

FOR THE PERIOD ENDED JUNE 29, 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 six months ended June 29, 2004 of Twoco Petroleum Ltd. ("Twoco" or the "Company") and Twoco's audited financial statements, notes thereto, and MD&A for the year ended December 30, 2003. Additional information with respect to Twoco, including the prospectus, can be found on SEDAR at www.sedar.com. The reporting and measurement currency is the Canadian dollar.

Boes (barrels of oil equivalent) 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 August 27, 2004.

Summary of Quarterly Results

Selected Financial Information

	Three Months Ended		Six Months Ended
	June 29, 2004	March 30, 2004	June 29, 2004
Income (\$)	198,978	188,574	387,552
Basic and diluted earnings per share (\$)	0.02	0.02	0.04

Petroleum and Natural Gas Sales

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Natural gas sales (\$)	1,323,995	75,028	2,481,925	135,028
Oil sales (\$)	4,921		4,921	
Total PNG sales (\$)	1,328,916	75,028	2,486,846	135,028

Petroleum and natural gas sales increased to \$1,328,916 for the quarter ended June 29, 2004 and to \$2,486,846 for the six months ended June 29, 2004. This represents an increase from the comparable periods in 2003 of 1671% for the quarter and 1742% for the six months.

Average Daily Production

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Natural gas (mcf/d)	2,111	114	2,095	94
Total (boe/d)	352	19	349	16

The increase in natural gas sales for both of the comparable quarterly and six month periods ended June 29, 2004 is due to increased production. Average daily production rose to 352 boe/d in the current quarter as compared to 19 boe/d in the comparative period of 2003.

Twoco has drilled six wells (6 net) in the six months ended June 29, 2004. Of these six wells, one well is currently producing, one well is waiting on completion, three wells are currently being tied in for production and one well was dry and abandoned.

Average Sales Price

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Natural gas (\$/mcf)	6.93	6.51	6.54	7.47
Oil (\$/boe)	43.47		43.47	

For the three months ended June 29, 2004, Twoco received an average sales price of \$6.93/mcf for natural gas as compared to \$6.51/mcf for natural gas in the quarter ended June 29, 2003. The price received in the current quarter represents an increase of 6% versus the comparative quarter of 2003.

Twoco did not enter into any hedges or fixed price contracts for its production. Petroleum and natural gas revenue realized was primarily from the sale of natural gas.

Royalties

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Crown (\$)	223,251	17,164	464,930	23,656
Freehold, GORR (\$)	25,948	-	49,041	-
ARTC (\$)	<55,810>	<4,291>	<116,229>	<5,914>
Total royalties (\$)	193,389	12,873	397,742	17,742

Total royalties excluding ARTC were \$513,971 for the six months ended June 29, 2004 versus \$23,656 for the same period last year. The increase in royalties is consistent with the increase in natural gas sales for the six months ended June 29, 2004.

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

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Crown	17	23	19	18
Freehold, GORR	2	-	2	-
ARTC	<4>	<6>	<5>	<4>
Total royalties	15	17	16	14

Royalties, excluding ARTC, as a percentage of gross sales were 19% in the quarter ended June 29, 2004 as compared to 23% in the quarter ended June 29, 2003. This decreased royalty percentage is a result of the initiation of applying Capital Cost Allowance in the calculation of Crown Royalties in the current reporting period.

Operating Expense

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Gross Production expense (\$)	170,450	9,752	337,611	14,923
Overhead recoveries (\$)	10,581		22,260	
Net Production expense (\$)	159,869	9,752	315,351	14,923
Net Production expense (\$/boe)	4.96	5.61	4.93	5.24

Total operating expense increased by 1648% to \$170,450 for the quarter ended June 29, 2004 as compared to \$9,752 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 \$4.96 per boe compared to \$5.61 per boe in the comparative quarter of 2003. Both of these unit operating costs are viewed as very favourable. Since the majority of Twoco's production is processed at a Twoco owned facility, it is anticipated that these excellent levels of unit operating costs can be maintained.

Operating Netback

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Sales price (\$/boe)	41.58	39.06	39.24	44.82
Royalties excluding ARTC (\$/boe)	8.30	6.99	8.65	8.30
Production expense (\$/boe)	4.96	5.61	4.93	5.24
Operating netback (\$/boe)	28.32	26.46	25.66	31.28

Twoco's operating netback increased 7% to \$28.32 per boe in the quarter ended June 29, 2004 as compared to \$26.46 per boe realized in the quarter ended June 29, 2003. The consistency in average operating netback can be attributed to the similar commodity prices received in combination with consistent royalty rates and unit operating costs.

General and Administrative Expense

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Gross G&A expense (\$)	146,166	70,200	309,684	127,628
Overhead recoveries (\$)	25,653		40,630	13,378
Net G&A expense (\$)	120,513	70,200	269,054	114,250
Net G&A expense (\$/boe)	3.74	40.41	4.21	40.10

Net general and administrative expenses increased to \$120,513 in the quarter ended June 29, 2004 from \$70,200 in the quarter ended June 29, 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.

Interest Expense

In the quarter ended June 29, 2004 interest expense increased to \$68,090 from \$0 in the three months ended June 29, 2003. Substantially all of the interest expense incurred in this quarter is attributable to the convertible debenture which Twoco issued in September, 2003 to participating shareholders and which bears interest at the rate of 15% per annum.

Depletion, amortization and accretion

In the quarter ended June 29, 2004, depletion, amortization and accretion ("DA&A") expense increased to \$529,478 from \$11,718 in the quarter ended June 29, 2003. In the current quarter Twoco's DA&A rate was \$16.44 per boe as compared to \$ 6.75 per boe in the comparative quarter. Higher production volumes in the current quarter increased the total amount of DA&A expense.

Income Taxes

Substantial increases in revenue and production volumes during this quarter combined with virtually all of the Company's exploration expenses being flowed through to investors has resulted in the Company being cash taxable. Although the Company has a \$400,000 flow-through share expenditure obligation remaining at the end of the quarter, the Company intends to use the remaining proceeds from its initial public offering to manage its tax situation and therefore does not believe the Company will be taxable this year.

Capital Expenditures

Twoco's total capital expenditures for the quarters and six months ended June 29, 2004 and 2003 are summarized as follows:

	Three Months ended June 29		Six Months ended June 29	
	2004	2003	2004	2003
Land and property acquisitions (\$)	439,621	27,506	662,703	124,106
Geological and geophysical (\$)	56,574	10,322	228,360	88,322
Drilling and completions (\$)	948,836	638,642	1,371,223	663,242
Facilities and equipment (\$)	191,582	1,214	293,930	67,214
Other (\$)	14,215	415	17,800	919
Total capital expenditures (\$)	1,650,828	678,099	2,574,016	943,803

Liquidity and Capital Resources

Twoco's working capital surplus at June 29, 2004 has increased to \$5,402,202 from \$1,602,420 at December 30, 2003. Also, Twoco has recently established a loan facility with HSBC Bank Canada. This facility includes a \$5,000,000 demand revolving loan at prime plus 0.50% per annum and a \$1,500,000 general lease line of credit. While the credit facility provides the Company added financial flexibility, no specific uses have been identified for the finances at this time.

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, stock-based compensation and flow-through shares. The effect of adopting these new standards has been disclosed in note 3 to the interim financial statements ended June 29, 2004.

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at August 27, 2004:

	Authorized	Outstanding as at August 27, 2004	Common Shares underlying Convertible Securities
Long Term Debt			
Convertible Debentures ⁽¹⁾	\$1,500,000	\$1,500,000	1,200,000
Share Capital			
Common Shares ⁽¹⁾	Unlimited	11,363,406	-
Stock Options ⁽²⁾⁽³⁾	Not Applicable	910,000 ⁽³⁾	910,000
Warrants ⁽⁴⁾	Not Applicable	1,756,250	1,756,250
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 610,000 Common Shares at an exercise price of \$1.25 per share, 20,000 Common Shares at an exercise price of \$1.75 and 280,000 Common Shares at an exercise price of \$2.20.
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 Company'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

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

Twoco has drilled six wells (6 net) during the first half of 2004. Current drilling plans call for the drilling of an additional six wells in the third quarter with an additional four to six wells planned by year end. It is anticipated that some of these wells will be drilled on lands acquired pursuant to the Norranco Oil & Gas Ltd. acquisition. Although this acquisition contributed only nominal production, it provides Twoco access into a substantial land base (17,500 gross acres, 2,600 net acres).

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 \$5,402,202. 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 the formal banking arrangement that has been recently established, Twoco will be able to actively participate in numerous exploration and exploitation opportunities as they are identified.