

**PORTRUSH PETROLEUM CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**DECEMBER 31, 2005**

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of  
Portrush Petroleum Corporation

We have audited the consolidated balance sheets of Portrush Petroleum Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2005, 2004 and 2003. 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, 2005 and 2004 and the results of its operations and its cash flows for the years ended December 31, 2005, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

March 31, 2006

**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 March 31, 2006 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

March 31, 2006

A Member of SC INTERNATIONAL

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

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 189,546	\$ 74,543
Receivables	73,649	67,694
Prepays	<u>-</u>	<u>5,625</u>
	263,195	147,862
<b>Oil and gas properties</b> (Note 3)	<u>1,571,241</u>	<u>1,642,393</u>
	<u>\$ 1,834,436</u>	<u>\$ 1,790,255</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 89,123	\$ 283,110
Due to related parties (Note 6)	<u>16,571</u>	<u>151,602</u>
	105,694	434,712
<b>Future site restoration</b>	<u>10,494</u>	<u>6,473</u>
	<u>116,188</u>	<u>441,185</u>
<b>Shareholders' equity</b>		
Capital stock (Note 4)		
Authorized		
100,000,000 common shares without par value		
Issued and outstanding		
43,433,792 common shares (2004 – 40,342,417)	13,398,523	12,854,161
Contributed surplus (Note 4)	337,747	352,683
Deficit	<u>(12,018,022)</u>	<u>(11,857,774)</u>
	<u>1,718,248</u>	<u>1,349,070</u>
	<u>\$ 1,834,436</u>	<u>\$ 1,790,255</u>

**Nature and continuance of operations** (Note 1)

**Subsequent event** (Note 10)

**On behalf of the Board:**

“Neal Iverson”

Director

“Martin Cotter”

Director

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

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

	2005	2004	2003
<b>REVENUE</b>			
Oil and gas revenue, net of royalties	\$ 593,598	\$ 442,368	\$ 415,244
<b>DIRECT COSTS</b>			
Depletion	122,269	121,937	599,679
Operating expenses	<u>221,664</u>	<u>145,556</u>	<u>123,767</u>
Total direct costs	<u>(343,933)</u>	<u>(267,493)</u>	<u>(723,446)</u>
<b>EXPENSES</b>			
Consulting and administration fees	34,750	107,170	34,322
Investor relations	53,635	164,344	24,860
Management fees – related party	72,000	72,000	87,000
Office and miscellaneous	74,393	107,354	62,040
Professional fees	58,694	60,545	100,702
Stock-based compensation	75,193	298,483	-
Transfer agent and regulatory fees	25,546	24,981	22,266
Travel and promotion	<u>8,488</u>	<u>33,296</u>	<u>11,920</u>
Total expenses	<u>(402,699)</u>	<u>(868,173)</u>	<u>(343,110)</u>
<b>Loss before other items</b>	<u>(153,034)</u>	<u>(693,298)</u>	<u>(651,312)</u>
<b>OTHER ITEMS</b>			
Gain on settlement of lawsuit	-	-	2,464
Interest expense	-	-	(12,191)
Foreign exchange	(7,214)	-	(85,459)
Write-off of receivable	<u>-</u>	<u>(73,022)</u>	<u>-</u>
Total other items, net	<u>(7,214)</u>	<u>(73,022)</u>	<u>(95,186)</u>
<b>Loss for the year</b>	(160,248)	(766,320)	(746,498)
<b>Deficit, beginning of year</b>	<u>(11,857,774)</u>	<u>(11,091,454)</u>	<u>(10,344,956)</u>
<b>Deficit, end of year</b>	<u>\$ (12,018,022)</u>	<u>\$ (11,857,774)</u>	<u>\$ (11,091,454)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
<b>Weighted average number of shares outstanding</b>	<u>41,572,559</u>	<u>33,858,626</u>	<u>22,235,777</u>

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

	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the year	\$ (160,248)	\$ (766,320)	\$ (746,498)
Items not affecting cash:			
Accrued interest	-	-	12,191
Depletion	122,269	121,937	599,679
Gain on settlement of lawsuit	-	-	(2,464)
Write-off of receivable	-	73,022	-
Write-off of accounts payable	(8,215)	-	-
Accrual of management fees	72,000	72,000	-
Stock-based compensation expense	75,193	298,483	-
Changes in non-cash working capital items:			
(Increase) decrease in receivables	(5,955)	(136,884)	19
(Increase) decrease in prepaids	5,625	(5,625)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>(185,772)</u>	<u>25,262</u>	<u>(341,918)</u>
Cash used in operating activities	<u>(85,103)</u>	<u>(318,125)</u>	<u>(478,991)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advances from (repaid to) related parties	(207,031)	21,648	51,954
Proceeds from issuance of capital stock	479,175	1,973,250	703,200
Share issuance costs	(24,942)	(16,639)	(56,524)
Proceeds from convertible debentures	-	-	12,074
Share subscriptions received in advance	<u>-</u>	<u>-</u>	<u>146,950</u>
Cash provided by financing activities	<u>247,202</u>	<u>1,978,259</u>	<u>857,654</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Oil and gas property expenditures	<u>(47,096)</u>	<u>(1,590,572)</u>	<u>(391,138)</u>
Cash used in investing activities	<u>(47,096)</u>	<u>(1,590,572)</u>	<u>(391,138)</u>
<b>Change in cash position during year</b>	115,003	69,562	(12,475)
<b>Cash position, beginning of year</b>	<u>74,543</u>	<u>4,981</u>	<u>17,456</u>
<b>Cash position, end of year</b>	<u>\$ 189,546</u>	<u>\$ 74,543</u>	<u>\$ 4,981</u>

Supplemental disclosure with respect to cash flows (Note 5)

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, 2005

---

---

**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.

---

---

	2005	2004
Working capital (deficiency)	\$ 157,501	\$ (286,850)
Deficit	(12,018,022)	(11,857,774)

---

---

**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.

**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, 2005, the Company has not capitalized any interest, general or administrative costs.

**PORTRUSH PETROLEUM CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in Canadian dollars)  
DECEMBER 31, 2005

---

---

**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.

Certain of the Company's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

**Site restoration**

The Company has adopted 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 \$10,494 (2004 - \$6,473).

**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.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

---

---

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

**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. Income 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.

**Stock-based compensation**

The Company uses the fair value based method of accounting for all stock-based compensation to employees and non-employees. 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, 2005, 2004 and 2003, the total number of potentially dilutive shares excluded from loss per share is 5,362,500, 4,644,559 and 9,687,059 respectively.

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

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

**3. OIL AND GAS PROPERTIES**

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

	2005	2004
Oil and gas properties:		
U.S.A., proved	\$ 2,708,708	\$ 2,612,495
Canada, unproved	<u>104,464</u>	<u>149,560</u>
	2,813,172	2,762,055
Less: Accumulated depletion	<u>(1,241,931)</u>	<u>(1,119,662)</u>
	<u>\$ 1,571,241</u>	<u>\$ 1,642,393</u>

At December 31, 2005, the oil and gas properties include \$104,464 (2004 - \$149,560) relating to unproved properties that have been excluded from the depletion calculation.

**Ontario prospect, 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.

**Michigan and Wyoming, U.S.A.**

The Company has a 22.5% working interest in a prospect located in Michigan, U.S.A. During the year ended December 31, 2003, the ceiling test calculation determined that the net book value of the Company's assets in the U.S.A. exceeded net future cash flows from proven reserves and, accordingly, the Company recorded a ceiling test write-down of \$319,950 included in accumulated depletion.

**Texas, U.S.A.**

The Company acquired a 10% working interest (7.5% net revenue 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.

The full cost ceiling test results as of December 31, 2005 resulted in no impairment of evaluated oil and gas properties. The future prices used in the December 31, 2005 ceiling test are as follows:

	Natural Gas (Cdn \$/Mmbtu)	Oil (Cdn \$/Bbl)
2006	\$ 11.08	\$ 71.08
2007	10.87	69.67
2008	10.65	68.28
2009	10.42	66.88
2010	<u>10.23</u>	<u>65.59</u>

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
100,000,000 common voting shares, no par value			
Issued			
Balance, December 31, 2002	20,060,608	\$ 9,955,650	\$ 22,474
Private placements	4,137,059	351,251	205,049
Exercise of options	50,000	5,000	-
Exercise of warrants	946,000	141,900	-
Conversion of convertible debentures	1,500,000	116,439	63,561
Share issuance costs	-	(35,992)	(20,532)
Balance, December 31, 2003	26,693,667	10,534,248	270,552
Exercise of options	1,050,000	110,000	-
Exercise of warrants	7,680,000	1,090,200	-
Finders' fees	318,750	63,750	-
Private placements	4,600,000	920,000	-
Contributed surplus on exercise of warrants and options	-	216,352	(216,352)
Stock-based compensation	-	-	298,483
Share issuance costs	-	(80,389)	-
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

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

**PORTRUSH PETROLEUM CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

---

---

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

*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.

*During the year-ended December 31, 2004 the Company issued the following common shares:*

- i) In June 2004, the Company issued 3,100,000 units at \$0.20 per unit for total proceeds of \$620,000. Each unit consisted of one common share and one non-transferable share purchase warrant. A total of eight warrants entitles the holder to acquire one additional common share for \$0.20 until June 2, 2006. The Company issued 225,000 common shares at a value of \$45,000 as a finder's fee.
- ii) In August 2004, the Company issued 1,500,000 shares at \$0.20 per share for total proceeds of \$300,000. The Company issued 93,750 common shares at a value of \$18,750 as a finder's fee.
- iii) Issued 7,680,000 common shares pursuant to the exercise of warrants for proceeds of \$1,090,200 of which \$146,950 was received during the year ended December 31, 2003. The Company also issued 1,050,000 common shares pursuant to the exercise of stock options for proceeds of \$110,000.

*During the year ended December 31, 2003 the Company issued the following common shares:*

- i) In August 2003, issued 2,100,000 units at a price of \$0.10 per unit for total proceeds of \$210,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.10 until August 28, 2005. The share purchase warrants issued with this private placement have been recorded at a fair value of \$79,313 which is included in contributed surplus. The Company incurred share issuance costs of \$12,780 on the private placement which were allocated on a pro-rata basis between capital stock and contributed surplus.
- ii) In October 2003, the Company issued 2,037,059 units at a price of \$0.17 per unit for total proceeds of \$346,300. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.24 until October 14, 2005. The share purchase warrants issued with this private placement have been recorded at a fair value of \$125,736 which is included in contributed surplus. The Company incurred share issuance costs of \$36,444 on the private placement which were allocated on a pro-rata basis between capital stock and contributed surplus.
- iii) In November 2003, the Company issued 1,500,000 units pursuant to the conversion of debentures with an aggregate face value of \$180,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share for \$0.12 until May 1, 2004 and thereafter for \$0.14 until May 1, 2005. The share purchase warrants issued with this conversion have been recorded at a fair value of \$63,561 which is included in contributed surplus. The Company incurred share issuance costs of \$7,300 on the conversion which were allocated on a pro-rata basis between capital stock and contributed surplus.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options**

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers and certain consultants 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, 2005:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	1,795,000	\$ 0.15	April 5, 2006
	305,000	0.15	April 27, 2007
	100,000	0.15	August 11, 2007
	625,000	0.15	September 1, 2007
	150,000	0.15	December 15, 2007
<b>Warrants</b>	387,500	0.20	June 2, 2006
	2,000,000	0.15	September 14, 2007

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, 2002	8,100,000	\$ 0.27	1,500,000	\$ 0.13
Granted	5,637,059	0.17	-	-
Exercised	(946,000)	0.15	(50,000)	0.10
Expired/cancelled	<u>(4,054,000)</u>	0.15	<u>(500,000)</u>	0.20
Outstanding, December 31, 2003	8,737,059	0.15	950,000	0.10
Granted	387,500	0.20	3,300,000	0.15
Exercised	(7,680,000)	0.14	(1,050,000)	0.10
Expired/cancelled	<u>-</u>	-	<u>-</u>	-
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
Number currently exercisable	2,387,500	\$ 0.16	2,825,000	\$ 0.15

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock-based compensation**

During the year ended December 31, 2005, the Company granted 1,349,500 (2004 – 3,300,000; 2003 - Nil) stock options to directors and consultants. The Company recognized \$75,193 (2004 - \$298,483; 2003 - \$Nil) in stock-based compensation expense, with a corresponding credit to contributed surplus on the balance sheet. 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:

	2005	2004
Risk-free interest rate	3.4%	2.4%
Expected life of options	2 years	2 years
Annualized volatility	81%	160%
Dividend rate	0.00%	0.00%

**5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2005	2004	2003
Cash paid during the year for interest	\$ -	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -	\$ -

Significant non-cash transactions during the year ended December 31, 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.

The significant non-cash transactions during the year ended December 31, 2004 were the issuance of 318,750 common shares valued at \$63,750 for finders' fees on private placements.

Significant non-cash transactions during the year ended December 31, 2003 included:

- a) The issuance of 1,500,000 units pursuant to the conversion of debentures with an aggregate face value of \$180,000.
- b) The accrual of future site restoration costs of \$6,473.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

**6. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$72,000 (2004 - \$72,000; 2003 - \$87,000) to directors.
- b) Paid or accrued rent of \$Nil (2004 - \$Nil; 2003 - \$4,000) to a director.

Amounts due to related parties are non-interest bearing, unsecured and have no specific terms of repayment.

Related party transactions are in the normal course of operations, occurring on terms and conditions that are similar to those of transactions with unrelated parties and, therefore, are measured at the exchange amount.

**7. INCOME TAXES**

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

	2005	2004	2003
Loss for the year	\$ (160,248)	\$ (766,320)	\$ (746,498)
Expected income taxes (recovery)	\$ (54,794)	\$ (272,810)	\$ (280,683)
Non-deductible items for income tax purposes	56,503	43,410	225,479
Other items deductible for income tax purposes	(108,310)	(56,285)	(53,402)
Unrecognized benefits of non-capital losses	106,601	285,685	108,606
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:

	2005	2004
Future income tax assets:		
Oil and gas properties	\$ 640,187	\$ 1,287,892
Mineral property and related exploration expenditures	91,371	95,334
Financing fees	32,959	68,279
Operating losses available for future periods	658,197	640,519
Capital losses available	252,741	527,409
	1,675,455	2,619,433
Valuation allowance	(1,675,455)	(2,619,433)
Net future income tax asset	\$ -	\$ -

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

---

---

**7. INCOME TAXES (cont'd.....)**

The Company has incurred operating losses of approximately \$1,929,064 in Canada which, if unutilized, will expire commencing 2015. 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.

**8. 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 \$104,464 (2004 - \$149,560) and the total amount of capital assets attributable to the U.S.A. is \$1,466,777 (2004 - \$1,492,833).

**9. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

**10. SUBSEQUENT EVENT**

Subsequent to December 31, 2005, the Company issued 500,000 common shares for gross proceeds of \$75,000 pursuant to the exercise of stock options.

**11. 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.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

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

**Consolidated financial statement balances under United States GAAP**

	2005	2004
<b>Consolidated balance sheets</b>		
Total assets under Canadian GAAP and United States GAAP	\$ 1,834,436	\$ 1,790,255
Total liabilities under Canadian GAAP and United States GAAP	\$ 116,188	\$ 441,185
Capital stock and contributed surplus under Canadian GAAP	13,736,270	13,206,844
Cumulative compensation expense on granting of stock options	<u>759,296</u>	<u>759,296</u>
Capital stock and contributed surplus under United States GAAP	<u>14,495,566</u>	<u>13,966,140</u>
Deficit under Canadian GAAP	(12,018,022)	(11,857,774)
Cumulative compensation expense on granting of stock options	<u>(759,296)</u>	<u>(759,296)</u>
Deficit under United States GAAP	<u>(12,777,318)</u>	<u>(12,617,070)</u>
Total shareholders' equity under United States GAAP	<u>1,718,248</u>	<u>1,349,070</u>
Total liabilities and shareholders' equity under United States GAAP	\$ 1,834,436	\$ 1,790,255

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

**11. 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. Effective January 1, 2004, the CICA implemented a new pronouncement on impairment of long-lived assets, which required the impairment loss as a result of the ceiling test 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, 2005, 2004 and 2003.

**Stock-based compensation**

Under United States GAAP, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation ("SFAS 123") recommends, but does not require, companies to establish a fair market value based method of accounting for stock-based compensation plans. The Company has elected for the years ended December 31, 2005, 2004 and 2003 to account for stock-based compensation using SFAS 123. Accordingly, compensation cost for stock options is measured at the fair value of options granted.

For the year ended December 31, 2002, 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. Since stock options are granted at exercise prices that are at or above the quoted market value of the Company's common shares at the date of grant, there was no compensation costs to be recognized by the Company. All the options granted and repriced during the year ended December 31, 2002 were fully vested on grant.

Under 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, 2005, 2004 and 2003.

**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.

**PORTRUSH PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
DECEMBER 31, 2005

---

---

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

**Loss per share (cont'd...)**

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, 2005, 2004 and 2003 was 41,476,215, 33,755,501 and 22,132,652, respectively. Accordingly, the loss per share for the years ended December 31, 2005, 2004 and 2003 was \$(0.00), \$(0.02) and \$(0.03), respectively.

**Asset retirement obligations**

Under United States GAAP, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" requires companies to record the fair value of the liability for closure and removal costs associated with the legal obligations upon retirement or removal of any tangible long-lived assets. Under this standard, the initial recognition of the liability is capitalized as part of the asset cost and depreciated over its estimated useful life.

Under Canadian GAAP, the Company was required to record asset retirement obligations as at December 31, 2005 for estimated future net costs of well abandonment and site restoration including removal of production facilities at the end of their useful life of \$10,494 (2004 - \$6,473). New accounting and disclosure standards were introduced under Canadian GAAP (Note 2) and adopted by the Company effective January 1, 2003. Accordingly, there is no difference between Canadian GAAP and United States GAAP as at December 31, 2005 and 2004.

**New accounting pronouncements**

In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Non-Monetary Assets – an amendment of APB Opinion No. 29" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Non-monetary Transactions", to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("SFAS 123R"). SFAS 123R supersedes APB 25 and its related implementation guidance by requiring entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards (with limited exceptions) and revises SFAS 123 as follows:

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

**New accounting pronouncements (cont'd...)**

- i. Public entities are required to measure liabilities incurred to employees in share-based payment transactions at fair value and non-public entities may elect to measure their liabilities to employees incurred in share-based payment transactions at their intrinsic value, whereas under SFAS 123 all share based payment liabilities were measured at their intrinsic value.
- ii. Non-public entities are required to calculate fair value using an appropriate industry sector index for the expected volatility of its share price, if it is not practicable to estimate the expected volatility of the entity's share price.
- iii. Entities are required to estimate the number of instruments for which the requisite service is expected to be rendered as opposed to accounting for forfeitures as they occur.
- iv. Incremental compensation cost for a modification of the terms or conditions of an award is measured by comparing the fair value of the modified award with the fair value of the award immediately before the modification, whereas SFAS 123 required that the effect of a modification be measured as the difference between the fair value of the modified award at the date it is granted and the award's value immediately before the modification, determined based on the shorter of (1) its remaining initially estimated expected life or (2) the expected life of the modified award.

SFAS 123R also clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or a liability and attributing compensation cost to reporting periods. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued in EITF 96-18. SFAS 123R also does not address the accounting for employee share ownership plans which are subject to Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". Public entities (other than those filing as small business issuers) will be required to apply SFAS 123R as of the first annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply SFAS 123R in the first annual reporting period that begins after December 15, 2005. For non-public entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after December 15, 2005.

In May 2005, FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections - A Replacement of APB Opinion 20 and FASB Statement 3" (SFAS 154). SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

The adoption of these new pronouncements is not expected to have a material effect on the Company's consolidated financial position or results of operations.