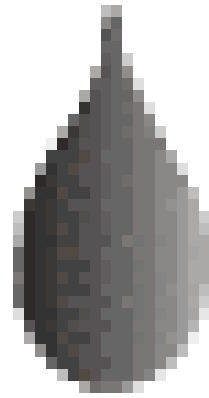


**TUSCANY**

ENERGY LTD.



**Management Discussion &  
Analysis**

**For the Six Months Ended  
June 30, 2009**

**Summary of Financial and Operating Results**

	Six Months Ended	
	June 30	
	2009	2008
<b>Financial</b>		(restated)
Total revenue	\$ 924,138	\$ 2,183,357
Cash flow from operations	157,600	918,522
per share, diluted	-	0.03
Earnings (loss) for the period	(253,736)	187,774
per share, diluted	(0.01)	0.01
Property, plant and equipment - additions	175,056	224,448
Net Debt	3,039,534	2,124,508
Total shares outstanding at period end	34,767,836	36,550,836
<b>Operations</b>		
Production		
Gas (Mcf/d)	211	419
Oil (Bbl/d)	109	106
NGL (Bbls/d)	1	1
BOE/d (6 Mcf = 1 Bbl)	145	176
Product Prices		
Gas (\$/Mcf)	\$ 4.24	\$ 9.31
Oil (\$/Bbl)	\$ 46.49	\$ 90.15

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following management's discussion and analysis of financial condition should be read in conjunction with Tuscany's unaudited financial statements and notes thereto for the six months ended June 30, 2009 and the audited financial statements and notes thereto for the year ended December 31, 2008. Additional information relating to Tuscany can be found on the Company's website at [www.tuscanyenergy.com](http://www.tuscanyenergy.com) or SEDAR website at [www.sedar.com](http://www.sedar.com). All dollar amounts are in Canadian dollars unless otherwise stated.

This MD&A has been prepared as at August 27, 2009.

**Non-GAAP Measurements** – The Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful as an indicator of the Company's performance than cash flow from operating activities, as determined in accordance with accounting principles generally accepted in Canada. Tuscany's determination of cash flow from operations may not be particularly comparable to that reported by other companies especially those in other industries. Cash flow from operations is defined as cash flow before changes in non-cash working capital, resulting from operating activities. The Company also presents cash flow from operations per share whereby per share amounts are calculated using the weighted average shares outstanding consistent with the calculation of earnings per share. In addition, the Company presents "Net debt", calculated as the excess of current liabilities and long term debt over current assets.

<b>Cash flow from operations</b> <i>(in thousands dollars except per share information)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>2009</b>	<b>June 30 2008</b>	<b>2009</b>	<b>June 30 2008</b>
Cash provided by (used in)- operating activities	\$ (86,880)	\$ (14,566)	\$ 213,982	\$ 182,762
Change in non-cash working capital - from operations	(171,607)	(559,028)	56,382	(735,760)
<b>Cash flow from operations</b>	<b>\$ 84,727</b>	<b>\$ 544,462</b>	<b>\$ 157,600</b>	<b>\$ 918,522</b>
Cash flow from operations per Share, diluted	\$ -	\$ 0.01	\$ -	\$ 0.03

<b>Net Debt</b>	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
Current Assets	\$ 234,929	\$ 1,044,709
Current Liabilities	3,274,463	3,169,217
<b>Net Debt</b>	<b>\$ 3,039,534</b>	<b>\$ 2,124,508</b>

**BOE Presentation** – The term barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf to 1 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. All BOE conversions in this report are derived by converting gas to oil in the ratio of six Mcf of gas to one Bbl of oil.

**Forward-looking Statements** – Certain of the statements contained herein including, without limitation, financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, completion and tie in of wells and capital expenditures and the timing thereof may be forward looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward looking statements. These statements reflect management's beliefs at the date of the report and are based on information available to management at that time. Forward looking statements involve significant risk and uncertainties.

A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined elsewhere herein. The recovery and reserve estimates of Tuscany's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect Tuscany's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) or at Tuscany's website [www.tuscanyenergy.com](http://www.tuscanyenergy.com). Although the forward looking statements contained herein are based upon what management believes to be reasonable assumptions, including but not limited to assumptions as to the price of oil and natural gas, interest rates, exchange rates and the regulatory and legal environment in which Tuscany operates, the producibility of Tuscany's reserves, the capital expenditures program and future operations and other matters, management cannot assure that actual results will be consistent with these forward looking statements. Investors should not place undue reliance on forward looking statements. These forward looking statements are made as of the date hereof and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward looking statements and other information contained herein concerning the oil and gas industry and the Company's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market conditions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

# TUSCANY ENERGY LTD.

(Data disclosed herein is unaudited)

## Selected Quarterly Information

### Financial Highlights

(\$ Thousands, except production and per share amounts)	2009		2008				2007	
	Q2	Q1	Q4	Q3 *	Q2 *	Q1 *	Q4 *	Q3 *
Production (Boe/d)	127	164	197	197	191	161	128	122
Price (\$/Boe)	44.47	38.74	46.01	85.58	86.67	64.79	45.07	45.77
Total revenue, net of royalty	469	455	745	1,336	1,342	841	483	480
Cash flow (deficiency)								
from operations	85	73	143	656	544	364	49	(69)
Per share - basic and diluted	0.00	0.00	0.02	0.02	0.02	0.01	0.00	(0.00)
Net earnings (Loss)	(108)	(146)	(136)	192	121	69	579	(1,018)
Per share - basic and diluted	(0.00)	(0.00)	(0.00)	0.00	0.00	0.00	0.00	(0.00)
General and Administrative cost	93	78	283	168	285	117	135	188
Net capital expenditures	89	86	1,216	102	119	105	790	11
Total assets	8,767	8,879	9,333	8,676	9,178	9,201	9,369	8,334
Net debt	(3,040)	(3,035)	(2,805)	(1,571)	(2,125)	(2,550)	(2,819)	(2,678)

\* Restated see note 12

Tuscany's production volumes increased from 122 BOE/d in the third quarter of 2007 to a high of 197 BOE/d in the last half of 2008. In 2009 production volumes declined to 127 BOE/d. The Company placed a new well in the Wildwood area of Alberta on production in the first quarter of 2008. Tuscany's 30% interest in the well increased the Company's average production in 2008 by 68 BOE/d. The well was flowing until the first half of 2009 when the well production declined to under 15 BOE/d net to Tuscany. In Q3 2009 the operator installed pumping facilities on the well which are expected to return production to over 30 BOE/d net to the Company.

Tuscany completed the Evesham Dina Horizontal well in Q1 2009 and the well averaged 20 BOE/d net to Tuscany during the first half of 2009. Water handling facilities and a larger down hole pump will be installed to increase the total fluid production rates which we anticipate will increase oil production and reduce operating costs.

In addition the Company postponed workovers on a number of oil wells in the Evesham area because of low oil prices in Q1 2009. A workover program has commenced in Q3 2009 and should reverse oil declines in the last half of the year.

Commodity prices and the Company's production peaked in mid 2008 and as a result the Company's revenue and cash flow from operations grew to a high in Q2 2008 and have declined since. We anticipate that successful workovers, recompletions and the addition of pumping facilities installed in Q3 2009 can reverse these production declines and with higher oil prices, revenue and cash flow will also grow.

# TUSCANY ENERGY LTD.

## Results of Operations

### Production

During the first half of 2009, Tuscany's oil and NGL production remained relatively unchanged from the same period in 2008 (increased by 3 Bbls/d). In Q2 2009 production from the Evesham Horizontal Dina well averaged 20 Bbls/d net to the Company as the Company evaluated the well. Water handling facilities and a larger down-hole pump will be installed to increase the total fluid production rates. We anticipate that this will increase oil production and reduce operating costs in the future.

Remedial work at Evesham was delayed until the summer months when the cost was lower and oil prices had recovered. Work on the initial well of a 7 well workover and recompletion program commenced in Q3 2009 resulting in a production addition of 13 Bbl/d to Tuscany.

The production volumes from the well in the Wildwood area were also lower and a down hole pump was installed at Wildwood in Q3 2009 in order to restore oil production.

Gas production for the first half of 2009 declined by 208 Mcf/d as the flush production from a new gas well completed in the Evesham area and the Wildwood well in 2008 declined. As a result the year over year production was reduced to 145 BOE/d compared with 176 BOE/d in 2008.

Production and Prices	Three Months Ended		Six Months Ended	
	2009	2008	2009	2008
<b>Average daily production</b>				
Gas (Mcf/d)	196	457	211	419
Oil (Bbl/d)	93	115	109	107
NGL (Bbl/d)	1	-	1	
<b>BOEd</b>	<b>127</b>	<b>191</b>	<b>145</b>	<b>176</b>
<b>Average price</b>				
Gas (\$/Mcf)	\$ 3.44	\$ 10.38	\$ 4.24	\$ 9.31
Oil (\$/Bbl)	\$ 52.99	\$ 102.79	\$ 46.49	\$ 90.15
<b>\$/BOE</b>	<b>\$ 44.47</b>	<b>\$ 86.67</b>	<b>\$ 41.25</b>	<b>\$ 76.59</b>

## TUSCANY ENERGY LTD.

Production By Area	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Oil and NGL Bbls/d				
Evesham	49	45	49	53
Evesham Dina	18	-	20	-
Macklin	11	29	15	21
Wildwood	15	41	26	33
	93	115	110	107
Gas Mcf/d				
Evesham	98	185	91	178
Macklin	15	7	24	20
Wildwood	65	238	83	197
Other	18	27	13	24
	196	457	211	419
Total BOE/d	127	191	145	176

### Selling Prices

For the six months ended June 30, 2009 Tuscany received an average of \$41.25/BOE, a significant decrease from \$76.59/BOE received during the same period in 2008. This decline in commodity price began to reverse in Q2 2009 as oil prices increased and the differential for heavy oil declined. Tuscany received \$52.99/Bbl in Q2 2009 compared with \$41.59/Bbl in Q1 2009. The Year over year decline in price was still significant however, with Tuscany receiving an average of \$44.47/BOE for Q2 2009 compared with \$86.67/BOE in Q2 2008.

The Company received \$3.44/Mcf for its natural gas sales in Q2 2009 compared to \$4.24/Mcf in Q2 2008.

Summary of operating net back (in thousands of dollars except per BOE information)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Natural Gas	\$ 61	\$ 432	\$ 162	\$ 710
Oil and NGLs	450	1,076	921	1,751
Oil and natural gas	511	1,508	1,083	2,461
Royalties	(43)	(166)	(159)	(278)
Operating expenses	(268)	(482)	(552)	(797)
Operating net back	\$ 200	\$ 860	\$ 372	\$ 1,386
<b>\$/BOE</b>				
Oil and natural gas	\$ 44.47	\$ 86.67	\$ 41.25	\$ 76.59
Royalties	(3.71)	(9.66)	(6.07)	(8.73)
Operating expenses	(23.30)	(27.67)	(21.00)	(24.88)
Operating net back	\$ 17.46	\$ 49.34	\$ 14.18	\$ 42.98

### Sales Revenue

Total revenue decreased by 56% from \$2,461,000 for the six months ended June 30, 2008 to \$1,083,000 in the six months ended June 30, 2009. This decline is attributed to both price and volume declines during the period.

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## Royalty Expense

The Company's average royalty rate for Q2 2009 was 15% or \$6.07/BOE. By comparison, in 2008 the Company incurred an average royalty rate of 11% or \$9.66/BOE. In 2008 38% of the Company's sales were generated from the Wildwood well in Alberta. The oil sales from this well were Crown royalty free for most of the year. Now that full royalty rates apply, the Company's average royalty rate has increased.

## Operating Expense

Tuscany's operating cost for the first half of 2009 totaled \$552,000, or \$21.00/BOE, compared to \$797,000 or \$24.88/BOE in 2008. The significant decrease was primarily attributable to workovers completed in Saskatchewan during 2008, and a reduction in remedial work in Q2 2009.

<b>General and Administrative Expenses</b> <i>(in thousands of dollars except per BOE information)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Gross expenses	\$ 93	\$ 285	\$ 171	\$ 402
Stock based compensation costs	8	1	8	1
Total overhead	\$ 101	\$ 286	\$ 179	\$ 403
Per BOE	\$ 8.78	\$ 16.40	\$ 6.51	\$ 12.55

General and administrative expenses of \$171,000 or \$6.51/BOE, for the six months ended June 30, 2009 decreased substantially from the \$400,000 or \$12.55/BOE incurred in the first half of 2008. The staff of the Company has been significantly reduced as the Board reviews the Company's future plans. General and administration costs will continue to be restrained until such time as commodity prices recover and the Company has developed a production and cash flow base capable of sustaining a full complement of technical and administrative staff. In the interim the Company intends to share overhead costs with other related companies in order to remain financially sustainable.

## Financing Charges

<b>Interest Expense</b> <i>(in thousands of dollars)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Average bank debt	\$ 2,505	\$ 1,930	\$ 2,180	\$ 1,865
Interest expense	\$ 23	\$ 31	\$ 44	\$ 66
Average interest rate	3.7%	6.4%	4.0%	7.1%

Interest expense for the first half of 2009 decreased to \$44,000 from \$66,000 incurred in the first half of 2008 primarily due to lower interest rates.

<b>Depletion, Depreciation &amp; Accretion</b> <i>(in thousands dollars except per BOE information)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Depletion and depreciation	\$ 216	\$ 318	\$ 490	\$ 583
ARO accretion	13	12	25	26
Total	\$ 229	\$ 330	\$ 515	\$ 609
per BOE	\$ 19.91	\$ 18.99	\$ 19.60	\$ 18.98

## TUSCANY ENERGY LTD.

Depletion and depreciation charges calculated on a unit of production basis are based on total proved reserves. In Q2 2009, depletion and depreciation expense decreased to \$216,000 from \$318,000 in Q2 2008 primarily as a result of lower production volumes. On a per unit basis, depletion, depreciation and accretion expense increased from \$18.99/BOE in Q2 2008 to \$19.91/BOE in Q2 2009.

Accretion represents the time value of the Company's asset retirement obligation. Until the costs are incurred it will continue to increase with time, which will increase Tuscany's current estimates of discounted future asset retirement obligations.

### Income Taxes

At June 30, 2009, the Company had approximately \$9.0 million of tax deductions available to reduce future taxable income. Tuscany's tax pools exceed the carrying value of its assets and therefore Tuscany had a future tax asset of \$355,000. This represents the estimated future value of the excess of the tax deductions over the net book value of the assets. Tuscany reported an income tax recovery of \$112,000 for the period.

### Capital Expenditures

Capital Expenditures (in thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Land	\$ 40	\$ 54	\$ 83	\$ 100
Geological and geophysical	\$ 24		43	-
Drilling and completions	\$ 12	11	75	28
Equipment, facilities and pipelines	\$ 13	54	134	96
ARO	\$ -	-	(159)	-
<b>Total</b>	<b>\$ 89</b>	<b>\$ 119</b>	<b>\$ 176</b>	<b>\$ 224</b>

Management restricted the capital expenditure program for most of 2008 and the first half of 2009 in order to maintain working capital. Tuscany incurred net \$334,000 in capital expenditures during the six months ended June 30, 2009. Most of the funds were spent on the completion of the Evesham Dina well and on replacing rental equipment with purchased equipment. Tuscany's asset retirement obligation was decreased by \$159,000 as a result of adjustments to prior estimates of the expected abandonment dates for current wells. Tuscany will continue to review its capital program in light of the current pricing environment and will base its program on available cash flow.

### Liquidity and Capital Resources

The Company's Q2 2009 operations and capital expenditures were funded from cash flow and a small increase in debt. Tuscany's operating demand loan provides for a line of credit of \$3.0 million (2008 - \$3.3 million). Subsequent to the end of the quarter the line has been renewed at \$3.0 million and is subject to annual review by the Company's bank with the next review scheduled for May 31, 2010.

In order to address the Company's financial requirements the Company has entered into an agreement with Goldmark Minerals Ltd to acquire Goldmark through the issue of 12.2 million common shares. Goldmark's assets consist mainly of \$1.4 million of working Capital. In addition Tuscany has announced it plans to issue to its existing shareholders of rights to acquire additional shares which will raise up to \$500,000 of additional working capital (see Subsequent Events below)

# **TUSCANY ENERGY LTD.**

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## **Business Risks**

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. Tuscany's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns.

Natural gas and crude oil prices weakened during the current fiscal quarter. Gas prices have continued to deteriorate since that date however oil prices have recovered somewhat. This will cause the Company to have poor results in 2009.

The Company minimizes its business risks by focusing on a select group of properties. This enables Tuscany to have more control over the timing, direction and costs related to exploration and development opportunities. The geological focus is on areas in which the prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. The Company closely follows all government regulations and has an up-to-date emergency response plan that has been communicated to all field operations by management. Tuscany also carries insurance coverage to protect itself against potential losses.

The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of Tuscany.

## **Contractual Obligations and Commitment**

In the normal course of business, Tuscany may be obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancelable. Tuscany currently has no such commitments.

The Company has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Company. Tuscany includes the present value of the estimated liabilities for such costs on its balance sheet. The total estimated undiscounted cost of these liabilities at June 30, 2009, was \$1.0 million (2007 – \$1.2 million).

## **Off Balance Sheet Arrangements**

Tuscany does not currently utilize any off balance sheet arrangements with unconsolidated entities to enhance liquidity and capital resource positions or for any other purpose.

## **Application of Critical Accounting Estimates**

Tuscany's financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies used by Tuscany are disclosed in Note 1 to the Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported.

# **TUSCANY ENERGY LTD.**

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Tuscany's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of significant accounting policies is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

## **Proved Oil and Gas Reserves**

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

The estimated quantities of proved crude oil, natural gas liquids including condensate and natural gas that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made.

Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests.

The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and gas reserves on the financial results and position of the Company is described under the heading "Full Cost Accounting for Oil and Gas Activities."

## **Full Cost Accounting for Oil and Gas Activities**

### ***Depletion Expense***

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the unit of production method based on estimated proved oil and gas reserves.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

### ***Withheld Costs***

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.

### ***Impairment of Long-Lived Assets***

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost center is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by

which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

### ***Asset Retirement Obligations***

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to earnings and the appropriate liability account over the expected service life of the asset.

When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.

### ***Legal, Environmental Remediation and Other Contingent Matters***

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings.

The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

### **Income Tax Accounting**

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

### **International Financial Reporting Standards (IFRS) Conversion**

During 2008, the CICA Accounting Standards Board ("ACSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations.

The International Accounting Standards Board has issued an exposure draft relating to certain amendments and exemptions to IFRS in order to make it more useful to Canadian entities adopting IFRS for the first time. To date, the CFO, the primary sponsor for the project, has prepared a summary level changeover plan for IFRS conversion that has been presented to the Audit Committee of the Board of Directors. Hallmarks of the changeover plan include, initial definition of the tasks required for conversion, a timeline for the completion of the tasks, an estimate of the effort and duration associated with the conversion, prioritization of tasks, and the assignment of key personnel within the organization.

In December 2008, the CICA issued section 1582 "Business Combinations" which establishes principles and requirements of the acquisition method for business combinations and related disclosures. The purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date of the acquisition, and most acquisition costs are to be expensed as incurred. Section 1582 will be effective on January 1, 2011, with prospective application.

In December 2008, the CICA issued sections 1601 "Consolidated Financial Statements", and

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1602 "Non-controlling Interests", which replaces existing guidance under Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements, and section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary. These standards will be effective on January 1, 2011. The changes to these standards will impact the Company to the extent that future business combinations take place.

## **Related Party Transactions**

At June 30, 2009, Humboldt Capital Corporation and certain of its officers and directors owned 35.9% of the outstanding shares of Tuscany. Tuscany and Humboldt have certain common officers and directors. Humboldt's business includes the ownership, acquisition and sale of securities in other companies and Humboldt owns significant interests in companies in the oil and gas sector, which compete with Tuscany and operate jointly with Tuscany, from time to time, in certain areas.

During the six months ended June 30, 2009 the Company paid a share of certain overhead costs with a related company, totaling \$89,000 (\$ NIL-2008). Tuscany also paid a company owned by the Company's CFO a consulting fee of \$15,000 (\$26,000 - 2008) during the Period.

## **Corporate Outlook**

Energy prices are now diverging. Oil prices rebounded in the last few months and we are particularly pleased with prices received for heavy oil production.

Better oil prices are somewhat offset by a virtual collapse in natural gas prices. However, Tuscany is primarily an oil producer with 85% of the Company's revenue in the first half of 2009 coming from oil and NGLs.

The Company plans to target capital expenditures toward developing oil production or operating cost reduction projects to provide maximum financial benefit for our Shareholders.

The Company has also streamlined staff and has arranged to reduce General and Administrative cost by utilizing, on a part time basis, support staff employed by a related company.

The growth for Tuscany shareholders lies in:

- Restored oil production from existing wells,
- Increased production from a potential Dina pool development program,
- Sustained higher oil prices,
- Improved natural gas prices,
- Lower operating and General and Administrative costs and,
- New financial strength from the proposed financial transactions.

These factors will allow the Company to profit from the current downturn and emerge a stronger, more viable company.

### **Subsequent events**

On August 19, 2009 Tuscany and Goldmark Minerals Ltd. ("Goldmark") entered into an arrangement agreement pursuant to which Tuscany will acquire, subject to certain conditions, all of the issued and outstanding shares of Goldmark ("Goldmark Shares") pursuant to a plan of arrangement (the "Transaction"). Under the terms of the Transaction, Tuscany will issue, in aggregate, approximately 12.2 million common shares of Tuscany to shareholders of Goldmark based on an exchange ratio of 0.6 Tuscany common shares for each Goldmark Share. The Transaction is subject to the approval of Goldmark shareholders at a meeting to be held in early October. Goldmark assets consist mainly of \$1.4 million of working capital.

Tuscany also announced a Rights Offering to Tuscany shareholders (the "Rights Offering"), pursuant to which Shareholders will receive one right (a "Right") for each Tuscany share held. For every four Rights held a holder thereof will be entitled to purchase one Tuscany Share at a price of \$0.06 per Tuscany Share. Tuscany shareholders will also have the opportunity to acquire additional Tuscany Shares beyond their entitlement through an additional subscription privilege. Pursuant to the Rights Offering, a maximum of approximately 8.7 million Tuscany Shares will be issued which represents 25% of the currently issued and outstanding Tuscany Shares.

Tuscany has also completed the review of its credit facility and agreed to a demand credit facility of \$3.0 million with an interest rate of prime plus 2%, subject to periodic review with the next review on May 31, 2010.

Subsequent to the transactions Tuscany will have approximately 55.7 million shares outstanding

**CORPORATE INFORMATION**

***Directors***

*Robert W. Lamond*<sup>(1)</sup>  
Calgary, Alberta

*John G. F. McLeod*  
Okotoks, Alberta

*Charles A. Teare*  
Calgary, Alberta

*Donald K. Clark*<sup>(1)</sup>  
Calgary, Alberta

*Roger W. Hume*<sup>(1)</sup>  
Calgary, Alberta

<sup>(1)</sup>Member of the Audit committee

***Officers***

*John G.F. McLeod*  
President and CEO

*C. A. Teare*  
Chief Financial Officer

***Head Office***

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***Auditor***

PricewaterhouseCoopers LLP  
Calgary, Alberta

***Legal Counsel***

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

***Banker***

ATB Financial  
Calgary, Alberta

***Registrar and Transfer Agent***

Computershare Trust Company of Canada  
Calgary, Alberta

***Stock Exchange Listing***

TSX Venture Exchange  
Trading Symbol: TUS