

Twoco Petroleums Ltd.
Consolidated Financial Statements
March 31, 2005

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Twoco Petroleums Ltd. for the quarter ended March 31, 2005 have been prepared by management and approved by the Board of Directors of the Company. These consolidated statements have not been reviewed by Twoco Petroleums Ltd.'s external auditors.

Dated May 9, 2005

On behalf of Twoco Petroleums Ltd.

(signed) "Wayne A. Malinowski"
Wayne A. Malinowski
President

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

Twoco Petroleum Ltd.
Consolidated Balance Sheets

	March 31, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 3,075,830	\$ 3,945,069
Accounts receivable	2,536,121	1,392,058
Prepaid expenses and deposits	<u>259,065</u>	<u>252,930</u>
	5,871,016	5,590,057
Property, plant and equipment	<u>15,343,059</u>	<u>13,797,372</u>
	<u>\$ 21,214,075</u>	<u>\$ 19,387,429</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,332,183	\$ 1,298,797
Income taxes payable	202,368	122,975
Due to officers and directors	370,052	370,052
Debentures payable	<u>1,485,000</u>	<u>1,500,000</u>
	3,389,603	3,291,824
Due to officers and directors	-	370,051
Asset retirement obligations (note 2)	753,135	708,230
Future income taxes	<u>2,613,000</u>	<u>2,485,000</u>
	<u>6,755,738</u>	<u>6,855,105</u>
Shareholders' Equity		
Share capital (note 3)	13,378,310	11,913,350
Contributed surplus (note 4)	351,100	309,197
Retained earnings	<u>728,927</u>	<u>309,777</u>
	<u>14,458,337</u>	<u>12,532,324</u>
	<u>\$ 21,214,075</u>	<u>\$ 19,387,429</u>

(signed) "Wayne A. Malinowski" , Director

(signed) "Larry C. Mah" , Director

Twoco Petroleum Ltd.

Consolidated Statements of Income and Retained Earnings (Deficit)

	For the Quarter Ended	
	March 31, 2005 <i>(unaudited)</i>	March 30, 2004 <i>(unaudited)</i>
Revenue		
Petroleum and natural gas sales	\$ 2,133,530	\$ 1,157,930
Royalties	<u>(463,528)</u>	<u>(264,772)</u>
	1,670,002	893,158
Alberta royalty tax credit	108,950	60,419
Processing revenue	42,324	39,842
Interest	<u>17,697</u>	<u>3,615</u>
	<u>1,838,973</u>	<u>997,034</u>
Expenses		
Operating costs	174,883	109,491
Transportation costs	77,271	45,991
Interest on debentures payable	62,928	63,899
General and administrative	170,730	148,541
Stock-based compensation	41,903	33,844
Depletion, amortization and accretion	<u>684,714</u>	<u>448,138</u>
	<u>1,212,429</u>	<u>849,904</u>
Income before income taxes	<u>626,544</u>	<u>147,130</u>
Income tax expense (recovery)		
Current	79,394	-
Future	<u>128,000</u>	<u>(7,600)</u>
	<u>207,394</u>	<u>(7,600)</u>
Net income	<u>419,150</u>	<u>154,730</u>
Retained earnings (deficit), beginning of period		
As previously stated	309,777	(430,857)
Retroactive change in accounting policies	<u>-</u>	<u>(101,181)</u>
As restated	<u>309,777</u>	<u>(532,038)</u>
Retained earnings (deficit), end of period	<u>\$ 728,927</u>	<u>\$ (377,308)</u>
Net income per share (note 3[e])		
Basic	<u>\$ 0.04</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.02</u>

(signed) "Wayne A. Malinowski", Director

(signed) "Larry C. Mah", Director

Twoco Petroleum Ltd.
Consolidated Statements of Cash Flows

	For the Quarter Ended	
	March 31, 2005	March 30, 2004
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash provided by (used for)		
Operating activities		
Net income	\$ 419,150	\$ 154,730
Add (deduct) items not affecting cash		
Stock-based compensation	41,903	33,844
Future income taxes	128,000	(7,600)
Depletion, amortization and accretion	<u>684,714</u>	<u>448,138</u>
	1,273,767	629,112
Change in non-cash working capital (note 5[a])	<u>(427,165)</u>	<u>(275,227)</u>
	<u>846,602</u>	<u>353,885</u>
Financing activities		
Advances to officers and directors	(370,051)	-
Exercise of agent's options and warrants	909,870	-
Change in non-cash working capital (note 5[a])	<u>(40,199)</u>	<u>33,130</u>
	<u>499,620</u>	<u>33,130</u>
Investing activities		
Acquisition of property, plant and equipment	(2,185,496)	(923,188)
Proceeds on disposal of office equipment and marketable securities	-	50,000
Change in non-cash working capital (note 5[a])	<u>(29,965)</u>	<u>36,542</u>
	<u>(2,215,461)</u>	<u>(836,646)</u>
Net cash outflow	(869,239)	(449,631)
Cash and cash equivalents, beginning of period	<u>3,945,069</u>	<u>1,442,947</u>
Cash and cash equivalents, end of period	<u>\$ 3,075,830</u>	<u>\$ 993,316</u>
Cash and cash equivalents is comprised of:		
Deposits with bank	\$ 395,658	\$ 993,316
Term deposits	<u>2,680,172</u>	<u>-</u>
	<u>\$ 3,075,830</u>	<u>\$ 993,316</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 103,127</u>	<u>\$ -</u>

Twoco Petroleum Ltd.
Notes to Consolidated Financial Statements
March 31, 2005

1. Basis of presentation

The interim consolidated financial statements of Twoco Petroleum Ltd. ("the Company") have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as those utilized in the December 31, 2004 annual financial statements. The interim consolidated 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 consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2004.

2. Asset retirement obligations

The total future asset retirement obligation was estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon said wells and facilities and the estimated timing of such abandonment.

The following table reconciles the Company's total asset retirement obligations:

	March 31, 2005	December 31, 2004
Balance, beginning of period	\$ 708,230	\$ 220,742
Accretion expense	10,206	9,673
Liabilities incurred	<u>34,699</u>	<u>477,815</u>
Balance, end of period	<u>\$ 753,135</u>	<u>\$ 708,230</u>

Total estimated future retirement costs of \$1,090,239 (2004 - \$925,651) have been inflated at an estimated rate of 2.30% and discounted using a credit adjusted risk-free rate of 6.20%.

3. Share capital

(a) Authorized

Unlimited voting common shares
Unlimited non-voting preferred shares

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(b) Issued

	Number	Stated Value
Common shares		
Balance, December 31, 2004	11,546,356	\$ 11,913,350
Exercise of agent's options	317,700	540,090
Exercise of purchase warrants	466,600	909,870
Debentures converted	<u>12,000</u>	<u>15,000</u>
Balance, March 31, 2005	<u><u>12,342,656</u></u>	<u><u>\$ 13,378,310</u></u>

(c) Stock option plan

A summary of the status of the Company's outstanding stock options as at March 31, 2005, and changes during the period then ended are as follows:

	March 31, 2005	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	930,000	\$ 1.58
Issued	<u>218,000</u>	<u>3.00</u>
Outstanding, end of period	<u><u>1,148,000</u></u>	<u><u>\$ 1.85</u></u>

The fair value of options granted during the quarter was estimated to be \$131,518 using the Black-Scholes option pricing model with the following assumptions: expected option life of two years, expected volatility of 31%, risk-free rate of 3.25%, and a zero dividend yield. For the first quarter, \$41,903 of this amount was recognized as stock-based compensation expense and as an addition to contributed surplus.

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(d) Purchase warrants and agent's options

A summary of the Company's purchase warrants and agent's options as at March 31, 2005 and changes during the period then ended is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, December 31, 2004	2,220,450	\$ 1.91
Exercised	<u>(784,300)</u>	<u>1.85</u>
Outstanding and exercisable, March 31, 2005	<u>1,436,150</u>	<u>\$ 1.95</u>

(e) Per share amounts

Diluted per share amounts are calculated based on the treasury stock method, whereby the effect of in-the-money stock options and warrants affect the calculation. The treasury stock method uses proceeds received on the exercise of in-the-money stock options plus the unamortized portion of stock-based compensation to purchase common shares at the average price during the period.

The weighted average number of shares outstanding for the period ended March 31, 2005 was 11,710,910 (2004 - 7,824,656).

In computing diluted net income per share amounts, 1,288,481 (2004 - 479,118) shares were added to the weighted average number of common shares outstanding during the period ended March 31, 2005 for the dilutive effect of stock options and warrants. The conversion of debentures payable was anti-dilutive.

The following reconciles the denominators for basic and diluted net earnings per share calculations:

	Net Earnings <i>(numerator)</i>	Weighted Average Shares <i>(denominator)</i>	Per Share Amount
Common shares			
Basic net earnings per share	\$ 419,150	11,710,910	\$ 0.04
Dilutive securities:			
Options	-	422,848	
Warrants	<u>-</u>	<u>865,633</u>	
Diluted net earnings per share	<u>\$ 419,150</u>	<u>12,999,391</u>	<u>\$ 0.03</u>

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4. Contributed surplus

The following table reconciles the Company's contributed surplus:

	March 31, 2005	December 31, 2004
Balance, beginning of period	\$ 309,197	\$ 135,375
Issuance of stock options	<u>41,903</u>	<u>173,822</u>
Balance, end of period	<u><u>\$ 351,100</u></u>	<u><u>\$ 309,197</u></u>

5. Supplemental cash flow information

(a) Changes in non-cash working capital

	March 31, 2005
Accounts receivable	\$ (603,973)
Prepaid expenses and deposits	(6,135)
Accounts payable and accrued liabilities	33,386
Current taxes payable	<u>79,393</u>
	<u><u>\$ (497,329)</u></u>
Change in non-cash working capital relating to:	
Financing activities	\$ (40,199)
Investing activities	(29,965)
Operating activities	<u>(427,165)</u>
	<u><u>\$ (497,329)</u></u>

(b) The following non-cash transactions have been excluded from the consolidated statements of cash flows:

	March 31, 2005	March 30, 2004
Proceeds receivable from the exercise of Agent's options (note 3[b])	<u>\$ 540,090</u>	<u>\$ -</u>
Asset retirement costs	<u>\$ -</u>	<u>\$ 58,369</u>
Tax benefits renounced to flow-through shareholders	<u>\$ -</u>	<u>\$ 210,600</u>