

TWOCO PETROLEUMS LTD.

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

FOR THE QUARTER ENDED JUNE 30, 2008

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, 2008 and Twoco's audited financial statements, notes thereto, and MD&A for the year ended December 31, 2007. 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 and the Company's web site at www.twoco.ca. 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 Canadian 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 statements of cash flows in the unaudited interim 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 27, 2008 except where otherwise stated.

Selected Quarterly and Six Month Information

	Quarter ended June 30, 2008 (\$)	Quarter ended June 30, 2007 (\$)	Quarter ended June 30, 2006 (\$)
Revenue	5,417,081	3,791,470	2,935,502
Cash Flow from Operations	3,549,131	2,023,670	1,902,405
Net Income (Loss)	1,123,639	(300,255)	413,566
Per share - Basic	0.07	(0.02)	0.03
Per share - Diluted	0.07	(0.02)	0.03
Total Assets	53,301,829	53,822,732	48,372,658
Total Long-Term Financial Liabilities	8,379,187	20,494,485	18,635,677
Dividends	Nil	Nil	Nil

	Six Months ended June 30, 2008 (\$)	Six Months ended June 30, 2007 (\$)	Six Months ended June 30, 2006 (\$)
Revenue	10,348,426	7,644,686	6,728,342
Cash Flow from Operations	6,238,961	4,274,003	4,295,381
Net Income (Loss)	1,510,097	(288,714)	985,057
Per share - Basic	0.10	(0.02)	0.07
Per share - Diluted	0.09	(0.02)	0.06
Total Assets	53,301,829	53,822,732	48,372,658
Total Long-Term Financial Liabilities	8,379,187	20,494,485	18,635,677
Dividends	Nil	Nil	Nil

Petroleum and Natural Gas Sales (Volumes)

	Quarter ended June 30, 2008	Quarter ended June 30, 2007	Quarter ended June 30, 2006
Natural Gas (mcf/d)	6,299	6,431	5,742
Oil and NGL's (bbls/d)	1	1	3
Total (boe/d)	1,051	1,073	960

	Six Months ended June 30, 2008	Six Months ended June 30, 2007	Six Months ended June 30, 2006
Natural Gas (mcf/d)	6,819	6,343	5,804
Oil and NGL's (bbls/d)	1	1	3
Total (boe/d)	1,138	1,058	970

Average daily sales volumes for the quarter ended June 30, 2008 dropped to 1,051 boe/d as compared to 1,073 boe/d in the comparative quarter of 2007, a decrease of 2%. This decrease is primarily attributable due to shut in production due to extremely wet lease conditions and anticipated normal production declines. Average daily sales volumes for the six months ended

June 30, 2008 increased to 1,138 boe/d as compared to 1,058 boe/d in the comparative period in 2007, an increase of 8%.

Petroleum and Natural Gas Sales (Values)

	Quarter ended June 30, 2008	Quarter ended June 30, 2007	Quarter ended June 30, 2006
Natural Gas Sales (\$)	5,412,319	3,782,574	2,925,564
\$/mcf	9.44	6.46	5.60
Oil and NGL Sales (\$)	4,762	8,896	9,938
\$/barrel	98.06	76.86	34.75
Total Sales (\$)	5,417,081	3,791,470	2,935,502

	Six Months ended June 30, 2008	Six Months ended June 30, 2007	Six Months ended June 30, 2006
Natural Gas Sales (\$)	10,341,062	7,626,834	6,708,637
\$/mcf	8.33	6.64	6.39
Oil and NGL Sales (\$)	7,364	17,852	19,705
\$/barrel	53.21	75.73	33.63
Total Sales (\$)	10,348,426	7,644,686	6,728,342

Petroleum and natural gas (“P&NG”) sales values increased to \$5,417,081 for the quarter ended June 30, 2008 from \$3,791,470 for the quarter ended June 30, 2007 and to \$10,348,426 for the six months ended June 30, 2008 from \$7,644,686 for the six months ended June 30, 2007. This represents an increase from the comparative periods in 2007 of 43% for the quarter and 35% for the six months. These increases are predominantly due to higher commodity prices for the quarter and six months ended June 30, 2008.

Royalties

	Quarter ended June 30, 2008		Quarter ended June 30, 2007		Quarter ended June 30, 2006	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	460,465	9	463,780	12	285,322	10
Freehold & GORR	153,782	3	133,791	4	46,312	-
ARTC	-	-	-	-	(70,466)	(1)
Total royalties	614,247	12	597,571	16	261,168	9

	Six Months ended June 30, 2008		Six Months ended June 30, 2007		Six Months ended June 30, 2006	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	1,174,603	11	1,099,015	14	1,199,465	17
Freehold & GORR	294,805	3	240,105	3	114,424	2
ARTC	-	-	-	-	(298,296)	(4)
Total royalties	1,469,408	14	1,339,120	17	1,015,593	15

Total royalties were \$1,469,408 for the six months ended June 30, 2008 versus \$1,339,120 for the six months ended June 30, 2007. Royalties as a percentage of gross sales were 14% in the six months ended June 30, 2008 as compared to 17% in the six months ended June 30, 2007. 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, 2008.

Operating Expense

	Quarter ended June 30, 2008		Quarter ended June 30, 2007		Quarter ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense	678,586	7.10	556,367	5.70	259,481	2.97
Overhead recoveries	(71,551)	(0.75)	(63,687)	(0.65)	(46,112)	(0.53)
Net operating expense	607,035	6.35	492,680	5.05	213,369	2.44

	Six Months ended June 30, 2008		Six Months ended June 30, 2007		Six Months ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense	1,352,019	6.53	985,101	5.14	592,367	3.37
Overhead recoveries	(135,654)	(0.66)	(117,309)	(0.61)	(85,991)	(0.49)
Net operating expense	1,216,365	5.87	867,792	4.53	506,376	2.88

Total operating expense increased by 23% to \$607,035 for the quarter ended June 30, 2008 as compared to \$492,680 in the comparative quarter of 2007. Operating expense averaged \$6.35 per boe for the quarter ended June 30, 2008 as compared to \$5.05 per boe for the quarter ended June 30, 2007. These unit operating costs are viewed by management as very favourable and are partially due to the fact that a significant portion of Twoco's production is processed at Twoco operated facilities. It is anticipated that Twoco, in the future, will realize a moderate increase in unit operating costs mainly due to increased costs associated with additional gas compression requirements.

Transportation Expense

	Quarter ended June 30, 2008		Quarter ended June 30, 2007		Quarter ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense	159,409	1.67	137,622	1.41	115,289	1.32

	Six Months ended June 30, 2008		Six Months ended June 30, 2007		Six Months ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense	346,616	1.67	274,232	1.43	250,939	1.43

Total transportation expense increased by 16% to \$159,409 for the quarter ended June 30, 2008 as compared to \$137,622 for the quarter ended June 30, 2007. Transportation expense averaged \$1.67 per boe for the quarter ended June 30, 2008 consistent with \$1.41 per boe for the quarter ended June 30, 2007.

Operating Netback

	Quarter ended June 30, 2008 (\$/boe)	Quarter ended June 30, 2007 (\$/boe)	Quarter ended June 30, 2006 (\$/boe)
Sales price	56.67	38.82	33.60
Royalties excluding ARTC	(6.43)	(6.12)	(3.80)
Operating and transportation expenses	(8.02)	(6.45)	(3.76)
Operating netback	42.22	26.24	26.04

	Six Months ended June 30, 2008 (\$/boe)	Six Months ended June 30, 2007 (\$/boe)	Six Months ended June 30, 2006 (\$/boe)
Sales price	50.00	39.90	38.31
Royalties excluding ARTC	(7.10)	(6.99)	(7.48)
Operating and transportation expenses	(7.55)	(5.96)	(4.31)
Operating netback	35.35	26.95	26.52

Twoco's operating netback increased 61% to \$42.22 per boe in the quarter ended June 30, 2008 as compared to \$26.24 per boe realized in the quarter ended June 30, 2007. This increase is predominantly due to higher commodity prices.

General and Administrative Expense

	Quarter ended June 30, 2008		Quarter ended June 30, 2007		Quarter ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	299,523	3.13	300,826	3.08	397,619	4.55
Overhead recoveries	(41,613)	(0.43)	(52,903)	(0.54)	(75,112)	(0.86)
Capitalized G&A	(58,083)	(0.61)	(67,466)	(0.69)	(65,887)	(0.75)
Net G&A expense	199,827	2.09	180,457	1.85	256,620	2.94

	Six Months ended June 30, 2008		Six Months ended June 30, 2007		Six Months ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	679,098	3.28	581,607	3.04	660,213	3.76
Overhead recoveries	(60,441)	(0.28)	(155,782)	(0.81)	(136,271)	(0.78)
Capitalized G&A	(140,411)	(0.69)	(138,062)	(0.72)	(134,148)	(0.76)
Net G&A expense	478,246	2.31	287,763	1.51	389,794	2.22

Twoco's net general and administrative ("G&A") expense increased to \$199,827 in the quarter ended June 30, 2008 from \$180,457 in the quarter ended June 30, 2007. G&A expense increased for the six months ended June 30, 2008 to \$478,246 as compared to \$287,763 in the comparative period in 2007 due to 2007 year end management bonuses which were paid in the first quarter 2008 and a decrease in overhead recoveries as compared to the comparative period in 2007.

Net Interest Expense

In the quarter ended June 30, 2008, net interest expense decreased to \$300,765 from \$313,824 in the quarter ended June 30, 2007. The decrease in net interest expense is mainly attributable to the decrease in interest payments associated with the Company's revolving line of credit.

Depletion, Amortization and Accretion

	Quarter ended June 30, 2008		Quarter ended June 30, 2007		Quarter ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	1,901,166	19.89	2,358,800	24.15	1,581,000	18.10
Amortization expense	-	-	4,227	0.04	4,400	0.04
Accretion expense	43,905	0.46	37,846	0.39	26,720	0.31
Total	1,945,071	20.35	2,400,873	24.58	1,612,120	18.45

	Six Months ended June 30, 2008		Six Months ended June 30, 2007		Six Months ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	4,129,166	19.95	4,455,700	23.26	3,023,000	17.21
Amortization expense	13,839	0.07	7,958	0.04	8,321	0.05
Accretion expense	82,867	0.40	75,691	0.40	40,161	0.23
Total	4,225,872	20.42	4,539,349	23.70	3,071,482	17.49

In the quarter ended June 30, 2008, depletion, amortization and accretion ("DA&A") expense decreased to \$1,945,071 (\$20.35 per boe) as compared to \$2,400,873 (\$24.58 per boe) for the quarter ended June 30, 2007.

Income Taxes

It is anticipated that the Company will not be cash taxable in 2008 due to significant capital expenditures and tax deductions offsetting increases in production revenue.

Cash Flow from Operations

	Quarter ended June 30, 2008		Quarter ended June 30, 2007		Quarter ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	5,417,081	56.67	3,791,470	38.82	2,935,502	33.60
Royalties, net of ARTC	(614,247)	(6.43)	(597,571)	(6.12)	(261,168)	(2.99)
Net interest expense	(287,432)	(3.00)	(300,491)	(3.08)	(169,892)	(1.94)
Operating and transportation	(766,444)	(8.02)	(630,302)	(6.46)	(328,658)	(3.76)
General and administrative	(199,827)	(2.09)	(180,457)	(1.85)	(256,620)	(2.94)
Settlement of asset retirement obligations	-	-	(45,135)	(0.46)	-	-
Current taxes	-	-	(13,844)	(0.14)	(16,759)	(0.19)
Cash flow from Operations	3,549,131	37.13	2,023,670	20.71	1,902,405	21.78

	Six Months ended June 30, 2008		Six Months ended June 30, 2007		Six Months ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	10,348,426	50.00	7,644,686	39.90	6,728,342	38.30
Royalties, net of ARTC	(1,469,408)	(7.10)	(1,339,120)	(6.99)	(1,015,593)	(5.78)
Net interest expense	(598,830)	(2.90)	(542,797)	(2.83)	(253,500)	(1.44)
Operating and transportation	(1,562,981)	(7.55)	(1,142,024)	(5.96)	(757,315)	(4.31)
General and administrative	(478,246)	(2.31)	(287,763)	(1.51)	(389,794)	(2.22)
Settlement on asset retirement obligations	-	-	(45,135)	(0.24)	-	-
Current taxes	-	-	(13,844)	(0.07)	(16,759)	(0.10)
Cash flow from Operations	6,238,961	30.14	4,274,003	22.30	4,295,381	24.45

In the quarter ended June 30, 2008, the Company generated cash flow from operating activities of \$3,549,131. This represents an increase of 75% versus the quarter ended June 30, 2007. In the six months ended June 30, 2008, the Company generated cash flow from operating activities of \$6,238,961. This represents an increase of 46% versus the six months ended June 30, 2007. These increases are predominantly due to higher commodity prices and lower DA&A expense.

Net Income and Cash Flow from Operations

	Quarter ended June 30, 2008		Quarter ended June 30, 2007		Quarter ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	3,549,131	37.13	2,023,670	20.71	1,902,405	21.78
Less: Stock based compensation	(4,556)	(0.05)	(42,228)	(0.43)	(99,279)	(1.14)
Convertible debentures financing charges	(18,532)	(0.19)	(10,865)	(0.11)	(12,450)	(0.14)
DA&A expense	(1,945,071)	(20.35)	(2,400,873)	(24.58)	(1,612,120)	(18.45)
Future Income taxes	(444,000)	(4.64)	98,239	1.00	235,010	2.69
Convertible debentures accretion	(13,333)	(0.14)	(13,333)	(0.14)	-	-
Settlement of asset retirement obligations	-	-	45,135	0.46	-	-
Net income (loss)	1,123,639	11.76	(300,255)	(3.07)	413,566	4.74

	Six Months ended June 30, 2008		Six Months ended June 30, 2007		Six Months ended June 30, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	6,238,961	30.14	4,274,003	22.30	4,295,381	24.45
Less: Stock based compensation	(7,612)	(0.04)	(81,401)	(0.42)	(198,557)	(1.13)
Convertible debentures financing charges	(37,064)	(0.17)	(31,313)	(0.16)	(12,450)	(0.07)
DA&A expense	(4,225,872)	(20.42)	(4,539,349)	(23.70)	(3,071,482)	(17.48)
Future Income taxes	(431,650)	(2.08)	70,877	0.37	(27,835)	(0.16)
Convertible debentures accretion	(26,666)	(0.13)	(26,666)	(0.14)	-	-
Settlement of asset retirement obligations	-	-	45,135	0.24	-	-
Net income (loss)	1,510,097	7.30	(288,714)	(1.51)	985,057	5.61

In the quarter ended June 30, 2008, the Company generated net income from operating activities of \$1,123,639. This represents an increase of 474% versus the quarter ended June 30, 2007. In the six months ended June 30, 2008, the Company generated net income from operating activities of \$1,510,097. This represents an increase of 623% versus the six months ended June 30, 2007. These increases resulted primarily from higher commodity prices and lower DA&A expense.

Capital Expenditures

Twoco's total capital expenditures for the quarters and six months ended June 30, 2008, June 30, 2007 and June 30, 2006 are summarized as follows:

	Quarter ended June 30, 2008	Quarter ended June 30, 2007	Quarter ended June 30, 2006
Land and property acquisitions (\$)	124,824	328,460	586,158
Geological and geophysical (\$)	197,250	13,359	1,224,704
Drilling and completions (\$)	1,058,856	1,580,219	2,341,652
Facilities and equipment (\$)	727,734	1,392,274	604,495
Other (\$)	61,125	71,025	(64,689)
Total capital expenditures (\$)	2,169,789	3,385,337	4,692,320

	Six Months ended June 30, 2008	Six Months ended June 30, 2007	Six Months ended June 30, 2006
Land and property acquisitions (\$)	455,213	1,221,644	2,557,130
Geological and geophysical (\$)	202,383	213,448	1,624,405
Drilling and completions (\$)	1,857,200	4,336,690	3,161,597
Facilities and equipment (\$)	823,002	5,047,570	2,368,116
Other (\$)	149,240	142,878	6,089
Total capital expenditures (\$)	3,487,038	10,962,230	9,717,337

Liquidity and Capital Resources

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 \$3,942,694 on the revolving credit facility as at June 30, 2008.

Twoco had a working capital deficiency at June 30, 2008 of \$15,270,418 as compared to a working capital deficiency of \$5,523,988 at June 30, 2007. The increase in the working capital deficiency is primarily attributable to \$11,904,405 of convertible debentures being classified as current liabilities in accordance with Canadian GAAP. The convertible debentures mature on March 31, 2009. The Company has various options to retire the convertible debentures when they become due which include: internally generated cash flow from operations, drawdown of the Company's credit facility and new equity issues if available on favourable terms. The Company has been and will continue to assess such options between now and the maturity date of the convertible debentures.

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of our underlying assets. The Company considers its capital structure to include shareholders' equity, debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue shares, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital based on the current and projected ratios of debt to cash flow and debt to capital employed. The Company's objective is to maintain a debt to cash flow from operations ratio of less than two times. The ratio may increase at certain times as a result of acquisitions. To facilitate the management of this ratio, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The annual budget is approved by the Board of Directors.

The Company's share capital is not subject to external restrictions.

There were no changes in the Company's approach to capital management from the previous year.

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, 2008, Twoco had no capital expenditure commitments.

2008 Capital Budget

Twoco has an \$11.2 million 2008 capital budget which reflects the anticipated drilling of 24 net wells in 2008. 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 comparative quarterly financial information relating to the Company.

Quarter Ended	Petroleum and Natural Gas Sales			Net Income		
	(\$)	(\$/share)		(\$)	(\$/share)	
		Basic	Diluted		Basic	Diluted
June 30, 2008	5,417,081	0.36	0.33	1,123,639	0.07	0.07
March 31, 2008	4,931,346	0.32	0.32	386,458	0.03	0.02
December 31, 2007	4,454,764	0.29	0.28	(131,589)	(0.01)	(0.01)
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)

Summary of Quarterly Information

	Quarter Ended				
	2008 Jun 30		2008 Mar 31	2007 Dec 31	2007 Sept 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	5,417,081	56.67	4,931,346	4,454,764	3,495,911
Royalties, net of ARTC	(614,247)	(6.43)	(855,162)	(814,512)	(700,739)
Operating and Transportation	(766,444)	(8.02)	(796,537)	(930,518)	(590,979)
G&A Expense	(199,827)	(2.09)	(278,419)	(284,860)	(78,678)
Net interest expense	(287,432)	(3.00)	(311,398)	(335,949)	(321,617)
Settlement of asset retirement obligations	-	-	-	(2,439)	(24,993)
Current Tax Recovery (Expense)	-	-	-	-	8,954
Cash Flow from Operations	3,549,131	37.13	2,689,830	2,086,486	1,787,859

	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 expense	(300,491)	(3.08)	(242,305)	(214,431)	(171,040)
Settlement of asset retirement obligations	(45,135)	(0.46)	-	(23,715)	(35,696)
Current Tax Recovery (Expense)	(13,844)	(0.14)	-	1,246	(19,944)
Cash Flow from Operations	2,023,670	20.71	2,250,334	1,878,042	1,682,660

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at June 30, 2008:

	Authorized	Outstanding as at June 30, 2008	Common Shares underlying Convertible Securities
Share Capital			
Common Shares ⁽¹⁾	Unlimited	15,487,706	-
Stock Options ⁽²⁾	Not Applicable	942,000	942,000
Preferred Shares	Unlimited	Nil	-
Long term Debt ⁽³⁾	Not Applicable	\$12,000,000	1,454,545 ⁽⁴⁾

Notes:

- (1) As at the date hereof, Twoco has 15,410,106 common shares outstanding.
- (2) Twoco currently has outstanding under its stock option plan, options to purchase 70,000 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, 10,000 common shares at an exercise price of \$3.50 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 902,000 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 \$8.25 per share. 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 \$8.25 per share.

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 4 to the audited financial statements for the year ended December 31, 2007 and the year ended December 31,

2006. 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 adopted two new Canadian Institute of Chartered Accountants ("**CICA**") standards – Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", which replaced 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. Specifically, Section 3862 requires disclosure of the significance of financial instruments on the Company's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. The new presentation standard carries forward the former presentation requirements.

As of January 1, 2008, the Company has adopted CICA 1535 "Capital Disclosures", which requires additional disclosures of objectives, policies and processes for managing capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequence of non-compliance and an explanation of how the Company is meeting its objectives for managing capital. In addition, quantitative disclosures regarding capital are required.

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.

Also effective January 1, 2007, Twoco adopted the revised CICA Handbook Section 1506 – "*Accounting Changes*". Accounting Changes provides expanded disclosure for changes in accounting policies, accounting estimates and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information.

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company.

As of January 1, 2009, the Company will be required to adopt CICA Section 3064, "*Goodwill and Intangible Assets*", which will replace CICA Section 3062. This new guidance reinforces a principles-based approach to the recognition of costs as assets in accordance with the definition of an asset and the criteria for asset recognition under CICA Section 1000, "*Financial Statement Concepts*". Section 3064 clarifies the application of the concept of matching revenues and expenses in Section 1000 to eliminate the current practice of recognizing as assets items that do not meet the definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. The Company is currently determining the impact of this standard.

Convergence of Canadian GAAP with International Financial Reporting Standards

In January 2006, the CICA Accounting Standard Board (the "**ACSB**") adopted 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 ("**IFRS**") on January 1, 2011. Twoco continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

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 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, Twoco competes 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 June 30, 2008, Twoco has not entered into any derivative or hedging contracts. 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.

Financial Instruments and Risk Management

(a) Fair Values

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, obligations under capital lease, convertible debentures

payable and bank indebtedness. The fair value of these instruments approximate their carrying amounts due to their short terms to maturity or because they bear interest at market rates for similar instruments.

(b) Credit Risk

Virtually all of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from purchasers of the Company's petroleum and natural gas production and are subject to normal industry credit risks. The Company generally extends unsecured credit to these parties and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Receivables from petroleum and natural gas marketers are normally collected on the twenty-fifth day of the month following production. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies with investment grade credit ratings. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure and issuing cash calls on large capital projects from its partners on capital projects before they commence. The Company reviews the financial status of joint venture partners before partner approval is obtained.

(c) Liquidity Risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and accrued liabilities, obligations under capital lease, convertible debentures payable and bank indebtedness. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand or borrowing capacity to meet operational and financial obligations.

(d) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. These risks are generally outside the control of the Company. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

(e) Interest Rate Risk

The Company is exposed to interest rate cash flow risk on its outstanding bank indebtedness, which has a floating interest rate and would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at June 30, 2008.

In regards to interest rate risk, an increase or decrease of one percent to the effective interest rate for the Company would have impacted net earnings by \$19,659 for the period.

(f) Foreign Currency Risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices. As at June 30, 2008, the Company had no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

(g) Commodity Price Risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. As at June 30, 2008, the Company had no derivative natural gas contracts in place.

In regards to commodity prices, a \$0.25 change to the price per thousand cubic feet of natural gas would have positively impacted net earnings by \$181,737 for the period in the event of a price increase and negatively impacted net earnings by \$231,256 in the event of a price decrease.

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, 2008, consulting fees of \$3,840 were incurred to a corporation of which a director of the Company is the president and shareholder. During the quarter ended June 30, 2007, such director was a partner with an accounting firm to which the Company incurred accounting fees of \$32,423. Legal fees of \$13,185 (2007 - \$24,725) were incurred in the same quarter to a law firm of which a director of the Company is an associate.

Included in accounts payable and accrued liabilities at June 30, 2008 is \$61,322 (2007 - \$66,168) owing to these related parties.

Included in interest on debentures payable is \$28,609 (2007 - \$28,295) paid to directors, debenture holders related to directors and to companies controlled by directors.

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 2008, Twoco participated in the drilling of 5 gross (4.0 net) wells compared to the drilling of 6 gross (5.8 net) wells in the second quarter of 2007. For the current year to date, Twoco has participated in an aggressive drilling program that has resulted in the

drilling of a total of 16 gross (13.8 net) wells that have resulted in 13 gross (11.1 net) wells being cased for potential natural gas production and 3 gross (2.7 net) wells being D&A. Initial production from the 13 gross (11.1 net) wells is anticipated in the third and fourth quarters of 2008. It is anticipated that Twoco will participate in the drilling of approximately 8 additional wells in the remainder of 2008.

Twoco has completed the re-commissioning of a compressor station and associated facilities in the Colinton prospect in the Steele/Bolloque core area. This is the fifth compressor station in which Twoco has a working interest. Start-up of this facility occurred in June 2008 and will allow the Corporation to expand its activities and provides further growth opportunities in this area.

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 2008 and adjust spending accordingly having regard to factors such as changes in commodity prices.