

Twoco Petroleums Ltd.
Consolidated Financial Statements
March 31, 2006

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Twoco Petroleum Ltd. for the quarter ended March 31, 2006 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 May 15, 2006.

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

	March 31, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 6,669,071	\$ -
Accounts receivable	2,975,939	3,845,762
Prepaid expenses and deposits	<u>305,808</u>	<u>341,677</u>
	9,950,818	4,187,439
Deferred financing charges (note 2)	149,400	-
Property, plant and equipment	<u>34,172,988</u>	<u>30,519,164</u>
	<u>\$ 44,273,206</u>	<u>\$ 34,706,603</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ -	\$ 2,061,780
Accounts payable and accrued liabilities	3,338,258	4,323,698
Due to officers and directors	-	370,052
Current portion of capital lease obligation	<u>774,024</u>	<u>791,783</u>
	4,112,282	7,547,313
Asset retirement obligations (note 3)	1,536,125	1,447,956
Future income taxes	4,409,000	4,146,155
Obligations under capital lease	327,243	347,392
Convertible debentures payable (note 2)	<u>11,840,000</u>	<u>-</u>
	<u>22,224,650</u>	<u>13,488,816</u>
Shareholders' Equity		
Share capital (note 4)	17,294,878	17,294,878
Equity portion of convertible debentures (note 2)	160,000	-
Contributed surplus (note 5)	687,346	588,068
Retained earnings	<u>3,906,332</u>	<u>3,334,841</u>
	<u>22,048,556</u>	<u>21,217,787</u>
	<u>\$ 44,273,206</u>	<u>\$ 34,706,603</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

(unaudited)

	Three Months Ended	
	March 31, 2006	March 31, 2005
Revenue		
Oil and gas sales	\$ 3,792,840	\$ 2,133,530
Less: Royalties	<u>(982,255)</u>	<u>(463,528)</u>
	2,810,585	1,670,002
Alberta Royalty Tax Credit	227,830	108,950
Processing revenue	255,830	42,324
Interest	<u>1,501</u>	<u>17,697</u>
	<u>3,295,746</u>	<u>1,838,973</u>
Expenses		
Operating costs	548,838	174,883
Transportation costs	135,650	77,271
Interest on debentures payable	-	62,928
General and administrative	133,173	170,730
Stock-based compensation	99,278	41,903
Interest on capital lease	40,610	-
Interest on bank debt	44,499	-
Depletion, amortization and accretion	<u>1,459,362</u>	<u>684,714</u>
	<u>2,461,410</u>	<u>1,212,429</u>
Income before income taxes	834,336	626,544
Income tax expense		
Current	-	79,394
Future	<u>262,845</u>	<u>128,000</u>
	<u>262,845</u>	<u>207,394</u>
Net income	571,491	419,150
Retained earnings, beginning of year	<u>3,334,841</u>	<u>309,777</u>
Retained earnings, end of period	<u>\$ 3,906,332</u>	<u>\$ 728,927</u>
Net income per share		
- Basic	<u>\$ 0.04</u>	<u>\$ 0.04</u>
- Diluted	<u>\$ 0.04</u>	<u>\$ 0.03</u>

Twoco Petroleum Ltd.
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended	
	March 31, 2006	March 31, 2005
Cash provided by (used for):		
Operating activities		
Net income	\$ 571,491	\$ 419,150
Add items not affecting cash		
Stock-based compensation	99,278	41,903
Future income taxes	262,845	128,000
Depletion, amortization and accretion	<u>1,459,362</u>	<u>684,714</u>
	2,392,976	1,273,767
Change in non-cash working capital (note 6[a])	<u>229,636</u>	<u>(427,165)</u>
	<u>2,622,612</u>	<u>846,602</u>
Financing activities		
Repayments to officers and directors	(370,052)	(370,051)
Exercise of agent's options and warrants	-	909,870
Proceeds of convertible debentures, net of issuance costs	11,850,600	-
Repayments of obligations under capital lease	(37,908)	-
Change in non-cash working capital (note 6[a])	<u>-</u>	<u>(40,199)</u>
	<u>11,442,640</u>	<u>499,620</u>
Investing activities		
Acquisition of property, plant and equipment	(5,025,017)	(2,185,496)
Change in non-cash working capital (note 6[a])	<u>(309,384)</u>	<u>(29,965)</u>
	<u>(5,334,401)</u>	<u>(2,215,461)</u>
Cash inflow (outflow)	8,730,851	(869,239)
Cash and cash equivalents, beginning of period	<u>(2,061,780)</u>	<u>3,945,069</u>
Cash and cash equivalents, end of period	<u>\$ 6,669,071</u>	<u>\$ 3,075,830</u>
Cash and cash equivalents is comprised of:		
Deposits with bank	\$ 6,669,701	\$ 395,658
Term deposits	<u>-</u>	<u>2,680,172</u>
	<u>\$ 6,669,701</u>	<u>\$ 3,075,830</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 87,152</u>	<u>\$ 103,127</u>

Twoco Petroleum Ltd.
Notes to Consolidated Financial Statements
March 31, 2006
(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, 2005 annual consolidated financial statements. The interim consolidated financial statements contain disclosures which are supplemental to the Company's annual consolidated financial statements. Certain disclosures which are normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2005.

2. Convertible debentures payable

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"). Finder's fees and commissions of \$149,400 have been recorded as deferred financing charges and will be amortized over the term of the debentures of three years on a straight-line basis.

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.

A market rate of interest for a non-convertible debt offering, representative of the Company's credit standing would be 8%. Therefore, the Company has received an interest benefit of 0.5% for the holder's conversion right, over the three year life of the debenture. The present value of this conversion benefit of \$160,000 was recorded on the financial statements as the equity portion of convertible debentures.

Twoco Petroleum Ltd.
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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:

	March 31, 2006	December 31, 2005
Balance, beginning of period	\$ 1,447,956	\$ 708,230
Accretion expense	13,441	52,198
Liabilities incurred	74,728	508,358
Liabilities incurred due to changes in estimate	<u>-</u>	<u>179,170</u>
Balance, end of period	<u>\$ 1,536,125</u>	<u>\$1,447,956</u>

Total estimated future retirement costs of \$2,257,127 (2005 - \$2,164,377) have been inflated at a weighted average estimated inflation rate of 2.16% (2005 - 2.20) and discounted using a weighted average credit adjusted risk-free rate of 6.01% (2005 - 5.92%).

4. Share capital

(a) Per share amounts

The weighted average number of shares outstanding for the period ended March 31, 2006 was 14,773,306 (2005 - 11,710,910).

In computing diluted net income per share amounts, 844,500 (2005 - 1,288,481) shares were added to the weighted average number of common shares outstanding during the period ended March 31, 2006 for the dilutive effect of stock options.

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	\$ 571,491	14,773,306	\$ 0.04
Dilutive securities:			
Options	<u>-</u>	<u>844,500</u>	
Diluted net earnings per share	<u>\$ 571,491</u>	<u>15,617,806</u>	<u>\$ 0.04</u>

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5. Contributed surplus

The following table reconciles the Company's contributed surplus:

	March 31, 2006	December 31, 2005
Balance, beginning of period	\$ 588,068	\$ 309,197
Stock-based compensation expense	<u>99,278</u>	<u>278,871</u>
Balance, end of period	<u><u>\$ 687,346</u></u>	<u><u>\$ 588,068</u></u>

6. Supplemental cash flow information

(a) Changes in non-cash working capital

	March 31, 2006	March 31, 2005
Accounts receivable	\$ 869,823	\$ (603,973)
Prepaid expenses and deposits	35,869	(6,136)
Accounts payable and accrued liabilities	(985,440)	33,386
Current taxes payable	<u>-</u>	<u>79,394</u>
	<u><u>\$ (79,748)</u></u>	<u><u>\$ (497,329)</u></u>
Change in non-cash working capital relating to:		
Investing activities	\$ (309,384)	\$ (29,965)
Operating activities	229,636	(427,165)
Financing activities	<u>-</u>	<u>(40,199)</u>
	<u><u>\$ (79,748)</u></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, 2006	March 31, 2005
Asset retirement liabilities incurred	<u><u>\$ 74,728</u></u>	<u><u>\$ 34,699</u></u>
Proceeds receivable from the exercise of Agent's options	<u><u>\$ -</u></u>	<u><u>\$ 540,090</u></u>

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7. Subsequent event

On May 9, 2006, the Company closed a private placement financing of 486,500 common shares issued on a flow-through basis at \$9.25 per share for gross proceeds of \$4,500,125. The flow-through common shares have a hold period until September 10, 2006. The Company paid finder's fees of \$121,625.