

## **TWOCO PETROLEUMS LTD.**

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

#### **FOR THE PERIOD ENDED MARCH 31, 2005**

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 three month period ended March 31, 2005 and Twoco's audited consolidated financial statements, notes thereto, and MD&A for the period ended December 31, 2004. 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](http://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 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.

#### **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 30, 2005 except where otherwise stated.

**Petroleum and Natural Gas Sales (Volumes)**

	<b>Quarter Ended March 31, 2005</b>	<b>Quarter Ended March 30, 2004</b>	<b>% Change</b>
Natural Gas (mcf/d)	3,367	2,079	620
Oil and NGL's (bbls/d)	1	0	-
Total (boe/d)	562	347	620

The increase in natural gas sales for the quarter ended March 31, 2005 is a result of production added by the Company through drilling and optimization activities. Average daily sales for the quarter ended March 31, 2005 rose to 562 boe/d as compared to 347 boe/d in the comparative quarter of 2004 as a result of these activities. Total wellhead production for the quarter ended March 31, 2005 averaged 645 boe/d.

**Petroleum and Natural Gas Sales (\$)**

	<b>Quarter Ended March 31, 2005</b>	<b>Quarter Ended March 30, 2004</b>	<b>% Change</b>
Natural Gas Sales (\$)	2,127,670	1,157,843	84
\$/mcf	7.02	6.12	15
Oil and NGL Sales (\$)	5,860	87	664
\$/barrel	46.88	-	-
Total Sales (\$)	2,133,530	1,157,930	84

Petroleum and natural gas ("P&NG") sales increased to \$2,133,530 for the quarter ended March 31, 2005 from \$1,157,930 for the quarter ended March 30, 2004. This represents an increase of 84%.

**Royalties**

	<b>Quarter ended March 31, 2005</b>		<b>Quarter ended March 30, 2004</b>	
	<b>(\$)</b>	<b>Royalty Rate (%)</b>	<b>(\$)</b>	<b>Royalty Rate (%)</b>
Crown	437,585	21	241,678	21
Freehold & GORR	25,943	1	23,094	2
ARTC	(108,950)	(5)	(60,419)	(5)
Total royalties	354,578	17	204,353	18

Total royalties excluding ARTC were \$463,528 for the quarter ended March 31, 2005 versus \$264,772 for the quarter ended March 30, 2004. The increase in royalties is consistent with the increase in natural gas sales for the quarter ended March 31, 2005.

### Operating Expense

	Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross Production expense (\$)	190,174	3.76	121,170	3.84
Overhead recoveries (\$)	(15,291)	(0.30)	(11,679)	(0.37)
Net Production expense (\$)	174,883	3.46	109,491	3.47

Total operating expense increased by 60% to \$174,883 for the quarter ended March 31, 2005 as compared to \$109,491 in the comparative quarter of 2004. This increase can be attributed to increased production in the current quarter. Operating expense averaged \$3.46 per boe for the quarter ended March 31, 2005 as compared to \$3.47 per boe for the quarter ended March 30, 2004. 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.

### Transportation Expense

	Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	77,271	1.53	45,991	1.46

Total transportation expense increased by 68% to \$77,271 for the quarter ended March 31, 2005 as compared to \$45,991 for the quarter ended March 30, 2004. This increase can be attributed to increased sales in the current quarter. Transportation expense averaged \$1.53 per boe for the quarter ended March 31, 2005 as compared to \$1.46 per boe for the quarter ended March 30, 2004.

### Operating Netback

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

Twoco's operating netback increased 20% to \$28.01 per boe in the quarter ended March 31, 2005 as compared to \$23.36 per boe realized in the quarter ended March 30, 2004. This increase is predominantly due to higher sales prices.

### General and Administrative Expense

	Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense (\$)	271,293	5.35	163,518	5.18
Overhead recoveries (\$)	(37,579)	(0.74)	(14,977)	(0.48)
Capitalized G&A (\$)	(62,984)	(1.24)	-	-
Net G&A expense (\$)	170,730	3.37	148,541	4.70

Twoco's net G&A expense increased to \$170,730 in the quarter ended March 31, 2005 from \$148,541 in the quarter ended March 30, 2004. This increase is partially attributable to increased costs of third party engineering evaluation fees and legal and accounting fees as a result of corporate governance and disclosure requirements associated with Twoco becoming a public entity effective April 28, 2004. 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 2004.

### Interest Expense

In the quarter ended March 31, 2005, interest expense decreased to \$62,928 from \$63,899 in the quarter ended March 30, 2004. Substantially all of the interest expense incurred in 2005 and 2004 is attributable to the convertible debentures which Twoco issued in September 2003 to participating shareholders and which bear interest at the rate of 15% per annum.

### Depletion, Amortization and Accretion

	Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	670,000	13.23	443,000	14.03
Amortization expense	4,508	0.09	2,720	0.09
Accretion expense	10,206	0.20	2,418	0.08
Total	684,714	13.52	448,138	14.20

In the quarter ended March 31, 2005, depletion, amortization and accretion ("DA&A") expense increased to \$684,714 (\$13.52 per boe). Higher production volumes combined with increased expenditures being applied against December 31, 2004 reserves increased the total amount of DA&A expense.

### Income Taxes

Substantial increases in revenue and production volumes during the quarter has resulted in the Company being cash taxable in the amount of \$79,394 for the quarter ended March 31, 2005. The Company has no further flow-through share expenditure obligations.

### Cash Flow from Operations

	Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	2,133,530	42.14	1,157,930	36.67
Processing revenue	42,324	0.84	39,842	1.26
Royalties, net of ARTC	(354,578)	(7.00)	(204,353)	(6.47)
Net Interest income (expense)	(45,231)	(0.89)	(60,284)	(1.91)
Operating and transportation	(252,154)	(4.98)	(155,482)	(4.93)
General and administrative	(170,730)	(3.37)	(148,541)	(4.70)
Current tax recovery (expense)	(79,394)	(1.57)	-	-
Cash flow from Operations	1,273,767	25.16	629,112	19.92

In the quarter ended March 31, 2005, the Company generated cash flow from operating activities of \$1,273,767. This represents an increase of 102% versus the quarter ended March 30, 2004. This increase resulted from increased sales volumes and higher commodity prices.

### Net Income and Cash Flow from Operations

	Quarter ended March 31, 2005		Quarter ended March 30, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	1,273,767	25.16	629,112	19.92
Less: Stock based compensation	(41,903)	(0.83)	(33,844)	(1.07)
DA&A expense	(684,714)	(13.53)	(448,138)	(14.19)
Future Income taxes	(128,000)	(2.53)	7,600	0.24
Net income	419,150	8.27	154,730	4.90

In the quarter ended March 31, 2005, the Company generated net income from operating activities of \$419,150. This represents an increase of 171% versus the quarter ended March 30, 2004. This increase resulted from sales growth.

### Capital Expenditures

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

	Quarter ended March 31, 2005	Quarter ended March 30, 2004
Land and property acquisitions (\$)	655,968	226,666
Geological and geophysical (\$)	54,460	171,786
Drilling and completions (\$)	825,872	422,387
Facilities and equipment (\$)	585,161	102,349
Other (\$)	64,035	-
Total capital expenditures (\$)	2,185,496	923,188

## Liquidity and Capital Resources

Twoco's working capital surplus at March 31, 2005 increased to \$2,481,413 from \$988,292 at March 30, 2004. Also, Twoco has 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 loan facilities 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.

As of March 31, 2005, Twoco did not have any capital expenditure commitments.

## 2005 Capital Budget

Twoco has a \$13.5 million 2005 capital budget which reflects the anticipated drilling of 28 gross (21.2 net) wells in 2005. 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 (loss)		
	(\$)	(\$/share)		(\$)	(\$/share)	
		Basic	Diluted		Basic	Diluted
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				
	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 May 30, 2005:

	Authorized	Outstanding as at May 30, 2005	Common Shares underlying Convertible Securities
Long Term Debt			
Convertible Debentures <sup>(1)</sup>	\$1,500,000	\$1,485,000	1,188,000
Share Capital			
Common Shares <sup>(1)</sup>	Unlimited	13,597,306	-
Stock Options <sup>(2)</sup>	Not Applicable	1,323,000	1,323,000
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. To date, \$15,000 of Convertible Debentures have been converted into 12,000 Common Shares.
- (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 and 175,000 Common Shares at an exercise price of \$3.75 per share

## Outlook

It is Twoco's intention to continue with the same growth plan and exploration philosophy as has been utilized to date.

In the first quarter of 2005, Twoco participated in the drilling of seven gross (3.9 net) wells. Of these seven wells, one well is currently producing and the remaining six wells were cased and are in the process of being tied in. Twoco is projecting that initial production from the six wells being tied in should be realized in the second and third quarters of 2005. It is anticipated that Twoco will participate in the drilling of approximately 21 additional gross (17.3 net) wells in the remainder of 2005.

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 at March 31, 2005 reflects a working capital position of \$2,481,413. Considering the likelihood that the convertible debentures will be converted to equity, cash flows from operations will be maintained by high commodity prices, and the formal banking arrangement that has been established, Twoco will be able to actively participate in numerous exploration and exploitation opportunities as they are identified.