Twin Butte Energy Ltd.

Q2
2008

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008

Twin Butte Reports Record Production and Cash Flow

REPORT TO SHAREHOLDERS

During the second quarter of 2008 Twin Butte set new record production and cash flow benchmarks for the Company. As well we have initiated what will be our busiest quarter ever, having commenced drilling operations in Bulwark, Thunder and at Brassey where our first Montney horizontal well was spud on the first of two high impact resource play farm-in agreements.

The Company realized record cash flow from operations of $10.2 million for a 229 percent increase compared to the same period in 2007 benefiting from a 111 percent increase in production volumes and a recovery in commodity prices during the quarter. The solid financial health of the Company enabled a significant increase of 67 percent to the annual capital budget during the second quarter setting up an exciting third quarter that will be the most active in the Company's history, a quarter that will test opportunities with the potential to materially change the Company.

During Q2 the Company continued to execute its strategic growth and development plan with highlights as follows:

> Increased average Q2 production by 111 percent to 3,051 boe/d, up from 1,445 boe/d in Q2 of 2007;

> Increased production per share by 8 percent over Q2 2007;

> Increased cash flow by 229 percent over Q2 2007 to $10.2 million;

> Increased cash flow per share by 64 percent to $0.23 per share over Q2 2007;

> Increased NAV per share to $5.39 using July 1 McDaniel's price deck;

> Drilled and cased 2 gross (1.85 net) wells with a 100 percent success rate;

> Commenced planning for two additional horizontal wells at the Provost Dina oil pool as part of a potential 10 well program which will be spud in August;

> Commenced planning for the second multi frac horizontal well in Jayar light oil pool;

> Commenced planning for the multi well drilling program in the Oak and Lagarde areas of North East British Columbia;

> Completed the vertical strat test and commenced drilling the horizontal leg at Brassey on the first Montney - Doig resource play farm-in with an estimated 256 BCF OGIP; and

> Signed a second farm-in in North East British Columbia to earn an additional 11 sections prospective for the Montney resource play and the prolific Doig formation directly offsetting an 8 mmcf/d Doig producer.

OPERATIONAL REVIEW

During the quarter the management of Twin Butte continued to execute the Company's "acquire, exploit and explore" business model adding to our opportunity base with a second Montney resource play farm-in on an 11 section block at Kelly in North East British Columbia. The Company now has two exciting resource play opportunities in addition to the ongoing development program and Twin Butte continues to benefit from the countercyclical acquisitions completed over the last year realizing significantly increased cash flow from its operational success. The increased cash flow has allowed the Company to safely pursue high impact exploratory opportunities in addition to lower risk exploitation opportunities representing moderate risk with significant upside for our shareholders.

Twin Butte continues to grow its land base which now stands at over 141,000 net undeveloped acres not including the 15 gross sections of Montney farm-in lands. The Company continues to fully exploit its existing land base and to evaluate additional farm-in, exploration and acquisition opportunities.

The Board of Directors approved an increase in the capital budget during the quarter from $27 million to $45 million which sets up an extremely active drilling program for the second half of the year that will have the Company drilling 29 gross (28.3 net) wells in 2008. Upcoming drilling will target prospects ranging from low risk oil and gas development in SE Alberta, Thunder, Jayar and North East British Columbia, to our high impact exploratory earning wells in the Brassey and Kelly areas of North East British Columbia. Capital is allocated with $38.4 million for drilling and facilities, and $6.6 million for land, seismic and other that will set up the Company's future opportunities.

Production and Drilling

The Company's second quarter production averaged 3,051 boe/d comprised of 70 percent natural gas and 30 percent light oil and natural gas liquids, representing an increase of 111 percent over the second quarter 2007 average of 1,445 boe/d. Production for the quarter was affected by a 22 day major turnaround at the third party McMahon gas processing facility in North East British Columbia and by production shut in on a GOR penalty at Boundary Lake resulting in production downtime. The GOR penalty has been resolved and Boundary Lake production is now back on stream.

With the Company's aggressive capital program, which was increased in June, we continue to be on track to meet exit production guidance of over 3,650 boe per day.

The Company completed a net capital program of $7.0 million in Q2, including the drilling and completion of 1 gross (0.85 net) horizontal well in Jayar and the drilling of 1 gross (1 net) well at Thunder. An additional Thunder well and 6 additional Plains wells have been drilled to date this quarter while the Brassey horizontal well which spud in June is currently drilling on the horizontal section.

British Columbia

In North East British Columbia, the Company has been actively preparing for a multi well drilling program in the greater Fort St John area with operations commencing on the Brassey Montney resource play near the end of the second quarter. Brassey is the first of 2 farm-in agreements in North East British Columbia totaling 15 gross sections of land, highly prospective for both the Montney and Doig formations. The stratigraphic test of the vertical section has been completed giving positive log indications, gas shows and penetration rates. Consequently, the horizontal leg of the well has been kicked off with drilling anticipated to finish in August and completion results expected in late September.

The Brassey area is a 4 section land block where Twin Butte will drill and case this first horizontal well to earn and continue the P&NG rights in the entire 4 section block for a 5 year term. Earning will be from the surface to the base of the Montney formation and Twin Butte will pay 100 percent of the drilling and casing cost on this initial horizontal well to earn a 60 percent working interest. Twin Butte is the operator and all costs after casing of the initial well will be shared 60:40. The Brassey lands directly offset recent land sales where bonus prices of $8.5 million were paid per section, placing an equivalent land value of $75 million on the 9 net sections of Twin Butte farm-in land which represents a value of $1.73 per fully diluted share that is not currently recognized in the Company share trading price or NAV calculation. Montney pay from area offset wells average 76 m in thickness with a potential original gas in place (OGIP) reserve estimate of greater than 64 BCF per section for the Montney section alone with out consideration for the Doig phosphate zone or adsorbed gas which could total up to an additional 40 BCF per section of OGIP. The lands are located approximately 3.0 miles from a tie in point which combined with the large gas resource and favorable farm-in terms give the potential for a material impact on the Company.

The second farm-in is on an 11 section block in the Kelly area that is also prospective for the Montney and Doig formations and has additional potential from the Doig phosphate zone and from adsorbed gas in the Montney formation. The first location offsets an 8 mmcf/d Doig producer and the Doig zone can be evaluated while drilling the Montney test well. The Company is committed to drill and complete one vertical test well in late Q3 at 100 percent working interest to earn a 60 percent working interest in the entire 10 section block. Again, Twin Butte is the operator and all costs after completion of the initial well will be shared 60:40.

At Oak-Lagarde the Company plans to commence a 3 well drilling program in early September. The wells in the program offset existing producing wells and are considered to be development risk with production anticipated to commence in the fourth quarter.

Jayar Area

At Jayar, the Company initiated planning of its second multifrac horizontal well targeting the Dunvegan light oil pool. The well has been scheduled for drilling in the fourth quarter and will be fractured with up to 6 treatments along the length of the horizontal section. The well is targeting a higher pressure area of the reservoir and will evaluate new fracture technology to improve post fracture flow back and cleanup of the wellbore.

The Jayar Dunvegan pool is an 85.5 percent working interest, low permeability reservoir that had been previously developed utilizing vertical drilling and completion technology. Production from the initial horizontal well is encouraging and the project economics remain robust presenting significant upside potential from this 37.5 mmbbl OOIP light oil reservoir. Additionally, the Company also believes there is potential for significant capital efficiencies on future operations and is currently evaluating the viability of horizontal re-entry work and different fracture treatment fluids to further improve project economics.

Thunder Area

Twin Butte drilled and cased one well in Thunder in Q2 as a potential gas well and has cased a second well subsequent to quarter end. Both wells have been completed and are currently awaiting tie in with follow up drilling planned for Q4 or Q1 of next year.

Plains Area

The Company commenced planning for a second horizontal well program at Provost targeting the Dina RR oil pool. This two well program will commence operations in August with production additions expected in September. The 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 commissioned in March of this year is helping to reduce trucking costs and allowing well production to be optimized. Excellent initial results from the Q1 program support continued development with the potential for up to 10 additional wells on this property.

At Bulwark, the Company continued its area development in the second quarter spudding the first 2 wells in a 6 well multi zone program. The primary target is the Viking light oil pool with all wells scheduled for completion in the third quarter and production planned to commence in early September. This ongoing program continues to yield excellent results for the Company.

At Richdale, the Company will be drilling a two well program in the third quarter pursuing Mannville light oil targets. These prospects are development risk keying on bypassed pay opportunities.

Twin Butte 2008 Guidance is summarized as follows:

Exit production rate	> 3,650 boe/d
Annualized Q4 cash flow	$56 million
Annualized Q4 cash flow per share	$1.27
Average Gas Price 2008	$9.04/gj
Average Oil Price 2008	$109.00/bbl WTI
Capital program	$45 million
Year end debt	$48 million
Authorized bank line	$65.0 million
Unused bank line capacity	$16.5 million
Shares outstanding (basic)	43.4 million
Shares outstanding (fully diluted)	46.7 million

The Company's key characteristics are illustrated as follows:

- Reserves of 9.1 MMboe (P+P);
- Stable production base > 3,100 boe/d;
- Net asset value of $ 5.39 per share not including Montney upside, (mechanical reserves update, McDaniel's July 1 pricing);
- A reserve life index of 8.0 years (P+P);
- Tax pools of approximately $197 million;
- Net undeveloped land totaling approximately 141,000 acres not including 15 section BC farm-ins;
- Solid balance sheet with current net debt of approximately $43 million excluding unrealized loss on financial derivative contracts, and total credit facilities of $65 million;
- Year end net debt of approximately 1.0 times annualized Q4 cash flow;
- Shares outstanding of 43.4 million (basic) and 46.7 million (fully diluted);
- Significant oil potential at Jayar and Provost;
- Exciting exploration and resource potential in North East British Columbia; and
- Significant drilling inventory of > 80 locations.

In the second quarter we continued to add to our land base and our inventory of opportunities and the management team and Board of Directors remained focused on cost effective per share growth in reserves, production and cash flow following management's "acquire, exploit and explore" business strategy.

Weather and third party facility shut ins delayed activity and production in Q2 but the Company remains on track with an aggressive capital program and an excellent inventory of low risk development and high impact resource prospects in the upcoming quarters. As a result the Company continues to guide to exit production of greater than 3,650 boe/d which would represent a 74 percent increase over the 2007 exit production rate.

The capital program is underpinned by the drilling of high impact earning wells on the large OGIP Montney resource lands in North East British Columbia, the Jayar light oil pool development and the Provost Dina oil pool development that all present significant upside potential for the Company. The management and Board of Directors will continue to monitor the commodity price environment, the Company's continued success and its growing inventory of opportunities in relation to the cash flow capital budget.

Twin Butte's management continues to position 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 growth strategy and we remain very excited about the Company's future prospects.

On behalf of the Board of Directors,

Ron Cawston
President and C.E.O.
August 13, 2008

READER ADVISORY

Certain information regarding Twin Butte set forth in this interim report including management's assessment of the Company's future plans and operations, the effect on the Company and on shareholders of Twin Butte, production increases and future production levels contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Twin Butte's control including, without limitation, the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, lack of availability of qualified personnel, stock market volatility, ability to access sufficient capital from internal and external sources and uncertainty related to the effect of the Arrangement. Twin Butte's actual results, performance or achievements may differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Twin Butte will derive there from. Additional information on these and other factors that could affect Twin Butte's results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or Twin Butte's website (www.twinbutteenergy.com). Furthermore, the forward-looking statements contained in this joint news release are made as at the date of this joint news release and Twin Butte does not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

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

HIGHLIGHTS

Twin Butte Energy Ltd. ("Twin Butte" or the "Company") (TSX: TBE) is pleased to announce its financial and operational results for the three and six months ended June 30, 2008. Twin Butte's results for the six month period ended June 30, 2008 includes 144 days of operating results from the acquisition of E4 Energy Inc. ("E4" or "E4 Energy") which closed February 7, 2008.

	Three months ended June 30			Six months ended June 30		
	2008	2007	% Change	**2008**	2007	% Change
FINANCIAL ($ thousands, except per share amounts)						
Petroleum and natural gas sales	**21,907**	6,755	224%	**35,707**	12,736	180%
Cash flow (1)	**10,178**	3,091	229%	**15,957**	5,716	179%
Per share basic & diluted	**0.23**	0.14	64%	**0.50**	0.27	85%
Net (loss) income	**(1,753)**	3,483		**(4,503)**	(432)	
Per share basic & diluted	**(0.04)**	0.16		**(0.14)**	(0.02)	
Capital expenditures (net of dispositions)	**7,025**	31,981	(78)%	**15,538**	40,373	(62)%
Corporate acquisitions (2)	**–**	–		**57,252**	–	
Net debt (3)	**43,230**	38,042	14%	**43,230**	38,042	14%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**785**	327	140%	**663**	316	110%
Natural gas (mcf per day)	**12,823**	6,347	102%	**11,960**	6,035	98%
Natural gas liquids (bbl per day)	**129**	60	115%	**119**	56	113%
Barrels of oil equivalent (boe per day, 6:1)	**3,051**	1,445	111%	**2,775**	1,377	102%
Average sales price						
Crude oil ($ per bbl)	**113.71**	70.12	62%	**104.92**	67.12	56%
Natural gas ($ per mcf)	**10.85**	7.46	45%	**9.70**	7.59	28%
Natural gas liquids ($ per bbl)	**96.55**	65.20	48%	**89.71**	59.87	50%
Barrels of oil equivalent ($ per boe, 6:1)	**78.91**	51.38	54%	**70.69**	51.08	38%
Operating netback ($ per boe)						
Petroleum and natural gas sales	**78.91**	51.38	54%	**70.69**	51.08	38%
Realized (loss) gain on financial instruments	**(9.30)**	0.93		**(6.33)**	0.49	
Royalties	**(11.15)**	(10.52)	6%	**(10.92)**	(10.06)	9%
Operating Expenses	**(13.58)**	(10.96)	24%	**(12.50)**	(11.33)	10%
Transportation Expenses	**(2.88)**	(2.31)	25%	**(2.86)**	(2.49)	15%
Operating netback	**42.00**	28.52	47%	**38.08**	27.69	38%
Wells drilled						
Gross	**2.0**	5.0	(60)%	**7.0**	9.0	(22)%
Net	**1.9**	4.4	(57)%	**6.9**	7.5	(8)%
Success (%)	**100%**	100%		**100%**	100%	
COMMON SHARES						
Shares outstanding, end of period	**43,424,425**	22,202,398	96%	**43,424,425**	22,202,398	96%
Weighted average shares outstanding	**43,417,898**	22,202,398	96%	**32,228,785**	21,280,636	51%

(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) Corporate acquisitions represent total consideration for the transactions including net working capital deficiency assumed.

(3) Net debt at June 30, 2008 excludes financial derivative contracts asset and liability in the net amount of $8.0 million (June 30, 2007 - $0.1 million). The net liability relates to an unrealized loss on financial derivative contracts recognized at the period end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of August 13, 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 accompanying unaudited interim financial statements for the three and six months ended June 30, 2008 and Twin Butte's audited financial statements and management's discussion and analysis for the year ended December 31, 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 June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Average Twin Butte Realized Commodity Prices (1)				
Crude oil ($ per bbl)	**113.71**	70.12	**104.92**	67.12
Natural gas ($ per mcf)	**10.85**	7.46	**9.70**	7.59
Natural gas liquids ($ per bbl)	**96.55**	65.20	**89.71**	59.87
Barrels of oil equivalent ($ per boe, 6:1)	**78.91**	51.38	**70.69**	51.08

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

Benchmark Pricing				
WTI crude oil (US$ per bbl)	**123.95**	64.94	**110.91**	61.46
WTI crude oil (Cdn$ per bbl)	**124.81**	71.31	**112.02**	69.75
AECO natural gas (Cdn$ per mcf) (2)	**9.44**	7.14	**8.32**	7.30
Exchange rate – US$/Cdn$	**1.0070**	1.0981	**1.0100**	1.1349

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

Revenue				
$ 000's				
Crude oil	**8,120**	2,089	**12,652**	3,839
Natural gas	**12,655**	4,311	**21,105**	8,295
Natural gas liquids	**1,132**	355	**1,950**	602
Total petroleum and natural gas sales	**21,907**	6,755	**35,707**	12,736
Average Daily Production				
Crude oil & natural gas liquids (bbl/day)	**914**	387	**782**	372
Natural gas (mcf/day)	**12,823**	6,347	**11,960**	6,035
Total (boe/d)	**3,051**	1,445	**2,775**	1,377
% natural gas production	**70%**	73%	**72%**	73%

Revenues for the three months ended June 30, 2008 were $21.9 million, as compared to $6.8 million for the three months ended June 30, 2007 representing an increase of $15.1 million or 222%. The increase in revenue is attributed to second quarter average production increasing by 111% to 3,051 boe/d in 2008 from 1,445 boe/d in 2007 as a result of corporate and property acquisitions and organic production growth. In addition, the increase in revenue is due to a 54% increase in the average realized commodity price from $51.38 per boe in 2007 to $78.91 per boe in 2008.

Revenues for the six months ended June 30, 2008 were $35.7 million as compared to $12.7 million in the prior year comparative period, representing an increase of 181%. This increase is due to a 102% increase in production volumes, and a 38% increase in average realized prices.

Production for the second quarter consists of 1,166,869 mcf of gas, 71,413 bbl of oil and 11,721 bbl of natural gas liquids, for a total of 277,612 boe. The Company's sales volumes were 70% natural gas for the second quarter and 72% natural gas for the six month period ended June 30, 2008. This compares to 73% in both the prior year comparative quarter and prior year comparative six month period.

The Company's production for the second quarter was negatively impacted by the plant turnaround at the Spectra owned McMahon gas processing facility located in North East British Columbia. The turnaround resulted in the facility being shut down for approximately three weeks in June. As a result, the Company had approximately 225 boe/d of production shut-in during that time period.

ROYALTIES

Royalties for the three months ended June 30, 2008 were $3.1 million, as compared to $1.4 million for the three months ended June 30, 2007. As a percentage of revenues, the average royalty rate for the second quarter of 2008 was 14% compared to 20% for the comparative period of 2007. Royalties for the six months ended June 30, 2008 were $5.5 million as compared to $2.5 million for the prior year comparative period. As a percentage of revenues, the average royalty rate for the six months ended June 30, 2008 was 15% compared to 20% for the comparative period of 2007.

The Company was able to take advantage of B.C. royalty credits in the second quarter and received higher than expected Alberta natural gas processing royalty credits resulting in a decrease in the effective royalty rate. Management anticipates the average royalty rate for the remainder of 2008 will be approximately 17 percent.

OPERATING EXPENSES

Operating expenses were $3.8 million or $13.58 per boe for the quarter ended June 30, 2008 as compared to $1.4 million or $10.96 per boe for the three months ended June 30, 2007. Operating expenses were $6.3 million or $12.50 per boe for the six months ended June 30, 2008 as compared to $2.8 million or $11.33 per boe for prior year comparative period.

The increase in operating expenses on a per boe basis for the quarter is mainly due to additional repairs and maintenance work and well servicing costs incurred in the quarter. In addition, operating costs have increased due to higher fuel and power costs at the Airport and Provost properties acquired in the E4 acquisition. Management anticipates operating expenses for the remainder of 2008 to be consistent with costs realized in the first half of the year on a per boe basis.

TRANSPORTATION EXPENSES

Transportation expenses for the three months ended June 30, 2008 were $0.8 million or $2.88 per boe compared to $0.3million or $2.31 per boe in the prior year comparative quarter. Transportation expenses for the six months ended June 30, 2008 were $1.4 million or $2.86 per boe compared to $0.6 million or $2.49 per boe in the prior year comparative period. Increases in total transportation expenses are the result of increased production volumes but transportation expenses on a per unit basis remain consistent in 2008. The increase in transportation costs on a per boe basis in 2008 compared to 2007 is primarily due to higher transportation costs associated with the properties acquired in the E4 acquisition and an increase in oil and liquids production as a percentage of overall production and their higher associated transportation costs.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
G&A expenses	**1,728,938**	791,997	**3,162,671**	1,584,980
Recoveries	**(87,894)**	(46,913)	**(206,499)**	(186,627)
Capitalized G&A expenses	**(661,620)**	(186,723)	**(910,347)**	(365,522)
Total net G&A expenses	**979,424**	558,361	**2,045,825**	1,032,831
Total net G&A expenses ($ per boe)	**3.53**	4.25	**4.05**	4.14

General and administrative expenses, net of recoveries and capitalized G&A, were $1.0 million, or $3.53 per boe for the current quarter as compared to $0.6 million or $4.25 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were $2.0 million, or $4.05 per boe for the six months ended June 30, 2008 as compared to $1.0 million or $4.14 per boe in the prior year comparative period.

General and administrative expenses, net of recoveries and capitalized G&A, have risen with increased staff levels but have decreased on a per boe basis. The Company anticipates G&A costs in the second quarter to be consistent for the remainder of 2008.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended June 30, 2008, the Company recognized stock based compensation expense in the amount of $0.6 million, as compared to stock based compensation expense of $0.1 million in three month period ended June 30, 2007. During the six month period ended June 30, 2008, the Company recognized stock based compensation expense in the amount of $1.4 million, as compared to stock based compensation expense of $0.3 million in six month period ended June 30, 2007.

The increase in stock based compensation expense for the quarter and period ended June 30, 2008 is the result of stock based compensation expense recorded on the remaining unrecognized fair value of outstanding stock options that were cancelled in 2008. This expense recognition is in accordance with accounting rules.

INTEREST EXPENSE

For the three months ended June 30, 2008, interest expense was $0.5 million, an increase of $0.4 million from $0.1 million for the prior year comparative quarter. For the six months ended June 30, 2008, interest expense was $1.2 million, an increase of $1.0 million from $0.2 million for the prior year comparative period. Higher interest costs in 2008 are due to higher average debt levels. Bank indebtedness levels have increased primarily as a result of net debt acquired as part of the acquisition of E4 Energy Inc.

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

During 2007 and 2008, the Company has entered into fixed price swap and costless collar contracts for natural gas and crude 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 $2.6 million ($9.30/boe) for the three month period ended June 30, 2008 as compared to a $0.1 million ($0.93/boe) realized gain for the prior year comparative period. For the six month period ended June 30, 2008, the Company has recognized a realized loss on financial derivatives in the amount of $3.2 million ($6.33/boe) compared to a $0.1 million ($0.49/boe) realized gain for the prior year comparative period.

The Company has recognized an unrealized loss on financial derivative contracts in the amount of $7.5 million for the six month period ended June 30, 2008 compared to an unrealized loss of $0.1 million for the six month period ended June 30, 2007.

The following is a summary of all natural gas and crude oil sales price derivative contracts in effect as at June 30, 2008 and their related fair market values (unrealized loss positions):

Natural Gas Sales Price Derivative Contracts

Daily quantity per giga-joule ("GJ")	Remaining term of contract	Fixed price per GJ (AECO)	Fair market value
2,000	July 1 to December 31, 2008	$6.500	$ (2,018,079)
2,500	July 1 to October 31, 2008	$6.450	(1,708,945)
1,000	July 1 to December 31, 2008	$6.640	(915,400)
1,000	July 1 to October 31, 2008	$7.075	(634,285)
Natural gas fair value position			$ (5,276,709)

As at July 31, 2008 the marked-to-market value of the Company's natural gas sales price derivative contracts was a liability of $1.7 million. The $3.6 million reduction in the liability from June 30 is due primarily to the change in future market AECO gas prices.

Crude Oil Sales Price Derivative Contracts

Daily quantity per barrel ("bbl")	Remaining term of contract	Fixed price per bbl (WTI)	Costless Collar per bbl (WTI)	Fair market value
100	July 1 to December 31, 2008	US $70.65		$ (1,500,768)
60	July 1 to December 31, 2008	US $87.25		(685,078)
100	July 1 to December 31, 2008		US $90.00 – US $120.00	(491,284)
100	January 1, 2009 to December 31, 2009		US $100.00 – US $195.00	(74,358)
Crude oil fair value position				$ (2,751,488)

As at July 31, 2008 the marked-to-market value of the Company's crude oil sales price derivative contracts was a liability of $1.5 million. The $1.3 million reduction in the liability from June 30, 2008 is due primarily to the change in future market WTI oil prices.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended June 30, 2008, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $7.6 million or $26.98 per boe compared to $4.1 million or $31.14 per boe for the three month period ended June 30, 2007. For the six month period ended June 30, 2008, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $13.8 million or $26.84 per boe compared to $7.9 million or $31.51 per boe for the six month period ended June 30, 2007.

The increase in depletion, depreciation and accretion expense for the three month and six month periods ended June 30, 2008 as compared to the prior year comparative periods in 2007 is due to higher production volumes, but reflects a decrease in costs on a per unit basis. Per unit costs have decreased in 2008 compared to 2007 due to proven reserve additions acquired from the first quarter of 2007 through to the second quarter of 2008 at a lower cost than historic first and second quarter 2007 depletion, depreciation and accretion expense per boe.

INCOME TAXES

Future income tax expense amounted to $0.3 million for the three month period ended June 30, 2008 compared to future income tax recovery in the amount of $4.1 million for the three month period ended June 30, 2007. Future income tax recovery amounted to $2.2 million for the six month period ended June 30, 2008 compared to future income tax recovery in the amount of $2.2 million for the six month period ended June 30, 2007. The Company has existing tax losses and pools of approximately $197.3 million of which $54.8 million are non-capital losses. Based on current cash flow forecasts the Company will be able to realize the benefit of the majority of the non-capital losses.

CASH FLOW FROM OPERATIONS, AND NET LOSS AND COMPREHENSIVE LOSS

Cash flow from operations for the three month period ended June 30, 2008 was $10.2 million, an increase of 229% from second quarter 2007 cash flow of $3.1 million. Cash flow per share basic and diluted amounted to $0.23 for the second quarter of 2008, an increase of 64% from $0.14 in the second quarter of 2007.

Cash flow from operations for the six month period ended June 30, 2008 was $16.0 million, an increase of 179% from second quarter 2007 cash flow of $5.7 million. Cash flow per share basic and diluted amounted to $0.50 for the six month period ended June 30, 2008, an increase of 85% from $0.27 in the prior year comparative period.

The increase in cash flow per share is mainly a result of higher operating income resulting from an increased production base and higher commodity prices.

The Company posted net loss and comprehensive loss of $1.8 million for the three month period ended June 30, 2008, equating to a basic and diluted net loss per share of $0.04, compared to a net income and comprehensive income of $3.5 million for the three month period ended June 30, 2007, equating to a basic and diluted net income per share of $0.16. The net loss and comprehensive loss of $1.8 million for the three month period ended June 30, 2008 includes non cash items including depletion, depreciation and accretion expense of $7.6 million, future income tax expense of $0.3 million, unrealized loss on financial derivative contracts of $3.4 million, and stock based compensation expense $0.6 million.

The Company posted net loss and comprehensive loss of $4.5 million for the six month period ended June 30, 2008, equating to a basic and diluted net loss per share of $0.14, compared to a net loss and comprehensive loss of $0.4 million for the prior year comparative period, equating to a basic and diluted net loss per share of $0.02.

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

($ per boe)	**Q2 2008**	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Petroleum and natural gas sales	**78.91**	60.67	49.55	42.91	51.38	50.76	48.48	47.45
Royalties	**(11.15)**	(10.64)	(9.99)	(9.08)	(10.52)	(9.55)	(7.21)	(7.91)
Realized gain (loss) on financial instruments	**(9.30)**	(2.71)	(0.84)	3.07	0.93	–	–	–
Operating expenses	**(13.58)**	(11.17)	(12.89)	(11.86)	(10.96)	(11.73)	(11.38)	(11.76)
Transportation expenses	**(2.88)**	(2.83)	(2.54)	(2.47)	(2.31)	(2.69)	(2.77)	(2.40)
Operating netback	**42.00**	33.32	23.29	22.57	28.52	26.79	27.12	25.38
General and administrative expenses	**(3.53)**	(4.69)	(3.70)	(3.19)	(4.25)	(4.03)	(5.19)	(4.30)
Interest expense	**(1.81)**	(3.21)	(1.96)	(2.07)	(0.77)	(0.47)	(1.42)	(1.76)
Cash flow from operations	**36.66**	25.42	17.63	17.31	23.50	22.29	20.51	19.32

QUARTERLY FINANCIAL SUMMARY

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

($ thousands, except per share amounts)	**Jun 30, 2008**	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sep. 30, 2006
Average production (boe/d)	**3,051**	2,500	2,006	2,042	1,445	1,309	1,089	1,047
Petroleum and natural gas sales	**21,907**	13,800	9,146	8,060	6,755	5,981	4,855	4,569
Operating netback (per boe)	**42.00**	33.32	23.29	22.57	28.52	26.79	27.12	25.38
Cash flow from operations	**10,178**	5,780	3,255	3,254	3,091	2,626	2,054	1,861
Per share basic & diluted	**0.23**	0.16	0.12	0.12	0.14	0.13	0.11	0.10
Net income (loss)	**(1,753)**	(2,751)	4,272	(4,818)	3,483	(3,915)	(881)	(2,267)
Per share basic & diluted	**(0.04)**	(0.07)	0.15	(0.18)	0.16	(0.19)	(0.07)	(0.13)
Corporate acquisitions	**–**	57,252	–	–	–	–	–	–
Capital expenditures (net of dispositions)	**7,025**	8,487	3,671	3,615	31,981	8,391	9,581	4,666
Total assets	**187,172**	186,685	120,151	112,804	116,389	81,899	78,697	67,060
Net debt excluding financial derivative contracts liability	**43,230**	46,297	23,242	22,823	38,042	9,001	14,558	7,517

CORPORATE ACQUISITIONS

On February 7, 2008, the Company closed the acquisition of E4 Energy Inc., a publicly traded company with properties in North East British Columbia and in Alberta, for total consideration of approximately $57.3 million including net debt assumed. The purchase was funded through the issuance of 15.7 million common shares of Twin Butte and was accounted for as a business combination using the purchase method of accounting.

CAPITAL EXPENDITURES

The Company's capital expenditures for the second quarter of 2008 were $7.0 million, compared to $32.0 million for the comparable period in 2007. In the second quarter of 2008, 2 wells (1.9 net) were drilled for a success rate of 100 percent. The Company's capital expenditures for the six month period ended June 30, 2008 amounted to $15.5 million. The Company's revised budgeted capital program for 2008 is approximately $45.0 million.

The following tables summarize Twin Butte's capital expenditures, drilling results and undeveloped land positions.

Capital Expenditures ($ thousands)	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Land acquisition	**365**	715	**935**	957
Geological and geophysical	**308**	122	**724**	397
Drilling and completions	**5,302**	1,303	**10,617**	6,768
Equipping and facilities	**365**	1,242	**2,269**	3,936
Property acquisitions	**–**	28,404	**–**	28,404
Property dispositions	**–**	–	**–**	(466)
Other	**685**	195	**993**	377
Total net capital expenditures	**7,025**	31,981	**15,538**	40,373

Drilling Results

	Three months ended June 30				Six months ended June 30			
	2008		2007		**2008**		2007	
	Gross	**Net**	Gross	Net	**Gross**	**Net**	Gross	Net
Crude oil	**1.0**	**0.9**	2.0	1.4	**4.0**	**3.9**	4.0	3.1
Natural gas	**1.0**	**1.0**	3.0	3.0	**3.0**	**3.0**	5.0	4.4
Dry and abandoned	**–**	**–**	–	–	**–**	**–**	–	–
Total	**2.0**	**1.9**	5.0	4.4	**7.0**	**6.9**	9.0	7.5
Success rate (%)		**100%**		100%		**100%**		100%

Undeveloped Land

	June 30	
	2008	2007
Gross Acres	**176,546**	61,446
Net Acres	**139,292**	50,300

The undeveloped land position has increased significantly as a result of the E4 acquisition and crown land sales.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2008, the Company had net debt of $43.2 million, excluding financial derivative contracts liability in the amount of $8.0 million relating to unrealized losses on financial derivative contracts recognized at June 30, 2008. As at June 30, the Company had a total credit facility with a Canadian chartered bank in the amount of $62.5 million. The credit facility is composed of a $55.0 million demand revolving operating credit facility and a $7.5 million acquisition and development credit facility. Subsequent to quarter end, the Company renewed the bank credit facility with an increase to the demand revolving operating credit facility to $65.0 million and cancelling the acquisition and development credit facility. The Company is able to fund the 2008 budgeted capital program from cash flow and existing credit facilities.

SHARE CAPITAL

At June 30, 2008 the Company had 43,424,425 Common Shares issued compared to 27,752,398 Common Shares at December 31, 2007. The increase of 56% in the number of Common Shares outstanding relates to the issuance of 15,663,027 Common Shares to the former shareholders of E4 Energy Inc. on February 8, 2008 and the issuance of 9,000 Common Shares on the exercise of employee stock options.

As of August 13, 2008 the Company currently has 43,424,425 Common Shares and 3,309,000 stock options outstanding.

CONTRACTUAL OBLIGATIONS

The issuance of flow through shares in February 2007 for proceeds of $12.0 million will require the Company to spend $12.0 million of flow-through share eligible Canadian Exploration Expenditures, as defined in the Canadian Income Tax Act, by December 31, 2008. As at June 30, 2008 the Company has incurred approximately $6.2 million of this commitment.

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

RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2008, the Company incurred costs totaling $132 thousand ($815 thousand – year ended December 31, 2007) for oilfield 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

As disclosed in the December 31, 2007 annual audited financial statements, the CICA has issued three new accounting standards, section 1535 "Capital Disclosures", section 3862 "Financial Instruments – Disclosures", and section 3863 "Financial Instruments – Presentation". These standards became 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 December 31, 2007 financial statements.

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.

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 and 2008 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 139,000 net undeveloped acres as at June 30, 2008. 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 revised capital program of $45 million. The Company anticipates drilling 29 (28.3 net) wells during the year with approximately $6.6 million allocated to land and seismic that will ensure continued expansion of our prospect inventory. Exit production for 2008 is forecast to be in excess of 3,650 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.

ADDITIONAL INFORMATION

Additional information about Twin Butte can be found on the Company's website at www.twinbutteenergy.com and on SEDAR at www.sedar.com.

BALANCE SHEETS

(unaudited)

	June 30 2008	December 31 2007
ASSETS		
Current Assets		
Accounts receivable	**$ 12,436,174**	$ 5,727,286
Deposits and prepaid expenses	**1,338,961**	558,263
Financial derivative contracts (note 8)	**–**	266,898
	13,775,135	6,552,447
Future income taxes	**7,294,500**	9,164,477
Property and equipment (note 3)	**166,102,140**	104,433,701
	$ 187,171,775	$ 120,150,625
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 19,104,567**	$ 8,278,779
Bank indebtedness (note 4)	**37,901,050**	21,248,583
Financial derivative contracts (note 8)	**8,028,197**	827,135
	65,033,814	30,354,497
Asset retirement obligation (note 5)	**8,981,035**	6,945,541
	74,014,849	37,300,038
Shareholders' Equity		
Share capital (note 6)	**127,152,571**	93,722,668
Contributed surplus (note 6)	**2,394,736**	1,014,991
Deficit	**(16,390,381)**	(11,887,072)
	113,156,926	82,850,587
	$ 187,171,775	$ 120,150,625

Commitments (note 9)

See accompanying notes to financial statements

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	**2008**	2007
REVENUE:				
Petroleum and natural gas sales	**$ 21,906,680**	$ 6,755,179	**$ 35,706,834**	$ 12,735,851
Royalties	**(3,096,066)**	(1,382,602)	**(5,516,992)**	(2,508,433)
Realized (loss) gain on financial derivatives	**(2,580,923)**	122,456	**(3,196,846)**	122,456
Unrealized (loss) gain on financial derivative contracts (note 8)	**(3,377,163)**	552,432	**(7,467,960)**	(120,973)
	12,852,528	6,047,465	**19,525,036**	10,228,901
EXPENSES:				
Operating	**3,770,020**	1,441,260	**6,311,774**	2,823,762
Transportation	**798,980**	303,576	**1,443,359**	620,158
General and administrative	**979,424**	558,361	**2,045,825**	1,032,831
Stock based compensation	**613,294**	87,675	**1,382,730**	264,311
Interest	**503,646**	101,140	**1,234,895**	156,857
Depletion, depreciation and accretion	**7,644,086**	4,129,004	**13,846,942**	7,948,544
	14,309,450	6,621,016	**26,265,525**	12,846,463
Loss before income taxes	**(1,456,922)**	(573,551)	**(6,740,489)**	(2,617,562)
Income taxes				
Future tax expense (recovery)	**295,586**	(4,056,515)	**(2,237,180)**	(2,185,069)
	295,586	(4,056,515)	**(2,237,180)**	(2,185,069)
Net (loss) income and comprehensive (loss) income	**(1,752,508)**	3,482,964	**(4,503,309)**	(432,493)
Deficit, beginning of period	**(14,637,873)**	(14,823,732)	**(11,887,072)**	(10,908,275)
Deficit, end of period	**$ (16,390,381)**	$ (11,340,768)	**$ (16,390,381)**	$ (11,340,768)
Basic & diluted (loss) earnings per share	**$ (0.04)**	$ 0.16	**$ (0.14)**	$ (0.02)
Weighted average common shares outstanding				
Basic	**43,417,898**	22,202,398	**32,228,785**	21,280,636
Diluted	**43,829,505**	22,202,398	**32,402,392**	21,280,636

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	**2008**	2007
Cash provided by (used in):				
OPERATIONS:				
Net (loss) income	**$ (1,752,508)**	$ 3,482,964	**$ (4,503,309)**	$ (432,493)
Items not involving cash:				
Depletion, depreciation and accretion	**7,644,086**	4,129,004	**13,846,942**	7,948,544
Future tax expense (recovery)	**295,586**	(4,056,515)	**(2,237,180)**	(2,185,069)
Unrealized (loss) gain on financial derivative contracts	**3,377,163**	(552,432)	**7,467,960**	120,973
Stock based compensation	**613,294**	87,675	**1,382,730**	264,311
	10,177,621	3,090,696	**15,957,143**	5,716,266
Expenditures on asset retirement obligations	**(112,999)**	–	**(112,999)**	–
Changes in non-cash working capital	**(207,006)**	1,968,437	**(7,010,404)**	1,868,983
	9,857,616	5,059,133	**8,833,740**	7,585,249
FINANCING:				
Change in bank indebtedness	**(3,338,389)**	36,468,290	**887,467**	30,181,645
Issuance of share capital, net of share issue costs	**26,190**	(151,340)	**(7,560)**	11,171,392
Changes in non-cash working capital	**–**	(15,000)	**–**	–
	(3,312,199)	36,301,950	**879,907**	41,353,037
INVESTING:				
Expenditures on property and equipment	**(7,024,537)**	(31,981,080)	**(15,538,265)**	(40,838,286)
Acquisition expenditures	**–**	–	**(362,668)**	–
Proceeds on disposition of property and equipment	**–**	–	**–**	465,721
Changes in non-cash working capital	**479,120**	(9,380,003)	**6,187,286**	(8,565,721)
	(6,545,417)	(41,361,083)	**(9,713,647)**	(48,938,286)
Decrease in cash and cash equivalents	**–**	–	**–**	–
Cash and cash equivalents, beginning of period	**–**	–	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –	**$ –**	$ –
Cash interest paid	**$ 406,455**	$ 76,702	**$ 1,053,433**	$ 133,018

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 (unaudited)

The interim financial statements of Twin Butte Energy Ltd. ("Twin Butte" or the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2007 except as noted below. The disclosures provided below are incremental to those included in the audited annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's audited annual financial statements. Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current period.

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

1. SIGNIFICANT ACCOUNTING POLICIES

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses. The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for future asset retirement obligation costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future oil and gas prices, future costs and other relevant assumptions. The amounts recorded for future taxes are based on estimates of future taxable income and anticipated income tax rates. The fair value of stock options is based on estimates using the Black-Scholes option pricing model and is recorded as stock-based compensation expense in the financial statements. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Newly Adopted Accounting Policies

As disclosed in the December 31, 2007 annual audited financial statements, the CICA has issued three new accounting standards, section 1535 "Capital Disclosures", section 3862 "Financial Instruments – Disclosures", and section 3863 "Financial Instruments – Presentation". These standards became 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.

2. ACQUISITION EXPENDITURES

On February 7, 2008, the Company purchased all the issued and outstanding shares of E4 Energy Inc., a publicly traded company with properties in North East British Columbia and Alberta for total consideration of $37.3 million, plus assumed bank debt and working capital. The purchase was paid for through the issuance of 15.7 million common shares of Twin Butte and was accounted for as a business combination using the purchase method of accounting as follows:

Net Assets Acquired

	Total
Petroleum and natural gas properties	$ 59,741,731
Future income tax liability	(576,906)
Net working capital deficiency	(19,924,318)
Asset retirement obligation	(1,913,109)
Total net assets acquired	$ 37,327,398

The Company is in the process of finalizing the valuation of the above assets and liabilities acquired and, therefore, the allocation of the purchase price is subject to refinement.

The net working capital deficiency consists of the following:

	Total
Accounts receivable	$ 3,642,964
Deposits and prepaid expenses	191,847
Accounts payable and accrued liabilities	(7,994,129)
Bank indebtedness	(15,765,000)
Net working capital deficiency	$ (19,924,318)

Consideration

	Total
Shares	$ 36,964,730
Transaction costs	362,668
Total purchase price	$ 37,327,398

3. PROPERTY AND EQUIPMENT

			June 30, 2008	December 31, 2007
	Cost	Accumulated Depletion & Depreciation	**Net Book Value**	Book Value
Petroleum and natural gas properties	$ 205,659,979	$ 39,697,731	**$ 165,962,248**	$ 104,352,054
Office and computer equipment	196,055	56,163	**139,892**	81,647
Total	$ 205,856,034	$ 39,753,894	**$ 166,102,140**	$ 104,433,701

The Company has capitalized $910,347 of general and administrative expenses directly related to exploration and development activities for the six month period ended June 30, 2008 ($365,522 - June 30, 2007).

The cost of undeveloped property excluded from the depletion base as at June 30, 2008 was $19,988,780 ($8,158,643 – December 31, 2007). Future development costs on proved undeveloped reserves of $20,700,000 as at June 30, 2008 are included in the calculation of depletion and depreciation ($13,457,000 – December 31, 2007).

4. BANK INDEBTEDNESS

As at June 30, 2008, the Company had a $62.5 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 $55.0 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.

Subsequent to June 30, 2008 (note 10), the Company renewed its credit facility with an increase to the demand revolving operating credit facility to $65.0 million and cancelling the acquisition and development credit facility.

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 $8,981,035 at June 30, 2008, based on a total future liability of $16,507,000. Payments to settle asset retirement obligations occur over the operating lives of the underlying assets, estimated to be from 2 years to 19 years with the majority of the costs to be incurred between 2008 and 2016. A credit-adjusted risk free rate of eight percent and an inflation rate of two percent were used to calculate the present value of the asset retirement obligation.

Changes to the asset retirement obligation are as follows:

	Six Months Ended June 30, 2008	Year Ended December 31, 2007
Asset retirement obligation, beginning of period	**$ 6,945,541**	$ 3,073,325
Liabilities incurred	**245,076**	540,749
Liabilities settled	**(112,999)**	–
Acquisitions	**1,913,109**	3,521,094
Liabilities related to property dispositions	**–**	(35,940)
Revisions in estimated cash outflows	**(277,538)**	(403,449)
Accretion of asset retirement obligation	**267,846**	249,762
Asset retirement obligation, end of period	**$ 8,981,035**	$ 6,945,541

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, 2007	27,752,398	$ 93,722,668
Shares issued pursuant to acquisition of E4 Energy Inc. (note 2)	15,663,027	36,964,730
Shares issued upon option exercise	9,000	26,190
Amounts related to exercised options previously recorded as contributed surplus	–	2,984
Tax effect of 2007 flow through share issue	–	(3,540,207)
Financing costs net of tax	–	(23,794)
Balance, June 30, 2008	**43,424,425**	**$ 127,152,571**

Management of Capital Structure

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. The Company endeavors to maintain a debt to cash flow ratio below 1.5:1. However, this target ratio may change with changes in commodity prices and other changes in the business environment.

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.

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 and crude oil 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 2008, 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 March 31, 2008:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2007	1,805,000	$ 3.15
Granted	3,019,000	2.75
Exercised	(9,000)	2.91
Cancelled	(1,641,000)	3.60
Outstanding at June 30, 2008	**3,174,000**	**$ 2.74**

There were no options exercisable as at June 30, 2008. The 3,174,000 options outstanding at June 30, 2008 have a weighted average remaining contractual life of 4.75 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 granted to employees, consultants, officers, and directors with a corresponding increase to contributed surplus.

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

	Six Month Period Ended June 30, 2008	Year Ended December 31, 2007
Contributed surplus balance at beginning of period	**$ 1,014,991**	$ 415,713
Stock based compensation for stock options granted	**429,745**	599,278
Stock based compensation for stock options cancelled	**1,002,738**	–
Stock based compensation for stock options forfeited	**(49,754)**	–
Stock based compensation for stock options exercised	**(2,984)**	–
Contributed surplus balance at end of period	**$ 2,394,736**	$ 1,014,991

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 six month period ended June 30 as follows:

Expected volatility	50%
Risk free rate of return	4.5%
Expected stock option life	3 years
Dividend yield rate	0.0%
Weighted average fair value of stock option grants	$1.04

Earnings (Loss) Per Share

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

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Weighted average number of basic shares	**43,417,898**	22,202,398	**32,228,785**	21,280,636
Effect of dilutive securities:				
Employee stock options	**411,607**	–	**173,607**	–
Weighted average number of diluted shares	**43,829,505**	22,202,398	**32,402,392**	21,280,636

7. RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2008, the Company incurred costs totaling $132,469 (year ended December 31, 2007 – $814,916) for oilfield 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 June 30, 2008, the Company has $72,108 included in accounts payable and accrued liabilities related to these transactions.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank indebtedness and risk management assets and liabilities. Risk management assets and liabilities arise from the use of derivative financial instruments. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows:

Fair Value of Financial Assets and Liabilities

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank indebtedness approximate their carrying amount due to the short-term maturity of those instruments.

Risk management assets and liabilities are recorded at their estimated fair value based on the mark-to-market method of accounting, using quoted market prices or, in their absence, third-party market indications and forecasts. The fair value of financial assets and liabilities were as follows:

	As at June 30, 2008		As at December 31, 2007	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial Assets				
Risk management assets	**–**	**–**	266,898	266,898
Accounts receivable	**12,436,174**	**12,436,174**	5,727,286	5,727,286
Financial Liabilities				
Risk management liabilities	**$ 8,028,197**	**$ 8,028,197**	$ 827,135	$ 827,135
Accounts payable and accrued liabilities	**19,104,567**	**19,104,567**	8,278,779	8,278,779
Bank indebtedness	**37,901,050**	**37,901,050**	21,248,583	21,248,583

Risk Management Assets and Liabilities

Net Risk Management Position

	June 30, 2008	December 31, 2007
Risk Management		
Current asset	**$ –**	$ 266,898
Current liability	**8,028,197**	827,135
Net Risk Management Liability	**$ 8,028,197**	$ 560,237

Summary of Unrealized Risk Management Positions

	As at June 30, 2008			As at December 31, 2007		
	Asset	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Natural gas	**$ –**	**$ 5,276,709**	**$ 5,276,709**	$ 266,898	$ –	$ 266,898
Crude oil	**–**	**2,751,488**	**2,751,488**	–	827,135	827,135
Total Fair Value	**$ –**	**$ 8,028,197**	**$ 8,028,197**	$ 266,898	$ –	$ 560,237

The net fair value methodologies used to calculate the unrealized risk management positions is the value using quoted prices in the market.

Net Fair Value of Commodity Price Positions at June 30, 2008

Natural Gas Sales Price Derivative Contracts

Daily quantity per giga-joule ("GJ")	Remaining term of contract	Fixed price per GJ (AECO)	Fair market value
2,000	July 1 to December 31, 2008	$ 6.500	$ (2,018,079)
2,500	July 1 to October 31, 2008	$ 6.450	(1,708,945)
1,000	July 1 to December 31, 2008	$ 6.640	(915,400)
1,000	July 1 to October 31, 2008	$ 7.075	(634,285)
Natural gas fair value position			$ (5,276,709)

Crude Oil Sales Price Derivative Contracts

Daily quantity per barrel ("bbl")	Remaining term of contract	Fixed price per bbl (WTI)	Costless Collar per bbl (WTI)	Fair market value
100	July 1 to December 31, 2008	US $70.65		$ (1,500,768)
60	July 1 to December 31, 2008	US $87.25		(685,078)
100	July 1 to December 31, 2008		US $90.00 – US $120.00	(491,284)
100	January 1, 2009 to December 31, 2009		US $100.00 – US $195.00	(74,358)
Crude oil fair value position				$ (2,751,488)

Financial instruments 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.

Reconciliation of Unrealized Risk Management Positions from January 1 to June 30, 2008

	2008	
	Fair Market Value	**Total Unrealized Gain (Loss)**
Fair Value of Contracts, Beginning of Year	$ (560,237)	–
Change in Fair Value of Contracts in Place at Beginning of Year	(10,664,806)	(10,664,806)
Fair Value of Contracts Realized During the Period	(3,196,846)	(3,196,846)
Fair Value of Contracts, End of Period	$ (8,028,197)	$ (7,467,960)

Risk Associated with Financial Assets and Liabilities

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to commodity prices, interest rates and foreign exchange rates, credit risk and liquidity risk.

Market Risk

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices is comprised of the following:

- **Commodity Price Risk**
  As a means of mitigating exposure to commodity price risk volatility, the Company has entered into various natural gas and crude oil sales price derivative agreements. The use of derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. The Company's policy is to not use derivative financial instruments for speculative purposes.

- **Interest Rate 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, potentially affecting future cash flows. At June 30, 2008 the Company did not have any interest rate swaps or hedges in place.

- **Foreign Exchange Risk**
  The Company's operates in Canada and substantially all of the Company's activity is denominated in Canadian dollars. The Company is exposed to fluctuations in the exchange rate between the U.S./Canadian dollar with respect to crude oil sales price derivative agreements that are based in United States dollars.

The Company uses a non-GAAP measure, cash flow from operations, as a measure of current operating efficiency. Cash flow from operations represents cash flow from operating activities prior to changes in non-cash working capital. For the six months ended June 30, 2008, the sensitivity of cash flow from operations to changes in Twin Butte's realized crude oil and NGL prices, natural gas prices, and bank interest rate would have been as follows: An increase $1.00 per bbl in the realized price for crude oil and NGL would have resulted in approximately $80 thousand additional cash flow from operations. An increase by $0.10 per thousand cubic feet in the realized price for natural gas would have resulted in approximately $109 thousand additional cash flow from operations. An increase by 0.1% to the bank interest rate would have resulted in approximately $195 thousand less cash flow from operations. However, the above sensitivity results crude oil and NGL and for natural gas should not be extrapolated further without considering Twin Butte's hedge portfolio, royalty parameters and potential price-related effects on the results of the period.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Company incurring a financial loss. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

At June 30, 2008, the Company had financial derivative contract agreements with two counterparties. The Company is in a liability position to both of those counterparties.

Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk through cash and debt management. As disclosed in note 6, a key measure that the Company utilizes in evaluating its capital structure and debt 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. Both of these ratios are in an acceptable range for the Company.

In managing liquidity risk, the Company has access to funding at competitive rates through its banking credit facility. As at June 30, 2008, the Company had available unused bank credit facilities from the demand revolving operating credit facility in the amount of $17.1 million. The Company believes it has sufficient funding through the use of this credit facility to meet foreseeable borrowing requirements.

The timing of cash outflows relating to financial liabilities are all within one year from June 30, 2008.

9. COMMITMENTS

The Company is committed to incur $12.0 million of flow-through share eligible Canadian Exploration Expenditures, as defined in the Canadian Income Tax Act, by December 31, 2008. As at June 30, 2008 the Company has incurred approximately $6.2 million of this commitment.

10. SUBSEQUENT EVENT

The Company renewed its credit facility (note 4) with an increase to the demand revolving operating credit facility to $65.0 million and cancelling the acquisition and development credit facility.

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.