

Twoco Petroleums Ltd.
Consolidated Financial Statements
June 30, 2005

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Twoco Petroleum Ltd. for the quarter ended June 30, 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 Petroleum Ltd.'s external auditors.

Dated August 19, 2005.

On behalf of Twoco Petroleum Ltd.

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

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

Twoco Petroleum Ltd.
Consolidated Balance Sheets

	June 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,707,427	\$ 3,945,069
Accounts receivable	2,222,207	1,392,058
Prepaid expenses and deposits	<u>234,553</u>	<u>252,930</u>
	8,164,187	5,590,057
Property, plant and equipment	<u>17,540,799</u>	<u>13,797,372</u>
	<u>\$ 25,704,986</u>	<u>\$ 19,387,429</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,484,600	\$ 1,298,797
Income taxes payable	24,498	122,975
Due to officers and directors	370,052	370,052
Debentures payable	<u>1,485,000</u>	<u>1,500,000</u>
	4,364,150	3,291,824
Due to officers and directors	-	370,051
Asset retirement obligations (note 2)	893,784	708,230
Future income taxes	<u>2,937,000</u>	<u>2,485,000</u>
	<u>8,194,934</u>	<u>6,855,105</u>
Shareholders' Equity		
Share capital (note 3)	15,824,878	11,913,350
Contributed surplus (note 4)	444,356	309,197
Retained earnings	<u>1,240,818</u>	<u>309,777</u>
	<u>17,510,052</u>	<u>12,532,324</u>
	<u>\$ 25,704,986</u>	<u>\$ 19,387,429</u>

Approved by the Board,

(signed) "Wayne A. Malinowski", Director

(signed) "Larry C. Mah", Director

Twoco Petroleum Ltd.

Consolidated Statements of Income and Retained Earnings (Deficit)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Revenue				
Oil and gas sales	\$ 2,395,315	\$ 1,328,916	\$ 4,528,845	\$ 2,486,846
Less: Royalties	<u>(497,347)</u>	<u>(249,199)</u>	<u>(960,875)</u>	<u>(513,971)</u>
	1,897,968	1,079,717	3,567,970	1,972,875
Alberta Royalty Tax Credit	116,562	55,810	225,512	116,229
Processing revenue	53,931	40,704	96,255	80,546
Interest	<u>30,861</u>	<u>23,261</u>	<u>48,558</u>	<u>26,876</u>
	<u>2,099,322</u>	<u>1,199,492</u>	<u>3,938,295</u>	<u>2,196,526</u>
Expenses				
Operating costs	195,033	110,107	369,916	219,598
Transportation costs	84,473	49,762	161,744	95,753
Interest on debentures payable	61,551	68,090	124,479	131,989
General and administrative	29,276	120,513	200,006	269,054
Stock-based compensation	93,256	1,658	135,159	1,658
Depletion, amortization and accretion	<u>879,236</u>	<u>529,478</u>	<u>1,563,950</u>	<u>977,616</u>
	<u>1,342,825</u>	<u>879,608</u>	<u>2,555,254</u>	<u>1,695,668</u>
Income before income taxes	756,497	319,884	1,383,041	500,858
Income tax expense (recovery)				
Current	(79,394)	80,557	-	80,557
Future	<u>324,000</u>	<u>40,349</u>	<u>452,000</u>	<u>32,749</u>
	<u>244,606</u>	<u>120,906</u>	<u>452,000</u>	<u>113,306</u>
Net income	<u>511,891</u>	<u>198,978</u>	<u>931,041</u>	<u>387,552</u>
Retained earnings (deficit), beginning of period				
As previously stated	728,927	(343,464)	309,777	(430,857)
Retroactive change in accounting policies	<u>-</u>	<u>-</u>	<u>-</u>	<u>(101,181)</u>
As restated	<u>728,927</u>	<u>(343,464)</u>	<u>309,777</u>	<u>(532,038)</u>
Retained earnings (deficit), end of period	<u>\$ 1,240,818</u>	<u>\$ (144,486)</u>	<u>\$ 1,240,818</u>	<u>\$ (144,486)</u>
Net income per share - Basic and diluted	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ 0.04</u>

Twoco Petroleums Ltd.

Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 29,	June 30,	June 29,
	2005	2004	2005	2004
Cash provided by (used for):				
Operating activities				
Net income	\$ 511,891	\$ 198,978	\$ 931,041	\$ 387,552
Add (deduct) Items not affecting cash				
Stock-based compensation	93,256	1,658	135,159	1,658
Future income taxes	324,000	40,349	452,000	32,749
Depletion, amortization and accretion	<u>879,236</u>	<u>529,478</u>	<u>1,563,950</u>	<u>977,616</u>
	1,808,383	770,463	3,082,150	1,399,575
Change in non-cash working capital (note 5[a])	<u>796,531</u>	<u>(79,644)</u>	<u>369,366</u>	<u>(354,871)</u>
	<u>2,604,914</u>	<u>690,819</u>	<u>3,451,516</u>	<u>1,044,704</u>
Financing activities				
Repayment to officers and directors	-	-	(370,051)	-
Exercise of agent's options and warrants	2,986,658	-	3,896,528	-
Issuance of common shares, net of issuance costs	-	5,294,272	-	5,294,272
Change in non-cash working capital (note 5[a])	<u>5,997</u>	<u>(92,422)</u>	<u>(34,202)</u>	<u>(59,292)</u>
	<u>2,992,655</u>	<u>5,201,850</u>	<u>3,492,275</u>	<u>5,234,980</u>
Investing activities				
Acquisition of property, plant and equipment	(2,936,327)	(1,650,828)	(5,121,823)	(2,574,016)
Proceeds on disposal of office equipment and marketable securities	-	-	-	50,000
Change in non-cash working capital (note 5[a])	<u>(29,645)</u>	<u>517,379</u>	<u>(59,610)</u>	<u>553,921</u>
	<u>(2,965,972)</u>	<u>(1,133,449)</u>	<u>(5,181,433)</u>	<u>(1,970,095)</u>
Cash inflow	2,631,597	4,759,220	1,762,358	4,309,589
Cash and cash equivalents, beginning of period	<u>3,075,830</u>	<u>993,316</u>	<u>3,945,069</u>	<u>1,442,947</u>
Cash and cash equivalents, end of period	<u>\$ 5,707,427</u>	<u>\$ 5,752,536</u>	<u>\$ 5,707,427</u>	<u>\$ 5,752,536</u>
Cash and cash equivalents is comprised of:				
Deposits with bank	\$ 199,471	\$ 659,732	\$ 199,471	\$ 659,732
Term deposits	<u>5,507,956</u>	<u>5,092,804</u>	<u>5,507,956</u>	<u>5,092,804</u>
	<u>\$ 5,707,427</u>	<u>\$ 5,752,536</u>	<u>\$ 5,707,427</u>	<u>\$ 5,752,536</u>

Twoco Petroleum Ltd.
Notes to Consolidated Financial Statements
June 30, 2005
(unaudited)

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:

	June 30, 2005	December 31, 2004
Balance, beginning of period	\$ 708,230	\$ 220,742
Accretion expense	40,147	9,673
Liabilities incurred	<u>145,407</u>	<u>477,815</u>
Balance, end of period	<u>\$ 893,784</u>	<u>\$ 708,230</u>

Total estimated future retirement costs of \$1,124,177 (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	1,721,250	3,356,438
Conversion of debentures	<u>12,000</u>	<u>15,000</u>
Balance, June 30, 2005	<u><u>13,597,306</u></u>	<u><u>\$ 15,824,878</u></u>

(c) Stock option plan

A summary of the status of the Company's outstanding stock options as at June 30, 2005, and changes during the period then ended are as follows:

	June 30, 2005	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	930,000	\$ 1.58
Issued	<u>393,000</u>	3.33
Outstanding, end of period	<u><u>1,323,000</u></u>	\$ 2.10

The fair value of options granted during the six months was estimated to be \$404,016 using the Black-Scholes option pricing model with the following assumptions: expected option life of two years, expected volatility of 52%, risk-free rate of 3.00%, and a zero dividend yield. For the six months, \$83,604 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 June 30, 2005 and changes during the six months then ended is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, December 31, 2004	2,220,450	\$ 1.91
Exercised [note 3(b)]	(2,038,950)	1.91
Expired	<u>(181,500)</u>	1.95
Outstanding and exercisable, June 30, 2005	<u><u>-</u></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 six months ended June 30, 2005 was 12,559,186 (2004 - 9,271,566).

In computing diluted net income per share amounts, 2,488,536 (2004 - 217,903) shares were added to the weighted average number of common shares outstanding during the six months ended June 30, 2005 for the dilutive effect of stock options and warrants.

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	\$ 931,041	12,559,186	\$ 0.07
Dilutive securities:			
Options	-	471,002	
Warrants	-	479,323	
Convertible debentures	<u>84,247</u>	<u>1,538,211</u>	
Diluted net earnings per share	<u><u>\$ 1,015,288</u></u>	<u><u>15,047,722</u></u>	<u><u>\$ 0.07</u></u>

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4. Contributed surplus

The following table reconciles the Company's contributed surplus:

	June 30, 2005	December 31, 2004
Balance, beginning of period	\$ 309,197	\$ 135,375
Issuance of stock options	<u>135,159</u>	<u>173,822</u>
Balance, end of period	<u><u>\$ 444,356</u></u>	<u><u>\$ 309,197</u></u>

5. Supplemental cash flow information

(a) Changes in non-cash working capital

	June 30, 2005
Accounts receivable	\$ (830,149)
Prepaid expenses and deposits	18,377
Accounts payable and accrued liabilities	1,185,803
Current taxes payable	<u>(98,477)</u>
	<u><u>\$ 275,554</u></u>
Change in non-cash working capital relating to:	
Financing activities	\$ (34,202)
Investing activities	(59,610)
Operating activities	<u>369,366</u>
	<u><u>\$ 275,554</u></u>

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

	June 30, 2005	December 31, 2004
Asset retirement costs	<u><u>\$ -</u></u>	<u><u>\$ 58,369</u></u>
Tax benefits renounced to flow-through shareholders	<u><u>\$ -</u></u>	<u><u>\$ 210,600</u></u>
Conversion of debentures	<u><u>\$ 15,000</u></u>	<u><u>\$ -</u></u>

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(c) Supplemental cash flow information:

	Three Months Ended		Six Months Ended	
	June 30,	June 29,	June 30,	June 29,
	2005	2004	2005	2004
Interest paid	\$ <u>55,554</u>	\$ <u>56,096</u>	\$ <u>158,681</u>	\$ <u>171,315</u>
Income taxes paid	\$ <u>98,476</u>	\$ <u>-</u>	\$ <u>98,476</u>	\$ <u>-</u>