

PORTRUSH PETROLEUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2006

**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, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2006, 2005 and 2004. 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, 2006 and 2005 and the results of its operations and its cash flows for the years ended December 31, 2006, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

March 26, 2007

**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 26, 2007 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 26, 2007

A Member of **SC INTERNATIONAL**

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

	2006	2005
ASSETS		
Current		
Cash	\$ 50,691	\$ 189,546
Receivables	127,873	73,649
Prepays	<u>22,559</u>	<u>-</u>
	201,123	263,195
Advances on oil and gas properties	62,599	-
Oil and gas properties (Note 3)	<u>1,347,654</u>	<u>1,571,241</u>
	<u>\$ 1,611,376</u>	<u>\$ 1,834,436</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 58,616	\$ 89,123
Due to related parties (Note 6)	<u>-</u>	<u>16,571</u>
	58,616	105,694
Future site restoration	<u>10,494</u>	<u>10,494</u>
	<u>69,110</u>	<u>116,188</u>
Shareholders' equity		
Capital stock (Note 4)	13,508,437	13,398,523
Contributed surplus (Note 4)	486,968	337,747
Deficit	<u>(12,453,139)</u>	<u>(12,018,022)</u>
	<u>1,542,266</u>	<u>1,718,248</u>
	<u>\$ 1,611,376</u>	<u>\$ 1,834,436</u>

Nature and continuance of operations (Note 1)

Subsequent event (Note 10)

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 AND DEFICIT
(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2006	2005	2004
REVENUE			
Oil and gas revenue, net of royalties	\$ 777,455	\$ 593,598	\$ 442,368
DIRECT COSTS			
Depletion	399,036	122,269	121,937
Operating expenses	195,070	221,664	145,556
Total direct costs	(594,106)	(343,933)	(267,493)
EXPENSES			
Consulting and administration fees	22,882	34,750	107,170
Investor relations	75,208	53,635	164,344
Management fees – related party	80,875	72,000	72,000
Office and miscellaneous	27,161	48,760	83,702
Professional fees	154,858	58,694	60,545
Shareholder costs	16,508	25,633	23,652
Stock-based compensation	205,385	75,193	298,483
Transfer agent and regulatory fees	19,795	25,546	24,981
Travel and promotion	11,977	8,488	33,296
Total expenses	(614,649)	(402,699)	(868,173)
Loss before other items	(431,300)	(153,034)	(693,298)
OTHER ITEMS			
Foreign exchange loss	(3,817)	(7,214)	-
Write-off of receivable	-	-	(73,022)
Total other items	(3,817)	(7,214)	(73,022)
Loss for the year	(435,117)	(160,248)	(766,320)
Deficit, beginning of year	(12,018,022)	(11,857,774)	(11,091,454)
Deficit, end of year	\$ (12,453,139)	\$ (12,018,022)	\$ (11,857,774)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding	43,938,176	41,572,559	33,858,626

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

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	\$ (435,117)	\$ (160,248)	\$ (766,320)
Items not affecting cash:			
Depletion	399,036	122,269	121,937
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	205,385	75,193	298,483
Changes in non-cash working capital items:			
Increase in receivables	(52,305)	(5,955)	(136,884)
(Increase) decrease in prepaids	(22,559)	5,625	(5,625)
Increase (decrease) in accounts payable and accrued liabilities	<u>(30,507)</u>	<u>(185,772)</u>	<u>25,262</u>
Cash provided by (used in) operating activities	<u>63,933</u>	<u>(85,103)</u>	<u>(318,125)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances from (repaid to) related parties	(16,571)	(207,031)	21,648
Proceeds from issuance of capital stock	93,750	479,175	1,973,250
Share issuance costs	-	(24,942)	(16,639)
Capital stock purchased for cancellation	<u>(40,000)</u>	<u>-</u>	<u>-</u>
Cash provided by financing activities	<u>37,179</u>	<u>247,202</u>	<u>1,978,259</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances on oil and gas properties	(62,599)	-	-
Oil and gas property expenditures	<u>(177,368)</u>	<u>(47,096)</u>	<u>(1,590,572)</u>
Cash used in investing activities	<u>(239,967)</u>	<u>(47,096)</u>	<u>(1,590,572)</u>
Change in cash position during year	(138,855)	115,003	69,562
Cash position, beginning of year	<u>189,546</u>	<u>74,543</u>	<u>4,981</u>
Cash position, end of year	<u>\$ 50,691</u>	<u>\$ 189,546</u>	<u>\$ 74,543</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, 2006

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.

	2006	2005
Working capital	\$ 142,507	\$ 157,501
Deficit	(12,453,139)	(12,018,022)

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, 2006, 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, 2006

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 \$10,494 (2005 - \$10,494).

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, 2006

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. 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.

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, 2006, 2005 and 2004, the total number of potentially dilutive shares excluded from loss per share is 5,880,000, 5,362,500, 4,644,559 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, 2006

3. OIL AND GAS PROPERTIES

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

	2006	2005
Oil and gas properties:		
U.S.A., proved	\$ 2,879,005	\$ 2,708,708
Canada, unproved	<u>109,616</u>	<u>104,464</u>
	2,988,621	2,813,172
Less: Accumulated depletion	<u>(1,640,967)</u>	<u>(1,241,931)</u>
	<u>\$ 1,347,654</u>	<u>\$ 1,571,241</u>

At December 31, 2006, the oil and gas properties include \$109,616 (2005 - \$104,464) relating to unproved properties that have been excluded from the depletion calculation.

Ontario prospects, Canada

The Company entered into an agreement to acquire a 5% working interest in a prospect located in Ontario, Canada in exchange for funding 50% of the project costs by paying US\$120,000. The Company will receive a payout of all costs incurred plus a 5% working interest in the prospect. During fiscal 2006, the Company incurred pre-acquisition costs of \$22,009 on an additional prospect located in Ontario, Canada.

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.

The full cost ceiling test results as of December 31, 2006 resulted in no impairment of evaluated oil and gas properties. The future prices used in the December 31, 2006 ceiling test are as follows:

	Natural Gas (Cdn \$/Mmbtu)	Oil (Cdn \$/Bbl)
2007	\$ 8.56	\$ 75.74
2008	9.16	73.41
2009	8.97	69.92
2010	8.74	65.84
2011	<u>8.97</u>	<u>61.76</u>

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2006

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
100,000,000 common voting shares, no par value			
Issued and outstanding:			
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
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

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2006

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

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

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

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

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

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

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 entitle 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.

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. As at December 31, 2006, the Company had purchased 300,000 common shares for \$40,000 to return to treasury. Subsequent to December 31, 2006 these shares were cancelled.

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.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2006

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

Stock options (cont'd...)

The following incentive stock options and share purchase warrants were outstanding at December 31, 2006:

	Number of Shares	Exercise Price	Expiry Date
Options	250,000	\$ 0.15	January 12, 2007
	305,000	0.15	April 27, 2007
	100,000	0.15	August 11, 2007
	600,000	0.15	September 1, 2007
	150,000	0.15	December 15, 2007
	300,000	0.18	June 8, 2008
	1,600,000	0.15	April 10, 2009
	300,000	0.15	April 25, 2009
	175,000	0.15	October 31, 2009
	100,000	0.15	November 30, 2009
Warrants	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, 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	-	-	-	-
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	(1,057,059)	0.12	(380,000)	0.15
Outstanding, December 31, 2005	2,387,500	0.16	2,975,000	0.15
Granted	-	-	2,725,000	0.15
Exercised	-	-	(625,000)	0.15
Expired/cancelled	(387,500)	0.20	(1,195,000)	0.15
Outstanding, December 31, 2006	2,000,000	\$ 0.15	3,880,000	\$ 0.15
Number currently exercisable	2,000,000	\$ 0.15	3,805,000	\$ 0.15

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2006

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

Stock-based compensation

During the year ended December 31, 2006, the Company granted 2,725,000 (2005 – 1,349,500; 2004 – 3,300,000) stock options to directors and consultants at a weighted average fair value of \$0.08 (2005 - \$0.06; 2004 - \$0.09) per option. As at December 31, 2006, 2,650,000 of these options had vested with an attributed stock-based compensation expense of \$205,385 (2005 - \$75,193; 2004 - \$298,483) 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:

	2006	2005	2004
Risk-free interest rate	4.1%	3.4%	2.4%
Expected life of options	1.4 years	2 years	2 years
Annualized volatility	93%	81%	160%
Dividend rate	0.00%	0.00%	0.00%

5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2006	2005	2004
Cash paid during the year for interest	\$ -	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -	\$ -

During the year ended December 31, 2006 the Company incurred \$1,919 in recoveries through receivables.

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

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

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.

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2006

6. RELATED PARTY TRANSACTIONS

The Company paid or accrued management fees of \$80,875 (2005 - \$72,000; 2004 - \$72,000) to a director of which, \$20,527 is included in prepaid expenses as at December 31, 2006 (December 31, 2005 – \$Nil)

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:

	2006	2005	2004
Loss for the year	\$ (435,117)	\$ (160,248)	\$ (766,320)
Expected income taxes (recovery)	\$ (157,870)	\$ (54,794)	\$ (272,810)
Non-deductible items for income tax purposes	209,857	56,503	43,410
Other items deductible for income tax purposes	(224,401)	(108,310)	(56,285)
Unrecognized benefits of non-capital losses	<u>172,414</u>	<u>106,601</u>	<u>285,685</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:

	2006	2005
Future income tax assets:		
Oil and gas properties	\$ 803,779	\$ 640,187
Mineral property and related exploration expenditures	83,016	91,371
Financing fees	18,116	32,959
Operating losses available for future periods	<u>702,674</u>	<u>658,197</u>
	1,607,585	1,422,714
Valuation allowance	<u>(1,607,585)</u>	<u>(1,422,714)</u>
Net future income tax asset	\$ -	\$ -

PORTRUSH PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
DECEMBER 31, 2006

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

The Company has incurred operating losses of approximately \$2,140,000 in Canada which, if unutilized, will expire through 2026. 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 \$109,616 (2005 - \$104,464) and the total amount of capital assets attributable to the U.S.A. is \$1,238,038 (2005 - \$1,466,777).

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, 2006, the Company purchased an additional 50,000 of its own common shares for \$6,375.

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
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(Expressed in Canadian Dollars)
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11. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)

Consolidated financial statement balances under United States GAAP

	2006	2005
Consolidated balance sheets		
Total assets under Canadian GAAP and United States GAAP	\$ 1,611,376	\$ 1,834,436
Total liabilities under Canadian GAAP and United States GAAP	\$ 69,110	\$ 116,188
Capital stock, common shares returned to treasury and contributed surplus under Canadian GAAP	13,995,405	13,736,270
Cumulative compensation expense on granting of stock options	759,296	759,296
Capital stock, common shares returned to treasury and contributed surplus under United States GAAP	14,754,701	14,495,566
Deficit under Canadian GAAP	(12,453,139)	(12,018,022)
Cumulative compensation expense on granting of stock options	(759,296)	(759,296)
Deficit under United States GAAP	(13,212,435)	(12,777,318)
Total shareholders' equity under United States GAAP	1,542,266	1,718,248
Total liabilities and shareholders' equity under United States GAAP	\$ 1,611,376	\$ 1,834,436

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

Oil and gas properties

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

Under Canadian GAAP, a ceiling test is applied to ensure that capitalized costs for oil and gas properties and equipment do not exceed the sum of estimated undiscounted, future net revenues from proven reserves less the cost incurred or estimated to develop those reserves, interest and general and administration costs, and an estimate for restoration costs and applicable taxes. 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.

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

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

Under United States GAAP, costs accumulated in each cost center are limited to an amount equal to the present value, discounted at 10%, of the estimated future net operating revenues from proved reserves, net of restoration costs and income taxes. Under United States GAAP an additional ceiling test write-down was not required as at December 31, 2006, 2005 and 2004.

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, 2006, 2005 and 2004.

For the year ended December 31, 2002 and prior, the Company elected to account for stock-based compensation using Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options was measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the option price.

Loss per share

Under both Canadian GAAP and United States GAAP basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

Under United States GAAP, the weighted average number of common shares outstanding excludes any shares that remain in escrow, but may be earned out based on the Company incurring a certain amount of exploration and development expenditures. The weighted average number of shares outstanding under United States GAAP for the years ended December 31, 2006, 2005 and 2004 was 43,951,326, 41,476,215 and 33,755,501, respectively. Accordingly, the loss per share for the years ended December 31, 2006, 2005 and 2004 was \$(0.01), \$(0.00) and \$(0.02), 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 (2005 - \$10,494). 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, 2006, 2005 and 2004.

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

Recent accounting pronouncements

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of evaluating the impact of FIN 48 on the financial position and results of operations of the Company.

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

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.