Twin Butte Energy Ltd.

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2007

REPORT TO SHAREHOLDERS

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

- **Established a significant new growth area for the Company and executed on the corporate acquisition strategy acquiring 600 boe/d of long reserve life, operated production with undeveloped land, and infrastructure in the Leaman/Thunder area of West Central Alberta;**
- **Acquisition completed for approximately $28.4 million representing acquisition metrics of $42,000/boe/d and $12.39/boe (2P) net of land;**
- **Closed a bought deal private placement of Common Shares post quarter end for aggregate proceeds of $16,650,000 positioning the Company with a strong balance sheet and significant financial flexibility;**
- **Realized average production of 1,445 boe/d in the second quarter representing an increase of 10% from 1,309 boe/d in Q1;**
- **Remain on track to exceed our 2007 exit production rate of 2,100 boe/d providing solid production and cash flow to facilitate future growth;**
- **Cash flow totalled $3.1 million or $0.14 per share in the second quarter representing an increase of 19% over first quarter cash flow of $2.6 million or $0.13 per share;**
- **Drilled and cased five (4.4 net) wells in the quarter for a 100 percent success rate;**
- **Finalized EUB downspacing application to facilitate infill drilling in the 37.5 MMbbl original oil in place Jayar light oil pool;**
- **Increased undeveloped land holdings to 50,300 net acres at quarter end through property and land acquisitions in our core areas of operation;**
- **Completed the previously approved 1:5 share consolidation.**

OPERATIONS REVIEW

Production for the second quarter averaged 1,445 boe/d comprised of 73 percent natural gas and 27 percent light oil and natural gas liquids representing an increase of 10% from an average 1,309 boe/d in the first quarter of 2007. Excluding the Thunder property acquisition, the Company completed a Q2 net capital program of $ 3.6 million drilling three (3.0 net) wells in the Oyen core area and two (1.4 net) well in the Bulwark core area. As a result of weather delays Q2 production was not impacted by the Q2 drilling program with production additions anticipated early in the third quarter. The Company also completed certain well optimization projects and rental compression buyouts in the quarter to improve production and operating costs and additional projects are anticipated in Q3. The Company closed the purchase of the Leaman/Thunder assets on June 28 and as a result the acquisition had a minimal effect on Q2 operations or results.

During the first quarter the Company commenced the EUB notification process for reduced spacing drilling at Jayar and the consultation and notification process was completed in Q2. The application was submitted in July and the Company hopes to execute a down space drilling program in late Q4 2007 or early Q1 2008 subject to EUB approval. The Jayar light oil pool (40 degree API) 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% representing a significant opportunity to the Company in terms of increased reserves and net asset value.

OUTLOOK AND 2007 GUIDANCE

2007 continues to be a challenging year for the junior oil and gas sector as some small E & P companies struggle to find direction in the changing environment. Throughout this transition Twin Butte has remained focused on building a financially sound company looking for accretive acquisitions and lower risk exploitation and exploration opportunities. In following this approach we believe that our shareholders are part of a company that will continue to be positioned to grow and positioned to take advantage of future opportunities. While the Company has not been immune to market volatility enhanced by our gas weighted production we continue to believe in the long term outlook for natural gas and that an element of countercyclical thinking is required to position the Company for the future. Management remains committed to building a solid foundation from which the Company will thrive as it moves forward in this changing industry which is illustrated by the Company's attributes as follows:

- **A 2007 exit production rate of over 2,100 boe/d;**
- **Reserves of 5.8 MMboe (P+P);**
- **A reserve life index of 7.6 years (P+P);**
- **Tax pools of approximately $159 million;**
- **Net undeveloped land totaling 50,300 acres;**
- **Low net debt of approximately $22 million (pro forma equity financing closed July 17) and total credit facilities of $40 million;**
- **Significantly enhanced operational, exploitation and exploration upside.**

The Company has commenced activities in its new Thunder/Leaman core area and has identified multiple opportunities to exploit the acquired assets. Opportunities range from simple well optimization and exploitation to medium risk exploration. Lands have year round access with opportunities at shallow depths to a maximum of 1500m. The combined attributes of predictable low decline production, operated infrastructure, shallow depth operations and year round access contribute to the attractiveness of the new core area and bode well for future value additions to company shareholders.

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 and additionally, 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 which will be achieved through exploitation of the existing asset base and the integration of accretive acquisitions following management's "acquire and exploit" business strategy.

On behalf of the Board of Directors,

(signed)
Ron Cawston
President and C.E.O.
August 9, 2007

HIGHLIGHTS

Twin Butte's second quarter results include only three days of operating results contributed from the $28 million property acquisition that closed June 28, 2007. Net debt and working capital deficiency at June 30, 2007 does not include gross proceeds of $16,650,000 from a bought deal private placement of Common Shares that closed subsequent to quarter end on July 17, 2007.

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
FINANCIAL ($'s, except per share amounts)				
Petroleum and natural gas sales	**6,755,179**	1,719,009	**12,735,851**	1,725,154
Cash flow (1)	**3,090,696**	744,519	**5,716,266**	589,511
Per share basic & diluted	**0.14**	0.07	**0.27**	0.09
Net income (loss) (3)	**3,482,964**	(778,255)	**(432,493)**	(934,210)
Per share basic & diluted	**0.16**	(0.08)	**(0.02)**	(0.14)
Capital expenditures (net of dispositions)	**31,981,080**	456,991	**40,372,565**	456,991
Corporate acquisitions	–	8,252,364	–	8,252,364
Net debt and working capital deficiency (2)	**(38,042,456)**	(8,357,900)	**(38,042,456)**	(8,357,900)
OPERATING				
Average daily production				
Crude oil (bbl per day)	**327**	130	**316**	66
Natural gas (Mcf per day)	**6,347**	1,430	**6,035**	719
Natural gas liquids (bbl per day)	**60**	8	**56**	4
Barrels of oil equivalent (boe per day, 6:1)	**1,445**	375	**1,377**	189
Average sales price				
Crude oil ($ per bbl)	**70.12**	73.84	**67.12**	73.78
Natural gas ($ per Mcf)	**7.46**	6.16	**7.59**	6.16
Natural gas liquids ($ per bbl)	**65.20**	68.90	**59.87**	68.90
Barrels of oil equivalent ($ per boe, 6:1)	**51.38**	50.32	**51.08**	50.36
Operating netback ($ per boe)	**27.59**	28.41	**27.21**	28.52
COMMON SHARES				
Shares outstanding, end of period	**22,202,398**	17,226,506	**22,202,398**	17,226,506
Weighted average shares outstanding	**22,202,398**	10,004,024	**21,280,636**	6,883,365

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

(2) Net debt and working capital deficiency at June 30, 2007 excludes financial derivative contracts liability in the amount of $120,973 included in current liabilities. The liability relates to an unrealized loss on financial derivative contracts recognized at June 30, 2007. Net debt and working capital deficiency excludes gross proceeds of $16,650,000 from a bought deal private placement of 5,550,000 Common Shares that closed July 17, 2007.

(3) Net income for the three month period ended June 30, 2007 include a future tax recovery of $4,056,515.

Certain information regarding the Company contained herein may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, anticipations, expectations, intentions, opinions, forecasts, projections, guidance or other similar statements that are not statements of fact. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

In this news release, reserves and production data are commonly stated in barrels of oil equivalent ("boe") using a six to one conversion ratio when converting thousands of cubic feet of natural gas ("Mcf") to barrels of oil ("bbl") and a one to one conversion ratio for natural gas liquids ("NGLs" or "ngls"). Such conversion may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of August 9, 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 June 30, 2007 and the audited financial statements and management discussion and analysis for the year ended December 31, 2006. Other audited and unaudited interim financial statements, current annual information form and other disclosure documents are filed on SEDAR at www.sedar.com. Other corporate documentation can be obtained from our website at www.twinbutteenergy.com.

Basis of Presentation – The reporting and measurement currency is the Canadian dollar.

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, which reflect only three days of production from the property acquisition that closed June 28, 2007:

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Average Realized Commodity Prices				
Crude oil ($ per bbl)	**70.12**	73.84	**67.12**	73.78
Natural gas ($ per Mcf)	**7.46**	6.16	**7.59**	6.16
Natural gas liquids ($ per bbl)	**65.20**	68.90	**59.87**	68.90
$'s				
Crude oil	**2,088,800**	870,178	**3,839,251**	876,323
Natural gas	**4,310,701**	800,892	**8,294,620**	800,892
Natural gas liquids	**355,678**	47,939	**601,980**	47,939
Total petroleum and natural gas sales	**6,755,179**	1,719,009	**12,735,851**	1,725,154
Average Daily Production				
Crude oil & natural gas liquids (bbl/day)	**387**	138	**372**	70
Natural gas (Mcf/day)	**6,347**	1,430	**6,035**	719
Total (boe/d)	**1,445**	375	**1,377**	189

For the three month period ended June 30, 2007, Twin Butte recorded $6.8 million in petroleum and natural gas sales and $12.7 million for the six month period ended June 30, 2007.

The Company's production for the second quarter averaged 1,445 boe/d, representing an increase of 10% from the first quarter average of 1,309 boe/d. The production increase is attributed to wells that were brought on production from the drilling program in the first quarter. Production for the second quarter consists of 577,572 Mcf of gas, 29,790 bbl of oil and 5,430 bbl of natural gas liquids. The Company's sales volumes were 73% natural gas for the second quarter and the the prior quarter.

ROYALTIES

For the three months ended June 30, 2007 total royalties were $1.4 million or $10.52 per boe resulting in an average royalty rate of 20%. For the six month period ended June 30, 2007, total royalties were $2.5 million or $10.06 per boe resulting in an average royalty rate for the period of 20%.

OPERATING EXPENSES

For the three months ended June 30, 2007 operating expenses were $1.4 million, representing a reduction to $10.96 per boe, compared to operating expenses of $1.4 million, or $11.73 per boe, for the three months ended March 31, 2007.

During the quarter, the Company increased production volumes and completed the purchase of several compressors that were previously being rented. These factors contributed to the reduction in operating costs on a boe basis. Management is continuing an examination of the current operational efficiency of the Company's assets and undertaking steps to further reduce the operating costs.

TRANSPORTATION EXPENSES

For the three months ended June 30, 2007 transportation expenses were $0.3 million or $2.31 per boe compared to $0.3 million, or $2.69 per boe for the three months ended March 31, 2007. Transportation costs are expected to remain fairly consistent on a per boe basis throughout 2007.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
General and administrative expenses				
General and administrative expenses	**791,997**	249,816	**1,584,980**	297,853
Recoveries	**(46,913)**	(11,085)	**(186,627)**	(11,085)
Capitalized general and administrative expenses	**(186,723)**	(16,767)	**(365,522)**	(16,767)
Total net general and administrative expenses	**558,361**	221,964	**1,032,831**	270,001

General and administrative expenses for the second quarter were $0.6 million, or $4.25 per boe after recoveries and capitalized costs. For the six months ended June 30, 2007, general and administrative expenses were $1.0 million or $4.14 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 capital program and expects to realize a reduction in general and administrative expenses on a per boe basis going forward.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended June 30, 2007, the Company expensed $0.1 million in stock based compensation and $0.3 million for the six months period ended June 30, 2007. Stock based compensation expense in 2007 relates to the outstanding stock options.

INTEREST EXPENSE

Interest expense for the three month period ended June 30, 2007 in the amount of $0.1 million and for the six month period ended June 30, 2007 in the amount of $0.2 million related to interest on bank indebtedness.

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 a description of the new accounting policies.

In the first two quarters 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 June 30, 2007, that have fixed future sales prices:

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

The following is a summary of oil sales price derivative contracts in effect as at June 30, 2007, that have fixed future sales prices:

Daily quantity	Remaining term of contract	Fixed price per bbl (WTI)
100 bbl	July 1, 2007 to December 31, 2007	US $ 68.50
50 bbl	July 1, 2007 to December 31, 2007	US $ 68.75
100 bbl	January 1, 2008 to December 31, 2008	US $ 70.65

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 future liability on financial derivative contracts in the amount of $120,973 as at June 30, 2007.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended June 30, 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $4.1 million. Depletion of capital assets amounts to $31.14 per boe for the quarter, compared to $31.51 for the six months ended June 30, 2007. The cost of undeveloped properties excluded from the depletion base as at June 30, 2007 was $7.5 million.

INCOME TAXES

Future income tax recovery amounted to $4.1 million for the three month period ended June 30, 2007 compared to a future tax recovery of $2.2 million for the six month period ended June 30, 2007. The Company has existing tax losses and pools of approximately $159.7 million of which $72.3 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 beyond 2011.

CASH FLOW FROM OPERATIONS AND NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Cash flow from operations for the three month period ended June 30, 2007 was $3.1 million equating to basic and diluted cash flow from operations of $0.14 per share, representing an increase of 19% compared to the prior quarter cash flow of $2.6 million. Cash flow from operations for the six months ended June 30, 2007 was $5.7 million equating to basic and diluted cash flow from operations of $0.27 per share.

The Company posted a net income and comprehensive income of $3.5 million for the three month period ended June 30, 2007, equating to a basic and diluted net income per share of $0.16, compared to a net loss and comprehensive loss of $0.4 million for the six months ended June 30, 2007, equating to basic and diluted net loss per share of $0.02. The net loss and comprehensive loss of $0.4 million for the six month period ended June 30, 2007 includes non cash items including depletion, depreciation and accretion expense of $7.9 million, future income tax recovery of $2.2 million, unrealized loss on financial derivative contracts of $0.1 million, and stock based compensation expense of $0.3 million.

The following table summarizes netbacks for the past four quarters on a barrel of oil equivalent basis:

($ per boe)	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Petroleum and natural gas sales	51.38	50.76	48.48	47.45
Royalties	(10.52)	(9.55)	(7.21)	(7.91)
	40.86	41.21	41.27	39.54
Operating expenses	(10.96)	(11.73)	(11.38)	(11.76)
Transportation expenses	(2.31)	(2.69)	(2.77)	(2.40)
Operating netback	27.59	26.79	27.12	25.38
General and administrative expenses	(4.25)	(4.03)	(5.19)	(4.30)
Interest expense	(0.77)	(0.47)	(1.42)	(1.76)
Cash flow from operations	22.57	22.29	20.51	19.32

QUARTERLY FINANCIAL SUMMARY

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

($ thousands, except per share amounts)	June 30, 2007	March 31, 2007	Dec 31, 2006	Sep 30, 2006
Average production (boe/d)	1,445	1,309	1,089	1,047
Petroleum and natural gas sales	6,755	5,981	4,855	4,569
Operating netback (per boe)	27.59	26.79	27.12	25.38
Cash flow from operations	3,091	2,626	2,054	1,861
Per share basic & diluted	0.14	0.13	0.16	0.10
Net earnings (loss)	3,483	(3,915)	(881)	(2,267)
Per share basic & diluted	0.16	(0.19)	(0.07)	(0.13)
Capital expenditures (net of dispositions)	31,981	8,391	9,580	4,666
Total assets	116,389	81,899	78,697	67,060
Net debt and working capital surplus (deficiency) excluding financial derivative contracts liability	(38,042)	(9,001)	(14,578)	(7,517)

CAPITAL EXPENDITURES

During the second quarter of 2007, the Company incurred $32.0 million of capital expenditures. Capital expenditures for the prior quarter were $8.4 million for a total of $40.4 million in capital expenditures for the six month period ended June 30, 2007.

	Three months ended June 30, 2007	Six months ended June 30, 2007
Land acquisition	715,385	956,966
Geological and geophysical	121,907	397,202
Drilling and completions	1,302,450	6,768,217
Equipping and facilities	1,242,261	3,936,117
Property acquisitions	28,403,761	28,403,761
Property dispositions	–	(465,721)
Other	195,316	376,023
Total capital expenditures	**31,981,080**	**40,372,565**

During the quarter the Company closed a property acquisition on June 28, 2007 for approximately $28.4 million. The acquisition consists of producing assets, undeveloped land, and infrastructure in the Leaman/Thunder area of West Central Alberta. This represents a new core growth area to the Company.

The Company drilled three successful (3.0 net) wells in the Oyen core area and and two successful (1.4 net) wells in the Bulwark core area with the majority of these drills completed late in the second quarter. The Company also continued to be active at crown land sales and completed the purchase of several rental compressors mid way in the quarter.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007, the Company had a net debt and working capital deficiency of $38.0 million, excluding financial derivative contracts liability in the amount of $0.1 million included in current liabilities relating to an unrealized loss on financial derivative contracts recognized at June 30, 2007. The increase in working capital deficiency from the prior quarter balance of $9.0 million is attributed to the property acquisition in the amount of $28.4 million that closed on June 28, 2007.

In relation to the above mentioned property acquisition, the Company increased its total credit facility with a Canadian chartered bank to a total of $40.0 million. The renewed credit facility is composed of a $32.5 million demand revolving operating credit facility and a $7.5 million acquisition and development credit facility. In addition, the Company secured a $5.5 million bridge facility with the bank to facilitate the financing of the property acquisition.

Subsequent to the quarter end on July 17, 2007, the Company closed a bought deal private placement of 5,550,000 Common Shares at a price of $3.00 per share, for aggregate proceeds of $16,650,000. The proceeds were used to repay and cancel the bridge facility and to reduce the amount of credit facility that had previously been drawn. Current net debt is approximately $22.6 million.

SHARE CAPITAL

On May 31, 2007, the Company consolidated its share capital on a 1:5 basis. All share and per share amounts have been restated to reflect this share consolidation.

Subsequent to the closing of the bought deal private placement of 5,550,000 common shares on July 17, 2007, the Company has 27,752,398 Common Shares and 1,600,000 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 June 30, 2007 the Company has incurred approximately $1.2 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.

RELATED PARTY TRANSACTIONS

During the quarter the Company expensed and capitalized legal fees totaling $55,907 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.

BALANCE SHEETS

	June 30 2007	December 31 2006
	Unaudited	*Unaudited*
ASSETS		
Current Assets		
Accounts receivable	**$ 3,221,754**	$ 4,554,362
Deposits and prepaid expenses	**1,044,412**	606,175
	4,266,166	5,160,537
Future income taxes	**4,465,666**	2,029,400
Property and equipment (note 2)	**107,657,023**	71,506,633
	$ 116,388,855	$ 78,696,570
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 5,807,992**	$ 13,399,101
Bank indebtedness (note 3 & note 9)	**36,500,630**	6,318,985
Financial derivative contracts (note 8)	**120,973**	–
	42,429,595	19,718,086
Asset retirement obligation (note 4)	**6,799,693**	3,073,325
	49,229,288	22,791,411
Shareholders' Equity		
Share capital (note 5 & note 9)	**77,820,311**	66,397,721
Contributed surplus (note 5)	**680,024**	415,713
Deficit	**(11,340,768)**	(10,908,275)
	67,159,567	55,905,159
	$ 116,388,855	$ 78,696,570

Commitments (note 7)

See accompanying notes to financial statements

STATEMENTS OF INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND DEFICIT

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	**2007**	2006
REVENUE:				
Petroleum and natural gas sales	**$ 6,755,179**	$ 1,719,009	**$ 12,735,851**	$ 1,725,154
Royalties	**(1,382,602)**	(328,952)	**(2,508,433)**	(329,231)
Realized gain on financial derivatives	**122,456**	–	**122,456**	–
Unrealized gain (loss) on financial derivative contracts (note 8)	**552,432**	–	**(120,973)**	–
	6,047,465	1,390,057	**10,228,901**	1,395,923
EXPENSES:				
Operating	**1,441,260**	339,333	**2,823,762**	339,908
Transportation	**303,576**	81,469	**620,158**	81,469
General and administrative	**558,361**	221,964	**1,032,831**	270,001
Stock based compensation	**87,675**	544,507	**264,311**	544,507
Interest	**101,140**	2,772	**156,857**	115,034
Depletion, depreciation and accretion	**4,129,004**	1,153,267	**7,948,544**	1,154,214
	6,621,016	2,343,312	**12,846,463**	2,505,133
Loss before income taxes	**(573,551)**	(953,255)	**(2,617,562)**	(1,109,210)
Income taxes				
Future tax expense (recovery)	**(4,056,515)**	(175,000)	**(2,185,069)**	(175,000)
	(4,056,515)	(175,000)	**(2,185,069)**	(175,000)
Net income (loss) and comprehensive income (loss)	**3,482,964**	(778,255)	**(432,493)**	(934,210)
Deficit, beginning of period	**(14,823,732)**	(6,982,359)	**(10,908,275)**	(6,826,404)
Deficit, end of period	**$ (11,340,768)**	$ (7,760,614)	**$ (11,340,768)**	$ (7,760,614)
Basic & diluted income (loss) per share	**$ 0.16**	$ (0.08)	**$ (0.02)**	$ (0.14)
Weighted average common shares outstanding				
Basic	**22,202,398**	10,004,024	**21,280,636**	6,883,365
Diluted	**22,202,398**	10,647,683	**21,280,636**	7,113,666

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS *(unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	**2007**	2006
Cash provided by (used in):				
OPERATIONS:				
Net income (loss)	**$ 3,482,964**	$ (778,255)	**$ (432,493)**	$ (934,210)
Items not involving cash:				
Depletion, depreciation and accretion	**4,129,004**	1,153,267	**7,948,544**	1,154,214
Future income taxes	**(4,056,515)**	(175,000)	**(2,185,069)**	(175,000)
Unrealized loss (gain) on financial derivative contracts	**(552,432)**	–	**120,973**	–
Stock based compensation	**87,675**	544,507	**264,311**	544,507
	3,090,696	744,519	**5,716,266**	589,511
Changes in non-cash working capital	**1,968,437**	922,156	**1,868,983**	962,029
	5,059,133	1,666,675	**7,585,249**	1,551,540
FINANCING:				
Change in bank debt	**36,468,290**	(5,918,841)	**30,181,645**	(5,918,841)
Issuance of share capital, net of share issue costs	**(151,340)**	8,890,255	**11,171,392**	8,890,255
Changes in non-cash working capital	**(15,000)**	(280)	**–**	(280)
	36,301,950	2,971,134	**41,353,037**	2,971,134
INVESTING:				
Expenditures on property and equipment	**(31,981,080)**	(456,991)	**(40,838,286)**	(456,991)
Acquisition expenditures	**–**	(8,252,364)	**–**	(8,252,364)
Proceeds on disposition of property and equipment	**–**	–	**465,721**	–
Changes in non-cash working capital	**(9,380,003)**	561,094	**(8,565,721)**	561,094
	(41,361,083)	(8,148,261)	**(48,938,286)**	(8,148,261)
Decrease in cash and cash equivalents	**0**	(3,510,452)	**0**	(3,625,587)
Cash and cash equivalents, beginning of period	**–**	3,510,452	**–**	3,625,587
Cash and cash equivalents, end of period	**$ 0**	$ –	**$ 0**	$ –
Cash interest paid	**$ 76,702**	$ 28,229	**$ 133,018**	$ 147,177

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

(Unaudited) – June 30, 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	**June 30, 2007 Net Book Value**	December 31, 2006 Net Book Value
Petroleum and natural gas properties	$ 123,285,460	$ 15,668,653	**$ 107,616,807**	$ 71,468,938
Office and computer equipment	55,302	15,086	**40,216**	37,695
Total	$ 123,340,762	$ 15,683,739	**$ 107,657,023**	$ 71,506,633

The Company has capitalized $365,522 of general and administrative expenses directly related to exploration and development activities for the six months ended June 30, 2007 ($379,609 – year ended December 31, 2006).

The cost of undeveloped property excluded from the depletion base as at June 30, 2007 was $7,482,415 (December 31, 2006 - $5,630,449). Future development costs on proved reserves of $5,835,700 as at June 30, 2007 are included in the calculation of depletion and depreciation (December 31, 2006 - $5,785,700).

3. BANK INDEBTEDNESS

As at June 30, 2007, the Company had a $40.0 million credit facility with a Canadian chartered bank. The credit facility is composed of a $32.5 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 the bank's prime lending rate. A debt to cash flow ratio greater than three times has interest payable at the bank's prime lending rate plus 2.0%. 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 addition the Company had secured a $5.5 million bridge loan. Interest on the loan is payable at the bank's prime lending rate plus 1.00%. As at June 30, 2007, the full balance of the bridge loan had been drawn. Subsequent to June 30, 2007 the bridge loan was repaid and cancelled (note 9).

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 $6,799,693 at June 30, 2007, based on a total future liability of $10,380,350. 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:

	Six Months Ended June 30	Year Ended December 31
	2007	2006
Carrying amount, beginning of year	**$ 3,073,325**	$ –
Liabilities incurred	**181,323**	76,481
Acquisitions	**3,521,095**	2,062,312
Liabilities related to property dispositions	**(35,940)**	–
Revisions in estimated cash outflows	**(25,656)**	876,988
Accretion of asset retirement obligation	**85,546**	57,544
Asset retirement obligation, end of period	**$ 6,799,693**	$ 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	19,275,398	$ 66,397,721
Issued pursuant to private placement of of flow-through shares	2,927,000	12,000,700
Share issue and financing costs net of tax	–	(578,110)
Balance, June 30, 2007	**22,202,398**	**$ 77,820,311**

Common Share Consolidation

On May 31, 2007, the Company consolidated its share capital on a 1:5 basis. All Common Share, stock options, and per share amounts have been restated to reflect this share consolidation.

Issue of Common Shares

On February 27, 2007 the Company closed a bought deal private placement of 2,927,000 flow-through Common Shares at a price of $4.10 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 June 30, 2007:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2006	1,465,000	$ 4.00
Granted	380,000	3.27
Forfeited	(450,000)	4.00
Outstanding at June 30, 2007	**1,395,000**	**$ 3.80**

There were 273,333 options exercisable as at June 30, 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.

	Six Months Ended June 30, 2007	Year Ended December 31, 2006
Contributed surplus balance at beginning of year	**$ 415,713**	$ –
Stock based compensation charged for stock options	**264,311**	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	**$ 680,024**	$ 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 for the six month period ended June 30, 2007 as follows:

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 $1.24 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		Six months ended	
	2007	2006	**2007**	2006
Weighted average number of basic shares	**22,202,398**	10,004,024	**21,280,636**	6,883,365
Effect of dilutive securities:				
Employee stock options	–	87,956	–	–
Management warrants	–	327,033	–	137,017
Flow-through warrants	–	228,670	–	93,284
Weighted average number of diluted shares	**22,202,398**	10,647,683	**21,280,636**	7,113,666

6. RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2007 the Company expensed and capitalized legal fees totaling $55,907 (2006 - $433,102) for services rendered by a professional firm related to a director of the Company. As at June 30, 2007, $10,000 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 June 30, 2007 the Company has incurred approximately $1.2 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 June 30, 2007, that have fixed future sales prices:

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

The fair value of the above natural gas contracts, mark-to-market at June 30, 2007, is an unrealized loss of $120,170.

Fixed Price Swap Oil Contracts

The following is a summary of oil sales price derivative contracts in effect as at June 30, 2007, that have fixed future sales prices:

Daily quantity	Remaining term of contract	Fixed price per bbl (WTI)
100 bbl	July 1, 2007 to December 31, 2007	US $68.50
50 bbl	July 1, 2007 to December 31, 2007	US $68.75
100 bbl	January 1, 2008 to December 31, 2008	US $70.65

The fair value of the above oil contracts, mark-to-market at June 30, 2007, is an unrealized loss of $803.

9. SUBSEQUENT EVENTS

Private Placement Financing

On July 17, 2007 the Company closed a bought deal private placement of 5,550,000 Common Shares at a price of $3.00 per share, for aggregate proceeds of $16,650,000.

Bank Indebtedness – Repayment of Bridge Loan

On July 17, 2007 the Company repaid the bridge loan balance of $5.5 million. The bridge loan has subsequently been cancelled.

CORPORATE INFORMATION

OFFICERS

Ron Cawston
President and Chief Executive Officer

Brian Dunn
Vice President, Engineering and Corporate Development

Greg Hodgson
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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