Twin Butte Energy Ltd.

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2007

REPORT TO SHAREHOLDERS

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

- **5th consecutive quarter (since commencing operations in Q2 2006) of increased cash flow, production and production per share;**
- **Average production of 2,042 boe/d in the third quarter representing a 95 percent increase from the third quarter of 2006 production average of 1,047 boe/d, and a 41 percent increase from the second quarter of 2007 production average of 1,445 boe/d.;**
- **Closed a bought deal private placement of Common Shares for aggregate proceeds of $16,650,000, positioning the Company with a strong balance sheet and financial flexibility supported by a solid production base;**
- **Cash flow totaled $3.3 million representing a 75 percent increase over third quarter 2006 cash flow of $1.9 million;**
- **Commenced technical and operational activity in new core area of Thunder, Alberta;**
- **Drilled and cased four (2.9 net) wells in the quarter for a 100 percent success rate and finished associated completion and tie in work; and**
- **Submitted EUB downspacing application to facilitate infill drilling in the 37.5 MMbbl Jayar light oil pool.**

OPERATIONS REVIEW

Production for the third quarter averaged 2,042 boe/d comprised of 77 percent natural gas and 23 percent light oil and natural gas liquids representing an increase of 95 percent from the third quarter of 2006 production average of 1,047 boe/d, and a 41 percent increase over the 1,445 boe/d production average in the second quarter of 2007. The Company completed a Q3 net capital program of $ 3.6 million drilling three (2.4 net) wells in the Bulwark core area and one (0.5 net) well in the new Thunder core area. Additionally, the wells drilled in late Q2 at Bulwark and Oyen were completed and tied in as planned. Production for the quarter reflects additions from new wells brought on production in early September and the acquired production from the Thunder acquisition that closed on June 28, 2007.

This was the first full quarter with our new Thunder area assets which were acquired on June 28, 2007. The acquisition has brought us a stable new core area in which the Company drilled one well in the third quarter and plans to drill an additional two wells in the fourth quarter. Since the acquisition closed the Company has purchased new lands in the area through crown land sales and has entered into a preliminary farm-in arrangement that will compliment the 19,000 net undeveloped acres of land acquired with the transaction. The Company is also in the process of purchasing trade data and shooting new seismic data in the area to evaluate and follow up on opportunities identified on the acquired lands.

Net income for the Company continues to be affected by significant variances in future tax expense. This non cash item results from the fact that approximately $50 million of our $161 million in tax pools cannot be currently recognized as a future tax asset for accounting purposes based on the Company's present future cash flow estimates. This has resulted in significant variances in both future tax expenses and recoveries from quarter to quarter this year and management expects this may continue over the near term. This non cash item results despite the fact that the Company has in excess of $160 million in tax pools. The Company has no current cash tax payable and does not forsee any cash taxes payable until beyond 2011 based on current operations. This enviable tax pool status will allow Twin Butte to maintain a competitive advantage in the acquisition market.

On the management front, the Company is pleased to announce that subsequent to the end of the quarter, Alan Steele has re-joined the team as Vice President Finance and CFO. Alan has over 25 years of experience in finance and accounting within the oil and gas industry and brings great depth to the Twin Butte management team. Additionally, effective November 15th, 2007 Jeff Lawson will resign from the Twin Butte Board of Directors to focus on his new primary business venture. At this time the management and remaining Board of Directors would like to thank Jeff for his many valuable contributions to the Company since inception and wish him all the best in his new venture.

OUTLOOK AND 2007 GUIDANCE

Changes in the oil and gas industry have presented challenges to our Company and to our peers, that we believe will continue to strongly support our value based business strategy. The industry challenges continued in the third quarter with sustained low natural gas pricing and the announcement by the provincial government of Alberta of their intention to increase royalty rates on oil and gas production.

On October 25, 2007, the Alberta Government released its New Royalty Framework which was the Government's confirmation of the direction it was heading in response to the Alberta royalty review panel recommendations. While these new royalty rules will not come into effect until January 2009, we have reviewed our current production base to quantify the effects. Based on 2007 production and using McDaniel & Associates Consultants Ltd. July 2007 price deck, the Company expects to realize a marginal reduction in overall royalty costs. With our evolving production base it is difficult to quantify what effect these changes will have on actual cash flows and capital spending for 2009 and beyond, however, the Company will need to consider these changes in all future economic decisions. Along with most of our peers, the Company does expect to be negatively effected by the royalty changes as the current project inventory is focused on conventional production opportunities in Alberta. As a result, future projects could be impacted depending on production rates and commodity price. Management of the Company will continue to utilize sound economic evaluation criteria to prioritize projects and maximize shareholder value.

We continue to believe in the long term outlook for natural gas and feel that our value based approach, and an element of countercyclical thinking, will result in future rewards to our shareholders. Management remains committed to building a solid foundation from which the Company will thrive, illustrated by the Company's attributes as follows:

- **Stable production base and a 2007 exit production rate of approximately 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 $161 million;**
- **Net undeveloped land totaling 61,000 acres;**
- **Solid balance sheet with net debt of approximately $23 million and total credit facilities of $40 million;**
- **Significant light oil exploitation upside at Jayar 37.5MMbbl OOIP light oil pool; and**
- **New core area at Thunder, Alberta with extensive opportunity base.**

Management confirms that Twin Butte is on target to meet its 2007 exit production guidance of 2,100 boe/d. We are currently working through our 2008 budget and will be providing 2008 guidance in mid to late December.

The Company continues to focus on its core areas, adding to our inventory of opportunities and growing our land base through Crown land sales, joint ventures and farm-in opportunities. 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, exploit and explore" business strategy.

On behalf of the Board of Directors,

(signed)
Ron Cawston
President and C.E.O.
November 8, 2007

HIGHLIGHTS

Twin Butte Energy Ltd. ("Twin Butte" or the "Company") (TSX: TBE) is pleased to announce its financial and operational results for the three and nine month periods ended September 30, 2007.

	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change	**2007**	2006	Change
FINANCIAL ($'s, except per share amounts)						
Petroleum and natural gas sales	**8,060**	4,569	76%	**20,795**	6,294	230%
Cash flow [(1)]	**3,254**	1,861	75%	**8,970**	2,450	266%
Per share basic & diluted	**0.12**	0.10	20%	**0.39**	0.25	56%
Net loss [(3)]	**(4,818)**	(2,267)	113%	**(5,251)**	(3,201)	64%
Per share basic & diluted	**(0.18)**	(0.13)	38%	**(0.23)**	(0.30)	(23)%
Capital expenditures (net of dispositions)	**3,615**	4,666	(23)%	**43,988**	5,123	759%
Corporate acquisitions	**–**	–		**–**	8,252	
Net debt [(2)]	**22,823**	7,517	204%	**22,823**	7,517	204%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**382**	298	28%	**338**	144	135%
Natural gas (Mcf per day)	**9,483**	4,313	120%	**7,197**	1,930	273%
Natural gas liquids (bbl per day)	**79**	30	163%	**64**	13	392%
Barrels of oil equivalent (boe per day, 6:1)	**2,042**	1,047	95%	**1,601**	478	235%
Average sales price						
Crude oil ($ per bbl)	**77.21**	73.79	5%	**70.96**	73.79	(4)%
Natural gas ($ per Mcf)	**5.54**	5.95	(7)%	**6.68**	6.00	11%
Natural gas liquids ($ per bbl)	**70.40**	67.75	4%	**64.30**	67.98	(5)%
Barrels of oil equivalent ($ per boe, 6:1)	**42.91**	47.45	(10)%	**47.57**	48.22	(1)%
Operating netback ($ per boe)	**19.50**	25.38	(23)%	**23.91**	26.19	(9)%
COMMON SHARES						
Shares outstanding, end of period	**27,752,398**	19,031,007	46%	**27,752,398**	19,031,007	46%
Weighted average shares outstanding	**26,726,855**	18,041,441	48%	**23,115,992**	10,643,596	117%

(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 at September 30, 2007 excludes financial derivative contracts liability in the amount of $159 thousand included in current liabilities. The liability relates to an unrealized loss on financial derivative contracts recognized at September 30, 2007.

(3) Net loss for the three month period ended September 30, 2007 includes a non-cash future income tax expense of $2.0 million.

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 November 8, 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 September 30, 2007 and the audited financial statements and management discussion and analysis for the year ended December 31, 2006. Other 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:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
Average Realized Commodity Prices				
Crude oil ($ per bbl)	**77.21**	73.79	**70.96**	73.79
Natural gas ($ per Mcf)	**5.54**	5.95	**6.68**	6.00
Natural gas liquids ($ per bbl)	**70.40**	67.75	**64.30**	67.98
Barrels of oil equivalent ($ per boe, 6:1)	**42.91**	47.45	**47.57**	48.22
Revenue				
$'s				
Crude oil	**2,712,211**	2,020,412	**6,551,462**	2,896,735
Natural gas	**4,832,945**	2,360,469	**13,127,565**	3,161,361
Natural gas liquids	**514,455**	188,139	**1,116,435**	236,078
Total petroleum and natural gas sales	**8,059,611**	4,569,020	**20,795,462**	6,294,174
Average Daily Production				
Crude oil & natural gas liquids (bbl/day)	**461**	328	**402**	157
Natural gas (Mcf/day)	**9,483**	4,313	**7,197**	1,930
Total (boe/d)	**2,042**	1,047	**1,601**	478

Revenues for the three months ended September 30, 2007 were $8.1 million, as compared to $4.6 million for the three months ended September 30, 2006 representing an increase of $3.5 million or 76%. This increase in revenue is attributed primarily to third quarter production average increasing by 95% to 2,042 boe/d in 2007 from 1,047 boe/d in 2006 largely as a result of the Thunder property acquisition. The increase in revenue is partially offset by a 10% reduction in the average realized commodity price from $47.45 per boe in 2006 to $42.91 in 2007. After incorporating the effect of the realized gain on financial derivatives resulting from commodity hedges in the amount of $0.6 million in the third quarter, the Company realized a natural gas price of $6.31/mcf, and a crude oil price of $74.59/bbl for the third quarter.

Revenues for the nine months ended September 30, 2007 were $20.8 million as compared to $6.3 million, representing an increase of 230%. This increase is due to a 235% increase in production volumes, offset by a 1% decrease in average realized prices. As well the majority of operations did not commence until June 2006.

Production for the third quarter consists of 872,449 Mcf of gas, 35,126 bbl of oil and 7,308 bbl of natural gas liquids, for a total of 187,842 boe. The Company's sales volumes were 77% natural gas for the third quarter compared to 69% in the prior year comparative quarter.

ROYALTIES

Royalties for the three months ended September 30, 2007 were $1.7 million, as compared to $0.8 million for the three months ended September 30, 2006. As a percentage of revenues, the average royalty rate for the third quarter of 2007 was 21% compared to 17% for the comparative period of 2006. Royalties for the nine months ended September 30, 2007 were $4.2 million, as compared to $1.1 million for the nine months ended September 30, 2006. As a percentage of revenues, the average royalty rate for the nine months ended September 30, 2007 was 20% compared to 17% for the comparative period of 2006.

The increase in the average royalty rates for both the three and nine month periods ending September 30, 2007 compared to the same period in 2006, results primarily from the elimination of the Alberta Royalty Tax Credit ("ARTC") in 2007 and slightly higher royalty rates associated with production acquired in June 2007.

OPERATING EXPENSES

Operating expenses were $2.2 million or $11.86 per boe for the quarter ended September 30, 2007 as compared to $1.1 million or $11.76 per boe for the three months ended September 30, 2006. Operating expenses were $5.1 million or $11.55 per boe for the nine months ended September 30, 2007 as compared to $1.5 million or $11.28 per boe for the nine months ended September 30, 2006.

Management has implemented some cost saving measures that should reduce or hold flat operating costs in the near future.

TRANSPORTATION EXPENSES

Transportation expenses for the three months ended September 30, 2007 were $0.5 million or $2.47 per boe compared to $0.2 million or $2.40 per boe in the prior year comparative quarter. Transportation expenses for the nine months ended September 30, 2007 were $1.1 million or $2.48 per boe compared to $0.3 million or $2.40 per boe in the prior year comparative quarter. Increases in total transportation expenses are the result of increases in production volumes but transportation expenses on a per unit basis remain consistent.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
General and administrative expenses	**828,020**	586,656	**2,413,001**	789,156
Recoveries	**(57,059)**	(21,770)	**(243,686)**	(32,855)
Capitalized G&A expenses	**(172,414)**	(150,411)	**(537,937)**	(167,178)
Total net general and administrative expenses	**598,547**	414,475	**1,631,378**	589,123

General and administrative expenses, net of recoveries and capitalized G&A, were $0.6 million, or $3.19 per boe for the current quarter as compared to $0.4 million or $4.30 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were $1.6 million, or $3.73 per boe for the nine months ended September 30, 2007 as compared to $0.6 million or $4.51 per boe for the nine months ended September 30, 2006. The increase in G&A costs is directly attributable to increased office and staffing costs. However, with the increased production volumes the Company has realized a reduction in general and administrative expenses on a per boe basis.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended September 30, 2007, the Company expensed $0.2 million in stock based compensation as compared to $1.6 million in the three month period ended September 30, 2006. Stock based compensation expense amounts to $0.4 million for the nine month period ended September 30, 2007 compared to $2.2 million for the nine months ended September 30, 2006. Stock based compensation expense in 2007 relates to the outstanding stock options.

INTEREST EXPENSE

For the three months ended September 30, 2007, interest expense was $0.4 million, an increase of $0.2 million from $0.2 million for the prior year comparative quarter. For the nine months ended September 30, 2007, interest expense was $0.5 million compared to $0.4 million for the nine months ended September 30, 2006. Higher interest costs in the third quarter and the first nine months of 2007 are due to higher average debt levels. Debt levels have increased primarily as a result of a $28.4 million property acquisition in June 2007.

UNREALIZED LOSS ON FINANCIAL DERIVATIVE CONTRACTS AND REALIZED GAIN ON FINANCIAL DERIVATIVES

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 Company has recognized a realized gain on financial derivatives in the amount of $578 thousand for the three month period ended September 30, 2007 and a realized gain of $700 thousand for the nine month period ended September 30, 2007.

The following is a summary of all natural gas sales price derivative contracts in effect as at September 30, 2007:

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

The following is a summary of all oil sales price derivative contracts in effect as at September 30, 2007:

Daily quantity	Remaining term of contract	Fixed price per bbl (WTI)
100 bbl	October 1 to December 31, 2007	US $68.50
50 bbl	October 1 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 liability on financial derivative contracts in the amount of $158,970 as at September 30, 2007.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended September 30, 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $5.8 million or $30.51 per boe compared to $3.6 million or $37.14 per boe for the three month period ended September 30, 2006. For the nine month period ended September 30, 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $13.8 million or $31.08 per boe compared to $4.8 million or $36.17 per boe for the nine month period ended September 30, 2006.

The increase in depletion, depreciation and accretion expense for the three months and nine months ended September 30, 2007 as compared to the same periods in 2006 is due to higher production volumes, but reflects a decrease in costs on a per unit basis. Per unit costs have decreased in 2007 when compared to 2006 due to proven reserve additions.

INCOME TAXES

Future income tax expense amounted to $2.0 million for the three month period ended September 30, 2007 compared to a future income tax recovery in the amount of $1.1 million for the three month period ended September 30, 2006. For the nine month period ended September 30, 2007, future income tax recovery amounted to $0.2 million compared to a future income tax recovery of $1.3 million for the prior year comparative period.

Due to accounting rules governing the calculation of future taxes, the Company is limited in its recognition of a future tax asset related to its tax pools. However, the Company has existing tax losses and pools of approximately $161.8 million of which $69.5 million are non-capital losses and the Company has no current tax expense. Based on current reserve forecasts the Company 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 LOSS AND COMPREHENSIVE LOSS

Cash flow from operations for the three month period ended September 30, 2007 was $3.3 million, an increase of 75% from third quarter 2006 cash flow of $1.9 million. This represents an increase of 20% in cash flow per share basic and diluted to $0.12 per share in third quarter 2007 from $0.10 per share in third quarter 2006.

The Company posted a net loss and comprehensive loss of $4.8 million for the three month period ended September 30, 2007, equating to a basic and diluted net loss per share of $0.18, compared to a net loss and comprehensive loss of $2.3 million for the three month period ended September 30, 2006, equating to a basic and diluted net loss per share of $0.13. Net loss and comprehensive loss for the nine months ended September 30, 2007 was $5.3 million, or $0.23 per share basic and diluted, compared to a net loss and comprehensive loss for the prior year comparative period of $3.2 million, or $0.30 per share basic and diluted.

The net loss and comprehensive loss of $5.3 million for the nine month period ended September 30, 2007 includes non cash items including depletion, depreciation and accretion expense of $13.8 million, future income tax recovery of $0.2 million, unrealized loss on financial derivative contracts of $0.2 million, and stock based compensation expense of $0.4 million.

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

($ per boe)	**Q3 2007**	Q2 2007	Q1 2007	Q4 2006
Petroleum and natural gas sales	**42.91**	51.38	50.76	48.48
Royalties	**(9.08)**	(10.52)	(9.55)	(7.21)
	33.83	40.86	41.21	41.27
Operating expenses	**(11.86)**	(10.96)	(11.73)	(11.38)
Transportation expenses	**(2.47)**	(2.31)	(2.69)	(2.77)
Operating netback	**19.50**	27.59	26.79	27.12
General and administrative expenses	**(3.19)**	(4.25)	(4.03)	(5.19)
Interest expense	**(2.07)**	(0.77)	(0.47)	(1.42)
Cash flow from operations	**14.24**	22.57	22.29	20.51

QUARTERLY FINANCIAL SUMMARY

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

($ thousands, except per share amounts)	**Sept. 30, 2007**	June 30, 2007	March 31,2007	Dec. 31, 2006	Sept. 30, 2006
Average production (boe/d)	**2,042**	1,445	1,309	1,089	1,047
Petroleum and natural gas sales	**8,060**	6,755	5,981	4,855	4,569
Operating netback (per boe)	**19.50**	27.59	26.79	27.12	25.38
Cash flow from operations	**3,254**	3,091	2,626	2,054	1,861
Per share basic & diluted	**0.12**	0.14	0.13	0.11	0.10
Net earnings (loss)	**(4,818)**	3,483	(3,915)	(881)	(2,267)
Per share basic & diluted	**(0.18)**	0.16	(0.19)	(0.07)	(0.13)
Capital expenditures (net of dispositions)	**3,615**	31,981	8,391	9,580	4,666
Total assets	**112,804**	116,389	81,899	78,697	67,060
Net debt excluding financial derivative contracts liability	**22,823**	38,042	9,001	14,578	7,517

The Company's first fully operational quarter of activity was the three month period ended September 30, 2006.

CAPITAL EXPENDITURES

During the third quarter of 2007, the Company incurred $3.6 million of net capital expenditures and $44.0 million in net capital expenditures for the nine month period ended September 30, 2007.

	Three months ended September 30, 2007	Nine months ended September 30, 2007
Land acquisition	675,903	1,632,869
Geological and geophysical	169,355	566,557
Drilling and completions	1,578,074	8,346,291
Equipping and facilities	1,016,411	4,952,528
Property acquisitions	–	28,403,761
Property dispositions	–	(465,721)
Other	175,403	551,426
Total net capital expenditures	**3,615,146**	**43,987,711**

During the second 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.

During the third quarter the Company drilled and cased three (2.4 net) wells in the Bulwark core area and one (0.5 net) well in the Thunder core area. The Company also continued to be active at crown land sales.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2007, the Company had net debt of $22.8 million, excluding financial derivative contracts liability in the amount of $0.2 million included in current liabilities relating to an unrealized loss on financial derivative contracts recognized at September 30, 2007.

In relation to the previously announced property acquisition that was completed June 28, 2007, 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.

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.

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 debt incurred in relation to the property acquisition that was completed June 28, 2007.

As of November 8, 2007 the Company currently has 27,752,398 Common Shares and 1,855,000 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 September 30, 2007 the Company has incurred approximately $1.7 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 $158,623 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

(Unaudited)

	September 30 2007	December 31 2006
ASSETS		
Current Assets		
Accounts receivable	**$ 3,808,852**	$ 4,554,362
Deposits and prepaid expenses	**660,034**	606,175
	4,468,886	5,160,537
Future income taxes	**2,780,652**	2,029,400
Property and equipment (note 2)	**105,554,096**	71,506,633
	$ 112,803,634	$ 78,696,570
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 6,496,575**	$ 13,399,101
Bank indebtedness (note 3)	**20,795,758**	6,318,985
Financial derivative contracts (note 8)	**158,970**	–
	27,451,303	19,718,086
Asset retirement obligation (note 4)	**6,923,848**	3,073,325
	34,375,151	22,791,411
Shareholders' Equity		
Share capital (note 5)	**93,724,461**	66,397,721
Contributed surplus (note 5)	**863,187**	415,713
Deficit	**(16,159,165)**	(10,908,275)
	78,428,483	55,905,159
	$ 112,803,634	$ 78,696,570

Commitments (note 7)

See accompanying notes to financial statements

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
REVENUE:				
Petroleum and natural gas sales	**$ 8,059,611**	$ 4,569,020	**$ 20,795,462**	$ 6,294,174
Royalties	**(1,704,854)**	(761,126)	**(4,213,287)**	(1,090,357)
Realized gain on financial derivatives	**577,607**	–	**700,063**	–
Unrealized loss on financial derivative contracts (note 8)	**(37,997)**	–	**(158,970)**	–
	6,894,367	3,807,894	**17,123,268**	5,203,817
EXPENSES:				
Operating	**2,226,958**	1,132,680	**5,050,720**	1,472,588
Transportation	**463,310**	231,385	**1,083,468**	312,854
General and administrative	**598,547**	414,475	**1,631,378**	589,123
Stock based compensation	**183,163**	1,630,989	**447,474**	2,175,496
Interest	**389,460**	168,422	**546,317**	378,809
Depletion, depreciation and accretion	**5,842,229**	3,602,345	**13,790,773**	4,756,559
	9,703,667	7,180,296	**22,550,130**	9,685,429
Loss before income taxes	**(2,809,300)**	(3,372,402)	**(5,426,862)**	(4,481,612)
Income taxes				
Future tax expense (recovery)	**2,009,097**	(1,105,458)	**(175,972)**	(1,280,458)
	2,009,097	(1,105,458)	**(175,972)**	(1,280,458)
Net loss and comprehensive loss	**(4,818,397)**	(2,266,944)	**(5,250,890)**	(3,201,154)
Deficit, beginning of period	**(11,340,768)**	(7,760,614)	**(10,908,275)**	(6,826,404)
Deficit, end of period	**$ (16,159,165)**	$ (10,027,558)	**$ (16,159,165)**	$ (10,027,558)
Basic & diluted loss per share	**$ (0.18)**	$ (0.13)	**$ (0.23)**	$ (0.30)
Weighted average common shares outstanding				
Basic	**26,726,855**	18,041,441	**23,115,992**	10,643,596
Diluted	**26,726,855**	18,463,095	**23,115,992**	10,701,934

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
Cash provided by (used in):				
OPERATIONS:				
Net loss	**$ (4,818,397)**	$ (2,266,944)	**$ (5,250,890)**	$ (3,201,154)
Items not involving cash:				
Depletion, depreciation and accretion	**5,842,229**	3,602,345	**13,790,773**	4,756,559
Future income taxes	**2,009,097**	(1,105,458)	**(175,972)**	(1,280,458)
Unrealized loss on financial derivative contracts	**37,997**	–	**158,970**	–
Stock based compensation	**183,163**	1,630,989	**447,474**	2,175,496
	3,254,089	1,860,932	**8,970,355**	2,450,443
Changes in non-cash working capital	**(432,267)**	(2,346,566)	**1,436,716**	(1,384,537)
	2,821,822	(485,635)	**10,407,071**	1,065,906
FINANCING:				
Change in bank debt	**(15,704,872)**	20,377	**14,476,773**	(5,898,464)
Issuance of share capital, net of share issue costs	**15,580,067**	3,645,612	**26,751,459**	12,535,867
Changes in non-cash working capital	**–**	(37,074)	**–**	(37,354)
	(124,805)	3,628,915	**41,228,232**	6,600,049
INVESTING:				
Expenditures on property and equipment	**(3,615,146)**	(4,665,524)	**(44,453,432)**	(5,122,515)
Acquisition expenditures	**–**	–	**–**	(8,252,364)
Proceeds on disposition of property and equipment	**–**	–	**465,721**	–
Changes in non-cash working capital	**918,129**	1,522,244	**(7,647,592)**	2,083,338
	(2,697,017)	(3,143,280)	**(51,635,303)**	(11,291,541)
Decrease in cash and cash equivalents	**–**	–	**–**	(3,625,587)
Cash and cash equivalents, beginning of period	**–**	–	**–**	3,625,587
Cash and cash equivalents, end of period	**$ –**	$ –	**$ –**	$ –
Cash interest paid	**$ 411,544**	$ 114,204	**$ 544,562**	$ 261,381

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

(Unaudited) – September 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	September 30, 2007 Net Book Value	December 31, 2006 Net Book Value
Petroleum and natural gas properties	$ 126,914,566	$ 21,399,310	**$ 105,515,256**	$ 71,468,938
Office and computer equipment	58,290	19,450	**38,840**	37,695
Total	$ 126,972,856	$ 21,418,760	**$ 105,554,096**	$ 71,506,633

The Company has capitalized $537,937 of general and administrative expenses directly related to exploration and development activities for the nine months ended September 30, 2007 ($379,609 – year ended December 31, 2006).

The cost of undeveloped property excluded from the depletion base as at September 30, 2007 was $8,837,771 (December 31, 2006 - $5,630,449). Future development costs on proved reserves of $1,398,300 as at September 30, 2007 are included in the calculation of depletion and depreciation (December 31, 2006 - $5,785,700).

3. BANK INDEBTEDNESS

As at September 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 in June 2007. Interest on the loan is payable at the bank's prime lending rate plus 1.00%. In July 2007 the bridge loan was repaid and cancelled.

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 $6,923,848 at September 30, 2007, based on a total future liability of $10,394,095. 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:

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006
Asset retirement obligation, beginning of year	**$ 3,073,325**	$ –
Liabilities incurred	**198,271**	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	**192,753**	57,544
Asset retirement obligation, end of period	**$ 6,923,848**	$ 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 flow-through shares	2,927,000	12,000,700
Issued pursuant to private placement of common shares	5,550,000	16,650,000
Share issue and financing costs net of tax	–	(1,323,960)
Balance, September 30, 2007	**27,752,398**	**$ 93,724,461**

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.

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.

Stock Options

The following table sets forth a reconciliation of stock option plan activity through to September 30, 2007:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2006	1,465,000	$ 4.00
Granted	585,000	3.14
Forfeited	(450,000)	4.00
Outstanding at September 30, 2007	**1,600,000**	**$ 3.68**

There were 273,333 options exercisable as at September 30, 2007 at an average exercise price of $4.00 per share.

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.

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006
Contributed surplus balance at beginning of year	**$ 415,713**	$ –
Stock based compensation charged for stock options	**447,474**	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	**$ 863,187**	$ 415,713

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with assumptions and resulting values for grants for the nine month period ended September 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 $1.20 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 September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
Weighted average number of basic shares	**26,726,855**	18,041,441	**23,115,992**	10,643,595
Effect of dilutive securities:				
Employee stock options	–	274,000	–	–
Management warrants	–	141,000	–	52,939
Flow-through warrants	–	6,654	–	5,400
Weighted average number of diluted shares	**26,726,855**	18,463,095	**23,115,992**	10,701,934

All of the issued stock options in 2007 were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

6. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2007 the Company expensed and capitalized legal fees totaling $158,623 (2006 - $433,102) for services rendered by a professional firm related to a director of the Company. As at September 30, 2007, $5,000 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 September 30, 2007 the Company has incurred approximately $1.7 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 September 30, 2007, that have fixed future sales prices:

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

The fair value of the above natural gas contracts, mark-to-market at September 30, 2007, is an unrealized gain of $209,325.

Fixed Price Swap Oil Contracts

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

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

The fair value of the above oil contracts, mark-to-market at September 30, 2007, is an unrealized loss of $368,295.

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

R. Alan Steele
Vice President, Finance & CFO

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

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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

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Trading Symbol "TBE"

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