

## **TWOCO PETROLEUMS LTD.**

### **MANAGEMENT DISCUSSION & ANALYSIS (MD&A) Form 51-102F1**

#### **FOR THE YEAR ENDED DECEMBER 31, 2005**

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2005 of Twoco Petroleum Ltd. ("Twoco" or the "Company") and Twoco's audited consolidated financial statements, notes thereto, and MD&A for the period ended December 31, 2004. Twoco 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. The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information with respect to Twoco, including Twoco's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com). The reporting and measurement currency is the Canadian dollar.

#### **BOE Presentation**

Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of 6 thousand cubic feet ("mcf"): 1 barrel ("bbl") is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

#### **Advisory Regarding Forward Looking Statements**

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations and assumptions that involve a number of risks and uncertainties, certain of which are beyond Twoco's control and could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Twoco's management at the time the statements were made. Twoco assumes no obligation to update forward-looking statements should circumstances or management's estimates change. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

#### **Non-GAAP Financial Measurements**

This document contains the terms "cash flow" and "operating netbacks", which do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. The term "cash flow", which is expressed before changes in non-cash working capital, and the term "operating netbacks" are used by the Company to analyze operating performance, leverage and liquidity. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the audited consolidated financial statements. Operating netbacks are determined by deducting royalties, operating and transportation expenses and general and administrative expenses from petroleum and natural gas sales.

This MD&A is dated as of April 18, 2006 except where otherwise stated.

### Selected Annual Information

	Year ended December 31, 2005 (\$)	Period ended December 31, 2004 (\$)	Year ended December 30, 2003 (\$)
Revenue	13,221,224	5,651,802	683,208
Cash Flow from Operations	9,196,813	3,441,330	89,412
Net Income (Loss)	3,025,064	841,815	(464,465)
Per share - Basic	0.23	0.08	(0.09)
Per share - Diluted	0.21	0.08	(0.09)
Total Assets	34,706,603	19,387,429	11,154,231
Total Long-Term Financial Liabilities	5,941,503	3,563,281	4,519,845
Dividends	Nil	Nil	Nil

### Petroleum and Natural Gas Sales (Volumes)

	Year ended December 31, 2005	Period ended December 31, 2004	Year ended December 30, 2003
Natural Gas (mcf/d)	4,177	2,335	330
Oil and NGL's (bbls/d)	2	1	0
Total (boe/d)	698	390	55

The increase in natural gas sales for the year ended December 31, 2005 is a result of production added by the Company through drilling and optimization activities. Twenty new gas wells, eight of which were dual zone producers, were tied in and brought on production in the Andrew/Willingdon and Steele/Bolloque/Grassland areas of Alberta. Average daily sales for the year ended December 31, 2005 rose to 698 boe/d as compared to 390 boe/d in 2004, an increase of 79%, as a result of these activities.

### Petroleum and Natural Gas Sales (Values)

	Year ended December 31, 2005	Period ended December 31, 2004	Year ended December 30, 2003
Natural Gas Sales (\$)	13,179,881	5,633,492	683,708
\$/mcf	8.64	6.59	5.67
Oil and NGL Sales (\$)	41,343	18,310	-
\$/bbl	57.58	48.96	-
Total Sales (\$)	13,221,224	5,651,802	683,208

Petroleum and natural gas ("P&NG") sales increased to \$13,221,224 for the year ended December 31, 2005 from \$5,651,802 for the period ended December 31, 2004. This represents an increase of 134%.

## Royalties

	Year ended December 31, 2005		Period ended December 31, 2004		Year ended December 30, 2003	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	2,732,671	20.7	1,172,642	20.7	123,071	18.0
Freehold & GORR	183,902	1.4	93,517	1.7	10,822	1.6
ARTC	(500,000)	(3.8)	(293,489)	(5.2)	(30,767)	(4.6)
Total royalties	2,416,573	18.3	972,670	17.2	103,126	15.0

Total royalties excluding ARTC were \$2,916,573 for the year ended December 31, 2005 versus \$1,266,159 for the period ended December 31, 2004. The increase in royalties of 130% is consistent with the increase in natural gas sales for the year ended December 31, 2005.

## Operating Expense

	Year ended December 31, 2005		Period ended December 31, 2004		Year ended December 30, 2003	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross Production expense (\$)	1,104,114	4.33	621,680	4.35	68,819	3.43
Overhead recoveries (\$)	(87,276)	(0.34)	(51,623)	(0.36)	-	-
Net Production expense (\$)	1,016,838	3.99	570,057	3.99	68,819	3.43

Total operating expense increased by 78% to \$1,016,838 for the year ended December 31, 2005 as compared to \$570,057 in the period ended December 31, 2004. This increase can be attributed to increased production in the current year. Operating expense averaged \$3.99 per boe for the year ended December 31, 2005 and the period ended December 31, 2004. These unit operating costs are viewed as very favourable. These excellent levels of unit operating costs are partially due to the fact that a significant portion of Twoco's production is processed at Twoco operated facilities. It is anticipated that Twoco will realize a moderate increase in unit operating costs as an increasing proportion of Twoco's production is processed by third parties due to the drilling of future wells in new areas.

### Operating Netback

	Year ended December 31, 2005		Period ended December 31, 2004		Year ended December 30, 2003	
Sales price (\$/boe)	51.88		39.58		39.54	
Royalties excluding ARTC (\$/boe)	(11.45)		(8.87)		(7.08)	
Operating and transportation expenses (\$/boe)	(5.59)		(5.56)		(5.46)	
Operating netback (\$/boe)	34.84		25.15		27.00	

Twoco's operating netback increased 39% to \$34.84 per boe in the year ended December 31, 2005 as compared to \$25.15 per boe realized in the period ended December 31, 2004. This increase is predominantly due to higher commodity prices.

### General and Administrative Expense

	Year ended December 31, 2005		Period ended December 31, 2004		Year ended December 30, 2003	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	970,516	3.81	692,508	4.85	351,581	17.51
Overhead recoveries	(317,534)	(1.25)	(118,169)	(0.83)	-	-
Capitalized G&A	(256,906)	(1.01)	(157,456)	(1.10)	-	-
Net G&A expense	396,076	1.55	416,883	2.92	351,581	17.51

Twoco's net G&A expense decreased to \$396,076 in the year ended December 31, 2005 from \$416,883 in the period ended December 31, 2004. G&A costs, on a per boe basis, decreased due to the substantial increase in production levels in the current year as compared to the comparative year in 2004.

### Interest Expense

In the year ended December 31, 2005, interest expense was \$166,685 as compared to \$269,664 in the period ended December 31, 2004 and \$64,315 in the year ended December 30, 2003. Substantially all of the interest expense incurred in 2005 is attributable to the convertible debentures which Twoco issued in September 2003 to participating shareholders and which bore interest at the rate of 15% per annum. All of the convertible debentures either matured or were converted into common shares on or prior to September 30, 2005.

### Depletion, amortization and accretion

	Year ended December 31, 2005		Period ended December 31, 2004		Year ended December 30, 2003	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	4,159,000	16.32	2,276,000	15.94	250,000	12.45
Amortization expense	20,525	0.08	17,023	0.12	21,890	1.09
Accretion expense	52,198	0.20	9,673	0.07	-	-
Total	4,231,723	16.60	2,302,696	16.13	271,890	13.54

In the year ended December 31, 2005, depletion, amortization and accretion (“DA&A”) expense increased to \$4,231,723 (\$16.60 per boe) from \$2,302,696 (\$16.13 per boe) in the period ended December 31, 2004. Higher production volumes combined with increased expenditures being applied against December 31, 2005 reserves increased the total amount of DA&A expense.

### Income Taxes

Substantial increases in revenue and production volumes during the year have been offset by increased tax pools and deductions. The Company is not cash taxable for the year ended December 31, 2005.

The Company had the following estimated income tax pools available at December 31, 2005.

	Annual Deduction Available (%)	Tax Pools (\$)
Canadian exploration expense (CEE)	100	338,000
Canadian development expense (CDE)	30	2,129,000
Canadian oil and gas property expense (COGPE)	10	6,614,000
Undepreciated capital costs (UCC)	25	6,215,000
Share issue costs	20	533,000
Total	-	15,829,000

### Cash Flow from Operations

	Year ended December 31, 2005		Period ended December 31, 2004		Year ended December 30, 2003	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	13,221,224	51.88	5,651,802	39.58	683,208	34.03
Processing revenue	372,892	1.46	190,946	1.34	15,249	0.76
Royalties, net of ARTC	(2,416,573)	(9.48)	(972,670)	(6.81)	(103,126)	(5.14)
Net Interest (expense)	(185,138)	(0.73)	(193,580)	(1.36)	(59,829)	(2.98)
Operating and transportation	(1,424,014)	(5.59)	(793,285)	(5.56)	(98,454)	(4.90)
General and administrative	(396,076)	(1.55)	(416,883)	(2.92)	(347,636)	(17.32)
Current taxes	24,498	0.10	(125,000)	(0.88)	-	-
Cash flow from Operations	9,196,813	36.09	3,341,330	23.39	89,412	4.45

In the year ended December 31, 2005, the Company generated cash flow from operating activities of \$9,196,813. This represents an increase of 175% versus 2004. This increase resulted from increased sales volumes and higher commodity prices.

## Net Income and Cash Flow from Operations

	Year ended December 31, 2005		Period ended December 31, 2004		Year ended December 30, 2003	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	9,196,813	36.09	3,341,330	23.39	89,412	4.45
Less: Stock based compensation	(278,871)	(1.09)	(173,819)	(1.20)	(135,375)	(6.74)
DA&A expense	(4,231,723)	(16.61)	(2,302,696)	(16.13)	(271,890)	(13.56)
Future Income taxes	(1,661,155)	(6.52)	(23,000)	(0.16)	(142,667)	(7.11)
Gain (loss) on sale of assets			-	-	(3,945)	(0.20)
Net income (loss)	3,025,064	11.87	841,815	5.90	(464,465)	(23.16)

In the year ended December 31, 2005, the Company generated net income from operating activities of \$3,025,064. This represents an increase of 259% versus 2004. This increase resulted from sales growth and increased commodity prices.

## Capital Expenditures

Twoco's total capital expenditures for 2005, 2004 and 2003 are summarized as follows:

	Year ended December 31, 2005	Period ended December 31, 2004	Year ended December 30, 2003
Land and property acquisitions (\$)	4,891,722	1,786,571	396,312
Geological and geophysical (\$)	1,107,941	694,994	130,696
Drilling and completions (\$)	6,016,421	2,810,602	945,749
Facilities and equipment (\$)	6,898,102	936,549	1,053,604
Other (\$)	7,843	26,191	-
Total capital expenditures (\$)	18,922,029	6,254,907	2,526,361

## Liquidity and Capital Resources

Twoco had a working capital deficiency at December 31, 2005 of \$3,359,874 as compared to a working capital surplus of \$2,298,233 at December 31, 2004. Also, Twoco has established a loan facility with HSBC Bank Canada. This facility includes a \$10,000,000 demand revolving loan at an interest rate of prime and a \$1,500,000 general lease line of credit.

On an ongoing basis, Twoco will typically utilize three sources of funding to finance its capital expenditure program: internally generated cash flow from operations, debt where deemed appropriate and new equity issues if available on favourable terms. In addition, Twoco may adjust its capital expenditure program depending on the commodity price outlook and competitive nature of the Canadian oil and gas business.

As of December 31, 2005, Twoco did not have any capital expenditure commitments.

## 2006 Capital Budget

Twoco has a \$42 million 2006 capital budget which reflects the anticipated drilling of 48 net wells in 2006. The majority of these wells will be drilled in Twoco's core areas of

Andrew/Willingdon and Steele/Bolloque/Grassland, both of which are located Northeast of Edmonton, in Alberta.

### Quarterly Results

The following table summarizes certain quarterly financial information relating to the Company.

Quarter Ended	Petroleum and Natural Gas Sales			Net Income		
	(\$)	(\$/share)		(\$)	(\$/share)	
		Basic	Diluted		Basic	Diluted
December 31, 2005	5,360,827	0.37	0.33	1,314,671	0.09	0.09
September 30, 2005	3,331,552	0.25	0.22	779,352	0.06	0.05
June 30, 2005	2,395,315	0.19	0.16	511,891	0.04	0.04
March 31, 2005	2,133,530	0.18	0.16	419,150	0.04	0.03
December 31, 2004	1,656,308	0.14	0.14	447,630	0.04	0.04
September 30, 2004	1,479,174	0.13	0.12	6,633	0.00	0.00
June 29, 2004	1,358,477	0.12	0.12	198,978	0.02	0.02
March 30, 2004	1,157,843	0.15	0.14	188,574	0.02	0.02

### Summary of Quarterly Information

	Quarter Ended					
	2005 Dec 31		2005 Sept 30	2005 Jun 30	2005 Mar 31	
	(\$)	(\$/boe)				
Revenue	5,360,827	65.23	3,331,552	2,395,315	2,133,530	
Processing Revenue	181,159	2.20	95,478	53,931	42,324	
Royalties, net of ARTC	(1,175,272)	(14.30)	(505,938)	(380,785)	(354,578)	
Operating and Transportation	(587,234)	(7.15)	(305,120)	(279,506)	(252,154)	
G&A Expense	(185,288)	(2.25)	(10,782)	(29,276)	(170,730)	
Net Interest (Income) Expense	(35,787)	(0.44)	(73,430)	(30,690)	(45,231)	
Current Tax Recovery (Expense)	-	-	24,498	79,394	(79,394)	
Cash Flow from Operations	3,558,405	43.29	2,556,258	1,808,383	1,273,767	

	Quarter Ended					
	2004 Dec 31		2004 Sept 30	2004 Jun 29	2004 Mar 30	
	(\$)	(\$/boe)				
Revenue	1,656,308	39.97	1,479,174	1,358,477	1,157,843	
Processing Revenue	81,362	1.96	29,038	40,704	39,842	
Royalties, net of ARTC	(300,170)	(7.24)	(245,284)	(222,950)	(204,266)	
Operating and Transportation	(250,809)	(6.05)	(227,125)	(159,869)	(155,482)	
G&A Expense	(121,917)	(2.94)	(25,912)	(120,513)	(148,541)	
Net Interest (Income) Expense	(84,726)	(2.04)	(3,741)	(44,829)	(60,284)	
Current Tax Recovery (Expense)	46,900	(1.13)	(91,343)	(80,557)	-	
Cash Flow from Operations	1,026,948	24.78	914,807	770,463	629,112	

Sales in the fourth quarter of 2005 averaged 893 boe/d, a 98% increase from the fourth quarter of 2004 which averaged 450 boe/d. This result was attained due to a successful 2005 drilling and optimization program.

## Outstanding Share Data

The following table sets forth the capitalization of Twoco as at December 31, 2005:

	Authorized	Outstanding as at December 31, 2005	Common Shares underlying Convertible Securities
Share Capital			
Common Shares <sup>(1)</sup>	Unlimited	14,773,306	-
Stock Options <sup>(2)</sup>	Not Applicable	1,442,000	1,442,000
Preferred Shares	Unlimited	Nil	-
Long term Debt <sup>(3)</sup>	Not Applicable	Nil	Nil

### Notes:

- (1) As at the date hereof, Twoco has 14,773,306 common shares outstanding.
- (2) Twoco currently has outstanding under its stock option plan, options to purchase 610,000 common shares at an exercise price of \$1.25 per share, 20,000 common shares at an exercise price of \$1.75 per share, 280,000 common shares at an exercise price of \$2.20 per share, 20,000 common shares at an exercise price of \$2.80 per share, 218,000 common shares at an exercise price of \$3.00 per share, 175,000 common shares at a price of \$3.75 per share and 119,000 common shares at a price of \$7.10 per share.
- (3) Twoco currently has \$12 million of redeemable, convertible, unsecured debentures (“**Convertible Debentures**”) outstanding. The Convertible Debentures bear interest at the 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 Debentures are convertible into common shares of the Corporation 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 Corporation has the ability to redeem the Convertible Debentures if the closing price of its common shares on the TSX Venture Exchange (or such other exchange on which the common shares trade) exceeds \$8.25 for 21 consecutive trading days or in certain circumstances where an offer is made to acquire common shares of the Corporation.

## Critical Accounting Estimates

Twoco’s financial statements are prepared in accordance with GAAP. A comprehensive discussion of Twoco’s significant accounting policies is contained in Note 3 to the audited consolidated financial statements for the year ended December 31, 2005 and the period ended December 31, 2004. Twoco’s significant accounting policies are subject to estimates and key judgements about future events, many of which are beyond management’s control.

## Changes in Accounting Policies and Practices

The Company has adopted the new required standards with respect to full cost accounting, asset retirement obligations, stock-based compensation disclosure of transportation costs and treatment of flow-through shares.

### ***Full Cost Accounting***

Effective December 31, 2003, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 16 “Oil and Gas Accounting - Full Cost”. The new guideline modifies the ceiling test calculation and outlines additional disclosure requirements. 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 impairments, 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 resources. 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. For purposes of the ceiling test, future cash flows are calculated exclusive of indirect costs such as financing charges, general and administrative expenses and income taxes. Any recognized impairment is recorded as additional depletion and amortization expense.

The Company performed a ceiling test under AcG-16 and there was no impact on the financial results reported.

### ***Asset Retirement Obligations***

Effective December 31, 2003, the Company has adopted retroactively, with restatement of prior periods, the CICA’s new standard on Asset Retirement Obligations. This new section requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of petroleum and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition.

Under the new standard, 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.

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

### ***Stock-Based Compensation***

Effective December 31, 2003, the Company elected to retroactively adopt amendments to CICA Handbook Section 3870 “Stock-based Compensation and other Stock-based

Payments". Under the amended standard, the Company must account for all stock options issued at fair value.

Under the transitional provisions of the standard, the Company has elected to apply the amended standard retroactively, with restatement, to all stock options issued after the effective date of implementation, being January 1, 2002.

Under this method, compensation costs attributed to all share options and warrants 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 and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The contributed surplus balance is reduced as the options and warrants are exercised and the amount initially recorded is credited to share capital.

The Company has not incorporated an estimated forfeiture rate for stock options and warrants that will not vest, rather, the Company accounts for actual forfeitures as they occur.

### ***Flow-Through Shares***

Effective for equity issuances after March 19, 2004, the Company records the future income taxes associated with the renunciation of expenditures for income tax purposes on the date the Company renounces the expenditures. This change is in accordance with Abstract 146 from the Emerging Issues Committees of the CICA.

Prior to the adoption of this policy, the Company recorded future income taxes when the associated expenditures were incurred.

### ***Transportation Costs***

For the fiscal year beginning December 31, 2003, the Company revised its presentation of transportation costs in accordance with CICA Handbook Section 1100 "Generally Accepted Accounting Principles", which eliminates industry practice as a source of GAAP. As a result, revenue has been presented prior to transportation costs and a separate expense for transportation costs has been presented in the consolidated statements of income (loss) and retained earnings (deficit). The Company has reclassified previously reported amounts to be consistent with the presentation under this new policy. There was no impact on net income or cash flow in 2004 and 2003.

### ***Risks and Uncertainties***

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the manpower and capital employed will not result in the finding of new reserves in economic quantities. There is a risk that the sale of reserves may be delayed indefinitely due to processing constraints, lack of pipeline capacity or lack of markets. The price Twoco receives for its oil and natural gas production fluctuates continuously and, for the most part, is beyond the Company's control. Twoco is exposed to financial risks including fluctuation in interest rates and the Canadian/US dollar exchange rate. Twoco is also subject to the risks associated with owning oil and natural gas properties, including environmental risks associated with air,

land and water. In all areas of our business, we compete against entities that may have greater technical and financial resources. Twoco's growth may be dependent upon external sources of financing which may not be available on acceptable terms. There are numerous uncertainties in estimating Twoco's reserve base due to the complexities in estimating the magnitude and timing of future production, revenue, expenses and capital.

Twoco mitigates these risks by hiring highly qualified personnel, either directly as employees or indirectly when contracting for services. Our philosophy of focusing on a limited number of geographical areas allows us to develop a high level of technical and managerial expertise in each area. To control the cost and pace of development, we acquire high working interests in each prospect and operate wherever possible. Twoco may enter into commodity price and interest rate hedging strategies to add a degree of certainty to cash flow. In the field, we adhere to sound operational standards, which meet or exceed recognized levels. Finally, Twoco maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions.

#### **Off-Balance Sheet Arrangements**

Twoco does not have any special purpose entities nor is it a party to any arrangement that would be excluded off the balance sheet.

#### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information required to be disclosed is gathered and reported to senior management. As at December 31, 2005, the Chief Executive Officer and the Treasurer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that such controls and procedures are adequate and effective.

#### **Related Party Transactions**

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 of \$47,673 (2004 - \$8,000) were incurred to a law firm of which a director of the Company is an associate.

Included in accounts payable and accrued liabilities at December 31, 2005 is \$17,260 (2004 - \$16,466) owing to these related parties.

Included in interest on debentures payable is \$68,942 (2004 - \$115,408) paid to directors, 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.

#### **Outlook**

In view of our past success, it is Twoco's intention to continue with the same growth plan and exploration philosophy.

Twoco participated in the drilling of 35 gross (28.2 net) wells during 2005. In the first quarter of 2006, Twoco participated in the drilling of 2 gross (1.9 net) wells. Both wells were cased and will be completed in the second quarter of 2006. Twoco is projecting that initial production from these wells should be realized in the third quarter of 2006. It is anticipated that Twoco will participate in the drilling of approximately 46 additional net wells in the remainder of 2006.

Twoco's strong balance sheet and expected increased cash flows from prospects currently being developed, along with the proven expertise of our technical team bodes well for the future growth of the Company.

The combination of cash flows from Twoco's operations, the loan facilities that Twoco has with its bank as well as the issuance of \$12,000,000 of 7.5% redeemable, convertible, unsecured debentures issued by Twoco on March 31, 2006, will enable Twoco to actively participate in numerous exploration and exploitation opportunities as they are identified. Twoco will review all capital expenditure programs on a regular basis throughout 2006 and adjust spending accordingly having regard to factors such as changes in commodity prices.