

**Twoco Petroleums Ltd.**  
**Financial Statements**  
**September 30, 2006**

## Notice to Reader

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The accompanying unaudited interim financial statements of Twoco Petroleums Ltd. for the quarter ended September 30, 2006 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by Twoco Petroleums Ltd.'s external auditors.

Dated November 28, 2006.

**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.**  
**Balance Sheets**

	Sept 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>
<b>Assets</b>		
Current assets		
Cash	\$ 4,073,678	\$ -
Accounts receivable	1,520,080	3,845,762
Prepaid expenses and deposits	<u>773,978</u>	<u>341,677</u>
	6,367,736	4,187,439
Deferred financing charges (note 2)	124,500	-
Property, plant and equipment	<u>41,696,466</u>	<u>30,519,164</u>
	<u>\$ 48,188,702</u>	<u>\$ 34,706,603</u>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness	\$ -	\$ 2,061,780
Accounts payable and accrued liabilities	2,347,684	4,323,698
Due to officers and directors	-	370,052
Current portion of capital lease obligation	<u>204,646</u>	<u>791,783</u>
	2,552,330	7,547,313
Asset retirement obligations (note 3)	2,351,447	1,447,956
Future income taxes	4,003,500	4,146,155
Obligations under capital lease	812,895	347,392
Convertible debentures payable (note 2)	<u>11,840,000</u>	<u>-</u>
	<u>21,560,172</u>	<u>13,488,816</u>
<b>Shareholders' Equity</b>		
Share capital (note 4)	21,686,393	17,294,878
Equity portion of convertible debentures (note 2)	160,000	-
Contributed surplus (note 5)	885,903	588,068
Retained earnings	<u>3,896,234</u>	<u>3,334,841</u>
	<u>26,628,530</u>	<u>21,217,787</u>
	<u>\$ 48,188,702</u>	<u>\$ 34,706,603</u>

Approved by the Board,

(signed) "Wayne A. Malinowski", Director

(signed) "Larry C. Mah", Director

## Twoco Petroleum Ltd.

### Statements of Income and Retained Earnings

(unaudited)

	Three Months Ended		Nine Months Ended	
	Sept 30, 2006	Sept 30, 2005	Sept 30, 2006	Sept 30, 2005
Revenue				
Petroleum and natural gas sales	\$ 2,735,008	\$ 3,331,552	\$ 9,463,350	\$ 7,860,397
Less: Royalties	<u>(471,479)</u>	<u>(662,532)</u>	<u>(1,785,368)</u>	<u>(1,623,407)</u>
	2,263,529	2,669,020	7,677,982	6,236,990
Alberta Royalty Tax Credit	100,090	156,594	398,386	382,106
Interest	<u>74,451</u>	<u>16,084</u>	<u>156,182</u>	<u>64,642</u>
	<u>2,438,070</u>	<u>2,841,698</u>	<u>8,232,550</u>	<u>6,683,738</u>
Expenses				
Operating costs	312,221	111,684	818,597	385,345
Transportation costs	103,422	97,958	354,361	259,702
General and administrative	38,636	10,782	428,430	210,788
Interest on bank debt	-	-	44,499	-
Interest on capital leases	16,176	22,448	84,990	22,448
Interest on debentures payable	229,315	67,066	451,233	191,545
Stock-based compensation (note5)	99,278	67,579	297,835	202,738
Amortization of deferred charges (note 2)	12,450	-	24,900	-
Depletion, amortization and accretion	<u>2,140,692</u>	<u>1,372,327</u>	<u>5,212,174</u>	<u>2,936,277</u>
	<u>2,952,190</u>	<u>1,749,844</u>	<u>7,717,019</u>	<u>4,208,843</u>
Income (loss) before income taxes	(514,120)	1,091,854	515,531	2,474,895
Income tax expense (recovery)				
Current	19,944	(24,498)	36,703	(24,498)
Future	<u>(110,400)</u>	<u>337,000</u>	<u>(82,565)</u>	<u>789,000</u>
	<u>(90,456)</u>	<u>312,502</u>	<u>(45,862)</u>	<u>764,502</u>
Net income (loss)	(423,664)	779,352	561,393	1,710,393
Retained earnings, beginning of period	<u>4,319,898</u>	<u>1,240,818</u>	<u>3,334,841</u>	<u>309,777</u>
Retained earnings, end of period	<u>\$ 3,896,234</u>	<u>\$ 2,020,170</u>	<u>\$ 3,896,234</u>	<u>\$ 2,020,170</u>
Net income (loss) per share				
Basic (note 4)	<u>\$ (0.03)</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.13</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ 0.05</u>	<u>\$ 0.04</u>	<u>\$ 0.12</u>

# Twoco Petroleums Ltd.

## Statements of Cash Flows

(unaudited)

	Three Months Ended		Nine Months Ended	
	Sept 30, 2006	Sept 30, 2005	Sept 30, 2006	Sept 30, 2005
Cash provided by (used for):				
Operating activities				
Net income (loss) (loss)	\$ (423,664)	\$ 779,352	\$ 561,393	\$ 1,710,393
Add (deduct) Items not affecting cash				
Stock-based compensation	99,278	67,579	297,835	202,738
Future income taxes	(110,400)	337,000	(82,565)	789,000
Amortization of deferred charges	12,450	-	24,900	-
Depletion, amortization and accretion	<u>2,140,692</u>	<u>1,372,327</u>	<u>5,212,174</u>	<u>2,936,277</u>
	1,718,356	2,556,258	6,013,737	5,638,408
Change in non-cash working capital (note 6[a])	<u>885,937</u>	<u>(2,513,138)</u>	<u>592,133</u>	<u>(2,143,772)</u>
	<u>2,604,293</u>	<u>43,120</u>	<u>6,605,870</u>	<u>3,494,636</u>
Financing activities				
Repayment to officers and directors	-	-	(370,052)	(370,051)
Exercise of agent's options and warrants	-	-	-	3,896,528
Issuance of common shares, net of issuance costs	-	-	4,331,425	-
Proceeds of convertible debentures, net of financing charges	-	-	11,850,600	-
Repayment of obligations under capital lease	(51,311)	444,106	(121,634)	444,106
Redemption of debenture	-	(15,000)	-	(15,000)
Change in non-cash working capital (note 6[a])	<u>(221,920)</u>	<u>(9,819)</u>	<u>-</u>	<u>(44,021)</u>
	<u>(273,231)</u>	<u>419,287</u>	<u>15,690,339</u>	<u>3,911,562</u>
Investing activities				
Acquisition of property, plant and equipment	(5,768,648)	(8,069,990)	(15,485,985)	(13,191,813)
Change in non-cash working capital (note 6[a])	<u>(368,397)</u>	<u>528,440</u>	<u>(674,766)</u>	<u>468,830</u>
	<u>(6,137,045)</u>	<u>(7,541,550)</u>	<u>(16,160,751)</u>	<u>(12,722,983)</u>
Cash inflow (outflow)	(3,805,983)	(7,079,143)	6,135,458	(5,316,785)
Cash and cash equivalents (bank indebtedness), beginning of period	<u>7,879,661</u>	<u>5,707,427</u>	<u>(2,061,780)</u>	<u>3,945,069</u>
Cash and cash equivalents (bank indebtedness), end of period	<u>\$ 4,073,678</u>	<u>\$ (1,371,716)</u>	<u>\$ 4,073,678</u>	<u>\$ (1,371,716)</u>
Cash and cash equivalents (bank indebtedness) is comprised of:				
Deposits with bank	\$ 4,073,678	\$ -	\$ 4,073,678	\$ -
Bank indebtedness	<u>-</u>	<u>(1,371,716)</u>	<u>-</u>	<u>(1,371,716)</u>
	<u>\$ 4,073,678</u>	<u>\$ (1,371,716)</u>	<u>\$ 4,073,678</u>	<u>\$ (1,371,716)</u>
Supplemental cash flow information:				
Interest paid	<u>\$ 467,861</u>	<u>\$ 73,129</u>	<u>\$ 583,217</u>	<u>\$ 242,132</u>

**Twoco Petroleums Ltd.**  
**Notes to Financial Statements**  
**September 30, 2006**  
*(unaudited)*

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1. Basis of presentation

The interim financial statements of Twoco Petroleums Ltd. ("the Company") have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim 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 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 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 of redeemable, convertible, unsecured debentures ("Convertible Debentures"). The Convertible Debentures 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. Amortization expense of \$24,900 has been recognized for the nine month period ended September 30, 2006.

The Convertible Debentures 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 debentures. The present value of this conversion benefit of \$160,000 was recorded on the interim financial statements as the equity portion of convertible debentures.

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3. Asset retirement obligations

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

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Balance, beginning of period	\$ 1,447,956	\$ 708,230
Accretion expense	60,100	52,198
Liabilities incurred	879,087	508,358
Liabilities incurred due to changes in estimate	-	179,170
Expenditures incurred	<u>(35,696)</u>	<u>                    </u>
Balance, end of period	<u>\$ 2,351,447</u>	<u>\$ 1,447,956</u>

Total estimated future retirement costs of \$3,446,199 (2005 - \$2,164,377) have been inflated at an estimated rate of 1.84% (2005 - 2.20%) and discounted using a credit adjusted risk-free rate of 6.05% (2005 - 5.92%).

4. Share capital

(a) Issued

	<b>Number</b>	<b>Stated Value</b>
<b>Common shares</b>		
Balance, beginning of period	14,773,306	\$ 17,294,878
Pursuant to flow-through share offering	486,500	4,500,125
Share issue costs, net of tax benefits	<u>-</u>	<u>(108,610)</u>
Balance, end of period	<u>15,259,806</u>	<u>\$ 21,686,393</u>

(b) Per share amounts

The weighted average number of shares outstanding for the period ended September 30, 2006 was 15,029,921 (2005 - 12,559,186).

In computing diluted net income per share amounts, 873,513 (2005 - 2,488,536) shares were added to the weighted average number of common shares outstanding during the period ended September 30, 2006 for the dilutive effect of stock options. The convertible debentures (note 2) have an exercise price greater than the average market price and therefore have no effect on diluted securities and earnings.

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

	<b>Net Earnings <i>(numerator)</i></b>	<b>Weighted Average Shares <i>(denominator)</i></b>	<b>Per Share Amount</b>
Common shares			
Basic net earnings per share	\$ 561,393	15,029,921	\$ 0.04
Dilutive securities:			
Options	<u>-</u>	<u>873,513</u>	
Diluted net earnings per share	<u>\$ 561,393</u>	<u>15,903,434</u>	<u>\$ 0.04</u>

5. Contributed surplus

The following table reconciles the Company's contributed surplus:

	<b>September 30, 2006 <i>(unaudited)</i></b>	<b>December 31, 2005 <i>(audited)</i></b>
Balance, beginning of period	\$ 588,068	\$ 309,197
Stock-based compensation expense	<u>297,835</u>	<u>278,871</u>
Balance, end of period	<u>\$ 885,903</u>	<u>\$ 588,068</u>

6. Supplemental cash flow information

(a) Changes in non-cash working capital

	<b>Sept 30, 2006</b>	<b>Sept 30, 2005</b>
Accounts receivable	\$ 2,325,682	\$ (2,130,485)
Prepaid expenses and deposits	(432,301)	(11,739)
Accounts payable and accrued liabilities	(1,976,014)	546,236
Current taxes payable	<u>-</u>	<u>(122,975)</u>
	<u>\$ (82,633)</u>	<u>\$ (1,718,963)</u>

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Change in non-cash working capital relating to:		
Financing activities	\$ -	\$ (44,021)
Investing activities	(674,766)	468,830
Operating activities	<u>592,133</u>	<u>(2,143,772)</u>
	\$ <u>(82,633)</u>	\$ <u>(1,718,963)</u>

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

	Sept 30, 2006	Sept 30, 2005
Asset retirement costs	\$ <u>842,391</u>	\$ <u>997,134</u>
Conversion of debentures	\$ <u>-</u>	\$ <u>1,485,000</u>

7. Subsequent event

Effective October 16, 2006, the Company commenced a normal course issuer bid under which it can repurchase up to 750,000 of its common shares until October 16, 2007. All common shares purchased by the Company will be returned to treasury and cancelled. Although the Company has the intention to acquire common shares, it is not obligated to make any purchases pursuant to this 2006 issuer bid.

8. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.