

Twoco Petroleums Ltd.
Financial Statements
September 30, 2007

Notice to Reader

The accompanying unaudited interim financial statements of Twoco Petroleums Ltd. for the quarter ended September 30, 2007 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 29, 2007.

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

| | September 30, 2007 <i>(unaudited)</i> | December 31, 2006 |
|---|---|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ - | \$ 1,867,708 |
| Accounts receivable | 1,538,853 | 2,043,174 |
| Prepaid expenses and deposits | <u>154,793</u> | <u>386,742</u> |
| | 1,693,646 | 4,297,624 |
| Deferred financing charges (notes 2 and 4) | - | 184,034 |
| Property, plant and equipment | <u>51,338,115</u> | <u>44,545,637</u> |
| | <u>\$ 53,031,761</u> | <u>\$ 49,027,295</u> |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness (maximum credit line - \$20,000,000) | \$ 5,822,156 | \$ - |
| Accounts payable and accrued liabilities | 1,843,149 | 2,839,618 |
| Current portion of capital lease obligation | <u>227,963</u> | <u>207,756</u> |
| | 7,893,268 | 3,047,374 |
| Asset retirement obligations (note 5) | 3,108,424 | 2,551,724 |
| Future income taxes | 4,962,000 | 3,849,800 |
| Obligations under capital lease | 595,819 | 759,854 |
| Convertible debentures payable (note 4) | <u>11,808,810</u> | <u>11,880,000</u> |
| | <u>28,368,321</u> | <u>22,088,752</u> |
| Shareholders' Equity | | |
| Share capital (note 6) | 20,213,012 | 21,686,393 |
| Equity portion of convertible debentures (note 4) | 160,000 | 160,000 |
| Contributed surplus (note 7) | 1,108,811 | 985,181 |
| Retained earnings and accumulated comprehensive income | <u>3,181,617</u> | <u>4,106,969</u> |
| | <u>24,663,440</u> | <u>26,938,543</u> |
| | <u>\$ 53,031,761</u> | <u>\$ 49,027,295</u> |

Approved by the Board,

(signed) "Wayne A. Malinowski", Director

(signed) "Larry C. Mah", Director

Twoco Petroleum Ltd.

Statements of Operations, Comprehensive Income and Retained Earnings

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| Revenue | | | | |
| Oil and gas sales | \$ 3,495,911 | \$ 2,735,008 | \$ 11,140,597 | \$ 9,463,350 |
| Less: Royalties | <u>(700,739)</u> | <u>(471,479)</u> | <u>(2,039,859)</u> | <u>(1,785,368)</u> |
| | 2,795,172 | 2,263,529 | 9,100,738 | 7,677,982 |
| Alberta Royalty Tax Credit | - | 100,090 | - | 398,386 |
| Interest | <u>7,230</u> | <u>74,451</u> | <u>11,300</u> | <u>156,182</u> |
| | <u>2,802,402</u> | <u>2,438,070</u> | <u>9,112,038</u> | <u>8,232,550</u> |
| Expenses | | | | |
| Operating costs | 426,014 | 312,221 | 1,293,806 | 818,597 |
| Transportation costs | 164,965 | 103,422 | 439,197 | 354,361 |
| General and administrative | 78,678 | 38,636 | 366,441 | 428,430 |
| Interest on bank debt | 91,921 | - | 164,198 | 44,499 |
| Interest on capital leases | 10,077 | 16,176 | 38,365 | 84,990 |
| Interest on debentures payable | 240,182 | 229,315 | 713,150 | 451,233 |
| Stock-based compensation | 42,229 | 99,278 | 123,630 | 297,835 |
| Amortization of convertible debentures financing charges | 18,532 | 12,450 | 49,845 | 24,900 |
| Depletion, amortization and accretion | <u>2,341,622</u> | <u>2,140,692</u> | <u>6,880,971</u> | <u>5,212,174</u> |
| | <u>3,414,220</u> | <u>2,952,190</u> | <u>10,069,603</u> | <u>7,717,019</u> |
| Income (loss) before income taxes | <u>(611,818)</u> | <u>(514,120)</u> | <u>(957,565)</u> | <u>515,531</u> |
| Income tax expense (recovery) | | | | |
| Current | (8,954) | 19,944 | 4,890 | 36,703 |
| Future | <u>(166,800)</u> | <u>(110,400)</u> | <u>(237,677)</u> | <u>(82,565)</u> |
| | <u>(175,754)</u> | <u>(90,456)</u> | <u>(232,787)</u> | <u>(45,862)</u> |
| Net income (loss) and comprehensive income (loss) | (436,064) | (423,664) | (724,778) | 561,393 |
| Retained earnings, beginning of period | 3,818,255 | 4,319,898 | 4,106,969 | 3,334,841 |
| Acquisition of shares in excess of carrying value | <u>(200,574)</u> | <u>-</u> | <u>(200,574)</u> | <u>-</u> |
| Retained earnings, end of period | <u>\$ 3,181,617</u> | <u>\$ 3,896,234</u> | <u>\$ 3,181,617</u> | <u>\$ 3,896,234</u> |
| Net income (loss) and comprehensive income (loss) per share | | | | |
| Basic (note 6) | <u>\$ (0.03)</u> | <u>\$ (0.03)</u> | <u>\$ (0.05)</u> | <u>\$ 0.04</u> |
| Diluted | <u>\$ (0.03)</u> | <u>\$ (0.03)</u> | <u>\$ (0.05)</u> | <u>\$ 0.04</u> |

Twoco Petroleums Ltd.

Statements of Cash Flows

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| Cash provided by (used for): | | | | |
| Operating activities | | | | |
| Net income (loss) | \$ (436,064) | \$ (423,664) | \$ (724,778) | \$ 561,393 |
| Add (deduct) Items not affecting cash | | | | |
| Stock-based compensation | 42,229 | 99,278 | 123,630 | 297,835 |
| Future income taxes | (166,800) | (110,400) | (237,677) | (82,565) |
| Convertible debentures accretion | 13,333 | - | 39,999 | - |
| Amortization of convertible debentures financing charges | 18,532 | 12,450 | 49,845 | 24,900 |
| Depletion, amortization and accretion | 2,341,622 | 2,140,692 | 6,880,971 | 5,212,174 |
| Settlement of asset retirement obligations | <u>(24,993)</u> | <u>-</u> | <u>(70,128)</u> | <u>-</u> |
| | 1,787,859 | 1,718,356 | 6,061,862 | 6,013,737 |
| Change in non-cash working capital (note 8[a]) | <u>812,701</u> | <u>885,937</u> | <u>733,552</u> | <u>592,133</u> |
| | <u>2,600,560</u> | <u>2,604,293</u> | <u>6,795,414</u> | <u>6,605,870</u> |
| Financing activities | | | | |
| Repayment to officers and directors | - | - | - | (370,052) |
| 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 | (41,676) | (51,311) | (143,828) | (121,634) |
| Share issuance costs | - | - | (500) | - |
| Repurchase of common shares | (323,578) | - | (323,578) | - |
| Refund of financing charges on convertible debenture | - | - | 23,000 | - |
| Change in non-cash working capital (note 8[a]) | <u>-</u> | <u>(221,920)</u> | <u>-</u> | <u>-</u> |
| | <u>(365,254)</u> | <u>(273,231)</u> | <u>(444,906)</u> | <u>15,690,339</u> |
| Investing activities | | | | |
| Acquisition of property, plant and equipment | (2,084,391) | (5,768,648) | (13,046,621) | (15,485,985) |
| Change in non-cash working capital (note 8[a]) | <u>(921,367)</u> | <u>(368,397)</u> | <u>(993,751)</u> | <u>(674,766)</u> |
| | <u>(3,005,758)</u> | <u>(6,137,045)</u> | <u>(14,040,372)</u> | <u>(16,160,751)</u> |
| Cash inflow (outflow) | (770,452) | (3,805,983) | (7,689,864) | 6,135,458 |
| Cash and cash equivalents (bank indebtedness), beginning of period | <u>(5,051,704)</u> | <u>7,879,661</u> | <u>1,867,708</u> | <u>(2,061,780)</u> |
| Cash and cash equivalents (bank indebtedness), end of period | <u>\$ (5,822,156)</u> | <u>\$ 4,073,678</u> | <u>\$ (5,822,156)</u> | <u>\$ 4,073,678</u> |
| Cash and cash equivalents (bank indebtedness) is comprised of: | | | | |
| Deposits with bank | \$ - | \$ 4,073,678 | \$ - | \$ 4,073,678 |
| Bank indebtedness | <u>(5,822,156)</u> | <u>-</u> | <u>(5,822,156)</u> | <u>-</u> |
| | <u>\$ (5,822,156)</u> | <u>\$ 4,073,678</u> | <u>\$ (5,822,156)</u> | <u>\$ 4,073,678</u> |
| Supplemental cash flow information (note 8) | | | | |

Twoco Petroleums Ltd.
Notes to Financial Statements
September 30, 2007
(unaudited)

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, 2006 annual financial statements. The interim 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 financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2006.

The comparative figures include the accounts of the Company and its wholly-owned subsidiary. The subsidiary was wound up into the Company on July 1, 2006.

2. Changes in significant accounting policies

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3855, "Financial Instruments - Recognition and Measurement", Section 3865, "Hedges", and Section 1530, "Comprehensive Income". These standards have been adopted prospectively.

(a) Financial instruments

Section 3855 establishes a framework for classifying and measuring financial instruments. Under this section, all financial instruments must be initially recognized at their fair value on the balance sheet. In accordance with Section 3855, the Company has classified each financial instrument into the five categories set out in the standard: Financial assets and liabilities held for trading, financial assets held to maturity, loans and receivables, financial assets available for sale and other liabilities. Measurement of each of these items is contingent upon initial classification. Unrealized gains and losses on financial instruments classified as held for trading are recognized in earnings in the period incurred. Gains and losses on financial assets available for sale are recognized in other comprehensive income, and are recognized in earnings when the asset is removed from the balance sheet. The effective interest rate method using amortized cost is applied to the remaining categories of financial instruments.

Adoption of the new standards have the following effect on the financial statements:

Convertible debentures payable are classified as a financial liability and are measured at amortized cost. Amortized cost is the amount at which the financial liability is measured at initial recognition minus principal repayments plus the cumulative amortization of any deferred financing charges and the convertible debenture discount using the effective interest method.

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Prior to January 1, 2007, deferred financing charges related to the convertible debentures payable were presented as a separate asset on the balance sheet and amortized on a straight-line basis. Under the new standards, deferred financing charges are recognized as an offset to the carrying value of convertible debentures payable and are amortized using the effective interest method.

(b) Derivative instruments and hedging

The Company does not have any outstanding derivative or hedging contracts as at September 30, 2007.

(c) Comprehensive income

Comprehensive income is the change in equity of the Company from net income and other comprehensive income ("OCI"). OCI consists of the change in the fair value of any financial instruments classified as available for sale. Amounts recognized in OCI must eventually be reclassified to income when the related gains or losses are realized.

3. Future accounting pronouncements

As of January 1, 2008, the Company will be required to adopt two new CICA standards - Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation", which will replace Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

As of January 1, 2008, the Company will be required to adopt CICA Section 1535 "Capital Disclosures", which will require additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

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4. 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 previously recorded as deferred financing charges have been netted against convertible debentures payable as disclosed in note 2. Amortization expense on convertible debentures financing charges of \$49,845 has been recognized for the period ended September 30, 2007 (September 30, 2006 - \$24,900).

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 financial statements as the equity portion of convertible debentures. The portion of convertible debentures will accrete up to the face value over the term to maturity. Accretion of \$39,999 has been recognized in interest expense for the period ended September 30, 2007 (September 30, 2006 - \$26,666).

5. Asset retirement obligations

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

| | September 30, 2007 | December 31, 2006 |
|------------------------------|-----------------------|----------------------|
| Balance, beginning of period | \$ 2,551,724 | \$ 1,447,956 |
| Accretion expense | 113,537 | 69,111 |
| Liabilities incurred | 513,291 | 1,094,068 |
| Liabilities settled | <u>(70,128)</u> | <u>(59,411)</u> |
| Balance, end of period | <u>\$ 3,108,424</u> | <u>\$ 2,551,724</u> |

Total estimated future retirement costs of \$4,453,926 (2006 - \$3,712,076) have been inflated at an estimated rate of 2.02% (2006 - 1.92%) and discounted using a credit adjusted risk-free rate of 6.06% (2006 - 6.01%).

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6. Share capital

(a) Issued

| | Number | Stated Value |
|--|-------------------|----------------------|
| Common shares | | |
| Balance, beginning of period | 15,259,806 | \$ 21,686,393 |
| Purchased pursuant to a normal course issuer bid (note 6[c]) | (92,300) | (123,004) |
| Tax benefits renounced to shareholders | <u>-</u> | <u>(1,350,377)</u> |
| Balance, end of period | <u>15,167,506</u> | <u>\$ 20,213,012</u> |

(b) Per share amounts

The weighted average number of shares outstanding for the nine month period ended September 30, 2007 was 15,245,579 (2006 - 15,029,921).

The weighted average number of shares outstanding for the three month period ended September 30, 2007 was 15,217,588 (2006 - 15,259,806).

In computing diluted net income per share amounts, NIL (2006 - 873,513) shares were added to the weighted average number of common shares outstanding during the period ended September 30, 2007 for the dilutive effect of stock options as all were determined to be anti-dilutive.

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

| | Net Loss <i>(numerator)</i> | Weighted Average Shares <i>(denominator)</i> | Per Share Amount |
|----------------------------|--------------------------------|---|------------------|
| Common shares | | | |
| Basic net loss per share | \$ (724,778) | 15,245,579 | \$ (0.05) |
| Dilutive securities: | | | |
| Options | - | - | |
| Convertible debentures | <u>-</u> | <u>-</u> | |
| Diluted net loss per share | <u>\$ (724,778)</u> | <u>15,245,579</u> | <u>\$ (0.05)</u> |

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(c) Normal course issuer bid

Pursuant to a Normal Course Issuer Bid, the Company acquired 92,300 (2006 - NIL) common shares at an average price of \$3.51 (2006 - \$NIL) per share. The excess cost of re-acquisition over stated value in the amount of \$200,574 (2006 - \$NIL) has been charged to retained earnings.

7. Contributed surplus

The following table reconciles the Company's contributed surplus:

| | September 30, 2007 | December 31, 2006 |
|----------------------------------|-------------------------------|------------------------------|
| | <i>(unaudited)</i> | |
| Balance, beginning of period | \$ 985,181 | \$ 588,068 |
| Stock-based compensation expense | <u>123,630</u> | <u>397,113</u> |
| Balance, end of period | <u><u>\$ 1,108,811</u></u> | <u><u>\$ 985,181</u></u> |

8. Supplemental cash flow information

(a) Changes in non-cash working capital

| | September 30, 2007 | September 30, 2006 |
|---|-------------------------------|-------------------------------|
| Accounts receivable | \$ 504,321 | \$ 2,325,682 |
| Prepaid expenses and deposits | 231,949 | (432,301) |
| Accounts payable and accrued liabilities | <u>(996,469)</u> | <u>(1,976,014)</u> |
| | <u><u>\$ (260,199)</u></u> | <u><u>\$ (82,633)</u></u> |
| Change in non-cash working capital relating to: | | |
| Investing activities | \$ (993,751) | \$ (674,766) |
| Operating activities | <u>733,552</u> | <u>592,133</u> |
| | <u><u>\$ (260,199)</u></u> | <u><u>\$ (82,633)</u></u> |

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

| | September 30, 2007 | September 30, 2006 |
|------------------------|-------------------------------|-------------------------------|
| Asset retirement costs | <u><u>\$ 513,291</u></u> | <u><u>\$ 842,391</u></u> |

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(c) Interest and taxes

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------|---------------------------|----------------------|--------------------------|----------------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2007 | 2006 | 2007 | 2006 |
| Interest paid | \$ <u>328,847</u> | \$ <u>467,861</u> | \$ <u>877,495</u> | \$ <u>583,217</u> |
| Income taxes paid (recovered) | \$ <u>(8,954)</u> | \$ <u>-</u> | \$ <u>4,890</u> | \$ <u>-</u> |

9. Subsequent events

- (a) Pursuant to the Normal Course Issuer Bid dated October 10, 2006, the Company repurchased 21,700 common shares at prices ranging between \$3.73 to \$4.05 per share for gross consideration of \$86,560. This normal course issuer bid expired October 16, 2007.
- (b) Effective October 16, 2007, the Company commenced a Normal Course Issuer Bid under which it can repurchase up to 750,000 of its common shares until October 16, 2008. 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 2007 issuer bid. As of November 15, 2007, the Company has repurchased 17,200 common shares at prices ranging between \$4.23 to \$4.35 per share for gross consideration of \$74,465.
- (c) Subsequent to quarter-end, 5,000 stock options were exercised at \$3.75 per share and 20,000 stock options were exercised at \$2.80 per share for gross proceeds of \$74,750.