

## **TWOCO PETROLEUMS LTD.**

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

#### **FOR THE PERIOD ENDED SEPTEMBER 30, 2005**

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 nine month period ended September 30, 2005 and Twoco's audited consolidated financial statements, notes thereto, and MD&A for the period ended December 31, 2004. 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](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 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 consolidated financial statements. Operating netbacks are determined by deducting royalties, operating and transportation expenses and general and administrative expenses from oil and gas sales revenue.

This MD&A is dated as of November 28, 2005 except where otherwise stated.

### Petroleum and Natural Gas Sales (Volumes)

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Natural gas (mcf/d)	3,732	2,626	3,543	2,210
Oil and NGL's (bbls/d)	2	1	2	1
Total (boe/d)	624	439	593	369

The increase in petroleum and natural gas sales (volumes) for both of the comparable quarterly and nine month periods ending September 30, 2005 is a result of production added by the Company through drilling and optimization activities. Average daily sales for the quarter ended September 30, 2005 rose to 624 boe/d as compared to 439 boe/d in the comparative quarter of 2004. Total wellhead production for the quarter ended September 30, 2005 averaged 670 boe/d.

### Petroleum and Natural Gas Sales (\$)

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Natural Gas Sales (\$)	3,320,460	1,502,954	7,836,590	3,984,879
\$/mcf	9.67	6.22	8.10	6.58
Oil and NGL Sales (\$)	11,092	5,694	23,807	10,615
\$/barrel	64.49	54.23	56.28	48.70
Total Sales (\$)	3,331,552	1,508,648	7,860,397	3,995,494

Petroleum and natural gas ("P&NG") sales increased to \$3,331,552 for the quarter ended September 30, 2005 from \$1,508,648 for the quarter ended September 30, 2004 and to \$7,860,397 for the nine months ended September 30, 2005 from \$3,995,494 for the nine months ended September 30, 2004. This represents an increase from the comparative periods in 2004 of 121% for the quarter and 97% for the nine months.

### Royalties

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Crown (\$)	626,379	334,075	1,530,441	799,005
Freehold, GORR (\$)	36,153	24,205	92,966	73,246
ARTC (\$)	(156,594)	(83,522)	(382,106)	(199,751)
Total royalties (\$)	505,938	274,758	1,241,301	672,500

Total royalties excluding ARTC were \$1,623,407 for the nine months ended September 30, 2005 versus \$872,251 for the same period last year. The increase in royalties is consistent with the increase in natural gas sales for the nine months ended September 30, 2005.

**Average Royalty Rate** (average % of gross P&NG sales)

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Crown	19	22	19	20
Freehold, GORR	1	2	1	2
ARTC	(5)	(1)	(5)	(5)
Total royalties	15	23	15	17

Royalties, excluding ARTC, as a percentage of gross sales were 20% in the quarter ended September 30, 2005 as compared to 24% in the quarter ended September 30, 2004. This reduced royalty rate is a result of a lower Crown royalty rate being applied as a result of lower average productivity being realized from the wells.

**Operating Expense**

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Gross Production expense (\$)	228,139	165,585	633,447	420,944
Overhead recoveries (\$)	(20,976)	(14,521)	(56,369)	(36,781)
Net Production expense (\$)	207,163	151,064	577,078	384,163
Net Production expense (\$/boe)	3.61	3.74	3.57	3.80

Total operating expense increased by 37% to \$207,163 for the quarter ended September 30, 2005 as compared to \$151,064 in the comparative quarter of 2004. This increase can be attributed to increased production in the current quarter. Operating expense averaged \$3.61 per boe for the quarter ended September 30, 2005 as compared to \$3.74 per boe for the quarter ended September 30, 2004. Both of these unit operating costs are viewed as very favourable. It is Twoco's goal to maintain these excellent operating costs by continued detailed monitoring of ongoing costs and operating our Company production wherever possible.

**Transportation Expense**

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Transportation expense (\$)	97,958	76,061	259,702	158,313
Transportation expense (\$/boe)	1.71	1.89	1.61	1.57

Total transportation expense increased by 29% to \$97,958 for the quarter ended September 30, 2005 as compared to \$76,061 for the quarter ended September 30, 2004. This increase can be attributed to increased sales in the current quarter. Transportation expense averaged \$1.71 per boe for the quarter ended September 30, 2005 as compared to \$1.89 per boe for the quarter ended September 30, 2004.

### Operating Netback

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Sales price (\$/boe)	<b>58.04</b>	<b>37.32</b>	48.64	39.48
Royalties excl. ARTC (\$/boe)	<b>11.54</b>	<b>8.88</b>	10.04	8.64
Operating and transportation expense (\$/boe)	<b>5.32</b>	<b>5.63</b>	5.18	5.37
Operating netback (\$/boe)	<b>41.18</b>	<b>22.81</b>	33.42	25.47

Twoco's operating netback increased 81% to \$41.18 per boe in the quarter ended September 30, 2005 as compared to \$22.81 per boe realized in the quarter ended September 30, 2004. In spite of a 30% increase in royalties, on a dollars per boe basis, the Company realized a higher per boe netback due to the increase in the sales price.

### General and Administrative Expense

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Gross G&A expense (\$)	<b>214,415</b>	<b>161,571</b>	634,030	471,255
Overhead recoveries (\$)	<b>(143,114)</b>	<b>(23,156)</b>	(240,930)	(63,786)
Capitalized G&A (\$)	<b>(60,519)</b>	<b>(112,503)</b>	(182,312)	(112,503)
Net G&A expense (\$)	<b>10,782</b>	<b>25,912</b>	210,788	294,966
Net G&A expense (\$/boe)	<b>0.19</b>	<b>0.64</b>	1.30	2.91

Twoco's net G&A expense decreased to \$10,782 in the quarter ended September 30, 2005 from \$25,912 in the quarter ended September 30, 2004. G&A costs, on a per boe basis, decreased in the current quarter as compared to the comparative quarter in 2004 due to the combination of higher production levels and increased overhead recoveries resulting from an expanded capital program, as well as adopting the practise of capitalizing certain G&A expenses.

### Interest Expense

In the quarter ended September 30, 2005, interest expense decreased to \$67,066 from \$68,837 in the quarter ended September 30, 2004. Substantially all of the interest expense incurred in 2005 and 2004 is attributable to the convertible debentures which Twoco issued in September 2003 to participating shareholders and which bear interest at the rate of 15% per annum. As at September 30, 2005 all convertible debentures have been converted or redeemed.

### Depletion, Amortization and Accretion

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Depletion expense (\$)	<b>1,376,500</b>	<b>825,000</b>	2,891,000	1,791,000
Amortization expense (\$)	<b>5,355</b>	<b>8,756</b>	14,658	15,535
Accretion expense (\$)	<b>(9,528)</b>	<b>2,418</b>	30,619	7,255
Total (\$)	<b>1,372,327</b>	<b>836,174</b>	2,936,277	1,813,790
Total (\$/boe)	<b>23.91</b>	<b>20.68</b>	18.17	17.92

In the quarter ended September 30, 2005, depletion, amortization and accretion (“DA&A”) expense increased to \$1,372,327 (\$23.91 per boe). Higher production volumes combined with increased capital expenditures being applied against December 31, 2004 reserves increased the total amount of DA&A expense.

### Income Taxes

Substantial increases in revenue and production volumes during the quarter were offset by increased capital expenditures and has resulted in the Company not being cash taxable for the quarter ended September 30, 2005. The Company has no flow-through share expenditure obligations.

### Cash Flow from Operations

	Quarter Ended Sept. 30, 2005		Quarter Ended Sept. 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	<b>3,331,552</b>	<b>58.04</b>	<b>1,508,648</b>	<b>37.32</b>
Processing revenue	<b>95,478</b>	<b>1.66</b>	<b>29,038</b>	<b>0.72</b>
Royalties, net of ARTC	<b>(505,938)</b>	<b>(8.81)</b>	<b>(274,758)</b>	<b>(6.80)</b>
Net Interest income (expense)	<b>(73,430)</b>	<b>(1.28)</b>	<b>(3,741)</b>	<b>(0.09)</b>
Operating and transportation	<b>(305,120)</b>	<b>(5.32)</b>	<b>(227,125)</b>	<b>(5.63)</b>
General and administrative	<b>(10,782)</b>	<b>(0.19)</b>	<b>(25,912)</b>	<b>(0.64)</b>
Current tax recovery (expense)	<b>24,498</b>	<b>0.43</b>	<b>(91,343)</b>	<b>(2.26)</b>
Cash flow from Operations	<b>2,556,258</b>	<b>44.53</b>	<b>914,807</b>	<b>22.62</b>

	Nine Months Ended Sept. 30, 2005		Nine Months ended Sept. 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	7,860,397	48.64	3,995,495	39.48
Processing revenue	191,733	1.19	109,584	1.08
Royalties, net of ARTC	(1,241,301)	(7.68)	(672,501)	(6.65)
Net Interest income (expense)	(149,351)	(0.92)	(108,854)	(1.08)
Operating and transportation	(836,780)	(5.18)	(542,476)	(5.37)
General and administrative	(210,788)	(1.30)	(294,966)	(2.91)
Current tax recovery (expense)	24,498	0.14	(171,900)	(1.70)
Cash flow from Operations	5,638,408	34.89	2,314,382	22.85

In the quarter ended September 30, 2005, the Company generated cash flow from operating activities of \$2,556,258. This represents an increase of 179% versus the

quarter ended September 30, 2004. In the nine months ended September 30, 2005, the Company generated cash flow from operating activities of \$5,638,408. This represents an increase of 144% versus the nine months ended September 30, 2004. These increases resulted from increased sales volumes, higher commodity prices, a reduction in G&A expenses and elimination of current tax payable.

### Net Income and Cash Flow from Operations

	Quarter Ended Sept. 30, 2005		Quarter Ended Sept. 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	2,556,258	44.53	914,807	22.62
Less: Stock based compensation	(67,579)	(1.17)	(32,000)	(0.79)
DA&A expense	(1,372,327)	(23.91)	(836,174)	(20.68)
Future Income taxes	(337,000)	(5.87)	(40,000)	(0.99)
Net income	779,352	13.58	6,633	0.16

	Nine Months Ended Sept. 30, 2005		Nine Months ended Sept. 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	5,638,408	34.89	2,314,382	22.85
Less: Stock based compensation	(202,738)	(1.26)	(33,658)	(0.33)
DA&A expense	(2,936,277)	(18.17)	(1,813,790)	(17.92)
Future Income taxes	(789,000)	(4.88)	(72,749)	(0.72)
Net income	1,710,393	10.58	394,185	3.88

In the quarter ended September 30, 2005, the Company generated net income from operating activities of \$779,352. This represents an increase of 11,650% versus the quarter ended September 30, 2004. In the nine months ended September 30, 2005, the Company generated net income from operating activities of \$1,710,393. This represents an increase of 334% versus the nine months ended September 30, 2004. These increases resulted from sales growth.

### Capital Expenditures

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

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Land & property acquisitions (\$)	624,298	1,250,303	2,349,563	1,913,006
Geological and geophysical (\$)	612,325	84,653	1,104,224	313,013
Drilling and completions (\$)	3,921,031	77,178	5,654,650	1,398,401
Facilities and equipment (\$)	2,908,651	460,256	4,077,496	754,186
Other (\$)	3,685	10,403	5,880	28,203
Total capital expenditures (\$)	8,069,990	1,882,793	13,191,813	4,406,809

## Liquidity and Capital Resources

Twoco's working capital surplus at September 30, 2005 decreased to \$123,571 from \$2,298,233 at December 31, 2004. Also, Twoco has a loan facility with HSBC Bank Canada. This facility includes a \$10,000,000 demand revolving loan at prime per annum and a \$1,500,000 general lease line of credit. The credit facility provides the Company with added financial flexibility. It is the intent of the Company to utilize this facility when capital programs require and/or when acquisition opportunities arise.

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, 2005, Twoco has entered into two farm-in agreements that include the drilling of earning wells prior to November 26, 2005 and December 31, 2005 respectively. As of this date, all capital expenditure commitments have been fulfilled.

## 2005 Capital Budget

In view of high commodity prices and opportunities identified by the Company, Twoco has increased its capital budget to \$16 million which reflects the anticipated drilling of 35 gross (27.5 net) wells in 2005. For the year to date Twoco has participated in the drilling of 30 gross (23.5 net) wells. The majority of these wells have been 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
<b>September 30, 2005</b>	<b>3,331,552</b>	<b>0.25</b>	<b>0.22</b>	<b>779,352</b>	<b>0.06</b>	<b>0.05</b>
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				
	2005 September 30		2005 June 30	2005 Mar 31	2004 Dec 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	3,331,552	58.04	2,395,315	2,133,530	1,656,308
Processing Revenue	95,478	1.66	53,931	42,324	81,362
Royalties, net of ARTC	(505,938)	(8.81)	(380,785)	(354,578)	(300,170)
Operating and Transportation	(305,120)	(5.32)	(279,506)	(252,154)	(250,809)
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 November 28, 2005:

	Authorized	Outstanding as at November 28, 2005	Common Shares underlying Convertible Securities
Share Capital			
Common Shares <sup>(1)</sup>	Unlimited	14,773,306	-
Stock Options <sup>(2)</sup>	Not Applicable	1,323,000	1,323,000
Preferred Shares	Unlimited	Nil	-

### Notes:

- (1) Twoco had reserved and set aside 1,200,000 Common Shares for the conversion of Convertible Debentures pursuant to the private placement whereby Twoco issued \$1,500,000 of Convertible Debentures. The Convertible Debentures were convertible into one Common Share for each \$1.25 per share of principal face value and matured on September 30, 2005. As of September 30, 2005, \$1,485,000 of Convertible Debentures had been converted into 1,188,000 Common Shares. The remaining \$15,000 of Convertible Debentures were redeemed on September 30, 2005.
- (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 and 175,000 Common Shares at an exercise price of \$3.75 per share.

## Outlook

It is Twoco's intention to continue with the same growth plan and exploration philosophy as has been utilized to date.

In view of high commodity prices and opportunities identified by the Company, Twoco has increased its capital budget to \$16 million which reflects the anticipated drilling of 35 gross (27.5 net) wells in 2005. For the year to date Twoco has participated in the drilling of 30 gross (23.5 net) wells. The majority of these wells have been drilled in Twoco's core areas of Andrew/Willingdon and Steele/Bolloque/Grassland, both of which are located Northeast of Edmonton, in Alberta.

In the third quarter of 2005, Twoco participated in the drilling of 19 gross (17.3 net) wells. Of these 19 wells, 15 gross (13.6 net) wells were cased as gas wells and the remaining

4 (3.7 net) wells were dry and abandoned ("D&A"). For the current year to date Twoco has participated in an aggressive drilling program that has resulted in the drilling of a total of 30 gross (23.5 net) wells that have resulted in 25 gross (19.5 net) wells being cased for potential gas production and 5 gross (4.0 net) wells being D&A. Of the 25 gross (19.5 net) wells that were cased for gas production, 9 gross (7.6 net) wells will be dual zone gas wells. Twoco is currently proceeding with the equipping and tie-in of several wells that were drilled in the third quarter of 2005. As of November 28, 2005 there are 9 gross (7.4 net) wells that remain to be tied in. Twoco is projecting that initial production from these gas wells should be realized in the fourth quarter of 2005 and the first quarter of 2006. In addition, it is anticipated that Twoco will participate in the drilling of 5 additional gross (4.7 net) wells in the remainder of 2005.

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.

Twoco's balance sheet as at September 30, 2005 reflects a working capital position of \$123,571. Considering the likelihood that cash flows from operations will be maintained by high commodity prices, and the formal banking arrangement that has been established, Twoco will be able to actively participate in numerous exploration and exploitation opportunities as they are identified.