

TWOCO PETROLEUMS LTD.

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

FOR THE QUARTER ENDED MARCH 31, 2007

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited interim financial statements for Twoco Petroleum Ltd. ("**Twoco**" or the "**Company**") and related notes for the quarter ended March 31, 2007 and Twoco's audited consolidated financial statements, notes thereto, and MD&A for the year ended December 31, 2006. 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 pursuant to applicable 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 Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. The term "cash flow", which is expressed before changes in non-cash working capital, and the term "operating netbacks" are used by the Company to analyze operating performance, leverage and liquidity. The reconciliation between net earnings and cash flow from operations can be found in the statements of cash flows in the unaudited interim financial statements for the quarter ended March 31, 2007. Operating netbacks are determined by deducting royalties, operating and transportation expenses and general and administrative expenses from petroleum and natural gas sales.

This MD&A is dated as of May 24, 2007 except where otherwise stated.

Selected Quarterly Information

	Quarter ended March 31, 2007 (\$)	Quarter ended March 31, 2006 (\$)	Quarter ended March 31, 2005 (\$)
Revenue	3,853,216	3,792,840	2,133,530
Cash Flow from Operations	2,250,334	2,392,976	1,273,767
Net Income (Loss)	11,541	571,491	419,150
Per share - Basic	0.00	0.04	0.04
Per share - Diluted	0.00	0.04	0.03
Total Assets	52,662,405	44,273,206	21,214,075
Total Long-Term Financial Liabilities	20,402,358	18,112,368	3,366,135
Dividends	Nil	Nil	Nil

Petroleum and Natural Gas Sales (Volumes)

	Quarter ended March 31, 2007	Quarter ended March 31, 2006	Quarter ended March 31, 2005
Natural Gas (mcf/d)	6,254	5,805	3,367
Oil and NGL's (bbls/d)	1	2	1
Total (boe/d)	1,043	970	562

The increase in natural gas sales volumes for the quarter ended March 31, 2007 is a result of production added by the Company through drilling and optimization activities. Average daily sales for the quarter ended March 31, 2007 rose to 1,043 boe/d as compared to 970 boe/d in the comparative quarter of 2006, an increase of 8%, as a result of these activities.

Petroleum and Natural Gas Sales (Values)

	Quarter ended March 31, 2007	Quarter ended March 31, 2006	Quarter ended March 31, 2005
Natural Gas Sales (\$)	3,844,260	3,783,073	2,127,670
\$/mcf	6.83	7.24	7.02
Oil and NGL Sales (\$)	8,956	9,767	5,860
\$/barrel	74.63	54.26	46.88
Total Sales (\$)	3,853,216	3,792,840	2,133,530

Petroleum and natural gas ("P&NG") sales values increased to \$3,853,216 for the quarter ended March 31, 2007 from \$3,792,840 for the quarter ended March 31, 2006. This represents an increase of 2%. This increase is predominantly due to the increase in natural gas sales volumes for the quarter ended March 31, 2007.

Royalties

	Quarter ended March 31, 2007		Quarter ended March 31, 2006		Quarter ended March 31, 2005	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	635,235	16	914,143	24	437,585	21
Freehold & GORR	106,314	3	68,112	2	25,943	1
ARTC	-	-	(227,830)	(6)	(108,950)	(5)
Total royalties	741,549	19	754,425	20	354,578	17

Total royalties, excluding Alberta Royalty Tax Credit (“**ARTC**”), were \$741,549 for the quarter ended March 31, 2007 versus \$982,255 for the quarter ended March 31, 2006. Royalties, excluding ARTC, as a percentage of gross sales were 19% in the quarter ended March 31, 2007 as compared to 26% in the quarter ended March 31, 2006. This decrease in royalty rate is a result of increased Gas Cost Allowance credits being applied against Crown royalties in the quarter ended March 31, 2007. Twoco benefited from ARTC in 2006, however, the program was eliminated by the Government of Alberta as of January 1, 2007.

Operating Expense

	Quarter ended March 31, 2007		Quarter ended March 31, 2006		Quarter ended March 31, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense	428,734	4.56	332,887	3.82	147,850	2.91
Overhead recoveries	(53,622)	(0.57)	(39,879)	(0.46)	(15,291)	(0.30)
Net operating expense	375,112	3.99	293,008	3.36	132,559	2.61

Total operating expense increased by 28% to \$375,112 for the quarter ended March 31, 2007 as compared to \$293,008 in the comparative quarter of 2006. This increase can be attributed to increased production in the current quarter. Operating expenses averaged \$3.99 per boe for the quarter ended March 31, 2007 as compared to \$3.36 per boe for the quarter ended March 31, 2006. These unit operating costs are viewed by management as very favourable and 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, in the future, will realize a moderate increase in unit operating costs mainly due to increased costs associated with additional gas compression requirements.

Transportation Expense

	Quarter ended March 31, 2007		Quarter ended March 31, 2006		Quarter ended March 31, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense	136,610	1.46	135,650	1.55	77,271	1.53

Total transportation expense increased by 1% to \$136,610 for the quarter ended March 31, 2007 as compared to \$135,650 for the quarter ended March 31, 2006. This increase is predominantly due to the increase in natural gas sales volumes for the quarter ended March 31, 2007.

Operating Netback

	Quarter ended March 31, 2007	Quarter ended March 31, 2006	Quarter ended March 31, 2005
Sales price (\$/boe)	41.02	43.47	42.14
Royalties excluding ARTC (\$/boe)	(7.89)	(11.26)	(9.15)
Operating and transportation expenses (\$/boe)	(5.45)	(4.91)	(4.14)
Operating netback (\$/boe)	27.68	27.30	28.85

Twoco's operating netback increased 1% to \$27.68 per boe in the quarter ended March 31, 2007 as compared to \$27.30 per boe realized in the quarter ended March 31, 2006. This increase is predominantly due to lower royalties.

General and Administrative Expense

	Quarter ended March 31, 2007		Quarter ended March 31, 2006		Quarter ended March 31, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	280,781	2.99	262,594	3.01	271,293	5.35
Overhead recoveries	(102,879)	(1.10)	(61,160)	(0.70)	(37,579)	(0.74)
Capitalized G&A	(70,596)	(0.75)	(68,261)	(0.78)	(62,984)	(1.24)
Net G&A expense	107,306	1.14	133,173	1.53	170,730	3.37

Twoco's net general and administrative ("G&A") expense decreased to \$107,306 in the quarter ended March 31, 2007 from \$133,173 in the quarter ended March 31, 2006. 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 2006.

Net Interest Expense

In the quarter ended March 31, 2007, net interest expense increased to \$242,305 from \$83,608 in the quarter ended March 31, 2006. The increase in net interest expense is mainly attributable to the convertible debentures issued in March 2006.

Depletion, Amortization and Accretion

	Quarter ended March 31, 2007		Quarter ended March 31, 2006		Quarter ended March 31, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	2,096,900	22.32	1,442,000	16.53	670,000	13.23
Amortization expense	3,732	0.04	3,921	0.04	4,508	0.09
Accretion expense	37,845	0.40	13,441	0.15	10,206	0.20
Total	2,138,477	22.76	1,459,362	16.72	684,714	13.52

In the quarter ended March 31, 2007, depletion, amortization and accretion (“DA&A”) expense increased to \$2,138,477 (\$22.76 per boe). Higher production volumes combined with increased expenditures being applied against March 31, 2007 reserves increased the total amount of DA&A expense.

Income Taxes

It is anticipated that the Company will not be cash taxable in 2007 due to significant capital expenditures and tax deductions offsetting increases in production revenue.

Cash Flow from Operations

	Quarter ended March 31, 2007		Quarter ended March 31, 2006		Quarter ended March 31, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	3,853,216	41.02	3,792,840	43.47	2,133,530	42.14
Royalties, net of ARTC	(741,549)	(7.89)	(754,425)	(8.65)	(354,578)	(7.00)
Net Interest (expense)	(242,305)	(2.58)	(83,608)	(0.96)	(45,231)	(0.89)
Operating and transportation	(511,722)	(5.45)	(428,658)	(4.91)	(209,830)	(4.14)
General and administrative	(107,306)	(1.14)	(133,173)	(1.53)	(170,730)	(3.37)
Current taxes	-	-	-	-	(79,394)	(1.57)
Cash flow from Operations	2,250,334	23.96	2,392,976	27.42	1,273,767	25.16

In the quarter ended March 31, 2007, the Company generated cash flow from operating activities of \$2,250,334. This represents a decrease of 6% versus the quarter ended March 31, 2006. This decrease resulted primarily from interest expense on the convertible debentures issued March 31, 2006 and lower commodity prices.

Net Income and Cash Flow from Operations

	Quarter ended March 31, 2007		Quarter ended March 31, 2006		Quarter ended March 31, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	2,250,334	23.96	2,392,976	27.42	1,273,767	25.16
Less: Stock based compensation	(39,173)	(0.42)	(99,278)	(1.14)	(41,903)	(0.83)
DA&A expense	(2,138,477)	(22.76)	(1,459,362)	(16.72)	(684,714)	(13.53)
Future Income taxes	(27,362)	(0.29)	(262,845)	(3.01)	(128,000)	(2.53)
Convertible debenture accretion	(13,333)	(0.14)	-	-	-	-
Convertible debenture financing charges	(20,448)	(0.22)	-	-	-	-
Net income	11,541	0.13	571,491	6.55	419,150	8.27

In the quarter ended March 31, 2007, the Company generated net income from operating activities of \$11,541. This represents a decrease of 98% versus the quarter ended March 31, 2006. This decrease resulted primarily from increased depletion rates and lower commodity prices.

Capital Expenditures

Twoco's total capital expenditures for the quarters ended March 31, 2007, March 31, 2006 and March 31, 2005 are summarized as follows:

	Quarter ended March 31, 2007 (\$)	Quarter ended March 31, 2006 (\$)	Quarter ended March 31, 2005 (\$)
Land and property acquisitions	893,184	1,970,972	655,968
Geological and geophysical	200,089	399,701	54,460
Drilling and completions	2,756,471	819,945	825,872
Facilities and equipment	3,655,296	1,763,621	585,161
Other	71,853	70,778	64,035
Total capital expenditures	7,576,893	5,025,017	2,185,496

Liquidity and Capital Resources

Twoco had a working capital deficiency at March 31, 2007 of \$4,130,156 as compared to a working capital deficiency of \$5,838,536 at March 31, 2006. Twoco has a loan facility with HSBC Bank Canada that includes a \$20,000,000 demand revolving credit facility at an interest rate of prime and a \$1,500,000 general lease line of credit. The Company has drawn \$3,790,008 on the revolving credit facility as at March 31, 2007.

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, 2007, Twoco had capital expenditure commitments of approximately \$220,000 that relates to a farm-in commitment.

2007 Capital Budget

Twoco has a \$18.9 million 2007 capital budget which reflects the anticipated drilling of 27 net wells in 2007. 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, 2007	3,853,216	0.25	0.24	11,541	0.00	0.00
December 31, 2006	3,435,589	0.23	0.22	210,735	0.01	0.01
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

Summary of Quarterly Information

	Quarter Ended				
	2007 Mar 31		2006 Dec 31	2006 Sept 30	2006 Jun 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	3,853,216	41.02	3,435,589	2,735,008	2,935,502
Royalties, net of ARTC	(741,549)	(7.89)	(492,581)	(371,389)	(261,168)
Operating and Transportation	(511,722)	(5.45)	(589,350)	(415,643)	(328,658)
G&A Expense	(107,306)	(1.14)	(238,716)	(38,636)	(256,620)
Net Interest Income (Expense)	(242,305)	(2.58)	(214,431)	(171,040)	(169,892)
Current Tax Recovery (Expense)	-	-	1,246	(19,944)	(16,759)
Cash Flow from Operations	2,250,334	23.96	1,901,757	1,718,356	1,902,405

	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
Royalties, net of ARTC	(754,425)	(8.65)	(1,175,272)	(505,938)	(380,785)
Operating and Transportation	(428,658)	(4.91)	(406,075)	(209,642)	(225,575)
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

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at March 31, 2007:

	<u>Authorized</u>	<u>Outstanding as at March 31, 2007</u>	<u>Common Shares underlying Convertible Securities</u>
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.
- (2) Twoco 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, 15,000 common shares at a price of \$4.46 per share and 119,000 common shares at a price of \$7.10 per share, for a total of 1,457,000 common shares that may be purchased upon proper exercise of outstanding stock options.
- (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 until March 31, 2008 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 2 to the audited consolidated financial statements for the year ended December 31, 2006 and the year ended December 31, 2005. Twoco's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

Impact of New Accounting Policies

Effective January 1, 2007, Twoco adopted a series of new standards released by the Canadian Institute of Chartered Accountants, which establish guidance for the recognition and measurement of financial instruments. Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments - Recognition and Measurements", and Section 3865 "Hedges" were released in April 2005 and are effective for interim and annual financial statement years

beginning on or after October 1, 2006. To accommodate these new sections, there have been a number of amendments to other existing accounting standards. These new standards require that all financial instruments within the scope of the new standards, including derivatives, be included on the balance sheet and measured either at their fair value or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. These standards also specify when gains and losses as a result of changes in fair value are to be recognized in net income or other comprehensive income. Further reporting periods will be impacted by these standards and the resulting impacts will be assessed at that time.

Convergence of Canadian GAAP with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ("ACSB") issued a strategic plan that will result in Canadian GAAP, as it applies to publicly accountable entities, being converged with International Financial Reporting Standards over a transitional period. The ACSB is expected to develop and release a detailed implementation plan with a transition period initially indicated to be five years. Twoco will consider the effect that this implementation plan might have on its financial statements during the transition period.

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.

Related Party Transactions

During the quarter ended March 31, 2007, accounting fees of \$30,000 (2006 - \$9,568) were incurred to a partnership of which a director of the Company is a partner. Legal fees of \$2,498 (2006 - \$47,223) were incurred in the same quarter to a law firm of which a director of the Company is an associate.

Included in accounts payable and accrued liabilities at March 31, 2007 is \$32,145 (2006 - \$60,766) owing to these related parties.

Included in interest on debentures payable is \$26,908 (2006 - \$Nil) paid to directors, debenture holders related to directors and to companies controlled by directors.

These transactions are measured at the exchange amount which is the amount agreed to by the related parties based on standard commercial terms.

Outlook

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

In the first quarter of 2007, Twoco participated in the drilling of 9 gross (9.0 net) wells compared to the drilling of 2 gross (1.9 net) wells in the first quarter of 2006. Seven gross (7.0 net) wells were cased for potential natural gas production. Twoco is projecting that initial production from these wells should be realized in the second and third quarters of 2007. It is anticipated that Twoco will participate in the drilling of approximately 18 additional wells in the remainder of 2007.

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 review all capital expenditure programs on a regular basis throughout 2007 and adjust spending accordingly having regard to factors such as changes in commodity prices.