Twin Butte Energy Ltd.

FOR THE THREE MONTHS ENDED MARCH 31, 2007

REPORT TO SHAREHOLDERS

The Company's achievements in the first quarter include the following:

- **Drilled and cased four (3.1 net) wells in the first quarter for a 100 percent success rate;**
- **Commenced production from wells drilled late in the fourth quarter of 2006 and the first quarter of 2007 as planned;**
- **Average production of 1,309 boe/d in the first quarter, an increase of 20% from an average 1,089 boe/d in the fourth quarter of 2006;**
- **First quarter exit production rate of approximately 1,500 boe/d;**
- **Cash flow totaled $2.6 million or $0.03 per share in the first quarter representing an increase of 24% over Q4 2006 cash flow of $2.1 million ;**
- **Closed a bought deal private placement of flow through shares in February for aggregate proceeds of $12.0 million and increased the Company's credit facility subsequent to quarter end to $30 million from $17 million, increasing the Company's financial flexibility with un-utilized pro-forma debt capacity of approximately $21 million at the end of the quarter.**
- **Initiated EUB downspacing process to facilitate a planned infill drilling program in the 37.5 MMbbl original oil in place Jayar light oil pool;**
- **Increased undeveloped land holdings to 29,191 net acres at quarter end and 30,631 net acres subsequent to quarter end through land acquisitions in our core areas of operation.**

OPERATIONS REVIEW

Production for the first quarter averaged 1,309 boe/d comprised of 73 percent natural gas and 27 percent light oil and natural gas liquids representing an increase of 20% from an average 1,089 boe/d in the fourth quarter of 2006. The Company completed a Q1 net capital program of $ 8.4 million drilling two (1.7 net) wells in the Jayar core area, one (1.0 net) well in the Oyen core area, one (0.4 net) well in the Boundary Lake area and completed the phase two expansion at the Jayar gas plant/oil battery facility. The wells previously drilled in Q4 and the new wells drilled in Q1 were brought on production with the first well coming on at Jayar in mid-January. Subsequent wells came on stream sequentially as planned through mid February 2007 and compression to optimize production came on line at Oyen in mid-March and at Jayar in late March. Optimization of wells and compression is ongoing subsequent to quarter end which is expected to further enhance productivity .

In the Oyen core area, three wells drilled at the end of Q4 2006 were brought on production in February and March as planned. The Company also drilled and cased one additional 100% working interest gas well which will be evaluated post spring break-up. Three additional wells are planned for the Oyen area in the second quarter. Additionally, booster compression came on line on March 12th to restore production backed out by high line pressures. Increased operating costs will be incurred in Q2 due to the new compression and consequently, the performance of this compressor and other rental compressors in the area will be evaluated for buyout presenting an opportunity to reduce operating costs.

In the Jayar core area, the Company drilled and cased two (1.7 net) wells in the first quarter. The wells drilled in the first quarter and three (2.6 net) wells cased in late Q4 2006, have now been completed and tied in. The second stage of our two-stage facility expansion was slightly delayed by equipment delivery, but work was completed in late March, increasing the plant capacity to approximately 4.5 MMcf/d and allowing the last two wells to come on stream March 23rd. With compression coming onstream in late March production was not fully optimized prior to break up and consequently optimization projects will be delayed until after breakup. Rental compression buyout options and other processes are being evaluated in an effort to reduce operating costs at the Jayar facility.

During the first quarter the Company commenced the EUB notification process for reduced spacing drilling at Jayar. The Dunvegan (40 degree API) light oil pool has 37.5MMbbl of original oil in place (OOIP) and has a low historical production decline with only 1.8MMbbl, or 4.8% of OOIP recovered to-date. The EUB-estimated ultimate recovery at current well spacing is 7%. However, an offsetting analogous Dunvegan pool has been successfully downspaced with a current EUB projected recovery of 14% which presents a significant opportunity to the Company in terms of increased reserves and net asset value. The Company will continue to pursue EUB downspacing approval and anticipates being in a position to carry out initial downspaced drilling in late 2007.

At Boundary Lake, the Company drilled, cased and completed an exploratory well on farmin lands in the first quarter. The first of two potential zones has been completed and tested with data recorders pulled subsequent to quarter end. The test data is currently being evaluated to determine tie-in and production options, as facility limitations in the area may be a restriction to production from the well. No reserves for this well were booked at year end and the Company is evaluating additional opportunities on the Boundary Lake farm-in lands.

With the wells drilled prior to year end now on production the Company has converted non-producing reserves such that 82% of proved plus probable and 95% of total proved reserves are now producing. This high percentage of producing reserves underpins the lower risk nature of the corporate reserve valuation relative to the industry peer group.

OUTLOOK

The first quarter of 2007 was one of execution for Twin Butte following through on plans to drill, complete and tie in new wells, install compression and to commence production on wells drilled late in 2006. The Company has been successful on all counts, demonstrating the ability of the management team to plan and execute on our operations. We are excited about the months ahead and the Company remains well positioned with a solid production base and strong balance sheet to take advantage of opportunities created by the recent industry slow down. Certain industry players remain under pressure, facing a lack of available equity and limited debt financing capabilities, yet the long term outlook for commodities remains strong. The gap between the expectation of sellers and asset valuation has started to close as evidenced by recent industry M&A transaction metrics. We are starting to see more attractive acquisition opportunities and we anticipate a decrease in the cost of services both of which bode well for the Company in the upcoming quarters.

Prior to June 6, 2007, and subject to TSX approval, the Company intends to proceed with the consolidation of the common shares of the Company on a one for five basis, as approved at the annual and special meeting of the shareholders of the Company held on June 6, 2006. Post consolidation the Company will have outstanding basic shares of 22,202,401.

The Company continues to be actively engaged in Crown land sales in both the Company's core areas and new growth areas, adding to the existing land base which now stands at 30,631 net undeveloped acres. The Company continues to evaluate numerous farm-in opportunities with industry partners. The management team and Board of Directors remains focused on cost effective per share growth in reserves, production and cash flow. This will be achieved through exploitation of the existing asset base and the integration of accretive acquisitions. The Company has a significant tax pool base of $131 million that provides additional flexibility to pursue management's "acquire and exploit" business strategy.

On behalf of the Board of Directors,

Ron Cawston
President and C.E.O.
May 10, 2007

HIGHLIGHTS

	Three months ended March 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2006
FINANCIAL ($'s, except per share amounts)			
Petroleum and natural gas sales	5,980,672	4,855,475	11,149,649
Cash flow [(1)]	2,625,570	2,054,011	4,504,454
Per share basic	0.03	0.02	0.07
Per share diluted	0.03	0.02	0.07
Net loss and comprehensive loss	(3,915,457)	(880,717)	(4,081,871)
Per share basic	(0.04)	(0.01)	(0.06)
Per share diluted	(0.04)	(0.01)	(0.06)
Capital expenditures (net of dispositions)	8,391,484	9,580,622	14,703,138
Corporate acquisitions	–	–	49,092,723
Net debt and working capital deficiency [(2)]	(9,000,732)	(14,577,549)	(14,557,549)
OPERATING			
Average daily production			
Crude oil (bbl per day)	305	298	183
Natural gas (Mcf per day)	5,720	4,499	2,577
Natural gas liquids (bbl per day)	51	41	20
Barrels of oil equivalent (boe per day, 6:1)	1,309	1,089	632
Average sales price			
Crude oil ($ per bbl)	63.86	59.31	67.84
Natural gas ($ per Mcf)	7.74	7.29	6.57
Natural gas liquids ($ per bbl)	53.25	56.64	62.06
Barrels of oil equivalent ($ per boe, 6:1)	50.76	48.48	48.33
Operating netback ($ per boe)	26.79	27.12	26.59
COMMON SHARES			
Shares outstanding, end of period	111,012,007	96,377,007	96,377,007
Weighted average shares outstanding	101,743,174	95,274,437	63,814,349

(1) Cash flow means earnings before future taxes, depletion, depreciation and accretion, stock based compensation, and unrealized loss on financial derivative contracts. See Management's Discussion & Analysis Non-GAAP Measures

(2) Net debt and working capital deficiency at March 31, 2007 excludes financial derivative contracts liability in the amount of $673,405 included in current liabilities. The liability relates to an unrealized loss on financial derivative contracts recognized at March 31, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 10, 2007

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 March 31, 2007 and the audited financial statements and management discussion and analysis for the year ended December 31, 2006.

Basis of Presentation – Twin Butte commenced current operations on June 1, 2006 by amalgamating with Drilcorp Energy Ltd. ("Drilcorp") and Kerogen Petroleum Ltd. ("Kerogen"). The three month period ended December 31, 2006 serves as the comparative period as prior year first quarter numbers are not relevant.

Non-GAAP Measures - The Management's Discussion and Analysis ("MD&A") contains the term cash flow from operations or cash flow 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. These measures may not be comparable to other companies.

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

Twin Butte realized the following production volumes, commodity prices and revenues:

	Three months ended March 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2006
Average Realized Commodity Prices			
Crude oil ($ per bbl)	63.86	59.31	67.84
Natural gas ($ per Mcf)	7.74	7.29	6.57
Natural gas liquids ($ per bbl)	53.25	56.64	62.06
$'s			
Crude oil	1,750,451	1,624,100	4,520,835
Natural gas	3,983,919	3,016,495	6,177,856
Natural gas liquids	246,302	214,880	450,958
Total petroleum and natural gas sales	**5,980,672**	**4,855,475**	**11,149,649**
Average Daily Production			
Crude oil & natural gas liquids (bbl/day)	356	339	202
Natural gas (Mcf/day)	5,720	4,499	2,577
Total (boe/d)	**1,309**	**1,089**	**632**

For the three month period ended March 31, 2007, Twin Butte recorded $6.0 million in petroleum and natural gas sales compared to $4.9 million for the three month period ended December 31, 2006.

The Company's production for the first quarter averaged 1,309 boe/d, representing an increase of 20% from the fourth quarter average of 1,089 boe/d. The production increase is attributed to wells that were brought on production from the drilling program in Q4 and the first part of Q1. Production for the first quarter consists of 514,773 Mcf of gas, 27,413 bbl of oil and 4,625 bbl of natural gas liquids. The Company's sales volumes were 73% natural gas for the first quarter compared to 69% in the prior quarter.

ROYALTIES

For the three months ended March 31, 2007 total royalties were $1.1 million or $9.55 per boe resulting in an average royalty rate of 19%. For the year ended December 31, 2006, total royalties were $1.8 million or $7.86 per boe resulting in an average royalty rate for the year of 16%. The elimination of ARTC effective January 1, 2007 attributes to an increase in the Company's royalty rate.

OPERATING EXPENSES

For the three months ended March 31, 2007 operating expenses were $1.4 million or $11.73 per boe, compared to operating expenses of $1.1 million, or $11.38 per boe, for the three months ended December 31, 2006.

During the quarter, the Company increased production volumes but also incurred additional equipment rental costs for compression that was added to facilitate and optimize the increased volumes. Operating expense increases were also attributed to workover costs and additional costs related to winter operations. Management is continuing an examination of the current operational efficiency of the Company's assets and undertaking steps to reduce the operating costs. Included in that examination is the purchase of one or more rental compressors that are a component of the Company's operating expenses.

TRANSPORTATION EXPENSES

For the three months ended March 31, 2007 transportation expenses were $0.3 million or $2.69 per boe compared to $0.3 million, or $2.77 per boe for the three months ended December 31, 2006. Transportation costs are expected to remain fairly consistent on a per boe basis throughout 2007.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2006
General and administrative expenses			
General and administrative expenses	792,983	831,581	1,620,738
Recoveries	(139,714)	(99,338)	(132,194)
Capitalized general and administrative expenses	(178,799)	(212,431)	(379,609)
Total net general and administrative expenses	**474,470**	**519,812**	**1,108,935**

General and administrative expenses for the first quarter were $0.5 million, or $4.03 per boe after recoveries and capitalized costs. For the three months ended December 31, 2006, general and administrative expenses were $0.5 million or $5.19 per boe after recoveries and capitalized costs.

With the exception of minor changes when required, the Company believes that it is adequately staffed to execute the currently planned 2007 operational and capital expenditure program.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended March 31, 2007, the Company expensed $0.2 million in stock based compensation compared to $1.6 million recognized in the prior quarter. Stock based compensation expense in the first quarter relates to the outstanding stock options.

INTEREST EXPENSE

Interest expense for the three month period ended March 31, 2007 amounted to $55,717 related to interest on bank indebtedness. That compares to interest expense of $141,797 in the prior quarter. Subsequent to the $12.0 million flow through share issuance in February, the Company's line of credit borrowings were eliminated. The Company is currently drawing on its credit facility.

UNREALIZED LOSS ON FINANCIAL DERIVATIVE CONTRACTS

On January 1, 2007, the Company adopted new accounting standards for financial instruments and hedging. Accordingly, realized and unrealized gains on commodity derivative contracts are recognized in the current period. See note 1 of the financial statements for the three months ended March 31, 2007.

In the first quarter of 2007, the Company entered into fixed price swap contracts for natural gas and oil. As part of our financial management strategy, Twin Butte has adopted a disciplined commodity price risk management program. The purpose of the program is to reduce volatility in the financial results and to stabilize and hedge future cash flow against the unpredictable commodity price environment.

The following is a summary of natural gas sales price derivative contracts in effect as at March 31, 2007, that have fixed future sales prices:

Daily quantity	Remaining term of contract	Fixed price per GJ (AECO)
1,500 GJ	April 1, 2007 to October 31, 2007	$ 6.80
1,500 GJ	April 1, 2007 to October 31, 2007	$ 7.04
500 GJ	April 1, 2007 to October 31, 2007	$ 7.40

The following is a summary of oil sales price derivative contracts in effect as at March 31, 2007, that have fixed future sales prices:

Daily quantity	Remaining term of contract	Fixed price per bbl (WTI)
100 bbl	May 1, 2007 to December 31, 2007	US $ 68.50
50 bbl	May 1, 2007 to December 31, 2007	US $ 68.75

In accordance with the new accounting standards for financial instruments and hedging, the Company has calculated the fair value of the above contracts and recorded an unrealized loss on financial derivative contracts in the amount of $673,405 as at March 31, 2007.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended March 31, 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $3.8 million. Depletion of capital assets amounts to $31.92 per boe for the quarter, compared to $30.87 for the three months ended December 31, 2006. The cost of undeveloped property excluded from the depletion base as at March 31, 2007 was $5.9 million compared to $5.6 million at December 31, 2006.

INCOME TAXES

Future income tax expense amounted to $1.9 million for the three month period ended March 31, 2007 compared to a future tax recovery of $1.8 million for the three month period ended December 31, 2006. The Company has existing tax losses and pools of approximately $130.7 million of which $75.4 million are non-capital losses. The Company has no current tax expense and based on current reserve forecasts will be able to realize the benefit of the majority of the non-capital losses and is forecasted to be non-taxable to 2011.

CASH FLOW FROM OPERATIONS AND NET LOSS AND COMPREHENSIVE LOSS

Cash flow from operations for the three month period ended March 31, 2007 was $2.6 million equating to basic and diluted cash flow from operations of $0.03 per share, representing an increase of 24% compared to the prior quarter. Cash flow from operations for the three months ended December 31, 2006 was $2.1 million equating to basic and diluted cash flow from operations of $0.02 per share.

The Company incurred a net loss and comprehensive loss of $3.9 million for the three month period ended March 31, 2007, equating to a basic and diluted net loss per share of $0.04, compared to a net loss of $0.9 million for the three months ended December 31, 2006, equating to basic and diluted net loss per share of $0.01. The net loss and comprehensive loss of $3.9 million for the first quarter includes non cash items including depletion, depreciation and accretion expense of $3.8 million, future income tax expense of $1.9 million, unrealized loss on financial derivative contracts of $0.7 million, and stock based compensation expense of $0.2 million.

The following table summarizes netbacks on a barrel of oil equivalent basis:

($ per boe)	Three months ended March 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2006
Petroleum and natural gas sales	50.76	48.48	48.33
Royalties	(9.55)	(7.21)	(7.86)
	41.21	41.27	40.47
Operating expenses	(11.73)	(11.38)	(11.32)
Transportation expenses	(2.69)	(2.77)	(2.56)
Operating netback	26.79	27.12	26.59
General and administrative expenses	(4.03)	(5.19)	(4.81)
Interest expense	(0.47)	(1.42)	(2.40)
Cash flow from operations	22.29	20.51	19.38

QUARTERLY FINANCIAL SUMMARY

The following table highlights Twin Butte's performance for the past three quarters:

($ thousands, except per share amounts)	March 31, 2007	December 31, 2006	September 30, 2006
Average production (boe/d)	1,309	1,089	1,047
Petroleum and natural gas sales	5,981	4,855	4,569
Operating netback (per boe)	26.79	27.12	25.38
Cash flow from operations	2,626	2,054	1,861
Per share basic	0.03	0.02	0.02
Per share diluted	0.03	0.02	0.02
Net loss and comprehensive loss	(3,915)	(881)	(2,267)
Per share basic	(0.04)	(0.01)	(0.03)
Per share diluted	(0.04)	(0.01)	(0.03)
Capital expenditures (net of dispositions)	8,391	9,580	4,666
Total assets	81,899	78,697	67,060
Net debt and working capital surplus (deficiency) excluding financial derivative contracts liability	(9,001)	(14,578)	(7,517)

CAPITAL EXPENDITURES

During the first quarter of 2007, the Company incurred $8.4 million of capital expenditures. Capital expenditures for the prior quarter were $9.6 million.

	Three months ended March 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2006
Land acquisition	241,581	188,325	574,320
Geological and geophysical	275,295	82,344	1,105,597
Drilling and completions	5,465,767	6,997,275	7,860,139
Equipping and facilities	2,693,855	2,101,425	2,335,808
Property acquisitions	–	(29,805)	2,402,542
Property dispositions	(465,721)	–	–
Other	180,707	241,058	424,732
Total capital expenditures	**8,391,484**	**9,580,622**	**14,703,138**

At Oyen, the Company tied in three of four wells drilled and completed in late Q4 2006 and cased a fifth well. Three wells came on production during the first quarter and the tie-in of the fourth well is pending the construction of a joint pipeline with an offsetting non-interest well, which would lower Twin Butte's required capital contribution. One (1.0 net) well was drilled late in the first quarter which will be evaluated in Q2 after spring breakup.

At Jayar, as part of the Company's winter drilling program, three (2.6 net) wells that were drilled late in the fourth quarter were completed and tied in and came on production in January and February. Two (1.7 net) additional wells were drilled in January and came on production in late March. Production from the five new wells is currently being optimized in conjunction with recent compression upgrades.

At Boundary Lake the Company drilled, cased and completed one (0.4 net) exploratory well in the first quarter. Completion of the well commenced in March 2007 and test results are currently being evaluated to determine tie-in options.

For the three months ended March 31, 2007, capital expenditures totaled $8.4 million. The majority of the costs relate to the drilling of four successful (3.1 net) wells in the quarter and the related completion, equipment and facilities costs for those wells and the seven (6.6 net) wells drilled in the fourth quarter of 2006. The Company also completed the second phase of a plant expansion at Jayar in the amount of $0.3 million included in equipping and facilities expenditures. Other expenditures include crown land acquisition costs and seismic activity to acquire and identify future drilling inventory.

During the quarter the Company also completed a property disposition in the amount of $0.5 million. The property disposition was a 20% non-operating working interest in a non core area.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007, the Company had a net debt and working capital deficiency of $9.0 million, excluding financial derivative contracts liability in the amount of $673,405 included in current liabilities relating to an unrealized loss on financial derivative contracts recognized at March 31, 2007. Subsequent to the quarter end, the Company has renewed its credit facility with a Canadian chartered bank and has increased the credit facility to $30.0 million. The renewed credit facility is composed of a $22.5 million demand revolving operating credit facility and a $7.5 million acquisition and development credit facility.

SHARE CAPITAL

As at May 10, 2007, the Company has 111,012,007 Common Shares outstanding. There are also 7,075,000 stock options outstanding.

CONTRACTUAL OBLIGATIONS

The issuance of flow through shares in February 2007 for proceeds of $12.0 million will require the Company to spend $12.0 million of flow-through share eligible Canadian Exploration Expenditures, as defined in the Canadian Income Tax Act, by December 31, 2008. As at March 31, 2007 the Company has incurred approximately $0.5 million of this commitment.

The Company has other commitments and guarantees in the normal course of business, consisting of an office space lease and equipment rentals which are not considered material.

Subsequent to quarter end the Company has entered into a fixed price swap hedge arrangement on a total of 100 bbl per day for the period of January 1, 2008 to December 31, 2008 at a price of USD 70.65/bbl WTI.

RELATED PARTY TRANSACTIONS

During the quarter the Company expensed and capitalized legal fees totaling $25,612 for services rendered by a professional firm related to a director of the Company. The fees were incurred in the normal course of business and recorded at the exchange amount.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Twin Butte has implemented a system of internal controls that it believes adequately protects the assets of the Company and is appropriate for the nature of its business and the size of its operations. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded, based on their evaluation, that Twin Butte's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them and have been operating effectively. It should be noted that while the Company's CEO and CFO believe that Twin Butte's disclosure controls and procedures provide a reasonable level of assurance that the system of internal controls are effective, they do not guarantee that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

In addition, in accordance with Multilateral Instrument 52-109, the Company has, under the supervision of its CEO and CFO, designed a process of internal control over financial reporting, which has been affected by the Company's board of directors and management. The process was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP").

Based on the CEO and the CFO's review of the design of internal controls over financial reporting, the CEO and CFO have concluded that the design of internal controls is adequate for the nature of the Corporation's business and size of its operations. As a small organization, and similar to other small organizations, the Company's management is composed of a small number of key individuals, resulting in a situation where limitations on the segregation of duties as well as expertise in such areas as complex calculations and estimations do not exist, as such these risks are compensated by more effective supervision and monitoring by the CEO and CFO as well as reliance on third party expertise where appropriate. It is important to note that in order to eliminate the potential risk associated with these issues the Company would be required to hire additional staff in order to provide greater segregation of duties and expertise in certain areas. Since the increased costs of such hiring would be financially constrictive to Twin Butte, the Corporation has chosen to disclose the potential risk in its annual filings and proceed with increased staffing as the Company's growth supports such overhead expansion.

ADDITIONAL INFORMATION

Additional information relating to Twin Butte, including Twin Butte's AIF and financial statements can be found on SEDAR at www.sedar.com.

BALANCE SHEETS

		March 31 2007		December 31 2006
		Unaudited		*Unaudited*
ASSETS				
Current Assets				
Accounts receivable	$	**4,649,792**	$	4,554,362
Deposits and prepaid expenses		**713,537**		606,175
		5,363,329		5,160,537
Future income taxes		**363,311**		2,029,400
Property and equipment (note 2)		**76,172,043**		71,506,633
	$	**81,898,683**	$	78,696,570
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	$	**14,331,721**	$	13,399,101
Bank indebtedness (note 3)		**32,340**		6,318,985
Financial derivative contracts (note 8)		**673,405**		–
		15,037,466		19,718,086
Asset retirement obligation (note 4)		**3,166,790**		3,073,325
		18,204,256		22,791,411
Shareholders' Equity				
Share capital (note 5)		**77,925,810**		66,397,721
Contributed surplus (note 5)		**592,349**		415,713
Deficit		**(14,823,732)**		(10,908,275)
		63,694,427		55,905,159
	$	**81,898,683**	$	78,696,570

Commitments (note 7)

See accompanying notes to financial statements

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT *(unaudited)*

	Three Months Ended March 31	
	2007	2006
REVENUE:		
Petroleum and natural gas sales	**$ 5,980,672**	$ 6,145
Royalties, net of ARTC	**(1,125,831)**	(279)
Unrealized loss on financial derivative contracts (note 8)	**(673,405)**	–
	4,181,436	5,866
EXPENSES:		
Operating	**1,382,502**	575
Transportation	**316,582**	–
General and administrative	**474,470**	48,037
Stock based compensation	**176,636**	–
Interest	**55,717**	112,262
Depletion, depreciation and accretion	**3,819,540**	947
	6,225,447	161,821
Loss before income taxes	**(2,044,011)**	(155,955)
Income taxes		
Future tax expense	**1,871,446**	–
	1,871,446	–
Net loss and comprehensive loss	**(3,915,457)**	(155,955)
Deficit, beginning of period	**(10,908,275)**	(6,826,404)
Deficit, end of period	**$ (14,823,732)**	$ (6,982,359)
Basic & diluted income (loss) per share	**$ (0.04)**	$ (0.01)
Weighted average common shares outstanding		
Basic	**101,743,174**	18,425,105
Diluted	**101,743,174**	18,425,105

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS *(unaudited)*

	Three Months Ended March 31	
	2007	2006
Cash provided by (used in):		
OPERATIONS:		
Net loss	**$ (3,915,457)**	$ (155,955)
Items not involving cash:		
Depletion, depreciation and accretion	**3,819,540**	947
Future income taxes	**1,871,446**	–
Unrealized loss on financial derivative contracts	**673,405**	–
Stock based compensation	**176,636**	–
	2,625,570	(155,008)
Changes in non-cash work	**(99,454)**	39,873
	2,526,116	(115,135)
FINANCING:		
Change in bank debt	**6,286,645)**	–
Issuance of share capital, net of share issue costs	**11,322,732**	–
Changes in non-cash working capital	**15,000**	–
	5,051,087	–
INVESTING:		
Expenditures on property and equipment	**(8,857,206)**	–
Proceeds on disposition of property and equipment	**465,721**	–
Changes in non-cash working capital	**814,281**	–
	(7,577,203)	–
Decrease in cash and cash equivalents	–	(115,135)
Cash and cash equivalents, beginning of period	–	3,625,587
Cash and cash equivalents, end of period	**$ –**	$ 3,510,452
Cash interest paid	**$ 56,316**	$ –

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

(Unaudited) – March 31, 2007

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, 2006 except as noted below. 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 amounts recorded for future taxes are based on estimates of future taxable income and anticipated income tax rates. 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.

Newly Adopted Accounting Policies

On January 1, 2007, the Company adopted the new CICA Handbook sections 3855 - Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation, 3865 – Hedges, and 1530 – Comprehensive Income. The financial instruments standard establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. 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.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net earnings (loss). Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income (loss). Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

The Company has no financial instruments or activities that give rise to other comprehensive income (loss). The Company's cash and cash equivalents 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 are designated as loans and receivables. Accounts payable and accrued liabilities and bank indebtedness are designated as other liabilities. The adoption of these new standards had no effect on the Company's financial statements.

2. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion & Depreciation	**March 31, 2007 Net Book Value**	December 31, 2006 Net Book Value
Petroleum and natural gas properties	$ 87,710,366	$ 11,574,295	**$ 76,136,071**	$ 71,468,938
Office and computer equipment	46,710	10,738	**35,972**	37,695
Total	$ 87,757,076	$ 11,585,033	**$ 76,172,043**	$ 71,506,633

The Company has capitalized $178,799 of general and administrative expenses directly related to exploration and development activities for the three months ended March 31, 2007 ($379,609 – year ended December 31, 2006).

The cost of undeveloped property excluded from the depletion base as at March 31, 2007 was $5,872,030 (December 31, 2006 - $5,630,449). Future development costs on proved reserves of $1,948,000 as at March 31, 2007 are included in the calculation of depletion and depreciation (December 31, 2006 - $5,785,700).

3. BANK INDEBTEDNESS

As at March 31, 2007, the Company had a $17.0 million demand revolving operating credit facility with a Canadian chartered bank. Subsequent to March 31, 2007, the total credit facility was increased to $30.0 million (note 9). 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.

4. 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 $3,166,790 at March 31, 2007, based on a total future liability of $4,534,850. 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 were used to calculate the present value of the asset retirement obligation.

Changes to the asset retirement obligation are as follows:

	Three Months Ended March 31 2007	Year Ended December 31 2006
Carrying amount, beginning of year	**$ 3,073,325**	$ –
Liabilities incurred	**86,770**	76,481
Acquisitions	**–**	2,062,312
Liabilities related to property dispositions	**(35,940)**	–
Revisions in estimated cash outflows	**(12,615)**	876,988
Accretion of asset retirement obligation	**55,250**	57,544
Asset retirement obligation, end of period	**$ 3,166,790**	$ 3,073,325

5. 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, 2006	96,377,007	$ 66,397,721
Issued pursuant to private placement of of flow-through shares	14,635,000	12,000,700
Share issue costs net of tax	–	(472,611)
Balance, March 31, 2007	**111,012,007**	**$ 77,925,810**

Issue of Common Shares

On February 27, 2007 the Company closed a bought deal private placement of 14,635,000 flow-through Common Shares at a price of $0.82 per share, for aggregate proceeds of $12,000,700.

Stock Options

The following table sets forth a reconciliation of stock option plan activity through to March 31, 2007:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2006	7,325,000	$ 0.80
Granted	500,000	0.65
Forfeited	(750,000)	0.80
Outstanding at March 31, 2007	**7,075,000**	**$ 0.79**

There were no options exercisable as at March 31, 2007.

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.

	Three Months Ended March 31, 2007	Year Ended December 31, 2006
Contributed surplus balance at beginning of year	**$ 415,713**	$ –
Stock based compensation charged for stock options	**176,636**	415,713
Stock based compensation charged for management warrants	–	3,403,950
Transfer to share capital on exercise of management warrants	–	(3,403,950)
Contributed surplus balance at end of period	**$ 592,349**	$ 415,713

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:

	Three months ended March 31, 2007
Expected volatility	**50%**
Risk free rate of return	**4.5%**
Expected stock option life	**3 years**
Dividend yield rate	**0.0%**

The weighted average fair value of stock options granted during 2007 was $0.25 per option.

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 March 31	
	2007	2006
Weighted average number of basic shares	**101,743,174**	18,425,105
Effect of dilutive securities:		
Employee stock options	–	–
Weighted average number of diluted shares	**101,743,174**	18,425,105

6. RELATED PARTY TRANSACTIONS

During the period the Company expensed and capitalized legal fees totaling $25,612 (2006 - $433,102) for services rendered by a professional firm related to a director of the Company. As at March 31, 2007, $25,612 is included in accounts payable and accrued liabilities related to these transactions. These fees were incurred in the normal course of business and recorded at the exchange amount.

7. COMMITMENTS

The Company is committed to incur $12.0 million of flow-through share eligible Canadian Exploration Expenditures, as defined in the Canadian Income Tax Act, by December 31, 2008. As at March 31, 2007 the Company has incurred approximately $0.5 million of this commitment.

8. FINANCIAL INSTRUMENTS

Fixed Price Swap Natural Gas Contracts

The following is a summary of natural gas sales price derivative contracts in effect as at March 31, 2007, that have fixed future sales prices:

Daily quantity	Remaining term of contract	Fixed price per GJ (AECO)
1,500 GJ	April 1, 2007 to October 31, 2007	$ 6.80
1,500 GJ	April 1, 2007 to October 31, 2007	$ 7.04
500 GJ	April 1, 2007 to October 31, 2007	$ 7.40

The fair value of the above natural gas contracts, mark-to-market at March 31, 2007, is an unrealized loss of $783,840.

Fixed Price Swap Oil Contracts

The following is a summary of oil sales price derivative contracts in effect as at March 31, 2007, that have fixed future sales prices:

Daily quantity	Remaining term of contract	Fixed price per bbl (WTI)
100 bbl	May 1, 2007 to December 31, 2007	US $ 68.50
50 bbl	May 1, 2007 to December 31, 2007	US $ 68.75

The fair value of the above oil contracts, mark-to-market at March 31, 2007, is an unrealized gain of $110,435.

9. SUBSEQUENT EVENTS

The Company has renewed its credit facility with a Canadian chartered bank with an increase in the total credit facility to $30.0 million. The renewed credit facility is composed of a $22.5 million demand revolving operating credit facility and a $7.5 million acquisition and development credit facility. Interest rates on the demand revolving operating credit facility fluctuate based on a pricing grid and range from bank prime to bank prime plus 2.0%, depending upon the Company's then current debt to cash flow ratio of between less than one times to greater than three times. A debt to cash flow ratio of less than one times has interest payable at bank prime. Advances on the acquisition and development credit facility 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.

In April 2007 the Company entered into a fixed price oil swap contract arrangement on a total of 100 bbls per day for the period of January 1, 2008 to December 31, 2008 at a price of USD $70.65/bbl.

CORPORATE INFORMATION

OFFICERS

Ron Cawston
President and Chief Executive Officer

Brian Dunn
Vice President, Engineering and Corporate Development

John Murray
Vice President, Exploration

Stan Wolny
Vice President, Production and Operations

BOARD OF DIRECTORS

Jim Saunders, (1) (2)
Chairman of the Board

Paul Colborne (1) (3)

Craig Hruska (2) (3)

J.G. (Jeff) Lawson (2)

Ken Mullen (1) (3)

Ron Cawston

Member of:
(1) Audit Committee
(2) Reserves Committee
(3) Compensation and Governance Committee

HEAD OFFICE

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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

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"

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