

TWOCO PETROLEUMS LTD.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

Notice to Reader

The accompanying unaudited interim financial statements of Twoco Petroleums Ltd. for the quarter ended September 30, 2009 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 25, 2009.

On behalf of Twoco Petroleums Ltd.

(signed) "Wayne A. Malinowski"
Wayne A. Malinowski
President

(signed) "Tim Bashforth"
Tim Bashforth
Secretary and Treasurer

TWOCO PETROLEUMS LTD.

Balance Sheets

	September 30, 2009 <u>(unaudited)</u>	December 31, 2008 <u>(audited)</u>
Assets		
Current assets		
Cash	\$ 25,734	\$ -
Accounts receivable	607,202	2,007,891
Prepaid expenses and deposits	<u>610,555</u>	<u>618,960</u>
	1,243,491	2,626,851
Property, plant and equipment	<u>51,734,689</u>	<u>61,371,471</u>
	<u>\$ 52,978,180</u>	<u>\$ 63,998,322</u>
Liabilities		
Current liabilities		
Bank indebtedness and credit facility (note 7)	\$ 17,747,917	\$ 16,238,749
Accounts payable and accrued liabilities	1,179,807	2,622,449
Current portion of capital lease obligation	-	320,819
Convertible debentures (note 5)	<u>-</u>	<u>11,968,135</u>
	18,927,724	31,150,152
Obligations under capital leases	-	219,011
Unsecured debentures (note 4)	8,142,558	-
Asset retirement obligations (note 6)	3,581,744	3,455,960
Future income taxes	<u>3,487,000</u>	<u>4,677,000</u>
	<u>34,139,026</u>	<u>39,502,123</u>
Shareholders' Equity		
Share capital (note 8)	20,182,541	20,216,621
Equity portion of convertible debentures (note 5)	-	160,000
Warrants on unsecured debentures (note 4)	20,750	-
Contributed surplus (note 9)	1,043,224	874,904
Retained earnings (deficit)	<u>(2,406,361)</u>	<u>3,244,674</u>
	<u>18,839,154</u>	<u>24,496,199</u>
	<u>\$ 52,978,180</u>	<u>\$ 63,998,322</u>

Approved by the Board:

(signed) "Wayne A. Malinowski", Director

(signed) "Larry C. Mah", Director

See accompanying notes to these financial statements

TWOCO PETROLEUMS LTD.

Statements of Operations, Comprehensive Income And Retained Earnings (Deficit)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenue				
Oil and gas sales	\$ 1,506,834	\$ 4,263,059	\$ 7,423,033	\$ 14,611,485
Less: Royalties	<u>(41,349)</u>	<u>(779,028)</u>	<u>(563,776)</u>	<u>(2,248,436)</u>
	1,465,485	3,484,031	6,859,257	12,363,049
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>
	<u>1,465,485</u>	<u>3,484,031</u>	<u>6,859,257</u>	<u>12,363,054</u>
Expenses				
Operating costs	698,934	649,387	2,095,184	1,865,752
Transportation costs	132,121	154,441	485,480	501,057
General and administrative	153,920	110,600	744,813	588,846
Interest on bank debt	162,496	72,460	412,234	203,063
Interest on capital leases	-	9,724	35,977	31,655
Interest on debentures payable	355,649	240,183	942,686	713,150
Stock-based compensation	2,264	4,557	8,320	12,169
Amortization of convertible debentures financing charges	23,646	18,532	65,821	55,596
Depletion, amortization and accretion	<u>2,512,401</u>	<u>2,188,290</u>	<u>8,907,281</u>	<u>6,414,162</u>
	<u>4,041,431</u>	<u>3,448,174</u>	<u>13,697,796</u>	<u>10,385,450</u>
Income (loss) before income taxes	<u>(2,575,946)</u>	<u>35,857</u>	<u>(6,838,539)</u>	<u>1,977,604</u>
Income tax expense:				
- Current	-	-	-	-
- Future (recovery)	<u>(262,000)</u>	<u>(63,000)</u>	<u>(1,190,000)</u>	<u>368,650</u>
	<u>(262,000)</u>	<u>(63,000)</u>	<u>(1,190,000)</u>	<u>368,650</u>
Net income (loss) and comprehensive income (loss)	(2,313,946)	98,857	(5,648,539)	1,608,954
Retained earnings, beginning of period	92,415	4,131,854	3,244,674	2,923,649
Acquisition of shares in excess of carrying value (note 8)	<u>-</u>	<u>(229,868)</u>	<u>(2,496)</u>	<u>(531,760)</u>
Retained earnings (deficit), end of period	<u>\$ (2,406,361)</u>	<u>\$ 4,000,843</u>	<u>\$ (2,406,361)</u>	<u>\$ 4,000,743</u>
Net income (loss) and comprehensive Income (loss) per share:				
- Basic (note 8)	<u>\$ (0.15)</u>	<u>\$ 0.01</u>	<u>\$ (0.38)</u>	<u>\$ 0.10</u>
- Diluted	<u>\$ (0.15)</u>	<u>\$ 0.01</u>	<u>\$ (0.38)</u>	<u>\$ 0.10</u>

TWOOCO PETROLEUMS LTD.

Statements of Cash Flows

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Cash provided by (used for):				
Operating activities				
Net income (loss)	\$ (2,313,946)	\$ 98,857	\$ (5,648,539)	\$ 1,608,954
Add items not affecting cash				
Stock-based compensation	2,264	4,557	8,320	12,169
Future income taxes (recovery)	(262,000)	(63,000)	(1,190,000)	368,650
Convertible debentures accretion	2,594	13,333	18,521	39,999
Amortization of convertible debentures financing charges	23,646	18,532	65,821	55,596
Depletion, amortization and accretion	2,512,401	2,188,290	8,907,281	6,414,162
Settlement of asset retirement obligations	-	-	-	-
	<u>(35,041)</u>	<u>2,260,569</u>	<u>2,161,404</u>	<u>8,499,530</u>
Change in non-cash working capital (note 10)	<u>(421,907)</u>	<u>1,246,128</u>	<u>595,351</u>	<u>(99,071)</u>
	<u>(456,948)</u>	<u>3,506,697</u>	<u>2,756,755</u>	<u>8,400,459</u>
Financing activities				
Repayments of obligations under capital leases	-	(55,496)	(539,826)	(164,005)
Financing charges on debentures	-	-	(189,172)	-
Share issuance costs	(500)	-	(500)	(557)
Repurchase of common shares	-	(391,256)	(37,076)	(908,408)
Exercise of stock options	-	50,000	-	-
Financing (repayment) through bank indebtedness	(1,131,252)	-	1,509,166	-
Redemption of convertible debentures	-	-	(12,000,000)	-
Issuance of unsecured debentures	-	-	8,300,000	-
	<u>(1,131,752)</u>	<u>(396,752)</u>	<u>(2,957,408)</u>	<u>(397,970)</u>
Investing activities:				
Acquisition of property, plant and equipment	(224,603)	(14,391,767)	(1,052,927)	(17,878,805)
Disposal of property, plant and equipment	1,908,216	-	1,908,216	-
Change in non-cash working capital (note 10)	<u>(69,179)</u>	<u>(901,251)</u>	<u>(628,902)</u>	<u>(39,589)</u>
	<u>1,614,434</u>	<u>(15,293,018)</u>	<u>226,387</u>	<u>(17,918,394)</u>
Cash inflow (outflow)	25,734	(12,183,073)	25,734	(9,915,905)
Cash and cash equivalents, beginning of period	-	(3,942,691)	-	(6,209,859)
Cash and cash equivalents, end of period	<u>\$ 25,734</u>	<u>\$ (16,125,764)</u>	<u>\$ 25,734</u>	<u>\$ (16,125,764)</u>
Cash and cash equivalents is comprised of:				
Deposits with bank	\$ 25,734	\$ 4,048	\$ 25,734	\$ 4,048
Bank indebtedness	-	(16,129,812)	-	(16,129,812)
Revolving bank loan	(17,300,000)	-	(17,300,000)	-
Variable bank loan	(447,917)	-	(447,917)	-
Reclassified to financing activities				
– June 30, 2009	18,879,165	-	18,879,165	-
– September 30, 2009	<u>(1,131,252)</u>	<u>-</u>	<u>(1,131,252)</u>	<u>-</u>
	<u>\$ 25,734</u>	<u>\$ (3,942,691)</u>	<u>\$ 25,734</u>	<u>\$ (3,942,691)</u>

Supplemental cash flow information (note 10)

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Notes to Financial Statements

September 30, 2009

(unaudited)

1. Basis of presentation

The interim financial statements of Twoco Petroleum 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, 2008 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, 2008.

2. Future accounting pronouncements

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") for reporting periods beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Business combinations

In January 2009, the CICA issued new standards for Business Combinations. This standard is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This standard replaces Handbook Section 1581 Business Combinations, and harmonizes the Canadian standards with IFRS. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. The adoption of this standard will not have a material impact on the Company's financial statements.

3. Changes in accounting policies

Goodwill and intangible assets

As of January 1, 2009, the Company was required to adopt CICA Section 3064, "Goodwill and Intangible Assets", which replaces CICA Section 3062. This new guidance reinforces a principles-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition under CICA Section 1000, "Financial Statement Concepts". Section 3064 clarifies the application of the concept of matching revenues and expenses in Section 1000 to eliminate the current practice of recognizing as assets items that do not meet the definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. The adoption of this standard has not had a material impact on the Company's financial statements.

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4. Unsecured debentures

On March 31, 2009, the Company closed a private placement financing through the issuance of \$8.3 million of unsecured debentures ("Debentures") and warrants ("Warrants") to purchase common shares. The Debentures bear interest at a rate of 17% per annum, payable commencing June 30, 2009 and quarterly thereafter and will mature two years following the closing date. Finder's fees and commissions of \$189,172 have been netted against debentures payable. Accretion of \$47,292 has been recognized in interest expense for the nine month period ended September 30, 2009 (September 30, 2008 - NIL). Amortization expense of \$5,188 has been recognized for the nine months ended September 30, 2009, (September 30, 2008 - NIL) relating to financing fees and commissions.

Subscribers received one-half of one share purchase warrant, for each \$1.00 of principal amount of Debentures. Each whole share purchase warrant entitles the holder thereof to purchase a common share of the Company at a price of \$1.20 per share at any time prior to 4:00 pm (Calgary time) on March 31, 2011.

The value of the warrants was determined to be \$20,750. The portion of the Debentures classified as debt was determined to be \$8,279,250. The debt portion of the Debentures will accrete up to the face value over the term to maturity.

5. Convertible debentures

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 bore interest at a rate of 7.5% per annum payable quarterly and matured on March 31, 2009 at which time they were redeemed in full. Accretion of \$13,333 has been recognized in interest expense for the nine month period ended September 30, 2009 (September 30, 2008 - \$39,999). Amortization expense of \$18,532 has been recognized for the nine months ended September 30, 2009, (September 30, 2008 - \$55,596) relating to financing fees and commissions.

The Convertible Debentures were convertible into common shares of the Company at the holder's option at any time prior to March 31, 2009 (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 had the ability to redeem the Convertible Debentures if the closing price of its common shares on the TSX Venture Exchange exceeded \$8.25 for 21 consecutive trading days or in certain circumstances where an offer was made to acquire common shares of the Company. The present value of this conversion benefit of \$160,000 was recorded on the financial statements as the equity portion of convertible debentures. The Convertible Debentures matured on March 31, 2009 and were fully redeemed. The equity portion of the debentures was included in contributed surplus as the conditions for conversion were never met (note 9).

The overall effective interest rate on the Convertible Debentures was 8.58% (2008 – 8.58%).

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6. 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, 2009	December 31, 2008
Balance, beginning of year	\$ 3,455,960	\$ 2,762,151
Accretion expense	145,689	155,834
Liabilities incurred, net of disposals	(19,905)	381,137
Liabilities incurred due to changes in estimate	-	(156,838)
Liabilities settled	-	-
Balance, end of year	<u>\$ 3,581,744</u>	<u>\$ 3,455,960</u>

Total estimated future retirement costs of \$5,283,215 (2008 - \$5,313,793) have been inflated at a weighted average estimated inflation rate of 2.1% (2008 - 2.1%) and discounted using a weighted average credit adjusted risk-free rate of 6.78% (2008 - 6.78%).

7. Bank indebtedness and credit facility

As at September 30, 2009, the Company has the following credit facilities:

Facility #1 – Operating Demand Loan Facility. Revolving loan used for general operations and to assist with repayment of the Company's previously existing credit facility. The facility has a maximum principal amount of \$18.0 million. The interest rate varies from prime plus 0.5% to prime plus 1.50% based on the Company's net debt to trailing cash flow ratio. At September 30, 2009 the Company had a balance of \$17,300,000 drawn on this facility.

Facility #2 – Non-Revolving reducing demand loan facility. Non-revolving loan by way of one draw of \$500,000, repayable in 48 monthly payments of \$10,416.67 plus interest. Interest is charged at rate of prime plus 2.00% per annum. At September 30, 2009 this facility had a balance owing of \$447,917. The future minimum principal payments are as follows:

2010	\$ 125,000
2011	125,000
2012	125,000
2013	72,917
Total	<u>\$ 447,917</u>

The financing facilities are secured by a general security agreement granting a mortgage, pledge, charge and security interest in all of the Company's property, assets and undertakings. The facility agreement requires that the Company not allow its working capital ratio to fall below 1.00:1.

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8. Share capital

(a) Authorized

Unlimited voting common shares
Unlimited non-voting preferred shares

(b) Issued

	<u>Number</u>	<u>Stated Value</u>
Common Shares		
Balance, December 31, 2008	14,967,006	\$ 20,216,620
Pursuant to a normal course issuer bid	(25,600)	(34,579)
Exercise of stock options	-	-
Balance, September 30, 2009	<u>14,941,406</u>	<u>\$ 20,182,041</u>

Per Share Amounts

The weighted average number of shares outstanding for the period ended September 30, 2009 was 14,962,414 (2008 – 15,406,406).

In computing diluted net income per share amounts, NIL (2008 – 707,196) shares were added to the weighted average number of common shares outstanding during the period ended September 30, 2009 for the dilutive effect of stock options.

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

	<u>Net Earnings (loss) (numerator)</u>	<u>Weighted Average Shares (denominator)</u>	<u>Per Share Amount</u>
Common Shares			
Basic net earnings (loss) per share	\$ (5,648,539)	14,962,414	\$ (0.38)
Dilutive securities:			
Options	-	-	
Diluted net earnings (loss) per share	<u>\$ (5,648,539)</u>	<u>14,962,414</u>	<u>\$ (0.38)</u>

(c) During the nine months ended September 30, 2009, NIL (2008 - 540,000) stock options were exercised for gross cash proceeds of NIL (2008 - \$675,000). NIL (2008 - \$239,680) was reallocated from contributed surplus relating to those options.

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8. Share capital, continued

- (d) On October 16, 2008, the Company commenced a normal course issuer bid under which it can repurchase up to 750,000 of its common shares until October 16, 2009. 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 obliged to make any purchases pursuant to this 2008 issuer bid. For the period ended September 30, 2009, the Company acquired 25,600 (2008 – NIL) common shares at an average price of \$1.37 (2008 - NIL). The excess cost of re-acquisition over stated value in the amount of \$2,496 (2008 - NIL) has been charged to retained earnings.
- (e) On 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 obliged to make any purchases pursuant to this 2007 issuer bid. For the period ended September 30, 2009, the Company acquired NIL (2008 – 279,600) common shares at an average price of \$NIL (2008 - \$3.27). The excess cost of re-acquisition over stated value in the amount of \$NIL (2008 - \$531,760) has been charged to retained earnings.

9. Contributed Surplus

The following table reconciles the Company's contributed surplus:

	September 30, 2009	December 31, 2008
Balance, beginning of period	\$ 874,904	\$ 1,128,929
Stock-based compensation expense	8,320	16,725
Exercise of stock options	-	(270,750)
Reclassification due to redemption of debentures (note 5)	<u>160,000</u>	<u>-</u>
Balance, end of period	<u>\$ 1,043,224</u>	<u>\$ 874,904</u>

(a) Redemption of convertible debentures

On March 31, 2009, all convertible debentures were fully redeemed. The equity portion of these debentures was reclassified to contributed surplus as the conditions to trigger conversion were not met. The value assigned to the equity portion of the convertible debentures has thus been reclassified to contributed surplus.

TWOCO PETROLEUMS LTD.

Notes to Financial Statements

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(unaudited)

10. Supplemental Cash Flow Information

(a) Changes in Non-cash Working Capital

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Accounts receivable	\$ 1,400,689	365,466
Prepaid expenses and deposits	8,405	(120,669)
Accounts payable and accrued liabilities	<u>(1,442,645)</u>	<u>(383,457)</u>
	<u>\$ (33,551)</u>	<u>\$ (138,660)</u>
Change in non-cash working capital relating to:		
Investing activities	\$ (628,902)	\$ (39,589)
Operating activities	<u>595,351</u>	<u>(99,071)</u>
	<u>\$ (33,551)</u>	<u>\$ (138,660)</u>

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

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Asset retirement liabilities incurred (disposed of)	<u>\$ -</u>	<u>\$ 775,425</u>

(c) Interest and Taxes

	<u>3 Months Ended September 30, 2009</u>	<u>3 Months Ended September 30, 2008</u>	<u>9 Months Ended September 30, 2009</u>	<u>9 Months Ended September 30, 2008</u>
Interest paid	<u>\$ 518,145</u>	<u>\$ 308,098</u>	<u>\$ 1,390,897</u>	<u>\$ 907,972</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

11. Capital disclosure

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company considers its capital structure to include shareholders' equity, debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue shares, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

TWOCO PETROLEUMS LTD.

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11. Capital Disclosures (continued)

The Company monitors capital based on the current and projected ratios of debt to cash flow and debt to capital employed. The Company's objective is to maintain a debt to cash flow from operations ratio of less than two times. The ratio may increase at certain times as a result of acquisitions. To facilitate the management of this ratio, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The annual budget is approved by the Board of Directors.

The Company's share capital is not subject to external restrictions.

There were no changes in the Company's approach to capital management from the previous year.

12. Financial Instruments and Risk Management

(a) Fair values

The Company's financial instruments consist of accounts receivable, accounts payable and accrued liabilities, unsecured debentures, and bank indebtedness and credit facility. The fair value of these instruments approximate their carrying amounts due to their short terms to maturity or because they bear interest at market rates for similar instruments. The fair value of the unsecured debentures approximates carrying amount as the debentures mature in the short term and interest rates are not expected to fluctuate materially during that time.

(b) Credit risk

Virtually all of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from purchasers of the Company's petroleum and natural gas production and are subject to normal industry credit risks. The Company generally extends unsecured credit to these parties 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's maximum exposure to credit risk on the sale of petroleum and natural gas production is approximately two months of production.

Receivables from petroleum and natural gas marketers are normally collected on the twenty-fifth day of the month following production. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies with investment grade credit ratings. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure and issuing cash calls on large capital projects from its partners on capital projects before they commence. The Company reviews the financial status of joint venture partners before partner approval is obtained.

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(c) Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and accrued liabilities, obligations under capital lease, unsecured debentures and bank indebtedness. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand or borrowing capacity to meet operational and financial obligations.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. These risks are generally outside the control of the Company. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

(e) Interest rate risk

The Company is exposed to interest rate cash flow risk on its outstanding bank indebtedness which has a floating interest rate and would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at September 30, 2009.

(f) Foreign currency risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices. As at September 30, 2009 and December 31, 2008, the Company had no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

(g) Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. As at September 30, 2009, the Company had no derivative contracts in place.

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13. Subsequent Events

On October 16, 2009, the Company entered into a farm-in agreement (the "Farm-in Agreement") with Poplar Creek Resources Inc. ("Poplar Creek") whereby, subject to certain conditions, including Poplar Creek raising \$3,025,000 by no later than December 15, 2009, Poplar Creek will farm-in on the Company's lands and acquire an additional interest in all of the Company's assets. The Farm-in Agreement supersedes the original arm's length definitive agreement entered into between the Company and Poplar Creek and announced by the Company on June 26, 2009.

Pursuant to the terms of the Farm-in Agreement, Poplar Creek will have until December 15, 2009 to raise \$3,025,000 in order to fund the drilling of the first series of wells. Upon the drilling of such wells, Poplar Creek will earn an interest in the lands drilled pursuant to the Farm-in Agreement and will also acquire an additional 5.5% interest in all of the Company's assets. Subsequent to the drilling of the first series of wells, Poplar Creek has two successive options to further farm-in on the Company's lands and thereby earn a further interest in the lands drilled and an additional 5.5% interest in the Company's assets. Each such successive option requires Poplar Creek to commit to an additional expenditure of \$3,025,000 to fund the additional drilling on the Company's lands. If Poplar Creek fully exercises its options to farm-in on the Company's lands, Poplar Creek will own a 20% interest in all of the Company's assets, being the 3.5% interest purchased on July 16, 2009 and the additional 16.5% interest acquired by way of the Farm-in Agreement. If Poplar Creek raises the initial \$3,025,000, the drilling program will be commenced as soon as possible after December 15, 2009.