

FOR THE PERIOD ENDED MARCH 30, 2004

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

This management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements for the three months ended March 30, 2004 and the Twoco Petroleum Ltd. audited financial statements, notes thereto, and MD&A for the year ended December 30, 2003. Additional information with respect to Twoco Petroleum Ltd. ("Twoco" or the "Company"), including the prospectus, can be found on SEDAR at www.sedar.com. The reporting and measurement currency is the Canadian dollar.

Boes may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf: 1 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.

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which 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.

This MD&A is dated as of May 31, 2004.

Petroleum and Natural Gas Sales

Petroleum and natural gas sales increased by 1716% to \$1,157,930 for the quarter ended March 30, 2004.

P&NG Sales (\$000s)	March 30, 2004	March 30, 2003	% Change
Natural gas sales	1,158	64	1716
Total PNG sales	1,158	64	1716

The increase in natural gas sales for the quarter ended March 30, 2004 is due to increased production. Average daily production rose to 347 boe/d in the current quarter as compared to 12 boe/d in the comparative period of 2003. The increase in production volumes was partially offset by a decrease in the average sales prices received in the current quarter.

Average Daily Production	March 30, 2004	March 30 2003	%
Natural gas mcf/d	2079	73	2748
Total boe/d	347	12	2748

Average Sales Price		March 30, 2004	March 30 2003	%
Natural gas	\$/mcf	6.48	9.55	(32)
Total	\$/boe	38.87	57.35	(32)

For the three months ended March 30, 2004, Twoco received an average sales price of \$6.48/mcf for natural gas as compared to \$9.55/mcf for natural gas in the quarter ended March 30, 2003. The prices received in the current quarter represent a decrease of 32%.

Twoco did not enter into any hedges or fixed price contracts for its production in the quarters ended March 30, 2004 or March 30, 2003.

Royalties

Total royalties increased by 2199% to \$264,772 for the quarter ended March 30, 2004 from \$11,515 for the quarter ended March 30, 2003. The increase in royalties is consistent with the increase in natural gas sales in the quarter ended March 30, 2004.

Royalties (\$000s)		March 30, 2004	March 30 2003	%
Crown		242	12	1917
Freehold, GORR		23	-	-
ARTC		(61)	(3)	1993
Total royalties		304	9	2167

Royalties as a percentage of gross sales were 23% in the quarter ended March 30, 2004 as compared to 18% in the quarter ended March 30, 2003. This increased royalty percentage is a result of higher average production levels being realized from the producing wells with the resulting higher crown sliding scale being applied.

Average Royalty Rate (average % of gross P&NG sales)		March 30, 2004	March 30 2003	%
Crown		21	18	17
Freehold, GORR		2	-	-
ARTC		(5)	(5)	-
Total royalties		18	13	38

Operating Expense

Total operating expense increased by 2907% to \$155,482 for the quarter ended March 30, 2004 as compared to \$5,171 in the comparative quarter of 2003. This increase can be attributed to increased production in the current period. Operating expense in the current quarter amounted to \$4.93 per boe compared to \$4.77 per boe in the comparative quarter of 2003. Both of these unit operating costs are viewed as very favourable. Considering that Twoco purchased a compression/dehy facility in December 2003 and that the majority of Twoco's gas production is processed at this facility, it is anticipated that these excellent levels of unit operating costs can be maintained.

Production Expenses (\$000s, except per boe)	March 30, 2004	March 30 2003	%
Production expense (gross)	167	6	2683
Overhead recoveries	(12)	(1)	1100
Production expense (net)	155	5	3000
Production expense per boe (net)	4.93	4.77	3

Operating Netback

Twoco's operating netback decreased 39% to \$25.54 per boe in the quarter ended March 30, 2004 as compared to \$42.11 per boe realized in the quarter ended March 30, 2003. The decrease in average operating netback can be attributed mainly to the lower commodity prices received in the current quarter.

Operating Netback (\$/boe)	March 30, 2004	March 30 2003	%
Sales price	38.87	57.35	(32)
Royalties (excluding ARTC)	(8.40)	(10.47)	(20)
Production expense	(4.93)	(4.77)	3
Operating netback	25.54	42.11	(39)

General and Administrative Expense

General and administrative expenses increased to \$148,541 in the quarter ended March 30, 2004 from \$44,050 in the quarter ended March 30, 2003. However, due to the substantial increase in production levels, general and administrative costs on a per barrel basis decreased in the current quarter as compared to the comparative quarter in 2003. A significant portion of the increase in general and administrative expense incurred in the first quarter can be attributed to additional staff and increased employee remuneration.

G&A Expense (\$000s, except per boe)	March 30, 2004	March 30 2003	%
G&A expense (gross)	164	51	222
Overhead recoveries	(15)	(7)	114
G&A expense (net)	149	44	239
G&A expense per boe (net)	\$4.76	\$39.61	(88)

Interest Expense

In the quarter ended March 30, 2003 interest expense increased to \$63,898 from \$0 in the three months ended March 30, 2003. Substantially all of the interest expense incurred in the first quarter is attributable to the convertible debenture which Twoco issued in September, 2003 to participating shareholders which bears interest at the rate of 15% per annum.

Depletion and Depreciation

In the quarter ended March 30, 2004, depreciation and depletion ("D&D") expense increased to \$448,138 from \$3,600 in the quarter ended March 30, 2003. In the current quarter Twoco's D&D rate was \$14.05 per boe as compared to \$3.24 per boe in the comparative quarter. Higher production volumes in the current quarter increased the total amount of D&D expense.

Income Taxes

The Company continues to be non-taxable, however with production from current properties, increased production from drilling in current quarter expected to be tied-in next quarter, and the Company's remaining flow-through share expenditure obligation of approximately \$1.4 million, the Company may become taxable by the end of the year. However, the Company expects to use the proceeds of the initial public offering to manage its tax position and therefore does not believe the Company will be taxable this year.

Capital Expenditures

Twoco's total capital expenditures for the quarters ended March 30, 2004 and 2003 are summarized as follows:

Capital Expenditures (\$000s)	March 30, 2004	March 30 2003	%
Land and property acquisitions	223	96	132
Geological and geophysical	172	78	121
Drilling and completions	422	25	1588
Facilities and equipment	102	66	55
Other	4	1	300
Total capital expenditures	923	266	247

Liquidity and Capital Resources

Twoco's working capital surplus at March 30, 2004 has decreased to \$988,292 from \$1,602,420 at December 30, 2003. To date Twoco has not established a loan facility with any financial institution. However, Twoco is currently in the process of negotiating loan terms with various financial institutions and it is anticipated that a formal facility will be in place prior to the end of the second quarter.

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.

Changes in Accounting Policies

The Company has adopted the new required standards with respect to full cost accounting in the oil and gas industry, asset retirement obligations, and stock-based compensation. The effect of adopting these new standards has been disclosed in note 2(d) to the interim financial statements ended March 30, 2004.

Outstanding Share Data

The following table sets forth the consolidated capitalization of Twoco as at May 31, 2004:

	Authorized	Outstanding as at May 31, 2004
Long Term Debt		
Convertible Debentures ⁽¹⁾	\$1,500,000	\$1,500,000
Share Capital		
Common Shares ⁽¹⁾	Unlimited	11,354,656
Stock Options ⁽²⁾⁽³⁾	Not Applicable	610,000 ⁽³⁾
Warrants ⁽⁴⁾	Not Applicable	1,765,000
Preferred Shares	Unlimited	Nil

Notes:

1. Twoco has 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 are convertible into one Common Share for each \$1.25 per share of principal face value and mature September 30, 2005.
2. Twoco currently has outstanding under its stock option plan, options to purchase an aggregate of 610,000 Common Shares exercisable at \$1.25 per share.
3. Does not include the 470,650 agent's options ("Agent's Option) granted to First Associates Investments Inc., for acting as agent for the Corporation's initial public offering and private placement. Each Agent's Option is exercisable at a price of \$1.70 per Common Share, which Agent's Option will expire 12 months from the date of issuance.
4. Each Warrant entitles the holder thereof to purchase one Common Share at a price of \$1.95 at any time for a period of twelve months from the date of issuance.

Outlook

It is Twoco's intention to continue with the same growth plan and exploration philosophy that has been utilized in the past. Significant points of this strategy include:

- Target reserve additions through internally generated prospects at less than \$8.00/BOE.
- Retain operatorship and maintain significant working interests in properties.
- Participate in acquisitions only where significant upside exists.
- Drill for multiple zones in areas of expertise.
- Manage participation levels and capital exposure (<\$250,000 dry hole cost/well).
- Well payouts less than 2 years in areas with year round access and adjacent infrastructure.

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 currently reflects a working capital position of \$988,292. Considering the likelihood that the convertible debentures will be converted to equity, the outstanding warrants and broker's options will be exercised, cash flows from operations will be maintained by high commodity prices, and a formal banking arrangement will be established on favourable terms, Twoco will be able to actively participate in numerous exploration and exploitation opportunities as they are identified.