

TWOCO PETROLEUMS LTD.

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

FOR THE YEAR ENDED DECEMBER 31, 2008

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2008 of Twoco Petroleum Ltd. ("**Twoco**" or the "**Company**") and Twoco's audited consolidated 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, including Twoco's Annual Information Form, 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.

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 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 April 16, 2009 except where otherwise stated.

Selected Annual Information

	Year ended December 31, 2008 (\$)	Year ended December 31, 2007 (\$)	Year ended December 31, 2006 (\$)
Revenue	20,109,466	15,595,361	12,898,939
Cash Flow from Operations	11,064,947	8,148,349	7,856,083
Net Income (Loss)	733,723	(856,367)	772,128
Per share - Basic	0.05	(0.06)	0.05
Per share - Diluted	0.05	(0.06)	0.05
Total Assets	63,998,322	52,734,054	49,027,295
Total Long-Term Financial Liabilities	8,351,971	19,778,681	19,041,378
Dividends	Nil	Nil	Nil

The Company acquired certain natural gas assets (the “**Tofield Property**”) in the Tofield area of Alberta on September 19, 2008. The acquisition was effective as of July 1, 2008. See “Capital Expenditures” and “Summary of Selected Information Incorporating Tofield Property Acquisition” on pages 6 and 9, respectively, of this MD&A for further information concerning the Tofield Property.

Petroleum and Natural Gas Sales (Volumes) – Includes Tofield Property Acquisition

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Natural Gas (mcf/d)	8,185	7,205	5,692
Oil and NGL's (bbls/d)	1	1	1
Total (boe/d)	1,365	1,202	950

The increase in natural gas sales volumes for the year ended December 31, 2008 is a result of production added by the Company through drilling, optimization and the Tofield Property acquisition. Average daily sales for the year ended December 31, 2008 rose to 1,365 boe/d as compared to 1,202 boe/d in 2007, an increase of 14%, as a result of these activities. As at the date hereof, the Company's current production is 1,550 boe/d.

Petroleum and Natural Gas Sales (Values)

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Natural Gas Sales (\$)	20,094,317	15,558,896	12,866,374
\$/mcf	7.48	5.92	6.19
Oil and NGL Sales (\$)	15,159	36,465	32,565
\$/bbl	70.18	80.03	66.46
Total Sales (\$)	20,109,466	15,595,361	12,898,939

Petroleum and natural gas (“**P&NG**”) sales values increased to \$20,109,466 for the year ended December 31, 2008 from \$15,595,361 for the year ended December 31, 2007. This represents

an increase of 29%. This increase is predominantly a result of the increase in commodity prices for the year ended December 31, 2008 versus the year ended December 31, 2007.

Royalties

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	2,806,462	14.0	2,331,367	14.9	2,086,708	16.2
Freehold & GORR	479,580	2.3	523,004	3.4	292,855	2.3
ARTC	-	-	-	-	(500,000)	(3.9)
Total royalties	3,286,042	16.3	2,854,371	18.3	1,879,563	14.6

Total royalties were \$3,286,042 for the year ended December 31, 2008 versus \$2,854,371 for the year ended December 31, 2007. The increase in royalties of 15% is consistent with the increase in natural gas sales volumes for the year ended December 31, 2008. Royalties as a percentage of gross sales were 16.3% in the year ended December 31, 2008 as compared to 18.3% in the year ended December 31, 2007.

Operating Expense

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross Production expense	3,194,817	7.13	2,300,673	5.24	1,481,404	4.27
Overhead recoveries	(285,914)	(0.64)	(259,681)	(0.59)	(185,894)	(0.54)
Net Production expense	2,908,903	6.49	2,040,992	4.65	1,295,510	3.73

Total operating expense increased to \$2,908,903 in the year ended December 31, 2008 as compared to \$2,040,992 in the year ended December 31, 2007. This increase can be attributed to the costs associated with increased production in the current year. Operating expense averaged \$6.49 per boe for the year ended December 31, 2008 as compared to \$4.65 per boe for the year ended December 31, 2007. 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. 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

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation Expense	703,272	1.57	622,529	1.42	466,799	1.35

Twoco's transportation expense increased 13% to \$703,272 in the year ended December 31, 2008 as compared to \$622,529 in the year ended December 31, 2007. This increase is

predominantly due to the increase in natural gas sales volumes for the year ended December 31, 2008.

Operating Netback

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
Sales price (\$/boe)	44.91		35.55		37.20	
Royalties excluding ARTC (\$/boe)	(7.34)		(6.51)		(6.86)	
Operating and transportation expense (\$/boe)	(8.07)		(6.07)		(5.08)	
Operating netback (\$/boe)	29.50		22.97		25.26	

Twoco's operating netback increased 28% to \$29.50 per boe in the year ended December 31, 2008 as compared to \$22.97 per boe realized in the year ended December 31, 2007. This increase is predominantly due to higher commodity prices.

General and Administrative Expense

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	(\$)	(\$/boe)	(\$/boe)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	1,312,325	2.93	1,125,805	2.57	1,226,147	3.54
Overhead recoveries	(139,897)	(0.31)	(226,913)	(0.52)	(280,540)	(0.81)
Capitalized G&A	(261,079)	(0.59)	(247,591)	(0.57)	(278,462)	(0.80)
Net G&A expense	911,349	2.04	651,301	1.48	667,145	1.93

Twoco's net general and administrative ("G&A") expense increased to \$911,349 in the year ended December 31, 2008 from \$651,301 in the year ended December 31, 2007. G&A expense increased due to 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 year ended December 31, 2008, net interest expense was \$1,234,954 as compared to \$1,200,362 in the year ended December 31, 2007 and \$638,971 in the period ended December 31, 2006. The increase in the net interest expense in 2008 is mainly attributable to interest payments associated with the Company's revolving line of credit.

Depletion, amortization and accretion

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	9,972,848	22.27	9,196,100	20.96	6,792,300	19.59
Amortization expense	17,707	0.04	17,462	0.04	19,762	0.06
Accretion expense	155,834	0.35	139,480	0.32	69,111	0.20
Total	10,146,389	22.66	9,353,042	21.32	6,881,173	19.85

In the year ended December 31, 2008 depletion, amortization and accretion (“**DA&A**”) expense increased to \$10,146,389 (\$22.66 per boe) from \$9,353,042 (\$21.32 per boe) in the year ended December 31, 2007.

Income Taxes

The Company is not cash taxable for the year ended December 31, 2008. It is anticipated that the Company will not be cash taxable in 2009 due to capital expenditures and tax deductions offsetting increases in production revenue.

The Company had the following estimated income tax pools available at December 31, 2008.

	Annual Deduction Available (%)	Tax Pools (\$)
Canadian exploration expense (CEE)	100	4,895,097
Canadian development expense (CDE)	30	2,902,218
Canadian oil and gas property expense (COGPE)	10	16,964,014
Undepreciated capital costs (UCC)	25	14,650,985
Share issue and other financing costs	20	157,706
Total	-	39,570,020

Cash Flow from Operations

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	20,109,466	44.91	15,595,361	35.55	12,898,939	37.20
Royalties, net of ARTC	(3,286,042)	(7.34)	(2,854,371)	(6.51)	(1,879,563)	(5.42)
Net Interest (expense)	(1,234,954)	(2.76)	(1,200,362)	(2.74)	(638,971)	(1.84)
Operating and transportation	(3,612,175)	(8.07)	(2,663,521)	(6.07)	(1,762,309)	(5.08)
General and administrative	(911,349)	(2.04)	(651,301)	(1.48)	(667,145)	(1.93)
Current taxes	-	-	(4,890)	(0.01)	(35,457)	(0.10)
Settlement of asset retirement obligations	-	-	(72,567)	(0.17)	(59,411)	(0.17)
Cash flow from Operations	11,064,947	24.71	8,148,349	18.57	7,856,083	22.66

In the year ended December 31, 2008, the Company generated cash flow from operating activities of \$11,064,947. This represents an increase of 36% versus 2007. This increase resulted from the increase in natural gas sales volumes and higher commodity prices in 2008.

Net Income and Cash Flow from Operations

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	11,064,947	24.71	8,148,349	18.57	7,856,083	22.66
Less: Stock based compensation	(16,725)	(0.04)	(165,859)	(0.38)	(397,113)	(1.14)
DA&A expense	(10,146,389)	(22.66)	(9,353,042)	(21.32)	(6,881,173)	(19.85)
Future Income taxes	(40,650)	(0.09)	563,327	1.28	236,265	0.68
Convertible debentures accretion	(53,332)	(0.12)	(53,332)	(0.12)	(40,000)	(0.11)
Amortization of deferred charges	(74,128)	(0.17)	(68,377)	(0.16)	(61,345)	(0.18)
Settlement of asset retirement obligations	-	-	72,567	0.17	59,411	0.17
Net income (loss)	733,723	1.63	(856,367)	(1.96)	772,128	2.23

In the year ended December 31, 2008, the Company generated net income from operating activities of \$733,723. This represents an increase of 184% versus 2007. This increase resulted mainly from the increase in natural gas sales volumes and higher commodity prices.

Capital Expenditures

Twoco's total capital expenditures for 2008, 2007 and 2006 are summarized as follows:

	Year ended December 31, 2008 (\$)	Year ended December 31, 2007 (\$)	Year ended December 31, 2006 (\$)
Land and property acquisitions	12,365,597	1,547,071	4,808,596
Geological and geophysical	231,466	208,732	2,669,259
Drilling and completions	4,101,889	5,705,312	7,649,392
Facilities and equipment	3,757,531	7,158,329	4,600,386
Other	16,907	255,630	16,834
Total capital expenditures	20,473,390	14,875,074	19,744,467

In September 2008, Twoco completed the acquisition of certain natural gas assets located in the Tofield area of Alberta for total cash consideration of \$11.5 million after interim closing adjustments and related costs. At the time of the acquisition, the Tofield Property comprised approximately 5,128 gross (4,445 net) acres of developed and 5,760 gross (5,760 net) acres of undeveloped lands which were producing approximately 500 boe per day.

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 plus one half percent and a \$1,500,000 general lease line of credit. The Company has drawn \$16,238,733 on the revolving credit facility as at December 31, 2008.

Twoco had a working capital deficiency at December 31, 2008 of \$28,523,301 as compared to a working capital deficiency of \$6,109,401 at December 31, 2007. The increase in the working capital deficiency is primarily attributable to the cash consideration paid for the Tofield Property and the \$11,872,540 of 7.5% redeemable, unsecured, convertible debentures (the “**2006 Debentures**”) being classified as current liabilities in accordance with Canadian GAAP. The 2006 Debentures matured on March 31, 2009 and all outstanding principal and accrued and unpaid interest thereon was paid by the Company. On March 31, 2009, Twoco completed a private placement of \$8,300,000 of 17% unsecured debentures (the “**2009 Debentures**”) and warrants to purchase up to 4,150,000 common shares of the Company at a price of \$1.20 per share which expire on March 31, 2011. The 2009 Debentures bear interest at a rate of 17% per annum, payable commencing June 30, 2009 and quarterly thereafter and will mature on March 31, 2011. The Company has various options to retire the 2009 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 2009 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 of the Company.

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 at December 31, 2008, Twoco had capital expenditure commitments of approximately \$250,000 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 second quarter of 2009.

2009 Capital Budget

Twoco has a \$5.7 million 2009 capital budget which reflects the anticipated drilling of 15 wells in 2009. The majority of these wells will be drilled in Twoco's core areas of Andrew/Willington/Tofield and Steele/Bolloque/Grassland, both of which are located near Edmonton, Alberta.

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
December 31, 2008	5,497,981	0.36	0.35	(875,231)	(0.06)	(0.06)
September 30, 2008	4,263,059	0.27	0.26	98,857	0.01	0.01
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

Summary of Quarterly Information

	Quarter Ended				
	2008 Dec. 31		2008 Sept. 30	2008 June 30	2008 March 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	5,497,981	37.92	4,263,059	5,417,081	4,931,346
Royalties, net of ARTC	(1,037,606)	(7.16)	(779,028)	(614,247)	(855,162)
Operating and Transportation	(296,712)	(2.05)	(803,828)	(766,444)	(796,537)
G&A Expense	(322,503)	(2.22)	(110,600)	(199,827)	(278,419)
Net Interest Income (Expense)	(327,091)	(2.26)	(309,035)	(287,432)	(311,398)
Settlement of asset retirement obligations	-	-	-	-	-
Current Tax Recovery (Expense)	-	-	-	-	-
Cash Flow from Operations	3,514,070	24.24	2,260,569	3,549,131	2,689,830

	Quarter Ended				
	2007 Dec. 31		2007 Sept. 30	2007 June 30	2007 March 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	4,454,764	35.53	3,495,911	3,791,470	3,853,216
Royalties, net of ARTC	(814,512)	(6.50)	(700,739)	(597,571)	(741,549)
Operating and Transportation	(930,518)	(7.42)	(590,979)	(630,302)	(511,722)
G&A Expense	(284,860)	(2.27)	(78,678)	(180,457)	(107,306)
Net Interest Income (Expense)	(335,949)	(2.68)	(321,617)	(300,491)	(242,305)
Settlement of asset retirement obligations	(2,439)	(0.02)	(24,993)	(45,135)	-
Current Tax Recovery (Expense)	-	-	8,954	(13,844)	-
Cash Flow from Operations	2,086,486	16.64	1,787,859	2,023,670	2,250,334

Summary of Selected Information Incorporating Tofield Property Acquisition

The following table summarizes selected information incorporating the Tofield Property acquisition for the period July 1, 2008 to September 19, 2008. For financial statement purposes, revenue and expenses attributed to the Tofield Property for the period July 1, 2008 to the September 19, 2008 closing date were accounted for as a reduction of the purchase price of the Tofield Property, in accordance with GAAP.

	Year ended December 31, 2008
Petroleum and Natural Gas Sales Volumes (boe/d)	1,365
Petroleum and Natural Gas Sales (\$)	22,373,989
Petroleum and Natural Gas Sales (\$/boe)	44.78
Royalties (\$)	3,917,936
Royalties (\$/boe)	7.84
Operating and Transportation Expense (\$)	3,782,433
Operating and Transportation Expense (\$/boe)	7.57
Operating Netback (\$)	14,673,620
Operating Netback (\$/boe)	29.37
General and Administrative Expense (\$)	911,349
General and Administrative Expense(\$/boe)	1.82
Net Interest Expense (\$)	1,234,954
Net Interest Expense (\$/boe)	2.47
Cash Flow from Operations (\$)	12,527,317
Cash Flow from Operations (\$/boe)	25.08

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at December 31, 2008:

	Authorized	Outstanding as at December 31, 2008	Common Shares underlying Convertible Securities
Share Capital			
Common Shares ⁽¹⁾	Unlimited	14,967,006	-
Stock Options ⁽²⁾	Not Applicable	832,000	832,000
Preferred Shares	Unlimited	Nil	-
Long Term Debt ⁽³⁾	Not Applicable	\$12,000,000	1,600,000

Notes:

- (1) As at the date hereof, Twoco has 14,941,406 common shares outstanding.
- (2) Twoco currently has outstanding under its stock option plan, options to purchase 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 832,000 common shares that may be purchased upon proper exercise of outstanding stock options.

- (3) Twoco currently has outstanding \$8.3 million of 17% unsecured debentures (“**Debentures**”) and warrants to purchase up to 4,150,000 common shares of the Company at a price of \$1.20 per share which expire on March 31, 2011. The Debentures bear interest at the rate of 17% per annum, payable commencing June 30, 2009 and quarterly thereafter and will mature on March 31, 2011.

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, 2008 and the year ended December 31, 2007. 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, Twoco has adopted CICA Section 3064, "*Goodwill and Intangible Assets*", which replaces 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.

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 ("**IFRS**") over a transitional period whereby effective January 1, 2011, the interim and annual financial statements of Canadian publicly-traded corporations for fiscal years beginning on or after January 1, 2011 will be required to be prepared in accordance with IFRS. As a publicly-traded corporation, Twoco's financial statements for the year ended December 31, 2010 will have to be reported in accordance with Canadian GAAP and financial statements for subsequent periods, including as at and for the three months ended March 31, 2011, and comparative amounts will have to be prepared in accordance with IFRS.

Twoco is currently reviewing the IFRS requirements in order to develop a transition plan to convert its financial statements to IFRS and assess the impact of IFRS on Twoco's financial statements, the impact of which may be material. Twoco expects to be IFRS compliant by January 1, 2011.

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 December 31, 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.

Current Economic Environment

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments to address the global financial crisis, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted corporate valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, the actions of the Organization of Petroleum Exporting Countries (OPEC) and the ongoing global credit and liquidity concerns.

As a result of the weakened global economic situation, Twoco, along with all other oil and gas entities, may have restricted access to capital, bank debt and equity, and is likely to face increased borrowing costs. Although Twoco's business and asset base have not changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future capital expenditures will be financed out of funds generated from operations, borrowings and possible future equity sales, Twoco's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and Twoco's securities in particular.

To the extent that external sources of capital become limited or unavailable or only available on onerous terms, Twoco's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Based on current funds available and expected funds generated from operations, Twoco believes it has sufficient funds available to fund its projected capital expenditures. However, if funds generated from operations are lower than expected or capital costs for these projects exceed current estimates, or if Twoco incurs major unanticipated expenses related to development or maintenance of its existing properties, it may be required to seek additional

capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for Twoco's capital expenditure plans may result in a delay in development or production on Twoco's properties.

Ceiling Test

The Company performed a ceiling test calculation at December 31, 2008 to assess the recoverable value of the property, plant and equipment and other assets. The oil and gas future prices are based on the December 31, 2008 commodity price forecast of our independent reserve evaluators. As a result of the calculation, the Company was not required to record an impairment loss. In addition, based on the calculation in the previous year conducted at December 31, 2007, there was no impairment loss required. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the ceiling test calculation for the impairment test.

Year	Oil (CDN \$/Bbl)	Natural Gas (CDN \$/mcf)
2009	\$ 43.30	\$ 6.89
2010	58.10	7.97
2011	63.40	8.12
2012	69.20	8.94
2013	76.95	9.71
2014	79.15	9.91
2015	81.45	10.11
2016	83.80	10.27
2017	86.15	10.48
2018	88.60	10.70

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 December 31, 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 \$73,826 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 December 31, 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 December 31, 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 \$702,986 for the period in the event of a price increase and negatively impacted net earnings by \$269,149 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 year ended December 31, 2008, consulting fees of \$39,572 were incurred to a corporation of which a director of the Company is the president and shareholder. During the year ended December 30, 2007, such director was a partner with an accounting firm to which the Company incurred accounting fees of \$77,674. Legal fees of \$60,033 (2007 - \$53,357) were incurred to a law firm of which a director of the Company is an associate.

Included in accounts payable and accrued liabilities at December 31, 2008 is \$NIL (2007 - \$551) owing to these related parties.

Included in interest on debentures payable is \$114,750 (2007 - \$114,750) 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

Twoco participated in an aggressive drilling program in 2008 that 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 gas production and 3 gross (2.7 net) wells being dry and abandoned. Production from the 13 gross (11.1 net) wells commenced in the third and fourth quarters of 2008.

It is expected that increased cash flows from the Tofield Property acquisition and other prospects currently being developed, along with the proven expertise of our technical team bodes well for the future growth of the Company.

Twoco will review all capital expenditure programs on a regular basis throughout 2009 and adjust spending accordingly having regard to factors such as changes in commodity prices.

Advisory Regarding Forward Looking Statements

Certain statements contained in this MD&A and in certain documents incorporated by reference into this MD&A, constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A, as the case may be. The Company does not intend, and does not assume any obligation, to update or revise these forward-looking statements except as required pursuant to applicable securities laws.

Forward-looking information and statements are included throughout this MD&A (and the documents incorporated by reference herein) and include, but are not limited to, statements pertaining to the following:

- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- plans for facilities construction and completion and the timing and method of funding thereof;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- drilling, completion and facilities costs;
- results of various projects of Twoco;
- timing of receipt of regulatory approvals;
- effect of production increases on operating costs per BOE;
- ability to lower cost structure in certain projects of Twoco;
- growth expectations within Twoco;
- timing of development of undeveloped reserves;
- the tax horizon and taxability of Twoco;
- supply and demand for oil, natural gas liquids and natural gas;
- the performance and characteristics of Twoco's oil and natural gas properties;
- Twoco's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the impact of Canadian federal and provincial governmental regulation on Twoco relative to other oil and gas issuers of similar size;
- realization of the anticipated benefits of acquisitions and dispositions;
- weighting of production between different commodities;
- the quantity and quality of the oil and natural gas reserves;
- projections of commodity prices and costs;
- expected levels of royalty rates, operating costs, general and administrative costs, costs of services and other costs and expenses;

- capital expenditure programs and the timing and method of financing thereof; and
- treatment under government regulation and taxation regimes.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- general economic conditions in Canada, the United States and globally;
- industry conditions, including fluctuations in the price of oil and natural gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and natural gas operations;
- geological, technical, drilling and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut in or delayed;
- failure to realize the anticipated benefits of acquisitions;
- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisitions of reserves, undeveloped land and skilled personnel;
- competition for and inability to retain drilling rigs and other services;
- rights to surface access;
- the need to obtain required approvals from regulatory authorities; and
- the other factors considered under "Risk Factors" in this MD&A and other risk factors identified in other documents incorporated herein by reference.

These factors should not be considered exhaustive. Statements relating to "reserves" or "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. With respect to forward-looking statements contained or incorporated by reference in this MD&A, Twoco has made assumptions regarding: future exchange rates; energy markets and the price of oil and natural gas; the impact of increasing competition; condition in general economic and financial markets; availability of drilling and related equipment; availability of skilled labour; availability of prospective drilling rights; current technology; cash flow; commodity prices; production rates; effects of regulation and tax laws by governmental agencies; future operating costs and the Company's ability to obtain financing on acceptable terms. In addition, forward-looking statements in documents incorporated by reference herein may be based on additional assumptions as disclosed in such documents. Readers are cautioned that the foregoing list of factors is not exhaustive.

The above summary of assumptions and risks related to forward-looking information has been provided in this MD&A and the documents incorporated by reference herein in order to provide readers with a more complete perspective on Twoco's future operations. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement.