tuscany energy ltd

# Q2 2010 Interim Report
# For the Six Months Ended
# June 30, 2010

## Summary of Financial and Operating Results

| | Six Months Ended June 30 2010 | 2009 |
|---|---|---|
| **Financial** | | |
| Revenue net of royalties | **$ 1,407,571** | 924,138 |
| Cash flow from operations | **282,760** | 157,600 |
| per share, diluted | **0.01** | - |
| Loss for the period | **(215,647)** | (253,736) |
| per share, diluted | **-** | (0.01) |
| Property, plant and equipment - additions | **1,067,300** | 175,056 |
| Net Debt | **3,549,872** | 3,039,534 |
| Total shares outstanding at period end | **55,043,825** | 34,767,836 |
| **Operations** | | |
| Production | | |
| Gas (Mcf/d) | **160** | 211 |
| Oil (Bbl/d) | **110** | 109 |
| NGL (Bbls/d) | **1** | 1 |
| BOE/d (6 Mcf = 1 Bbl) | **138** | 145 |
| Product Prices | | |
| Gas ($/Mcf) | **$ 4.46** | $ 4.24 |
| Oil ($/Bbl) | **$ 63.80** | $ 46.49 |

# PRESIDENT'S MESSAGE

## To The Shareholders

Tuscany is pleased to report that the third horizontal Dina well on the Company's Evesham, Saskatchewan property has been successfully drilled and commenced production in July 2010. The well is the best well in the pool to date and is currently producing at an average rate of 110 Bbls/d with a 14% water cut.

The three wells in pool are currently producing 175 Bbls/d. Tuscany has a 60% interest in the property. Tuscany is encouraged by the success to date in developing this pool and plans to continue drilling operations, with two additional wells adjacent to the new well on reduced spacing in Q4 2010. This will increase the pace of development and the Company's growth plans.

A summary of current and cumulative production from the wells to Aug 25, 2010 is:

| Evesham Dina Production | Current Production Rate | Estimated Cumulative Production To August 25, 2010 |
|---|---|---|
| | Bbls/d | Bbls |
| Evesham 2-21 | 20 | 14,300 |
| Evesham 16-16 | 45 | 11,600 |
| Evesham 15-16 | 110 | 4,850 |
| Total field | 175 | 30,750 |

## Operations

The Company reported significantly improved revenues and cash flows for the six months ended June 30, 2010 compared with the same period in 2009. Tuscany's production decreased from 145 BOE/d in the first six months of 2009 to 138 BOE/d for the six months ended June 30, 2010, primarily as a result of declining gas production. Higher oil prices resulted in a 31% increase in production revenue for the period.

The recompletion of an existing Dina well into water disposal well together with the construction of disposal facilities and a pipeline from the oil battery were completed and water disposal commenced in January 2010. This facility will substantially reduce the Company's operating costs in this area and enhance the profitability of this project.

In addition to the third Dina oil well, Tuscany also participated for a 35% interest in the successful drilling of a potential Shaunavon oil well during Q3 2010

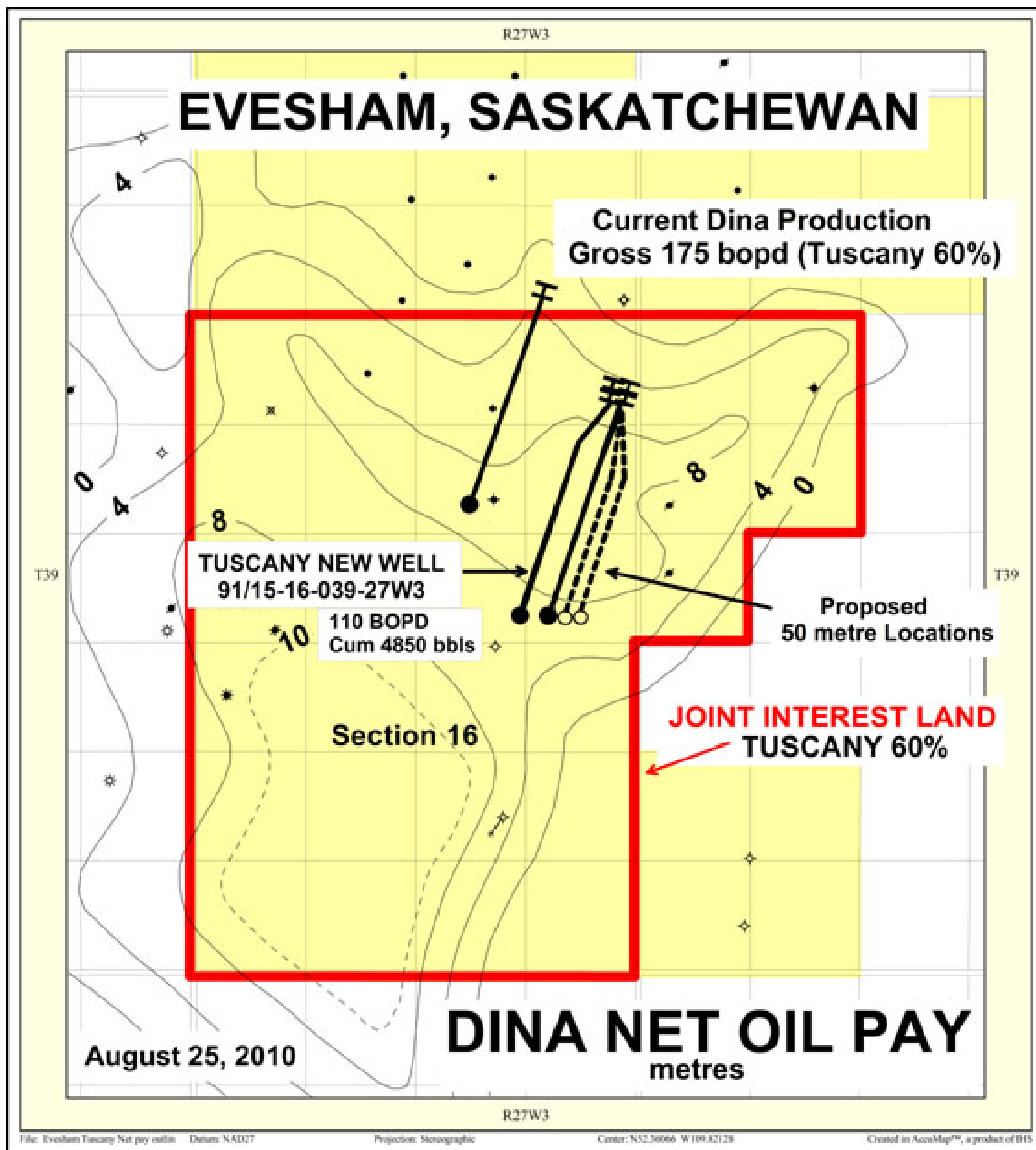
## Financial

Revenue for the first six months of 2010 totaled $1,408,000 compared with $924,000 in the same period of 2009. The Company reported cash flow from operations of $283,000 for the period, compared with $158,000 in the six months ended June 30, 2009. Tuscany reported a loss of $216,000 for the period versus a loss of $254,000 for the same period in 2009.

Capital expenditures for the six months ended June 30, 2010 totaled $1.1 Million compared with $334,000 during the same period in 2009.

At June 30, 2010 Tuscany had a net debt of $3.55 million.

The following map shows Tuscany's Evesham Dina property with existing wells and proposed drilling locations:



tuscany energy Ltd

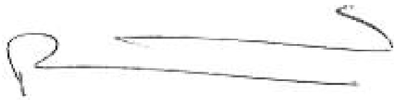
## Business Outlook

Oil prices remained very strong during Q2 2010 compared with the extreme weakness in the second half of 2009. Tuscany is primarily an oil producer and plans to continue the development of its heavy oil property at Evesham, Saskatchewan, drilling a further two development wells on the property over the balance of 2010.

In addition, to maximize the Company's exposure to new prospects while minimizing the overhead expenditures, the Company has entered into a Joint venture with two related public companies, Diaz Resources Ltd and Sharon Energy Ltd. Tuscany will share overhead costs with these partners and participate for a 30% interest in all new prospects developed by the group.

The Company, with a solid production base, excellent relatively low risk exploration and development projects and a smaller, compact management team is ideally suited to grow in the current economic environment.

August 26, 2010



*Signed "Robert W. Lamond"*
President and CEO

*Signed "John G. F. McLeod"*
Vice President and COO

# 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 three and six months ended June 30, 2010 and the audited financial statements and notes thereto for the year ended December 31, 2009. Additional information relating to Tuscany can be found on the Company's website at www.tuscanyenergy.com or SEDAR website at www.sedar.com. All dollar amounts are in Canadian dollars unless otherwise stated. This MD&A has been prepared as at August 26, 2010.

**Basis of Presentation**

The financial data presented herein has been prepared in accordance with accounting principles generally accepted in Canada. All dollar amounts are in Canadian dollars unless otherwise indicated.

**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. . Management uses "cash flow from operations" as a measure of operating performance as the measure is not exposed to non-cash working capital movements, which for a small company, could be material and misleading. The reconciliation of "cash flow from operating activities" and "cash flow from operations" is as follows:

| **Cash flow from operations** *(in thousands dollars)* | Three Months Ended June 30 2010 | Three Months Ended June 30 2009 | Six Months Ended June 30 2010 | Six Months Ended June 30 2009 |
|---|---|---|---|---|
| Cash provided by (used in)- operating activities | $ 77 | $ (87) | $ 35 | $ 214 |
| Change in non-cash working capital - fom operations | 25 | (172) | (248) | 56 |
| Cash flow from operations | $ 52 | $ 85 | $ 283 | $ 158 |

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.

**BOE Presentation** – The term barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 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) or at Tuscany's website 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.

*(Data disclosed herein is unaudited)*

## Selected Quarterly Information

### Financial Highlights

| ($ Thousands, except production and per share amounts) | 2010 | | 2009 | | | | 2008 | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 * |
| Production (BOEd) | **124** | 151 | 89 | 103 | 127 | 164 | 197 | 197 |
| Price ($/BOE) | **53.45** | 59.29 | 54.35 | 50.42 | 44.47 | 38.74 | 46.01 | 85.58 |
| Total revenue, net of royalty | **646** | 762 | 390 | 418 | 469 | 455 | 745 | 1,336 |
| Cash flow ( deficiency ) from operations | **52** | 231 | (289) | (13) | 85 | 73 | 143 | 656 |
| Per share - basic and diluted | **0.00** | 0.00 | (0.01) | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 |
| Net earnings (Loss) | **(85)** | (131) | (81) | 72 | (108) | (146) | (136) | 192 |
| 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 | **225** | 98 | 163 | 110 | 93 | 78 | 283 | 168 |
| Net capital expenditures | **624** | 433 | 931 | 171 | 89 | 86 | 1,216 | 102 |
| Total assets | **11,121** | 10,619 | 10,476 | 9,174 | 8,767 | 8,879 | 9,333 | 8,676 |
| Net debt | **(3,550)** | (2,971) | (2,733) | (3,224) | (3,040) | (3,035) | (2,805) | (1,571) |

Over the past two years Tuscany's production volumes declined from a high of 197 BOE/d in Q3 2008 to a low of 89 BOE/d in Q4 2009 before rebounding to 151 BOE/d in Q1 2010 and 124 BOE/d in Q2 2010. The company spent the greater part of 2009 conserving cash flow in the face of weak commodity prices and a global economic crisis. In late 2009, Tuscany raised $521,000 through a rights offering. The Company then merged with Goldmark Minerals Ltd, which provided the Company with a further $1.4 million.

With this additional working Capital the Company was able to drill its second horizontal well into the Evesham Dina formation. Increased production from the new Evesham wells was offset by reductions in oil and gas production from the Company's Wildwood well and oil production from the Evesham, Sparky wells location. In Q2 2010 Tuscany drilled the third horizontal well at Evesham. The initial production volumes, averaging 110 Bbls/day are the best rates experienced on the property to date. Tuscany's production from this well will increase the Company's production significantly in the last half of 2010.

## Results of Operations

| Production and Prices | Three Months Ended June 30 2010 | 2009 | Six Months Ended June 30 2010 | 2009 |
|---|---|---|---|---|
| **Average daily production** | | | | |
| Gas (Mcf/d) | **121** | 196 | **160** | 211 |
| Oil (Bbl/d) | **104** | 93 | **110** | 109 |
| NGL (Bbl/d) | **1** | 1 | **1** | 1 |
| BOEd | **125** | 127 | **138** | 145 |
| **Average price** | | | | |
| Gas ($/Mcf) | **$ 3.74** | $ 3.44 | **$ 4.46** | $ 4.24 |
| Oil ($/Bbl) | **$ 59.43** | $ 52.99 | **$ 63.80** | $ 46.49 |
| $/BOE | **$ 53.45** | $ 44.47 | **$ 56.64** | $ 41.25 |

### Production

During Q2 2010, Tuscany's oil production increased by 11 Bbls/d over the same period in 2009. Production from the Evesham Horizontal wells averaged 42 Bbls/d net to the Company, an increase from 18 Bbls/d in 2009. Q2 2010 production levels were lower from the Wildwood Alberta well which experience significant production declines. Gas production declined by 52 Mcf/d, as the company continued to focus exploration and development on oil production. Quarter over quarter production remained flat at 125 BOE/d compared with 127 BOE/d in Q2 2009. The initial oil production volumes from the third Dina horizontal well, placed on production in July 2010, averaged 110 Bbl/d and are the best rates experienced on the property to date. Tuscany's production from this well will increase the Company's production significantly in the last half of 2010

| Production By Area | Three Months Ended June 30 2010 | 2009 | Six Months Ended June 30 2010 | 2009 |
|---|---|---|---|---|
| Oil and NGL (Bbls/d) | | | | |
| Evesham | 33 | 49 | 46 | 49 |
| Evesham Dina | 42 | 18 | 41 | 20 |
| Macklin | 25 | 11 | 17 | 15 |
| Wildwood | 5 | 16 | 8 | 26 |
| | 105 | 94 | 111 | 110 |
| Gas (Mcf/d) | | | | |
| Evesham | 73 | 98 | 99 | 91 |
| Macklin | 22 | 15 | 26 | 24 |
| Wildwood | 13 | 65 | 18 | 83 |
| Other | 13 | 18 | 17 | 13 |
| | 121 | 196 | 160 | 211 |
| Total BOE/d | 125 | 127 | 138 | 145 |

### Selling Prices

For the six months ended June 30, 2010 Tuscany received an average of $56.62 per BOE, an increase from $41.25/BOE received during the same period in 2009.

During Q2 2010, oil prices increased and the Company received an average of $59.43 per Bbl for oil and liquids compared with $52.99 a year earlier. Gas prices increased slightly to $3.74/Mcf from $3.44 in Q2 2009. The Company is not significantly affected by low gas prices as currently more than 80% of its production comes from oil and NGLs.

| **Summary of operating net back** *(in thousands of dollars except per BOE information)* | **Three Months Ended June 30 2010** | **2009** | **Six Months Ended June 30 2010** | **2009** |
|---|---|---|---|---|
| Natural Gas | **$ 40** | $ 61 | **$ 129** | $ 162 |
| Oil and NGLs | **564** | 450 | **1,287** | 921 |
| Oil and natural gas | **604** | 511 | **1,416** | 1,083 |
| Processing revenue | **43** | | **59** | - |
| Total Revenue | **647** | 511 | **1,475** | 1,083 |
| Royalties | **(2)** | (43) | **(68)** | (159) |
| Operating-Water Disposal facility | **(33)** | - | **(40)** | - |
| Workovers and repairs | **(61)** | (47) | **(200)** | (97) |
| Operating expenses producing wells | **(216)** | (268) | **(472)** | (552) |
| Operating net back | **$ 335** | $ 153 | **$ 695** | $ 275 |
| **$/ BOE** | | | | |
| Oil and natural gas | **$ 53.33** | $ 44.47 | **$ 56.62** | $ 41.25 |
| Processing revenue | **$ 3.80** | $ - | **$ 2.36** | $ - |
| Royalties | **(0.18)** | (3.71) | **$ (2.72)** | (6.07) |
| Operating-Water Disposal facility | **(2.91)** | - | **$ (1.60)** | |
| Workovers | **(5.39)** | (4.02) | **$ (8.00)** | (3.68) |
| Operating expenses producing wells | **(19.07)** | (22.94) | **$ (18.87)** | (20.92) |
| Operating net back | **$ 29.58** | $ 13.80 | **$ 27.79** | $ 10.58 |

### Revenue

Total revenue increased by 31% to $1.5 million for the six months ended June 30, 2010, compared with $1.1 million for the same period in 2009. This increase is attributed to a 37% increase in oil price, and the construction of a new water disposal facility resulting in $59,000 of processing revenues during the period.

### Royalty Expense

The Company's average royalty rate through Q2 2010 was 5% or $2.72 per BOE. By comparison, to Q2 2009 the Company incurred an average royalty rate of 15% or $6.07 per BOE. This decrease is mostly attributable to low royalty rates on oil production from new horizontal wells drilled in Saskatchewan. The horizontal oil wells only pay a 2.5% royalty on the first 37,000 Bbls of production. In addition, the company recieved a $35,000 Gas Cost Allowance credit which further reduced their royalties in the second quarter of 2010.

### Operating Expense

Tuscany's operating cost for Q2 2010 totaled $310,000 or $27.37 per BOE, compared to $268,000 or $26.96 per BOE in Q2 2009. The increase was primarily attributable to one time startup cost of the water disposal well totaling $33,000 and the cost of workovers, primarily on the Sparky wells in the Evesham area, totaling $61,000.

As a result, net operating income more than doubled to $335,000 or $29.58 per BOE in Q2 2010 from $153,000 or $13.80 per BOE in Q2 2009.

| **General and Administrative Expenses** *(in thousands of dollars except per BOE information)* | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Gross expenses | **$ 275** | $ 93 | **$ 373** | $ 171 |
| Capitalized overhead | **$ (50)** | $ - | **$ (50)** | $ - |
| Stock based compensation costs | **18** | 8 | **30** | 8 |
| Total overhead | **$ 243** | $ 101 | **$ 353** | $ 179 |
| Per BOE | **$ 21.46** | $ 8.78 | **$ 14.13** | $ 6.51 |

General and administrative expenses for Q2 2010 increased to $275,000, before the capitalization of 50,000 of costs directly related to the exploration and development program. As a result general and administration costs of $225,000 were expensed for Q2 2010 compared with $93,000 in Q2 2009. Tuscany has agreed to share operating and overhead costs with two related companies in order to increase its exploration and development opportunities efficiently and thereby increase the company's growth potential.

### Financing Charges

| **Interest Expense** *(in thousands of dollars)* | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Average bank debt | **$ 2,680** | $ 2,505 | **$ 2,525** | $ 2,180 |
| Bank Interest (less: Income Tax Penalties) | **$ 30** | $ 23 | **$ 57** | $ 44 |
| Interest on flow through shares | **29** | - | **29** | - |
| Average interest rate | **4.5%** | 3.7% | **4.5%** | 4.0% |

Interest expense for Q2 2010 increased to $30,000 from $23,000 incurred in Q2 2009 primarily due to increased capital spending in the quarter which required the company to draw on its bank line. The company also incurred an interest charge on unexpended flow through share obligations incurred in prior years.

| **Depletion, Depreciation & Accretion** *(in thousands dollars except per BOE information)* | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Depletion and depreciation | **$ 273** | $ 216 | **$ 607** | $ 490 |
| ARO accretion | **12** | 13 | **23** | 25 |
| Total | **$ 285** | $ 229 | **$ 630** | $ 515 |
| per BOE | **$ 25.16** | $ 19.91 | **$ 25.22** | $ 19.60 |

Depletion and depreciation charges calculated on a unit of production basis are based on total proved reserves and include the additional cost to develop the reserves. In Q2 2010, depletion, depreciation and accretion expense increased to $285,000 from $229,000 in Q2 2009. On a per unit basis, depletion, depreciation and accretion expense increased from $19.91 per BOE

recorded in Q2 2009 to $25.16 per BOE in Q2 2010. This increase is partly a result of the capital investment required to bring proven Dina reserves to production.

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.

| **Capital Expenditures** *(in thousands of dollars)* | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Land | **$ 50** | $ 40 | **$ 59** | $ 83 |
| Geological and geophysical | **$ 64** | 24 | **64** | 43 |
| Drilling and completions | **$ 444** | 12 | **465** | 75 |
| Equipment, facilities and pipelines | **$ 66** | 13 | **469** | 134 |
| ARO | **$ 11** | - | **11** | (159) |
| Total | **$ 635** | $ 89 | **$ 1,068** | $ 176 |

The Company spudded its third Dina horizontal well in June 2010. Tuscany has also been active with its joint venture partners in acquiring additional oil prospects in Alberta and Saskatchewan Tuscany incurred net $1.07 Million in capital expenditures during the six months ended June 30, 2010.

### Income Taxes

At June 30, 2010, the Company had approximately $12.4 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 $965,000. This represents the estimated future value of the excess of the tax deductions over the net book value of the assets.

### Capital Disclosures

Tuscany's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- To provide an adequate return to shareholders by investing in oil and gas activities commensurate with the level of risk deemed acceptable, by management.

Tuscany targets the level of capital in proportion to its risk of achieving sufficient annualized operating cash flows to maintain its debt repayability ratio to less than twenty-four months cash flow. The Company plans to make adjustments to capital and planned expenditures in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Tuscany may issue new shares, sell assets or increase its debt.

The ratio of net current debt to annualized cash flow from operations is the primary ratio of capital that Tuscany uses. Net current debt repayability is a calculation to determine the number of months required to repay net debt from recent historic cash flow from operations.

The ratio is calculated as follows:

| As at<br>($000) | June 30<br>2010 | <br>2009 |
|---|---|---|
| Current assets | $ 829 | $ 235 |
| Current liabilities | (1,403) | (559) |
| Bank debt | (2,975) | (2,715) |
| | - | - |
| | $ (3,549) | $ (3,039) |
| Annualized cash flow from operations | $ 566 | $ 315 |
| Months estimated to repay debt | 75 | 116 |

Cash flow has improved considerably from the second quarter of the previous year. The Company has reduced its debt repayability closer to its target level of 24 months with debt levels of $3.6 million and an annualized cash flow of $566,000. Management's plan for the current year is to match overall capital spending and commitments with anticipated operating cash flows for the year. Higher Cash flows are anticipated in the future with increased production and reduced water handling cost, which will bring this ratio further into line with Tuscany's target.

The Company's credit facility imposes a capital restriction that the Company's debt to equity ratio cannot exceed 2:1 and the Company's net debt cannot exceed its credit facility. At June 30, 2010 all covenants have been met.

**Liquidity and Capital Resources**

The Company's Q2 2010 operations and capital expenditures were funded from a combination of cash flow, and an increase in net debt. Tuscany's operating demand loan which was increased to $4.0 million in Q2 2010 provides for the line of credit to increase to $4.6 million by the end of the year under certain circumstances. At June 30, 2010, $1,025,000 of the line remained unused.

**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 2010.

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, 2010, was $1.1 million (2009 – $1.0 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'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 2009, 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.

In July 2009, the International Accounting Standards Board issued Additional Exemptions for First-time Adopters (Amendments to IFRS-1) which gives the option to companies using the full cost method of accounting to carry forward the amount determined under Canadian GAAP as the deemed cost under IFRS. This exemption will significantly reduce property, plant and equipment adjustments which would have resulted from the retroactive adoption of IFRS.

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.

The conversion plan has been divided into three distinct phases and management is currently in phase two as described below.

*Phase One:*

Identification of a project work plan that outlines potential conversion issues unique to our industry. This phase assigns ownership responsibility for each of those issues, estimates the time, duration and costs associated with each major deliverable within the plan, and presents an overall project timeline and in-progress reporting from key deliverable owners and assigned employees.

*Phase Two:*

Identification of the significant accounting policies that relate to each of the major conversion items within the firm. This phase identifies the changes to the accounting policies that will be required with IFRS, and adjusts the plan identified in Phase One accordingly.

*Phase Three:*

Management of dual reporting under Canadian GAAP and IFRS as required. This phase determines the mapping between the different accounts identified in our chart of accounts and applies this mapping to generate the IFRS reporting. Dual reporting capability is required as of January 1, 2010, so that the Company can prepare comparative information for IFRS reporting which will begin the first quarter of 2011.

## Related Party Transactions

At June 30, 2010, Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 44% of the outstanding shares of Tuscany. 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. These include Diaz Resources Ltd ("Diaz"), Sharon Energy Ltd. ("Sharon"), and Paris Energy Inc. ("Paris") which also have certain common officers and directors. The following table sets forth the respective ownership of Humboldt and insiders in Tuscany and the companies that may be considered related parties.

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Tuscany | 44.0% | 43.7% |
| Diaz | 37.3% | 41.4% |
| Sharon | 28.2% | 26.8% |
| Paris | 20.9% | 20.9% |

Tuscany, Diaz, Sharon have agreed to jointly conduct exploration and development activities, oil and gas operations and general and administration functions and share the cost of such operations equitably. While this agreement has been in place for some time, the companies recently undertook a review of the allocation of overhead. Because of the consolidation of administrative and operational resources during the period, and due to an increase in exploration and development activity on the part of Tuscany, management fees charged to Tuscany increased in the second quarter. In addition, $50,000 in management fees charged to Tuscany by Diaz Resources Ltd. In the period related to Exploration and Development and were therefore capitalized. By comparison, no overhead was capitalized in the prior period because at that time Tuscany directly employed its own Exploration and Development consultants.

During the six months ended June 30, 2010, the Company shared certain overhead costs with the related companies as follows:

| Overhead Charged to Tuscany for the six months ending June 30, | 2010 | 2009 |
|---|---|---|
| Diaz Resources Ltd. | 215,500 | - |
| Paris Energy Inc. | 62,931 | 89,023 |

| Balance payable to related parties at June 30, | 2010 | 2009 |
|---|---|---|
| Diaz Resources Ltd. | 170,176 | - |
| Paris Energy Inc. | 43,145 | - |
| Humboldt Capital Corporation | 3,032 | - |

These transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**Corporate Outlook**

Oil prices remained very strong during Q2 2010 compared with the extreme weakness in the second half of 2009. Tuscany is primarily an oil producer and plans to continue the development of its heavy oil property at Evesham, Saskatchewan, drilling a further two development wells on the property over the balance of 2010.

In addition, to maximize the Company's exposure to new prospects while minimizing the overhead expenditures, the Company has entered into a Joint venture with two related public companies, Diaz Resources Ltd and Sharon Energy Ltd. Tuscany will share overhead costs with these partners and participate for a 30% interest in all new prospects developed by the group.

The Company, with a solid production base, excellent relatively low risk exploration and development projects and a smaller, compact management team is ideally suited to grow in the current economic environment.

# CONSOLIDATED BALANCE SHEETS

| **As at**<br>*(Unaudited)* | **June 30**<br>**2010** | **December 31**<br>**2009** |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash | **$ 21,048** | $ 109,475 |
| Accounts Receivable | **805,455** | 694,031 |
| Prepaid Expenses and deposits | **2,086** | 2,086 |
| | **828,589** | 805,592 |
| | | |
| Property, plant and equipment (Note 4) | **9,327,086** | 8,866,565 |
| Future tax asset | **965,359** | 803,688 |
| Total Assets | **$ 11,121,034** | $ 10,475,845 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **$ 1,403,301** | $ 1,738,843 |
| Bank debt (Note 3) | **2,975,160** | 1,800,000 |
| | **4,378,461** | 3,538,843 |
| Other Liabilities | | |
| Asset retirement obligation (Note 6) | **620,988** | 586,737 |
| Total Other Liabilities | **620,988** | 586,737 |
| | **4,999,449** | 4,125,580 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 5) | **6,846,966** | 6,877,686 |
| Contributed surplus (Note 5) | **410,055** | 392,368 |
| Deficit | **(1,135,436)** | (919,789) |
| | **6,121,585** | 6,350,265 |
| Total Liabilities and Shareholders' Equity | **$ 11,121,034** | $ 10,475,845 |

John G.F. McLeod, Director

Charles A. Teare, Director

# CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

| *(Unaudited)* | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **Revenue** | | | | |
| Petroleum and natural gas sales | **$ 604,993** | $ 511,487 | **$ 1,416,650** | $ 1,083,551 |
| Processing income | **43,017** | | **58,542** | |
| Royalties | **(2,227)** | (42,633) | **(67,734)** | $ (159,413) |
| Interest income | **14** | - | **113** | - |
| | **645,797** | 468,854 | **1,407,571** | 924,138 |
| **Expenses** | | | | |
| Operating and transportation | **309,862** | 267,988 | **712,309** | 551,560 |
| General and administrative | **225,489** | 92,998 | **323,360** | 171,298 |
| Interest | **59,492** | 23,141 | **86,219** | 43,680 |
| Foreign Exchange loss (gain) | **(980)** | - | **2,923** | - |
| Depletion, depreciation and accretion | **284,688** | 228,529 | **630,246** | 514,877 |
| Stock based compensation (Note 5) | **18,368** | 7,960 | **29,833** | 7,960 |
| | **896,919** | 620,616 | **1,784,890** | 1,289,375 |
| Loss before income tax | **(251,122)** | (151,762) | **(377,319)** | (365,237) |
| Income tax | | | | |
| Future tax expense (recovery) | **(166,522)** | (43,761) | **(161,672)** | (111,501) |
| Total income tax | **(166,522)** | (43,761) | **(161,672)** | (111,501) |
| Loss and Comprehensive Loss for the period | **(84,600)** | (108,001) | **(215,647)** | (253,736) |
| Deficit, beginning of period | **(1,050,836)** | (802,306) | **(919,789)** | (656,571) |
| Deficit, end of period | **$ (1,135,436)** | $ (910,307) | **$ (1,135,436)** | $ (910,307) |
| Loss per share, basic and diluted | **$ 0.00** | $ 0.00 | **$ 0.00** | $ (0.01) |

## STATEMENTS OF CASH FLOWS

| (Unaudited) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Cash provided by (used for): | | | | |
| **Operating Activities** | | | | |
| Loss and comprehensive loss for the period | **$ (84,600)** | $ (108,001) | **$ (215,647)** | $ (253,736) |
| Non-cash items: | | | | |
| Depletion and depreciation | **$ 272,954** | 215,825 | **606,777** | 489,470 |
| Accretion | **11,734** | 12,704 | **23,469** | 25,407 |
| Stock based compensation (Note 5) | **18,368** | 7,960 | **29,833** | 7,960 |
| Future tax expense (recovery) | **$ (166,522)** | (43,761) | **(161,672)** | (111,501) |
| | **51,934** | 84,727 | **282,760** | 157,600 |
| Change in non-cash working capital (Note 8) | **25,133** | (171,607) | **(247,589)** | 56,382 |
| Cash provided by (used for) operating activities | **77,067** | (86,880) | **35,171** | 213,982 |
| **Investing Activities** | | | | |
| Property, plant & equipment - additions | **(623,686)** | (88,827) | **(1,056,518)** | (334,263) |
| Change in non-cash working capital (Note 8) | **387,739** | (244,293) | **(199,374)** | (896,562) |
| | **(235,947)** | (333,120) | **(1,255,892)** | (1,230,825) |
| **Financing Activities** | | | | |
| Bank loan advance | **89,556** | 420,000 | **1,175,160** | 1,070,000 |
| Common Shares | | | | |
| Repurchased for cancellation | **(7,095)** | - | **(42,866)** | (58,281) |
| | **82,461** | 420,000 | **1,132,294** | 1,011,719 |
| Increase (decrease) in cash | **(76,419)** | - | **(88,427)** | (5,124) |
| Cash, beginning of period | **97,467** | - | **109,475** | 5,124 |
| Cash, end of period | **$ 21,048** | $ - | **$ 21,048** | $ - |
| Supplementary information regarding cash payments: | | | | |
| Interest paid | **$ 59,492** | $ 23,141 | **$ 86,219** | $ 43,680 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2010 (unaudited)

## 1. Accounting Policies

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Goldmark Minerals Ltd and Goldmark Minerals Alaska Inc. since the date of acquisition on October 7, 2009.

The Company's principal business activity is the exploration, development and operation of oil and natural gas properties in Canada.

These financial statements have been prepared in accordance with Canadian Generally accepted accounting principles ("GAAP") on a Going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

Certain information and disclosures normally required to be included in the notes to the annual financial statements have been condensed or omitted for this interim report. The reader should refer to the annual consolidated financial statements of Tuscany at December 31, 2009

Management made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect Tuscany's financial position or results of operations.

**Property, Plant and Equipment**

The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method, all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. Costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss, except where such a disposal would alter the depletion and depreciation rate by 20% or more.

Depletion and depreciation of capitalized costs are provided by using the unit of production method based on the Company's total estimated gross proven reserves, as determined by independent engineers. Natural gas reserves and production are converted to equivalent barrels of oil based on the relevant energy content. In determining the depletion base, the Company includes future costs to be incurred in developing proven reserves and excludes the costs of unproven land.

Depreciation is provided on furniture and fixtures at annual rates of 20%, and computer equipment at an annual rate of 30%, each on a declining balance basis.

An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

- the fair value of proved and probable reserves; and

• the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

In determining the depletion and depreciation provisions for crude oil and natural gas assets, the Company includes any excess of the net book value of those crude oil and natural gas assets over the fair value.

**Asset Retirement Obligation**

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated ARO is capitalized as part of the net capitalized asset base and the depletion of the capitalized asset retirement cost is determined on a basis consistent with depletion of the Company's other assets. With time, accretion will increase the carrying amount of the obligation. Accretion is expensed.

**Cash and Cash Equivalents**

Cash includes cash and cash-like short-term investments that can be liquidated into cash on less than 90-days notice. Short-term investments are comprised of low risk, interest bearing securities.

**Joint Ventures**

The Company's activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

**Share Based Compensation Plan**

The Company has a stock based compensation plan, which is described in Note 5. The Company has adopted the fair value method for accounting for stock based compensation. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings initially in the period of the option grant and during the subsequent vesting period of the options.

**Foreign Currency Translation**

Foreign currency balances are expressed in Canadian dollars on the following basis:

• Monetary assets and liabilities – at the period end rate of exchange;

• Other assets and liabilities – at historical rates of exchange; and

• Revenues and expenses – at average rates of exchange for the period, except provisions for depreciation and depletion, which are translated on the same basis as the related assets.

**Flow-Through Shares**

Share capital is reduced by the future tax effect of renouncing income tax cost to the purchaser of flow-through shares when the tax pools are renounced. The tax effect is calculated using the expected rate of tax.

**Revenue Recognition**

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Company is recognized when title passes from the Company to its customers and collectability is reasonably assured.

**Income Tax**

Income taxes are recorded using the liability method of accounting. Future income tax assets and liabilities are recognized for temporary differences between the income tax and

accounting basis of assets and liabilities and measured using the substantively enacted tax rates expected to be in effect when the timing differences are estimated to reverse. Changes in income tax rates that are substantively enacted are reflected in the accumulated future income tax balances in the period the change occurs

**Use of Accounting Estimates**

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The Black-Scholes option pricing model is used to estimate stock option values based on estimates of the current risk free interest rate, expected life of the options and expected volatility of the underlying common share price By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

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.

**Financial Instruments**

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

**Earnings per share**

The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations.

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into net earnings (loss) attributable to the shareholders.

Diluted earnings per share are calculated by dividing the diluted weighted average number of aggregate outstanding shares during the period in the net earnings for the period. Diluted loss per share is calculated by dividing the basic weighted average aggregate outstanding shares into the loss for the period as using the diluted weighted average shares would be anti-dilutive.

## 2. Changes in Accounting Policies

On January 1, 2010, Tuscany adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

**"Business Combinations", Section 1582**, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business

combinations entered into after January 1, 2010.

**"Consolidated Financial Statements", Section 1601**, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Tuscany's Consolidated Financial Statements.

**"Non-controlling Interests", Section 1602**, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on Tuscany's Consolidated Financial Statements.

## 3. Bank Debt

The bank loan is a revolving non-reducing operating demand loan with a maximum amount available of $4,000,000. Amounts drawn under the facility bear interest at the bank's prime rate plus 2%, resulting in an effective rate of 4.5% at June 30, 2010; there is a standby fee of 0.2 percent on undrawn amounts. At June 30, 2010, the amount drawn on the operating demand loan is $2,975,000.

The loan is secured by an interest over all property, a general assignment of book debts and a floating charge on all lands. The facility is subject to various affirmative financial covenants. As at June 30, 2010 the Company is in compliance with all covenants.

## 4. Property, Plant and Equipment

| As at | **June 30 2010** | December 31 2009 |
|---|---|---|
| Petroleum and natural gas properties | **$ 14,748,694** | $ 13,681,394 |
| Accumulated depletion and impairment | **(5,423,273)** | (4,829,608) |
| | **9,325,421** | 8,851,786 |
| Furniture, fixtures and other assets | **40,931** | 40,927 |
| Accumulated depreciation | **(39,266)** | (26,148) |
| | **1,665** | 14,779 |
| | **$ 9,327,086** | $ 8,866,565 |

At June 30, 2010, unproven property costs of $181,000 were excluded from the depletable cost base (2009 - $204,348). Administrative expenses related to exploration and development activities totaling $50,000 were capitalized as part of property, plant and equipment (2009 – $Nil).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. Future costs were $2,054,000 (2009 - $210,000).

At June 30, 2010 the Company reviewed the carrying value of the oil and gas properties for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable from 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. For the six months ended June 30, 2010, no impairment of the properties was indicated.

The Company based its estimates on the forecast of an independent reserve engineering firm as follows:

| Price Estimates Used for Ceiling Test | | | |
|---|---|---|---|
| | Gas ($Cdn/Mcf) | Oil ($Cdn/Bbl) | NGL ($Cdn/Bbl) |
| 2010Q3 | $ 3.99 | $ 78.42 | $ 78.42 |
| 2010Q4 | $ 4.47 | $ 78.33 | $ 78.33 |
| 2011 | $ 4.82 | $ 82.30 | $ 82.30 |
| 2012 | $ 5.15 | $ 85.02 | $ 85.02 |
| 2013 | $ 5.25 | $ 86.72 | $ 86.72 |
| 2014 | $ 5.36 | $ 88.45 | $ 88.45 |

## 5. Share Capital

**Authorized**

An unlimited number of common voting shares;
Unlimited number of first preferred shares; and
Unlimited number of second preferred shares.

The preferred shares may be issued from time to time in one or more series, each series consisting of a number of preferred shares as determined by the Board of Directors of the Company who may also fix the designations, rights, privileges, restrictions and conditions attaching to each series of preferred shares. There are no preferred shares issued.

| Common Shares - Issued | Number of Shares | Amount |
|---|---|---|
| Balance, December 31, 2009 | 55,299,825 | $ 6,877,686 |
| Repurchased for cancellation | (256,000) | (42,866) |
| Excess of cost over paid up capital on share repurchases | - | 12,146 |
| Balance at June 30, 2010 | 55,043,825 | $ 6,846,966 |

| Contributed Surplus | Amount (thousands) |
|---|---|
| Balance, December 31, 2009 | $ 392,368 |
| Option compensation for the period | 29,833 |
| Options exercised or cancelled in 2010 | - |
| Excess of cost over paid up capital on share repurchases | (12,146) |
| Balance at June 30, 2010 | $ 410,055 |

### Earnings (Loss) Per share

The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations. The diluted weighted average number of shares outstanding does not include the conversion of any of the outstanding options into common shares, as the conversion would be anti-dilutive.

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into earnings (loss) attributable to the shareholders.

Diluted earnings per share are calculated by dividing the diluted weighted average aggregate outstanding shares into the earnings for the period.

| Shares Outstanding | Three Months Ended June 30 2010 | 2009 | Six Months Ended June 30 2010 | 2009 |
|---|---|---|---|---|
| Weighted average shares outstanding | 55,090,144 | 34,767,836 | 55,158,311 | 34,891,184 |
| Diluted weighted average shares outstanding | 55,090,144 | 34,767,836 | 55,158,311 | 34,891,184 |

### Normal Course Issuer bid

In October 2009 the Company filed and received approval to acquire and cancel up to 5% of the outstanding shares of the company over a one-year period pursuant to a normal course issuer bid. The Company acquired and cancelled the following shares under normal course issuer bids

| Issuer Bid | Six Months Ended June 30 2010 | Year ended December 31 2009 |
|---|---|---|
| **Common Shares** | | |
| Shares repurchased | **256,000** | 961,500 |
| Weighted average price, per share | **$ 0.17** | $ 0.10 |

### Stock Option Plan

As at June 30, 2010, there are a total of 2,220,000 options granted and outstanding under the stock option plan with a weighted average exercise price of $0.116 per share. Of these, 1,553,328 are exercisable at a weighted average exercise price of $0.12.

The following summarizes information about stock options outstanding:

| Fixed Options | Six Months Ended June 30, 2010 Shares | Weighted Average Exercise Price | 2009 Shares | Weighted Average Exercise Price |
|---|---|---|---|---|
| Outstanding, beginning of period | **2,220,000** | **$ 0.116** | 220,000 | $ 0.260 |
| Granted | **-** | **-** | 2,000,000 | 0.100 |
| Outstanding, end of period | **2,220,000** | **$ 0.116** | 2,220,000 | $ 0.116 |
| Options exercisable, end of period | **1,553,328** | **$ 0.122** | 886,667 | $ 0.140 |

The Company accounts for its stock based compensation plan using the fair value method whereby compensation costs have been recognized in the financial statements for share options granted to employees and directors. The impact on compensation costs of using the fair value method increased compensation costs for the six months ended June 30, 2010 by $30,000 (2009 - $8,000).

## 6. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

| As at | June 30 2010 | December 31 2009 |
|---|---|---|
| Asset Retirement Obligation, beginning of period | $ 586,737 | $ 635,165 |
| Liabilities incurred | 10,782 | 11,442 |
| Changes in estimates | - | (110,683) |
| Accretion expense | 23,469 | 50,813 |
| Asset Retirement Obligation, end of period | $ 620,988 | $ 586,737 |

The total undiscounted amount of estimated cash flows required to settle the obligation is $1,055,000 [2009 - $1,030,000], which has been discounted using an average credit-adjusted risk free rate of 8%. The Company expects most of these obligations to be paid between 2012 and 2024.

## 7. Related Party Transactions

At June 30, 2010, Humboldt Capital Corporation ("Humboldt") and certain of its officers and directors owned 44% of the outstanding shares of Tuscany. 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. These include Diaz Resources Ltd ("Diaz"), Sharon Energy Ltd. ("Sharon"), and Paris Energy Inc. ("Paris") which also have certain common officers and directors. The following table sets forth the respective ownership of Humboldt and insiders in Tuscany and the companies that may be considered related parties:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Tuscany | 44.0% | 43.7% |
| Diaz | 37.3% | 41.4% |
| Sharon | 28.2% | 26.8% |
| Paris | 20.9% | 20.9% |

Tuscany, Diaz, and Sharon have agreed to jointly conduct exploration and development activities, oil and gas operations and general and administration functions and share the cost of such operations equitably. While this agreement has been in place for some time, the companies recently undertook a review of the allocation of overhead. Because of the

consolidation of administrative and operational resources during the period, and due to an increase in exploration and development activity on the part of Tuscany, management fees charged to Tuscany increased in the second quarter. In addition, $50,000 in management fees charged to Tuscany by Diaz Resources Ltd. In the period related to Exploration and Development and were therefore capitalized. By comparison, no overhead was capitalized in the prior period because at that time Tuscany directly employed its own Exploration and Development consultants.

During the six months ended June 30, 2010, the Company shared certain overhead costs with the related companies as follows:

| Overhead Charged to Tuscany for the six months ending June 30, | 2010 | 2009 |
|---|---|---|
| Diaz Resources Ltd. | 215,500 | - |
| Paris Energy Inc. | 62,931 | 89,023 |

| Balance payable to related parties at June 30, | 2010 | 2009 |
|---|---|---|
| Diaz Resources Ltd. | 170,176 | - |
| Paris Energy Inc. | 43,145 | - |
| Humboldt Capital Corporation | 3,032 | - |

These transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 8. Supplemental Cash Flow Information

| Supplemental Cash Flow Information | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Interest paid | $ 59,541 | $ 23,141 | $ 86,219 | $ 43,680 |
| Changes in non-cash working capital balances | | | | |
| Receivables | $ (70,703) | $ 22,507 | $ (111,424) | $ 339,487 |
| Prepaid expenses | $ 20,000 | 5,939 | - | 17,819 |
| Accounts payable and accruals | $ 463,575 | (444,345) | (335,539) | (1,197,486) |
| | $ 412,872 | $ (415,899) | $ (446,963) | $ (840,180) |
| Allocated to: | | | | |
| Operating activities | $ 25,133 | $ (171,604) | $ (247,589) | $ 56,382 |
| Investing activities | $ 387,739 | (244,295) | (199,374) | (896,562) |
| | $ 412,872 | $ (415,899) | $ (446,963) | $ (840,180) |

## 9. Capital Disclosure

Tuscany's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- To provide an adequate return to shareholders by investing in oil and gas activities commensurate with the level of risk deemed acceptable by management.

Tuscany targets the level of capital in proportion to its risk of achieving sufficient annualized operating cash flows to maintain its debt repayability ratio to less than twenty-four months cash flow. The Company plans to make adjustments to capital and planned expenditures in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Tuscany may issue new shares, sell assets or increase its debt.

The ratio of net current debt to annualized cash flow from operations is the primary ratio of capital that Tuscany uses. Net current debt repayability is a calculation to determine the number of months required to repay net debt from recent historic cash flow from operations. The ratio is calculated as follows:

| As at | June 30 | |
|---|---|---|
| *($000)* | **2010** | 2009 |
| Current assets | **$ 829** | $ 235 |
| Current liabilities | **(1,403)** | (559) |
| Bank debt | **(2,975)** | (2,715) |
| | **-** | - |
| | **$ (3,549)** | $ (3,039) |
| Annualized cash flow from operations | **$ 566** | $ 315 |
| Months estimated to repay debt | **75** | **116** |

Cash flow has improved considerably from the second quarter of the previous year. The Company has reduced its debt repayability closer to its target level of 24 months with debt levels of $3.6 million and an annualized cash flow of $566,000. Management's plan for the current year is to match overall capital spending and commitments with anticipated operating cash flows for the year. Higher Cash flows are anticipated in the future with increased production and reduced water handling cost, which will bring this ratio further into line with Tuscany's target.

The Company's credit facility imposes a capital restriction that the Company's debt to equity ratio cannot exceed 2:1 and the Company's net debt cannot exceed its credit facility. At June 30, 2010 the company is in compliance with all covenants.

## 10. Financial Instruments

**Fair values of financial assets and liabilities**

All Financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents and restricted cash are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and deposits are designated as "loans and receivables" and are carried at amortized cost. Accounts payable, accrued liabilities, and bank debt are designated as "other financial liabilities" and are carried at amortized cost. The current value of financial instruments approximates fair value due to the short term nature of the instruments.

#### Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its accounts receivable and GST receivable, to a maximum of the carrying value of the aforementioned items at the end of the period. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The maximum exposure to credit risk is approximately $42,000 which represents accounts receivable balances in excess of 90 days. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

#### Interest Rate Risk

The Company is exposed to risks from interest rate fluctuation on its bank loan which is based on Prime rates. Interest rate risk is specific to the interest expense charged to income on the Company's bank debt. The Company believes 25% volatility is a reasonable measure when assessing the potential impact of a change in interest rate. Variations in interest rates on the Company's bank debt could have resulted in gains (losses) impacting net earnings as at June 30, 2010, as follows:

| *($ Thousands)* | Favourable 25% Change | Unfavourable 25% Change |
|---|---|---|
| Interest rate | $ 14 | $ (14) |

#### Liquidity risk

The Company's principal source of liquidity is its cash flows which are uncertain and difficult to predict. This risk is mitigated by continuously monitoring forecast and actual cash flows and matching expenditures to the cash flow from operations. The Company currently expects to fund any future capital expenditures through a combination of operating cash flows, new equity issuance and asset sales. All of the companies liabilities are due within one year.

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations. The Company manages this risk by forecasting cash flows in an effort to match operating cash flow to future expenditures and to arrange financing, if necessary. It may take many years and substantial cash expenditures to pursue exploration and development activities on all of the Company's existing undeveloped properties. Accordingly, the Company

may need to raise additional funds from outside sources in order to explore and develop its properties. There is no assurance that adequate funds from debt and equity markets will be available to the Company in a timely manner.

**Commodity risk**

Inherent to the Company's business of producing petroleum and natural gas is the commodity price risk where fluctuations in the market price of petroleum and natural gas could significantly impact the Company's ability to generate cash flow from operations. Given that certain items, including but not limited to, the amounts of capital expenditures are dependent upon the level of cash flow generated from operations, fluctuations in petroleum and natural gas prices impact the Company's liquidity. The Company continuously monitors forecast and actual commodity prices.

The Company believes that a 10% volatility is a reasonable measure when assessing the potential impact of commodity price changes on natural gas and oil prices. Variations in commodity prices could have resulted in gains (losses) impacting net earnings as at June 30, 2010, as follows:

| *($ Thousands)* | Favourable 10% Change | Unfavourable 10% Change |
|---|---|---|
| Natural Gas Price | $ 13 | $ (13) |
| Conventional Oil Price | $ 9 | (9) |
| Heavy Oil Price | $ 75 | (75) |
| Horizontal Heavy Oil Price | $ 45 | (45) |
| Crude Oil Price | $ 129 | (129) |

# CORPORATE INFORMATION

## Directors

*Robert W. Lamond*[1]
Calgary, Alberta

*John G. F. McLeod*
Okotoks, Alberta

*Charles A. Teare*
Calgary, Alberta

*Donald K. Clark*
Calgary, Alberta

*Peter Barker*[1]
Calgary, Alberta

*Glen Phillips*
Calgary, Alberta

*Roger W. Hume*[1]
Kelowna, British Columbia

*Jorg Reich*
Nurtingen, Germany

(1) *Member of the Audit committee*

## Officers

*Robert W. Lamond*
President and CEO

*John G.F. McLeod*
Vice President and COO

*Charles A. Teare*
Chief Financial Officer

*Donald K. Clark*
Vice President, Operations

Jason G. Gallant
Controller

## Head Office

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## Auditor

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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

# Corporate Information

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