

TWOCO PETROLEUMS LTD.

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

FOR THE QUARTER ENDED September 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 September 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, except as required by securities laws. 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 November 28, 2006 except where otherwise stated.

Selected Quarterly and Nine Month Information

	Quarter ended Sept. 30, 2006 (\$)	Quarter ended Sept. 30, 2005 (\$)	Quarter ended Sept. 29, 2004 (\$)
Revenue	2,735,008	3,331,552	1,508,648
Cash Flow from Operations	1,718,356	2,556,258	914,807
Net Income (loss)	(423,664)	779,352	6,633
Per share - Basic	(0.03)	0.06	0.00
Per share - Diluted	(0.03)	0.05	0.00
Total Assets	48,188,702	28,867,873	18,252,675
Total Long-Term Liabilities	19,007,842	5,377,249	4,932,652
Dividends	Nil	Nil	Nil

	Nine Months ended Sept. 30, 2006 (\$)	Nine Months ended Sept. 30, 2005 (\$)	Nine Months ended Sept. 29, 2004 (\$)
Revenue	9,463,350	7,860,397	3,995,495
Cash Flow from Operations	6,013,737	5,638,408	2,314,382
Net Income	561,393	1,710,393	394,185
Per share - Basic	0.04	0.13	0.04
Per share - Diluted	0.04	0.12	0.04
Total Assets	48,188,702	28,867,873	18,252,675
Total Long-Term Liabilities	19,007,842	5,377,249	4,932,652
Dividends	Nil	Nil	Nil

Petroleum and Natural Gas Sales (Volumes)

	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005	Quarter ended Sept. 29, 2004
Natural Gas (mcf/d)	5,592	3,732	2,626
Oil and NGL's (bbls/d)	1	2	1
Total (boe/d)	933	624	439

	Nine Months ended Sept. 30, 2006	Nine Months ended Sept. 30, 2005	Nine Months ended Sept. 29, 2004
Natural Gas (mcf/d)	5,695	3,543	2,210
Oil and NGL's (bbls/d)	1	2	1
Total (boe/d)	950	593	369

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

Company through drilling and optimization activities. Average daily sales for the quarter ended September 30, 2006 rose to 933 boe/d from 624 boe/d in the comparative quarter of 2005, an increase of 50%, as a result of these activities.

Petroleum and Natural Gas Sales (\$)

	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005	Quarter ended Sept. 29, 2004
Natural Gas Sales (\$)	2,727,519	3,320,460	1,502,954
\$/mcf	5.30	9.67	6.22
Oil and NGL Sales (\$)	7,489	11,092	5,694
\$/barrel	74.29	64.49	54.23
Total Sales (\$)	2,735,008	3,331,552	1,508,648

	Nine Months ended Sept. 30, 2006	Nine Months ended Sept. 30, 2005	Nine Months ended Sept. 29, 2004
Natural Gas Sales (\$)	9,436,156	7,836,590	3,984,879
\$/mcf	6.26	8.10	6.58
Oil and NGL Sales (\$)	27,194	23,807	10,615
\$/barrel	77.04	56.28	48.70
Total Sales (\$)	9,463,350	7,860,397	3,995,494

Petroleum and natural gas (“P&NG”) sales decreased to \$2,735,008 for the quarter ended September 30, 2006 from \$3,331,552 for the quarter ended September 30, 2005. This decrease is due to lower per unit sales prices for natural gas. For the nine months ended September 30, 2006, P&NG sales increased to \$9,463,350 from \$7,860,397 for the nine months ended September 30, 2005.

Royalties

	Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005		Quarter ended Sept. 29, 2004	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	400,357	15	626,379	19	334,075	22
Freehold & GORR	71,122	3	36,153	1	24,205	2
ARTC	(100,090)	(4)	(156,594)	(5)	(83,522)	(6)
Total royalties	371,389	14	505,938	16	274,758	18

	Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005		Nine Months ended Sept. 29, 2004	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	1,599,822	17	1,530,441	19	799,005	20
Freehold & GORR	185,546	2	92,966	1	73,246	2
ARTC	(398,386)	(4)	(382,106)	(5)	(199,751)	(5)
Total royalties	1,386,982	15	1,241,301	16	672,500	17

Total royalties, excluding ARTC, were \$1,785,368 for the nine months ended September 30, 2006 versus \$1,623,407 for the nine months ended September 30, 2005. The increase in royalties of 10% is consistent with the increase in natural gas sales for the nine months ended September 30, 2006. Royalties, excluding ARTC, as a percentage of gross sales were 19% in the nine months ended September 30, 2006 as compared to 20% in the nine months ended September 30, 2005.

Operating Expense

	Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005		Quarter ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense (\$)	358,580	4.18	132,660	2.31	136,547	3.38
Overhead recoveries (\$)	(46,359)	(0.54)	(20,976)	(0.36)	(14,521)	(0.36)
Net operating expense (\$)	312,221	3.64	111,684	1.95	122,026	3.02

	Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005		Nine Months ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense (\$)	950,947	3.67	441,714	2.73	311,360	3.08
Overhead recoveries (\$)	(132,350)	(0.52)	(56,369)	(0.35)	(36,781)	(0.36)
Net operating expense (\$)	818,597	3.15	385,345	2.38	274,579	2.72

Total operating expense increased by 180% to \$312,221 for the quarter ended September 30, 2006 as compared to \$111,684 in the comparative quarter of 2005. This increase can be attributed to increased production in the current quarter. Net operating expense averaged \$3.64 per boe for the quarter ended September 30, 2006 as compared to \$1.95 per boe for the quarter ended September 30, 2005. These unit operating costs are viewed by management 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 due to the costs associated with the installation and operation of additional compression.

Transportation Expense

	Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005		Quarter ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	103,422	1.21	97,958	1.71	76,061	1.89

	Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005		Nine Months ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	354,361	1.37	259,702	1.61	158,313	1.57

Total transportation expense increased by 6% to \$103,422 for the quarter ended September 30, 2006 as compared to \$97,958 for the quarter ended September 30, 2005. This increase can be attributed to increased sales in the current quarter. Transportation expense averaged \$1.21 per boe for the quarter ended September 30, 2006 as compared to \$1.71 per boe for the quarter ended September 30, 2005.

Operating Netback

	Quarter ended Sept. 30, 2006 (\$/boe)	Quarter ended Sept. 30, 2005 (\$/boe)	Quarter ended Sept. 29, 2004 (\$/boe)
Sales price	31.87	58.04	37.32
Royalties excluding ARTC	(5.49)	(11.54)	(8.88)
Operating and transportation expenses	(4.84)	(3.66)	(4.91)
Operating netback	21.54	42.84	23.53

	Nine Months ended Sept. 30, 2006 (\$/boe)	Nine Months ended Sept. 30, 2005 (\$/boe)	Nine Months ended Sept. 29, 2004 (\$/boe)
Sales price	36.47	48.64	39.48
Royalties excluding ARTC	(6.88)	(10.04)	(8.64)
Operating and transportation expenses	(4.52)	(3.99)	(4.29)
Operating netback	25.07	34.61	26.55

Twoco's operating netback decreased 50% to \$21.54 per boe in the quarter ended September 30, 2006 as compared to \$42.84 per boe realized in the quarter ended September 30, 2005. This decrease is due to lower per unit sales prices for natural gas.

General and Administrative Expense

	Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005		Quarter ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	197,028	2.30	214,415	3.74	161,571	4.00
Overhead recoveries	(94,985)	(1.11)	(143,114)	(2.50)	(23,156)	(0.57)
Capitalized G&A	(63,407)	(0.74)	(60,519)	(1.05)	(112,503)	(2.79)
Net G&A expense	38,636	0.45	10,782	0.19	25,912	0.64

	Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005		Nine Months ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	857,241	3.30	634,030	3.92	471,255	4.66
Overhead recoveries	(231,256)	(0.89)	(240,930)	(1.49)	(63,786)	(0.63)
Capitalized G&A	(197,555)	(0.76)	(182,312)	(1.13)	(112,503)	(1.12)
Net G&A expense	428,430	1.65	210,788	1.30	294,966	2.91

Twoco's net G&A expense increased to \$38,636 in the quarter ended September 30, 2006 from \$10,782 in the quarter ended September 30, 2005. G&A costs increased to \$428,430 in the nine months ended September 30, 2006 as compared to \$210,788 in the nine months ended September 30, 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 September 30, 2006, interest expense increased to \$245,491 from \$89,514 in the quarter ended September 30, 2005. Substantially all of the interest expense incurred in the quarter ended September 30, 2006 is attributable to interest on capital leases and debentures.

Depletion, Amortization and Accretion

	Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005		Quarter ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	2,116,000	24.66	1,376,500	24.03	825,000	20.42
Amortization expense	4,753	0.06	5,355	0.09	8,756	0.22
Accretion expense	19,939	0.23	(9,528)	(0.21)	2,418	0.04
Total	2,140,692	24.95	1,372,327	23.91	836,174	20.68

	Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005		Nine Months ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	5,139,000	19.80	2,891,000	17.87	1,791,000	17.72
Amortization expense	13,074	0.05	14,658	0.09	15,535	0.15
Accretion expense	60,100	0.23	30,619	0.21	7,255	0.05
Total	5,212,174	20.08	2,936,277	18.17	1,813,790	17.92

In the quarter ended September 30, 2006, depletion, amortization and accretion (“DA&A”) expense increased to \$2,140,692 (\$24.95 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.

Cash Flow from Operations

	Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005		Quarter ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	2,735,008	31.87	3,331,552	58.04	1,508,648	37.32
Royalties, net of ARTC	(371,389)	(4.33)	(505,938)	(8.81)	(274,758)	(6.80)
Net Interest (expense)	(171,040)	(1.99)	(73,430)	(1.28)	(3,741)	(0.09)
Operating and transportation	(415,643)	(4.84)	(209,642)	(3.66)	(198,097)	(4.91)
General and administrative	(38,636)	(0.45)	(10,782)	(0.19)	(25,912)	(0.64)
Current taxes	(19,944)	(0.24)	24,498	0.43	(91,343)	(2.26)
Cash flow from Operations	1,718,356	20.02	2,556,258	44.53	914,807	22.62

	Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005		Nine Months ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	9,463,350	36.47	7,860,397	48.64	3,995,495	39.48
Royalties, net of ARTC	(1,386,982)	(5.35)	(1,241,301)	(7.68)	(672,501)	(6.65)
Net Interest (expense)	(424,540)	(1.64)	(149,351)	(0.92)	(108,854)	(1.08)
Operating and transportation	(1,172,958)	(4.52)	(645,047)	(3.99)	(432,892)	(4.29)
General and administrative	(428,430)	(1.65)	(210,788)	(1.30)	(294,966)	(2.91)
Current taxes	(36,703)	(0.13)	24,498	0.14	(171,900)	(1.70)
Cash flow from Operations	6,013,737	23.18	5,638,408	34.89	2,314,382	22.85

In the quarter ended September 30, 2006, the Company generated cash flow from operating activities of \$1,718,356. This represents a decrease of 33% versus the quarter ended September 30, 2005. This decrease is due to lower per unit sales prices for natural gas. In the nine months ended September 30, 2006, the Company generated cash flow from operating activities of \$6,013,737. This represents an increase of 7% versus the nine months ended September 30, 2005. This increase resulted from increased sales volumes.

Net Income and Cash Flow from Operations

	Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005		Quarter ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	1,718,356	20.02	2,556,258	44.53	914,807	22.62
Less: Stock based compensation	(99,278)	(1.16)	(67,579)	(1.17)	(32,000)	(0.79)
Amortization of deferred charges	(12,450)	(0.14)	-	-	-	-
DA&A expense	(2,140,692)	(24.95)	(1,372,327)	(23.91)	(836,174)	(20.68)
Future Income taxes	110,400	1.29	(337,000)	(5.87)	(40,000)	(0.99)
Net income (loss)	(423,664)	(4.94)	779,352	13.58	6,633	0.16

	Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005		Nine Months ended Sept. 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	6,013,737	23.18	5,638,408	34.89	2,314,382	22.85
Less: Stock based compensation	(297,835)	(1.15)	(202,738)	(1.26)	(33,658)	(0.33)
Amortization of deferred charges	(24,900)	(0.11)	-	-	-	-
DA&A expense	(5,212,174)	(20.08)	(2,936,277)	(18.17)	(1,813,790)	(17.92)
Future Income taxes	82,565	0.32	(789,000)	(4.88)	(72,749)	(0.72)
Net income (loss)	561,393	2.16	1,710,393	10.58	394,185	3.88

In the quarter ended September 30, 2006, the Company had a net loss from operating activities of \$423,664. In the nine months ended September 30, 2006, the Company generated net income from operating activities of \$561,393. This represents a decrease of 67% versus the nine months ended September 30, 2005.

Capital Expenditures

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

	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005	Quarter ended Sept. 29, 2004
Land and property acquisitions (\$)	509,844	624,298	1,250,303
Geological and geophysical (\$)	529,402	612,325	84,653
Drilling and completions (\$)	3,715,989	3,921,031	77,178
Facilities and equipment (\$)	976,140	2,908,651	460,256
Other (\$)	37,273	3,685	10,403
Total capital expenditures (\$)	5,768,648	8,069,990	1,882,793

	Nine Months ended Sept. 30, 2006	Nine Months ended Sept. 30, 2005	Nine Months ended Sept. 29, 2004
Land and property acquisitions (\$)	3,066,974	2,349,563	1,913,006
Geological and geophysical (\$)	2,153,807	1,104,224	313,013
Drilling and completions (\$)	6,877,586	5,654,650	1,398,401
Facilities and equipment (\$)	3,344,256	4,077,496	754,186
Other (\$)	43,362	5,880	28,203
Total capital expenditures (\$)	15,485,985	13,191,813	4,406,809

Liquidity and Capital Resources

Twoco's working capital surplus at September 30, 2006 increased to \$3,815,406 from \$123,571 at September 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 September 30, 2006, Twoco had capital expenditure commitments of approximately \$225,000 that related to a farm-in commitment to drill one well on an industry participant's lands. Drilling of this well was completed in October, 2006.

2006 Capital Budget

As a result of lower cash flows due to lower than anticipated gas prices Twoco has amended its capital budget such that Twoco will participate in the drilling of up to 36 wells. 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, 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 (Loss)		
	(\$)	(\$/share)		(\$)	(\$/share)	
		Basic	Diluted		Basic	Diluted
September 30, 2006	2,735,008	0.18	0.17	(423,664)	(0.03)	(0.03)
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

Summary of Quarterly Information

	Quarter Ended				
	2006 Sept. 30		2006 Jun. 30	2006 Mar. 31	2005 Dec. 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	2,735,008	31.87	2,935,502	3,792,840	5,360,827
Royalties, net of ARTC	(371,389)	(4.33)	(261,168)	(754,425)	(1,175,272)
Operating and Transportation	(415,643)	(4.84)	(328,658)	(428,658)	(406,075)
G&A Expense	(38,636)	(0.45)	(256,620)	(133,173)	(185,288)
Net Interest Income (Expense)	(171,040)	(1.99)	(169,892)	(83,608)	(35,787)
Current Tax Recovery (Expense)	(19,944)	(0.29)	(16,759)	-	-
Cash Flow from Operations	1,718,356	20.02	1,902,405	2,392,976	3,558,405

	Quarter Ended				
	2005 Sept. 30		2005 Jun. 30	2005 Mar. 31	2004 Dec. 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	3,331,552	58.04	2,395,315	2,133,530	1,656,308
Royalties, net of ARTC	(505,938)	(8.81)	(380,785)	(354,578)	(300,170)
Operating and Transportation	(209,642)	(3.66)	(225,575)	(209,830)	(169,447)
G&A Expense	(10,782)	(0.19)	(29,276)	(170,730)	(121,917)
Net Interest Income (Expense)	(73,430)	(1.28)	(30,690)	(45,231)	(84,726)
Current Tax Recovery (Expense)	24,498	0.43	79,394	(79,394)	46,900
Cash Flow from Operations	2,556,258	44.53	1,808,383	1,273,767	1,026,948

Outstanding Share Data

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

	Authorized	Outstanding as at September 30, 2006	Common Shares underlying Convertible Securities
Share Capital			
Common Shares ⁽¹⁾	Unlimited	15,259,806	-
Stock Options ⁽²⁾	Not Applicable	1,442,000	1,442,000
Preferred Shares	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.
- (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 petroleum 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 petroleum 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 petroleum 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. As at September 30, 2006 Twoco has not entered into any hedges. 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 September 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 \$24,697 from the Company for accounting services provided during the quarter ended September 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 the amount of \$9,012 from the Company for legal services provided to the Company for the quarter ended September 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 third quarter of 2006, Twoco participated in the drilling of 14 gross (12.8 net) wells compared to the drilling of 19 gross (17.3 net) wells in the third 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 26 gross (23.6 net) wells that have resulted in 20 gross (18.0 net) wells being cased for potential gas production and 6 gross (5.6 net) wells being D&A. Of the 20 gross (18.0 net) wells that were cased for gas production, 6 gross (5.5 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 fourth quarter of 2006 and the first quarter of 2007. It is anticipated that Twoco will participate in the drilling of approximately 4 additional gross 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 and the loan facilities that Twoco has with its bank will enable Twoco to actively participate in numerous exploration and exploitation opportunities as they are identified. Twoco will continue to review all capital expenditure programs on a regular basis and adjust spending accordingly having regard to factors such as changes in commodity prices.