

TWOCO PETROLEUMS LTD.

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

FOR THE QUARTER ENDED MARCH 31, 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 March 31, 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 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 May 26, 2006 except where otherwise stated.

Selected Quarterly Information

	Quarter ended March 31, 2006 (\$)	Quarter ended March 31, 2005 (\$)	Quarter ended March 30, 2004 (\$)
Revenue	3,792,840	2,133,530	1,157,843
Cash Flow from Operations	2,392,976	1,273,767	629,112
Net Income (Loss)	571,491	419,150	154,730
Per share - Basic	0.04	0.04	0.02
Per share - Diluted	0.04	0.03	0.02
Total Assets	44,273,206	21,214,075	11,390,674
Total Long-Term Financial Liabilities	18,112,368	3,366,135	4,413,580
Dividends	Nil	Nil	Nil

Petroleum and Natural Gas Sales (Volumes)

	Quarter Ended March 31, 2006	Quarter Ended March 31, 2005	Quarter Ended March 30, 2004
Natural Gas (mcf/d)	5,805	3,367	2,079
Oil and NGL's (bbls/d)	2	1	0
Total (boe/d)	970	562	347

The increase in natural gas sales for the quarter ended March 31, 2006 is a result of production added by the Company through drilling and optimization activities. Average daily sales for the quarter ended March 31, 2006 rose to 970 boe/d as compared to 562 boe/d in the comparative quarter of 2005, an increase of 73%, as a result of these activities.

Petroleum and Natural Gas Sales (\$)

	Quarter Ended March 31, 2006	Quarter Ended March 31, 2005	Quarter Ended March 30, 2004
Natural Gas Sales (\$)	3,783,073	2,127,670	1,157,843
\$/mcf	7.24	7.02	6.12
Oil and NGL Sales (\$)	9,767	5,860	87
\$/barrel	54.26	46.88	-
Total Sales (\$)	3,792,840	2,133,530	1,157,930

Petroleum and natural gas ("P&NG") sales increased to \$3,792,840 for the quarter ended March 31, 2006 from \$2,133,530 for the quarter ended March 31, 2005. This represents an increase of 78%.

Royalties

	Quarter ended March 31, 2006		Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	914,143	24	437,585	21	241,678	21
Freehold & GORR	68,112	2	25,943	1	23,094	2
ARTC	(227,830)	(6)	(108,950)	(5)	(60,419)	(5)
Total royalties	754,425	20	354,578	17	204,353	18

Total royalties excluding ARTC were \$982,255 for the quarter ended March 31, 2006 versus \$463,528 for the quarter ended March 31, 2005. The increase in royalties of 112% is consistent with the increase in natural gas sales for the quarter ended March 31, 2006.

Operating Expense

	Quarter ended March 31, 2006		Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense (\$)	588,717	6.75	190,174	3.76	121,170	3.84
Overhead recoveries (\$)	(39,879)	(0.46)	(15,291)	(0.30)	(11,679)	(0.37)
Net operating expense (\$)	548,838	6.29	174,883	3.46	109,491	3.47

Total operating expense increased by 214% to \$548,838 for the quarter ended March 31, 2006 as compared to \$174,883 in the comparative quarter of 2005. This increase can be attributed to increased production in the current quarter. Operating expense averaged \$6.29 per boe for the quarter ended March 31, 2006 as compared to \$3.46 per boe for the quarter ended March 31, 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 March 31, 2006		Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	135,650	1.55	77,271	1.53	45,991	1.46

Total transportation expense increased by 76% to \$135,650 for the quarter ended March 31, 2006 as compared to \$77,271 for the quarter ended March 31, 2005. This increase can be attributed to increased sales in the current quarter. Transportation expense averaged \$1.55 per boe for the quarter ended March 31, 2006 consistent with \$1.53 per boe for the quarter ended March 31, 2005.

Operating Netback

	Quarter ended March 31, 2006	Quarter ended March 31, 2005	Quarter ended March 30, 2004
Sales price (\$/boe)	43.47	42.14	36.67
Royalties excluding ARTC (\$/boe)	(11.26)	(9.15)	(8.38)
Operating and transportation expenses (\$/boe)	(7.84)	(4.98)	(4.93)
Operating netback (\$/boe)	24.37	28.01	23.36

Twoco's operating netback decreased 13% to \$24.37 per boe in the quarter ended March 31, 2006 as compared to \$28.01 per boe realized in the quarter ended March 31, 2005. This decrease is due to higher royalties and higher operating expenses.

General and Administrative Expense

	Quarter ended March 31, 2006		Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	262,594	3.01	271,293	5.35	163,518	5.18
Overhead recoveries	(61,160)	(0.70)	(37,579)	(0.74)	(14,977)	(0.48)
Capitalized G&A	(68,261)	(0.78)	(62,984)	(1.24)	-	-
Net G&A expense	133,173	1.53	170,730	3.37	148,541	4.70

Twoco's net G&A expense decreased to \$133,173 in the quarter ended March 31, 2006 from \$170,730 in the quarter ended March 31, 2005. G&A costs, on a per boe basis, decreased due to the increase in production levels in the current quarter as compared to the comparative quarter in 2005.

Interest Expense

In the quarter ended March 31, 2006, interest expense increased to \$85,109 from \$62,928 in the quarter ended March 31, 2005. Substantially all of the interest expense incurred in the quarter ended March 31, 2006 is attributable to interest on bank debt and capital lease obligations.

Depletion, Amortization and Accretion

	Quarter ended March 31, 2006		Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	1,442,000	16.53	670,000	13.23	443,000	14.03
Amortization expense	3,921	0.04	4,508	0.09	2,720	0.09
Accretion expense	13,441	0.15	10,206	0.20	2,418	0.08
Total	1,459,362	16.72	684,714	13.52	448,138	14.20

In the quarter ended March 31, 2006, depletion, amortization and accretion (“**DA&A**”) expense increased to \$1,459,362 (\$16.72 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 is not cash taxable due to increased capital expenditures and tax deductions offsetting increases in revenue and production volumes.

Cash Flow from Operations

	Quarter ended March 31, 2006		Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	3,792,840	43.47	2,133,530	42.14	1,157,930	36.67
Processing revenue	255,830	2.93	42,324	0.84	39,842	1.26
Royalties, net of ARTC	(754,425)	(8.65)	(354,578)	(7.00)	(204,353)	(6.47)
Net Interest (expense)	(83,608)	(0.96)	(45,231)	(0.89)	(60,284)	(1.91)
Operating and transportation	(684,488)	(7.84)	(252,154)	(4.98)	(155,482)	(4.93)
General and administrative	(133,173)	(1.53)	(170,730)	(3.37)	(148,541)	(4.70)
Current taxes	-	-	(79,394)	(1.57)	-	-
Cash flow from Operations	2,392,976	27.42	1,273,767	25.16	629,112	19.92

In the quarter ended March 31, 2006, the Company generated cash flow from operating activities of \$2,392,976. This represents an increase of 88% versus the quarter ended March 31, 2005. This increase resulted from increased sales volumes and higher commodity prices.

Net Income and Cash Flow from Operations

	Quarter ended March 31, 2006		Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	2,392,976	27.42	1,273,767	25.16	629,112	19.92
Less: Stock based compensation	(99,278)	(1.14)	(41,903)	(0.83)	(33,844)	(1.07)
DA&A expense	(1,459,362)	(16.72)	(684,714)	(13.53)	(448,138)	(14.19)
Future Income taxes	(262,845)	(3.01)	(128,000)	(2.53)	7,600	0.24
Gain (loss) on sale of assets	-					
Net income	571,491	6.55	419,150	8.27	154,730	4.90

In the quarter ended March 31, 2006, the Company generated net income from operating activities of \$571,491. This represents an increase of 36% versus the quarter ended March 31, 2005. This increase resulted from sales growth.

Capital Expenditures

Twoco's total capital expenditures for the quarters ended March 31, 2006, March 31, 2005 and March 30, 2004 are summarized as follows:

	Quarter ended March 31, 2006	Quarter ended March 31, 2005	Quarter ended March 30, 2004
Land and property acquisitions (\$)	1,970,972	655,968	226,666
Geological and geophysical (\$)	399,701	54,460	171,786
Drilling and completions (\$)	819,945	825,872	422,387
Facilities and equipment (\$)	1,763,621	585,161	102,349
Other (\$)	70,778	64,035	-
Total capital expenditures (\$)	5,025,017	2,185,496	923,188

Liquidity and Capital Resources

Twoco's working capital surplus at March 31, 2006 increased to \$5,838,536 from \$2,481,413 at March 31, 2005. Also, Twoco has 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 March 31, 2006, 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
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
June 29, 2004	1,358,477	0.12	0.12	198,978	0.02	0.02

Summary of Quarterly Information

	Quarter Ended				
	2006 Mar 31		2005 Dec 31	2005 Sept 30	2005 Jun 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	3,792,840	43.47	5,360,827	3,331,552	2,395,315
Processing Revenue	255,830	2.93	181,159	95,478	53,931
Royalties, net of ARTC	(754,425)	(8.65)	(1,175,272)	(505,938)	(380,785)
Operating and Transportation	(684,488)	(7.84)	(587,234)	(305,120)	(279,506)
G&A Expense	(133,173)	(1.53)	(185,288)	(10,782)	(29,276)
Net Interest Income (Expense)	(83,608)	(0.96)	(35,787)	(73,430)	(30,690)
Current Tax Recovery (Expense)	-	-	-	24,498	79,394
Cash Flow from Operations	2,392,976	27.42	3,558,405	2,556,258	1,808,383

	Quarter Ended				
	2005 Mar 31		2004 Dec 31	2004 Sept 30	2004 Jun 29
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	2,133,530	42.14	1,656,308	1,479,174	1,358,477
Processing Revenue	42,324	0.84	81,362	29,038	40,704
Royalties, net of ARTC	(354,578)	(7.00)	(300,170)	(245,284)	(222,950)
Operating and Transportation	(252,154)	(4.98)	(250,809)	(227,125)	(159,869)
G&A Expense	(170,730)	(3.37)	(121,917)	(25,912)	(120,513)
Net Interest Income (Expense)	(45,231)	(0.89)	(84,726)	(3,741)	(44,829)
Current Tax Recovery (Expense)	(79,394)	(1.57)	46,900	(91,343)	(80,557)
Cash Flow from Operations	1,273,767	25.16	1,026,948	914,807	770,463

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at March 31, 2006:

	Authorized	Outstanding as at March 31, 2006	Common Shares underlying Convertible Securities
Share Capital			
Common Shares ⁽¹⁾	Unlimited	14,773,306	-
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. 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 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.
- (4) Assumes the Convertible Debentures are exercised 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 March 31, 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 Corporation, Larry C. Mah, is a senior partner with an accounting firm that has received compensation in the amount of \$9,568 from the Corporation for accounting services provided during the quarter ended March 31, 2006. Such firm continues to provide accounting services to the Corporation from time to time.

A director of the Corporation, James A.W. Williams, is a lawyer with a law firm that has received fees in amount of \$47,223 from the Corporation for legal services provided to the Corporation for the quarter ended March 31, 2006. Such firm continues to provide legal services to the Corporation 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 first quarter of 2006, Twoco participated in the drilling of 2 gross (1.9 net) wells compared to the drilling of 7 gross (3.9 net) wells in the first quarter of 2005. 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, 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.