

TWOCO PETROLEUMS LTD.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A) FORM 51-102F1

FOR THE QUARTER ENDED June 30, 2006

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited interim consolidated financial statements for Twoco Petroleum Ltd., ("**Twoco**" or the "**Company**"), and related notes for the quarter ended June 30, 2006 and Twoco's audited consolidated financial statements, notes thereto, and MD&A for the year ended December 31, 2005. Twoco has changed the ending date of its financial year from December 30 to December 31, commencing with the twelve month period ending December 31, 2004. The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**"). Additional information with respect to Twoco can be found on SEDAR at 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 six thousand cubic feet ("**mcf**") : one 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 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 unaudited interim 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 revenue.

This MD&A is dated as of August 24, 2006 except where otherwise stated.

Selected Quarterly and Six Month Information

	Quarter ended June 30, 2006 (\$)	Quarter ended June 30, 2005 (\$)	Quarter ended June 29, 2004 (\$)
Revenue	2,935,502	2,395,315	1,328,916
Cash Flow from Operations	1,902,405	1,808,383	770,463
Net Income	413,566	511,891	198,978
Per share - Basic	0.03	0.04	0.02
Per share - Diluted	0.03	0.04	0.02
Total Assets	48,372,658	25,704,986	17,776,297
Total Long-Term Liabilities	18,635,677	3,830,784	4,764,072
Dividends	Nil	Nil	Nil

	Six Months ended June 30, 2006 (\$)	Six Months ended June 30, 2005 (\$)	Six Months ended June 29, 2004 (\$)
Revenue	6,728,342	4,528,845	2,486,846
Cash Flow from Operations	4,295,381	3,082,150	1,399,575
Net Income	985,057	931,041	387,552
Per share - Basic	0.07	0.07	0.02
Per share - Diluted	0.06	0.07	0.02
Total Assets	48,372,658	25,704,986	17,776,297
Total Long-Term Liabilities	18,635,677	3,830,784	4,764,072
Dividends	Nil	Nil	Nil

Petroleum and Natural Gas Sales (Volumes)

	Quarter ended June 30, 2006	Quarter ended June 30, 2005	Quarter ended June 29, 2004
Natural Gas (mcf/d)	5,742	3,525	2,111
Oil and NGL's (bbls/d)	3	1	0
Total (boe/d)	960	589	352

	Six Months ended June 30, 2006	Six Months ended June 30, 2005	Six Months ended June 29, 2004
Natural Gas (mcf/d)	5,804	3,446	2,095
Oil and NGL's (bbls/d)	3	1	0
Total (boe/d)	970	575	349

The increase in petroleum in natural gas sales (volumes) for both of the comparable quarterly and six month periods ending June 30, 2006 is a result of production added by the Company

through drilling and optimization activities. Average daily sales for the quarter ended June 30, 2006 rose to 960 boe/d as compared to 589 boe/d in the comparative quarter of 2005, an increase of 63%, as a result of these activities.

Petroleum and Natural Gas Sales (\$)

	Quarter ended June 30, 2006	Quarter ended June 30, 2005	Quarter ended June 29, 2004
Natural Gas Sales (\$)	2,925,564	2,388,460	1,323,995
\$/mcf	5.60	7.45	6.93
Oil and NGL Sales (\$)	9,938	6,855	4,921
\$/barrel	34.75	55.73	43.47
Total Sales (\$)	2,935,502	2,395,315	1,328,916

	Six Months ended June 30, 2006	Six Months ended June 30, 2005	Six Months ended June 29, 2004
Natural Gas Sales (\$)	6,708,637	4,516,130	2,481,925
\$/mcf	6.39	7.24	6.54
Oil and NGL Sales (\$)	19,705	12,715	4,921
\$/barrel	33.63	51.06	43.47
Total Sales (\$)	6,728,342	4,528,845	2,486,846

Petroleum and natural gas ("P&NG") sales increased to \$2,935,502 for the quarter ended June 30, 2006 from \$2,395,315 for the quarter ended June 30, 2005 and to \$6,728,342 for the six months ended June 30, 2006 from \$4,528,845 for the six months ended June 30, 2005. This represents an increase from the comparative periods in 2005 of 23% for the quarter and 49% for the six months.

Royalties

	Quarter ended June 30, 2006		Quarter ended June 30, 2005		Quarter ended June 29, 2004	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	285,322	10	466,477	19	241,678	17
Freehold & GORR	46,312	-	30,870	1	23,094	2
ARTC	(70,466)	(1)	(116,562)	(5)	(60,419)	(4)
Total royalties	261,168	9	380,785	16	204,353	15

	Six Months ended June 30, 2006		Six Months ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	1,199,465	17	904,062	20	464,930	19
Freehold & GORR	114,424	2	56,813	1	49,041	2
ARTC	(298,296)	(4)	(225,512)	(5)	(116,229)	(5)
Total royalties	1,015,593	15	735,363	16	397,742	16

Total royalties excluding ARTC were \$1,313,889 for the six months ended June 30, 2006 versus \$960,875 for the six months ended June 30, 2005. The increase in royalties of 37% is consistent with the increase in natural gas sales for the six months ended June 30, 2006. Royalties, excluding ARTC, as a percentage of gross sales were 19% in the six months ended June 30, 2006 as compared to 21% in the six months ended June 30, 2005. This decrease in royalty rate is a result of Gas Cost Allowance credits being applied against Crown royalties in the quarter ended June 30, 2006.

Operating Expense

	Quarter ended June 30, 2006		Quarter ended June 30, 2005		Quarter ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense (\$)	502,852	5.76	215,135	4.02	120,688	3.77
Processing revenue (\$)	(243,371)	(2.79)	(53,931)	(1.02)	(40,704)	(1.27)
Overhead recoveries (\$)	(46,112)	(0.53)	(20,102)	(0.38)	(10,581)	(0.33)
Net operating expense (\$)	213,369	2.44	141,102	2.62	69,403	2.17

	Six Months ended June 30, 2006		Six Months ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense (\$)	1,091,568	6.21	405,309	3.89	241,858	3.83
Processing revenue (\$)	(499,201)	(2.84)	(96,255)	(0.92)	(80,546)	(1.28)
Overhead recoveries (\$)	(85,991)	(0.49)	(35,393)	(0.34)	(22,260)	(0.35)
Net operating expense (\$)	506,376	2.88	273,661	2.63	139,052	2.20

Total operating expense increased by 51% to \$213,369 for the quarter ended June 30, 2006 as compared to \$141,102 in the comparative quarter of 2005. This increase can be attributed to increased production in the current quarter. Operating expense averaged \$2.44 per boe for the quarter ended June 30, 2006 as compared to \$2.62 per boe for the quarter ended June 30, 2005. 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.

Transportation Expense

	Quarter ended June 30, 2006		Quarter ended June 30, 2005		Quarter ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	115,289	1.32	84,473	1.58	49,762	1.55

	Six Months ended June 30, 2006		Six Months ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	250,939	1.43	161,744	1.55	95,753	1.52

Total transportation expense increased by 36% to \$115,289 for the quarter ended June 30, 2006 as compared to \$84,473 for the quarter ended June 30, 2005. This increase can be attributed to increased sales in the current quarter. Transportation expense averaged \$1.32 per boe for the quarter ended June 30, 2006 consistent with \$1.58 per boe for the quarter ended June 30, 2005.

Operating Netback

	Quarter ended June 30, 2006 (\$/boe)	Quarter ended June 30, 2005 (\$/boe)	Quarter ended June 29, 2004 (\$/boe)
Sales price	33.60	44.70	41.58
Royalties excluding ARTC	(3.80)	(9.28)	(8.30)
Processing revenue	2.79	1.02	1.28
Operating and transportation expenses	(6.55)	(5.22)	(4.99)
Operating netback	26.04	31.22	29.57

	Six Months ended June 30, 2006 (\$/boe)	Six Months ended June 30, 2005 (\$/boe)	Six Months ended June 29, 2004 (\$/boe)
Sales price	38.31	43.46	39.24
Royalties excluding ARTC	(7.48)	(9.22)	(8.65)
Processing revenue	2.84	0.92	1.28
Operating and transportation expenses	(7.15)	(5.10)	(4.99)
Operating netback	26.52	30.06	26.88

Twoco's operating netback decreased 17% to \$26.04 per boe in the quarter ended June 30, 2006 as compared to \$31.22 per boe realized in the quarter ended June 30, 2005. This decrease is due to lower per unit sales prices.

General and Administrative Expense

	Quarter ended June 30, 2006		Quarter ended June 30, 2005		Quarter ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	397,619	4.55	148,322	2.78	146,166	4.54
Overhead recoveries	(75,112)	(0.86)	(60,237)	(1.13)	(25,653)	(0.80)
Capitalized G&A	(65,887)	(0.75)	(58,809)	(1.10)	-	-
Net G&A expense	256,620	2.94	29,276	0.55	120,513	3.74

	Six Months ended June 30, 2006		Six Months ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	660,213	3.76	419,615	4.03	309,684	4.85
Overhead recoveries	(136,271)	(0.78)	(97,816)	(0.94)	(40,630)	(0.64)
Capitalized G&A	(134,148)	(0.76)	(121,793)	(1.17)	-	-
Net G&A expense	389,794	2.22	200,006	1.92	269,054	4.21

Twoco's net G&A expense increased to \$256,620 in the quarter ended June 30, 2006 from \$29,276 in the quarter ended June 30, 2005. G&A costs increased in the current quarter as compared to the comparative quarter in 2005 due to the combination of increased costs associated with preparation of the December 31, 2005 reserve report as well as accounting and legal fees associated with reporting for the year ended December 31, 2005.

Interest Expense

In the quarter ended June 30, 2006, interest expense increased to \$250,122 from \$122,532 in the quarter ended June 30, 2005. Substantially all of the interest expense incurred in the quarter ended June 30, 2006 is attributable to interest on capital leases and debentures.

Depletion, Amortization and Accretion

	Quarter ended June 30, 2006		Quarter ended June 30, 2005		Quarter ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	1,581,000	18.10	844,500	15.76	523,000	16.33
Amortization expense	4,400	0.04	4,795	0.09	4,060	0.12
Accretion expense	26,720	0.31	29,941	0.56	2,418	0.08
Total	1,612,120	18.45	879,236	16.41	529,478	16.53

	Six Months ended June 30, 2006		Six Months ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	3,023,000	17.21	1,514,500	14.53	966,000	15.30
Amortization expense	8,321	0.05	9,303	0.09	6,780	0.10
Accretion expense	40,161	0.23	40,147	0.39	4,836	0.08
Total	3,071,482	17.49	1,563,950	15.01	977,616	15.48

In the quarter ended June 30, 2006, depletion, amortization and accretion ("DA&A") expense

increased to \$1,612,120 (\$18.45 per boe). Higher production volumes combined with increased expenditures being applied against December 31, 2005 reserves increased the total amount of DA&A expense.

Income Taxes

The Company continues to not be cash taxable due to increased capital expenditures and tax deductions offsetting increases in revenue and production volumes. However, the Company's subsidiary is cash taxable due to limited tax pool deductions to offset increased revenues.

Cash Flow from Operations

	Quarter ended June 30, 2006		Quarter ended June 30, 2005		Quarter ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	2,935,502	33.60	2,395,315	44.70	1,328,916	41.49
Processing revenue	243,371	2.79	53,931	1.02	40,704	1.27
Royalties, net of ARTC	(261,168)	(2.99)	(380,785)	(7.11)	(193,389)	(6.04)
Net Interest (expense)	(169,892)	(1.94)	(30,690)	(0.57)	(44,829)	(1.40)
Operating and transportation	(572,029)	(6.55)	(279,506)	(5.22)	(159,869)	(4.99)
General and administrative	(256,620)	(2.94)	(29,276)	(0.55)	(120,513)	(3.77)
Current taxes	(16,759)	(0.19)	79,394	1.48	(80,557)	(2.51)
Cash flow from Operations	1,902,405	21.78	1,808,383	33.75	770,463	24.05

	Six Months ended June 30, 2006		Six Months ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	6,728,342	38.30	4,528,845	43.46	2,486,846	39.37
Processing revenue	499,201	2.84	96,255	0.92	80,546	1.28
Royalties, net of ARTC	(1,015,593)	(5.78)	(735,363)	(7.06)	(397,742)	(6.30)
Net Interest (expense)	(253,500)	(1.44)	(75,921)	(0.73)	(105,113)	(1.66)
Operating and transportation	(1,256,516)	(7.15)	(531,660)	(5.10)	(315,351)	(4.99)
General and administrative	(389,794)	(2.22)	(200,006)	(1.92)	(269,054)	(4.26)
Current taxes	(16,759)	(0.10)	-	-	(80,557)	(1.28)
Cash flow from Operations	4,295,381	24.45	3,082,150	29.57	629,112	22.16

In the quarter ended June 30, 2006, the Company generated cash flow from operating activities of \$1,902,405. This represents an increase of 5% versus the quarter ended June 30, 2005. In the six months ended June 30, 2006, the Company generated cash flow from operating activities of \$4,295,381. This represents an increase of 39% versus the six months ended June 30, 2005. These increases resulted from increased sales volumes.

Net Income and Cash Flow from Operations

	Quarter ended June 30, 2006		Quarter ended June 30, 2005		Quarter ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	1,902,405	21.78	1,808,383	33.75	770,463	24.05
Less: Stock based compensation	(99,279)	(1.14)	(93,256)	(1.74)	(1,658)	(0.05)
Amortization of deferred charges	(12,450)	(0.14)	-	-	-	-
DA&A expense	(1,612,120)	(18.45)	(879,236)	(16.41)	(529,478)	(16.53)
Future Income taxes	235,010	2.69	(324,000)	(6.05)	(40,349)	(1.26)
Net income	413,566	4.74	511,891	9.55	198,978	6.21

	Six Months ended June 30, 2006		Six Months ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	4,295,381	24.45	3,082,150	29.57	1,399,575	22.16
Less: Stock based compensation	(198,557)	(1.13)	(135,159)	(1.30)	(1,658)	(0.02)
Amortization of deferred charges	(12,450)	(0.07)	-	-	-	-
DA&A expense	(3,071,482)	(17.48)	(1,563,950)	(15.00)	(977,616)	(15.48)
Future Income taxes	(27,835)	(0.16)	(452,000)	(4.34)	(32,749)	(0.52)
Net income	985,057	5.61	931,041	8.93	387,552	6.14

In the quarter ended June 30, 2006, the Company generated net income from operating activities of \$413,566. This represents a decrease of 19% versus the quarter ended June 30, 2005. In the six months ended June 30, 2006, the Company generated net income from operating activities of \$985,057. This represents an increase of 6% versus the six months ended June 30, 2005.

Capital Expenditures

Twoco's total capital expenditures for the quarters and six months ended June 30, 2006, June 30, 2005 and June 29, 2004 are summarized as follows:

	Quarter ended June 30, 2006	Quarter ended June 30, 2005	Quarter ended June 29, 2004
Land and property acquisitions (\$)	586,158	1,069,297	439,621
Geological and geophysical (\$)	1,224,704	437,439	56,574
Drilling and completions (\$)	2,341,652	907,747	948,836
Facilities and equipment (\$)	604,495	583,684	191,582
Other (\$)	(64,689)	(61,840)	14,215
Total capital expenditures (\$)	4,692,320	2,936,327	1,650,828

	Six Months ended June 30, 2006	Six Months ended June 30, 2005	Six Months ended June 29, 2004
Land and property acquisitions (\$)	2,557,130	1,725,265	662,703
Geological and geophysical (\$)	1,624,405	491,899	228,360
Drilling and completions (\$)	3,161,597	1,733,619	1,371,223
Facilities and equipment (\$)	2,368,116	1,168,845	293,930
Other (\$)	6,089	2,195	17,800
Total capital expenditures (\$)	9,717,337	5,121,823	2,574,016

Liquidity and Capital Resources

Twoco's working capital surplus at June 30, 2006 increased to \$7,917,251 from \$3,800,037 at June 30, 2005. Also, Twoco has a loan facility with HSBC Bank Canada. This facility includes a \$20,000,000 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 June 30, 2006, Twoco had capital expenditure commitments of approximately \$450,000 that relates to a farm-in commitment to drill two wells on an industry participant's lands. Drilling of these wells were completed in the third quarter 2006.

2006 Capital Budget

Twoco has revised its previously announced 2006 capital budget to reflect current natural gas prices. As a result of lower than anticipated natural gas prices, Twoco has amended its capital budget such that Twoco will participate in the drilling of 36 wells (48 wells previously budgeted). Funds for prospect identification and acquisition (geological, geophysical and land) will be maintained at \$10 million. The revised total 2006 capital budget is \$29 million. The majority of the budgeted wells will be drilled in Twoco's core areas of Andrew/Willingdon and Steele/Bolloque/Grassland, both of which are located Northeast of Edmonton, 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
June 30, 2006	2,935,502	0.20	0.19	413,566	0.03	0.03
March 31, 2006	3,792,840	0.26	0.24	571,491	0.04	0.04
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

Summary of Quarterly Information

	Quarter Ended				
	2006 Jun 30		2006 Mar 31	2005 Dec 31	2005 Sept 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	2,935,502	33.60	3,792,840	5,360,827	3,331,552
Processing Revenue	243,371	2.79	255,830	181,159	95,478
Royalties, net of ARTC	(261,168)	(2.99)	(754,425)	(1,175,272)	(505,938)
Operating and Transportation	(572,029)	(6.55)	(684,488)	(587,234)	(305,120)
G&A Expense	(256,620)	(2.94)	(133,173)	(185,288)	(10,782)
Net Interest Income (Expense)	(169,892)	(1.94)	(83,608)	(35,787)	(73,430)
Current Tax Recovery (Expense)	(16,759)	(0.19)	-	-	24,498
Cash Flow from Operations	1,902,405	21.78	2,392,976	3,558,405	2,556,258

	Quarter Ended				
	2005 Jun 30		2005 Mar 31	2004 Dec 31	2004 Sept 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	2,395,315	44.70	2,133,530	1,656,308	1,479,174
Processing Revenue	53,931	1.02	42,324	81,362	29,038
Royalties, net of ARTC	(380,785)	(7.11)	(354,578)	(300,170)	(245,284)
Operating and Transportation	(279,506)	(5.22)	(252,154)	(250,809)	(227,125)
G&A Expense	(29,276)	(0.55)	(170,730)	(121,917)	(25,912)
Net Interest Income (Expense)	(30,690)	(0.57)	(45,231)	(84,726)	(3,741)
Current Tax Recovery (Expense)	79,394	1.48	(79,394)	46,900	(91,343)
Cash Flow from Operations	1,808,383	33.75	1,273,767	1,026,948	914,807

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at June 30, 2006:

	Authorized	Outstanding as at June 30, 2006	Common Shares underlying Convertible Securities
Share Capital			
Common Shares ⁽¹⁾	Unlimited	15,259,806	-
Stock Options ⁽²⁾	Not	1,442,000	1,442,000
Preferred Shares	Applicable Unlimited	Nil	-
Long term Debt ⁽³⁾	Not Applicable	\$12,000,000	1,600,000 ⁽⁴⁾

Notes:

- (1) As at the date hereof, Twoco has 15,259,806 common shares outstanding which includes 486,500 common shares issued on a "flow-through" basis ("**Flow-Through Shares**") at a price of \$9.25 per share. The Flow-Through Shares have a hold period until September 10, 2006.
- (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 on March 31, 2009 (the “**Maturity Date**”). The Convertible Debentures are 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 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 Company.
- (4) Assumes the Convertible Debentures are converted at a price of \$7.50 per share.

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 judgments about future events, many of which are beyond management’s control.

Changes in Accounting Policies and Practices

There have been no changes in the Company’s accounting policies and practices in 2006, compared to the previous year.

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 June 30, 2006, 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

A director of the Company, Larry C. Mah, is a senior partner with an accounting firm that has received compensation in the amount of \$25,611 from the Company for accounting services provided during the quarter ended June 30, 2006. Such firm continues to provide accounting services to the Company from time to time.

A director of the Company, James A.W. Williams, is a lawyer with a law firm that has received fees in amount of \$56,241 from the Company for legal services provided to the Company for the quarter ended June 30, 2006. Such firm continues to provide legal services to the Company from time to time.

Outlook

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

In the second quarter of 2006, Twoco participated in the drilling of 9 gross (8.0 net) wells compared to the drilling of 2 gross (0.7 net) wells in the second quarter of 2005. For the current year to date Twoco has participated in an aggressive drilling program that has resulted in the drilling of a total of 18 gross (15.6 net) wells that have resulted in 13 gross (11.0 net) wells being cased for potential gas production and 5 gross (4.7 net) wells being D&A. Of the 13 gross (11.0 net) wells that were cased for gas production, 5 gross (4.5 net) wells will be dual zone gas wells. Twoco is projecting that initial production from the majority of these gas wells should be realized in the third and fourth quarters of 2006 and the first quarter of 2007. It is anticipated that Twoco will participate in the drilling of approximately 18 additional 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, the issuance of \$12,000,000 of 7.5% redeemable, convertible, unsecured debentures issued by Twoco on March 31, 2006 and the issuance of 486,500 common shares issued on a "flow-through" basis at a price of \$9.25 per share for gross proceeds of \$4,500,125 on May 9, 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.