August 29, 2006
TWIN BUTTE ENERGY LTD. ANNOUNCES SECOND QUARTER RESULTS AND COMMENCES ACTIVE OPERATIONS

CALGARY, ALBERTA – Twin Butte Energy Ltd. ("TBE – TSX-V") ("Twin Butte" or the "Company") is pleased to announce its financial and operational results for the interim period ended June 30, 2006. Twin Butte's second quarter results include only thirty days of the combined quarterly financial and operating results associated with the acquisitions of Drilcorp Energy Ltd. ("Drilcorp") and Kerogen Petroleum Ltd ("Kerogen") as both transactions occurred on June 1, 2006. The two transactions in combination with the Company's tax pools position the Company for growth.

Highlights

	Three months ended June 30, 2006	Six months ended June 30, 2006
Financial ($'s, except per share amounts)		
Petroleum and natural gas sales	1,719,009	1,725,154
Cash flow (1)	744,519	589,511
Per share basic	0.01	0.02
Per share diluted	0.01	0.02
Net loss	(778,255)	(934,210)
Per share basic	(0.02)	(0.03)
Per share diluted	(0.01)	(0.03)
Capital expenditures	456,991	456,991
Corporate acquisitions	8,252,364	8,252,364
Net working capital deficiency (2)	(8,357,900)	(8,357,900)
Operating		
Average daily production		
Crude oil (Bbls per day)	130	66
Natural gas (Mcf per day)	1,430	719
Natural gas liquids (Bbls per day)	8	4
Barrels of oil equivalent (Boe per day, 6:1)	375	189
Average sales price		
Crude oil ($ per Bbl)	73.84	73.78
Natural gas ($ per Mcf)	6.16	6.16
Natural gas liquids ($ per Bbl)	68.90	68.90
Barrels of oil equivalent ($ per Boe, 6:1)	50.32	50.36
Common Shares		
Shares outstanding, end of period	86,132,529	86,132,529
Weighted average shares outstanding	50,020,121	34,416,824

(1) Cash flow means earnings before future taxes, depletion, depreciation and accretion, and stock based compensation. See Management's Discussion & Analysis *Non-GAAP Measures*
(2) Working capital deficiency excludes proceeds from the exercise of all outstanding warrants subsequent to June 30, 2006. Working capital deficiency adjusted for proceeds from the exercise of all outstanding warrants as anticipated in the third quarter amounts to approximately $4.2 million.

Report to Shareholders

Corporate

Twin Butte completed the previously announced amalgamations with Drilcorp and Kerogen and commenced active operations effective June 1, 2006 as a growth oriented junior oil and gas exploration and production company with operated light oil reserves, production of over 1,100 Boe per day and tax losses and pools of in excess of $115 million. The combined assets, tax pools and a strong balance sheet position the Company to realize increased shareholder value.

The new Twin Butte management team is comprised of:

- Ron Cawston, President and C.E.O. Ron is a Professional Engineer with 18 years of varied oil and gas experience with Chevron Canada Resources, Penn West Petroleum, Equatorial Energy and Kerogen Petroleum Ltd.

- Brian Dunn, Vice President, Engineering and Corporate Development. Brian is a Professional Engineer with 15 years of varied oil and gas experience with Norcen Energy Resources, Penn West Petroleum, Waterous & Co. and Ross Smith Energy Group.

- John Murray, VP Exploration. John is a geologist with 22 years of varied oil and gas experience with Home Oil, Cabre, AEC/Encana and Ketch Resources.

- Stan Wolney, VP Production and Operations. Stan has 17 years of varied oil and gas experience with Bow Valley Energy, Archer Resources, Direct Energy/Centrica, and Compton Petroleum.

- Alan Steele has been named VP Finance and Chief Financial Officer. Alan has 25 years of varied oil and gas experience with Francana, Union Pacific, Northstar, Trigas, Crossfield/Bear Creek, and Ketch Resources Trust.

- Ivan J. Condic, Controller. Ivan is a Chartered Accountant with 9 years of varied experience at KPMG, Precision Drilling, Enbridge and Kerogen Petroleum Ltd.

- Dan Koch, Senior Geophysicist. Dan has 19 years of experience with Petro-Canada, Fletcher Challenge, Penn West Petroleum, and Kerogen Petroleum.

- Steve Bradford, Land Manager. Steve has 6 years of experience with Signalta Resources and Compton Petroleum.

The Company is also pleased to announce the appointment of Craig Hruska to the Board of Directors. Craig has broad industry experience and has built several private oil and gas companies including Addison Energy as a founder and president which grew from start up to 9,000 Boe per day. Craig joins Jim Saunders, recently appointed Chairman of the Board, Ron Cawston, Paul Colborne, Jeff Lawson, and Ken Mullen on the Board of Directors.

The combined Company currently has approximately 96.4 million shares and warrants outstanding as well as options to purchase an additional 8.1 million shares. The Company is well capitalized with a $17 million bank line form a major Canadian Insititution and current net debt of approximately $4.2 million assuming the exercise of all outstanding warrants. Current production is over 1,100 Boe per day comprised of 65 percent natural gas and 35 percent light oil and NGL's. Based on December 31, 2005 independent engineering the Company has a pro forma net asset value of approximately $0.80 per fully diluted share and proved plus probable reserves of 3.2 mmboe.

Operations

The operational performance of Twin Butte for the interim period ended June 30, 2006 is comprised almost entirely of the operational performance of the Drilcorp and Kerogen assets from June 1, 2006 forward which represents only 30 days of combined operating results. Prior thereto, Twin Butte's investment in oil and gas properties consisted of a minor interest in a non-operated well purchased in December 2005. Twin Butte's average daily production for the month of June was over 1,100 Boe per day with a weighting of approximately 64% natural gas.

Twin Butte has approximately 21,000 net undeveloped acres of land in its core areas of operations focused in East Central Alberta at Bruce, Bulwark and Oyen and in North Western Alberta at Jayar. Multiple drilling opportunities have been identified in the Company's core areas with an East Central shallow drilling program anticipated in Q3 and a North Western deep well program planned for late Q3 and Q4.

The management team has been actively evaluating all Company assets and participating in landsale activities in the Company's new core areas. Seismic programs were laid out in Q2, trade data has been purchased to evaluate Company lands for an anticipated Q3 and Q4 drilling program.

Outlook

Twin Butte plans on completing a second half 2006 capital program of $10 million. Existing tax losses and pools in excess of $115 million position the Company well to pursue an aggressive acquisition strategy in addition to the base capital program.

The management team and Board of Directors is focused on cost effective per share growth in reserves, production and cash flow. This will be achieved by exploiting the existing asset base with integration of accretive acquisitions. The experienced management team and strong Board of Directors positions the Company for future success.

On behalf of the Board of Directors,

Ron Cawston
President and C.E.O.
August 29, 2006

Management's Discussion and Analysis

Dated as of August 29, 2006

The following discussion and analysis as provided by the management of Twin Butte Energy Ltd. ("Twin Butte" or the "Company") should be read in conjunction with the unaudited financial statements for the period ended June 30, 2006 and the audited financial statements for the year ended December 31, 2005.

Non-GAAP Measures - The Management's Discussion and Analysis ("MD&A") contains the term cash flow from operations which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian generally accepted accounting principles ("GAAP") as an indicator of the Company's performance. The Company also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

Boe Presentation – Barrels of oil equivalent ("Boe") may be misleading, particularly if used in isolation. A Boe conversion rate 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 the report are derived by converting gas to oil at the ratio of six thousand cubic feet of gas to one barrel of oil.

Forward-Looking Information – Certain information regarding the Company presented in this document, including management's assessment of the Company's future plans and operations, may constitute forward-looking statements under applicable securities law and necessarily involve risk associated with oil and gas exploration, production, marketing, and transportation such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risk, competition from other producers and ability to access sufficient capital from internal and external resources; as a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Petroleum and Natural Gas Sales

For the three month period ended June 30, 2006, Twin Butte recorded $1,719,009 in petroleum and natural gas sales compared to $6,145 for the three month period ended March 31, 2006.

The Company's production for the second quarter averaged 375 Boe per day. Increases in production and sales resulted from the amalgamations of Drilcorp and Kerogen into Twin Butte effective June 1, 2006. Realized production and sales volumes are from the production month of June, with the exception of a small working interest in a non-operated well purchased in December 2005, that averaged approximately 1 Boe per day (net). Production for the second quarter consists of 130,130 Mcf of gas, 11,830 Bbls of oil and 728 Bbls of natural gas liquids.

Twin Butte realized the following commodity prices and revenues for the three and six month period ended June 30, 2006 respectively:

	Three months ended June 30, 2006	Six months ended June 30, 2006
Average Realized Commodity Prices		
Crude oil ($ per Bbl)	73.84	73.78
Natural gas ($ per Mcf)	6.16	6.16
Natural gas liquids ($ per Bbl)	68.90	68.90
$'s		
Crude oil	870,178	876,323
Natural gas	800,892	800,892
Natural gas liquids	47,939	47,939
Total petroleum and natural gas sales	**1,719,009**	**1,725,154**

Royalties

For the three months ended June 30, 2006 total royalties net of ARTC were $328,952 or $9.64 per Boe resulting in an average royalty rate of 19.1%. For the six months ended June 30, 2006, total royalties were $329,231 or $9.62 per Boe resulting in an average royalty rate for the year to date of 19.1%.

Operating Expenses

For the three months ended June 30, 2006 operating expenses were $339,333 or $9.94 per Boe. For the six months ended June 30, 2006 operating expenses were $339,908 or $9.92 per Boe.

The new management team is examining the current operational efficiency of the Company's assets and steps to improve the operating costs. However, higher levels of activity in the industry and the associated high demands for supplies and services are putting upward pressure on the industry operating cost structure.

Transportation Expenses

For the three and six months ended June 30, 2006 transportation expenses were $81,469 or $2.38 per Boe.

General and Administrative Expenses

	Three months ended June 30, 2006	Six months ended June 30, 2006
General and administrative expenses		
General and administrative expenses	249,816	297,853
Recoveries	(11,085)	(11,085)
Capitalized general and administrative expenses	(16,767)	(16,767)
Total net general and administrative expenses	**221,964**	**270,001**

General and administrative expenses for the second quarter were $221,964, or $6.50 per Boe after recoveries and capitalized costs. One time start up costs related to the amalgamations with Drilcorp and Kerogen, various initial filings, and transitional consulting costs are included in G&A costs. General and administrative expenses also include flow through interest expense charges in the amount of $61,909 for the second quarter and $33,444 for the first quarter. It is anticipated that G&A costs will decrease in subsequent quarters.

For the six months ended June 30, 2006 general and administrative expenses were $270,001 or $7.89 per Boe after recoveries and capitalized costs.

Stock Based Compensation Expense

The Company granted stock options and management warrants in the second quarter. During the three month and six month period ended June 30, 2006, the Company expensed $544,507 in stock based compensation expense relating to the outstanding stock options and management warrants.

Interest Income and Interest Expense

For the three month period ended June 30, 2006 the Company earned $25,457 in interest income and $32,143 for the six month period ended June 30,2006. Interest income relates to interest earned on short term investments during the period prior to the Drilcorp and Kerogen acquisitions.

On completion of the Drilcorp and Kerogen acquisitions, the Company had bank indebtedness of $5.5 million as at June 30, 2006. Interest expense of $28,229 for the three months ended June 30, 2006 relates to interest on bank indebtedness.

Interest expense for the six month period ended June 30, 2006 amounts to $147,177. Interest expense of $118,948 incurred in the first quarter relates to interest expense on convertible debentures. All debentures were converted to Common Shares in March 2006.

Income Taxes

Future income tax recovery for the three month and six month period ended June 30, 2006 was $175,000. The Company has existing tax losses and pools in excess of $115 million which based on Company forecasts can be used to avoid any current tax liability until after 2010.

Depletion, Depreciation and Accretion Expense

For the three month period ended June 30, 2006, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $1,153,267 or $33.80 per Boe. For the six month period ended June 30, 2006, depletion, depreciation, and accretion expense was $1,154,214 or $33.82 per Boe.

Cash Flow from Operations and Net Earnings

Cash flow from operations for the three month period ended June 30, 2006 was $744,519 equating to basic cash flow from operations of $0.01 and diluted cash flow from operations of $0.01. Cash flow from operations for the six month period ended June 30, 2006 was $589,511 equating to basic and diluted cash flow from operations of $0.02.

The Company incurred a net loss of $778,255 for the three month period ended June 30, 2006, equating to a basic loss per share of $0.02 and diluted net loss per share of $0.01, compared to a net loss of $934,210 for the six month period ended June 30, 2006, equating to basic and diluted net loss per share of $0.03.

Capital Expenditures

During the second quarter of 2006, the Company incurred $456,991 of capital expenditures. Capital expenditures for the first quarter of 2006 were $nil.

	Three months ended June 30, 2006	Six months ended June 30, 2006
Land acquisition	201,892	201,892
Geological and geophysical	190,891	190,891
Equipping and facilities	43,193	43,193
Other	21,014	21,015
Total capital expenditures	**456,990**	**456,991**

The above capital expenditures exclude the acquisition expenditures related to the amalgamations with Drilcorp and Kerogen.

Liquidity and Capital Resources

At June 30, 2006, the Company had a working capital deficiency of $8,357,900 inclusive of bank indebtedness. The Company has a demand revolving operating credit facility of $17.0 million with a Canadian chartered bank.

The management warrants that were issued are anticipated to be exercised in the third quarter in exchange for the issuance of Common Shares. Proceeds from the issuance will amount to $3.3 million. Subsequent to June 30, 2006 a total of $2.2 million of the $3.3 million in management warrant exercise proceeds has been received by the Company on exercise of the management warrants. In addition, a total of $737,428 of the $862,528 was received on the exercise of warrants related to the issuance of flow through shares in December 2005. The balance is anticipated to be received in the third quarter. Net debt adjusted for expected proceeds from the exercise of management warrants and flow through share warrants in the third quarter is approximately $4.2 million.

Share Capital

As at August 29, 2006, the Company has 93,259,978 Common Shares outstanding, 290,929 warrants outstanding, 2,837,500 management warrants outstanding and 8,100,000 stock options outstanding.

Contractual Obligations

At June 30, 2006, the Company has a commitment to incur approximately $4.5 million in flow-through expenditures by December 31, 2006.

TWIN BUTTE ENERGY LTD

Balance Sheets

		Unaudited		Audited
		June 30 2006		**December 31 2005**
Assets				
Current Assets				
Cash and cash equivalents	$	-	$	3,625,587
Accounts receivable		3,213,523		884
Share subscription receivable		43,997		-
Deposits and prepaid expenses		368,975		-
		3,626,495		3,626,471
Property and equipment (note 3)		62,982,803		62,500
	$	66,609,298	$	3,688,971
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$	6,457,431	$	31,051
Bank indebtedness (note 4)		5,526,964		-
Convertible demand notes (note 5)		-		4,770,985
		11,984,395		4,802,036
Asset retirement obligation (note 6)		2,071,248		-
Future income taxes		907,545		
		14,963,188		4,802,036
Shareholders' Equity				
Share capital (note 7)		58,862,217		5,713,339
Contributed surplus (note 7)		544,507		-
Retained deficit		(7,760,614)		(6,826,404)
		51,646,110		(1,113,065)
	$	66,609,298	$	3,688,971

See accompanying notes to financial statements

TWIN BUTTE ENERGY LTD

Statements of Operations and Retained Deficit (unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	**2006**	2005
Revenue:				
Petroleum and natural gas sales	**$ 1,719,009**	$ -	**$ 1,725,154**	$ -
Royalties, net of ARTC	**(328,952)**	-	**(329,231)**	-
	1,390,057	-	**1,395,923**	-
Interest income	**25,457**	-	**32,143**	-
Expenses:				
Operating	**339,333**	-	**339,908**	-
Transportation	**81,469**	-	**81,469**	-
General and administrative	**221,964**	129,354	**270,001**	247,191
Stock based compensation	**544,507**	-	**544,507**	-
Interest	**28,229**	-	**147,177**	-
Depletion, depreciation and accretion	**1,153,267**	-	**1,154,214**	-
	2,368,769	129,354	**2,537,276**	247,191
Loss before income taxes	**(953,255)**	(129,354)	**(1,109,210)**	(247,191)
Income taxes				
Future tax recovery	**(175,000)**	-	**(175,000)**	-
	(175,000)	-	**(175,000)**	-
Net loss	**(778,255)**	(129,354)	**(934,210)**	(247,191)
Retained deficit, beginning of period	**(6,982,359)**	(6,438,443)	**(6,826,404)**	(6,320,606)
Retained deficit, end of period	**$ (7,760,614)**	$ (6,567,797)	**$(7,760,614)**	$(6,567,797)
Basic earnings loss per share	**$ (0.02)**	$ (0.02)	**$ (0.03)**	$ (0.03)
Diluted earnings loss per share	**$ (0.01)**	$ (0.02)	**$ (0.03)**	$ (0.03)
Weighted average common shares outstanding				
Basic	**50,020,121**	8,448,036	**34,416,824**	8,448,036
Diluted	**53,238,416**	8,448,036	**35,568,329**	8,448,036

See accompanying notes to financial statements

TWIN BUTTE ENERGY LTD

Statements of Cash Flows (unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	**2006**	2005
Cash provided by (used in):				
Operations:				
Net loss	**$ (778,255)**	$ (129,354)	**$ (934,210)**	$ (247,191)
Items not involving cash:				
Depletion, depreciation and accretion	**1,153,267**	-	**1,154,214**	-
Future income taxes	**(175,000)**	-	**(175,000)**	-
Stock based compensation	**544,507**	-	**544,507**	-
	744,519	(129,354)	**589,511**	(247,191)
Changes in non-cash working capital	**922,156**	125,987	**962,029**	201,830
	1,666,675	(3,367)	**1,551,540**	(45,361)
Financing:				
Change in bank debt	**(5,918,841)**	-	**(5,918,841)**	-
Issuance of share capital, net of share issue costs	**8,890,255**	-	**8,890,255**	-
Changes in non-cash working capital	**(280)**	-	**(280)**	-
	2,971,134	-	**2,971,134**	-
Investing:				
Expenditures on property and equipment	**(456,991)**	-	**(456,991)**	-
Acquisition expenditures	**(8,252,364)**	-	**(8,252,364)**	-
Changes in non-cash working capital	**561,094**	-	**561,094**	-
	(8,148,261)	-	**(8,148,261)**	-
Decrease in cash and cash equivalents	**(3,510,452)**	(3,367)	**(3,625,587)**	(45,361)
Cash and cash equivalents, beginning of period	**3,510,452**	588,654	**3,625,587**	630,648
Cash and cash equivalents, end of period	**$ 0**	$ 585,287	**$ 0**	$ 585,287
Cash and cash equivalents consists of:				
Cash	**-**	4,287	**-**	4,287
Banker's acceptances	**-**	581,000	**-**	581,000
	$ -	$ 585,287	**$ -**	$ 585,287
Cash interest paid	**$ 147,177**	-	**$ 147,177**	-

See accompanying notes to financial statements

Notes to Financial Statements (Unaudited)

The interim financial statements of Twin Butte Energy Ltd. (“Twin Butte” or the “Company”) have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2005. The disclosures provided below are incremental to those included in the audited annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company’s audited annual financial statements. Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current period.

Twin Butte is engaged in the acquisition of, exploration for, and development of petroleum and natural gas properties in Western Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses. The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for future asset retirement obligation costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future oil and gas prices, future costs and other relevant assumptions. The fair value of stock options is based on estimates using the Black-Scholes option pricing model and is recorded as stock-based compensation expense in the financial statements. 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.

2. ACQUISITION EXPENDITURES

On June 1, 2006, the Company closed the amalgamation agreements dated April 1, 2006 with Drilcorp Energy Ltd. ("Drilcorp") and Kerogen Petroleum Ltd. ("Kerogen") to acquire all the issued and outstanding shares of Drilcorp and Kerogen. Twin Butte indirectly acquired each of Drilcorp and Kerogen by creating two wholly-owned subsidiaries that amalgamated with Drilcorp and Kerogen, respectively. The two wholly-owned subsidiaries were subsequently wound up into Twin Butte such that Twin Butte owns all assets formerly owned by Drilcorp and Kerogen.

The purchase price paid by Twin Butte for all of Drilcorp's shares was a total of 19,641,493 common shares of Twin Butte and $7,856,597. The purchase price paid by Twin Butte for all of Kerogen's shares was a total of 14,392,139 common shares of Twin Butte.

The acquisition was accounted for using the purchase method of accounting as follows:

Consideration

	Drilcorp	Kerogen	Total
Shares	$ 23,569,792	$ 17,270,567	$ 40,840,359
Cash	7,856,597	-	7,856,597
Transaction costs	255,123	140,644	395,767
Total consideration	$ 31,681,512	$ 17,411,211	$ 49,092,723

Purchase Price at Fair Value

	Drilcorp	Kerogen	Total
Petroleum and natural gas properties	$ 44,784,967	$ 18,823,624	$ 63,608,591
Future income tax asset	131,236	138,939	270,175
Net working capital deficiency	(11,477,777)	(1,245,954)	(12,723,731)
Asset retirement obligation	(1,756,914)	(305,398)	(2,062,312)
Total purchase price	$ 31,681,512	$ 17,411,211	$ 49,092,723

The net working capital deficiency consists of the following:

	Drilcorp	Kerogen	Total
Accounts receivable	$ 3,292,113	$ 856,979	$ 4,149,092
Deposits and prepaid expenses	331,961	54,436	386,397
Accounts payable and accrued liabilities	(4,443,943)	(1,369,472)	(5,813,415)
Bank indebtedness	(10,657,908)	(787,897)	(11,445,805)
Net working capital deficiency	$(11,477,777)	$ (1,245,954)	$ (12,723,731)

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion & Depreciation	Net Book Value
Petroleum and natural gas properties	$ 64,124,650	$ 1,145,386	$ 62,979,264
Office and computer equipment	4,247	708	3,539
Total	$ 64,128,897	$ 1,146,094	$ 62,982,803

The Company has capitalized $16,767 of general and administrative expenses directly related to exploration and development activities for the six months ended June 30, 2006 ($ nil – year ended December 31, 2005).

The cost of undeveloped property excluded from the depletion base as at June 30, 2006 was $5,056,129 (December 31, 2005 - $nil).

4. BANK INDEBTEDNESS:

The Company has a $17.0 million demand revolving operating credit facility with a Canadian chartered bank. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Advances bear interest at the bank's prime lending rate plus 0.25%. The credit facility is secured by a demand debenture and a general security agreement covering all assets of the Company.

5. CONVERTIBLE DEMAND NOTES:

The convertible demand notes were converted to 12,323,429 Common Shares of the Company (note 7).

6. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are based on the Company's net ownership in wells and facilities, and management's estimate of future costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred.

The Company has estimated the present value of its total asset retirement obligation to be $2,071,248 at June 30, 2006, based on a total future liability of $3,228,378. Payments to settle asset retirement obligations occur over the operating lives of the underlying assets, estimated to be from 1 year to 19 years with the majority of the costs to be incurred between 2008 and 2016. A credit-adjusted risk free rate of eight percent and an inflation rate of two percent was used to calculate the present value of the asset retirement obligation.

Changes to the asset retirement obligation are as follows:

	Six months ended June 30, 2006
Carrying amount, beginning of year	$ -
Liabilities incurred	815
Acquisitions (note 2)	2,062,312
Accretion of asset retirement obligation	8,121
Asset retirement obligation, end of period	$2,071,248

7. SHARE CAPITAL

Authorized

An unlimited number of voting Common Shares and an unlimited number of Preferred Shares.

Issued

	Number of shares	Amount
Common Shares		
Balance, December 31, 2005	17,781,346	$ 5,713,339
Issued on conversion of convertible demand notes	12,323,429	4,770,984
Issued pursuant to exercise of flow-through share warrants for cash	4,994,122	2,147,472
Issued pursuant to private placement for cash	17,000,000	6,800,000
Issued pursuant to acquisitions (note 2)	34,033,632	40,840,359
Tax effect of flow through share issuance		(1,352,720)
Share issue and financing costs	-	(57,217)
Balance, June 30, 2006	86,132,529	$58,862,217

Issue of Common Shares

On June 7, 2006, the Company amended and restated its articles and converted the previously issued and outstanding non-voting Common Shares of the Company to voting Common Shares on a one for one basis. Accordingly, all Common Shares are disclosed as voting Common Shares.

The convertible demand notes were converted to Common Shares in March 2006 (note 5).

At December 31, 2005, a total of 7,000,000 warrants ("warrants") to acquire Common Shares at an exercise price of $0.43 per share were outstanding. The warrants were issued pursuant to a private placement of flow-through shares. A total of 4,994,122 warrants were exercised during the period. A total of 2,005,878 warrants remain outstanding with an expiry date of December 31, 2006.

During the second quarter the Company pursuant to a private placement issued 17 million Common Shares at a price of $0.40 per share for gross proceeds of $6.8 million.

Management Warrants

The Company has issued 8.25 million warrants ("management warrants") that are registered in the name of Twin Butte Energy Ltd. and are held pursuant to the terms of an employee benefit trust. Each management warrant entitles the holder to acquire one Common Share at an exercise price of $0.40 per share with each management warrant expiring December 31, 2006. The warrants are to be exercised at the discretion of the Company within 10 business days of notice to exercise.

The management warrants and the Common Shares to be acquired on exercise of the management warrants are to be held pursuant to a private escrow agreement and the Common Shares on exercise of the management warrants will remain registered in the name of the Company. The Common shares are to be released from escrow with 50% of the Common Shares released May 31, 2007 and the remaining 50% on May 31, 2008.

None of the management warrants were exercised as at June 30, 2006.

Stock Options

The following table sets forth a reconciliation of stock option plan activity through to June 30, 2006

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	-	$ -
Granted	6,900,000	0.80
Outstanding at June 30, 2006	6,900,000	$0.80

There were no options exercisable as at June 30, 2006, nor were there any options forfeited or expired during the period.

Stock Based Compensation

The Company accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for options or warrants granted to employees, consultants, officers, and directors with a corresponding increase to contributed surplus.

The following table reconciles the Company's contributed surplus balance.

Contributed surplus balance at beginning of year	$ -
Stock based compensation charged for stock options	58,228
Stock based compensation charged for management warrants	405,547
Contributed surplus balance at end of period	$463,775

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Six months ended June 30, 2006
Expected volatility	50%
Risk free rate of return	4.5%
Expected stock option life	3 years
Expected management warrant life	7 months

The weighted average fair value of stock options granted during 2006 was $0.30 per option. The weighted average fair value of management warrants granted during 2006 was $0.46 per warrant.

Earnings Per Share

The following table sets forth the details of the denominator used for the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	2006	2005	2006	2005
Weighted average number of basic shares	50,020,121	8,448,036	34,416,824	8,448,036
Effect of dilutive securities:				
Flow-through warrants	1,143,350	-	466,422	-
Management warrants	1,635,165	-	685,083	-
Employee stock options	439,780	-	-	-
Weighted average number of diluted shares	53,238,416	8,448,036	35,568,329	8,448,036

8. RELATED PARTY TRANSACTIONS

During the period the Company expensed or capitalized legal fees totaling $403,603 (2005 - $nil) for services rendered by a professional firm related to a director of the Company. As at June 30, 2006, $313,830 is included in accounts payable and accrued liabilities related to these transactions.

9. COMMITMENTS

Twin Butte is committed to incur approximately $4,463,323 in flow-through expenditures by December 31, 2006. Of this balance, $4,013,323 was incurred by an issuance of flow-through shares in December 2005 and approximately $450,000 was inherited from Drilcorp's commitments.

10. SUBSEQUENT EVENT

Subsequent to June 30, 2006 a total of 5,412,500 management warrants were exercised for total proceeds of $2,165,000 and a total of 1,714,949 warrants were exercised for total proceeds of $737,428.

Corporate Information

OFFICERS

Ron Cawston
President and Chief Executive Officer

John Murray
Vice President, Exploration

Brian Dunn
Vice President, Engineering and Corporate Development

Stan Wolny
Vice President, Production and Operations

BOARD OF DIRECTORS

Ron Cawston

Paul Colborne (2)

J.G. (Jeff) Lawson (2)

Ken Mullen (1)

Jim Saunders (1) (2)

Member of:
(1) Audit Committee

(2) Reserves Committee

AUDITORS
PricewaterhouseCoopers LLP
Chartered Accountants, Calgary, AB

BANKERS
National Bank of Canada, Calgary, AB

SOLICITORS
Burnet, Duckworth & Palmer LLP,
Calgary, AB

ENGINEERS
McDaniel & Associates Consultants Ltd.
Calgary, AB
Sproule Associates Limited
Calgary, AB

REGISTRAR & TRANSFER AGENT
Computershare Trust Company of Canada, Calgary, AB

STOCK EXCHANGE LISTING
The TSX Venture Exchange
Trading Symbol: TBE

HEAD OFFICE

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