

## **TWOCO PETROLEUMS LTD.**

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

#### **FOR THE QUARTER ENDED SEPTEMBER 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 September 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](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 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 November 29, 2007 except where otherwise stated.

**Selected Quarterly and Nine Month Information**

	<b>Quarter ended Sept. 30, 2007 (\$)</b>	<b>Quarter ended Sept. 30, 2006 (\$)</b>	<b>Quarter ended Sept. 30, 2005 (\$)</b>
Revenue	3,495,911	2,735,008	3,331,552
Cash Flow from Operations	1,787,859	1,718,356	2,556,258
Net Income (loss)	(436,064)	(423,664)	779,352
Per share - Basic	(0.03)	(0.03)	0.06
Per share - Diluted	(0.03)	(0.03)	0.05
Total Assets	53,031,761	48,188,702	28,867,873
Total Long-Term Financial Liabilities	20,475,053	19,007,842	5,377,249
Dividends	Nil	Nil	Nil

	<b>Nine Months ended Sept. 30, 2007 (\$)</b>	<b>Nine Months ended Sept. 30, 2006 (\$)</b>	<b>Nine Months ended Sept. 30, 2005 (\$)</b>
Revenue	11,140,597	9,463,350	7,860,397
Cash Flow from Operations	6,061,862	6,013,737	5,638,408
Net Income (loss)	(724,778)	561,393	1,710,393
Per share - Basic	(0.05)	0.04	0.13
Per share - Diluted	(0.05)	0.04	0.12
Total Assets	53,031,761	48,188,702	28,867,873
Total Long-Term Financial Liabilities	20,475,053	19,007,842	5,377,249
Dividends	Nil	Nil	Nil

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

	<b>Quarter ended Sept. 30, 2007</b>	<b>Quarter ended Sept. 30, 2006</b>	<b>Quarter ended Sept. 30, 2005</b>
Natural Gas (mcf/d)	7,936	5,592	3,732
Oil and NGL's (bbls/d)	1	1	2
Total (boe/d)	1,324	933	624

	<b>Nine Months ended Sept. 30, 2007</b>	<b>Nine Months ended Sept. 30, 2006</b>	<b>Nine Months ended Sept. 30, 2005</b>
Natural Gas (mcf/d)	6,899	5,695	3,543
Oil and NGL's (bbls/d)	1	1	2
Total (boe/d)	1,151	950	593

The increase in petroleum in natural gas sales volumes for both of the comparable quarterly and nine month periods ending September 30, 2007 is a result of production added by the Company through drilling and optimization activities. Average daily sales for the quarter ended September

30, 2007 rose to 1,324 boe/d from 933 boe/d in the comparative quarter of 2006, an increase of 42%, as a result of these activities.

### Petroleum and Natural Gas Sales (Values)

	Quarter ended Sept. 30, 2007	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005
Natural Gas Sales (\$)	3,486,940	2,727,519	3,320,460
\$/mcf	4.78	5.30	9.67
Oil and NGL Sales (\$)	8,971	7,489	11,092
\$/barrel	90.61	74.29	64.49
Total Sales (\$)	3,495,911	2,735,008	3,331,552

	Nine Months ended Sept. 30, 2007	Nine Months ended Sept. 30, 2006	Nine Months ended Sept. 30, 2005
Natural Gas Sales (\$)	11,113,893	9,436,156	7,836,590
\$/mcf	5.90	6.26	8.10
Oil and NGL Sales (\$)	26,704	27,194	23,807
\$/barrel	79.71	77.04	56.28
Total Sales (\$)	11,140,597	9,463,350	7,860,397

Petroleum and natural gas (“P&NG”) sales values increased to \$3,495,911 for the quarter ended September 30, 2007 from \$2,735,008 for the quarter ended September 30, 2006 and to \$11,140,597 for the nine months ended September 30, 2007 from \$9,463,350 for the nine months ended September 30, 2006. This represents an increase from the comparative periods in 2006 of 28% for the quarter and 18% for the nine months. This increase is predominantly due to the increase in natural gas sales volumes for the quarter and nine months ended September 30, 2007.

### Royalties

	Quarter ended Sept. 30, 2007		Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	570,830	16	400,357	15	626,379	19
Freehold & GORR	129,909	4	71,122	3	36,153	1
ARTC	-	-	(100,090)	(4)	(156,594)	(5)
Total royalties	700,739	20	371,389	14	505,938	16

	Nine Months ended Sept. 30, 2007		Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	1,669,845	15	1,599,822	17	1,530,441	19
Freehold & GORR	370,014	3	185,546	2	92,966	1
ARTC	-	-	(398,386)	(4)	(382,106)	(5)
Total royalties	2,039,859	18	1,386,982	15	1,241,301	16

Total royalties, excluding ARTC, were \$2,039,859 for the nine months ended September 30, 2007 versus \$1,785,368 for the nine months ended September 30, 2006. The increase in royalties of 14% is consistent with the increase in natural gas sales for the nine months ended September 30, 2007. Royalties, excluding ARTC, as a percentage of gross sales were 18% in the nine months ended September 30, 2007 as compared to 19% in the nine months ended September 30, 2006.

### Operating Expense

	Quarter ended Sept. 30, 2007		Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense (\$)	496,037	4.07	358,580	4.18	132,660	2.31
Overhead recoveries (\$)	(70,023)	(0.57)	(46,359)	(0.54)	(20,976)	(0.36)
Net operating expense (\$)	426,014	3.50	312,221	3.64	111,684	1.95

	Nine Months ended Sept. 30, 2007		Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense (\$)	1,481,140	4.71	950,947	3.67	441,714	2.73
Overhead recoveries (\$)	(187,334)	(0.60)	(132,350)	(0.52)	(56,369)	(0.35)
Net operating expense (\$)	1,293,806	4.11	818,597	3.15	385,345	2.38

Total operating expense increased by 36% to \$426,014 for the quarter ended September 30, 2007 as compared to \$312,221 in the comparative quarter of 2006. This increase can be attributed to the costs associated with increased production in the current quarter. Operating expense averaged \$3.50 per boe for the quarter ended September 30, 2007 as compared to \$3.64 per boe for the quarter ended September 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 Sept. 30, 2007		Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	164,965	1.35	103,422	1.21	97,958	1.71

	Nine Months ended Sept. 30, 2007		Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense (\$)	439,197	1.40	354,361	1.37	259,702	1.61

Total transportation expense increased by 60% to \$164,965 for the quarter ended September 30, 2007 as compared to \$103,422 for the quarter ended September 30, 2006. This increase is predominantly due to the increase in natural gas sales volumes for the quarter ended September 30, 2007. Transportation expense averaged \$1.35 per boe for the quarter ended September 30, 2007 consistent with \$1.21 per boe for the quarter ended September 30, 2006.

### Operating Netback

	Quarter ended Sept. 30, 2007 (\$/boe)	Quarter ended Sept. 30, 2006 (\$/boe)	Quarter ended Sept. 30, 2005 (\$/boe)
Sales price	28.71	31.87	58.04
Royalties excluding ARTC	(5.75)	(5.49)	(11.54)
Operating and transportation expenses	(4.85)	(4.84)	(3.66)
Operating netback	18.11	21.54	42.84

	Nine Months ended Sept. 30, 2007 (\$/boe)	Nine Months ended Sept. 30, 2006 (\$/boe)	Nine Months ended Sept. 30, 2005 (\$/boe)
Sales price	35.45	36.47	48.64
Royalties excluding ARTC	(6.49)	(6.88)	(10.04)
Operating and transportation expenses	(5.51)	(4.52)	(3.99)
Operating netback	23.45	25.07	34.61

Twoco's operating netback decreased 16% to \$18.11 per boe in the quarter ended September 30, 2007 as compared to \$21.54 per boe realized in the quarter ended September 30, 2006. This decrease is due to lower per unit sales prices.

### General and Administrative Expense

	Quarter ended Sept. 30, 2007		Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	179,384	1.47	197,028	2.30	214,415	3.74
Overhead recoveries	(42,751)	(0.35)	(94,985)	(1.11)	(143,114)	(2.50)
Capitalized G&A	(57,955)	(0.48)	(63,407)	(0.74)	(60,519)	(1.05)
Net G&A expense	78,678	0.64	38,636	0.45	10,782	0.19

	Nine Months ended Sept. 30, 2007		Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	760,991	2.42	857,241	3.30	634,030	3.92
Overhead recoveries	(198,533)	(0.63)	(231,256)	(0.89)	(240,930)	(1.49)
Capitalized G&A	(196,017)	(0.62)	(197,555)	(0.76)	(182,312)	(1.13)
Net G&A expense	366,441	1.17	428,430	1.65	210,788	1.30

Twoco's net G&A expense increased to \$78,678 in the quarter ended September 30, 2007 from \$38,636 in the quarter ended September 30, 2006. G&A costs decreased to \$366,441 in the nine months ended September 30, 2007 as compared to \$428,430 in the nine months ended September 30, 2006.

### Net Interest Expense

In the quarter ended September 30, 2007, interest expense increased to \$334,950 from \$171,040 in the quarter ended September 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 Sept. 30, 2007		Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	2,299,300	18.88	2,116,000	24.66	1,376,500	24.03
Amortization expense	4,476	0.04	4,753	0.06	5,355	0.09
Accretion expense	37,846	0.31	19,939	0.23	(9,528)	(0.21)
Total	2,341,622	19.23	2,140,692	24.95	1,372,327	23.91

	Nine Months ended Sept. 30, 2007		Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	6,755,000	21.50	5,139,000	19.80	2,891,000	17.87
Amortization expense	12,434	0.04	13,074	0.05	14,658	0.09
Accretion expense	113,537	0.36	60,100	0.23	30,619	0.21
Total	6,880,971	21.90	5,212,174	20.08	2,936,277	18.17

In the quarter ended September 30, 2007, depletion, amortization and accretion ("DA&A") expense increased to \$2,341,622 (\$19.23 per boe). Higher production volumes 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 Sept. 30, 2007		Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	3,495,911	28.71	2,735,008	31.87	3,331,552	58.04
Royalties, net of ARTC	(700,739)	(5.75)	(371,389)	(4.33)	(505,938)	(8.81)
Net Interest (expense)	(321,617)	(2.64)	(171,040)	(1.99)	(73,430)	(1.28)
Operating and transportation	(590,979)	(4.85)	(415,643)	(4.84)	(209,642)	(3.66)
General and administrative	(78,678)	(0.65)	(38,636)	(0.45)	(10,782)	(0.19)
Settlement of asset retirement obligations	(24,993)	(0.21)				
Current taxes	8,954	0.07	(19,944)	(0.24)	24,498	0.43
Cash flow from Operations	1,787,859	14.68	1,718,356	20.02	2,556,258	44.53

	Nine Months ended Sept. 30, 2007		Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	11,140,597	35.45	9,463,350	36.47	7,860,397	48.64
Royalties, net of ARTC	(2,039,859)	(6.49)	(1,386,982)	(5.35)	(1,241,301)	(7.68)
Net Interest (expense)	(864,414)	(2.75)	(424,540)	(1.64)	(149,351)	(0.92)
Operating and transportation	(1,733,003)	(5.51)	(1,172,958)	(4.52)	(645,047)	(3.99)
General and administrative	(366,441)	(1.17)	(428,430)	(1.65)	(210,788)	(1.30)
Settlement of asset retirement obligations	(70,128)	(0.22)				
Current taxes	(4,890)	(0.02)	(36,703)	(0.13)	24,498	0.14
Cash flow from Operations	6,061,862	19.29	6,013,737	23.18	5,638,408	34.89

In the quarter ended September 30, 2007, the Company generated cash flow from operating activities of \$1,787,859. This represents an increase of 4% versus the quarter ended September 30, 2006. In the nine months ended September 30, 2007, the Company generated cash flow from operating activities of \$6,061,862.

### Net Income and Cash Flow from Operations

	Quarter ended Sept. 30, 2007		Quarter ended Sept. 30, 2006		Quarter ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	1,787,859	14.68	1,718,356	20.02	2,556,258	44.53
Less: Stock based compensation	(42,229)	(0.35)	(99,278)	(1.16)	(67,579)	(1.17)
Convertible debenture financing charges	(18,532)	(0.15)	(12,450)	(0.14)	-	-
DA&A expense	(2,341,622)	(19.23)	(2,140,692)	(24.95)	(1,372,327)	(23.91)
Future Income taxes	166,800	1.37	110,400	1.29	(337,000)	(5.87)
Convertible debenture accretion	(13,333)	(0.11)	-	-	-	-
Settlement of asset retirement obligations	24,993	0.21	-	-	-	-
Net income (loss)	(436,064)	(3.58)	(423,664)	(4.94)	779,352	13.58

	Nine Months ended Sept. 30, 2007		Nine Months ended Sept. 30, 2006		Nine Months ended Sept. 30, 2005	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	6,061,862	19.29	6,013,737	23.18	5,638,408	34.89
Less: Stock based compensation	(123,630)	(0.39)	(297,835)	(1.15)	(202,738)	(1.26)
Convertible debenture financing charges	(49,845)	(0.16)	(24,900)	(0.11)	-	-
DA&A expense	(6,880,971)	(21.90)	(5,212,174)	(20.08)	(2,936,277)	(18.17)
Future Income taxes	237,677	0.76	82,565	0.32	(789,000)	(4.88)
Convertible debenture accretion	(39,999)	(0.13)	-	-	-	-
Settlement of asset retirement obligations	70,128	0.22	-	-	-	-
Net income (loss)	(724,778)	(2.31)	561,393	2.16	1,710,393	10.58

In the quarter ended September 30, 2007, the Company generated a net loss from operating activities of \$436,064. In the nine months ended September 30, 2007, the Company generated a net loss from operating activities of \$724,778. This represents a decrease of 229% versus the nine months ended September 30, 2006.

## Capital Expenditures

Twoco's total capital expenditures for the quarters and nine months ended September 30, 2007, September 30, 2006 and September 29, 2005 are summarized as follows:

	Quarter ended Sept. 30, 2007 (\$)	Quarter ended Sept. 30, 2006 (\$)	Quarter ended Sept. 30, 2005 (\$)
Land and property acquisitions	11,528	509,844	624,298
Geological and geophysical	-	529,402	612,325
Drilling and completions	1,076,958	3,715,989	3,921,031
Facilities and equipment	936,623	976,140	2,908,651
Other	59,284	37,273	3,685
Total capital expenditures	2,084,393	5,768,648	8,069,990

	Nine Months ended Sept. 30, 2007 (\$)	Nine Months ended Sept. 30, 2006 (\$)	Nine Months ended Sept. 30, 2005 (\$)
Land and property acquisitions	1,233,172	3,066,974	2,349,563
Geological and geophysical	213,448	2,153,807	1,104,224
Drilling and completions	5,413,648	6,877,586	5,654,650
Facilities and equipment	5,984,193	3,344,256	4,077,496
Other	202,161	43,362	5,880
Total capital expenditures	13,046,622	15,485,985	13,191,813

## Liquidity and Capital Resources

Twoco had a working capital deficiency at September 30, 2007 of \$6,199,622 as compared to a working capital surplus of \$3,815,406 at September 30, 2006. The working capital deficiency is largely the result of a draw down of \$5,802,856, as at September 30, 2007, on the Company's \$20,000,000 demand revolving credit facility which bears an interest rate of prime. In addition, the Company has a \$1,500,000 general lease line of credit.

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 September 30, 2007, Twoco had a capital expenditure commitment 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

As a result of lower cash flows due to lower than anticipated natural gas prices, Twoco has amended its capital budget such that Twoco will participate in the drilling of up to 20 wells in 2007. The revised total 2007 capital budget is \$14.9 million. The majority of the budgeted 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
September 30, 2007	3,495,911	0.23	0.22	(436,064)	(0.03)	(0.03)
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

## Summary of Quarterly Information

	Quarter Ended				
	2007 Sept. 30		2007 Jun. 30	2007 Mar 31	2006 Dec 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	3,495,911	28.71	3,791,470	3,853,216	3,435,589
Royalties, net of ARTC	(700,739)	(5.75)	(597,571)	(741,549)	(492,581)
Operating and Transportation	(590,979)	(4.85)	(630,302)	(511,722)	(589,350)
G&A Expense	(78,678)	(0.65)	(180,457)	(107,306)	(238,716)
Net Interest Income (Expense)	(321,617)	(2.64)	(300,491)	(242,305)	(214,431)
Current Tax Recovery (Expense)	8,954	0.07	(13,844)	-	1,246
Settlement of asset retirement obligations	(24,993)	(0.21)	(45,135)	-	-
Cash Flow from Operations	1,787,859	14.68	2,023,670	2,250,334	1,901,757

	Quarter Ended				
	2006 Sept. 30		2006 Jun. 30	2006 Mar. 31	2005 Dec. 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	2,735,008	31.87	2,935,502	3,792,840	5,360,827
Royalties, net of ARTC	(371,389)	(4.33)	(261,168)	(754,425)	(1,175,272)
Operating and Transportation	(415,643)	(4.84)	(328,658)	(428,658)	(406,075)
G&A Expense	(38,636)	(0.45)	(256,620)	(133,173)	(185,288)
Net Interest Income (Expense)	(171,040)	(1.99)	(169,892)	(83,608)	(35,787)
Current Tax Recovery (Expense)	(19,944)	(0.29)	(16,759)	-	-
Settlement of asset retirement obligations	-	-	-	-	-
Cash Flow from Operations	1,718,356	20.02	1,902,405	2,392,976	3,558,405

## Outstanding Share Data

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

	Authorized	Outstanding as at September 30, 2007	Common Shares underlying Convertible Securities
Share Capital			
Common Shares <sup>(1)(5)</sup>	Unlimited	15,167,506	-
Stock Options <sup>(2)</sup>	Not Applicable	1,457,000	1,457,000
Preferred Shares	Unlimited	Nil	-
Long term Debt <sup>(3)</sup>	Not Applicable	\$12,000,000	1,600,000 <sup>(4)</sup>

### Notes:

- (1) As at the date hereof, Twoco has 15,153,606 common shares outstanding.
- (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, 218,000 common shares at an exercise price of \$3.00 per share, 170,000 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 1,432,000 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 Bids since January 1, 2007, Twoco has acquired a total of 131,200 common shares at prices ranging between \$3.12 to \$4.35 per share. Up to October 16, 2008, under the terms of the Company's current 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 these 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, 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 petroleum 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 petroleum 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 petroleum 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. As at September 30, 2007 Twoco has not entered into any hedges. 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 September 30, 2007, accounting fees of \$NIL (2006 - \$24,697) were incurred to a partnership of which a director of the Company is a partner. Legal fees of \$13,196 (2006 - \$9,012) 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 \$71,803 (2006 - \$48,132) paid to directors, debenture holders related to directors and to companies controlled by directors.

Included in accounts payable and accrued liabilities at September 30, 2007 is \$NIL (2006 - \$12,841) 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 third quarter of 2007, Twoco participated in the drilling of 3 gross (3.0 net) wells compared to the drilling of 14 gross (12.8 net) wells in the third 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 19 gross (17.8 net) wells that have resulted in 14 gross (12.8 net) wells being cased for potential natural gas production and 5 gross (5.0 net) wells being dry and abandoned. Of the 14 gross (12.8 net) wells that were cased for potential natural gas production, 8 gross (7.8 net) wells are currently on production and 2 gross (2.0 net) wells were completed but experienced non-commercial production rates. Initial production from the remaining 4 gross (3.0 net) wells is anticipated in the fourth quarter of 2007 and the first quarter of 2008. It is anticipated that Twoco will participate in the drilling of 1 additional well 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 continue to review all capital expenditure programs on a regular basis and adjust spending accordingly having regard to factors such as changes in commodity prices.