Twin Butte Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS AND AUDITED FINANCIAL STATEMENTS AND NOTES

DECEMBER 31, 2007

REPORT TO SHAREHOLDERS

The year ended December 31, 2007 was another successful year in the execution of the Company's growth and development strategy. Highlights for 2007 include the following:

- Achieved 2007 exit target production rate of 2,100 boe/d;
- Increased 2007 average production by 169 percent to 1,703 boe/d up from 632 boe/d in 2006;
- Increased production per share in 2007 by 42 percent;
- Achieved average production of 2,006 boe/d in the fourth quarter representing an 84 percent increase from the fourth quarter 2006 average of 1,089 boe/d;
- Increased 2007 cash flow by 171 percent over 2006 to $12.2 million;
- Increased cash flow per share in 2007 by 43 percent to $0.50 per share over 2006;
- Drilled and cased 18 (14.8 net) wells with a 100 percent success rate for the year;
- Completed technical work for the first multi frac horizontal location in the 37.5 million bbl Jayar light oil pool which was spud in February of 2008;
- Targeted high quality gas acquisitions in a low price environment with favourable metrics at Thunder Alberta (90 percent gas) and in British Columbia pursuant to the acquisition of E4 Energy Inc. ("E4") (65 percent gas). The assets acquired in British Columbia will not be affected by recently announced royalty changes;
- Closed two equity financings for a total of $28.65 million which was applied to the financing of the Thunder acquisition and the 2007 capital program positioning the Company with excellent financial flexibility;
- Significantly increased the Company's net undeveloped land base to 58,000 net undeveloped acres at year end from approximately 26,000 net undeveloped acres at year end 2006 which further grew to approximately 143,000 net undeveloped acres following the E4 closing in February 2008;
- Increased Twin Butte's prospect inventory to over 75 locations;
- Increased reserves by 60 percent to 6,046 MBOE (2P) from 3,788 MBOE (2P) at year end 2006;
- Increased reserves per share in 2007 by 9 percent;
- Realized finding, development and acquisition costs for 2007 of $16.55/boe for proved plus probable additions, or $17.21/boe with the inclusion of future capital changes; and
- Subsequent to year end and close of the E4 acquisition the Company's total credit facility was increased to $62.5 million, providing $19 million of unutilized credit capacity.

OPERATIONAL REVIEW

Twin Butte is pleased to report to shareholders on the Company's activities in 2007.

Since inception, the Company has strived to build the depth of our technical team and increase our undeveloped land base to build a strong organic component for Twin Butte shareholders. We believe the Company has taken a material step forward in that regard in 2007 and early 2008 and this effort will yield significant growth to our investors as the Company moves forward. While the year was characterized by eroding natural gas prices, Twin Butte remained focused on building the Company showing significant growth in production and Company land as well as in our prospect inventory.

In December, the Company continued to execute the Acquire, Exploit and Explore business model announcing the acquisition of E4 Energy Inc. which subsequently closed on February 8, 2008. This was another key building block in the growth of the Company providing critical mass in our Plains core area and a new focus area in Fort St John British Columbia which will be unaffected by recently announced Alberta royalty changes. The Fort St John area brings multi zone opportunities, all season access and a wealth of play types from conventional targets to the developing Montney resource play.

Subsequent to closing the E4 acquisition the Company has grown its land base to approximately 143,000 net undeveloped acres. Additionally, the Company significantly increased the Geological and Geophysical ("G&G") technical group bringing on Glenn Downey from E4 as VP Exploration, together with three additional G&G personnel. Collectively, this group brings significant additional technical experience to the Company in the Canadian Sedimentary basin. The new staff compliments existing G&G staff and positions the Company with the manpower to fully exploit the increasing number of farm-in, exploration and acquisition opportunities in the current market.

Production and Drilling

The Company met its previously announced 2007 exit production target of 2,100 boe/d and production for the year averaged 1,703 boe/d up from 632 boe/d in 2006, representing an increase of 169 percent in average daily production volumes. Fourth quarter production averaged 2,006 boe/d comprised of 75 percent natural gas and 25 percent light oil and natural gas liquids representing an increase of 84 percent from the fourth quarter of 2006 average of 1,089 boe/d.

The Company completed a net capital program of $3.7 million in Q4, drilling 4 gross (4 net) wells in the Bulwark area and 1 gross (0.5 net) well in the Thunder area. In total the Company completed a capital program (net of property acquisitions and dispositions) of $20.0 million drilling 18 gross (14.8 net) wells in 2007.

Plains Area

At Bulwark, the Company continued to develop a Viking light oil pool with a multi well drilling program. The program resulted in a tripling of production from the area from an initial rate of approximately 55 boe/d at the beginning of the year to a 2007 exit rate of approximately 160 boe/d. Success continued into the first quarter of 2008 with 2 additional exploratory wells drilled in February. One well was cased as a development well, while the other was cased as a new pool discovery. Both wells are anticipated to be on production by late March.

Subsequent to the closing of the E4 transaction, the Company completed construction of a battery facility at Provost and has recently cased the first 2 horizontal wells in a step out drilling program targeting the Dina RR oil pool. This pool contains an estimated 10 million bbls of Original Oil in Place ("OOIP"), with only 120,000 bbls recovered to date from vertical production wells. The new battery and disposal facility will reduce trucking costs and allow the wells to be produced in an optimized manner. Based on success from the first round of drilling management believes there is potential for a multi well development program of up to 10 wells for this property. Two wells are in our current 2008 budget leaving significant room for additional drilling based on success.

Thunder Area

Twin Butte drilled and cased its first well in the Thunder core area in Q4 which was tied in to the Company's operated gas facility. This well came on production at a restricted net rate of approximately 100 boe/d in mid December. Subsequent to year end, a second well was cased in the area with a completion slated for Q2 2008. The Company continues to develop new exploration leads and is active with Crown land postings and seismic work to develop the new leads. Additional drilling is planned for the Thunder area in 2008 to test current prospects.

Jayar Area

At Jayar, the Company completed a horizontal well technical study and commenced planning for Twin Butte's first horizontal well into this high quality large OOIP light oil pool. This first high impact horizontal well is targeting the Dunvegan light oil pool utilizing the "Packers Plus" multi frac technology. The Jayar Dunvegan pool is an 85.5 percent working interest, low permeability reservoir that has been developed to date utilizing vertical drilling and completion technology. Technical data indicates that recent advancements in horizontal drilling and completion techniques utilized in the Bakken tight oil pool in Saskatchewan, and the Montney tight gas play in British Columbia, are applicable to the Dunvegan zone at Jayar. Successful application of this new Packers Plus technology presents significant upside potential to the Company with vertical well production to date recovering less than 2 million barrels out of an estimated 37.5 million barrels OOIP. The initial well was spud in February with completion work planned for late March based on weather conditions.

British Columbia

In the Fort St. John core area, subsequent to closing the E4 acquisition, the Company commenced project work for an upcoming multi well development and exploration program slated to begin in Q3 of 2008.

The Company has also actively pursued farm-in opportunities focusing on lands with resource potential and has recently signed a farm-in deal on a 4 section land block targeting the Montney formation. Twin Butte plans to drill an earning well in early Q3 that will continue rights to depth drilled for a 5 year term in the entire 4 section block. The lands directly offset a recent land sale where a bonus price of $3.9 million was paid for each section. This places an equivalent net value on the farm-in lands alone of $9.4 million. Montney pay from area offset wells average 76 m in thickness giving a potential original gas in place (OGIP) reserve estimate of greater than 64 BCF per section. The play has the potential to have a material impact on the Company. The lands are located approximately 3.0 miles to tie in point which should allow for timely development of production from the play.

OUTLOOK: 2008 GUIDANCE – CONTINUED PER SHARE GROWTH

We continue to believe in the long term outlook for natural gas and feel that our value based approach, and countercyclical thinking have positioned the Company very well for continued growth in reserves, production and cash flow per share. Management remains committed to building a solid foundation from which the Company will grow, illustrated by the Company's key characteristics as follows:

- Stable production base > 3,000boe/d;
- Reserves of 8.9 MMboe (P+P);
- A reserve life index of 7.8 years (P+P);
- Tax pools of approximately $180 million;
- Net undeveloped land totaling approximately 143,000 acres;
- Solid balance sheet with current net debt of approximately $43 million, and total credit facilities of $62.5 million;
- Significant light oil exploitation upside at Jayar, Bulwark and Provost;
- Exciting exploration and resource potential in British Columbia; and
- Significant drilling inventory of > 75 locations.

The Company will continue to focus on 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 exploration and exploitation of the existing asset base and the integration of accretive acquisitions following management's "acquire, exploit and explore" business strategy.

The Board of Directors have recently approved an initial capital budget of $27 million which will include the drilling of 26 gross (25.8 net) wells. The Company has excellent prospects for 2008 including low risk oil and gas development in South East Alberta, Thunder and Fort St. John British Columbia, as well as, high impact exploration and development prospects at Fort St. John and at Jayar. Capital is allocated with $21.5 million for drilling and facilities, and $5.5 million for land and seismic.

Based on this budget the Company expects to realize average production in 2008 of 3,150 boe/d with exit production greater than 3,350 BOE/d. This represents an increase in average daily production of approximately 85 percent over 2007.

The capital spending level parallels the forecasted 2008 annual cash flow of $26.5 million and year end debt of approximately $43.5 million, representing 1.4 times fourth quarter 2008 annualized cash flow.

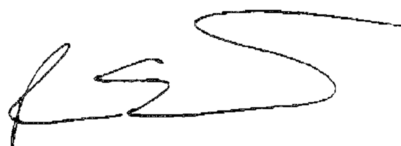
For budget purposes for the year, the Company has used an average gas price of $6.44/GJ ($6.76/Mcf) at AECO and an average oil price of US$76.25/bbl WTI, with a exchange rate of 1.0 C$/US$.

Twin Butte 2008 Guidance is summarized as follows:

Average production rate	3,150 BOE/d
Exit production rate	3,350 BOE/d
Cash flow	$26.5 million
Cash flow per share	$0.63
Capital program	$27 million
Year end net debt	$43.5 million
Authorized Bank Line	$62.5 million
Unused bank line capacity	$19 million
Current shares outstanding (basic)	43.4 million
Current shares outstanding (diluted)	46.0 million

During the course of 2007, Twin Butte's management has positioned the Company both operationally and financially with excellent growth potential for 2008 and beyond. The Company has a solid reserve and production base, a strong balance sheet and a significant tax pool advantage. This combination will enable Twin Butte to effectively pursue management's "acquire, exploit and explore" growth strategy. We are very excited about the Company's future prospects.

On behalf of the Board of Directors,



Ron Cawston
President and C.E.O.
March 19, 2008

HIGHLIGHTS

	Three months ended December 31			Year ended December 31		
	2007	2006	% Change	**2007**	2006	% Change
FINANCIAL ($ thousands, except per share amounts)						
Petroleum and natural gas sales	**9,146**	4,855	88%	**29,941**	11,149	168%
Cash flow [1]	**3,255**	2,054	49%	**12,226**	4,504	171%
Per share basic & diluted	**0.12**	0.11	9%	**0.50**	0.35	43%
Net income (loss) [3]	**4,272**	(881)		**(979)**	(4,082)	
Per share basic & diluted	**0.15**	(0.05)		**(0.04)**	(0.44)	
Capital expenditures (net of dispositions)	**3,671**	9,581	(62)%	**47,659**	14,703	224%
Corporate acquisitions	**–**	–		**–**	49,093	
Net debt [2]	**23,242**	14,558	60%	**23,242**	14,558	60%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**390**	298	31%	**351**	183	92%
Natural gas (Mcf per day)	**9,022**	4,499	100%	**7,657**	2,577	197%
Natural gas liquids (bbl per day)	**113**	41	176%	**76**	20	280%
Barrels of oil equivalent (boe per day, 6:1)	**2,006**	1,089	84%	**1,703**	632	169%
Average sales price						
Crude oil ($ per bbl)	**79.04**	59.31	33%	**73.22**	67.84	8%
Natural gas ($ per Mcf)	**6.67**	7.29	(8)%	**6.68**	6.57	2%
Natural gas liquids ($ per bbl)	**74.28**	56.64	31%	**75.98**	62.06	22%
Barrels of oil equivalent ($ per boe, 6:1)	**49.55**	48.48	(2)%	**48.16**	48.33	– %
Operating netback ($ per boe)						
Petroleum and natural gas sales	**49.55**	48.48	2%	**48.16**	48.33	– %
Realized gain (loss) on financial instruments	**(0.84)**	–		**0.88**	–	
Royalties	**(9.99)**	(7.21)	39%	**(9.74)**	(7.86)	24%
Operating Expenses	**(12.89)**	(11.38)	13%	**(11.95)**	(11.32)	6%
Transportation Expenses	**(2.54)**	(2.77)	(8)%	**(2.50)**	(2.56)	(2)%
Operating netback	**23.29**	27.12	(14)%	**24.85**	26.59	(7)%
Common Shares						
Shares outstanding, end of period	**27,752,398**	19,275,398	44%	**27,752,398**	19,275,398	44%
Weighted average shares outstanding – basic & diluted	**27,752,398**	19,054,887	46%	**24,284,620**	12,762,870	90%

(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 December 31, 2007 excludes financial derivative contracts asset and liability in the net amount of $0.6 million. The net liability relates to an unrealized loss on financial derivative contracts recognized at December 31, 2007.

(3) Net income for the three month period ended December 31, 2007 includes a non-cash future income tax recovery of $6.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of March 19, 2008

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 audited financial statements and management's discussion and analysis for the year ended December 31, 2007 and the unaudited financial statements for the three quarters ended March 31, 2007, June 30, 2007 and September 30, 2007.

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. All references to cash flow from operations or cash flow throughout this report are based on cash flow from operating actives before changes in non-cash working capital. 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 statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to our future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes and plans and objectives of or involving Twin Butte Energy Ltd. Particularly, statements regarding our future operating results and economic performance, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts.

These statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect.

Forward looking-information is also subject to certain factors, including risks and uncertainties, that could cause actual results to differ materially from what we currently expect. These factors include 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.

Other than as required under securities laws, we do not undertake to update this information at any particular time.

PETROLEUM AND NATURAL GAS SALES

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

	Three months ended December 31		Year ended December 31	
	2007	2006	**2007**	2006
Average Twin Butte Realized Commodity Prices (1)				
Crude oil ($ per bbl)	**79.04**	59.31	**73.22**	67.84
Natural gas ($ per Mcf)	**6.67**	7.29	**6.68**	6.57
Natural gas liquids ($ per bbl)	**74.28**	56.64	**75.98**	62.06
Barrels of oil equivalent ($ per boe, 6:1)	**49.55**	48.48	**48.16**	48.33

(1) The average selling prices reported are before realized financial instrument gains/losses and transportation charges.

Benchmark Pricing				
WTI crude oil (US$ per bbl)			**72.27**	66.09
WTI crude oil (Cdn$ per bbl)			**77.29**	74.99
AECO natural gas (Cdn$ per Mcf) (2)			**6.45**	6.51
Exchange rate – US$/Cdn$			**0.935**	0.881

(2) The AECO natural gas price reported is the average daily spot price.

Revenue				
$'s				
Crude oil	**2,835,867**	1,624,100	**9,387,329**	4,520,835
Natural gas	**5,539,760**	3,016,495	**18,667,325**	6,177,856
Natural gas liquids	**770,320**	214,880	**1,886,755**	450,958
Total petroleum and natural gas sales	**9,145,947**	4,855,475	**29,941,409**	11,149,649
Average Daily Production				
Crude oil & natural gas liquids (bbl/day)	**503**	339	**427**	202
Natural gas (Mcf/day)	**9,022**	4,499	**7,657**	2,577
Total (boe/d)	**2,006**	1,089	**1,703**	632

Revenues for the three months ended December 31, 2007 were $9.1 million, as compared to $4.9 million for the three months ended December 31, 2006 representing an increase of $4.2 million or 88%. This increase in revenue is attributed primarily to year over year fourth quarter production average increasing by 84% to 2,006 boe/d in 2007 from 1,089 boe/d in 2006. The increase in revenue is also partially attributed to a 2% increase in the average realized commodity price from $48.48 per boe in 2006 to $49.55 in 2007.

Revenues for the year ended December 31, 2007 were $29.9 million as compared to $11.1 million in 2006, representing an increase of 168%. This increase is due mainly to a 169% increase in yearly average production volumes with comparable average realized prices in 2007 and 2006. The increase in year over year volumes is partially related to the majority of the Company's operations which did not commence until June 2006.

The Company's weighting to natural gas for the fourth quarter of 2007 and the year ended December 31, 2007 was 75%, compared to a weighting of 69% for the fourth quarter of 2006 and 68% for the year ended December 31, 2006. The increase in the Company's natural gas weighting is primarily the result of the Thunder property acquisition completed in June 2007.

ROYALTIES

Royalties for the three months ended December 31, 2007 were $1.8 million, as compared to $0.7 million for the three months ended December 31, 2006. As a percentage of revenues, the average royalty rate for the fourth quarter of 2007 was 20% compared to 15% for the comparative period of 2006. Royalties for the year ended December 31, 2007 were $6.1 million, as compared to $1.8 million for the year ended December 31, 2006. As a percentage of revenues, the average royalty rate for the year ended December 31, 2007 was 20% compared to 16% for the comparative period of 2006.

The increase in the average royalty rates for both the three months ended and year ended December 31, 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 $2.4 million or $12.89 per boe for the quarter ended December 31, 2007 as compared to $1.1 million or $11.38 per boe for the three months ended December 31, 2006. Operating expenses were $7.4 million or $11.95 per boe for the year ended December 31, 2007 as compared to $2.6 million or $11.32 per boe for the year ended December 31, 2006. Higher operating costs in the Thunder area acquired in the June 2007 property acquisition resulted in an increase in operating expenses on a per boe basis in 2007. The Company is working to reduce these costs in 2008.

TRANSPORTATION EXPENSES

Transportation expenses for the three months ended December 31, 2007 were $0.5 million or $2.54 per boe compared to $0.3 million or $2.77 per boe in the prior year comparative quarter. Transportation expenses for the year ended December 31, 2007 were $1.6 million or $2.50 per boe compared to $0.6 million or $2.56 per boe in the prior year. 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 December 31		Year ended December 31	
	2007	2006	**2007**	2006
G&A expenses	**1,012,183**	831,381	**3,425,183**	1,620,738
Recoveries	**(149,034)**	(99,338)	**(392,720)**	(132,194)
Capitalized G&A expenses	**(181,029)**	(212,431)	**(718,965)**	(379,609)
Total net G&A expenses	**682,120**	519,612	**2,313,498**	1,108,935

General and administrative expenses, net of recoveries and capitalized G&A, were $0.7 million, or $3.70 per boe for the current quarter as compared to $0.5 million or $5.19 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were $2.3 million, or $3.72 per boe for the year ended December 31, 2007 as compared to $1.1 million or $4.81 per boe for the year ended December 31, 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. Management anticipates further reduction in general and administrative expenses on a per boe basis in 2008.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended December 31, 2007, the Company expensed $0.2 million in stock based compensation as compared to $1.6 million in the three month period ended December 31, 2006. Stock based compensation expense amounts to $0.6 million for the year ended December 31, 2007 compared to $3.8 million for the year ended December 31, 2006. The reduction in stock based compensation expense in 2007 compared to 2006 is the result of all stock based compensation expense relating to management warrants issued in 2006 being recognized in 2006. Stock based compensation expense in 2007 relates only to outstanding stock options.

INTEREST EXPENSE

For the three months ended December 31, 2007, interest expense was $0.4 million, an increase of $0.3 million from $0.1 million for the prior year comparative quarter. For the year ended December 31, 2007, interest expense was $0.9 million compared to $0.5 million for the year ended December 31, 2006. Higher interest costs in the fourth quarter and the year ended December 31, 2007 are due to higher average debt levels. Bank indebtedness levels have increased primarily as a result of a $28 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.

During 2007, the Company entered into fixed price swap and costless collar 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 loss on financial derivatives in the amount of $0.2 million for the three month period ended December 31, 2007 and a realized gain of $0.5 million for the year ended December 31, 2007.

The following is a summary of all natural gas sales price derivative contracts in effect as at December 31, 2007:

Daily quantity per giga-joule ("GJ")	Remaining term of contract	Fixed price per GJ (AECO)
2,000 GJ	January 1 to December 31, 2008	$6.50
2,500 GJ	April 1 to October 31, 2008	$6.45
1,000 GJ	January 1 to December 31, 2008	$6.64

Subsequent to year end the Company entered into an additional gas hedge for the period of April 1, 2008 to October 31, 2008 on 1,000 GJ/d at a fixed price of $7.075/GJ (AECO).

The following is a summary of all oil sales price derivative contracts in effect as at December 31, 2007:

Daily quantity per barrel ("bbl")	Remaining term of contract	Fixed price per bbl (WTI)	Costless Collar per bbl (WTI)
100 bbl	January 1 to December 31, 2008	US $70.65	
60 bbl	January 1 to December 31, 2007	US $87.25	
60 bbl	January 1 to March 31, 2008		US $88.00 – US $100.50

Subsequent to year end the Company entered into an additional oil hedge for the period of April 1, 2008 to December 31, 2008 on 100 bbl/d at a costless collar per bbl (WTI) range of US $90.00 to US $120.00.

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 asset on financial derivative contracts in the amount of $0.3 million and a liability on financial derivative contracts in the amount of $0.8 million as at December 31, 2007.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended December 31, 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $4.8 million or $25.69 per boe compared to $3.1 million or $30.87 per boe for the three month period ended December 31, 2006. For the year ended December 31, 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $18.6 million or $29.48 per boe compared to $7.9 million or $33.87 per boe for the year ended December 31, 2006.

The increase in depletion, depreciation and accretion expense for the three months ended and year ended December 31, 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 at a lower cost than historic depletion, depreciation and accretion expense per boe.

INCOME TAXES

Future income tax recovery amounted to $6.4 million for the three month period ended December 31, 2007 compared to a future income tax recovery in the amount of $1.8 million for the three month period ended December 31, 2006. For the year ended December 31, 2007, future income tax recovery amounted to $6.6 million compared to a future income tax recovery of $3.1 million for the prior year comparative period. The increased recognition of future income tax recovery in 2007 is primarily

the result of increases in the Company's forecasted future cash flow which allows the Company to recognize the future benefit of its existing tax pools.

The Company has existing tax losses and pools of approximately $160.4 million of which $61.3 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.

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

Cash flow from operations for the three month period ended December 31, 2007 was $3.3 million, an increase of 58% from fourth quarter 2006 cash flow of $2.1 million. Cash flow per share basic and diluted amounted to $0.12 for the fourth quarter of 2007, an increase from $0.11 in the fourth quarter of 2006. Cash flow from operations for the year ended December 31, 2007 was $12.2 million, an increase of 171% from the year ended December 31, 2006 cash flow of $4.5 million. This represents an increase of 43% in cash flow per share basic and diluted to $0.50 per share for 2007 compared to $0.35 per share for 2006.

The Company posted net income and comprehensive income of $4.3 million for the three month period ended December 31, 2007, equating to a basic and diluted net income per share of $0.15, compared to a net loss and comprehensive loss of $0.9 million for the three month period ended December 31, 2006, equating to a basic and diluted net loss per share of $0.05. Net loss and comprehensive loss for the year ended December, 2007 was $1.0 million, or $0.04 per share basic and diluted, compared to a net loss and comprehensive loss for the prior year comparative period of $4.1 million, or $0.32 per share basic and diluted.

The net loss and comprehensive loss of $1.0 million for the year ended December 31, 2007 includes non cash items including depletion, depreciation and accretion expense of $18.6 million, future income tax recovery of $6.6 million, unrealized loss on financial derivative contracts of $0.6 million, and stock based compensation expense of $0.6 million.

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

($ per boe)	**Q4 2007**	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Petroleum and natural gas sales	**49.55**	42.91	51.38	50.76	48.48	47.45
Royalties	**(9.99)**	(9.08)	(10.52)	(9.55)	(7.21)	(7.91)
Realized gain (loss) on financial instruments	**(0.84)**	3.07	0.93	–	–	–
Operating expenses	**(12.89)**	(11.86)	(10.96)	(11.73)	(11.38)	(11.76)
Transportation expenses	**(2.54)**	(2.47)	(2.31)	(2.69)	(2.77)	(2.40)
Operating netback	**23.29**	22.57	28.52	26.79	27.12	25.38
General and administrative expenses	**(3.70)**	(3.19)	(4.25)	(4.03)	(5.19)	(4.30)
Interest expense	**(1.96)**	(2.07)	(0.77)	(0.47)	(1.42)	(1.76)
Cash flow from operations	**17.63**	17.31	23.51	22.29	20.51	19.32

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

QUARTERLY FINANCIAL SUMMARY

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

($ thousands, except per share amounts)	**Dec. 31, 2007**	Sep. 30, 2007	June 30, 2007	March 31, 2007	Dec. 31, 2006	Sep. 30, 2006
Average production (boe/d)	**2,006**	2,042	1,445	1,309	1,089	1,047
Petroleum and natural gas sales	**9,146**	8,060	6,755	5,981	4,855	4,569
Operating netback (per boe)	**23.29**	22.57	28.52	26.79	27.12	25.38
Cash flow from operations	**3,255**	3,254	3,091	2,626	2,054	1,861
Per share basic & diluted	**0.12**	0.12	0.14	0.13	0.11	0.10
Net income (loss)	**4,272**	(4,818)	3,483	(3,915)	(881)	(2,267)
Per share basic & diluted	**0.15**	(0.18)	0.16	(0.19)	(0.07)	(0.13)
Capital expenditures (net of dispositions)	**3,671**	3,615	31,981	8,391	9,581	4,666
Total assets	**120,151**	112,804	116,389	81,899	78,697	67,060
Net debt excluding financial derivative contracts liability	**23,242**	22,823	38,042	9,001	14,558	7,517

CAPITAL EXPENDITURES

During 2007, the Company invested $47.7 million (net of dispositions) with the drilling of 18 gross wells (14.8 net) for a success rate of 100 percent. Included in capital expenditures is the Thunder (West Central Alberta) property acquisition completed June 28, 2007 for $28.1 million. The following tables summarizes capital expenditures, drilling results and undeveloped land positions for 2007 and 2006.

Capital Expenditures ($ thousands)	Three months ended December 31		Year ended December 31	
	2007	2006	**2007**	2006
Land acquisition	–	188	**1,633**	574
Geological and geophysical	**329**	82	**895**	1,106
Drilling and completions	**1,821**	6,997	**10,167**	7,860
Equipping and facilities	**1,551**	2,101	**6,504**	2,336
Property acquisitions	**(267)**	(30)	**28,137**	2,403
Property dispositions	–	–	**(466)**	–
Other	**237**	241	**788**	425
Total net capital expenditures	**3,671**	9,581	**47,659**	14,703

Drilling Results

Year ended December 31	**2007**		2006	
	Gross	**Net**	Gross	Net
Crude oil	**9.0**	**7.5**	6.0	5.0
Natural gas	**9.0**	**7.3**	4.0	4.0
Dry and abandoned	–	–	–	–
Total	**18.0**	**14.8**	10.0	9.0
Success rate (%)		**100%**		100%

Three months ended December 31	**2007**		2006	
	Gross	**Net**	Gross	Net
Crude oil	**3.0**	**3.0**	3.0	2.6
Natural gas	**2.0**	**1.5**	4.0	4.0
Dry and abandoned	**–**	**–**	–	–
Total	**5.0**	**4.5**	7.0	6.6
Success rate (%)		**100%**		100%

Undeveloped Land

Year ended December 31	**2007**	2006
Gross Acres	**78,769**	32,760
Net Acres	**57,896**	26,324

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, the Company had net debt of $23.2 million, excluding financial derivative contracts asset in the amount of $0.3 million and financial derivative contracts liability in the amount of $0.8 million relating to unrealized gains and losses on financial derivative contracts recognized at December 31, 2007. The Company has a total credit facility with a Canadian chartered bank in the amount of $40.0 million. 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. Subsequent to year end, the total credit facility has been increased to $62.5 million in relation to the acquisition of E4 Energy Inc that was completed in February 2008.

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 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 gross proceeds of $12,000,700 ($11,300,734 net of share issue costs).

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 gross proceeds of $16,650,000 ($15,588,744 net of share issue costs). The proceeds were used to repay debt incurred in relation to the property acquisition that was completed June 28, 2007.

Subsequent to year end, on February 8, 2008, the Company closed the acquisition of E4 Energy Inc. ("E4"), a publicly traded company for total consideration of approximately $55.6 million, before closing adjustments (based on a Company share price of $2.45) and transaction costs and including net debt of approximately $17.2 million. The Company issued 15,663,027 common shares to the former shareholders of E4.

As of March 19, 2008 the Company currently has 43,415,425 Common Shares and 2,579,000 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 December 31, 2007 the Company has incurred approximately $2.9 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 year and during which time a former director was related to a professional firm, the Company expensed and capitalized legal fees totaling $159 thousand for services rendered by that professional firm. The fees were incurred in the normal course of business and recorded at the exchange amount.

During the year the Company incurred costs totaling $815 thousand for services rendered by companies in which a director of Twin Butte is an officer and a director. These costs were incurred in the normal course of business and recorded at the exchange amount.

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 newly adopted accounting policies are disclosed in the notes to the financial statements. There were no other significant accounting policies newly adopted during the year ended December 31, 2007.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments and use estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

Full Cost Accounting

The Company follows the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry to account for oil and gas properties. Under this method, all costs associated with the acquisition of, exploration for and development of natural gas and crude oil reserves are capitalized and costs associated with production are expensed. The capitalized costs are depreciated, depleted and amortized using the unit-of-production method based on estimated proved reserves. Reserve estimates can have a significant impact on earnings, as they are a key component in the calculation of depreciation, depletion and accretion ("DD&A"). A downward revision in a reserve estimate could result in a higher DD&A charge to earnings. In addition, if net capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserve estimates, the excess must be written off as a expense and charged against earnings. In the event of a property disposition, proceeds are normally deducted from the full cost pool without recognition of a gain or loss unless there is a change in the DD&A rate of 20 percent or greater.

Asset Retirement Obligations

The Company records a liability for the fair value of legal obligation associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset and the asset retirement obligation. The total amount of asset retirement obligation is an estimate based on the Company's net ownership interest in all wells and facilities and the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in the future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation; the timing of those cash flows are estimates subject to measurement uncertainty. Any changes in these estimates would impact the asset retirement liability.

Reserves Determination

The proved crude oil, natural gas and natural gas liquid reserves used in determining our depletion rates, the magnitude of the borrowing base available to us from our lender and the ceiling test are based upon management's best estimates, and

are subject to uncertainty. Through the use of geological, geophysical and engineering data, the reservoirs and deposits of natural gas, crude oil and natural gas liquids are examined to determine quantities available for future production, given existing operating and economic conditions and technology. The evaluation of recoverable reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions as reflected in crude oil and natural gas prices and costs. Consequently, the reserves are estimates which are subject to variability. To assist with the reserve evaluation process, we employ the services of independent oil and gas reservoir engineers.

Income Taxes

The determination of the Company's income and other tax liabilities require interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from the liability estimated or recorded.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and production costs as at a specific reporting date, but for which actual revenues and costs have not yet been received, and estimates on capital projects which are in progress or recently completed where actual costs have not been received at a specific reporting date.

Ceiling Test

Under the full cost accounting method, a ceiling test is performed at least annually to ensure that the net capitalized costs in each country do not exceed the undiscounted future net revenues from proved reserves, plus the cost of unproved properties. Any excess capitalized costs will be written off as an expense and charged to earnings; however, future depletion and depreciation expense would be reduced.

UPDATE ON REGULATORY MATTERS

On October 25, 2007, the Alberta government announced the New Alberta Royalty Framework which proposes changes to the current royalty regime in Alberta. These proposed changes, at prices in effect at January 1, 2008, are not expected to have a material impact Twin Butte's corporate royalty rate.

OUTLOOK

The Company continues to believe in the longer term outlook for natural gas prices due to improving supply and demand fundamentals and the relative valuation of natural gas compared to crude oil. When this is combined with the execution of key "gas weighted" acquisitions in 2007 the Company is positioned to deliver significant growth per share to Twin Butte shareholders.

The business combination with E4 Energy on February 8, 2008 was a key building block in the Company's growth increasing the Company prospect inventory and significantly increasing the undeveloped land base to approximately 143,000 net undeveloped acres. The E4 acquisition brings a large oil in place reservoir with significant development potential to our existing Plains area and an exciting new core area in N.E. British Columbia. The N.E. British Columbia assets are characterized by high working interest, multi zone opportunities and resource play opportunities that add significant growth potential to the Company.

For 2008 the board of directors of Twin Butte have approved a capital program of $27 million which parallels forecast 2008 funds from operations of $26.5 million ($0.63/share). The Company anticipates drilling 26 wells during the year with approximately $5.5 million allocated to land and seismic that will ensure continued expansion of our prospect inventory. Average production for 2008 is forecast to be approximately 3,150 boe/d with exit production in excess of 3,350 boe/d.

The management team and Board of Directors remain focused on per share growth in reserves, production and cash flow which will be achieved through exploration and exploitation of the existing asset base and the integration of accretive acquisitions following management's "acquire, exploit and explore" business strategy.

Twin Butte has an experienced management team, a solid reserve and production base, a strong balance sheet and a significant tax pool advantage. In 2008, management will continue to employ a disciplined approach that will take advantage of

our expanded opportunity base and focus on per share value creation for our shareholders. The Company is positioned both operationally and financially with excellent growth potential for 2008 and beyond.

ASSESSMENT OF BUSINESS RISKS

The following are the primary risks associated with the business of Twin Butte. These risks are similar to those affecting other companies competing in the conventional oil and natural gas section. Twin Butte's financial position and results of operations are directly impacted by these factors and include:

Operational risk associated with the production of oil and natural gas:

- Reserve risk in respect to the quantity and quality of recoverable reserves;
- Exploration and development risk of being able to add new reserves economically;
- Market risk relating to the availability of transportation systems to move the product to market;
- Commodity risk as crude oil and natural gas prices fluctuate due to market forces;
- Financial risk such as volatility of the Canadian/US dollar exchange rate, interest rates and debt service obligations;
- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection relating to the oil and natural gas industry; and
- Continued participation of Twin Butte's lenders.

Twin Butte seeks to mitigate these risks by:

- Acquiring properties with established production trends to reduce technical uncertainty as well as undeveloped land with development potential;
- Maintaining a low cost structure to maximize product netbacks and reduce impact of commodity price cycles;
- Diversifying properties to mitigate individual property and well risk;
- Maintaining product mix to balance exposure to commodity prices;
- Conducting rigorous reviews of all property acquisitions;
- Monitoring pricing trends and developing a mix of contractual arrangements for the marketing of products with creditworthy counterparties;
- Maintaining a hedging program to hedge commodity prices with creditworthy counterparties;
- Adhering to the Company's safety program and adhering to current operating best practices;
- Keeping informed of proposed changes in regulations and laws to properly respond to and plan for the effects that these changes may have on our operations;
- Carrying industry standard insurance; and
- Establishing and maintaining adequate resources to fund future abandonment and site restoration costs.

FUTURE ACCOUNTING POLICY CHANGES

The CICA issued the new accounting standard; Section 1535 capital disclosures which takes effect on January 1, 2008. Section 1535 specifies the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements, and the consequences of non-compliance. This section is expected to have minimal impact on the Company's financial statements. The Company has implemented these disclosures in the 2007 year end financial statements.

The CICA issued the new accounting standard; Section 3862, financial instruments disclosures and section 3863, financial instrument presentation which takes effect on January 1, 2008. These sections require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the Company manages those risks.

INTERNAL CONTROL REPORTING

In March 2006 Canadian Securities Administrators decided to not proceed with proposed multilateral instrument 52-111 "Reporting on Internal Controls over Financial Reporting" and instead proposed to expand multilateral instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Fillings." The major changes resulting from this are that the Chief Executive Officer and Chief Financial Officer will be required to certify in the annual certificates that they have evaluated the effectiveness of internal controls over financial reporting ("ICOFR") as of the end of the financial year and disclose in the annual MD&A their conclusions about the effectiveness of ICOFR. There will be no requirement to obtain an internal control audit opinion from the issuer's auditors concerning management's assessment of the effectiveness of ICOFR. There is also no requirement to design and evaluate internal controls against an external control framework. This proposed amendment is expected to apply for the year ended December 31, 2009. Twin Butte is continuing with its evaluation of ICOFR to ensure it meets the criteria for the proposed certification of December 31, 2009.

To ensure sound corporate governance, we continue to commit ourselves to establishing and maintaining adequate disclosure controls and procedures, as well as internal control over financial reporting in order to provide reasonable assurance regarding the reliability of our financial disclosure, and ultimately, maintaining our clients' trust and investors' confidence.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

ADDITIONAL INFORMATION

Additional information relating to Twin Butte, including Twin Butte's AIF and financial statements (to be filed before March 31, 2008) can be found on SEDAR at www.sedar.com.

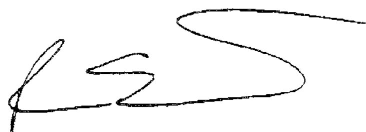
MANAGEMENT'S REPORT

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying financial statements of Twin Butte Energy Ltd. Financial and operating information presented throughout this report is consistent with that shown in the financial statements.

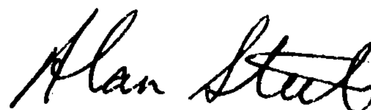
Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

PricewaterhouseCoopers LLP were appointed by the Company's Board of Directors to conduct an audit of the financial statements. Their examination included a review and evaluation of Twin Butte's internal control systems and included such test and procedures, as they considered necessary, to provide a reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.



Ron Cawston
President and Chief Executive Officer



R. Alan Steele
Vice President, Finance & CFO

AUDITORS' REPORT

To the Shareholders of Twin Butte Energy Ltd.

We have audited the balance sheets of Twin Butte Energy Ltd. as at December 31, 2007 and 2006 and the statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Calgary
March 19, 2008

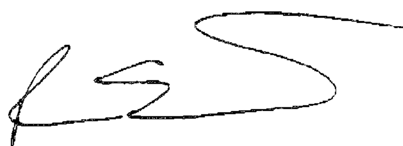
BALANCE SHEETS

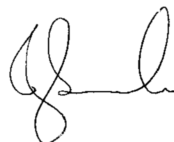
	December 31 2007	December 31 2006
ASSETS		
Current Assets		
Accounts receivable	**$ 5,727,286**	$ 4,554,362
Deposits and prepaid expenses	**558,263**	606,175
Financial derivative contracts (note 9)	**266,898**	–
	6,552,447	5,160,537
Future income taxes (note 7)	**9,164,477**	2,029,400
Property and equipment (note 3)	**104,433,701**	71,506,633
	$ 120,150,625	$ 78,696,570
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 8,278,779**	$ 13,399,101
Bank indebtedness (note 4)	**21,248,583**	6,318,985
Financial derivative contracts (note 9)	**827,135**	–
	30,354,497	19,718,086
Asset retirement obligation (note 5)	**6,945,541**	3,073,325
	37,300,038	22,791,411
Shareholders' Equity		
Share capital (note 6)	**93,722,668**	66,397,721
Contributed surplus (note 6)	**1,014,991**	415,713
Deficit	**(11,887,072)**	(10,908,275)
	82,850,587	55,905,159
	$ 120,150,625	$ 78,696,570

Commitments (note 10)

See accompanying notes to financial statements

On Behalf of the Board of Directors:





Ron Cawston
Director

Jim Saunders
Director

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

Year Ended December 31	2007	2006
REVENUE		
Petroleum and natural gas sales	**$ 29,941,409**	$ 11,149,649
Royalties	**(6,057,074)**	(1,812,873)
Realized (loss) gain on financial derivatives	**545,552**	–
Unrealized loss on financial derivative contracts (note 9)	**(560,237)**	–
	23,869,650	9,336,776
EXPENSES		
Operating	**7,429,785**	2,612,084
Transportation	**1,552,291**	590,699
General and administrative	**2,313,498**	1,108,935
Stock based compensation	**599,278**	3,819,663
Interest	**908,788**	520,604
Depletion, depreciation and accretion	**18,603,817**	7,878,607
	31,407,457	16,530,592
Loss before income taxes	**(7,537,807)**	(7,193,816)
Income taxes		
Future tax recovery	**(6,559,010)**	(3,111,945)
	(6,559,010)	(3,111,945)
Net income (loss) and comprehensive income (loss)	**(978,797)**	(4,081,871)
Deficit, beginning of period	**(10,908,275)**	(6,826,404)
Deficit, end of period	**$ (11,887,072)**	$ (10,908,275)
Basic & diluted loss per share	**$ (0.04)**	$ (0.32)
Weighted average common shares outstanding		
Basic	**24,284,620**	12,762,870
Diluted	**24,284,620**	12,762,870

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

Year Ended December 31	2007	2006
Cash provided by (used in):		
OPERATIONS:		
Net income (loss)	**$ (978,797)**	$ (4,081,871)
Items not involving cash:		
Depletion, depreciation and accretion	**18,603,817**	7,878,607
Future income taxes	**(6,559,010)**	(3,111,945)
Unrealized loss on financial derivative contracts	**560,237**	–
Stock based compensation	**599,278**	3,819,663
	12,225,525	4,504,454
Changes in non-cash working capital	**1,562,268**	(4,081,809)
	13,787,793	422,645
FINANCING:		
Change in bank debt	**14,929,598**	(5,126,820)
Issuance of share capital, net of share issue costs	**26,748,879**	13,021,809
Changes in non-cash working capital	**–**	–
	41,678,477	7,894,989
INVESTING:		
Expenditures on property and equipment	**(48,124,391)**	(14,703,138)
Acquisition expenditures	**–**	(8,252,364)
Proceeds on disposition of property and equipment	**465,721**	–
Changes in non-cash working capital	**(7,807,600)**	11,012,281
	(55,466,270)	(11,943,221)
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	**$ 898,768**	$ 553,054

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS – DECEMBER 31, 2007

Twin Butte Energy Ltd. ("Twin Butte" or the "Company") is engaged in the acquisition of, exploration for, and development of petroleum and natural gas properties in Western Canada. On February 3, 2004, a Plan of Arrangement was completed involving Twin Butte (formerly AltaRex Corp.), AltaRex Medical Corp., and Nova Bancorp Investments Ltd. Pursuant to the Arrangement, Twin Butte was transformed into an oil and gas exploration and production company.

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current period.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. As such, the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from the estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Summary of significant accounting policies:

a) Oil and gas operations

i) Capitalization of costs

The Company follows the full-cost method of accounting for oil and natural gas properties whereby all costs of acquisition, exploration and development of petroleum and natural gas reserves are capitalized and accumulated in a single cost centre representing the Company's activity undertaken exclusively in Canada. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals costs on non-producing properties, costs of drilling both productive and non-productive wells, related production equipment costs, and overhead charges directly related to these activities.

Proceeds received on the disposition of oil and gas properties are credited against property and equipment except when the disposition results in a change in the depletion rate of the 20% or more, in which case a gain or loss is recognized.

Office and computer equipment are depreciated using the straight line method ranging between three and five years.

ii) Depletion and depreciation

Capitalized costs, excluding costs related to unproven reserves and salvage values, are depleted and depreciated using the unit-of-production method based on the estimated gross proven oil and natural gas reserves before royalties as determined by independent engineers. Oil and natural gas reserves are converted on an energy equivalent basis.

iii) Ceiling test

Petroleum and natural gas assets are evaluated on an annual basis to determine that the costs are recoverable and do not exceed the fair value of the properties (the "ceiling test"). The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and fair value of unproved properties exceed the carrying value of the petroleum and natural gas assets. If the carrying value of the petroleum and natural gas is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and fair value of unproved properties. The cash flows are estimated using future commodity prices and costs and are discounted using the Company's risk-free rate.

b) Asset retirement obligations

The Company records the fair value of an asset retirement obligation ("ARO") as a liability in the period in which it incurs a legal obligation associated with the retirement of long-lived assets that result from the acquisition, construction and development of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using a unit of production method over estimated proved reserves. The recorded ARO increases over time through accretion charges to earnings. Revisions to the estimated amount and timing of the obligations are reflected as increases or decreases to the ARO. Actual asset retirement expenditures are charged to the ARO to the extent of the recorded liability with any difference recorded as a gain or loss in the period in which settlement occurs.

c) Joint operations

A portion of the Company's exploration and development activities are conducted jointly with others. Accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

d) Flow-through common shares

The Company has financed a portion of its exploration and development activities through the issuance of flow-through common shares. Under the terms of the flow-through shares, the income tax attributes of the related expenditures are renounced to the subscribers. To recognize the foregone tax benefits to the Company, the flow-through shares issued are recorded net of the tax benefits when renouncement documents are filed with the tax authorities.

e) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and or losses on these items are included in the statements of operations.

f) Income taxes

The Company follows the liability method of income tax allocation. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantial enactment. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

g) Stock-based compensation and other stock-based payments

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan. Awards of stock options granted to employees, officers and directors are accounted for in accordance with the fair value method and result in compensation expense. The expense is recognized in income over the shorter of the service period of the employees to whom the option was granted or the vesting period of the specific option. The corresponding credit is recorded as a contributed surplus. Any consideration paid on the exercise of stock options and the corresponding value previously recorded to contributed surplus is credited to share capital.

h) Per share information

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated adjusting the weighted average number of shares for the dilutive effect of options, using the treasury stock method. Under this method, the dilutive effect of options uses proceeds received on the exercise of options plus the unamortized portion of stock-based compensation to purchase common shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

i) Financial instruments

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 2006 financial statements.

j) Cash and cash equivalents

Cash and cash equivalents consist of cash and term deposits with a maturity date of three months or less.

k) Revenue recognition

Revenue associated with the sale of crude oil and natural gas are recognized when title passes to the purchaser.

l) Measurement uncertainty

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.

m) Future accounting changes

The CICA issued three new accounting standards, section 1535 "Capital Disclosures", section 3862 "Financial Instruments – Disclosures", and section 3863 "Financial Instruments – Presentation". These standards become effective for the Company in the first quarter of 2008.

Section 1535 requires the disclosure of the Company's objectives, policies and processes for managing capital. This includes qualitative information regarding the Company's objectives, policies and processes for management of capital and quantitative data about what the Company manages as capital. These disclosures are based on information that is provided internally by the Company's key management. The Company has provided these disclosures in the 2007 financial statements (note 6).

Sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation" which revises and enhances financial instruments disclosure requirements and leaves unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

NOTE 2. ACQUISITION EXPENDITURES

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

The purchase price paid by Twin Butte for all of Drilcorp's shares was a total of 3,926,009 common shares of Twin Butte and $7,856,597. The purchase price paid by Twin Butte for all of Kerogen's shares was a total of 2,878,434 common shares of Twin Butte.

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

Consideration

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

Purchase Price at Fair Value

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

The net working capital deficiency consists of the following:

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

NOTE 3. PROPERTY AND EQUIPMENT

			December 31, 2007	December 31, 2006
	Cost	Accumulated Depletion & Depreciation	**Net Book Value**	Net Book Value
Petroleum and natural gas properties	$ 130,494,240	$ 26,142,186	**$ 104,352,054**	$ 71,468,938
Office and computer equipment	114,260	32,613	**81,647**	37,695
Total	$ 130,608,500	$ 26,174,799	**$ 104,433,701**	$ 71,506,633

The Company has capitalized $718,965 of general and administrative expenses directly related to exploration and development activities for the year ended December 31, 2007 ($379,609 - December 31, 2006).

The cost of undeveloped property excluded from the depletion base as at December 31, 2007 was $8,158,643 ($5,630,449 – December 31, 2006). Future development costs on proved reserves of $13,457,000 as at December 31, 2007 are included in the calculation of depletion and depreciation ($5,785,700 – December 31, 2006).

The Company performed a ceiling test calculation as at December 31, 2007 to assess the recoverable value of the property and equipment. The oil and gas future price is based on the January 1, 2008 commodity price forecast of the Company's independent reserve evaluators. The Company had no impairment under the December 31, 2007 year end ceiling test.

For calculation of the December 31, 2007 ceiling test, the benchmark prices used were as follows:

	Oil Edmonton Par Price 40 API CAD $/bbl	Natural Gas AECO – C Spot CAD $/MMbtu
2008	89.00	6.81
2009	85.70	7.39
2010	82.20	7.39
2011	78.50	7.39
2012	77.40	7.49
2013	76.20	7.70
2014	77.70	7.97
2015	79.30	8.23
2016	80.80	8.44
2017	82.50	8.70
2018	84.10	8.92
% increase thereafter	2.00%	2.00%

NOTE 4. BANK INDEBTEDNESS

As at December 31, 2007, the Company had a $40.0 million demand revolving credit facility with a Canadian chartered bank. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. 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 to finance a property acquisition. 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.

Subsequent to year end (note 11) and in conjunction with the acquisition of E4 Energy Inc. ("E4") the demand revolving operating credit facility was increased to $55.0 million resulting in a total credit facility increase to $62.5 million.

NOTE 5. 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 $6,945,541 at December 31, 2007, based on a total future liability of $12,192,840. 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:

Year Ended December 31,	**2007**	2006
Asset retirement obligation, beginning of year	**$ 3,073,325**	$ –
Liabilities incurred	**540,749**	76,481
Acquisitions	**3,521,094**	2,062,312
Liabilities related to property dispositions	**(35,940)**	–
Revisions in estimated cash outflows	**(403,449)**	876,988
Accretion of asset retirement obligation	**249,762**	57,544
Asset retirement obligation, end of year	**$ 6,945,541**	$ 3,073,325

NOTE 6. SHARE CAPITAL

Authorized

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

Issued

	Number of shares	Amount
Common Shares		
Balance, December 31, 2005	3,556,269	$ 5,713,339
Issued on conversion of convertible demand notes	2,464,686	4,770,984
Issued pursuant to exercise of flow-through share warrants for cash	1,400,000	3,010,000
Issued pursuant to private placement for cash	3,400,000	6,800,000
Issued pursuant to acquisitions (note 2)	6,804,443	40,840,359
Issued pursuant to exercise of management warrants for cash	1,650,000	3,300,000
Contributed surplus related to management warrants exercised	–	3,403,950
Tax effect of 2005 flow through share issue	–	(1,352,720)
Share issue and financing costs net of tax	–	(88,191)
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	–	(1,325,753)
Balance, December 31, 2007	**27,752,398**	**$ 93,722,668**

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

On February 3, 2004, the Company issued $4,770,985 10% demand notes, convertible into non-voting, common shares of the Company at a ratio of 517 non-voting shares per $1,000 or principle outstanding. The fair value of

the equity component of these notes associated with the conversion option has been estimated to be $nil. The convertible demand notes were converted to 2,464,686 Common Shares of the Company in March 2006.

At December 31, 2005, a total of 1,400,000 warrants ("warrants") to acquire Common Shares at an exercise price of $2.15 per share were outstanding. The warrants were issued pursuant to a private placement of flow-through shares with an expiry of December 31, 2006. All warrants were exercised in 2006.

During the second quarter of 2006 the Company pursuant to a private placement issued 3.4 million Common Shares at a price of $2.00 per share for gross proceeds of $6.8 million.

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 gross proceeds of $12,000,700 ($11,300,734 net of issue costs). Pursuant to the flow-through share offering, Twin Butte is committed to incur $12,000,700 of qualifying resource expenditures prior to December 31, 2008 (note 11). Twin Butte will renounce the qualifying resource expenditures to holders of the flow-through shares effective on or before December 31, 2007. The future income tax effect and reduction to share capital will be accounted for in the first quarter of 2008, the date that the Company has filed the renouncement documents with tax authorities.

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 gross proceeds of $16,650,000 ($15,588,744 net of issue costs).

Management Warrants

The Company has issued 1.65 million warrants ("management warrants") that are registered in the name of Twin Butte Energy Ltd. and are held pursuant to the terms of an employee benefit trust. Each management warrant entitles the holder to acquire one Common Share at an exercise price of $2.00 per share with each management warrant expiring December 31, 2006. The warrants are to be exercised at the discretion of the Company within 10 business days of notice to exercise.

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

All management warrants were exercised during 2006.

Management of Capital Structure

Since inception of the Company in 2004 as an oil and gas exploration and production company, $130.6 million has been incurred in capital expenditures and acquisitions (net of dispositions of $0.5 million). This has been funded by cash flow from operations (before changes in non-cash working capital) of $16.2 million, the issuance of new equity of $88.0 million and increased bank debt and working capital of $26.4 million.

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital investment program, which includes investing in oil and gas activities which may or may not be successful. Therefore the Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures.

In the management of capital, the Company includes share capital and total debt (defined as the sum of current assets, current liabilities and bank debt) in the definition of capital.

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flow from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. Total debt to cash flow from operating activities (before changes in non-cash working capital) is calculated as total debt divided by cash flow from operating activities (before changes in non-cash working capital) and represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if cash flow from operating activities (before changes in non-cash working capital) stayed constant. At December 31, 2007 total debt excluding financial derivative contracts

asset and liability was $23.2 million and cash flow from operating activities (before changes in non-cash working capital) for the year ended December 31, 2007 was $12.2 million, resulting in a total debt to cash flow from operations (before changes in non-cash working capital) ratio of 1.9. Annualized fourth quarter 2007 cash flow from operating activities (before changes in non-cash working capital) was $13.2 million, resulting in a total debt excluding financial derivatives contracts asset and liability to cash flow from operating activities (before changes in non-cash working capital) ratio of 1.8. Both of these ratios are in an acceptable range for the Company.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including; the current economic conditions; the risk characteristics of the underlying assets; the depth of its investment opportunities, forecasted investment levels; the past efficiencies of our investments; the efficiencies of the forecasted investments and the desired pace of investment; current and forecasted total debt levels; current and forecasted natural gas prices and other factors that influence natural gas prices and cash flow from operating activities (before changes in non-cash working capital), such as foreign exchange and basis differential.

In order to maintain or adjust the capital structure, the Company will consider: its forecasted debt to forecasted cash flow from operating activities (before changes in non-cash working capital) ratio while attempting to finance an acceptable investment program including incremental investment and acquisition opportunities; the current level of bank credit available from the bank syndicate; the level of bank credit that may be obtainable from its banking syndicate as a result of natural gas reserve growth; the availability of other sources of debt with different characteristics than the existing bank debt; the sale of assets; limiting the size of the investment program and new common equity if available on favorable terms. During 2007, the Company's strategy in managing its capital was unchanged from the prior year.

Stock Options

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

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	–	$ –
Granted	1,575,000	4.00
Forfeited	(110,000)	4.00
Outstanding at December 31, 2006	1,465,000	$ 4.00
Granted	840,000	2.93
Forfeited	(500,000)	4.00
Outstanding at December 31, 2007	**1,805,000**	**$ 3.15**

There were 321,667 options exercisable as at December 31, 2007 at an average exercise price of $3.99 per share. The 1,805,000 options outstanding at December 31, 2007 have a weighted average remaining contractual life of 3.98 years.

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.

	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Contributed surplus balance at beginning of year	**$ 415,713**	$ –
Stock based compensation for stock options granted	**599,278**	415,713
Stock based compensation for management warrants	**–**	3,403,950
Transfer to share capital on exercise of management warrants	**–**	(3,403,950)
Contributed surplus balance at end of year	**$ 1,014,991**	$ 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 year ended December 31 as follows:

	2007	2006
Expected volatility	**50%**	50%
Risk free rate of return	**4.5%**	4.5%
Expected stock option life	**3 years**	3 years
Dividend yield rate	**0.0%**	0.0%
Weighted average fair value of stock option grants	**$1.12**	$1.50
Weighted average fair value of warrant grants	–	$2.05

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 December 31		Year ended December 31	
	2007	2006	**2007**	2006
Weighted average number of basic shares	**27,752,398**	19,054,887	**24,284,620**	12,762,870
Effect of dilutive securities:				
Employee stock options	–	–	–	–
Management warrants	–	–	–	–
Flow-through warrants	–	–	–	–
Weighted average number of diluted shares	**27,752,398**	19,054,887	**24,284,620**	12,762,870

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

NOTE 7. TAXES

Tax Expense

The combined provision for taxes in the statement of operations and retained deficit reflects an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

	2007	2006
Loss before taxes	**$ (7,537,807)**	$ (7,193,816)
Statutory income tax rate	**32.12%**	34.50%
Expected income taxes	**(2,421,144)**	(2,481,867)
Non-deductible crown charges	–	88,789
Resource allowance	–	(179,190)
Stock based compensation	**192,488**	1,317,784
Recognition of previously unrecognized non-capital loss carryforwards	**(6,266,007)**	(2,160,373)
Change in expected tax rate	**1,096,356**	302,912
Expiry of non-capital losses	**1,695,675**	–
Other	**(856,378)**	–
Future income tax recovery	**$ (6,559,010)**	$ (3,111,945)

Future Income Taxes

	2007	2006
Property, plant, and equipment	**$ 6,605,800**	$ 12,213,900
Asset retirement obligations	**(1,736,400)**	(930,900)
Share issue cost	**(700,000)**	(386,600)
Eligible scientific research & experimental development expenditures	**(4,060,800)**	(4,393,000)
Non-capital loss carryforwards	**(18,097,600)**	(23,603,800)
Valuation allowance	**8,824,523**	15,071,000
Future income tax asset	**$ (9,164,477)**	$ (2,029,400)

As at December 31, 2007, the Company has tax deductions of approximately $160.4 million that are available to shelter future taxable income. Included in the above is $61.3 million in non-capital losses that expire as follows:

Year of expiry ($millions)	
2008	$ 31.3
2009	8.8
2014	3.9
2015	1.1
2026	16.2

NOTE 8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007 and during which time a former director was related to a professional firm, the Company expensed and capitalized legal fees totaling $158,623 (2006 - $433,102) for services rendered by that professional firm. No amount 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.

During the year ended December 31, 2007, the Company incurred costs totaling $814,916 (2006 - $404,209) for services rendered by companies in which a director of Twin Butte is an officer and a director. These costs were incurred in the normal course of business and recorded at the exchange amount. As at December 31, 2007, the Company has $74,234 included in accounts payable and accrued liabilities related to these transactions.

NOTE 9. FINANCIAL INSTRUMENTS

Financial instruments of the Company carried on the balance sheet consist mainly of accounts receivable and current liabilities including bank indebtedness. The estimated fair value of the financial instruments approximates their carrying values due to their short terms to maturity. Substantially all of the Company's accounts receivable are due from customers in the oil and gas industry and are subject to normal industry credit risk. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact any bank indebtedness that has a floating interest rate.

Natural Gas Sales Price Derivative Contracts

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

Daily quantity per giga-joule ("GJ")	Remaining term of contract	Fixed price per GJ (AECO)
2,000 GJ	January 1 to December 31, 2008	$6.50
2,500 GJ	April 1 to October 31, 2008	$6.45
1,000 GJ	January 1 to December 31, 2008	$6.64

The fair value of the above natural gas contracts, mark-to-market at December 31, 2007, is an unrealized gain of $266,898 ($ nil – 2006).

Oil Sales Price Derivative Contracts

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

Daily quantity per barrel ("bbl")	Remaining term of contract per bbl (WTI)	Fixed price per bbl (WTI)	Costless Collar
100 bbl	January 1 to December 31, 2008	US $70.65	
60 bbl	January 1 to December 31, 2008	US $87.25	
60 bbl	January 1 to March 31, 2008	US $91.15	
60 bbl	January 1 to March 31, 2008		US $88.00 – US $100.50

The fair value of the above oil contracts, mark-to-market at December 31, 2007, is an unrealized loss of $827,135 ($ nil – 2006).

NOTE 10. COMMITMENTS

The Company is committed to future minimum payments for natural gas transmission and processing, operating leases on compression equipment, farm-in agreements and future premiums on financial derivative contracts.

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 December 31, 2007 the Company has incurred approximately $2.9 million of this commitment.

As at December 31, 2007, the Company had contractual obligations and commitments for base office rent and equipment as follows:

2008	$ 277,482
2009	284,220
2010	284,220
2011	27,645
2012	1,800

NOTE 11. SUBSEQUENT EVENTS

Acquisition of E4 Energy Inc. and Credit Facility

On February 8, 2008, the Company closed the acquisition of E4 Energy Inc. ("E4"), a publicly traded company for total consideration of approximately $55.6 million, before closing adjustments (based on a Company share price of $2.45) and including net debt. The Company issued 15,663,027 common shares to the former shareholders of E4. In addition, the Company's total demand revolving credit facility credit facility was increased from $40.0 million to $62.5 million.

Fixed Price Swap Hedges

In January 2008 the Company entered into a fixed price swap hedge arrangement on a total of 1,000 GJ/d for the period of April 1, 2008 to October 31, 2008 at a price of $7.075/GJ as follows:

Volume (GJ/d)	Price ($/GJ)	Index
1,000 GJ	$7.0750/GJ	AECO Monthly

In March 2008 the Company entered into a costless collar hedge arrangement on a total of 100 bbl/d for the period of April 1, 2008 to December 31, 2008 as follows:

Volume (bbl/d)	Costless Collar USD per bbl (WTI)
100 bbl	US $90.00 – US $120.00

CORPORATE INFORMATION

OFFICERS

Ron Cawston
President and Chief Executive Officer

Glenn Downey
Vice President, Exploration

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

Jim Brown [1]

Paul Colborne [3]

Craig Hruska [2] [3]

Ken Mullen [1] [3]

Paul Starnino [2]

Ron Cawston

Member of:
[1] Audit Committee
[2] Reserves Committee
[3] Compensation, Nominating and Governance Committee

HEAD OFFICE

Twin Butte Energy Ltd.
Home Oil Tower
600, 324 – 8 Ave. SW
Calgary AB T2P 2Z2
Phone: 403-215-2045
Fax: 403-215-2055
www.twinbutteenergy.com

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants, Calgary, AB

BANKERS

National Bank of Canada, Calgary, AB

SOLICITORS

Burnet, Duckworth & Palmer LLP,
Calgary, AB

ENGINEERS

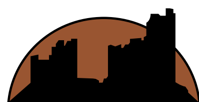
McDaniel & Associates Consultants Ltd. Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"



Twin Butte Energy Ltd.

Home Oil Tower, 600, 324 – 8 Ave. SW, Calgary AB T2P 2Z2
Phone: 403-215-2045 Fax: 403-215-2055
www.twinbutteenergy.com