

FOR THE PERIOD ENDED SEPTEMBER 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 consolidated financial statements for the nine months ended September 30, 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.

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.

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 November 29, 2004 except where otherwise stated.

Summary of Quarterly Results

Selected Financial Information

	Three Months Ended		Nine Months Ended
	Sept 30, 2004	June 29, 2004	Sept 30, 2004
Income (\$)	6,633	198,978	394,185
Basic and diluted earnings per share (\$)	0.00	0.02	0.04

Petroleum and Natural Gas Sales

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Natural gas sales (\$)	1,502,954	129,363	3,984,879	280,179
Oil sales (\$)	5,694	141	10,615	141
Total PNG sales (\$)	1,508,648	129,504	3,995,494	280,320

Petroleum and natural gas ("P&NG") sales increased to \$1,508,648 for the quarter ended September 30, 2004 and to \$3,995,494 for the nine months ended September 30,

2004. This represents an increase from the comparable periods in 2003 of 1065% for the quarter and 1325% for the nine months.

Average Daily Production

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Natural gas (mcf/d)	2,802	276	2,355	217
Oil (bbls/d)	2		2	
Total (boe/d)	469	46	395	36

The increase in natural gas sales for both of the comparable quarterly and nine month periods ended September 30, 2004 is due to increased production. Average daily production rose to 469 boe/d in the current quarter as compared to 46 boe/d in the comparative period of 2003.

Twoco has drilled 6 wells (6 net) in the nine months ended September 30, 2004. Of these six wells, four wells are producing, one well is waiting on stimulation and one well was dry and abandoned.

Average Sales Price

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Natural gas (\$/mcf)	6.22	5.82	6.58	6.97
Oil (\$/boe)	54.23		48.70	

For the three months ended September 30, 2004, Twoco received an average sales price of \$6.22/mcf for natural gas as compared to \$5.82/mcf for natural gas in the quarter ended September 30, 2003. The price received in the current quarter represents an increase of 7% 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 September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Crown (\$)	334,075	20,863	799,005	44,519
Freehold, GORR (\$)	24,205		73,246	
ARTC (\$)	<83,522>		<199,751>	
Total royalties (\$)	274,758	20,863	672,500	44,519

Total royalties excluding ARTC were \$872,251 for the nine months ended September 30, 2004 versus \$44,519 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, 2004.

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

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Crown	22	10	20	16
Freehold, GORR	2		2	
ARTC	<1>		<5>	
Total royalties	23	10	17	16

Royalties, excluding ARTC, as a percentage of gross sales were 24% in the quarter ended September 30, 2004 as compared to 22% in the quarter ended September 30, 2003. This increased royalty rate is a result of a higher crown royalty rate being applied as a result of increased average productivity being realized from the wells.

Operating Expense

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Gross Production expense (\$)	241,646	21,055	579,257	35,978
Overhead recoveries (\$)	14,521	2,250	36,781	2,250
Net Production expense (\$)	227,125	18,805	542,476	33,728
Net Production expense (\$/boe)	5.63	4.52	5.37	3.61

Total operating expense increased by 1108% to \$227,125 for the quarter ended September 30, 2004 as compared to \$18,805 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 \$5.63 per boe compared to \$4.52 per boe in the comparative quarter of 2003. Both of 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 a Twoco operated facility. 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.

Operating Netback

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Sales price (\$/boe)	37.32	34.92	39.48	41.82
Royalties excluding ARTC (\$/boe)	8.88	5.02	8.64	4.77
Production expense (\$/boe)	5.63	4.52	5.37	3.61
Operating netback (\$/boe)	22.81	25.38	25.47	33.44

Twoco's operating netback decreased 10% to \$22.81 per boe in the quarter ended September 30, 2004 as compared to \$25.38 per boe realized in the quarter ended September 30, 2003. This decrease is mostly due to a combination of higher royalties and higher production expenses.

General and Administrative Expense

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Gross G&A expense (\$)	195,229	120,776	504,913	248,404
Overhead recoveries (\$)	23,156	19,346	63,786	32,724
Capitalized G&A (\$)	112,503		112,503	
Net G&A expense (\$)	59,570	101,430	328,624	215,680
Net G&A expense (\$/boe)	1.48	27.33	3.25	32.87

Due to capitalization of general and administrative ("G&A") expense relating to exploration and development activities, Twoco's net G&A expense decreased to \$59,570 in the quarter ended September 30, 2004 from \$101,430 in the quarter ended September 30, 2003. G&A costs, on a per boe basis, also decreased due to the substantial increase in production levels in the current quarter as compared to the comparative quarter in 2003.

Interest Expense

In the quarter ended September 30, 2004 interest expense increased to \$68,837 from \$0 in the three month period ended September 30, 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 September 30, 2004, depletion, amortization and accretion ("DA&A") expense increased to \$836,174 (\$8.28 per boe). Higher production volumes combined with increased expenditures being applied against December 30, 2003 reserves 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 \$580,000 flow-through share expenditure obligation remaining at the end of the quarter, the Company intends to utilize its available working capital to manage its tax situation and therefore does not believe that any current taxes payable will be significant at year end.

Capital Expenditures

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

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Land and property acquisitions (\$)	1,250,303	980,124	1,913,006	1,104,230
Geological and geophysical (\$)	84,653	131,843	313,013	220,165
Drilling and completions (\$)	105,753	120,611	1,476,976	783,853
Facilities and equipment (\$)	460,256	217,097	754,186	284,311
Other (\$)	10,403	15,350	28,203	16,277
Total capital expenditures (\$)	1,911,368	1,465,033	4,485,384	2,408,836

Liquidity and Capital Resources

Twoco's working capital surplus at September 30, 2004 has increased to \$4,838,294 from \$1,602,420 at December 30, 2003. Also, Twoco has 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 2(f) to the interim financial statements ended September 30, 2004.

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at November 26, 2004:

	Authorized	Outstanding as at November 26, 2004	Common Shares underlying Convertible Securites
Long Term Debt			
Convertible Debentures ⁽¹⁾	\$1,500,000	\$1,500,000	1,200,000
Share Capital			
Common Shares ⁽¹⁾	Unlimited	11,542,356	-
Stock Options ⁽²⁾⁽³⁾	Not Applicable	910,000 ⁽³⁾	910,000
Warrants ⁽⁴⁾	Not Applicable	1,730,250	1,730,250
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 317,700 remaining agent's options ("Agent's Options") 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 Options will expire on April 16, 2005.
4. Each Warrant entitles the holder thereof to purchase one Common Share at a price of \$1.95 at any time prior to April 17, 2005.

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 6 wells (6 net) during the first nine months of 2004. To date in the fourth quarter of 2004, Twoco has participated in the drilling of an additional 8 wells (6.3 net). Of these 8 wells, 1 well is producing, 4 wells were cased and are in the process of being completed, and 3 wells were dry and abandoned. Twoco is projecting that initial production from the 4 wells being completed should be realized in the first quarter of 2005. Also, it is anticipated that Twoco will participate in the drilling of 2 gross (0.34 net) non-operated wells prior to year end.

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 of September 30, 2004 reflects a working capital position of \$4,838,294. Considering the likelihood that the convertible debentures will be converted to equity, the outstanding warrants and agent'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.