Twoco Petroleums Ltd.
Financial Statements
June 29, 2004

Notice to Reader

The accompanying unaudited interim financial statements of Twoco Petroleums Ltd. for the six months ended June 29, 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 August 27, 2004.

On behalf of Twoco Petroleums Ltd.

(signed) "Wayne Malinowski"
Wayne Malinowski
President

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

Twoco Petroleums Ltd.

(Incorporated under the laws of Alberta)

Balance Sheets

	June 29, 2004 *(unaudited)*	December 30, 2003 *(restated - note 3)*
Assets		
Current assets		
Cash and cash equivalents	$ 5,752,536	$ 1,442,947
Accounts receivable	770,868	410,425
Prepaid expenses and deposits	235,488	92,133
	6,758,892	1,945,505
Property, plant and equipment	11,017,405	9,208,726
	$ 17,776,297	$ 11,154,231
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 906,081	$ 343,085
Income taxes payable	80,557	-
Due to directors	370,052	-
	1,356,690	343,085
Due to directors	370,051	740,103
Debentures payable	1,500,000	1,500,000
Future income taxes	2,411,000	2,059,000
Asset retirement obligations (note 4)	483,021	220,742
	6,120,762	4,862,930
Shareholders' Equity		
Share capital (note 5)	11,364,120	4,820,467
Special warrants	-	1,861,632
Contributed surplus	435,901	141,240
Deficit	(144,486)	(532,038)
	11,655,535	6,291,301
	$ 17,776,297	$ 11,154,231

Approved by the Board,

(signed) *"Larry C. Mah"*, Director

(signed) *"James A.W. Williams"*, Director

Twoco Petroleums Ltd.

Statements of Income (Loss) and Deficit

(unaudited)

	Three Months Ended June 29,		Six Months Ended June 29,	
	2004	2003	2004	2003
Revenue				
Petroleum and natural gas sales, net of royalties and ARTC	$ 1,135,527	$ 62,152	$ 2,089,104	$ 117,286
Processing revenue and other	40,704	-	80,546	-
Interest	23,261	47	26,876	3,554
	1,199,492	62,199	2,196,526	120,840
Expenses				
Operating costs	159,869	9,752	315,351	14,923
Interest on debentures and due to directors	68,090	-	131,989	-
General and administrative	120,513	70,200	269,054	114,250
Stock-based compensation	1,658	-	1,658	-
Depletion, amortization and accretion	529,478	11,718	977,616	15,318
	879,608	91,670	1,695,668	144,491
Income (loss) before income taxes	319,884	(29,471)	500,858	(23,651)
Income taxes - current	80,557	-	80,557	-
- future	40,349	103,928	32,749	103,928
	120,906	103,928	113,306	103,928
Net income (loss)	198,978	(133,399)	387,552	(127,579)
Deficit, beginning of period, previously stated	(343,464)	(95,946)	(430,857)	(101,766)
Restatement on change in accounting policies (note 3)	-	-	(101,181)	-
	(343,464)	(95,946)	(532,038)	(101,766)
Deficit, end of period	$ (144,486)	$ (229,345)	$ (144,486)	$ (229,345)
Net income (loss) per share - basic and diluted	$ 0.02	$ (0.04)	$ 0.04	$ (0.03)
Weighted average common shares outstanding				
Basic	10,702,748	3,777,600	9,271,566	3,777,600
Diluted	10,866,527	3,777,600	9,489,469	3,777,600

Twoco Petroleums Ltd.
Statements of Cash Flows
(unaudited)

	Three Months Ended June 29,		Six Months Ended June 29,	
	2004	**2003**	**2004**	**2003**
Operating activities				
Net income (loss)	$ 198,978	$ (133,399)	$ 387,552	$ (127,579)
Add (deduct) items not affecting cash				
Depletion, amortization and accretion	529,478	11,718	977,616	15,318
Future income taxes	40,349	103,928	32,749	103,928
Stock-based compensation	1,658	-	1,658	-
	770,463	(17,753)	1,399,575	(8,333)
Change in non-cash working capital	(79,644)	65,848	(354,871)	51,873
	690,819	48,095	1,044,704	43,540
Financing activities				
Issuance of common shares, net of issuance costs	5,294,272	-	5,294,272	-
Change in non-cash working capital	(92,422)	-	(59,292)	-
	5,201,850	-	5,234,980	-
Investing activities				
Acquisition of property, plant and equipment	(1,650,828)	(678,099)	(2,574,016)	(943,803)
Advances to affiliated companies	-	(37,923)	-	(310,719)
Proceeds on disposal of property, plant and equipment	-	-	50,000	-
Change in non-cash working capital	517,379	383,774	553,921	23,700
	(1,133,449)	(332,248)	(1,970,095)	(1,230,822)
Cash inflow (outflow)	4,759,220	(284,153)	4,309,589	(1,187,282)
Cash and cash equivalents, beginning of period	993,316	430,839	1,442,947	1,333,968
Cash and cash equivalents, end of period	$ 5,752,536	$ 146,686	$ 5,752,536	$ 146,686
Cash is comprised of:				
Deposits with bank	$ 659,732	$ 146,686	$ 659,732	$ 146,686
Term deposits	5,092,804	-	5,092,804	-
	$ 5,752,536	$ 146,686	$ 5,752,536	$ 146,686

The non-cash transactions described in (note 6[a]) have been excluded from the statements of cash flows.

1. Basis of presentation

The interim financial statements of Twoco Petroleums 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, except as described below. 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. Business combination

On June 3, 2004, the Company acquired all of the issued and outstanding common shares of Norranco Oil & Gas Ltd. ("Norranco") for a total cash purchase price of $154,000 plus acquisition costs of $13,275. The results of operations of Norranco have been included in the accounts of the Company from June 3, 2004. The purchase price has been recorded at the fair value of the assets and liabilities, as follows:

Working capital	$ 18,328
Property, plant and equipment	256,075
Asset retirement obligations	(107,128)
	$ 167,275

3. 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 an appropriate risk-free interest 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 would be recorded as additional depletion and amortization expense.

The Company performed a ceiling test under AcG-16 and there was no impact on the financial results reported.

The benchmark natural gas selling prices used in the ceiling test calculation are as follows:

	Natural Gas	
Year	**AECO Spot** *(CDN \$/mmbtu)*	**Company Average** *(CDN \$/mcf)*
2004	$ 5.50	$ 5.24
2005	5.20	4.94
2006	5.00	4.74
2007	4.80	4.54
2008	4.90	4.64
Average percentage increase thereafter	2.5 %	2.5 %

(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 recorded as accretion 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.

(d) Flow-through shares

Effective for equity issuances after March 19, 2004, the Company will record the future income taxes associated with the renunciation of expenditures for income tax purposes on the date of renunciation. This change is in accordance with Abstract 146 from the Emerging Issues Committees of the CICA. Prior to the adoption of this policy, the Company recorded future income taxes when the associated expenditures were incurred, to the extent such liabilities exceeded unrecorded tax assets.

(e) Effect of change in accounting policies

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

Balance Sheets

	June 29, 2004	**December 30, 2003**
Increase in property, plant and equipment	$ 455,406	$ 214,436
Increase in asset retirement obligations	483,021	220,742
Decrease in future removal and site restoration costs	99,137	57,500
Increase in future income taxes	44,000	17,000
Increase in contributed surplus	137,033	135,375
Increase in deficit	109,511	101,181

Statements of Income (Loss) and Deficit

	Three Months Ended June 29,		Six Months Ended June 29,	
	2004	**2003**	**2004**	**2003**
Increase in stock-based compensation expense	$ 1,658	$ -	$ 1,658	$ -
Decrease in depletion, amortization and accretion expense	$ (10,218)	$ -	$ (20,328)	$ -
Increase in future tax expense	$ 22,900	$ -	$ 27,000	$ -
Increase in opening deficit	$ 95,171	$ -	$ 101,181	$ -

There was no effect on basic or diluted income (loss) per share as a result of adopting the new policies.

4. Asset Retirement Obligations

The changes to the asset retirement obligations for the following period is as follows:

Asset retirement obligation, beginning of period	$ 220,742
Due to business combination (note 2)	107,128
Liabilities incurred	155,234
Change in estimates	(4,920)
Accretion expense	4,837
Asset retirement obligation, end of period	$ 483,021

At June 29, 2004, the estimated total undiscounted amount required to settle the asset retirement obligations was $564,000. 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 6.87%.

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
Pursuant to an initial public offering (note 5[c])	3,530,000	6,001,000
On exercise of purchase warrants (note 5[d])	750	1,463
On exercise of special warrants (note 5[c])	1,176,500	1,861,632
		12,684,562
Less: Issuance costs, net of tax benefits of $252,000		(749,191)
Tax benefits renounced to flow-through equity holders		(571,251)
Balance, June 29, 2004	11,355,406	$ 11,364,120

(c) On April 16, 2004, the Company closed its initial public offering ("IPO") of 3,530,000 units at a price of $1.70 per unit. Each unit is comprised of one common share and one half non-transferable common share purchase warrant. Each whole common share purchase warrant is exercisable until April 16, 2005 into one common share at a price of $1.95 per share.

The Company paid the agent a 7.5% cash commission on the aggregate proceeds of $6,001,000 and granted the agent an option to acquire 353,000 agent's units exercisable until April 16, 2005. Each agent's unit consists of one common share exercisable at $1.70 per share and one-half common share purchase warrant exercisable at $1.95 per warrant.

The fair value of the agent's options was estimated to be $293,000 using the Black-Scholes option pricing model with the following assumptions: expected option life of one year, expected volatility of 85%, risk-free rate of 3%, and a zero dividend yield. This amount has been recorded as a share issuance cost with a corresponding increase in contributed surplus.

The 1,176,500 Special Warrants outstanding as of December 30, 2003 were automatically exchanged into 1,176,500 common shares for no additional consideration upon acceptance by the relevant securities exchange for the Company's final prospectus related to this IPO.

(d) Purchase warrants and agent's options

A summary of the Company's purchase warrants and agent's options as at June 29, 2004 and changes during the period then ended is as follows:

	Number	Weighted Average Exercise Price
Outstanding, December 31, 2003	117,650	$ 1.70
Granted (note 5[c])	2,294,500	1.91
Exercised	(750)	1.95
Outstanding and exercisable, June 29, 2004	2,411,400	$ 1.90

The purchase warrants and agent's options have a weighted average remaining life of 0.76 years.

(e) Stock Option Plan

The Company has established a Stock Option Plan for the benefit of the directors, officers, employees and consultants of the Company. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee in a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. Options granted under the plan generally have a five-year term and vest as determined by the Board of Directors. The exercise price of each option equals the market value of the Company's common shares at the date of grant.

A summary of the status of the Company's Stock Option Plan as at June 29, 2004, and changes during the period then ended is as follows:

	Number	Weighted Average Exercise Price
Outstanding, December 31, 2003	610,000	$ 1.25
Granted	20,000	1.75
Options outstanding, June 29, 2004	630,000	$ 1.27
Options exercisable, June 29, 2004	610,000	$ 1.25

The following table summarizes information about options outstanding and exercisable at June 29, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number of Options**	**Weighted Average Remaining Life (Years)**	**Average Exercise Price**	**Number of Options**	**Average Exercise Price**
$1.25	610,000	4.16	$ 1.25	610,000	$ 1.25
$1.75	20,000	4.87	1.75	-	-
	630,000	4.18	$ 1.27	610,000	$ 1.25

Subsequent to June 29, 2004, the Company granted an additional 280,000 stock options exercisable at $2.20 per option for five years.

6. Supplemental cash flows information

(a) Excluded from the statements of cash flows are the following non-cash items:

	Three Months Ended June 29,		Six Months Ended June 29,	
	2004	**2003**	**2004**	**2003**
Share issuance costs (note 5[c])	$ 293,000	$ -	$ 293,000	$ 245,718
Tax benefits renounced to flow-through equity holders	$ 360,651	$ 264,170	$ 571,251	$ 264,170
Tax benefits on cash share issuance costs	$ 252,000	$ -	$ 252,000	$ -

(b) Interest paid

	Three Months Ended June 29,		Six Months Ended June 29,	
	2004	**2003**	**2004**	**2003**
Interest paid	$ 56,096	$ -	$ 171,315	$ -

7. Subsequent event

Subsequent to June 29, 2004, the Company obtained a $6,500,000 credit facility, consisting of a $5,000,000 demand revolving loan facility, and a $1,500,000 general lease line of credit. The facility bears interest at prime plus 0.50% per annum, and is secured by a floating charge over the Company's assets.