

TWOCO PETROLEUMS LTD.

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

FOR THE QUARTER ENDED JUNE 30, 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 June 30, 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 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 interim 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 August 28, 2007 except where otherwise stated.

Selected Quarterly and Six Month Information

	Quarter ended June 30, 2007 (\$)	Quarter ended June 30, 2006 (\$)	Quarter ended June 30, 2005 (\$)
Revenue	3,791,470	2,935,502	2,395,315
Cash Flow from Operations	2,023,670	1,902,405	1,808,383
Net Income (Loss)	(300,255)	413,566	511,891
Per share - Basic	(0.02)	0.03	0.04
Per share - Diluted	(0.02)	0.03	0.04
Total Assets	53,822,732	48,372,658	25,704,986
Total Long-Term Financial Liabilities	20,494,485	18,635,677	3,830,784
Dividends	Nil	Nil	Nil

	Six Months ended June 30, 2007 (\$)	Six Months ended June 30, 2006 (\$)	Six Months ended June 30, 2005 (\$)
Revenue	7,644,686	6,728,342	4,528,845
Cash Flow from Operations	4,274,003	4,295,381	3,082,150
Net Income (Loss)	(288,714)	985,057	931,041
Per share - Basic	(0.02)	0.07	0.07
Per share - Diluted	(0.02)	0.06	0.07
Total Assets	53,822,732	48,372,658	25,704,986
Total Long-Term Financial Liabilities	20,494,485	18,635,677	3,830,784
Dividends	Nil	Nil	Nil

Petroleum and Natural Gas Sales (Volumes)

	Quarter ended June 30, 2007	Quarter ended June 30, 2006	Quarter ended June 30, 2005
Natural Gas (mcf/d)	6,431	5,742	3,525
Oil and NGL's (bbls/d)	1	3	1
Total (boe/d)	1,073	960	589

	Six Months ended June 30, 2007	Six Months ended June 30, 2006	Six Months ended June 30, 2005
Natural Gas (mcf/d)	6,343	5,804	3,446
Oil and NGL's (bbls/d)	1	3	1
Total (boe/d)	1,058	970	575

The increase in natural gas sales volumes for both of the comparable quarterly and six month periods ending June 30, 2007 is a result of production added by the Company through drilling

and optimization activities. Average daily sales for the quarter ended June 30, 2007 rose to 1,073 boe/d as compared to 960 boe/d in the comparative quarter of 2006, an increase of 12%, as a result of these activities.

Petroleum and Natural Gas Sales (Values)

	Quarter ended June 30, 2007	Quarter ended June 30, 2006	Quarter ended June 30, 2005
Natural Gas Sales (\$)	3,782,574	2,925,564	2,388,460
\$/mcf	6.46	5.60	7.45
Oil and NGL Sales (\$)	8,896	9,938	6,855
\$/barrel	76.86	34.75	55.73
Total Sales (\$)	3,791,470	2,935,502	2,395,315

	Six Months ended June 30, 2007	Six Months ended June 30, 2006	Six Months ended June 30, 2005
Natural Gas Sales (\$)	7,626,834	6,708,637	4,516,130
\$/mcf	6.64	6.39	7.24
Oil and NGL Sales (\$)	17,852	19,705	12,715
\$/barrel	75.73	33.63	51.06
Total Sales (\$)	7,644,686	6,728,342	4,528,845

Petroleum and natural gas ("P&NG") sales values increased to \$3,791,470 for the quarter ended June 30, 2007 from \$2,935,502 for the quarter ended June 30, 2006 and to \$7,644,686 for the six months ended June 30, 2007 from \$6,728,342 for the six months ended June 30, 2006. This represents an increase from the comparative periods in 2006 of 29% for the quarter and 14% for the six months. This increase is predominantly due to the increase in natural gas sales volumes for the quarter and six months ended June 30, 2007.

Royalties

	Quarter ended June 30, 2007		Quarter ended June 30, 2006		Quarter ended June 30, 2005	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	463,780	12	285,322	10	466,477	19
Freehold & GORR	133,791	4	46,312	-	30,870	1
ARTC	-	-	(70,466)	(1)	(116,562)	(5)
Total royalties	597,571	16	261,168	9	380,785	16

	Six Months ended June 30, 2007		Six Months ended June 30, 2006		Six Months ended June 30, 2005	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	1,099,015	14	1,199,465	17	904,062	20
Freehold & GORR	240,105	3	114,424	2	56,813	1
ARTC	-	-	(298,296)	(4)	(225,512)	(5)
Total royalties	1,339,120	17	1,015,593	15	735,363	16

Total royalties excluding ARTC were \$1,339,120 for the six months ended June 30, 2007 versus \$1,313,889 for the six months ended June 30, 2006. Royalties, excluding ARTC, as a percentage of gross sales were 17% in the six months ended June 30, 2007 as compared to 19% in the six months ended June 30, 2006. This decrease in royalty rate is a result of increased Gas Cost Allowance credits being applied against crown royalties in the quarter ended June 30, 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 June 30, 2007		Quarter ended June 30, 2006		Quarter ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense	556,367	5.70	259,481	2.97	161,204	3.00
Overhead recoveries	(63,687)	(0.65)	(46,112)	(0.53)	(20,102)	(0.38)
Net operating expense	492,680	5.05	213,369	2.44	141,102	2.62

	Six Months ended June 30, 2007		Six Months ended June 30, 2006		Six Months ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense	985,101	5.14	592,367	3.37	309,054	2.97
Overhead recoveries	(117,309)	(0.61)	(85,991)	(0.49)	(35,393)	(0.34)
Net operating expense	867,792	4.53	506,376	2.88	273,661	2.63

Total operating expense increased by 131% to \$492,680 for the quarter ended June 30, 2007 as compared to \$213,369 in the comparative quarter of 2006. This increase can be attributed to the costs associated with increased production and the completion of major overhauls of company owned compressors in the current quarter. Operating expense averaged \$5.05 per boe for the quarter ended June 30, 2007 as compared to \$2.44 per boe for the quarter ended June 30, 2006. These unit operating costs are viewed as very favourable and are partially due to the fact that a significant portion of Twoco's production is processed at Twoco operated facilities.

Transportation Expense

	Quarter ended June 30, 2007		Quarter ended June 30, 2006		Quarter ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense	137,622	1.41	115,289	1.32	84,473	1.58

	Six Months ended June 30, 2007		Six Months ended June 30, 2006		Six Months ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense	274,232	1.43	250,939	1.43	161,744	1.55

Total transportation expense increased by 19% to \$137,622 for the quarter ended June 30, 2007 as compared to \$115,289 for the quarter ended June 30, 2006. This increase is predominantly due to the increase in natural gas sales volumes for the quarter ended June 30, 2007. Transportation expense averaged \$1.41 per boe for the quarter ended June 30, 2007 consistent with \$1.32 per boe for the quarter ended June 30, 2006.

Operating Netback

	Quarter ended June 30, 2007 (\$/boe)	Quarter ended June 30, 2006 (\$/boe)	Quarter ended June 30, 2005 (\$/boe)
Sales price	38.82	33.60	44.70
Royalties excluding ARTC	(6.12)	(3.80)	(9.28)
Operating and transportation expenses	(6.46)	(3.76)	(4.20)
Operating netback	26.24	26.04	31.22

	Six Months ended June 30, 2007 (\$/boe)	Six Months ended June 30, 2006 (\$/boe)	Six Months ended June 30, 2005 (\$/boe)
Sales price	39.90	38.31	43.46
Royalties excluding ARTC	(6.99)	(7.48)	(9.22)
Operating and transportation expenses	(5.96)	(4.31)	(4.18)
Operating netback	26.95	26.52	30.06

Twoco's operating netback increased 1% to \$26.24 per boe in the quarter ended June 30, 2007 as compared to \$26.04 per boe realized in the quarter ended June 30, 2006. This increase is due to higher per unit sales prices.

General and Administrative Expense

	Quarter ended June 30, 2007		Quarter ended June 30, 2006		Quarter ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	300,826	3.08	397,619	4.55	148,322	2.78
Overhead recoveries	(52,903)	(0.54)	(75,112)	(0.86)	(60,237)	(1.13)
Capitalized G&A	(67,466)	(0.69)	(65,887)	(0.75)	(58,809)	(1.10)
Net G&A expense	180,457	1.85	256,620	2.94	29,276	0.55

	Six Months ended June 30, 2007		Six Months ended June 30, 2006		Six Months ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	581,607	3.04	660,213	3.76	419,615	4.03
Overhead recoveries	(155,782)	(0.81)	(136,271)	(0.78)	(97,816)	(0.94)
Capitalized G&A	(138,062)	(0.72)	(134,148)	(0.76)	(121,793)	(1.17)
Net G&A expense	287,763	1.51	389,794	2.22	200,006	1.92

Twoco's net G&A expense decreased to \$180,457 in the quarter ended June 30, 2007 from \$256,620 in the quarter ended June 30, 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 June 30, 2007, net interest expense increased to \$313,824 from \$169,892 in the quarter ended June 30, 2006. The increase in net interest expense is mainly attributable to the interest payments associated with the Company's revolving line of credit.

Depletion, Amortization and Accretion

	Quarter ended June 30, 2007		Quarter ended June 30, 2006		Quarter ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	2,358,800	24.15	1,581,000	18.10	844,500	15.76
Amortization expense	4,227	0.04	4,400	0.04	4,795	0.09
Accretion expense	37,846	0.39	26,720	0.31	29,941	0.56
Total	2,400,873	24.58	1,612,120	18.45	879,236	16.41

	Six Months ended June 30, 2007		Six Months ended June 30, 2006		Six Months ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	4,455,700	23.26	3,023,000	17.21	1,514,500	14.53
Amortization expense	7,958	0.04	8,321	0.05	9,303	0.09
Accretion expense	75,691	0.40	40,161	0.23	40,147	0.39
Total	4,539,349	23.70	3,071,482	17.49	1,563,950	15.01

In the quarter ended June 30, 2007, depletion, amortization and accretion ("DA&A") expense increased to \$2,400,873 (\$24.58 per boe). Higher production volumes combined with increased

expenditures being applied against December 31, 2006 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 June 30, 2007		Quarter ended June 30, 2006		Quarter ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	3,791,470	38.82	2,935,502	33.60	2,395,315	44.70
Royalties, net of ARTC	(597,571)	(6.12)	(261,168)	(2.99)	(380,785)	(7.11)
Net Interest (expense)	(300,491)	(3.08)	(169,892)	(1.94)	(30,690)	(0.57)
Operating and transportation	(630,302)	(6.46)	(328,658)	(3.76)	(225,575)	(4.20)
General and administrative	(180,457)	(1.85)	(256,620)	(2.94)	(29,276)	(0.55)
Settlement of asset retirement obligations	(45,135)	(0.46)				
Current taxes	(13,844)	(0.14)	(16,759)	(0.19)	79,394	1.48
Cash flow from Operations	2,023,670	20.71	1,902,405	21.78	1,808,383	33.75

	Six Months ended June 30, 2007		Six Months ended June 30, 2006		Six Months ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	7,644,686	39.90	6,728,342	38.30	4,528,845	43.46
Royalties, net of ARTC	(1,339,120)	(6.99)	(1,015,593)	(5.78)	(735,363)	(7.06)
Net Interest (expense)	(542,797)	(2.83)	(253,500)	(1.44)	(75,921)	(0.73)
Operating and transportation	(1,142,024)	(5.96)	(757,315)	(4.31)	(435,405)	(4.18)
General and administrative	(287,763)	(1.51)	(389,794)	(2.22)	(200,006)	(1.92)
Settlement on asset retirement obligations	(45,135)	(0.24)			-	-
Current taxes	(13,844)	(0.07)	(16,759)	(0.10)		
Cash flow from Operations	4,274,003	22.30	4,295,381	24.45	3,082,150	29.57

In the quarter ended June 30, 2007, the Company generated cash flow from operating activities of \$2,023,670. This represents an increase of 6% versus the quarter ended June 30, 2006. In the six months ended June 30, 2007, the Company generated cash flow from operating activities of \$4,274,003.

Net Income and Cash Flow from Operations

	Quarter ended June 30, 2007		Quarter ended June 30, 2006		Quarter ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	2,023,670	20.71	1,902,405	21.78	1,808,383	33.75
Less: Stock based compensation	(42,228)	(0.43)	(99,279)	(1.14)	(93,256)	(1.74)
Convertible debenture financing charges	(10,865)	(0.11)	(12,450)	(0.14)	-	-
DA&A expense	(2,400,873)	(24.58)	(1,612,120)	(18.45)	(879,236)	(16.41)
Future Income taxes	98,239	1.00	235,010	2.69	(324,000)	(6.05)
Convertible debenture accretion	(13,333)	(0.14)	-	-	-	-
Settlement of asset retirement obligations	45,135	0.46	-	-	-	-
Net income (loss)	(300,255)	(3.07)	413,566	4.74	511,891	9.55

	Six Months ended June 30, 2007		Six Months ended June 30, 2006		Six Months ended June 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	4,274,003	22.30	4,295,381	24.45	3,082,150	29.57
Less: Stock based compensation	(81,401)	(0.42)	(198,557)	(1.13)	(135,159)	(1.30)
Convertible debenture financing charges	(31,313)	(0.16)	(12,450)	(0.07)	-	-
DA&A expense	(4,539,349)	(23.70)	(3,071,482)	(17.48)	(1,563,950)	(15.00)
Future Income taxes	70,877	0.37	(27,835)	(0.16)	(452,000)	(4.34)
Convertible debenture accretion	(26,666)	(0.14)	-	-	-	-
Settlement of asset retirement obligations	45,135	0.24	-	-	-	-
Net income (loss)	(288,714)	(1.51)	985,057	5.61	931,041	8.93

In the quarter ended June 30, 2007, the Company generated a net loss from operating activities of \$300,255. This represents a decrease of 173% versus the quarter ended June 30, 2006. In the six months ended June 30, 2007, the Company generated a net loss from operating activities of \$288,714. This represents a decrease of 129% versus the six months ended June 30, 2006.

Capital Expenditures

Twoco's total capital expenditures for the quarters and six months ended June 30, 2007, June 30, 2006 and June 30, 2005 are summarized as follows:

	Quarter ended June 30, 2007	Quarter ended June 30, 2006	Quarter ended June 30, 2005
Land and property acquisitions (\$)	328,460	586,158	1,069,297
Geological and geophysical (\$)	13,359	1,224,704	437,439
Drilling and completions (\$)	1,580,219	2,341,652	907,747
Facilities and equipment (\$)	1,392,274	604,495	583,684
Other (\$)	71,025	(64,689)	(61,840)
Total capital expenditures (\$)	3,385,337	4,692,320	2,936,327

	Six Months ended June 30, 2007	Six Months ended June 30, 2006	Six Months ended June 30, 2005
Land and property acquisitions (\$)	1,221,644	2,557,130	1,725,265
Geological and geophysical (\$)	213,448	1,624,405	491,899
Drilling and completions (\$)	4,336,690	3,161,597	1,733,619
Facilities and equipment (\$)	5,047,570	2,368,116	1,168,845
Other (\$)	142,878	6,089	2,195
Total capital expenditures (\$)	10,962,230	9,717,337	5,121,823

Liquidity and Capital Resources

Twoco had a working capital deficiency at June 30, 2007 of \$5,523,988 as compared to a working capital surplus of \$7,917,251 at June 30, 2006. Also, 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 \$5,286,731 on the revolving credit facility as at June 30, 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 June 30, 2007, Twoco had capital expenditure commitments of approximately \$200,000 that relates to a farm-in commitment to drill one well on an industry participant's lands. Drilling of this well is anticipated in the fourth quarter 2007.

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. In response to the current low natural gas prices, Twoco will review its capital budget on a regular basis and make amendments as required.

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
June 30, 2007	3,791,470	0.25	0.24	(300,255)	(0.02)	(0.02)
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

Summary of Quarterly Information

	Quarter Ended				
	2007 Jun 30		2007 Mar 31	2006 Dec 31	2006 Sept 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	3,791,470	38.82	3,853,216	3,435,589	2,735,008
Royalties, net of ARTC	(597,571)	(6.12)	(741,549)	(492,581)	(371,389)
Operating and Transportation	(630,302)	(6.46)	(511,722)	(589,350)	(415,643)
G&A Expense	(180,457)	(1.85)	(107,306)	(238,716)	(38,636)
Net Interest Income (Expense)	(300,491)	(3.08)	(242,305)	(214,431)	(171,040)
Current Tax Recovery (Expense)	(13,844)	(0.14)	-	1,246	(19,944)
Settlement of asset retirement obligations	(45,135)	(0.46)			
Cash Flow from Operations	2,023,670	20.71	2,250,334	1,901,757	1,718,356

	Quarter Ended				
	2006 Jun 30		2006 Mar 31	2005 Dec 31	2005 Sept 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	2,935,502	33.60	3,792,840	5,360,827	3,331,552
Royalties, net of ARTC	(261,168)	(2.99)	(754,425)	(1,175,272)	(505,938)
Operating and Transportation	(328,658)	(3.76)	(428,658)	(406,075)	(209,642)
G&A Expense	(256,620)	(2.94)	(133,173)	(185,288)	(10,782)
Net Interest Income (Expense)	(169,892)	(1.94)	(83,608)	(35,787)	(73,430)
Current Tax Recovery (Expense)	(16,759)	(0.19)	-	-	24,498
Cash Flow from Operations	1,902,405	21.78	2,392,976	3,558,405	2,556,258

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at June 30, 2007:

	Authorized	Outstanding as at June 30, 2007	Common Shares underlying Convertible Securities
Share Capital			
Common Shares ⁽¹⁾⁽⁵⁾	Unlimited	15,259,806	-
Stock Options ⁽²⁾	Not Applicable	1,457,000	1,457,000
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 converted at a price of \$7.50 per share.
- (5) As at the date hereof, pursuant to its Normal Course Issuer Bid, Twoco has acquired a total of 54,300 common shares at prices ranging between \$3.20 to \$3.65 per share. Up to October 16, 2007, under the terms of the Normal Course Issuer Bid, Twoco is authorized to acquire up to an aggregate of 750,000 of its common shares representing approximately 5% of its issued and outstanding common shares.

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

As of January 1, 2008, the Company will be required to adopt two new Canadian Institute of Chartered Accountants ("**CICA**") standards - Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation", which will replace Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

As of January 1, 2008, the Company will be required to adopt CICA 1535 "Capital Disclosures", which will require additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

In January 2006, the CICA Accounting Standards Board ("**AcSB**") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("**IFRS**") by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Effective January 1, 2007, Twoco adopted a series of new standards released by the CICA, 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, the 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 June 30, 2007, accounting fees of \$32,423 (2006 - \$25,611) were incurred to a partnership of which a director of the Company is a partner. Legal fees of \$24,725 (2006 - \$56,241) were incurred in the same quarter to a law firm of which a director of the Company is an associate. Included in interest on debentures payable is \$23,934 (2006 - \$23,934) paid to directors, debenture holders related to directors and to companies controlled by directors.

Included in accounts payable and accrued liabilities at June 30, 2007 is \$66,168 (2006 - \$NIL) owing to these related parties.

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 second quarter of 2007, Twoco participated in the drilling of 6 gross (5.8 net) wells compared to the drilling of 9 gross (8.0 net) wells in the second quarter of 2006. For the current year to date Twoco has participated in an aggressive drilling program that has resulted in the drilling of a total of 18 gross (17.8 net) wells that have resulted in 13 gross (12.8 net) wells being cased for potential natural gas production and 5 gross (5.0 net) wells being D&A. Of the 13 gross (12.8 net) wells that were cased for potential natural gas production, 3 gross (3.0 net) wells are currently on production. Initial production from the remaining 10 gross (9.8 net) wells is anticipated in the third and fourth quarters of 2007. It is anticipated that Twoco will participate in the drilling of approximately 9 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.