

Twoco Petroleums Ltd.
Financial Statements

March 30, 2004
(unaudited)

Notice to Reader

The accompanying unaudited interim financial statements of Twoco Petroleums Ltd. for the quarter ended March 30, 2004, have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by Twoco Petroleums Ltd.'s external auditors.

Dated May 27, 2004.

On behalf of Twoco Petroleums Ltd.

(signed) "Wayne Malinowski"
Wayne Malinowski
President

(signed) "Tim Bashforth"
Tim Bashforth
Secretary and Treasurer

Twoco Petroleum Ltd.
Balance Sheets

	March 30, 2004 <i>(unaudited)</i>	December 30, 2003 <i>(restated - note 2)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 993,316	\$ 1,442,947
Accounts receivable	542,076	410,425
Prepaid expenses and deposits	<u>160,719</u>	<u>92,133</u>
	1,696,111	1,945,505
Property, plant and equipment (note 3)	<u>9,694,563</u>	<u>9,208,726</u>
	<u><u>\$ 11,390,674</u></u>	<u><u>\$ 11,154,231</u></u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 337,767	\$ 343,085
Due to directors	<u>370,052</u>	<u>-</u>
	<u>707,819</u>	<u>343,085</u>
Due to directors	370,051	740,103
Debentures payable	1,500,000	1,500,000
Future income taxes	2,262,000	2,059,000
Asset retirement obligations (note 4)	<u>281,529</u>	<u>220,742</u>
	<u>5,121,399</u>	<u>4,862,930</u>
Shareholders' Equity		
Share capital (note 5)	4,609,867	4,820,467
Special warrants	1,861,632	1,861,632
Contributed surplus	141,240	141,240
Deficit	<u>(343,464)</u>	<u>(532,038)</u>
	<u>6,269,275</u>	<u>6,291,301</u>
	<u><u>\$ 11,390,674</u></u>	<u><u>\$ 11,154,231</u></u>

Approved by the Board,

(signed) "Larry Mah" _____, Director

(signed) "Tim Bashforth" _____, Director

Twoco Petroleum Ltd.
Statements of Income and Deficit

(unaudited)

	Three Months Ended	
	March 30,	
	2004	2003
Revenue		
Petroleum and natural gas sales, net of royalties and ARTC	\$ 953,577	\$ 55,134
Processing revenue	39,842	-
Interest	<u>3,615</u>	<u>3,507</u>
	<u>997,034</u>	<u>58,641</u>
Expenses		
Operating costs	155,482	5,171
Interest on debentures and due to directors	63,899	-
General and administrative	148,541	44,050
Depletion and amortization	<u>448,138</u>	<u>3,600</u>
	<u>816,060</u>	<u>52,821</u>
Income before income taxes	180,974	5,820
Future income tax recovery	<u>(7,600)</u>	<u>-</u>
Net income	<u>188,574</u>	<u>5,820</u>
Deficit, beginning of period, previously stated	(430,857)	(101,766)
Restatement on change in accounting policies (note 2)	<u>(101,181)</u>	<u>-</u>
	<u>(532,038)</u>	<u>(101,766)</u>
Deficit, end of period	<u>\$ (343,464)</u>	<u>\$ (95,946)</u>
Net income per share, basic and diluted	<u>\$ 0.02</u>	<u>\$ 0.00</u>
Weighted average common shares outstanding (including outstanding Special Warrants)		
Basic	<u>7,824,656</u>	<u>3,777,600</u>
Diluted	<u>8,303,774</u>	<u>3,777,600</u>

Twoco Petroleum Ltd.

Statements of Cash Flows

(unaudited)

	Three Months Ended	
	March 30,	
	2004	2003
Operating activities		
Net income	\$ 188,574	\$ 5,820
Add (deduct) items not affecting cash		
Future income tax recovery	(7,600)	-
Depletion and amortization	<u>448,138</u>	<u>3,600</u>
	629,112	9,420
Change in non-cash working capital	<u>(275,227)</u>	<u>(13,976)</u>
	<u>353,885</u>	<u>(4,556)</u>
Financing activities		
Advances from officers and directors	-	50,224
Change in non-cash working capital	<u>33,130</u>	<u>-</u>
	<u>33,130</u>	<u>50,224</u>
Investing activity		
Acquisition of property, plant and equipment	(923,188)	(265,704)
Proceeds on disposal of property, plant and equipment	50,000	-
Change in non-cash working capital	<u>36,542</u>	<u>(683,093)</u>
	<u>(836,646)</u>	<u>(948,797)</u>
Net cash outflow	(449,631)	(903,129)
Cash and cash equivalents, beginning of period	<u>1,442,947</u>	<u>1,333,968</u>
Cash and cash equivalents, end of period	<u>\$ 993,316</u>	<u>\$ 430,839</u>
Cash and cash equivalents is comprised of:		
Deposits with bank	\$ 993,316	\$ 415,828
Term deposits	<u>-</u>	<u>15,011</u>
	<u>\$ 993,316</u>	<u>\$ 430,839</u>

Supplemental cash flows information (note 6)

Twoco Petroleum Ltd.
Notes to Financial Statements
March 30, 2004
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1. Basis of presentation

The interim financial statements of Twoco Petroleum Ltd. (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as those utilized in the December 30, 2003 annual financial statements. The interim financial statements contain disclosures which are supplemental to the Company's annual financial statements. Certain disclosures which are normally required to be included in the notes to the annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 30, 2003.

2. Change in significant accounting policies

(a) Full Cost Accounting

On December 31, 2003, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 16 "Oil and Gas Accounting - Full Cost". The new guideline modifies the ceiling test calculation and outlines additional disclosure requirements. Under the full cost method of accounting, a limit is placed on the carrying amount of petroleum and natural gas properties. A ceiling test is performed to recognize and measure impairment, if any.

Impairment is recognized if the carrying amount of petroleum and natural gas properties, less the cost of unproved properties not subject to depletion (the "adjusted carrying amount") exceeds the estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on forecast prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is measured by comparing the adjusted carrying amount to the estimated, discounted future cash flows of the Company's proved plus probable reserves, based on forecast prices and costs, and discounted at the Company's risk-free rate. For purposes of the ceiling test, future cash flows are calculated exclusive of indirect costs such as financing charges, general and administrative expenses and income taxes.

Any impairment recognized is recorded as additional depletion and amortization expense.

Twoco Petroleum Ltd.
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(b) Asset Retirement Obligations

Effective December 31, 2003, the Company has adopted retroactively, with restatement of prior periods, the CICA's new standard on Asset Retirement Obligations. This new section requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of petroleum and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition.

Under the new standard, the estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit-adjusted risk-free interest rate. The obligation is reviewed regularly by management based upon current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related petroleum and natural gas properties and a corresponding liability is recognized. The increase in petroleum and natural gas properties is depleted and amortized on the same basis as the remainder of the petroleum and natural gas properties. The liability is accreted against income until it is settled or the property is sold and is included as a component of depletion and amortization expense. Actual restoration expenditures are charged to the accumulated obligation as incurred.

Prior to 2004, the Company estimated costs of dismantlement, removal and site restoration and recorded them over the remaining life of the proved reserves on the unit-of-production basis. The annual provision was included in depletion and depreciation expense and was accrued as a site restoration liability on the balance sheet. Actual restoration expenditures were charged to the accumulated obligation as incurred.

(c) Stock-based Compensation

Effective December 31, 2003, the Company elected to retroactively adopt amendments to CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments". Under the amended standard, the Company must account for all stock options issued at fair value.

Under the transitional provisions of the standard, the Company has elected to apply the amended standard retroactively, with restatement, to all stock options issued after the effective date of implementation, being January 1, 2002.

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(d) Effect of change in policies

The effect of the change in policy for asset retirement obligations and stock-based compensation are as follows:

Balance Sheet As at December 31, 2003	As Reported	Change	As Restated
Assets			
Petroleum and natural gas properties	\$ 8,994,290	\$ 214,436	\$ 9,208,726
Liabilities and shareholders' equity			
Asset retirement obligations	-	220,742	220,742
Future removal and site restoration costs	57,500	(57,500)	-
Future income taxes	2,042,000	17,000	2,059,000
Contributed surplus	5,865	135,375	141,240
Deficit	430,857	101,181	532,038

There was no effect on the income statement, cash flows, or basic and diluted net income per share for the period ended March 30, 2003 as a result of adopting the change in policies.

3. Property, plant and equipment

As described in note 2, the Company adopted Accounting Guideline 16 "Oil and Gas Accounting - Full Cost" - "AcG-16".

The Company performed a ceiling test under AcG-16 as at December 31, 2003 and there was no impact on the financial results previously reported.

The ceiling tests as at December 30, 2003 and March 30, 2004 were performed using the prices forecasts for natural gas production outlined below:

Year	Price per mmbtu
2004	\$ 5.24
2005	4.94
2006	4.74
2007	4.54
2008	4.64
Average percentage increase thereafter	2.5%/yr

These prices are adjusted from the forecasted AECO-C spot price for the heat content of the Company's natural gas production.

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4. Asset Retirement Obligations

The changes to the asset retirement obligations for each of the following periods are as follows:

	March 30, 2004	December 30, 2003
Asset retirement obligation, beginning of period	\$ 220,742	\$ -
Liabilities incurred	58,369	220,742
Accretion expense	<u>2,418</u>	<u>-</u>
Asset retirement obligation, end of period	<u>\$ 281,529</u>	<u>\$ 220,742</u>

At March 30, 2004, the estimated total undiscounted amount required to settle the asset retirement obligations ("ARO") was \$445,000. These obligations are to be settled based on the economic lives of the underlying assets, which is currently estimated to extend 20 years into the future. This amount has been discounted using a credit adjusted risk-free interest rate of 7.1%.

5. Share capital

(a) Authorized

Unlimited voting common shares
Unlimited non-voting preferred shares

(b) Issued

	Number	Stated Value
Balance, December 30, 2003	6,648,156	\$ 4,820,467
Tax benefits renounced to flow-through shareholders	<u>-</u>	<u>(210,600)</u>
Balance, March 30, 2004	<u>6,648,156</u>	<u>\$ 4,609,867</u>

6. Supplemental cash flow information

The following non-cash transactions have been excluded from the statement of cash flows for the period ended March 30, 2004:

Asset retirement costs (note 4)	\$ 58,369
Tax benefits renounced to flow-through shareholders (note 5)	\$ 210,600

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7. Subsequent events

On April 17, 2004, the Company completed its Initial Public Offering ("IPO"), whereby the Company issued 3,530,000 Units for gross proceeds of \$6,001,000. Each Unit consists of one common share and one-half non-transferable common share purchase warrants. Each whole common share purchase warrant is exercisable until April 16, 2005 into one common share at a price of \$1.95 per share.

On April 5, 2004, the Company filed a prospectus to allow: a) the distribution of shares under the IPO; b) to qualify for distribution the 1,176,500 common shares, issuable on the exercise of 1,176,500 previously issued Special Warrants, and c) to qualify for distribution