

**TWOCO PETROLEUMS LTD.**

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

**FOR THE YEAR ENDED DECEMBER 31, 2009**

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2009 of Twoco Petroleum Ltd. ("**Twoco**" or the "**Company**") 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, including Twoco's Annual Information Form, 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 statements of cash flows in the audited 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 27, 2010, except where otherwise stated.

### Selected Annual Information

	Year ended Dec. 31, 2009 (\$)	Year ended Dec. 31, 2008 (\$)	Year ended Dec. 31, 2007 (\$)
Revenue	9,244,996	20,109,466	15,595,361
Cash Flow from Operations	1,919,133	11,064,947	8,148,349
Net Income (Loss)	(6,752,471)	733,723	(856,367)
Per share - Basic	(0.45)	0.05	(0.06)
Per share - Diluted	(0.45)	0.05	(0.06)
Total Assets	50,755,110	63,998,322	52,734,054
Total Long-Term Financial Liabilities	13,376,267	8,351,971	19,778,681
Dividends	Nil	Nil	Nil

### Petroleum and Natural Gas Production

	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007
Natural Gas (mcf/d)	6,865	8,185	7,205
Oil and NGL's (bbls/d)	NIL	1	1
Total (boe/d)	1,144	1,365	1,202

Average daily production for the year ended December 31, 2009 fell to 1,144 boe/d as compared to 1,365 boe/d in the year ended December 31, 2008, a decrease of 16%. The decrease in natural gas production for the year ended December 31, 2009 is a result of shut-in volumes due to low natural gas prices, a lack of drilling activity and natural declines.

### Petroleum and Natural Gas Sales

	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007
Natural Gas Sales (\$)	9,242,033	20,094,317	15,558,896
\$/mcf	3.69	7.48	5.92
Oil and NGL Sales (\$)	2,963	15,159	36,465
\$/bbl	38.17	70.18	80.03
Total Sales (\$)	9,244,996	20,109,466	15,595,361

Petroleum and natural gas ("P&NG") sales values decreased to \$9,244,996 for the year ended December 31, 2009 from \$20,109,466 for the year ended December 31, 2008. This represents a decrease of 54%. This decrease is predominantly due to the decrease in natural gas prices for the year ended December 31, 2009.

## Royalties

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)	(\$)	Royalty Rate (%)
Crown	504,833	6	2,806,462	14	2,331,367	15
Freehold & GORR	134,682	1	479,580	2	523,004	3
Total royalties	639,515	7	3,286,042	16	2,854,371	18

Total royalties were \$639,515 for the year ended December 31, 2009 versus \$3,286,042 for the year ended December 31, 2008. This decrease in royalties of 81% is consistent with the decrease in natural gas prices for the year ended December 31, 2009. Royalties as a percentage of gross sales were 7% in the year ended December 31, 2009 as compared to 16% in the year ended December 31, 2008. This decrease in royalty rate is a result of lower natural gas prices as applied under the Alberta New Royalty Framework.

## Operating Expense

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross operating expense	4,177,765	10.00	3,194,817	7.13	2,300,673	5.24
Overhead recoveries	(900,742)	(2.16)	(285,915)	(0.64)	(259,681)	(0.59)
Net operating expense	3,277,023	7.84	2,908,902	6.49	2,040,992	4.65

Total operating expense increased to \$3,277,023 for the year ended December 31, 2009 as compared to \$2,908,902 in the year ended December 31, 2008. Operating expense averaged \$7.84 per boe for the year ended December 31, 2009 as compared to \$6.49 per boe for the year ended December 31, 2008. A portion of the increase is due to major maintenance work which was carried out on some of Twoco's compression facilities.

## Transportation Expense

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Transportation expense	596,240	1.43	703,272	1.57	622,529	1.42

Total transportation expense decreased by 15% to \$596,240 for the year ended December 31, 2009 as compared to \$703,272 for the year ended December 31, 2008. Transportation expense averaged \$1.43 per boe for the year ended December 31, 2009 as compared to \$1.57 per boe for the year ended December 31, 2008.

### Operating Netback

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
Sales price (\$/boe)	22.14		44.91		35.55	
Royalties (\$/boe)	(1.53)		(7.34)		(6.51)	
Operating and transportation expense (\$/boe)	(9.27)		(8.07)		(6.07)	
Operating netback (\$/boe)	11.34		29.50		22.97	

Twoco's operating netback decreased 62% to \$11.34 per boe in the year ended December 31, 2009 as compared to \$29.50 per boe realized in the year ended December 31, 2008. This decrease is due to lower natural gas prices.

### General and Administrative Expense

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Gross G&A expense	1,233,964	2.96	1,312,325	2.93	1,125,805	2.57
Overhead recoveries	(9,607)	(0.02)	(139,897)	(0.31)	(226,913)	(0.52)
Capitalized G&A	(245,024)	(0.59)	(261,079)	(0.59)	(247,591)	(0.57)
Net G&A expense	979,333	2.35	911,349	2.04	651,301	1.48

Twoco's net general and administrative ("G&A") expense increased to \$979,333 in the year ended December 31, 2009 from \$911,349 in the year ended December 31, 2008. G&A costs increased in the year ended December 31, 2009 primarily due to an increase in legal, accounting, and auditing fees associated with December 31, 2009 year end as well as fees associated with the issuance of debentures dated March 31, 2009 and new bank credit facilities.

### Net Interest Expense

In the year ended December 31, 2009, net interest expense increased to \$1,833,752 from \$1,234,954 in the year ended December 31, 2008 and \$1,200,362 in the year ended December 31, 2007. The increase in net interest expense in 2009 is attributable to interest payments associated with the Company's revolving line of credit and March 31, 2009 debentures (17% interest rate).

### Depletion, Amortization and Accretion

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Depletion expense	11,052,291	26.47	9,972,848	22.27	9,196,100	20.96
Amortization expense	17,448	0.04	17,707	0.04	17,462	0.04
Accretion expense	192,237	0.46	155,834	0.35	139,480	0.32
Total	11,261,976	26.97	10,146,389	22.66	9,353,042	21.32

In the year ended December 31, 2009, depletion, amortization and accretion ("DA&A") expense increased to \$11,261,976 (\$26.97 per boe) as compared to \$10,146,389 (\$22.66 per boe) for the year ended December 31, 2008.

## Income Taxes

The Company is not cash taxable for the year ended December 31, 2009. It is anticipated that the Company will not be cash taxable in 2010 due to existing tax pools and tax deductions offsetting production revenue.

The Company had the following estimated income tax pools available at December 31, 2009.

	Annual Deduction Available (%)	Tax Pools (\$)
Canadian exploration expense (CEE)	100	5,382,638
Canadian development expense (CDE)	30	3,122,374
Canadian oil and gas property expense (COGPE)	10	14,972,623
Undepreciated capital costs (UCC)	25	14,778,748
Share issue and other financing costs	20	239,905
Total	-	38,496,288

## Cash Flow from Operations

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	9,244,996	22.14	20,109,466	44.91	15,595,361	35.55
Royalties	(639,515)	(1.53)	(3,286,042)	(7.34)	(2,854,371)	(6.51)
Net Interest expense	(1,833,752)	(4.39)	(1,234,954)	(2.76)	(1,200,362)	(2.74)
Operating and transportation	(3,873,263)	(9.27)	(3,612,175)	(8.07)	(2,663,521)	(6.07)
General and administrative	(979,333)	(2.35)	(911,349)	(2.04)	(651,301)	(1.48)
Settlement (addition to) asset retirement obligations	-	-	-	-	(72,567)	(0.17)
Current taxes	-	-	-	-	(4,890)	(0.01)
Cash flow from Operations	1,919,133	4.60	11,064,947	24.71	8,148,349	18.57

In the year ended December 31, 2009, the Company generated a cash flow from operating activities of \$1,919,133. This represents a decrease of 83% versus the year ended December 31, 2008. This decrease resulted from lower natural gas prices and sales volumes.

## Net Income and Cash Flow from Operations

	Year ended Dec. 31, 2009		Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	(\$)	(\$/boe)	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	1,919,133	4.60	11,064,947	24.71	8,148,349	18.57
Less: Stock based compensation	(9,056)	(0.02)	(16,725)	(0.04)	(165,859)	(0.38)
DA&A expense	(11,261,976)	(26.97)	(10,146,389)	(22.66)	(9,353,042)	(21.32)
Future Income taxes recovery (expense)	2,712,000	6.49	(40,650)	(0.09)	563,327	1.28
Convertible debentures accretion	(21,117)	(0.05)	(53,332)	(0.12)	(53,332)	(0.12)
Amortization of deferred charges	(91,455)	(0.22)	(74,128)	(0.17)	(68,377)	(0.16)
Settlement of asset retirement obligations	-	-	-	-	72,567	0.17
Net income (loss)	(6,752,471)	(16.17)	733,723	1.63	(856,367)	(1.96)

In the year ended December 31, 2009, the Company experienced a net loss from operating activities of \$6,752,471. In the year ended December 31, 2008, the Company generated net income from operating activities of \$733,723. The net loss from operating activities experienced in the year ended December 31, 2009 resulted primarily from lower natural gas prices.

## Capital Expenditures

Twoco's total capital expenditures for 2009, 2008 and 2007 are summarized as follows:

	Year ended Dec. 31, 2009 (\$)	Year ended Dec. 31, 2008 (\$)	Year ended Sept. 31, 2007 (\$)
Land and property acquisitions	227,916	12,365,597	1,547,071
Geological and geophysical	3,666	231,466	208,732
Drilling and completions	394,668	4,101,889	5,705,312
Facilities and equipment	555,162	3,757,531	7,158,329
Other	33,092	16,907	255,630
Total capital expenditures	1,214,504	20,473,390	14,875,074

## Liquidity and Capital Resources

In late 2008 and continuing through into 2010, the global credit market crisis, the volatility in the price of oil and natural gas, the recession in Canada and the slowdown of economic growth in the rest of the world has created a substantially more volatile business environment. Tighter credit and equity markets, especially for small companies has and will continue to limit certain of the Company's planned business development activities and it will continue to provide risk for the Company's future.

The audited annual financial statements have been prepared by management on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its obligations in the

normal course of business. Management believes the going concern assumption is appropriate for these financial statements. Therefore, the financial statements do not reflect the adjustments that may be necessary if the going concern assumption were not applicable. If this assumption were not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenue and expenses and the balance sheet classification used may be necessary.

Management is currently working on certain strategic alternatives including, but not limited to, recapitalizing the Company through financing arrangements or merging with other companies. All these alternatives will take time and management believes that it has the continued financial support of its lender and will be able to address and resolve the liquidity issues created by the current economic climate as described above. There is no assurance, however, that any or all of these alternatives will materialize or that additional funding will be available, if and when needed.

As of May 8, 2009, Twoco had a loan facility with Alberta Treasury Branches that included a \$19,000,000 credit facility and a \$500,000 non-revolving loan facility. As a result of the previously announced Asset Sale and Farm-in Arrangement with Poplar Creek Resources Inc. ("**Poplar Creek**") (TSX Venture - PCK) that resulted in an arm's length disposition of 3.5% of Twoco's petroleum and natural gas assets for cash consideration of \$1,925,000, subject to adjustment, the \$19,000,000 credit facility was reduced to its current level of \$18,000,000. The Company had drawn \$17,400,000 on the revolving credit facility as at December 31, 2009.

Alberta Treasury Branches has recently proposed changes to the current credit facilities that included an increase to the interest rate on its \$18,000,000 credit facility to prime plus 3.75% effective as of April 15, 2010. The repayments of this credit facility are to be made from net proceeds of any additional borrowing, proceeds on sale of property and proceeds from equity issuance. The change to this credit facility was made based on the lender's current assessment and interpretation of the Company's reserves and future commodity prices. These kinds of interpretation can vary from lender to lender and are subject to the lender's lending policies from time to time and the fluctuating and uncertain gas markets. The next review date for the Company's current credit facilities is expected to occur on June 30, 2010. As the available credit limits of lending on the credit facilities are based on the lender's interpretations of reserves and future commodity prices, there can be no assurance that the amount of credit facilities will not change at the next scheduled review.

Twoco had a working capital deficiency at December 31, 2009 of \$18,109,359 as compared to a working capital deficiency of \$28,523,301 at December 31, 2008. 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.

Due to the major acquisition of certain properties in late 2008 with debt financing, coupled with the subsequent decline in the natural gas market and pricing for the ensuing year as well as the collapse of the credit and equity markets in late 2008 and into 2009 and 2010, the Company has not been able to maintain its debt to cash flow from operations ratio of less than two times. For the year ended December 31, 2009 the ratio was 14:1.

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.

### **2010 Capital Budget**

Twoco has a \$2.7 million 2010 capital budget which reflects the anticipated drilling of 6 wells in 2010. 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.

Twoco will review all capital expenditure programs on a regular basis throughout 2010 and adjust spending accordingly having regard to factors such as changes in commodity prices.

## Quarterly Results

The following table summarizes certain comparative quarterly financial information relating to the Company.

Quarter Ended	Petroleum and Natural Gas Sales			Net Income (Loss)		
	(\$)	(\$/share)		(\$)	(\$/share)	
		Basic	Diluted		Basic	Diluted
December 31, 2009	1,821,963	0.01	0.01	(1,103,932)	(0.01)	(0.01)
September 30, 2009	1,506,834	0.10	0.10	(2,313,946)	(0.15)	(0.15)
June 30, 2009	2,232,086	0.15	0.15	(2,206,410)	(0.15)	(0.15)
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

## Summary of Quarterly Information

	Quarter Ended				
	2009 Dec. 31		2009 Sept. 30	2009 Jun. 30	2009 Mar. 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	1,821,963	24.09	1,506,834	2,232,086	3,684,113
Royalties	(75,739)	(1.00)	(41,349)	(6,311)	(516,116)
Operating and Transportation	(1,292,599)	(17.09)	(831,055)	(845,325)	(904,284)
G&A Expense	(234,520)	(3.11)	(153,920)	(375,378)	(215,515)
Net interest Income (Expense)	(461,375)	(6.09)	(515,551)	(494,375)	(362,447)
Settlement of asset retirement obligations	-	-	-	15,595	-
Cash Flow (deficiency) from Operations	(242,270)	(3.20)	(35,041)	526,292	1,685,751

	Quarter Ended				
	2008 Dec. 30		2008 Sept. 30	2008 Jun. 30	2008 Mar. 31
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	5,497,981	37.92	4,263,059	5,417,081	4,931,346
Royalties	(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	-	-	-	-	-
Cash Flow from Operations	3,514,070	24.24	2,260,569	3,549,131	2,689,830

## Outstanding Share Data

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

	<u>Authorized</u>	<u>Outstanding as at December 31, 2009</u>	<u>Common Shares underlying Convertible Securities</u>
Share Capital			
Common Shares <sup>(1)</sup>	Unlimited	14,941,406	-
Stock Options <sup>(2)</sup>	Not Applicable	527,000	527,000
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 10,000 common shares at an exercise price of \$3.50 per share, 165,000 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 309,000 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, 2009 and the year ended December 31, 2008. 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.

Although the Company has not yet completed the development of the IFRS change over plan, it has begun a high level review of the major differences between Canadian GAAP and IFRS. At this time, the Company has identified the following key differences:

(a) Exploration & Evaluation Expenditures

Upon transition to IFRS the Company will be required to reclassify certain assets that are currently included in property, plant and equipment on the balance sheet to Exploration & Evaluation (“**E&E**”) expenditures. E&E expenditures consist of the book value of undeveloped land and seismic that relate to exploration properties. E&E expenditures have the option to be depleted and must be assessed for impairment when indications suggest the possibility of impairment exists. The Company has not yet determined what policy choices surrounding E&E expenditures it will adopt.

(b) Depletion Expenses

The Company has the option to base its depletion calculation on either proved reserves or proved plus probable reserves. The Company has not yet determined which reserve base it will utilize to calculate its depletion expenses.

(c) Impairment

Impairment tests of property, plant and equipment must be performed for each cash generating unit of the Company. Impairment may be recovered in future periods if it is determined that the impairment has decreased or no longer exists.

(d) Asset Retirement Obligation

The Company’s Asset Retirement Obligation (“**ARO**”) is likely to increase under IFRS as a result of the change to a risk free interest rate from that of a credit adjusted risk free interest rate used to discount cash flows. In addition, any change in the discount rate will affect the entire ARO and not just the current addition to the ARO as it now does.

Throughout the remainder of 2010, the Company will commence a detailed assessment of the policy choices that are available to it and the resulting effects of those policy choices on its financial statements. Once the policy choices have been made, the appropriate changes will be implemented. 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, 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. For a further discussion of potential risks, see "Risk Factors" contained in our Annual Information Form which 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).

### **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 continued 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.

## Ceiling Test

The Company performed a ceiling test calculation at December 31, 2009 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, 2009 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, 2008, 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)
2010	53.45	5.68
2011	59.35	6.62
2012	62.80	6.99
2013	66.35	7.40
2014	71.91	7.49
2015	79.75	7.71
2016	87.85	7.85
2017	90.20	8.22
2018	92.60	8.82
2019	95.00	8.81

## Financial Instruments and Risk Management

### (e) 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.

### (f) 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.

(g) 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.

(h) 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.

(i) 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, 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 \$249,391 for the period.

(j) 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, 2009, the Company had no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

(k) Commodity Price Risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. As at December 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 \$584,515 for the period in the event of a price increase and negatively impacted net earnings by \$584,515 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, 2009, consulting fees of \$51,800 (2008 - \$39,572) were incurred to a corporation of which a director of the Company is the president and shareholder. Legal fees of \$27,462 (2008 - \$60,033) 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, 2009 is \$12,191 (2008 - \$NIL) owing to these related parties.

Included in interest on debentures payable is \$263,220 (2008 - \$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**

In 2009, Twoco participated in the drilling of 1 gross (0.2 net) well. The 1 gross (0.2 net) well was cased for potential natural gas production and has commenced production. Twoco has a \$2.7 million 2010 capital budget which reflects the anticipated drilling of 6 wells in 2010. 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.

Twoco will review all capital expenditure programs on a regular basis throughout 2010 and adjust spending accordingly having regard to factors such as changes in commodity prices.

### **Farm-in Agreement with Poplar Creek**

On July 20, 2009, Twoco announced that it had closed an arm's length disposition of 3.5% of its petroleum and natural gas assets for cash consideration of \$1,925,000, subject to adjustment, to Poplar Creek. The assets sold represented a 3.5% interest in all of Twoco's existing wells, production, petroleum and natural gas rights, facilities and seismic. The sale of the assets was effective July 1, 2009.

On October 16, 2009, Twoco announced that it had entered into a farm-in agreement (the "**Farm-in Agreement**") with Poplar Creek whereby, subject to certain conditions, including Poplar Creek raising \$3,025,000 by no later than December 15, 2009, Poplar Creek would farm-in on Twoco's lands and acquire an additional interest in all of Twoco's assets. The Farm-in Agreement superseded the original arm's length definitive agreement entered into between Twoco and Poplar Creek and announced by Twoco on June 26, 2009.

Pursuant to the terms of the Farm-in Agreement, Poplar Creek had until December 15, 2009 to raise \$3,025,000 in order to fund the drilling of the first series of wells. Upon the drilling of such wells, Poplar Creek would have earned an interest in the lands drilled pursuant to the Farm-in Agreement and would also acquire an additional 5.5% interest in all of Twoco's assets. Subsequent to the drilling of the first series of wells, Poplar Creek had two successive options to

further farm-in on Twoco's lands and thereby earn a further interest in the lands drilled and an additional 5.5% interest in Twoco's assets. Each such successive option required Poplar Creek to commit to an additional expenditure of \$3,025,000 to fund the additional drilling on Twoco's lands. If Poplar Creek had fully exercised its options to farm-in on the Twoco lands, Poplar Creek would have acquired a 20% interest in all of Twoco's assets, being the 3.5% interest purchased in July, 2009 and the additional 16.5% interest acquired by way of the Farm-in Agreement. On December 15, 2009 the Farm-in Agreement was amended whereby the date by which Poplar Creek had to raise \$3,025,000 in order to fund the drilling of the first series of wells was extended from December 15, 2009 to December 23, 2009. On December 23, 2009 the Farm-in Agreement was terminated as Poplar Creek did not raise the requisite funds to farm-in on Twoco's lands in order to earn an interest in Twoco's assets pursuant to the Farm-in Agreement.

### **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 and information ("**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:

- the going concern assumption in the Company's financial statements;
- strategic alternatives for the Company;
- repayment options for the 2009 Debentures (as defined herein);
- proposed changes to the Company's credit facility;
- 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:

- the Company's ability to continue as a going concern;
- the Company's ability to retain access to bank and other financing;
- the Company's ability to access capital;
- 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 "Risks and Uncertainties", "Current Economic Environment" and "Financial Instruments and Risk Management" in this MD&A and other risk factors identified in other documents incorporated herein by reference.

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. The risks, uncertainties, material assumptions and other factors that could affect results are discussed in more detail in our Annual Information Form and other documents which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). 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.