Twoco Petroleums Ltd.

Consolidated Financial Statements

December 31, 2005

Management's Responsibility for Financial Reporting

The Management of Twoco Petroleums Ltd. is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

Deloitte & Touche LLP, an independent firm of chartered accountants, was appointed by the shareholders of Twoco Petroleums Ltd. to audit the consolidated financial statements of the Company and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with Management and Deloitte & Touche LLP. The members of the Audit Committee are composed of independent directors who are not employees of the Company. The Company's Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

Wayne A. Malinowski	Timothy A. Bashforth
President and Chief Executive Officer	Secretary and Treasurer

April 18, 2006

Auditors' Report

To the Shareholders of
Twoco Petroleums Ltd.

We have audited the consolidated balance sheets of Twoco Petroleums Ltd. as at December 31, 2005 and 2004 and the consolidated statements of income and retained earnings and of cash flows for the year ended December 31, 2005 and for the period from December 31, 2003 to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from December 31, 2003 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

(signed) "Deloitte & Touche LLP"

Chartered Accountants

Calgary, Alberta
April 18, 2006

Twoco Petroleums Ltd.
Consolidated Balance Sheets
December 31, 2005 and 2004

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ -	$ 3,945,069
Accounts receivable	3,845,762	1,392,058
Prepaid expenses and deposits	341,677	252,930
	4,187,439	5,590,057
Property, plant and equipment (note 4)	30,519,164	13,797,372
	$ 34,706,603	$ 19,387,429
Liabilities		
Current liabilities		
Bank indebtedness and credit facility (note 5)	$ 2,061,780	$ -
Accounts payable and accrued liabilities (note 13)	4,323,698	1,298,797
Income taxes payable	-	122,975
Due to officers and directors (note 6)	370,052	370,052
Debentures payable (note 7)	-	1,500,000
Current portion of obligations under capital leases (note 8)	791,783	-
	7,547,313	3,291,824
Due to officers and directors (note 6)	-	370,051
Asset retirement obligations (note 9)	1,447,956	708,230
Future income taxes (note 10)	4,146,155	2,485,000
Obligations under capital lease (note 8)	347,392	-
	13,488,816	6,855,105
Shareholders' Equity		
Share capital (note 11)	17,294,878	11,913,350
Contributed surplus (note 11[g])	588,068	309,197
Retained earnings	3,334,841	309,777
	21,217,787	12,532,324
	$ 34,706,603	$ 19,387,429

See accompanying notes to consolidated financial statements.

Approved by the Board,

(signed) "Wayne A. Malinowski" , Director

(signed) "Larry C. Mah" , Director

Twoco Petroleums Ltd.

Consolidated Statements of Income and Retained Earnings

For the Year Ended December 31, 2005 and for the Period From December 31, 2003 to December 31, 2004

	2005	2004
Revenue		
Petroleum and natural gas sales	$13,221,224	$ 5,651,802
Royalties	(2,916,573)	(1,266,159)
	10,304,651	4,385,643
Alberta Royalty Tax Credit	500,000	293,489
Processing and other revenue	372,892	190,946
Interest	67,162	76,084
	11,244,705	4,946,162
Expenses		
Operating	1,016,838	570,057
Transportation	407,176	223,228
Interest on debentures payable (note 7)	166,685	269,664
General and administrative (note 13)	396,076	416,883
Stock-based compensation (notes 11[f] and [g])	278,871	173,819
Interest on capital leases	85,615	-
Depletion, amortization and accretion	4,231,723	2,302,696
	6,582,984	3,956,347
Income before income taxes	4,661,721	989,815
Income tax expense (note 10)		
Current	(24,498)	125,000
Future	1,661,155	23,000
	1,636,657	148,000
Net income	3,025,064	841,815
Retained earnings (deficit), beginning of period	309,777	(532,038)
Retained earnings, end of period	$ 3,334,841	$ 309,777
Net income per share (note 11[h])		
Basic	$ 0.23	$ 0.08
Diluted	$ 0.20	$ 0.08

See accompanying notes to consolidated financial statements.

Twoco Petroleums Ltd.

Consolidated Statements of Cash Flows

For the Year Ended December 31, 2005 and for the Period From December 31, 2003 to December 31, 2004

	2005	2004
Cash provided by (used for)		
Operating activities		
Net income	$ 3,025,064	$ 841,815
Add items not affecting cash		
Stock-based compensation	278,871	173,819
Future income taxes	1,661,155	23,000
Depletion, amortization and accretion	4,231,723	2,302,696
	9,196,813	3,341,330
Change in non-cash working capital (note 15[a])	(1,435,043)	(106,276)
	7,761,770	3,235,054
Financing activities		
Issuance of common shares, net of issue costs	-	5,628,386
Repayment of obligations under capital lease	(152,585)	-
Repayments to officers and directors	(370,051)	-
Exercise of agent's options and warrants	3,896,528	-
Redemption of debenture (note 7)	(15,000)	-
Change in non-cash working capital (note 15[a])	44,021	35,038
	3,402,913	5,663,424
Investing activities		
Acquisition of property, plant and equipment	(18,922,029)	(6,254,907)
Business acquisitions, net of cash acquired (note 2)	-	(25,918)
Change in non-cash working capital (note 15[a])	1,750,497	(115,531)
	(17,171,532)	(6,396,356)
Net cash inflow (outflow)	(6,006,849)	2,502,122
Cash and cash equivalents, beginning of period	3,945,069	1,442,947
Cash (bank indebtedness), end of period	$ (2,061,780)	$ 3,945,069
Cash (bank indebtedness) is comprised of:		
Indebtedness with bank	$ (2,061,780)	$ (236,342)
Term deposits	-	4,181,411
	$ (2,061,780)	$ 3,945,069
Supplemental cash flow information:		
Interest paid	$ 301,642	$ 281,739
Taxes paid	$ -	$ 22,119

The non-cash transactions described in note 15(b) have been excluded from the statements of cash flows.

See accompanying notes to consolidated financial statements.

1. Nature of operations

The Company was incorporated under the Alberta Business Corporations Act on September 21, 2000 and is engaged in the exploration for, and development of, petroleum and natural gas in western Canada.

These consolidated financial statements include the accounts of Twoco Petroleums Ltd. ("the Company") and its wholly-owned subsidiary, Norranco Oil & Gas Ltd. from June 3, 2004.

The Company has changed the ending date of its financial year from December 30 to December 31, commencing with the twelve month period ending December 31, 2004. There was no impact on the financial results reported for 2004.

2. Business combination - Norranco Oil & Gas Ltd.

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 was allocated based on the fair value of the assets and liabilities acquired, as follows:

Working capital, including cash of $141,357	$ 18,328
Property, plant and equipment	256,075
Asset retirement obligations	(107,128)
	$ 167,275

3. Significant accounting policies

(a) Use of estimates

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period involves the use of estimates and approximations, which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below.

(b) Measurement uncertainty

The amounts recorded for depletion and amortization of property, plant and equipment, the asset retirement obligation and the ceiling test calculation are based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions.

The amounts disclosed relating to the fair value of stock options issued are based on estimates of the expected lives of the options, expected stock price volatility, expected dividends and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty, and the effect of changes in such estimates on the consolidated financial statements of future periods could be significant.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of deposits with banks and investments in term deposits with initial maturities not exceeding 90 days.

(d) Property, plant and equipment

(i) Petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties and related facilities, whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in a single Canadian cost centre and charged to income as set out below. Such costs include lease acquisition, drilling, geological and geophysical expenditures, lease rentals on undeveloped properties, lease and well equipment costs and overhead expenses directly related to exploration and development activities.

Proceeds from the disposal of properties are normally applied as a reduction of the cost of the remaining assets, except when such a disposal would alter the depletion and depreciation rate by more than 20%, in which case a gain or loss is recorded.

(ii) Depletion and amortization

Depletion of petroleum and natural gas properties, equipment under capital leases, and amortization of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves, as determined by independent engineers. For purposes of the calculation, petroleum and natural gas reserves before royalties are converted to a common unit of measure on the basis of their relative energy content where one barrel of oil or liquids equals six thousand cubic feet of natural gas. In determining its depletion base, the Company includes estimated future capital costs to be incurred in developing proved reserves and excludes the cost of significant unproved properties until it is determined whether proved reserves are attributable to the unproved properties or impairment has occurred. Unproved properties are evaluated separately for impairment based on management's assessment of future drilling.

(iii) Ceiling test

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

(iv) Other assets

Furniture and office equipment are carried at cost and amortized over the estimated useful lives of the assets at a rate varying from 20% to 30% per annum calculated on a declining balance basis. Amortization is charged at half rates in the year of acquisition.

(e) Asset retirement obligations

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 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. Any gains or losses on settlement are charged to income in the period of settlement.

The obligation is reviewed regularly by management based upon current regulations, costs, technologies and industry standards.

(f) Stock-based compensation

Compensation costs attributable to all stock options granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather, the Company accounts for cancellations as they occur.

(g) Joint venture accounting

Substantially all of the Company's exploration, development and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

(h) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the substantively enacted tax laws and rates that are anticipated to apply in the period of realization.

(i) Flow-through shares

The Company records the future income taxes associated with the renunciation of expenditures for income tax purposes on the date the Company files the renouncement forms with the Canada Revenue Agency.

(j) Revenue recognition

Revenues associated with the sale of petroleum and natural gas are recorded when title passes to an external party. Revenues from petroleum and natural gas production from properties from which the Company has an interest with other producers are recognized on the basis of the Company's net working interest.

Processing revenue is recognized at contractual rates as the Company processes third party natural gas volumes in its facilities.

(k) Per share information

Net income per share is calculated based on the weighted average number of common shares outstanding during the period. The diluted weighted average number of shares is adjusted for the dilutive effect of options. Under the treasury stock method, only "in the money" options are included in the weighted average diluted number of shares. It is also assumed that any proceeds obtained upon the exercise of options plus the unamortized portion of stock-based compensation would be used to purchase common shares at the average price during the period. The weighted average number of shares is then reduced by the number of shares acquired.

4. Property, plant and equipment

	2005		
	Cost	**Accumulated Amortization**	**Net Book Value**
Petroleum and natural gas properties	$ 35,861,451	$ 6,420,074	$ 29,441,377
Equipment under capital leases	1,291,760	271,230	1,020,530
Other assets	152,934	95,677	57,257
	$ 37,306,145	$ 6,786,981	$ 30,519,164

	2004		
	Cost	**Accumulated Amortization**	**Net Book Value**
Petroleum and natural gas properties	$ 16,259,738	$ 2,532,305	$ 13,727,433
Other assets	145,091	75,152	69,939
	$ 16,404,829	$ 2,607,457	$ 13,797,372

During the current year, the Company capitalized $256,906 (2004 - $157,456) in general and administrative expenses related directly to acquisition, exploration and development activities. As at December 31, 2005, the depletion calculation excluded unproved properties of $4,985,864 (2004 - $1,914,845).

The future prices used in the ceiling test as of December 31, 2005 are:

Year	**Oil** *(CDN $/Bbl)*	**Natural Gas** *(CDN $/mcf)*
2006	$ 61.12	$ 11.43
2007	63.30	10.41
2008	59.71	8.78
2009	59.36	8.38
2010	57.62	8.58
2011	54.13	8.79
2012	56.10	8.99
2013	57.96	9.20
2014	59.85	9.40
2015	61.71	9.66

5. Bank indebtedness and credit facility

Bank indebtedness represents cheques issued in excess of deposits on account.

As at December 31, 2005, the Company has a revolving demand credit facility with a maximum availability of $10.0 million of which the Company has drawn $2.3 million and a $1.5 million general lease line of credit. The interest rate at December 31, 2005 was prime of 5.0% (2004 - prime plus 0.5%). The effective interest rate for 2005 was 4.28%. The credit facility is secured by a demand debenture of $15.0 million plus a floating charge over all the assets of the Company. Under the terms of the credit facility agreement, the Company is required to meet certain financial and other reporting requirements.

The Company had not drawn on the credit facility at December 31, 2004.

6. Due to officers and directors

The amount due to officers and directors, bearing interest at 6.5% per annum, was repaid on January 31, 2006. The amount was unsecured.

7. Debentures payable

Debentures payable consisted 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 were unsecured and convertible, at the option of the holder at any time prior to maturity on September 30, 2005, into common shares of the Company at a conversion price of $1.25 per share. The debentures were 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.

On September 30, 2005, debentures payable of $1,485,000 were converted into 1,188,000 common shares of the Company (note 11[b]). The remaining debentures payable of $15,000 were redeemed.

8. Obligations under capital leases

The Company's obligations for equipment under capital leases mature June 2006 to October 2009 and are secured by the specific leased assets with a net book value of $1,020,530.

The future minimum lease repayments under the capital leases are as follows:

2006	$ 881,956
2007	99,276
2008	99,276
2009	184,806
Total minimum lease payments	1,265,314
Less: Amount representing interest at rates of 5.5% to 19.7%	126,139
Obligation under capital leases	1,139,175
Less: Amount included in current liabilities	791,783
	$ 347,392

9. Asset retirement obligations

A reconciliation of the asset retirement obligations is provided below:

	2005	**2004**
Balance, beginning of period	$ 708,230	$ 220,742
Accretion expense	52,198	9,673
Liabilities incurred	508,358	477,815
Liabilities incurred due to changes in estimate	179,170	-
Balance, end of period	$ 1,447,956	$ 708,230

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 Company has estimated the total undiscounted amount required to settle the abandonment obligations to be $2,164,377 (2004 - $925,651). These payments are expected to be made over the next 6 to 16 years. The Company used a credit adjusted risk free rate of 5.92% (2004 - 6.10%) and an estimated inflation rate of 2.20% (2004 - 2.10%) to calculate the present value of the asset retirement obligation.

10. Future income taxes

(a) Current income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 37.62% (2004 - 38.62%) to income before income taxes as follows:

	2005	**2004**
Computed expected tax provision	$ 1,753,739	$ 382,267
Increase (decrease) resulting from:		
Non-deductible crown payments net of Alberta Royalty Tax Credits	541,745	221,765
Resource allowance	(647,042)	(306,662)
Stock-based compensation	104,911	67,129
Impact of future tax rate reductions	(87,830)	(215,225)
Other	(28,866)	(1,274)
	$ 1,636,657	$ 148,000

(b) The significant components of the Company's future income tax liability are as follows:

	2005	**2004**
Carrying value of property, plant and equipment in excess of tax pools	$ 4,338,155	$ 2,738,000
Share issue costs and financing fees	(184,000)	(245,000)
Attributed Canadian Royalty Income carryforward and other	(8,000)	(8,000)
	$ 4,146,155	$ 2,485,000

11. Share capital

(a) Authorized

Unlimited voting common shares
Unlimited non-voting preferred shares

(b) Issued

	2005		**2004**	
	Number	**Stated Value**	**Number**	**Stated Value**
Common Shares				
Balance, beginning of period	11,546,356	$ 11,913,350	6,648,156	$ 4,826,332
Pursuant to an initial public offering (note 11[c])	-	-	3,530,000	6,001,000
Warrants exercised (note 11[e])	1,721,250	3,356,438	191,700	335,577
Special warrants exercised (note 11[d]))	-	-	1,176,500	1,861,632
Conversion of debentures (note 7)	1,188,000	1,485,000	-	-
Exercise of agent's options (note 11[e])	317,700	540,090	-	-
	14,773,306	17,294,878	11,546,356	13,024,541
Warrants (note 11[c] and [d])		-		293,000
Less: Share issue costs, net of tax benefits (note 11[c])		-		(749,191)
Tax benefits renounced to flow-through shareholders (note 11[d])		-		(655,000)
Balance, end of period		$ 17,294,878		$ 11,913,350

(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 was comprised of one common share and one half non-transferable common share purchase warrant. Each whole common share purchase warrant was 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 share capital.

(d) On December 22, 2003, the Company issued 1,176,500 flow-through Special Warrants at $1.70 per Special Warrant pursuant to a financing agreement dated December 22, 2003. Each Special Warrant was exchangeable for no additional consideration into one flow-through common share. The Company agreed to file a prospectus ("IPO") to qualify the distribution of the common shares on exercise of the Special Warrants. The Special Warrants would be automatically exercised on the earlier of: a) the fifth day after receipt from relevant securities authorities for a final prospectus and b) one year after the Company becomes a reporting issuer on an applicable Exchange.

On April 17, 2004, the 1,176,500 Special Warrants automatically exchanged into 1,176,500 common shares upon acceptance by the relevant securities exchange for the Company's final prospectus related to its IPO.

Income tax exploration deductions of $2,000,050 were renounced to subscribers effective December 31, 2003. Expenditures of $2,000,050 were incurred in 2004 and the resultant tax effect of $655,000 has been recorded as a reduction in share capital. All obligations under the flow-through Special Warrants have been satisfied.

The agent was paid a placement fee of $150,000 and was granted warrants entitling the agent to acquire at no additional consideration, 117,650 Agent's options. Each Agent's option entitled the agent to acquire one common share at $1.70 per option until December 22, 2004. All such options were exercised prior to December 2004. The fair value of the Agent's options was estimated to be $5,865 using the Black-Scholes model with the following assumptions: expected option life of 1 year, risk-free rate of 3%, expected volatility of 0% and a zero dividend yield. This amount has been recorded as a share issuance cost with a corresponding increase in share capital.

(e) Purchase warrants and agent's options

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

	Number	Weighted Average Exercise Price
Outstanding, December 31, 2003	117,650	$ 1.70
Granted and issued (note 11[c])	2,294,500	$ 1.91
Exercised	(191,700)	$ 1.75
Outstanding, December 31, 2004	2,220,450	$ 1.91
Exercised	(2,038,950)	1.91
Expired	(181,500)	1.95
Outstanding and exercisable, December 31, 2005	-	$ -

(f) Stock option plan

The Company has one fixed stock option plan whereby the Company may grant options to its directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares of the Company, of which 1,442,000 have been granted to date. 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 December 31, 2005, and changes during the periods then ended is as follows:

	2005		2004	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	930,000	$ 1.58	610,000	$ 1.25
Issued	512,000	4.21	320,000	2.20
Outstanding, end of period	1,442,000	$ 2.51	930,000	$ 1.58

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

Outstanding				Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 1.25	610,000	2.66	$ 1.25	610,000	$ 1.25
1.75	20,000	3.36	1.75	10,000	1.75
2.20	280,000	3.62	2.20	140,000	2.20
2.80	20,000	3.94	2.80	10,000	2.80
3.00	218,000	4.02	3.00		
3.75	175,000	4.33	3.75		
7.10	119,000	4.94	7.10		
	1,442,000	3.47	$ 1.93	770,000	$ 1.45

The fair value of options granted under the Company's stock-based compensation plan was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Weighted average risk-free interest rate (%) of each option granted	3.17	3.51
Option life (years)	2.00	2.00
Weighted average expected volatility (%) of each option granted	52	48
Weighted average fair value of each option granted ($)	1.31	0.64
Dividend yield per share	-	-

(g) Contributed surplus

The following table reconciles the Company's contributed surplus:

	2005	2004
Balance, beginning of period	$ 309,197	$ 135,375
Stock-based compensation expense	278,871	173,822
Balance, end of period	$ 588,068	$ 309,197

(h) Per share amounts

The weighted average number of shares outstanding for the year ended December 31, 2005 was 13,381,704 (2004 - 10,018,710).

In computing diluted net income per share amounts, 1,573,736 (2004 - 695,010) shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2005 for the dilutive effect of stock options, warrants and convertible debentures.

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

	Net Earnings *(numerator)*	**Weighted Average Shares** *(denominator)*	**Per Share Amount**
2005			
Basic net income per share	$ 3,025,064	13,381,704	$ 0.23
Dilutive securities:			
Options	-	677,122	
Warrants	-	312,041	
Convertible debentures	-	584,573	
Diluted net income per share	$ 3,025,064	14,955,440	$ 0.20

	Net Earnings *(numerator)*	**Weighted Average Shares** *(denominator)*	**Per Share Amount**
2004			
Basic net income per share	$ 841,815	10,018,710	$ 0.08
Dilutive securities:			
Options	-	313,421	
Warrants	-	381,589	
Diluted net income per share	$ 841,815	10,713,720	$ 0.08

12. Commitments

The Company is committed under a lease on its office premises (excluding expected occupancy costs) for future minimum rental payments as follows:

2006	$ 38,087
2007	40,188
2008	36,839
	$ 115,114

At December 31, 2005, the Company had no forward commodity contracts in place.

13. Related party transactions

(a) Accounting fees of $73,833 (2004 - $81,437) were incurred to a partnership of which a director of the Company is a partner. Legal fees in the amount of $47,673 (2004 - $8,000) 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 December 31, 2005 is $17,260 (2004 - $16,466) owing to these related parties.

(b) Included in interest on debentures payable (Note 7) is $68,942 (2004 - $115,408) paid to directors, to debenture holders related to directors and to companies controlled by directors.

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

14. Financial instruments

(a) Fair values

The fair values of cash and cash equivalents, bank indebtedness, accounts receivable, deposits, accounts payable, income taxes payable and obligations under capital lease approximate their carrying values due to the relatively short-term maturity of these instruments. The fair values of the debentures payable, obligations under capital leases and amount due to officers and directors approximate their carrying values as they bear interest at market rates for similar instruments.

(b) Credit risk

Virtually all of the Company's accounts receivable are with companies in the petroleum and natural gas industry in Canada and are subject to normal industry credit risks. The Company generally extends unsecured credit to these companies and therefore the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any credit loss in the collection of accounts receivable to date.

The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable.

(c) Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent that bank indebtedness bears interest at floating interest rates.

The Company is exposed to interest rate price risk to the extent that the debentures payable are at a fixed interest rate.

(d) Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems necessary.

15. Supplemental cash flow information

(a) Changes in non-cash working capital

	2005	**2004**
Accounts receivable	$ (2,453,704)	$ (974,310)
Prepaid expenses and deposits	(88,747)	(160,794)
Accounts payable and accrued liabilities	3,024,901	825,360
Current income taxes payable	(122,975)	122,975
	$ 359,475	$ (186,769)
Change in non-cash working capital relating to:		
Financing activities	$ 44,021	$ 35,038
Investing activities	1,750,497	(115,531)
Operating activities	(1,435,043)	(106,276)
	$ 359,475	$ (186,769)

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

	2005	**2004**
Share issuance costs (note 11[c])	$ -	$ 293,000
Tax benefits renounced to flow-through equity holders (note 11[b])	$ -	$ (655,000)
Tax benefits on cash share issuance costs (note 10[c])	$ -	$ 252,000
Conversion of debentures (note 7)	$ 1,485,000	$ -
Asset retirement liabilities incurred	$ 687,528	$ -
Acquisition of equipment under capital leases (notes 4 and 8)	$ 1,291,760	$ -

16. Subsequent event

On March 31, 2006, the Company closed a private placement financing through the issuance of $12 million in the aggregate principal amount of redeemable, convertible, unsecured debentures ("Convertible Debentures"). The Convertible Debentures shall bear interest at a rate of 7.5% per annum, payable commencing September 30, 2006 and quarterly thereafter and will mature three years following the closing date (the "Maturity Date"). The Convertible Debenture will be convertible into common shares of the Company at the holder's option at any time prior to the Maturity Date at a conversion price equal to $7.50 per share for a period of two years from the closing date and thereafter at a price of $8.25 until the Maturity Date. The Company will have the ability to redeem the Convertible Debentures if the closing price of its common shares on the TSX Venture Exchange exceeds $8.25 for 21 consecutive trading days or in certain circumstances where an offer is made to acquire common shares of the Company.