	\$ (409,924)	\$ (1,345,604)	\$ (435,117)
Items not affecting cash:			
Depletion	250,148	1,233,326	399,036
Financing fee	106,000	-	-
Foreign exchange loss	99,934	-	-
Stock-based compensation expense	38,249	46,671	205,385
Changes in non-cash working capital items:			
(Increase) decrease in receivables	(32,920)	83,551	(52,305)
(Increase) decrease in prepaids	24,183	(1,624)	(22,559)
Increase (decrease) in accounts payable and accrued liabilities	<u>111,401</u>	<u>35,086</u>	<u>(30,507)</u>
Cash provided by operating activities	<u>187,071</u>	<u>51,406</u>	<u>63,933</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repaid to related parties	-	-	(16,571)
Loan payable	359,190	103,047	-
Proceeds from issuance of capital stock	20,010	150,000	93,750
Share issuance costs	(950)	-	-
Capital stock purchased for cancellation	<u>-</u>	<u>(6,250)</u>	<u>(40,000)</u>
Cash provided by financing activities	<u>378,250</u>	<u>246,797</u>	<u>37,179</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances on oil and gas properties	-	-	(62,599)
Oil and gas property recoveries	61,891	61,355	-
Oil and gas property expenditures	<u>(566,181)</u>	<u>(375,632)</u>	<u>(177,368)</u>
Cash used in investing activities	<u>(504,290)</u>	<u>(314,277)</u>	<u>(239,967)</u>
Change in cash during the year	61,031	(16,074)	(138,855)
Cash, beginning of year	<u>34,617</u>	<u>50,691</u>	<u>189,546</u>
Cash, end of year	<u>\$ 95,648</u>	<u>\$ 34,617</u>	<u>\$ 50,691</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, 2008

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.

Current market conditions make the present environment for raising additional equity financing less favorable. The inability to raise additional financing may impact the future assessment of the Company as a going concern under CICA 1400 General Standards of Financial Statement Presentation. See Note 12 for further disclosure regarding liquidity risk.

	2008	2007
Working capital (deficiency)	\$ (641,745)	\$ (91,000)
Deficit	(14,208,667)	(13,798,743)

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, 2008, 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. Under this section, the Company has recognized estimated future net costs of well abandonment and site restoration, including removal of production facilities at the end of their useful life of \$58,577 (2007 - \$36,022).

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
(Expressed in Canadian Dollars)
DECEMBER 31, 2008

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, 2008, 2007 and 2006, the total number of potentially dilutive shares excluded from loss per share is 6,483,500, 5,600,000, 5,880,000 respectively.

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

Financial instruments – recognition and measurement

The Company classifies all financial instruments as either held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held-for-trading instruments are measured at the fair value with unrealized gains and losses recognized in results of operations. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

Comprehensive income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Recent accounting pronouncements

Goodwill and Intangible Assets

The CICA issued a new accounting standard, Section 3064 “Goodwill and Intangible Assets” which will replace the existing Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This standard is effective for the Company’s interim and annual consolidated financial statements commencing January 1, 2009. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

Credit Risk and the Fair Value of Financial Assets and Liabilities

In January 2009 the Emerging Issues Committee (“EIC”) issued EIC-173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. This abstract requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. This new standard is effective for the Company’s interim and annual consolidated financial statements commencing January 1, 2009. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

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, 2008, the Company adopted the following new accounting standards issued by the CICA. 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.

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 (Note 1).

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* (Note 12).

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 (Note 12).

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 (Note 13).

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2008

4. OIL AND GAS PROPERTIES

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

	2008	2007
Oil and gas properties:		
U.S.A., proved	\$ 3,401,999	\$ 3,053,310
Canada, unproved	<u>563,231</u>	<u>335,087</u>
	3,965,230	3,388,397
Less: Accumulated depletion	<u>(3,124,440)</u>	<u>(2,874,292)</u>
	<u>\$ 840,790</u>	<u>\$ 514,105</u>

At December 31, 2008, the oil and gas properties include \$563,231 (2007 - \$335,087) relating to unproved properties that have been excluded from the depletion calculation.

Ontario prospects, Canada

The Company holds a 5% working interest in a prospect located in Ontario, Canada and is receiving a payout of all costs incurred.

The Company has also incurred exploration costs of \$430,962 on an additional prospect located in Ontario, Canada. The Company has an 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 2008, 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 \$72,427 (2007 - \$1,049,683) included in accumulated depletion.

California, U.S.A.

During fiscal 2008, the Company paid \$100,000 pursuant to an option to acquire an interest in certain oil and gas leases in Kern County, California. The option was not exercised so the costs were charged to property investigation costs for fiscal 2008.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2008

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

The full cost ceiling test results as of December 31, 2008 resulted in impairment of evaluated oil and gas properties. The future prices used in the December 31, 2008 ceiling test are as follows:

	Natural Gas (Cdn \$/Mmbtu)	Oil (Cdn \$/Bbl)
2009	\$ 7.94	\$ 66.69
2010	8.85	81.35
2011	9.43	89.37
2012	9.88	101.79
2013	10.10	110.86
2014	10.21	113.62
2015	-	116.47

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. During fiscal 2008, the Company transferred the loan to the Texas Community Bank with an increased credit facility of \$550,260 (US\$450,000). The loan bears interest at the Lender's Commercial Prime Floating Rate plus one-half percent, matures on August 15, 2009, and is secured by the Company's interests in the Mission River property in Texas, USA.

Subsequent to December 31, 2008, the Company also granted 4,400,000 warrants as fees in connection with the increased credit facility (Note 14). The warrants are valued at \$106,000 using the Black-Scholes option pricing model with an expected volatility of 128%, a risk free interest rate of 1.37 %, an expected life of 2 years and an expected dividend yield of 0%.

6. FUTURE SITE RESTORATION

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.

	2008	2007
Asset retirement obligation, beginning of year	\$ 36,022	\$ 10,494
Liabilities incurred	<u>22,555</u>	<u>25,528</u>
Asset retirement obligation, end of year	<u>\$ 58,577</u>	<u>\$ 36,022</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 \$94,339 (2007 - \$52,739). 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 2009 and 2013.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
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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, 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)
	44,058,792	13,548,437	486,968
Purchased for cancellation	(300,000)	(40,000)	-
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
Private placement	333,500	20,010	-
Finder's fee	18,667	1,120	-
Finance fee	-	-	106,000
Stock-based compensation	-	-	38,249
Share issuance costs	-	(2,070)	-
Balance, December 31, 2008	45,614,530	\$ 13,609,131	\$ 740,004

Common shares returned to treasury

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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Private placements

During fiscal 2008, the Company issued 333,500 units at \$0.06 per unit for gross proceeds of \$20,010. Each unit consists of one common share and one share purchase warrant expiring November 17, 2010. Finder's fees of 18,667 common shares valued at \$1,120 were issued to MHT Corporate Services Ltd. The market price of the Company's common stock was equivalent to the unit price on issuance, consequently, all the proceeds on the private placement were allocated to the common shares.

During the year ended December 31, 2007, the Company issued 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 625,000 common shares pursuant to the exercise of stock options for gross proceeds of \$93,750.

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, 2008:

	Number of Shares	Exercise Price	Expiry Date
Options	1,600,000	\$ 0.15	April 10, 2009 (expired unexercised subsequent to year end)
	300,000	0.15	April 25, 2009
	350,000	0.10	September 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
	500,000	0.10	June 10, 2011
Warrants	1,500,000	0.12	July 6, 2009
	333,500	0.10	November 17, 2010

PORTRUSH PETROLEUM CORPORATION
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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, 2005	2,387,500	\$ 0.16	2,975,000	\$ 0.15
Granted	-	-	2,725,000	0.15
Exercised	-	-	(625,000)	0.15
Expired/cancelled	(387,500)	0.20	(1,195,000)	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	(2,000,000)	0.15	(1,405,000)	0.15
Outstanding, December 31, 2007	1,500,000	0.12	4,100,000	0.13
Granted	333,500	0.10	1,150,000	0.10
Expired/cancelled	-	-	(600,000)	0.14
Outstanding, December 31, 2008	1,833,500	\$ 0.12	4,650,000	\$ 0.12
Number currently exercisable	1,833,500	\$ 0.12	4,650,000	\$ 0.12

Stock-based compensation

During the year ended December 31, 2008, the Company granted 1,150,000 (2007 – 1,625,000; 2006 – 2,725,000) stock options to directors and consultants at a weighted average fair value of \$0.05 (2007 - \$0.03; 2006 - \$0.08) per option. As at December 31, 2008, all of these options had vested with an attributed stock-based compensation expense of \$38,249 (2007 - \$46,671; 2006 - \$205,385) credited to contributed surplus. The compensation recognized was calculated using the Black-Scholes option pricing model.

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

	2008	2007	2006
Risk-free interest rate	3.04%	4.5%	4.1%
Expected life of options	2.12 years	3 years	1.4 years
Annualized volatility	100%	52%	93%
Dividend rate	0.00%	0.00%	0.00%

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8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2008	2007	2006
Cash paid during the year for interest	\$ 28,921	\$ 2,337	\$ -
Cash paid during the year for income taxes	\$ -	\$ -	\$ -

Significant non-cash transactions during the year ended December 31, 2008 included:

- a) Recognizing \$1,019 in oil and gas recoveries through receivables.
- b) Issuing 18,667 common shares at a value of \$0.06 to pay \$1,120 as finder's fees for a private placement.
- c) Re-classifying \$14,105 from oil and gas properties to receivables.
- d) Accruing future site restoration costs of \$22,555.
- e) Accruing oil and gas property expenditures in accounts payable and accrued liabilities of \$62,485 at December 31, 2008

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.

9. RELATED PARTY TRANSACTIONS

The Company paid management fees of \$76,280 (2007 - \$79,900; 2006 - \$80,875) to a director. Included in prepaid expenses as at December 31, 2008 is management fees of \$Nil (December 31, 2007 - \$21,533). Included in accounts payable and accrued liabilities is \$65,374 (2007 - \$Nil) due 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.

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10. INCOME TAXES

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

	2008	2007	2006
Loss for the year	\$ (409,924)	\$ (1,345,604)	\$ (435,117)
Expected income tax recovery	\$ (122,850)	\$ (457,854)	\$ (157,870)
Non-deductible items for income tax purposes	119,762	435,255	209,857
Other items deductible for income tax purposes	(116,988)	(68,352)	(224,401)
Unrecognized benefits of non-capital losses	<u>120,076</u>	<u>90,951</u>	<u>172,414</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:

	2008	2007
Future income tax assets:		
Oil and gas properties	\$ 913,832	\$ 450,114
Mineral property and related exploration expenditures	206,657	214,605
Financing fees	2,000	7,035
Operating losses available for future periods	<u>655,672</u>	<u>645,483</u>
	1,778,161	1,317,237
Valuation allowance	<u>(1,778,161)</u>	<u>(1,317,237)</u>
Net future income tax asset	\$ -	\$ -

The Company has incurred operating losses of approximately \$1,950,000 in Canada which, if unutilized, will expire through 2028. 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.

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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 \$563,231 (2007 - \$335,087) and the total amount of capital assets attributable to the U.S.A. is \$277,559 (2007 - \$179,388).

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.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company's cash is primarily held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company's receivables consist mainly of GST receivable due from the Federal Government of Canada and balances due from the sale of its share of oil and gas relating to its oil and gas properties. Management believes that the credit risk concentration with respect to financial instruments included in receivables is minimal.

Currency risk

Cash held in foreign currencies other than the Canadian dollar is subject to currency risk. The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar.

The Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

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12. FINANCIAL INSTRUMENTS (cont'd...)

Liquidity risk (cont'd...)

The Company is negotiating to extend its current credit facility for another year when it comes due (Note 5). Cash flow from operations will be used to reduce the amount of the loan over the next twelve months. The Company cannot undertake any additional projects without additional financing or joint ventures.

The Company is currently reviewing all of its holdings with a view to selling or farming out current projects. In the event that the credit facility is not extended, it will be necessary for the Company to sell one or more of its projects and the Company will not be able to undertake by itself the exploration and development of any additional projects. The payment of property payments and the development of the property interests will therefore depend upon the Company's ability to obtain financing through the joint venturing of projects, private placement financing and public financing. There is no assurance that the Company will be successful in obtaining the required financing or that financing will be available on terms and conditions acceptable to the Company or that will not cause significant dilution to shareholders.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its oil and properties and the future profitability of the Company are directly related to the market price of oil and gas. The Company monitors oil and gas prices to determine the appropriate course of action to be taken by the Company.

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through public and/or private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2008, the Company granted 4,400,000 bonus warrants to Mantle Resources LLC as fees in connection with a credit facility (Note 5). Each warrant is exercisable for one common share at a price of \$0.05 per share expiring January 28, 2011. The expiry date can be reduced to January 28, 2010 upon the occurrence of certain events. The proceeds from the warrants will be used solely for either the payment of accrued interest and principal of the loan and, if the loan is in good standing, for any costs or expenses of certain new wells in Texas.

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**15. 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.

Consolidated financial statement balances under United States GAAP

	2008	2007
Consolidated balance sheets		
Total assets under Canadian GAAP and United States GAAP	\$ 1,028,804	\$ 619,854
Additional depletion through ceiling test write-down	<u>(16,193)</u>	<u>-</u>
	<u>1,012,611</u>	<u>619,854</u>
Total liabilities under Canadian GAAP and United States GAAP	<u>\$ 888,336</u>	<u>\$ 232,771</u>
Capital stock, common shares returned to treasury and contributed surplus under Canadian GAAP	14,349,135	14,185,826
Cumulative compensation expense on granting of stock options	<u>759,296</u>	<u>759,296</u>
Capital stock, common shares returned to treasury and contributed surplus under United States GAAP	<u>15,108,431</u>	<u>14,945,122</u>
Deficit under Canadian GAAP	(14,208,667)	(13,798,743)
Cumulative compensation expense on granting of stock options	(759,296)	(759,296)
Additional depletion through ceiling test write-down	<u>(16,193)</u>	<u>-</u>
Deficit under United States GAAP	<u>(14,984,156)</u>	<u>(14,558,039)</u>
Total shareholders' equity under United States GAAP	<u>124,275</u>	<u>387,083</u>
Total liabilities and shareholders' equity under United States GAAP	<u>\$ 1,012,611</u>	<u>\$ 619,854</u>
Consolidated statements of operations, comprehensive loss and deficit		
Total net loss under Canadian GAAP	\$ (409,924)	\$ (1,345,604)
Additional depletion through ceiling test write-down	<u>(16,193)</u>	<u>-</u>
Total net loss under United States GAAP	<u>\$ (426,117)</u>	<u>\$ (1,345,604)</u>

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

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

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.

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 and 2006.

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, 2008, 2007 and 2006.

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.

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

Recent accounting pronouncements

In December 2007, the Emerging Issues Task Force (EITF) met and ratified EITF No.07-01, Accounting for Collaborative Arrangements, in order to define collaborative arrangements and to establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. This EITF is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This EITF is to be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. We are currently assessing the impact of this EITF to our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities". SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows.

SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. Early adoption is permitted. We are currently reviewing the provisions of SFAS No. 161 and have not yet adopted the statement. However, as the provisions of SFAS No. 161 are only related to disclosure of derivative and hedging activities, we do not believe the adoption of SFAS No. 161 will have a material impact on our consolidated operating results, financial position, or cash flows.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. We do not believe that implementation of this standard will have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles or SFAS No. 162. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. We do not believe that implementation of this standard will have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. Management has determined that the adoption of FSP EITF 03-6-1 will not have an impact on the Financial Statements.