

Twoco Petroleums Ltd.
Consolidated Financial Statements
September 30, 2005

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Twoco Petroleum Ltd. for the quarter ended September 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 November 16, 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

	September 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ -	\$ 3,945,069
Accounts receivable	3,522,543	1,392,058
Prepaid expenses and deposits	<u>264,669</u>	<u>252,930</u>
	3,787,212	5,590,057
Property, plant and equipment	<u>25,080,661</u>	<u>13,797,372</u>
	<u>\$ 28,867,873</u>	<u>\$ 19,387,429</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ 1,371,716	\$ -
Accounts payable and accrued liabilities	1,845,033	1,298,797
Income taxes payable	-	122,975
Due to officers and directors	370,052	370,052
Debentures payable (note 2)	-	1,500,000
Current portion of capital lease obligation (note 6)	<u>76,840</u>	<u>-</u>
	3,663,641	3,291,824
Due to officers and directors	-	370,051
Asset retirement obligations (note 3)	1,735,983	708,230
Future income taxes	3,274,000	2,485,000
Obligation under capital lease (note 6)	<u>367,266</u>	<u>-</u>
	<u>9,040,890</u>	<u>6,855,105</u>
Shareholders' Equity		
Share capital (note 4)	17,294,878	11,913,350
Contributed surplus (note 5)	511,935	309,197
Retained earnings	<u>2,020,170</u>	<u>309,777</u>
	<u>19,826,983</u>	<u>12,532,324</u>
	<u>\$ 28,867,873</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		Nine Months Ended	
	September, 2005	September, 2004	September, 2005	September, 2004
Revenue				
Oil and gas sales	\$ 3,331,552	\$ 1,508,648	\$ 7,860,397	\$ 3,995,495
Less: Royalties	<u>(662,532)</u>	<u>(358,280)</u>	<u>(1,623,407)</u>	<u>(872,252)</u>
	2,669,020	1,150,368	6,236,990	3,123,243
Alberta Royalty Tax Credit	156,594	83,522	382,106	199,751
Processing revenue	95,478	29,038	191,733	109,584
Interest	<u>16,084</u>	<u>65,096</u>	<u>64,642</u>	<u>91,972</u>
	<u>2,937,176</u>	<u>1,328,024</u>	<u>6,875,471</u>	<u>3,524,550</u>
Expenses				
Operating costs	207,162	151,064	577,078	384,163
Transportation costs	97,958	76,061	259,702	158,313
Interest on debentures payable	67,066	68,837	191,545	200,826
General and administrative	10,782	25,912	210,788	294,966
Stock-based compensation	67,579	32,000	202,738	33,658
Interest on capital lease	22,448	-	22,448	-
Depletion, amortization and accretion	<u>1,372,327</u>	<u>836,174</u>	<u>2,936,277</u>	<u>1,813,790</u>
	<u>1,845,322</u>	<u>1,190,048</u>	<u>4,400,576</u>	<u>2,885,716</u>
Income before income taxes	1,091,854	137,976	2,474,895	638,834
Income tax expense (recovery)				
Current	(24,498)	91,343	(24,498)	171,900
Future	<u>337,000</u>	<u>40,000</u>	<u>789,000</u>	<u>72,749</u>
	<u>312,502</u>	<u>131,343</u>	<u>764,502</u>	<u>244,649</u>
Net income	779,352	6,633	1,710,393	394,185
Retained earnings (deficit), beginning of year	<u>1,240,818</u>	<u>(144,486)</u>	<u>309,777</u>	<u>(532,038)</u>
Retained earnings (deficit), end of period	<u>\$ 2,020,170</u>	<u>\$ (137,853)</u>	<u>\$ 2,020,170</u>	<u>\$ (137,853)</u>
Net income per share				
- Basic	<u>\$ 0.06</u>	<u>\$ -</u>	<u>\$ 0.13</u>	<u>\$ 0.04</u>
- Diluted	<u>\$ 0.05</u>	<u>\$ -</u>	<u>\$ 0.12</u>	<u>\$ 0.04</u>

Twoco Petroleum Ltd.

Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended September,		Nine Months Ended September,	
	2005	2004	2005	2004
Cash provided by (used for):				
Operating activities				
Net income	\$ 779,352	\$ 6,633	\$ 1,710,393	\$ 394,185
Add (deduct) Items not affecting cash				
Stock-based compensation	67,579	32,000	202,738	33,658
Future income taxes	337,000	40,000	789,000	72,749
Depletion, amortization and accretion	<u>1,372,327</u>	<u>836,174</u>	<u>2,936,277</u>	<u>1,813,790</u>
	2,556,258	914,807	5,638,408	2,314,382
Change in non-cash working capital (note 8[a])	<u>(2,513,138)</u>	<u>105,987</u>	<u>(2,143,772)</u>	<u>(248,884)</u>
	<u>43,120</u>	<u>1,020,794</u>	<u>3,494,636</u>	<u>2,065,498</u>
Financing activities				
Repayment to officers and directors	-	-	(370,051)	-
Exercise of agent's options and warrants	-	-	3,896,528	-
Issuance of common shares, net of issuance costs	-	395,503	-	5,689,775
Capital lease	444,106	-	444,106	-
Redemption of debenture (Note 2)	(15,000)	-	(15,000)	-
Change in non-cash working capital (note 8[a])	<u>(9,819)</u>	<u>59,292</u>	<u>(44,021)</u>	<u>-</u>
	<u>419,287</u>	<u>454,795</u>	<u>3,911,562</u>	<u>5,689,775</u>
Investing activities				
Acquisition of property, plant and equipment	(8,069,990)	(1,882,793)	(13,191,813)	(4,406,809)
Change in non-cash working capital (note 8[a])	<u>528,440</u>	<u>(300,748)</u>	<u>468,830</u>	<u>253,173</u>
	<u>(7,541,550)</u>	<u>(2,183,541)</u>	<u>(12,722,983)</u>	<u>(4,153,636)</u>
Cash inflow (outflow)	(7,079,143)	(707,952)	(5,316,785)	3,601,637
Cash and cash equivalents, beginning of period	<u>5,707,427</u>	<u>5,752,536</u>	<u>3,945,069</u>	<u>1,442,947</u>
Cash and cash equivalents (bank indebtedness), end of period	<u><u>\$ (1,371,716)</u></u>	<u><u>\$ 5,044,584</u></u>	<u><u>\$ (1,371,716)</u></u>	<u><u>\$ 5,044,584</u></u>
Cash and cash equivalents (bank indebtedness) is comprised of:				
Deposits with bank	\$ -	\$ 4,519,327	\$ -	\$ 4,519,327
Term deposits	-	525,257	-	525,257
Bank indebtedness	<u>(1,371,716)</u>	<u>-</u>	<u>(1,371,716)</u>	<u>-</u>
	<u><u>\$ (1,371,716)</u></u>	<u><u>\$ 5,044,584</u></u>	<u><u>\$ (1,371,716)</u></u>	<u><u>\$ 5,044,584</u></u>

Twoco Petroleum Ltd.
Notes to Consolidated Financial Statements
September 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. Debentures payable

Debentures payable consist of \$1,500,000 convertible, redeemable debentures with interest payable six months after the issuance date of September 30, 2003, and quarterly thereafter at 15% per annum. The debentures are unsecured and convertible at the option of the holder at any time prior to maturity, into common shares of the Company at a conversion price of \$1.25 per share. The debentures are redeemable by the Company in cash at any time prior to maturity that there occurs the making of an "Offer", as defined in the debenture agreement. An "Offer" is generally an offer to purchase a controlling interest of the Company. The debentures are due September 30, 2005.

As at September 30, 2005, debentures payable of \$1,485,000 were converted into common shares of the Company. Debentures payable of \$15,000 were redeemed.

3. 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:

	September 30, 2005	December 31, 2004
Balance, beginning of period	\$ 708,230	\$ 220,742
Accretion expense	30,619	9,673
Liabilities incurred	<u>997,134</u>	<u>477,815</u>
Balance, end of period	<u>\$ 1,735,983</u>	<u>\$ 708,230</u>

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Total estimated future retirement costs of \$1,996,427 (2004 - \$925,651) have been inflated at an estimated rate of 2.79% and discounted using a credit adjusted risk-free rate of 5.95%.

4. Share capital

(a) Authorized

Unlimited voting common shares
 Unlimited non-voting preferred shares

(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 (note 2)	<u>1,188,000</u>	<u>1,485,000</u>
Balance, September 30, 2005	<u><u>14,773,306</u></u>	<u><u>\$ 17,294,878</u></u>

(c) Stock option plan

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

	September 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 in 2005 was estimated to be \$404,015 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 nine months ended September 30, 2005, \$125,406 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 September 30, 2005 and changes during the nine 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 4(b)]	(2,038,950)	1.91
Expired	<u>(181,500)</u>	1.95
Outstanding and exercisable, September 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 nine months ended September 30, 2005 was 12,912,739 (2004 - NIL).

In computing diluted net income per share amounts, 1,742,887 (2004 - NIL) shares were added to the weighted average number of common shares outstanding during the nine months ended September 30, 2005 for the dilutive effect of stock options, warrants and convertible debentures.

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	\$ 1,710,393	12,912,739	\$ 0.13
Dilutive securities:			
Options	-	548,950	
Warrants	-	366,854	
Convertible debentures	<u>119,486</u>	<u>827,083</u>	
Diluted net earnings per share	<u><u>\$ 1,829,879</u></u>	<u><u>14,655,626</u></u>	<u><u>\$ 0.12</u></u>

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5. Contributed surplus

The following table reconciles the Company's contributed surplus:

	September 30, 2005	December 31, 2004
Balance, beginning of period	\$ 309,197	\$ 135,375
Issuance of stock options	<u>202,738</u>	<u>173,822</u>
Balance, end of period	<u><u>\$ 511,935</u></u>	<u><u>\$ 309,197</u></u>

6. Commitment

The Company is committed under an equipment lease for future minimum payments as follows:

2006	\$ 76,840
2007	81,159
2008	85,722
2009	90,542
2010	<u>109,843</u>
	<u><u>\$ 444,106</u></u>

At September 30, 2005, the Company had no forward commodity contracts in place.

7. Related party transactions

Accounting fees of \$62,227 (2004 - \$16,201) were incurred to a partnership of which a director of the Company is a partner. Legal fees in the amount of \$39,852 (2004 - \$16,519) were incurred to a law firm of which a director of the Company is also an associate. Included in accounts payable and accrued liabilities at September 30, 2005 is \$16,274 (2004 - \$17,335) owing to these related parties.

These transactions are measured at the exchange amount which is the amount agreed to by the related parties based on standard commercial terms.

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8. Supplemental cash flow information

(a) Changes in non-cash working capital

	September 30, 2005
Accounts receivable	\$ (2,130,485)
Prepaid expenses and deposits	(11,739)
Accounts payable and accrued liabilities	546,236
Current taxes payable	<u>(122,975)</u>
	<u>\$ (1,718,963)</u>
Change in non-cash working capital relating to:	
Financing activities	\$ (44,021)
Investing activities	468,830
Operating activities	<u>(2,143,772)</u>
	<u>\$ (1,718,963)</u>

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

	September 30, 2005	December 31, 2004
Tax benefits renounced to flow-through equity holders	\$ <u>-</u>	\$ <u>210,600</u>
Asset retirement liabilities incurred	\$ <u>997,134</u>	\$ <u>477,815</u>
Conversion of debentures	\$ <u>1,485,000</u>	\$ <u>-</u>

(c) Supplemental cash flow information:

	Three Months Ended		Nine Months Ended	
	September, 2005	September, 2004	September, 2005	September, 2004
Interest paid	\$ <u>73,129</u>	\$ <u>68,837</u>	\$ <u>242,132</u>	\$ <u>200,826</u>