

## TWOCO PETROLEUMS LTD.

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

#### FOR THE QUARTER ENDED MARCH 31, 2009

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 March 31, 2009 and Twoco's audited financial statements, notes thereto, and MD&A for the year ended December 31, 2008. 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) and the Company's web site at [www.twoco.ca](http://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 May 27, 2009 except where otherwise stated.

### Selected Quarterly Information

	Quarter ended March 31, 2009 (\$)	Quarter ended March 31, 2008 (\$)	Quarter ended March 31, 2007 (\$)
Revenue	3,684,113	4,931,346	3,853,216
Cash Flow from Operations	1,685,751	2,689,830	2,250,334
Net Income (Loss)	(1,128,183)	386,458	11,541
Per share - Basic	(0.08)	0.03	0.00
Per share - Diluted	(0.08)	0.02	0.00
Total Assets	60,156,424	51,926,171	52,662,405
Total Long-Term Financial Liabilities	15,791,053	19,747,499	20,402,358
Dividends	Nil	Nil	Nil

### Petroleum and Natural Gas Production

	Quarter ended March 31, 2009	Quarter ended March 31, 2008	Quarter ended March 31, 2007
Natural Gas (mcf/d)	8,899	7,340	6,254
Oil and NGL's (bbls/d)	1	1	1
Total (boe/d)	1,484	1,224	1,043

Average daily production for the quarter ended March 31, 2009 rose to 1,484 boe/d as compared to 1,224 boe/d in the comparative quarter of 2008, an increase of 21%. The increase in natural gas production for the quarter ended March 31, 2009 is a result of production added by the Company through acquisition, drilling and optimization activities.

### Petroleum and Natural Gas Sales

	Quarter ended March 31, 2009	Quarter ended March 31, 2008	Quarter ended March 31, 2007
Natural Gas Sales (\$)	3,682,336	4,928,744	3,844,260
\$/mcf	4.60	7.38	6.83
Oil and NGL Sales (\$)	1,777	2,602	8,956
\$/bbl	33.46	28.97	74.63
Total Sales (\$)	3,684,113	4,931,346	3,853,216

Petroleum and natural gas ("P&NG") sales decreased by 25% to \$3,684,113 for the quarter ended March 31, 2009 from \$4,931,346 for the quarter ended March 31, 2008. This decrease is due to the decrease in commodity prices for the quarter ended March 31, 2009.

## Royalties

	Quarter ended March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	462,339	13	714,139	14	635,235	16
Freehold & GORR	53,777	1	141,023	3	106,314	3
Total royalties	516,116	14	855,162	17	741,549	19

Total royalties were \$516,116 for the quarter ended March 31, 2009 versus \$855,162 for the quarter ended March 31, 2008. The decrease in royalties of 40% is consistent with the decrease in natural gas sales for the quarter ended March 31, 2009. Royalties, as a percentage of gross sales were 14% in the quarter ended March 31, 2009 as compared to 17% in the quarter ended March 31, 2008.

## Operating Expense

	Quarter ended March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense	774,354	5.80	673,434	6.05	428,734	4.56
Overhead recoveries	(65,385)	(0.49)	(64,104)	(0.58)	(53,622)	(0.57)
Net operating expense	708,969	5.31	609,330	5.47	375,112	3.99

Total operating expense increased by 16% to \$708,969 for the quarter ended March 31, 2009 as compared to \$609,330 in the comparative quarter of 2008. This increase can be attributed to increased production in the current quarter. Operating expenses averaged \$5.31 per boe for the quarter ended March 31, 2009 as compared to \$5.47 per boe for the quarter ended March 31, 2008. 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 March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense	195,315	1.46	187,207	1.68	136,610	1.46

Twoco's transportation expense increased by 4% to \$195,315 for the quarter ended March 31, 2009 as compared to \$187,207 for the quarter ended March 31, 2008. This increase is predominantly due to the increase in natural gas production for the quarter ended March 31, 2009.

### Operating Netback

	Quarter ended March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
Sales price (\$/boe)	27.59		44.26		41.02	
Royalties (\$/boe)	(3.86)		(7.68)		(7.89)	
Operating and transportation expense (\$/boe)	(6.77)		(7.15)		(5.45)	
Operating netback (\$/boe)	16.96		29.43		27.68	

Twoco's operating netback decreased 42% to \$16.96 per boe in the quarter ended March 31, 2009 as compared to \$29.43 per boe realized in the quarter ended March 31, 2008. This decrease is due to lower commodity prices.

### General and Administrative Expense

	Quarter ended March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$)	(\$/boe)	(\$)
Gross G&A expense	287,336	2.15	379,575	3.42	280,781	2.99
Overhead recoveries	(4,298)	(0.03)	(18,828)	(0.17)	(102,879)	(1.10)
Capitalized G&A	(67,523)	(0.52)	(82,328)	(0.75)	(70,596)	(0.75)
Net G&A expense	215,515	1.61	278,419	2.50	107,306	1.14

Twoco's net general and administrative ("G&A") expense decreased to \$215,515 in the quarter ended March 31, 2009 from \$278,419 in the quarter ended March 31, 2008. G&A costs decreased in the current quarter primarily due to the fact that no management bonus was paid in the current quarter. A management bonus was paid by the Company during the quarter ended March 31, 2008.

### Net Interest Expense

In the quarter ended March 31, 2009, net interest expense increased to \$375,783 from \$311,398 in the quarter ended March 31, 2008. The increase in the net interest expense in 2009 is mainly attributable to interest payments associated with the Company's revolving line of credit.

### Depletion, amortization and accretion

	Quarter ended March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	3,448,664	25.82	2,228,000	20.00	2,096,900	22.32
Amortization expense	3,774	0.03	13,839	0.12	3,732	0.04
Accretion expense	48,450	0.36	38,962	0.35	37,845	0.40
Total	3,500,888	26.22	2,280,801	20.47	2,138,477	22.76

In the quarter ended March 31, 2009, depletion, amortization and accretion (“**DA&A**”) expense increased to \$3,500,888 (\$26.22 per boe). Higher production volumes combined with increased expenditures being applied against March 31, 2009 reserves increased the total amount of DA&A expense.

### Income Taxes

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.

### Cash Flow from Operations

	Quarter ended March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	3,684,113	27.59	4,931,346	44.26	3,853,216	41.02
Royalties	(516,116)	(3.86)	(855,162)	(7.68)	(741,549)	(7.89)
Net interest expense	(362,447)	(2.71)	(311,398)	(2.79)	(242,305)	(2.58)
Operating and transportation	(904,284)	(6.77)	(796,537)	(7.15)	(511,722)	(5.45)
General and administrative	(215,515)	(1.61)	(278,419)	(2.50)	(107,306)	(1.14)
Cash flow from Operations	1,685,751	12.62	2,689,830	24.14	2,250,334	23.96

In the quarter ended March 31, 2009, the Company generated cash flow from operating activities of \$1,685,781. This represents a decrease of 37% versus the quarter ended March 31, 2008. This decrease resulted from lower commodity prices.

### Net Income and Cash Flow from Operations

	Quarter ended March 31, 2009		Quarter ended March 31, 2008		Quarter ended March 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	1,685,751	12.62	2,689,830	24.14	2,250,334	23.96
Less: Stock based compensation	(4,181)	(0.03)	(3,056)	(0.03)	(39,173)	(0.42)
DA&A expense	(3,500,888)	(26.22)	(2,280,801)	(20.47)	(2,138,477)	(22.76)
Future income taxes recovery (expense)	723,000	5.41	12,350	0.11	(27,362)	(0.29)
Convertible debentures accretion	(13,336)	(0.10)	(13,333)	(0.12)	(13,333)	(0.14)
Amortization of deferred charges	(18,529)	(0.14)	(18,532)	(0.16)	(20,448)	(0.22)
Net income (loss)	(1,128,183)	(8.45)	386,458	3.47	11,541	0.13

In the quarter ended March 31, 2009, the Company experienced a net loss from operating activities of \$1,128,183. This represents a decrease of 343% versus the quarter ended March 31, 2008. This decrease resulted primarily from lower commodity prices.

## Capital Expenditures

Twoco's total capital expenditures for the quarters ended March 31, 2009, March 31, 2008 and March 31, 2007 are summarized as follows:

	Quarter ended March 31, 2009 (\$)	Quarter ended March 31, 2008 (\$)	Quarter ended March 31, 2007 (\$)
Land and property acquisitions	69,733	330,389	893,184
Geological and geophysical	1,671	5,133	200,089
Drilling and completions	117,811	798,344	2,756,471
Facilities and equipment	296,996	95,268	3,655,296
Other	5,913	88,115	71,853
Total capital expenditures	492,124	1,317,249	7,576,893

## Liquidity and Capital Resources

As of March 31, 2009, Twoco had 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 had drawn \$19,376,172 on the revolving credit facility as at March 31, 2009. As of May 8, 2009, Twoco has established a new loan facility with Alberta Treasury Branches that includes a \$19,000,000 credit facility and a \$500,000 non-revolving loan facility. This new facility replaced the credit facility and general lease line of credit with HSBC Bank Canada.

Twoco had a working capital deficiency at March 31, 2009 of \$19,264,233 as compared to a working capital deficiency of \$16,251,668 at March 31, 2008. The increase in the working capital deficiency is primarily attributable to lower cash flow from operations due to lower commodity prices and the cash consideration paid for the Tofield Property. 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 proceeds of the offering were used, in part, to repay the 7.5% redeemable, unsecured, convertible debentures which matured on March 31, 2009 and for general corporate purposes. 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 March 31, 2009, 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 third 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/Willingdon/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
March 31, 2009	3,684,113	0.25	0.25	(1,128,183)	(0.08)	(0.08)
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)

## Summary of Quarterly Information

	Quarter Ended				
	2009 Mar. 31		2008 Dec. 31	2008 Sept. 30	2008 June 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	3,684,113	27.59	5,497,981	4,263,059	5,417,081
Royalties	(516,116)	(3.86)	(1,037,606)	(779,028)	(614,247)
Operating and Transportation	(904,284)	(6.77)	(296,712)	(803,828)	(766,444)
G&A Expense	(215,515)	(1.61)	(322,503)	(110,600)	(199,827)
Net Interest Income (Expense)	(362,447)	(2.71)	(327,091)	(309,035)	(287,432)
Settlement of asset retirement obligations	-	-	-	-	-
Current Tax Recovery (Expense)	-	-	-	-	-
Cash Flow from Operations	1,685,751	12.62	3,514,070	2,260,569	3,549,131

	Quarter Ended				
	2008 Mar. 31		2007 Dec. 31	2007 Sept. 30	2007 June 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	4,931,346	44.26	4,454,764	3,495,911	3,791,470
Royalties	(855,162)	(7.68)	(814,512)	(700,739)	(597,571)
Operating and Transportation	(796,537)	(7.15)	(930,518)	(590,979)	(630,302)
G&A Expense	(278,419)	(2.50)	(284,860)	(78,678)	(180,457)
Net Interest Income (Expense)	(311,398)	(2.79)	(335,949)	(321,617)	(300,491)
Settlement of asset retirement obligations	-	-	(2,439)	(24,993)	(45,135)
Current Tax Recovery (Expense)	-	-	-	8,954	(13,844)
Cash Flow from Operations	2,689,830	24.14	2,086,486	1,787,859	2,023,670

## Outstanding Share Data

The following table sets forth the capitalization of Twoco as at March 31, 2009:

	Authorized	Outstanding as at March 31, 2009	Common Shares underlying Convertible Securities
Share Capital			
Common Shares <sup>(1)</sup>	Unlimited	14,941,406	-
Stock Options <sup>(2)</sup>	Not Applicable	832,000	832,000
Preferred Shares	Unlimited	Nil	-
Long Term Debt <sup>(3)</sup>	Not Applicable	\$8,300,000	-

### 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 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 812,000 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 March 31, 2009, 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.

## **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 March 31, 2009.

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 \$46,757 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 March 31, 2009, 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 March 31, 2009, 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 \$172,547 for the period in the event of a price increase and negatively impacted net earnings by \$172,867 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 March 31, 2009, consulting fees of \$NIL (2008 - \$13,027) were incurred to a corporation of which a director of the Company is the president and shareholder. Legal fees of \$2,000 (2008 - \$NIL) 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 March 31, 2009 is \$2,100 (2008 - \$NIL) owing to these related parties.

Included in interest on debentures payable is \$26,908 (2008 - \$26,908) 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 the first quarter of 2009, Twoco participated in the drilling of 1 gross (0.2 net) well compared to the drilling of 4 gross (3.1 net) wells in the first quarter of 2008. The 1 gross (0.2 net) well was cased for potential natural gas production and has commenced production. It is anticipated that Twoco will participate in the drilling of approximately 14 additional wells in the remainder of 2009.

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

Twoco 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;

- 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.